Suncorp-Metway Limited

(ABN 66 010 831 722)

Disclosure Report (U.S. Version)
for the Fiscal Year ended June 30, 2015

Dated: September 18, 2015

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for fiscal 2015 (this "Report"), unless otherwise specified or the context otherwise requires:

- "*AASBs*" mean the Australian Accounting Standards (including Australian interpretations), adopted by the Australian Accounting Standards Board, which are equivalent to IFRS;
- "*ABN*" means Australian Business Number;
- "*ACCC*" means the Australian Competition and Consumer Commission;
- "*ADI*" means an institution that is an authorized deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*APS 330*" means APRA's Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information relating to the public disclosure of information by ADIs of their risk management practices and capital adequacy;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited (ACN 008 624 691) and its successors;
- "*Australian Banking Act*" means the *Banking Act 1959* of the Commonwealth of Australia;
- "*Australian Corporations Act*" means the *Corporations Act 2001* of the Commonwealth of Australia;
- "*AUSTRAC*" means the Australian Transaction Reports and Analysis Centre;
- "*A$*" or "*$*" means the Australian dollar and "*US$*" means the US dollar and "*A$m*" means millions of Australian dollars and "*US$m*" means millions of US dollars;
- "*Bank*," "*we*," "*our*" and "*us*" each means Suncorp-Metway Limited (ABN 66 010 831 722) and its controlled entities;
- "*BCBS*" means the Basel Committee on Banking Supervision;
- "*Business Intelligence Project*" means the Group-wide project to analyze core system data of the Group to identify and create opportunities for businesses within the Group, including the Bank, to grow their businesses;
- "*CLF*" means Committed Liquidity Facility;
- "*controlled entities*" means those entities (including special purpose entities) over which another part has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party's objections;

- "*deposits-to-loans ratio*" means total retail funding as a percentage of total loans and advances (excluding other receivables);

- "*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended;

- "*FRCNs*" means the Bank's Floating Rate Capital Notes;

- "*FSI*" means the Financial System Inquiry;

- "*Group*" means Suncorp Group Limited (ABN 66 145 290 124) and its controlled entities, including the Bank;

- "*IFRS*" means the International Financial Reporting Standards, as issued by the International Accounting Standards Board;

- "*LCR*" means Liquidity Capital Ratio;

- "*LVR*" means loan-to-value ratio;

- "*NOHC*" means an authorized non-operating holding institution of an ADI;

- "*NOHC Restructure*" means the reorganization of Suncorp-Metway Limited pursuant to a scheme of arrangement effective January 7, 2011;

- "*Non-Core Portfolio*" means a portfolio of loans attributable to the former Corporate Banking, Development Finance, Property Investment and Lease Finance divisions of the Bank that, commencing in 2009, the Bank commenced a program to run off over time. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio;

- "*Project Ignite*" means the Bank's project to modernize and simplify its operational systems, including the replacement of its core banking IT system, which commenced in 2011 and is expected to be completed in 2016;

- "*RBA*" means the Reserve Bank of Australia;

- "*RMBS*" means residential mortgage-backed securities;

- "*SME*" means small- to medium-sized enterprise;

- "*Suncorp Bank*" means the banking business unit of the Group;

- "*Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries*" means the document so entitled, which is incorporated by reference and has been posted on our U.S. Investors' Website;

- "*US GAAP*" means U.S. generally accepted accounting principles;

- "*U.S. Investors' Website*" means Bank's U.S. investors' website at http://www.suncorpbank.com.au/usinvestors;

- "*2012 annual financial statements*" means our consolidated financial statements for fiscal 2012, as audited by our external auditor in accordance with Australian Auditing Standards, contained in our 2013 Annual Report;

- "*2013 annual financial statements*" means our consolidated financial statements for the fiscal 2013, as audited by our external auditor in accordance with Australian Auditing Standards, contained in our 2013 Annual Report;

- "*2013 Annual Report*" means our Directors' Report and Consolidated Financial Report for fiscal 2013, extracts of which are incorporated by reference and have been posted on our U.S. Investors' Website;

- "*2014 annual financial statements*" means our consolidated financial statements for fiscal 2014, as audited by our external auditor in accordance with Australian Auditing Standards, contained in our 2014 Annual Report;

- "*2014 Annual Report*" means our Directors' Report and Consolidated Financial Report for fiscal 2014, extracts of which are incorporated by reference and have been posted on our U.S. Investors' Website;

- "*2015 annual financial statements*" means our consolidated financial statements for fiscal 2015, as audited by our external auditor in accordance with Australian Auditing Standards, contained in our 2015 Annual Report; and

- "*2015 Annual Report*" means our Directors' Report and Consolidated Financial Report for fiscal 2015, extracts of which are incorporated by reference and have been posted on our U.S. Investors' Website.

The Bank's fiscal or financial year ends on June 30 of each year. In this Report, "fiscal 2015" means the 12-month period ended June 30, 2015 and other fiscal years are referred to in a corresponding manner, and "calendar 2015" means the 12-month period ended December 31, 2015 and other fiscal years are referred to in a corresponding manner.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the Exchange Act. Examples of these forward-looking statements include, but are not limited to (i) statements regarding the Bank's future results of operations and financial condition, (ii) statements of plans, objectives or goals, including those related to the Bank's products or services, and (iii) statements of assumptions underlying those statements. Words such as "may," "will," "expect," "intend," "plan," "estimate," "anticipate," "believe," "continue," "probability," "risk," and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. The Bank cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the effects of competition in the geographic and business areas in which the Bank conducts operations or which it may enter in the future;
- the Bank's ability to deliver its strategic initiatives, including but not limited to Project Ignite, the Group customer extension program, the Business Intelligence Project and Basel II advanced accreditation;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, and government policy, including as a result of the regulatory proposals for reform of the banking industries in Australia;
- changes in the general economic and financial conditions in Australia and globally, in particular, the impact of market conditions on the Bank's customers in its key markets and the impact of weather and market prices of agricultural commodities on agribusiness;
- the Bank's ability to obtain Basel II advanced accreditation;
- the Bank's ability to update and implement new information technology systems, including with respect to Project Ignite;
- changes in the conditions in the global credit and capital markets, including inflation, interest rates, exchange rates, market and monetary fluctuations, commodity prices and consumer confidence;
- the Bank's ability to adequately fund its operations and satisfy its liquidity requirements;
- changes in the credit ratings assigned to the Bank;
- changes in the borrowing tendencies in the Australian housing market and volatility of the Australian property market;
- the impact of technology failures, information security risks and cyber-attacks on the Bank and its operations;

- the effect of increases in defaults in the Bank's credit exposures from residential mortgages and derivative contracts over debt securities;

- the effectiveness of risk management strategies implemented by the Bank, including technological changes and initiatives to address certain operational risks;

- the effect of catastrophic events on the Bank and its operations;

- the impact of reputational damage on the Bank;

- the performance and financial condition of the Group and members of the Group that are not part of the Bank; and

- various other factors beyond the Bank's control, including those discussed under "Risk Factors" and "Management's Discussion and Analysis of Results of Operation and Financial Condition."

The foregoing list of factors is not exhaustive. Statements that include forward-looking statements reflect the Bank's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

Forward-looking statements are based upon management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the Bank's business and operations in the future. The Bank cannot give investors any assurance that the assumptions upon which management based its forward-looking statements will prove to be correct, or that the Bank's business and operations will not be affected in any substantial manner by other factors not currently foreseeable by management or beyond its control. Any forward-looking statements contained in this Report speak only as of the date of this Report. The Bank is under no obligation, and disclaims any obligation, to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

EXCHANGE RATES

The Bank publishes its financial statements in Australian dollars and its fiscal year ends on June 30 of each year. For your convenience, the following table sets forth, for the years and months indicated, the period-end, average, high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in US dollars per A$1.00.

In providing these translations, the Bank is not representing that the Australian dollar amounts actually represent these US dollar amounts or that the Bank could have converted those Australian dollars into US dollars.

Unless otherwise indicated, conversions of Australian dollars to US dollars in this Report have been made at the noon buying rate at the close of business on June 30, 2015, which was US$0.7704 per A$1.00. The noon buying rate at the close of business on September 11, 2015 was US$0.7074 per A$1.00.

Fiscal	Period End	Average Rate[1]	High	Low
2011	1.0732	1.0001	1.0970	0.8380
2012	1.0236	1.0388	1.1026	0.9453
2013	0.9165	1.0222	1.0591	0.9165
2014	0.9427	0.9140	0.9705	0.8715
2015	0.7704	0.8275	0.9488	0.7566

Month ended	Period End	Average Rate[1]	High	Low
March 2015	0.7625	0.7724	0.7869	0.7582
April 2015	0.7867	0.7740	0.8065	0.7566
May 2015	0.7659	0.7891	0.8118	0.7631
June 2015	0.7704	0.7715	0.7831	0.7613
July 2015	0.7332	0.7407	0.7664	0.7278
August 2015	0.7100	0.7295	0.7419	0.7087
September 2015[2]	0.7074	0.7025	0.7086	0.6917

(1) For the years indicated, the average of the noon buying rates on the last day of each month during the year. For the months indicated, the average of the noon buying rates on each day of the month.

(2) Through September 11, 2015.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into US dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the *Autonomous Sanctions Act 2011* of the Commonwealth of Australia, the *Charter of the United Nations Act 1945* of the Commonwealth of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to sanctions (which include economic sanctions) which is available to the public at the Department's website at http://www.dfat.gov.au/icat/UNSC_financial_sanctions.html.

FINANCIAL INFORMATION PRESENTATION

The Bank's 2015 annual financial statements include the Bank's financial statements as at June 30, 2015 and 2014 and for fiscal 2015 and 2014, which have been audited by its external auditor in accordance with Australian Auditing Standards. The Bank's 2014 annual financial statements include the Bank's financial statements as at June 30, 2014 and 2013 and for fiscal 2014 and 2013, which have been audited by its external auditor in accordance with Australian Auditing Standards.

The Bank's financial statements contained or incorporated by reference in this Report have been prepared in accordance with the Australian Corporations Act and AASBs, which comply with IFRS. Investors should be aware that AASBs differ in certain material respects from US GAAP, and such differences may be material to the financial information contained or incorporated by reference in this Report or elsewhere. The Bank has not provided a quantitative reconciliation or narrative discussion of any of those differences in this Report. Investors should consult their own professional advisors for an understanding of the differences between AASBs and US GAAP and how those differences might affect the financial information contained or incorporated by reference in this Report and, more generally, the financial results of the Bank going forward.

The Bank has presented its consolidated statements of financial position as at June 30, 2015, 2014 and 2013 and its consolidated statements of comprehensive income and statements of cash flow for fiscal 2015, 2014 and 2013 as they are presented in the Bank's 2015 annual financial statements, 2014 annual financial statements and 2013 annual financial statements, as applicable. All other tables (except those relating to the Bank's regulatory capital which are presented in accordance with the Bank's APS 330 reports) are presented on the same basis as the Bank's 2015 annual financial statements, 2014 annual financial statements and 2013 annual financial statements, as applicable, except that, consistent with the Bank's other public disclosures, they do not include the Bank's exposures to, or transactions with, related parties within the Group. For more information, see Note 28 to the Bank's 2015 annual financial statements and "Suncorp-Metway Limited — Relationship between the Group and the Bank."

The significant accounting policies adopted by the Bank are as reported in Note 31 to the Bank's 2015 annual financial statements, Note 32 to the Bank's 2014 annual financial statements and Note 3 to the Bank's 2013 annual financial statements.

Where there has been a percentage movement greater than 500% or (500)%, this has been labeled "large." If a line item changes from negative to positive (or vice versa) between periods, this has been labeled "n/a."

SUMMARY

The following is a summary of certain information contained elsewhere in this Report. It does not contain all the information that may be important and is qualified in its entirety by the more detailed information appearing elsewhere in this Report. You should read this Report in its entirety, particularly the "Risk Factors" section and the financial statements and the notes related thereto.

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 110 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with a market capitalization of A$16.0 billion (US$12.3 billion) as at September 16, 2015.

The Bank is one of Australia's largest regional banks with A$52.2 billion of gross loans and advances as at June 30, 2015. It services more than one million individual, agribusiness, and commercial (SME) banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Retail banking, including home and personal loans, savings and transaction accounts, margin lending, credit cards and foreign currency services;
- Commercial (SME) banking, including small business banking and financial solutions for SMEs; and
- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

As at June 30, 2015, the Bank had A$61.7 billion in total assets and approximately 210 offices and branches across Australia. The Bank reported a profit before tax of A$506 million for fiscal 2015 compared with a profit before tax of A$326 million for fiscal 2014 and a net loss of A$484 million for fiscal 2013. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Results of Operations" for further information.

The Bank's registered office is located at Level 28, Brisbane Square, 266 George Street, Brisbane, Queensland 4000 and its telephone number is +61-7-3362-1222.

Corporate History

Prior to the NOHC Restructure, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. Following the NOHC Restructure, which was effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, a new ASX-listed company. Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities. See "Suncorp-Metway Limited — Reorganization" for further information.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial (SME) and to run off its Non-Core Portfolio. As at June 30, 2015, only a residual portfolio of non-core assets remained, which is now managed as part of the Bank's commercial (SME) loan portfolio.

In addition to the ongoing de-risking of its businesses, the Group announced a strategic simplification program in May 2012, which is currently expected to run through to 2017, aimed at delivering significant cost-saving benefits across the Group through the simplification of legal, administrative and operational structures designed to make the businesses more efficient. In relation to the Bank, the project involves staged investment to:

- modernize and simplify the Bank's operational systems, including the replacement of its core banking IT system, known as Project Ignite, which is intended to bring significant business benefits and have a positive impact on its customers and the Bank's profitability; and

- enhance the Bank's risk and capital management program toward attaining Basel II advanced accreditation.

These initiatives are discussed further under "— Business Strategy" below.

Business Strategy

The Bank principally operates as a regional bank and seeks to grow its business in its principal market of Queensland, as well as in New South Wales, Victoria and Western Australia, through delivering the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank intends to continue to grow its business in Queensland and interstate in retail banking and in business banking, specifically in its core target groups of retail customers, agribusinesses and SMEs.

The Bank's vision is to be the bank for "aspiring Australians," which it views as Australians wanting to "get ahead" financially in target segments across business and personal banking. The Bank seeks to be the first choice for these customers by offering a superior banking experience, making lives easier and meeting the full range of their financial needs. The Bank believes it is well positioned to become a genuine alternative to the four major Australian banks (Commonwealth Bank of Australia, National Australia Bank, Australia and New Zealand Banking Group and Westpac Banking Corporation) through its genuine customer and community connections and customer network of the Group. The capital, funding, capability and strength of the Group provides the Bank with further leverage as it undertakes a significant program of change to provide an optimized platform for 2017.

The Bank is in the process of implementing four initiatives – Project Ignite, advanced risk management in connection with attaining Basel II advanced accreditation, the Business Intelligence Project and the Group customer extension program – to deliver the following key strategic priorities:

Achieving quality growth. The Bank is primarily focused on maintaining a sustainable robust balance sheet and customers' trust and confidence through the different stages of the business cycle. The Bank aims to leverage its strong reputation, extensive branch network and heritage to grow lending in Queensland, while securing interstate growth through capitalizing on previous investments in interstate branch expansion and the intermediated channel.

In retail banking, the Bank seeks to grow its residential mortgage portfolio by focusing on what it believes are lower risk sub-80% LVR owner-occupier customers through targeted home lending campaigns and the Bank's mortgage broker platform, particularly in New South Wales. The Bank also seeks to increase its retail deposits by cross-selling lower-cost transaction accounts to existing retail lending customers of the Bank.

In commercial (SME) banking, the Bank seeks to target the SME market with a two-tiered proposition, comprising a direct banking proposition for the micro end of the market (which are relatively non-complex businesses with loans of less than A$1 million), and a local relationship

managed approach for businesses with loans greater than A$1 million, targeting industry segments with strong tangible asset backing and growth from its existing SME customer base.

In agribusiness banking, the Bank seeks to pursue growth within select industries and geographies while adapting to changing conditions and exercising caution with its approach to risk selection in this sector. During fiscal 2015, the rural property market remained subdued given ongoing drought conditions. However, recent rainfall in central and southern Queensland has partially improved the local drought situation. Further depreciation of the Australian dollar during fiscal 2015 (which was US$0.7074 per A$1.00, as of September 11, 2015, as compared to US$0.9427 per A$1.00 as of June 30, 2014) is expected to increase international competitiveness of the sector and result in an improved outlook for export-based agricultural commodities, such as grain, beef and cotton.

Overall, the Bank is targeting growth in its loan portfolio of between one and 1.3 times the growth of the overall mortgage loan market in Australia.

Providing a differentiated banking experience. The Bank also aims to achieve a better understanding of the banking needs of its customers than its competitors so it can provide them with the necessary tools to help them "get ahead" financially. The Bank believes it can achieve this by truly understanding their goals and aspirations, and offering a superior banking experience, which makes their lives easier and meets the full range of their financial needs. The Bank believes that one of its principal competitive advantages is its ability to deliver the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank is also conscious that it must offer a different value proposition than its competitors in order to stay relevant to its customers. A key enabler of a differentiated strategy is the implementation of Project Ignite, which involves the decommissioning of 12 legacy systems and re-engineering of more than 500 business processes to improve the system's capability and efficiency. Project Ignite is expected to modernize and simplify the Bank's operational systems, including replacing its core banking IT system, which is expected to bring significant business benefits. The Bank implemented the first stage of Project Ignite, with unsecured personal loans transitioning to the new platform in November 2014. Several software upgrades have also been successfully implemented during the first half of calendar 2015. Project Ignite is expected to be completed in 2016. The Bank expects that these technology improvements will enhance its operating efficiency and create a point of difference to its regional bank competitors and enable the Bank to further develop more innovative digital capabilities in a competitive market.

In addition, the Bank has responded to changing customer behaviors by continuing to invest in its digital platform including improving its mobile banking "app" and online account opening system and replacing its traditional branches with new branches that are appropriately designed and sized for the activities it will conduct, including the greater use of self-service kiosks and technologies.

A key differentiation opportunity for the Bank, particularly compared against other Australian regional banks, is to leverage off the size and scale of the Group, which provides for relatively lower-cost access to centralized corporate functions and the additional revenue opportunities to cross sell into and from the Group's large existing customer base as part of the Group's customer extension program. To this end, the Bank is seeking to actively improve the degree of collaboration across the Group, including:

- utilizing customer data available to the Group to better understand the Group's customers and meet more of their banking needs. The Group is currently progressing the Business Intelligence Project to create a center for managing and analyzing its customer data. The implementation of the Business Intelligence Project is intended to provide the Bank with valuable insight into customers of the Group, which in turn is expected to allow the Bank to have meaningful engagement with the Group's customers and offer them banking products that are more attentive to their needs;

- performing a key distribution role for products offered by the Group's life and general insurance businesses. Recent activities include the retailing of "Everyday Super" superannuation (pension) product through the Bank and the mutual referral of new business opportunities between Resilium, a general insurance provider of the Group, and the Bank;

- leveraging the Group's resources and expertise to complete major change programs, such as Project Ignite; and

- participating in Group-led projects that are intended to ultimately generate efficiency and productivity benefits for the Bank, such as the Group's Business Intelligence Project.

Enhancing risk and capital management. The Bank is further enhancing its risk and capital management capabilities, and in particular, continuing to work towards obtaining Basel II advanced accreditation from APRA. The Bank expects to make its submission to APRA under the Basel II advanced accreditation program in the second half of calendar 2015. The process of achieving Basel II advanced accreditation involves the assessment and modeling of risk across the Bank, including its credit risk, market risk, interest rate risk in its banking book and operational risk. The process also seeks to embed a culture of understanding of the Bank's risks at all levels of the business so that appropriate data is captured and prudent risk decisions are made, including linking remuneration to risk awareness and decision-making. Basel II advanced accreditation is expected to improve the way the Bank measures, monitors and manages risk as well as its ability to calculate risk/return dynamics, in order to price risk more effectively and manage capital more efficiently. The benefits of Basel II advanced accreditation and enhanced risk management are expected to result in the Bank being able to more effectively compete in its target markets, particularly during times of heightened competition.

Evolving the Bank's culture. The Bank is working to improve its customer service and risk management culture. The Bank recently introduced the Customer Central program which aims to develop a consistent service culture and the necessary people capabilities for the implementation of Project Ignite. The Customer Central program provides a framework of tools and resources to assist the Bank's employees to better understand and respond to customer needs.

The Bank is also continuing to work towards an ingrained, higher level of risk maturity across its workforce as part of its efforts to achieve Basel II advanced accreditation. Tools developed as part of the Basel II advanced accreditation process are expected to provide the Bank's employees with a deeper understanding of the underlying risk and profit drivers of its business so they are able to direct their sales efforts in a more effective way.

The Bank continues to expand and evolve its innovative flexible working model that employs new technologies that allow employees to work more effectively remotely. The model focuses on allowing employees additional flexibility and support to work from home during pre-agreed hours per week (including outside of traditional working hours), or to work permanently at home. The Bank believes that greater flexibility in working hours and location materially enhances the attractiveness of the Bank's employment proposition.

Business Strengths

The Bank believes that its key competitive strengths include:

Genuine alternative to the four major Australian banks. The Bank believes that one of its principal competitive advantages is that it delivers the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank believes it has a comparable retail banking product offering to the four major Australian banks in the areas where it competes,

including retail, commercial (SME) and agribusiness banking, and can benefit from the customer network of the Group. In addition, the Bank has received a number of awards for its product offerings, as well as for its customer service. In July 2015, the Bank was awarded the "Best Bank in Australia" by Euromoney Magazine, a global publication focused on capital markets. The award was in recognition of the Bank's achievements over the preceding 12 months, including the strength and position of its balance sheet, commitment to delivering innovative financial solutions, proven ability to adapt to changing market conditions and prudent risk management capabilities. The Bank is the first non-major Australian bank to receive the award in 15 years. In June 2015, the Bank was also awarded the "Bank of the Year" for 2015 by Money Magazine.

Efficiency and scale. The Bank uses the Group's infrastructure and services to more effectively manage its costs. Suncorp Business Services, provides integrated shared services across the Group. These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, group risk management and other Group-wide services and business shared services. In addition, the increased level of investment in technology by the Group provides access to technology and resources that would be difficult to sustain at the Bank level. For example, Project Ignite is continuing to improve the Bank's operational platform, including by replacing its core banking IT system, enhancing efficiencies in reporting functions, improving data analysis and providing scale advantages when dealing with suppliers. See "Suncorp-Metway Limited — Relationship between the Group and the Bank" for further information.

Stable funding sources. The Bank operates a stable funding profile with the deposits-to-loans ratio at 65.3% as at June 30, 2015. The Bank has established domestic and offshore funding programs for short and long term wholesale debt. Short-term funding sources includes Australia-based sources as well as the commercial paper markets in the United States and Europe. Long-term wholesale funding options include senior unsecured debt, covered bonds and residential-mortgage backed securities in domestic and international markets. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources" for further information.

Strong brand and customer relationships. The Bank believes that it benefits from the Group's portfolio of leading brands in the financial services industry and seeks to leverage the customer relationships of the Group to grow its business in Australia. The Bank also believes that it benefits from the Group's strategy to encourage a customer of any member of the Group to hold multiple Group products, including the Bank's products such as deposits, transaction accounts and loans, in order to deepen relationships and strengthen loyalty to its brand and to cross-sell the Group's products and services.

Community driven culture. The Bank currently has over one million customers, capturing Australians' sense of belonging and community connection through its positioning as a genuine alternative to the four major Australian banks. The Bank builds deep and extensive connections with its customers through a common platform of systems, processes, tools and behaviors that enable its people to have consistent interactions and conversations with customers. The Bank's employees have accountability for local leadership so they can be genuine contributors to local communities and understand businesses at a local level. The Bank's retail and business customer satisfaction regularly ranks ahead of the major banks in Australia. At June 30, 2015, personal customer satisfaction was 89.2% compared with between 78.9% and 82.6% for the major Australian banks (Source: Roy Morgan, June 30, 2015) and business customer satisfaction was 80.1% compared with 69.9% to 75.2% for the major Australian banks (Source: DBM, June 2015).

Experienced Board and management team. The Group's Board, which governs the Bank, is led by its Chairman, Mr. Zygmunt Switkowski, who has been a director of the Group since December 2010 and a Director of the Bank since September 2005. Members of the Board have significant experience across financial services businesses including senior roles in banking, property

development, asset management and the insurance sector. Mr. Patrick Snowball, who has been the Managing Director and Group Chief Executive Officer of the Group since September 2009 and will step down in October 2015, has over 20 years of experience in senior executive roles at life and non-life insurance companies. The incoming Chief Executive Officer of the Group, Mr. Michael Cameron, has extensive experience with the Group, having served as a Non-executive Director of the Group since 2012. See "Recent Developments — Appointment of new Chief Executive Officer of the Group" for further information. Mr. Steve Johnston, the Group Chief Financial Officer, has over 20 years of experience in senior corporate and government positions and has held a number of senior executive positions with the Group since 2006. The Bank's management team has extensive experience in financial services. Mr. John Nesbitt, the Chief Executive Officer of Suncorp Bank, has over 20 years of experience in senior finance and business positions and was formerly the Group Chief Financial Officer, and Mr. David Carter, the Chief Financial Officer of Suncorp Bank, has over 25 years of experience within the financial services sector across banking, wealth management and life insurance.

Recent Developments

Appointment of new Chief Executive Officer of the Group

In April 2015, Mr. Michael Cameron was appointed the successor to Patrick Snowball as Chief Executive Officer of the Group. Mr. Cameron will commence in this role on October 1, 2015. Mr. Cameron has been Chief Executive Officer and Managing Director of The GPT Group since May 2009 and Non-executive Director of the Group since 2012. Mr. Cameron is a fellow of each of the Australian Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors. He has over 30 years of experience in finance and business and has held senior executive roles including Chief Financial Officer of St. George Bank Limited from July 2007 until the sale to Westpac Banking Corporation in December 2008 and Group Executive, Retail Banking Services, Group Chief Financial Officer and Deputy Chief Financial Officer of Commonwealth Bank of Australia from November 2002 to May 2007.

Appointment of new Treasurer of the Bank

In September 2015, Mr. Timothy Hughes resigned as Treasurer of the Bank, effective October 15, 2015. Mr. Stephen Butcher, who is currently Executive Manager, Balance Sheet Management, of the Bank, will be Acting Treasurer of the Bank, effective October 15, 2015, until a permanent replacement is appointed. Mr. Butcher has over 20 years of banking and finance industry experience and has held a senior executive position with the Bank since March 2013. Mr. Butcher has a Master in Applied Finance degree and previously held senior management roles in the Treasury department of National Australia Bank.

RISK FACTORS

The Bank is subject to a variety of risks that arise out of its business. The Bank manages its ongoing business risks in accordance with its risk management policies and procedures, some of which are described in the extracts to the Bank's 2015 Annual Report and in Note 24 to the Bank's 2015 annual financial statements.

The Bank faces intense competition in all aspects of its business.

The Australian banking industry is highly competitive. The Bank competes with retail and commercial banks and other financial services firms. The industry is dominated by the four major Australian banks, who have greater financial and other resources than the Bank and stronger market shares, and specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate at a lower cost. More recently, there have been new non-traditional entrants to the Australian lending market such as peer-to-peer lending companies which offer loans directly to the customer without an intermediary such as a bank. In addition, technological advancements may lead to changes in the competitive environment, including through the introduction of alternative payment systems that challenge, and could potentially disrupt, traditional banking services. If the Bank is unable to compete effectively in its businesses and markets, its market share may decline. Increased competition in an environment characterized by record-low interest rates in Australia may create pressure to lower margins.

Increased competition for deposits could also increase the Bank's cost of funding and require the Bank to access other types of funding. The Bank relies on retail deposits and, to a lesser extent, commercial (SME) deposits to fund a significant portion of its assets on balance sheet. The Bank competes principally with banks and other financial services firms for such deposits. To the extent that the Bank is not able to successfully compete for deposits, the Bank would be forced to rely more heavily on alternative funding sources which may be more expensive or to reduce its lending.

The Bank has been operating in a standardized Basel II environment for a number of years. Although the Bank's efforts to achieve Basel II advanced accreditation are expected to assist in the assessment of the quality of its loan portfolio and the measurement of its risk adjusted return on capital, which could potentially improve its ability to better compete in its chosen areas of business, there can be no assurance that the Bank will be successful in obtaining Basel II advanced accreditation in a timely manner or at all. Any delay or inability in achieving Basel II advanced accreditation may adversely affect the Bank's ability to compete with the major Australian retail banks.

The Bank is also dependent on its ability to offer products and services that satisfy evolving customer preferences, habits and sentiment. If the Bank is not successful in developing or introducing new products and services that are suitable for, or responsive to, changes in customer preferences, habits and sentiment, as well as keeping pace with technological developments, it may lose customers to its competitors, which could adversely affect the Bank's businesses, results of operations and prospects.

The Bank expects to continue to experience intensified competition as globalization of the financial services industry continues to create better capitalized and more geographically diverse financial institutions with increased access to capital that are capable of offering a wider array of financial products and services at more competitive prices. As a result, the Bank could lose market share or be forced to reduce margins in order to compete effectively, particularly if industry participants engage in aggressive growth strategies or severe price discounting.

The Bank's businesses are highly regulated and the Bank could be adversely affected by failing to comply with existing laws and regulations.

The Bank is subject to extensive laws and regulations, including those relating to capital, liquidity, solvency, provisioning, accounting and reporting requirements, taxation, remuneration, consumer protection, privacy, financial advice, competition, bribery, anti-money laundering and counter-terrorism financing, in the various Australian states and territories in which it operates. The Bank is also supervised by a number of different regulatory authorities which have broad administrative power over its businesses, including APRA, RBA, ASIC, ASX, AUSTRAC and ACCC. In particular, the Bank is subject to prudential supervision by APRA and is required, among other things, to comply with prescribed capital requirements.

If the Bank fails to comply with applicable laws and regulations (including those prescribed by the regulatory authorities having supervision over the Bank) or industry codes of practice, it may be subject to regulatory sanctions, including suspensions, restrictions or loss of operating licenses, fines and penalties or limitations on its ability to do business, and suffer material financial loss or loss of reputation. An example of the broad administrative power applicable to the Bank is the power of APRA in certain circumstances to investigate the Bank's affairs or issue a direction to it (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a director, executive officer or employee or not to undertake transactions). Any such suspension, restriction or loss of any operating license, fine, penalty or limitation on its ability to do business could adversely affect the Bank's reputation, businesses, result of operations and prospects.

The Bank could be adversely affected by changes in laws, regulations and regulatory policies or by increased compliance requirements as a result of such changes.

The Bank continues to face increased supervision and regulation in Australia, particularly in the areas of funding, liquidity, capital adequacy and prudential regulation. Changes in applicable laws, regulations and regulatory policies, including changes in interpretation or implementation, may adversely affect how the Bank conducts its business, the profitability or size of the Bank's business activities, the products and services the Bank offers and could expose the Bank to additional costs and liabilities or fines and penalties. In addition, there is operational and compliance risk associated with the implementation of any new applicable laws and regulations that apply to the Bank.

Regulatory change may impact the Bank's operations by requiring it to maintain higher levels of capital, higher quality capital or increased levels of liquidity as well as place restrictions on the businesses that the Bank conducts, or require the Bank to alter its product and service offerings or increase the ability of other providers to offer competing financial services and products. In such circumstances the regulatory change could restrict the Bank's flexibility to conduct its businesses, require it to incur substantial costs and impact the profitability of one or more of the Bank's business lines. Any such costs or restrictions could adversely affect the Bank's businesses, results of operations and prospects. An example of such a regulatory change that is currently impacting the operations of the Bank (as well as a number of other regional banks in Australia) is the additional capital the Bank is required to set aside for certain loans compared with those financial institutions with advanced Basel II accreditation.

Regulation is also becoming increasingly extensive and complex, as regulators across multiple jurisdictions seek to adopt a coordinated approach, or certain jurisdictions seek to expand the territorial reach of their regulation. For example, in December 2010, the Basel Committee on Banking Supervision announced a revised global regulatory capital framework, known as Basel III, which has, among other things, increased the required quality and quantity of capital held by banks and introduced new minimum standards for the management of liquidity risk. On January 1, 2013, APRA implemented a series of Basel III capital reforms for application to Australian ADIs. These reforms included stricter eligibility criteria for capital instruments and the introduction of capital conservation and countercyclical buffers. The requirement to maintain certain levels of capital, such as "Common Equity

Tier One," "Tier One" and "Total Capital," determines the level of lending activity, or alternatively, requires the issue of additional equity capital or subordinated debt. In addition, on January 1, 2015, APRA implemented the Basel III LCR requirement, which requires ADIs to hold higher quality liquid assets to meet expected cash outflows for a 30-day period under a severe stress scenario. From January 1, 2016, APRA will require ADIs to maintain a capital conservation buffer of 2.5% of risk weighted assets above the Basel III minimum requirements and will also have the discretion to apply an additional countercyclical buffer of up to 2.5% of risk weighted assets. Regulatory changes stemming from these reforms continue to be implemented by APRA which has led, and may continue to lead, to changes with respect to capital and risk management. See "Regulation and Supervision" for more information on the regulatory regimes to which the Bank is subject and further changes that are expected over the short-to-medium term. In addition, in July 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures to be maintained by ADIs accredited to use the internal ratings-based (IRB) approach, which the Bank is currently working to become accredited to use. For ADIs accredited to use the IRB approach, the average risk weight to be applied towards Australian residential mortgage exposures will increase from 16 basis points to 25 basis points. Any further changes in regulation, including changes that increase the requirements of regulatory capital could have an adverse impact on the Bank's results of operations, or the ability of the Bank to maintain or grow its current businesses.

Changes may also occur in the oversight approach of regulators. More recently, the Australian bank regulator, APRA, has strongly encouraged Australian financial institutions to control investor lending in the home loan market and has indicated that investor lending growth in excess of 10% on an annualized basis may result in supervisory action. It is possible that governments in jurisdictions in which the Bank conducts business or obtains funding might revise existing regulatory policies that apply to, or impact, the Bank's businesses. Such changes may be driven by policy, prudential or political factors or for reasons relating to national interest and/or systemic stability. The FSI initiated by the Australian Government released its report on December 7, 2014. The FSI examined how the Australian financial system could be positioned to meet Australia's evolving needs and support Australia's economic growth. The report released by the Inquiry has made a number of recommendations covering such areas as financial regulation including arrangements for market integrity, consumer protection, safety, stability and payments and competition. All of these areas are currently under consideration by the Australian Government and the potential for legislative changes may or may not impact the operations or profitability of the Bank.

In addition, there are a number of general areas of other potential regulatory changes that could impact the Bank, including changes to accounting and reporting requirements, tax legislation, regulation relating to remuneration, privacy, financial planning, consumer protection and competition legislation and bribery and anti-money laundering and counter-terrorism financing laws. Such changes could adversely affect the profitability of the Bank's businesses to the extent that they limit its operations or increase the cost of compliance with the revised rules and regulations. The nature, timing and impact of future regulatory changes are not predictable and are beyond the Bank's control.

The Bank could face delays and increased costs in implementing new technology systems.

The Bank has an ongoing need to update and implement new information technology systems, in part to assist it to satisfy regulatory demands, ensure information security, enhance computer-based banking services for the Bank's customers and integrate its various businesses. The Bank may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Bank's information security controls or a decrease in the Bank's ability to service its customers. The Bank is also in the process of implementing Project Ignite, a modernization and simplification of the Bank's operational systems, including the replacement of its core banking IT system. See "Summary — Business Strategies — Providing a differentiated banking experience" for further information. While the Bank expects the project will bring significant business benefits that will affect its customers and

profitability, the Bank cannot make any assurances that such projects will be successful or such benefits will be realized.

The Bank may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to business practices, compliance monitoring, taxation, capital and liquidity management, compensation and other matters has increased dramatically in the past several years. The global financial crisis and its resulting political and public sentiment regarding financial institutions has resulted in adverse press coverage regarding financial institutions in general, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny and investigations. Responding to such matters, regardless of the ultimate outcome, is time-consuming and expensive and can divert the time and effort of senior management from the Bank's business. Investigations, penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on the Bank's reputation and on the morale and performance of its employees, which could adversely affect its businesses and results of operations.

The Bank's business is substantially dependent on the Australian economy, including general economic conditions and other business conditions, including weather events.

As the Bank conducts almost all of its business in Australia, its performance is influenced primarily by the level and cyclical nature of residential and business lending in Australia. In particular, levels of borrowing are heavily dependent on customer confidence, the state of the Australian economy and prevailing interest rates at the time. A significant decrease in demand in the Australian housing markets may adversely impact property valuations or these may fall due to other factors. If property valuations fall, particularly in Queensland where a substantial portion of the Bank's residential loans are concentrated, it could cause the Bank to incur higher credit losses. Similarly, a protracted period of subdued small business confidence and higher levels of business failure could result in higher credit losses in the Bank's commercial (SME) portfolio, which is predominantly comprised of loans to small businesses. In addition, because the Bank conducts a substantial amount of lending to agribusinesses, particularly in Queensland and New South Wales, a significant decline in the prices of agricultural commodities or in the agriculture property sector generally in these two states could adversely impact the Bank's agribusiness lending activities and cause higher credit losses. Furthermore, the occurrence and prolonged nature of any natural disasters, including droughts, floods and cyclones, may also cause an economic downturn in the areas directly or indirectly affected by the disaster and could adversely affect the ability of borrowers to make payments on loans. For example, the ongoing drought in parts of Queensland may continue to have an adverse impact on the Bank's agribusiness loan portfolio in Queensland (which comprises a significant proportion of the Bank's business in Queensland). Impairment losses on loans made to customers in such drought-affected areas may continue to increase, particularly if weather conditions do not stabilize or improve. See also " — The Bank could suffer losses due to catastrophic events" below.

The Bank's businesses are also impacted by international economic conditions, developments in global financial markets, natural disasters and political events, which are outside of the Bank's control. A weakening in the Australian economy brought upon by a weakening in the economic and business conditions of other countries or the global economy generally could have an adverse effect on the Bank's business and results of operations. The global economy and global financial markets continue to be characterized by uncertainty and volatility. Concerns about a potential exit by Greece from the European Union and achieving a permanent solution regarding its sovereign debt, the recent significant declines in the Chinese share market, attempts in China to transition towards more stable economic growth, together with sharp oil price declines and volatile commodity prices continue to pose

risks to global economic growth and financial stability. Furthermore, geopolitical instability, including potential for, threats of, or actual conflicts occurring around the world, including the ongoing unrest and conflicts in the Ukraine, North Korea, Syria, Egypt, Afghanistan, Iraq and elsewhere in the world as well as the current high threat of terrorist activities may also adversely affect global financial markets and the global economy. Finally, the diverging policy approaches of the European Central Bank, with its recently announced large-scale financial asset purchase program (commonly referred to as "quantitative easing") to boost economic growth, and the U.S. Federal Reserve with its recent withdrawal of its own quantitative easing program and anticipation of raising U.S. interest rates towards the end of 2015, continue to pose challenges to global financial markets.

In addition, adverse changes to the economic and business conditions in Australia and other countries such as China, India, Japan, South Korea, members of the European Union and the United States, could also negatively impact the Australian economy, the Bank's customers and the Bank's investments. For example, during 2013, 2014 and 2015, domestic growth in the business and household sectors in Australia slowed and the resources sector declined due to weak global commodity prices and excess supply. Uncertainty in the outlook of the Australian economy has resulted in higher rates of savings, lower demand for credit and lower discretionary spending. Furthermore, during 2013, 2014 and 2015, China's economy, on which the Australian economy (particularly in the mining and resources sectors) is strongly dependent, recorded lower growth rates than previously. A continued downturn in China's economic growth and demand for raw materials could continue to adversely affect the Australian economy (particularly the mining and resources sectors), particularly due to the significant trade relationship between the two countries. All of these factors could result in the Bank facing reduced demand for its products and services and/or impact its investment returns, which could affect the Bank's business, results of operations and prospects.

Adverse credit and capital market conditions may significantly affect the Bank's ability to meet funding and liquidity needs and may increase its cost of funding.

The Bank relies on credit and capital markets – both domestic and offshore – to fund its business and as a source of liquidity. The Bank's ability to access capital markets, liquidity and costs of obtaining funding are related to general financial and economic conditions, including but not limited to the level and volatility of short-term and long-term interest rates, inflation, monetary supply, volatility in commodities prices, fluctuations in both debt and equity capital markets, changes in foreign exchange rates, liquidity in the global financial markets, consumer confidence and the relative strength of the Australian economy. Renewed volatility or a worsening general economic climate, including in overseas markets, could adversely impact any or all of these factors. Should conditions remain uncertain for a prolonged period, or deteriorate, the Bank's funding costs may increase and may limit the Bank's ability to refinance, in a timely manner, maturing liabilities, which could adversely affect the Bank's ability to fund and grow its business or otherwise have a material impact on the Bank.

In recent years, the global credit and capital markets have experienced significant volatility, resulting in reduced liquidity, widened credit spreads, decreased price transparency and reduced predictability in business forecasts. More recently, challenging market conditions have resulted from the ongoing concerns surrounding sovereign risk, specifically the debt/fiscal deficit concerns in Europe, the slowing economic outlook for a number of countries, including China, global growth generally, the withdrawal of fiscal stimulus measures (such as the withdrawal of the U.S. Federal Reserve Bank's "quantitative easing" program) and systemic reviews of the banking sector by rating agencies and regulators. Such disruptions, uncertainty or volatility in domestic or global financial markets may increase funding costs, limit the Bank's access to funding and reduce its financial flexibility.

Domestically, a shift in investment preferences of businesses and consumers away from bank deposits toward other asset or investment classes may increase the Bank's need for funding from offshore wholesale markets.

If the Bank's current sources of funding prove to be insufficient, it may be forced to seek alternative financing and/or reduce the level of its lending. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, the Bank's credit ratings and credit capacity. Even if available, the cost of these alternatives may be more expensive or on unfavorable terms, or the Bank may be unable to raise as much funding as it needs to support its business activities, which could adversely affect the Bank's results of operations, liquidity, capital resources and financial condition. There is no assurance that the Bank will be able to obtain adequate funding and do so at acceptable prices or on acceptable terms.

If the Bank is unable to source appropriate funding on acceptable terms, it may also be forced to reduce its lending or sell liquid securities. There is no assurance that the Bank will be able to obtain favorable prices on some or all of the securities that it may offer for sale or its ability to do so in an acceptable timeframe. Such actions may adversely impact the Bank's businesses, results of operation, liquidity, capital resources and financial condition.

Adverse financial market conditions or Bank-specific circumstances may significantly affect the Bank's ability to maintain adequate levels of liquidity.

The Bank's liquidity and funding policies are designed to allow it to meet its contractual and contingent payment obligations as and when they fall due, by seeking to ensure it is able to borrow funds on an unsecured basis, has sufficient assets to borrow against on a secured basis, and has sufficient high quality liquid assets to sell to raise immediate funds without adversely affecting the Bank's net asset value. The Bank monitors and manages its liquidity and funding profile through its approved liquidity framework, which models the Bank's ability to fund under both normal conditions and during a crisis situation. See "Regulation and Supervision — Other Australian regulatory developments — Crisis management" and Note 24.3 to the Bank's 2015 annual financial statements for an overview of the Bank's liquidity and funding risk management framework. If the Bank is unable to maintain adequate levels of liquid assets, which may be due to a number of factors including significant unforeseen changes in interest rates, ratings downgrades, higher than anticipated losses on investments, unforeseen contingent liability payments, significant counterparty defaults, disruptions in the financial markets generally or if financial markets were closed for an extended period of time, it could have adverse effects on the Bank's operations and financial condition.

Failure to maintain credit ratings could adversely affect the Bank's cost of funds, liquidity, competitive position and access to capital markets.

The Bank's credit ratings affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating the Bank's products and services; therefore, maintaining quality credit ratings is important. See "Management's Discussion and Analysis of Results of Operations and Financial Condition — Credit Ratings" for more information on the credit rating for the Bank's short-term and long-term senior unsecured debt.

The credit ratings assigned to the Bank by rating agencies are based on an evaluation of a number of factors, including its financial strength, risk management controls, support from the Group and structural considerations regarding the Australian financial system and the credit rating of the Australian Government. A credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events, including changes to the methodologies used by the rating agencies to determine ratings.

In March and April 2015, Moody's Investors Services and Standard & Poor's, respectively, released new bank rating methodologies. While this did not result in a downgrade to the credit ratings assigned to the Bank by either Moody's or Standard & Poor's, there can be no assurance that the Bank's

credit ratings will not be downgraded in the future under the new rating methodologies as a result of the factors described above.

A downgrade to the Bank's credit ratings could adversely affect its cost of funds and related margins, access to credit markets, collateral requirements, liquidity, competitive position, the willingness of counterparties to transact with the Bank, and its access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether the Bank's ratings differ among agencies (namely, split ratings) and whether any ratings changes also impact the Bank's peers or the sector.

A systemic shock in relation to the Australian or other financial systems could have adverse consequences for the Bank or its customers or counterparties that would be difficult to predict and respond to.

There is a risk that a major systemic shock could occur that causes an adverse impact on the Australian or other financial systems. As outlined above, the financial services industry and capital markets have been, and may continue to be, affected by continuing market volatility and the outlook for global economic conditions. In recent years, there has been an increased focus on the potential for sovereign debt defaults and/or significant bank failures in the countries comprising the Euro-zone. There can be no assurance that the market disruptions in the Euro-zone, including the increased cost of funding for certain Euro-zone governments, will not spread, nor can there be any assurance that future assistance packages will be available or sufficiently robust to address any further market contagion in the Euro-zone or elsewhere.

Any such market and economic disruptions could have an adverse effect on financial institutions such as the Bank because consumer and business spending may decrease, unemployment may rise, house prices may fall and demand for the products and services the Bank provides may decline, thereby reducing its earnings. These conditions may also affect the ability of the Bank's borrowers to repay their loans or the Bank's counterparties to meet their obligations, causing the Bank to incur increased specific and collective provisions and write-offs. These events could also result in the undermining of confidence in the financial system, reduction of liquidity and impede the Bank's access to funding. This could adversely affect the Bank's businesses, results of operations and prospects.

The nature and consequences of any such event are difficult to predict with certainty and there can be no guarantee that the Bank would be able to respond effectively to any such event. If the Bank were not to respond effectively, its businesses, results of operations and prospects could be adversely affected.

Declines in asset values could adversely affect the Bank's operations or profitability.

The Bank's performance is influenced by asset markets in Australia and elsewhere, including equity, property and other investment asset markets, particularly in Queensland and to a lesser extent, in New South Wales, Victoria and Western Australia. Declining asset prices could impact customers and counterparties and the value of security the Bank holds against loans and derivatives which may impact its ability to recover amounts owing to it should its customers or counterparties default.

In particular, the residential, commercial and agriculture property lending sectors in Queensland, and to a lesser extent, New South Wales, Victoria and Western Australia, are important businesses of the Bank. Overall, Australian property markets have been volatile, particularly in rural Queensland where there have been reduced asset values in recent years, while certain metropolitan areas of Sydney and Melbourne have experienced the opposite. In the event that property valuations in Queensland, or Australia generally, decline, this could decrease the demand for new lending and/or increase the losses that it may experience from existing loans.

For example, a significant decrease in Australian housing market demand or property valuations, particularly in Queensland, or a significant slowdown in housing, commercial or strata title property markets due to declining property valuations, could adversely impact the Bank's residential lending activities if the value of properties held as security were to be negatively affected. This may cause the Bank to incur higher credit losses, or the demand for its lending products may decline, which could adversely affect the Bank's businesses, results of operations, capital resources and prospects.

An increase in defaults in credit exposures could adversely affect the Bank's results of operations, liquidity, capital resources and financial condition.

Credit risk is a significant risk and arises primarily from the Bank's lending activities. The risk arises from the likelihood that some customers and counterparties will be unable to honor their obligations to the Bank, including the payment of interest and the repayment of principal. Residential mortgage loans with higher LVRs, which constitute a part of the Bank's residential mortgages portfolio, typically have default rates higher than residential mortgage loans with lower LVRs and therefore may be more acutely impacted by economic volatility. The Bank has sought to limit its risk of default on higher LVR residential mortgage lending through requiring all mortgage borrowers of loans with a LVR above 80% to maintain lenders mortgage insurance with counterparties exhibiting a satisfactory risk profile; however, the Bank cannot provide any assurance that losses from defaulting residential mortgage loans would be fully covered by lenders mortgage insurance. Losses would be incurred by the Bank on such defaulting residential mortgages where the borrower defaults, the property is realized at a price less than the amount of the debt and the provider of lenders mortgage insurance does not honor a claim either because the basis upon which the lenders mortgage insurance is provided was deficient or because the provider of the lenders mortgage insurance is incapable of meeting a claim.

Credit risk also arises from certain derivative contracts the Bank enters into and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies. The financial conditions of these entities may be impacted to varying degrees by economic conditions in global financial markets.

The Bank holds collective and individually assessed provisions for its credit exposures. See Note 24 to the Bank's 2015 annual financial statements for a description of the most significant regional, business and individual credit exposures where the Bank believes there is a significant risk of loss. If economic conditions deteriorate, some counterparties could experience higher levels of financial stress and the Bank may experience a significant increase in defaults and write-offs, and be required to increase its provisioning. Such events would diminish available capital and would adversely affect the Bank's operating results, capital resources and financial condition.

The Bank is exposed to credit risk as a consequence of its lending activities and holds specific provisions to cover bad and doubtful debts where the value of collateral securing the loan less the costs of realization is assessed as being lower than the debt. If these provisions prove inadequate, either because of an economic downturn or a significant breakdown in its credit disciplines, then this could have a material adverse effect on its business.

The Bank could suffer losses due to failures in risk management strategies.

The Bank has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which it is subject, including liquidity risk, credit risk, market risk (including interest rate and foreign exchange risk) and operational risk. See Note 24 to the Bank's 2015 annual financial statements and the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its subsidiaries posted on the Bank's U.S. Investors' Website for further information on the Bank's risk management strategies. There are inherent limitations with any risk management framework, however, and while the Bank employs a broad and diversified set of risk monitoring and mitigation techniques, including risk modeling, those techniques

and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Such models and techniques used to assess and control risk exposures reflect numerous assumptions about the market and, accordingly, there may exist, or develop in the future, risks that the Bank has not anticipated or identified or controls that may not operate effectively.

Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk. Although the Bank believes that it has thorough and robust stress testing framework in place, there can be no assurance that the risk management processes and strategies that the Bank has developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

If any of the Bank's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the Bank could suffer unexpected losses and reputational damage which could adversely affect its business and results of operations.

The Bank could suffer losses due to technology failures and face information security risks and cyber-attacks.

The Bank relies to a significant degree on information technology systems. Most of the Bank's daily operations are computer-based and its information technology systems are essential to maintaining effective communication with customers. The Bank is exposed to a number of system risks, including complete or partial failure of the information technology systems, inadequacy of internal, partner or third party information technology systems, including service providers, capacity of the existing systems to effectively accommodate the Bank's planned growth and integrate existing and future acquisitions and alliances, systems integration programs not being completed within the timetable or budget, and compromise of information or technology arising from external or internal security threats.

The Bank has disaster recovery and systems monitoring tools and development roadmaps in place to mitigate some of these risks; however, any failure in the Bank's information technology systems could result in business interruption, the loss of customers, loss of proprietary data, litigation or regulatory scrutiny, damaged reputation and weakening of its competitive position and could adversely affect the Bank's business.

In addition, the Bank's operations rely on the secure processing, storage and transmission of confidential and other information on its own computer systems and networks and the systems and networks of external suppliers. Exposure to information security risks occurs when information is acquired or created, processed, used, shared, accessed, retained or disposed. Although the Bank implements measures to protect the security and confidentiality of information, including appropriately trained team members, use of internal and external security experts, regular training on information security risk management for its staff and technical security controls such as firewalls, intrusion detection and prevention, anti-malware software, incident monitoring and response procedures and data loss prevention controls, there is a risk that the computer systems, software and networks on which the Bank relies may be subject to security breaches, unauthorized access, computer viruses, external attacks or internal breaches that could have an adverse security impact and compromise the Bank's confidential information or that of its customers and counterparts.

Information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. In addition, to access the Bank's products and services, customers may use personal smartphones, personal computers, personal tablet computers and other computing/mobile devices that are beyond the Bank's control systems. Although the Bank takes protective measures in light of the increase in the number of cyber-related threats against financial institutions globally, and endeavors to

modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorized access, misuse, denial-of-service attacks, phishing attacks, computer viruses or other malicious code and other events that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the Group, its employees, customers or of third parties or otherwise materially disrupt the Bank's or the Bank's customers' or other third parties' network access or business operations. The Bank believes that such incidents may continue due to, among other things, the evolving nature of these threats, the Bank's size and role in the financial services industry, its plans to continue to implement internet banking and mobile banking channel strategies and develop additional remote connectivity solutions, the outsourcing of certain business operations, and the threat of cyber-terrorism, including by external extremist parties and foreign state actors.

The Bank also faces indirect technology, cybersecurity and operational risks relating to service providers and other third parties with whom business is conducted or upon whom the bank relies to facilitate or enable its business activities.

It is possible that the Bank or its third party suppliers may be unable to anticipate or to implement effective measures to prevent or minimize damage that may be caused by information security threats, given that the techniques used can be highly sophisticated, can evolve rapidly and those that perpetrate such attacks can be well resourced. An information security or cyber-attack could have serious consequences for the Bank, including, among other things, operational disruption, financial losses, a loss of customer or business opportunities, litigation, regulatory penalties or enforcement action, remediation or restoration cost, reputational damage, theft of intellectual property and customer data, and could result in violations of applicable privacy laws, all of which could have a material impact on the Bank. The Bank believes that it, and its third party suppliers and vendors, have and maintain adequate anti-virus and malware software and have sufficient control frameworks in place to mitigate these risks, but no assurance can be given that such mitigation steps will be effective.

Furthermore, as cybersecurity threats continue to evolve, significant additional resources may need to be expended to continue to modify or enhance protective measures, or to investigate and remediate any information security vulnerabilities or incidents, which could adversely affect the Bank's results of operations.

The Bank could suffer losses due to operational risks.

The Bank is exposed to the risk of loss resulting from human error, from inadequate or failed internal or external processes and systems or from external events. The Bank is exposed to a variety of operational risks, such as fraud and other dishonest activities, cyber-attacks, management practices, workplace safety, project and change management, compliance, business continuity and crisis management, key person, information and systems integrity.

Operational risks also include, among other things, outsourcing risks. For example, the Bank relies on a number of external service providers to provide services to itself and its customers. Although the Bank has policies and processes in place regarding outsourcing designed to mitigate and manage its outsourcing risk, failure by these suppliers to deliver services as required could result in reduced operational effectiveness, regulatory enforcement actions and reputational damage, and could adversely impact the Bank's operations and profitability.

Operational risks could impact the Bank's operations or adversely affect demand for its products and services and its reputation, which could adversely affect the Bank's businesses, results of operations and prospects. The Bank could be significantly impacted if an employee, contractor or external service provider does not act in accordance with community standards, regulations and associated procedures, or engages in inappropriate or fraudulent conduct. Losses, financial penalties or variations to the operating licenses may be incurred from an unintentional or negligent failure to meet a professional obligation to specific clients, including fiduciary and suitability requirements, or from the

nature or design of a product. These may include client, product and business practice risks such as product defects and unsuitability, market manipulation, insider trading, misleading or deceptive conduct in advertising and inadequate or defective financial advice. While the Bank has processes to minimize the risk of human error and employee, contractor or external service provider misconduct, these policies and processes may not always be effective. If stakeholders perceive that the Bank has been behaving inappropriately, significant reputational and financial impacts could also be incurred.

The Bank maintains an operational risk management framework in order to manage its operational risk exposures. This framework aims to identify, assess and report operational risk on a consistent and reliable basis but there can be no assurance such framework will be effective.

The Bank could suffer losses due to catastrophic events.

The Bank and its customers operate businesses and hold assets in a range of geographical locations. Although the Bank believes that it holds insurance policies appropriate for its business and the Bank's customers may hold insurance policies for their assets, any significant catastrophic events or external event (including fire, storm, flood, drought, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact the Bank's operations, damage property and otherwise affect the value of assets held in the affected locations and the Bank's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, which could adversely affect the Bank's businesses, results of operations, capital resources or prospects.

Reputational damage could harm the Bank's business and prospects.

The Bank's ability to attract and retain customers and the Bank's prospects could be adversely affected if the Bank's or the Group's reputation is damaged.

There are various potential sources of reputational damage, including potential conflicts of interest, pricing policies, failing to comply with legal and regulatory requirements (including money laundering, trade sanctions or privacy laws), ethical issues, litigation, failure of information security systems, employee misconduct, improper sales and trading practices, failing to comply with personnel and supplier policies, unintended disclosure of confidential information, technology failures, security breaches and risk management failures. The Bank's reputation may be negatively impacted by its business decisions such as the closure of rural branches. The Bank's reputation may also be negatively impacted by regulators or private parties challenging its compliance with laws and regulations, even in the absence of a determination of non-compliance. The Bank's reputation could also be adversely affected by the actions of the financial services industries in general or from the actions of its customers and counterparties. In addition, although the Bank does not control those entities that are part of the Group but not of the Bank, their actions may reflect directly on the Bank's reputation and its business and business prospects could be adversely affected if any of the entities using the "Suncorp" name take actions that result in negative publicity to the Bank.

Failure to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject the Bank to regulatory enforcement actions, fines and penalties, or harm its reputation among its customers, investors and the marketplace. This could lead to loss of business, which could adversely affect the Bank's businesses,, results of operations and prospects.

The Bank relies on services and may access capital provided by the Group.

Members of the Group provide shared services to the Bank pursuant to certain shared services agreements. These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, business improvement and strategy, group risk management, other group-wide services and business

shared services. Other than exercising its rights under the shared services agreements, the Bank has no direct control over the provision of those services, the Group's continued provision of those services or the cost at which such services are provided.

The Bank may also access capital provided by the Group in order to meet capital ratios, whether stipulated by applicable rules and regulations or set by internal policies, and expects that it will continue to do so in the future. The Bank has no direct control over whether or when such capital injections may be provided by the Group and is therefore partly dependent on the financial performance, financial condition and results of the Group and members of the Group. The failure by the Group to provide capital injections when required may adversely affect the Bank's results of operations and prospects.

The unexpected loss of key staff or inadequate management of human resources may adversely affect the Bank's business, operations and financial condition.

The Bank's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The Chief Executive Officer of the Bank and the Group and the senior management team of the Group and the Bank have skills and reputation that are critical to setting the strategic direction, successful management and growth of the Bank, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect its operations and financial condition. The Bank may in the future have difficulty retaining or attracting highly qualified people for important roles, which could adversely affect its business, operations and financial condition.

Litigation, regulatory actions and contingent liabilities may adversely impact the Bank's results of operations.

The Bank may, from time to time, be subject to litigation, regulatory actions and contingent liabilities, for example, as a result of class actions or regulatory violations, which may adversely impact upon its results of operation and financial condition in future periods or its reputation. There is a risk that any losses may be larger than anticipated or provided for or that additional litigation, regulatory actions or other contingent liabilities may arise. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm the Bank's reputation or brand, thereby adversely affecting its business. In addition, the Group may be subject to material litigation that could also harm the Bank's reputation or brand and adversely impact the Bank's business.

CAPITALIZATION AND INDEBTEDNESS

The following tables should be read in conjunction with the "Selected Financial Information," "Management's Discussion and Analysis of Results of Operation and Financial Condition" and the financial statements and other information appearing elsewhere or incorporated by reference in this Report.

The following table sets forth the Bank's long-term indebtedness and total capitalization as at June 30, 2015. For details on the Bank's short-term debt position and the Bank's deposit liabilities as at June 30, 2015, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources" in this Report.

	As at June 30, 2015	
	(US$m)[1]	*(A$m)*
Long-term indebtedness		
Securitization liabilities	2,813	3,651
Unsecured debt issuances	4,028	5,228
Secured debt issuances[2]	2,040	2,648
Subordinated notes	572	742
Total long-term indebtedness	**9,453**	**12,269**
Shareholders' equity		
Issued capital	2,040	2,648
Capital notes[3]	347	450
Reserves	(173)	(224)
Retained profits	647	840
Total equity	**2,861**	**3,714**
Total capitalization[4]	**12,314**	**15,983**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 30, 2015 of US$0.7704 per A$1.00.

(2) As at June 30, 2015, A$2,648 million (US$2,040 million) of the Bank's long-term indebtedness was secured indebtedness and comprised of covered bond liabilities.

(3) The capital notes are perpetual, subordinated notes issued to Suncorp Group Limited on December 17, 2012.

(4) Total capitalization represents long-term indebtedness and shareholders' equity.

SELECTED FINANCIAL INFORMATION

The selected consolidated statement of financial position information as at June 30, 2015, 2014, 2013 and 2012 and statement of comprehensive income information for fiscal 2015, 2014, 2013 and 2012 presented below should be read in conjunction with the Bank's 2015 annual financial statements, 2014 annual financial statements, 2013 annual financial statements and 2012 annual financial statements, respectively.

The financial statements referred to above have been prepared in accordance with AASBs, which comply with IFRS, as at the date of this Report, which vary in certain respects from US GAAP. The financial information presented below has been derived from the financial statements referred to above. The Bank's selected consolidated financial information presented below should also be read in conjunction with the Bank's consolidated financial statements, the sections in this Report captioned "Financial Information Presentation" and "Management's Discussion and Analysis of Results of Operation and Financial Condition" and the other financial information included elsewhere in this Report.

Selected Statement of Comprehensive Income Information

	Fiscal				
	2015	**2015**	**2014**	**2013**	**2012**
	(US$m)	*(A$m)*			
Net interest income	**850**	**1,103**	**1,011**	**986**	**928**
Other operating income	82	107	76	60	140
Total net operating income	**932**	**1,210**	**1,087**	**1,046**	**1,068**
Operating expenses	(498)	(646)	(624)	(628)	(603)
Loss on disposal of loans and advances[(2)]	-	-	(13)	(527)	(27)
Impairment expense	(45)	(58)	(124)	(375)	(405)
Profit/(loss) before income tax	**389**	**506**	**326**	**(484)**	**33**
Income tax (expense)/benefit	(117)	(152)	(98)	135	(11)
Profit/(loss) for the period	**272**	**354**	**228**	**(349)**	**22**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 30, 2015 of US$0.7704 per A$1.00.

(2) The loss on disposal of loans and advances during fiscal 2013 related to the disposal of A$1.6 billion of loans in the Non-Core Portfolio in June 2013 and other costs associated with smaller transactions throughout the period. The figure for fiscal 2012 was restated on the same basis in the Bank's 2013 annual financial statements to reflect an impairment expense of A$27 million for fiscal 2012. The resulting impact was a corresponding adjustment in other operating income from A$113 million to A$140 million for fiscal 2012.

Selected Statement of Financial Position Information

	As at June 30,				
	2015	**2015**	**2014**	**2013**	**2012**
	(US$m)	*(A$m)*			
Assets					
Cash and cash equivalents	455	591	463	905	549

	As at June 30,				
	2015	**2015**	**2014**	**2013**	**2012**
	(US$m)	*(A$m)*			
Receivables due from other banks[2]	458	595	927	1,460	2,044
Derivatives	502	651	334	667	424
Investment securities	5,877	7,629	8,093	10,102	11,095
Loans, advances and other receivables[2]	40,031	51,961	49,927	48,365	47,521
Property, plant and equipment	-	-	-	-	-
Other assets[3]	157	203	220	299	376
Deferred tax assets	62	81	98	141	241
Total assets	**47,542**	**61,711**	**60,062**	**61,939**	**62,250**
Liabilities					
Payables due to other banks[2]	229	297	81	213	64
Deposits and short-term borrowings[2]	34,230	44,431	44,154	43,861	41,521
Derivatives	309	401	525	984	2,369
Payables and other liabilities	460	599	617	755	691
Securitization liabilities	2,813	3,651	3,598	4,802	3,839
Debt issues	6,068	7,876	6,839	7,313	9,598
Subordinated notes[4]	572	742	742	840	666
Preference shares	-	-	-	30	762
Total liabilities	**44,681**	**57,997**	**56,556**	**58,798**	**59,510**
Net assets	**2,861**	**3,714**	**3,506**	**3,141**	**2,740**
Equity					
Share capital	2,040	2,648	2,565	2,452	2,189
Capital notes[5]	347	450	450	450	-
Reserves	(173)	(224)	(239)	(306)	(339)
Retained profits	647	840	730	545	890
Total equity	**2,861**	**3,714**	**3,506**	**3,141**	**2,740**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 30, 2015 of US$0.7704 per A$1.00.

(2) During fiscal 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statements of financial position as at June 30, 2015 and 2014. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in an increase in the Bank's receivables due from other banks of A$1.89 billion, a corresponding decrease in the Bank's loans, advances and other receivables of A$1.89 billion, an increase in the Bank's payables due to other banks by A$23 million and a corresponding decrease in the Bank's deposits and short-term borrowings of A$23 million. See Note 2 to the Bank's 2013 annual financial statements for further information.

(3) Other assets is mainly comprised of accrued interest and prepayments.

(4) On June 20, 2014, the Bank repurchased A$98 million of FRCNs from noteholders. Noteholders who elected to participate in the buyback were paid cash. The Bank realized a profit before tax of A$20 million in connection with the buyback.

(5) On December 17, 2012, the Bank issued A$450 million of perpetual subordinated notes to Suncorp Group Limited. See Note 19 to the Bank's 2015 annual financial statements.

Regulatory Capital and Ratios

In September 2012, APRA published final standards relating to the implementation of Basel III capital reforms in Australia. APRA has adopted a more conservative approach than the minimum standards published by BCBS and a more accelerated timetable for implementation. APRA's version of the Basel III capital reforms, as specified under APS 330, came into effect on January 1, 2013. The following tables provide details of the Bank's Tier 1 and Tier 2 capital as at June 30, 2015, 2014 and 2013, as stated in regulatory reporting terms under APS 330. As the Bank reported its capital information as at June 30, 2012 in accordance with APRA's prior prudential standards, such information is not directly comparable due to definitional and eligibility differences between the two standards and, accordingly, regulatory capital information as at June 30, 2012 has not been presented below.

Capital as per APRA Prudential Standards (Basel III)[1]

	As at June 30,			
	2015	**2015**	**2014**	**2013**
	(US$m)[1]		*(A$m)*	
Common Equity Tier 1 capital				
Common Equity Tier 1 capital before regulatory adjustments	2,400	3,115	2,932	2,618
Regulatory adjustments to Common Equity Tier 1	(247)	(320)	(287)	(286)
Common Equity Tier 1 capital	**2,153**	**2,795**	**2,645**	**2,332**
Additional Tier 1 capital	347	450	450	480
Tier 1 capital	**2,500**	**3,245**	**3,095**	**2,812**
Tier 2 capital				
Tier 2 capital	760	987	979	1,035
Tier 2 capital	**760**	**987**	**979**	**1,035**
Total capital	**3,260**	**4,232**	**4,074**	**3,847**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 30, 2015 of US$0.7704 per A$1.00.

The following table provides the Bank's capital ratios for Tier 1 capital and total capital adequacy as at June 30, 2015, 2014 and 2013:

Capital Ratios as per APRA Prudential Standards (Basel III)[1]

	As at June 30,		
	2015	**2014**	**2013**
		(%)	
Common Equity Tier 1	9.13	8.53	7.59
Tier 1	10.60	9.99	9.15
Tier 2	3.23	3.15	3.37
Total capital	13.83	13.14	12.52

(1) The regulatory table as at June 30, 2015, 2014 and 2013 has been prepared in accordance with APS 330 as in effect as at June 30, 2015, 2014 and 2013.

Certain Performance Ratios and Statistics

	2015	**2014**	**2013**
Net interest margin (interest-earning assets)[1]	1.85	1.72	1.64
Cost-to-income ratio[2]	53.39	57.40	59.18
Impairment losses to gross loans and advances[3]	0.11	0.25	0.78
Impairment losses to credit risk-weighted assets[4]	0.23	0.48	1.48

(1) Calculated as ((net interest income) / (average interest earning assets)) / (number of days in period) x 365.
(2) Calculated as (operating expenses) / (total income).
(3) Calculated as ((impairment losses on loans and advances) / (gross loans and advances)) / (number of days in period) x 365.
(4) Calculated as ((impairment losses on loans and advances) / (on-balance sheet credit risk-weighted assets)) / (number of days in period) x 365.

SUNCORP-METWAY LIMITED

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 110 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with a market capitalization of A$16.0 billion (US$12.3 billion) as at September 16, 2015.

The Bank is one of Australia's largest regional banks with A$52.2 billion of gross loans and advances as at June 30, 2015. It services more than one million individual, agribusiness, and commercial (SME) banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Retail banking, including home and personal loans, savings and transaction accounts, margin lending, credit cards and foreign currency services;
- Commercial (SME) banking, including small business banking and financial solutions for SMEs; and
- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

As at June 30, 2015, the Bank had A$61.7 billion in total assets and approximately 210 offices and branches across Australia. The Bank reported a profit before tax of A$506 million for fiscal 2015 compared with a profit before tax of A$326 million for fiscal 2014 and a net loss of A$484 million for fiscal 2013. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Results of Operations" for further information.

The Bank's registered office is located at Level 28, Brisbane Square, 266 George Street, Brisbane, Queensland 4000 and its telephone number is +61-7-3362-1222.

Corporate History

The Group's history dates back more than 100 years and involves a number of state and publicly owned banking, insurance and wealth management companies. In 1902, the Queensland Government established the Queensland Agricultural Bank, which later became part of the Queensland Industry Development Corporation ("QIDC"). The State Accident Insurance Office started business in 1916 and became later known as the State Government Insurance Office and then as Suncorp. Metway Bank was established as the Metropolitan Permanent Building Society in 1959 and became later known as Metway Bank.

Suncorp and QIDC were owned by the Queensland Government. On December 1, 1996, they were merged into the publicly listed Metway Bank Limited, creating a new integrated financial services provider headed by Metway Bank Limited (which was renamed Suncorp-Metway Limited).

On July 1, 2001, Suncorp-Metway Limited acquired AMP Limited's Australian general insurance interests, which increased its consolidated annual premium income to A$2 billion. The number of general insurance customers doubled and the business mix became more diversified, with growth in retail and commercial lines and the addition of workers compensation lines.

On March 20, 2007, Suncorp-Metway Limited merged with Promgroup Limited (the "Promina Merger"), formerly known as Promina Group Limited ("Promina Group"). This brought the number of

customers to over seven million and increased total assets to A$84.9 billion across Australia and New Zealand at the time of the merger. The Promina Group's operations trace back to 1833 in Australia and 1878 in New Zealand. Shares in Promina were delisted as a consequence of the Promina Merger.

Prior to the NOHC Restructure, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. Following the NOHC Restructure, which was effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, a new ASX-listed company. Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities. See "— Reorganization" for further information.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial (SME) and to run off its Non-Core Portfolio. As at June 30, 2015, only a residual portfolio of non-core assets remained, which is now managed as part of the Bank's commercial (SME) loan portfolio.

In addition to the ongoing de-risking of its businesses, the Group announced a strategic simplification program in May 2012, which is currently expected to run through to 2017, aimed at delivering significant cost-saving benefits across the Group through the simplification of legal, administrative and operational structures designed to make the businesses more efficient. In relation to the Bank, the project involves staged investment to:

- modernize and simplify the Bank's operational systems, including the replacement of its core banking IT system, known as Project Ignite, which is intended to bring significant business benefits and have a positive impact on its customers and the Bank's profitability; and

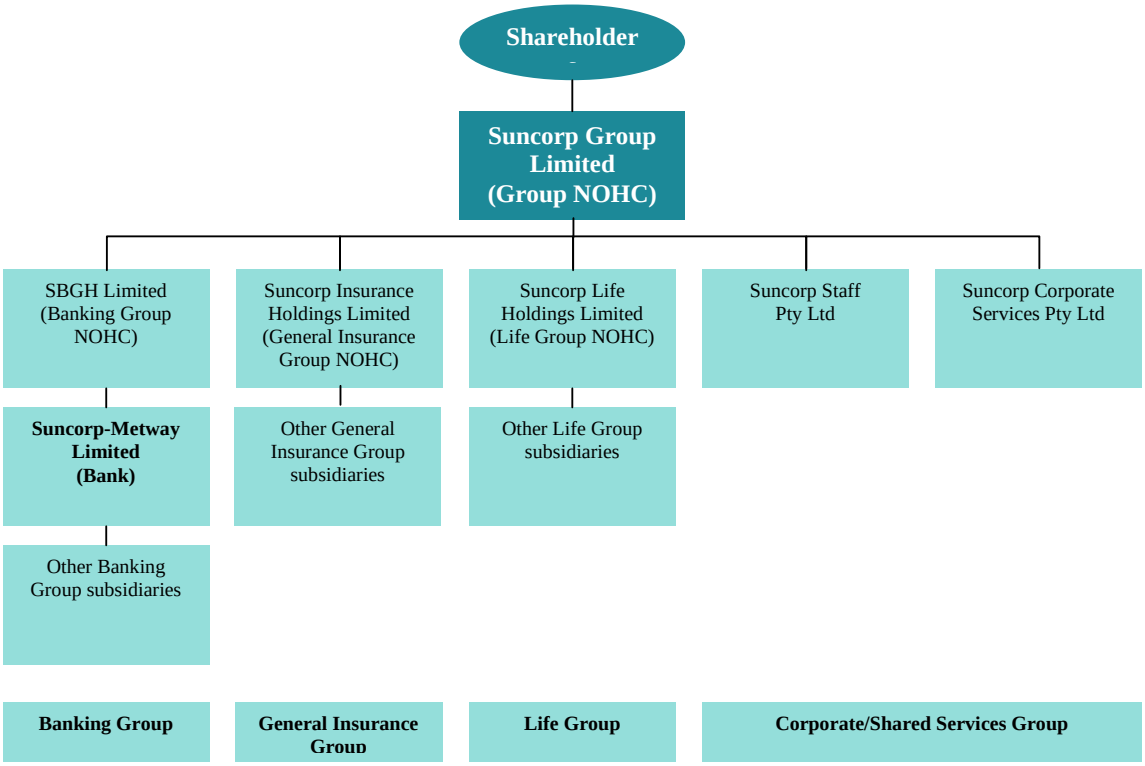
- enhance the Bank's risk and capital management program toward attaining Basel II advanced accreditation.

These initiatives are discussed further under "— Business Strategy" below.

Reorganization

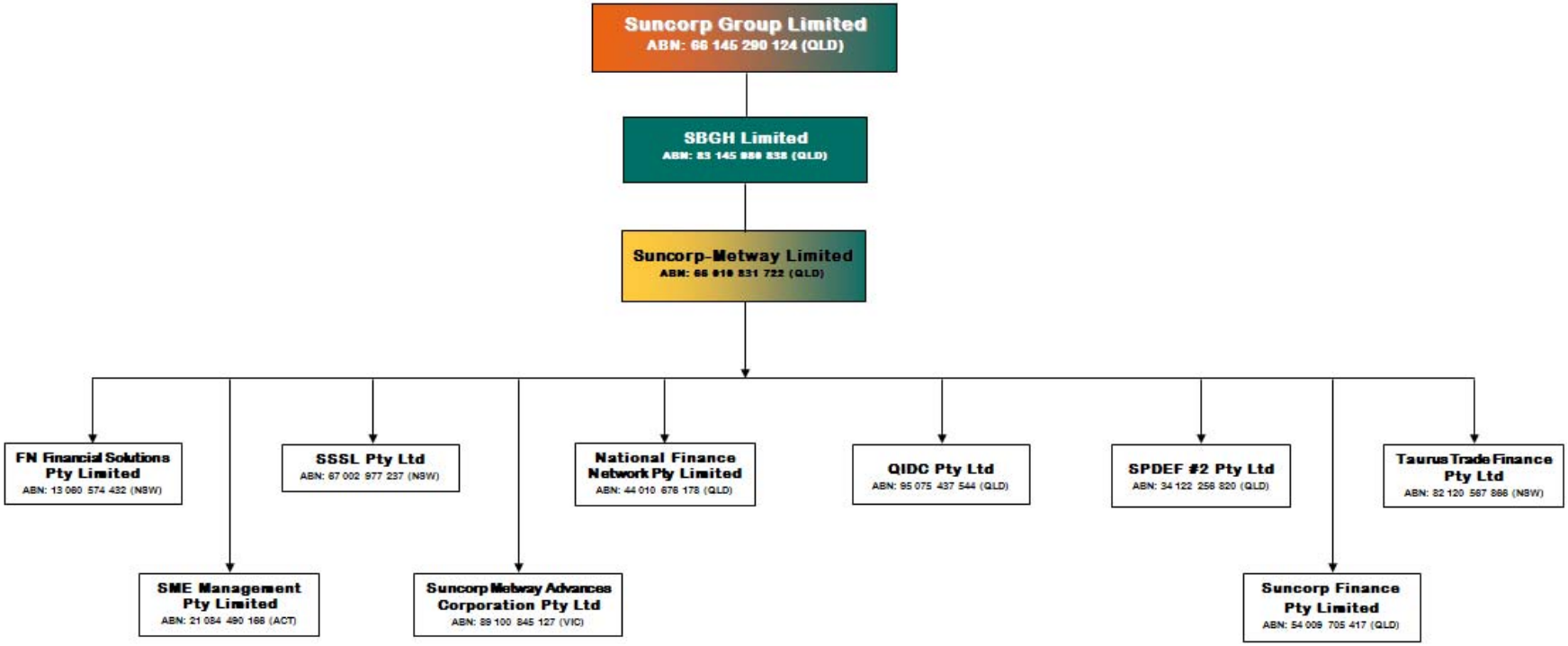
Following the NOHC Restructure, the Bank became a wholly owned subsidiary of Suncorp Group Limited. A simplified corporate structure of Suncorp Group Limited and its subsidiaries (including the Bank) following the implementation of the NOHC Restructure and the corporate structure of the Bank are as follows:

Corporate Structure of the Group



The general insurance and life insurance subsidiaries that were transferred to Suncorp Group Limited as part of the NOHC Restructure are disclosed as discontinued operations within the Bank's consolidated results. Except as otherwise disclosed herein, the financial information presented in this Report has been restated and re-presented to illustrate the results of operations of these subsidiaries as discontinued operations.

Corporate Structure of the Bank



Relationship between the Group and the Bank

As a result of the NOHC Restructure, the Bank became a wholly owned subsidiary of Suncorp Group Limited. Accordingly, the Bank is subject to the Group's Corporate Governance Framework. Under that Corporate Governance Framework, the boards of Suncorp Group Limited and each of the operational business units of the Group, including the Bank, have the same directors. Each board is comprised of a majority of independent directors. There are currently four permanent sub-committees of each board of directors: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Each of the board sub-committees of Suncorp Group Limited and each operational business units of the Group, including the Bank, are also comprised of the same directors. Additional information regarding the Bank's corporate governance policies and risk management policies and framework are included in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

In addition to its ability to access a broad range of wholesale funding, the Bank benefits from capital investments made from time to time by the Group. These investments have been made for a variety of purposes, including the redemption of the Bank's outstanding preference shares, ensuring the Bank satisfies its capital ratios and for general corporate purposes. During fiscal 2014, the Bank bought back A$98 million of its FRCNs (58% of the FRCNs outstanding).

During fiscal 2013, the Group purchased A$263 million of ordinary shares of the Bank and acquired two series of subordinated notes issued by the Bank (A$450 million in December 2012 and A$670 million in June 2013). During fiscal 2014, the Bank issued A$113 million ordinary shares to the Group in connection with its buyback of FRCNs and its repurchase of A$30 million of reset preference shares. In February 2015, as part of the capital management between the Bank and the Group, the Bank issued A$82.5 million shares to the Group.

The Bank has provided a number of intercompany loans to other members of the Group for their working capital and general corporate purposes totaling A$226 million as at June 30, 2015, which predominantly comprise of short-term and long-term revolving facilities to related corporate services entities of the Bank, which provide corporate and business shared services across the Group. Intercompany loans are not guaranteed by Suncorp Group Limited.

A number of banking transactions occur between the Bank and other members of the Group. These transactions occur in the ordinary course of business and are typically on terms equivalent to those made on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned by the Bank. Other transactions between the Bank and other members of the Group comprise advances made to, and received from, other members of the Group, dividends received from, and paid to, other members of the Group, as well as interests received from, and paid to, other members of the Group. All these transactions are generally made on commercial terms, except that some advances may be interest free.

Business Strategy

The Bank principally operates as a regional bank and seeks to grow its business in its principal market of Queensland, as well as in New South Wales, Victoria and Western Australia, through delivering the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank intends to continue to grow its business in Queensland and interstate in retail banking and in business banking, specifically in its core target groups of retail customers, agribusinesses and SMEs.

The Bank's vision is to be the bank for "aspiring Australians," which it views as Australians wanting to "get ahead" financially in target segments across business and personal banking. The Bank seeks to be the first choice for these customers by offering a superior banking experience, making lives easier and meeting the full range of their financial needs. The Bank believes it is well positioned to become a genuine alternative to the four major Australian banks (Commonwealth Bank of Australia, National Australia Bank, Australia and New Zealand Banking Group and Westpac Banking Corporation) through its genuine customer and community connections and customer network of the Group. The capital, funding, capability and strength of the Group provides the Bank with further leverage as it undertakes a significant program of change to provide an optimized platform for 2017.

The Bank is in the process of implementing four initiatives – Project Ignite, advanced risk management in connection with attaining Basel II advanced accreditation, the Business Intelligence Project and the Group customer extension program – to deliver the following key strategic priorities:

Achieving quality growth. The Bank is primarily focused on maintaining a sustainable robust balance sheet and customers' trust and confidence through the different stages of the business cycle. The Bank aims to leverage its strong reputation, extensive branch network and heritage to grow lending in Queensland, while securing interstate growth through capitalizing on previous investments in interstate branch expansion and the intermediated channel.

In retail banking, the Bank seeks to grow its residential mortgage portfolio by focusing on what it believes are lower risk sub-80% LVR owner-occupier customers through targeted home lending campaigns and the Bank's mortgage broker platform, particularly in New South Wales. The Bank also seeks to increase its retail deposits by cross-selling lower-cost transaction accounts to existing retail lending customers of the Bank.

In commercial (SME) banking, the Bank seeks to target the SME market with a two-tiered proposition, comprising a direct banking proposition for the micro end of the market (which are relatively non-complex businesses with loans of less than A$1 million), and a local relationship managed approach for businesses with loans greater than A$1 million, targeting industry segments with strong tangible asset backing and growth from its existing SME customer base.

In agribusiness banking, the Bank seeks to pursue growth within select industries and geographies while adapting to changing conditions and exercising caution with its approach to risk selection in this sector. During fiscal 2015, the rural property market remained subdued given ongoing drought conditions. However, recent rainfall in central and southern Queensland has partially improved the local drought situation. Further depreciation of the Australian dollar during fiscal 2015 (which was US$0.7074 per A$1.00, as of September 11, 2015, as compared to US$0.9427 per A$1.00 as of June 30, 2014) is expected to increase international competitiveness of the sector and result in an improved outlook for export-based agricultural commodities, such as grain, beef and cotton.

Overall, the Bank is targeting growth in its loan portfolio of between one and 1.3 times the growth of the overall mortgage loan market in Australia.

Providing a differentiated banking experience. The Bank also aims to achieve a better understanding of the banking needs of its customers than its competitors so it can provide them with the necessary tools to help them "get ahead" financially. The Bank believes it can achieve this by truly understanding their goals and aspirations, and offering a superior banking experience, which makes their lives easier and meets the full range of their financial needs. The Bank believes that one of its principal competitive advantages is its ability to deliver the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank is also conscious that it must offer a different value proposition than its competitors in order to stay relevant to its customers. A key enabler of a differentiated strategy is the implementation of Project Ignite, which involves the

decommissioning of 12 legacy systems and re-engineering of more than 500 business processes to improve the system's capability and efficiency. Project Ignite is expected to modernize and simplify the Bank's operational systems, including replacing its core banking IT system, which is expected to bring significant business benefits. The Bank implemented the first stage of Project Ignite, with unsecured personal loans transitioning to the new platform in November 2014. Several software upgrades have also been successfully implemented during the first half of calendar 2015. Project Ignite is expected to be completed in 2016. The Bank expects that these technology improvements will enhance its operating efficiency and create a point of difference to its regional bank competitors and enable the Bank to further develop more innovative digital capabilities in a competitive market.

In addition, the Bank has responded to changing customer behaviors by continuing to invest in its digital platform including improving its mobile banking "app" and online account opening system and replacing its traditional branches with new branches that are appropriately designed and sized for the activities it will conduct, including the greater use of self-service kiosks and technologies.

A key differentiation opportunity for the Bank, particularly compared against other Australian regional banks, is to leverage off the size and scale of the Group, which provides for relatively lower-cost access to centralized corporate functions and the additional revenue opportunities to cross sell into and from the Group's large existing customer base as part of the Group's customer extension program. To this end, the Bank is seeking to actively improve the degree of collaboration across the Group, including:

- utilizing customer data available to the Group to better understand the Group's customers and meet more of their banking needs. The Group is currently progressing the Business Intelligence Project to create a center for managing and analyzing its customer data. The implementation of the Business Intelligence Project is intended to provide the Bank with valuable insight into customers of the Group, which in turn is expected to allow the Bank to have meaningful engagement with the Group's customers and offer them banking products that are more attentive to their needs;

- performing a key distribution role for products offered by the Group's life and general insurance businesses. Recent activities include the retailing of "Everyday Super" superannuation (pension) product through the Bank and the mutual referral of new business opportunities between Resilium, a general insurance provider of the Group, and the Bank;

- leveraging the Group's resources and expertise to complete major change programs, such as Project Ignite; and

- participating in Group-led projects that are intended to ultimately generate efficiency and productivity benefits for the Bank, such as the Group's Business Intelligence Project.

Enhancing risk and capital management. The Bank is further enhancing its risk and capital management capabilities, and in particular, continuing to work towards obtaining Basel II advanced accreditation from APRA. The Bank expects to make its submission to APRA under the Basel II advanced accreditation program in the second half of calendar 2015. The process of achieving Basel II advanced accreditation involves the assessment and modeling of risk across the Bank, including its credit risk, market risk, interest rate risk in its banking book and operational risk. The process also seeks to embed a culture of understanding of the Bank's risks at all levels of the business so that appropriate data is captured and prudent risk decisions are made, including linking remuneration to risk awareness and decision-making. Basel II advanced accreditation is expected to improve the way the Bank measures, monitors and manages risk as well as its ability to calculate risk/return dynamics, in order to

price risk more effectively and manage capital more efficiently. The benefits of Basel II advanced accreditation and enhanced risk management are expected to result in the Bank being able to more effectively compete in its target markets, particularly during times of heightened competition.

Evolving the Bank's culture. The Bank is working to improve its customer service and risk management culture. The Bank recently introduced the Customer Central program which aims to develop a consistent service culture and the necessary people capabilities for the implementation of Project Ignite. The Customer Central program provides a framework of tools and resources to assist the Bank's employees to better understand and respond to customer needs.

The Bank is also continuing to work towards an ingrained, higher level of risk maturity across its workforce as part of its efforts to achieve Basel II advanced accreditation. Tools developed as part of the Basel II advanced accreditation process are expected to provide the Bank's employees with a deeper understanding of the underlying risk and profit drivers of its business so they are able to direct their sales efforts in a more effective way.

The Bank continues to expand and evolve its innovative flexible working model that employs new technologies that allow employees to work more effectively remotely. The model focuses on allowing employees additional flexibility and support to work from home during pre-agreed hours per week (including outside of traditional working hours), or to work permanently at home. The Bank believes that greater flexibility in working hours and location materially enhances the attractiveness of the Bank's employment proposition.

Business Strengths

The Bank believes that its key competitive strengths include:

Genuine alternative to the four major Australian banks. The Bank believes that one of its principal competitive advantages is that it delivers the product range, access options and capability of a major bank with the customer service focus of a regional bank. The Bank believes it has a comparable retail banking product offering to the four major Australian banks in the areas where it competes, including retail, commercial (SME) and agribusiness banking, and can benefit from the customer network of the Group. In addition, the Bank has received a number of awards for its product offerings, as well as for its customer service. In July 2015, the Bank was awarded the "Best Bank in Australia" by Euromoney Magazine, a global publication focused on capital markets. The award was in recognition of the Bank's achievements over the preceding 12 months, including the strength and position of its balance sheet, commitment to delivering innovative financial solutions, proven ability to adapt to changing market conditions and prudent risk management capabilities. The Bank is the first non-major Australian bank to receive the award in 15 years. In June 2015, the Bank was also awarded the "Bank of the Year" for 2015 by Money Magazine.

Efficiency and scale. The Bank uses the Group's infrastructure and services to more effectively manage its costs. Suncorp Business Services, provides integrated shared services across the Group. These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, group risk management and other Group-wide services and business shared services. In addition, the increased level of investment in technology by the Group provides access to technology and resources that would be difficult to sustain at the Bank level. For example, Project Ignite is continuing to improve the Bank's operational platform, including by replacing its core banking IT system, enhancing efficiencies in reporting functions, improving data analysis and providing scale advantages when dealing with suppliers. See "Suncorp-Metway Limited — Relationship between the Group and the Bank" for further information.

Stable funding sources. The Bank operates a stable funding profile with deposits-to-loans ratio at 65.3% as at June 30, 2015. The Bank has established domestic and offshore funding programs for short and long term wholesale debt. Short-term funding sources includes Australia-based sources as well as the commercial paper markets in the United States and Europe. Long-term wholesale funding options include senior unsecured debt, covered bonds and residential-mortgage backed securities in domestic and international markets. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources" for further information.

Strong brand and customer relationships. The Bank believes that it benefits from the Group's portfolio of leading brands in the financial services industry and seeks to leverage the customer relationships of the Group to grow its business in Australia. The Bank also believes that it benefits from the Group's strategy to encourage a customer of any member of the Group to hold multiple Group products, including the Bank's products such as deposits, transaction accounts and loans, in order to deepen relationships and strengthen loyalty to its brand and to cross-sell the Group's products and services.

Community driven culture. The Bank currently has over one million customers, capturing Australians' sense of belonging and community connection through its positioning as a genuine alternative to the four major Australian banks. The Bank builds deep and extensive connections with its customers through a common platform of systems, processes, tools and behaviors that enable its people to have consistent interactions and conversations with customers. The Bank's employees have accountability for local leadership so they can be genuine contributors to local communities and understand businesses at a local level. The Bank's retail and business customer satisfaction regularly ranks ahead of the major banks in Australia. At June 30, 2015, personal customer satisfaction was 89.2% compared with between 78.9% and 82.6% for the major Australian banks (Source: Roy Morgan, June 30, 2015) and business customer satisfaction was 80.1% compared with 69.9% to 75.2% for the major Australian banks (Source: DBM, June 2015).

Experienced Board and management team. The Group's Board, which governs the Bank, is led by its Chairman, Mr. Zygmunt Switkowski, who has been a director of the Group since December 2010 and a Director of the Bank since September 2005. Members of the Board have significant experience across financial services businesses including senior roles in banking, property development, asset management and the insurance sector. Mr. Patrick Snowball, who has been the Managing Director and Group Chief Executive Officer of the Group since September 2009 and will step down in October 2015, has over 20 years of experience in senior executive roles at life and non-life insurance companies. The incoming Chief Executive Officer of the Group, Mr. Michael Cameron, has extensive experience with the Group, having served as a Non-executive Director of the Group since 2012. See "Recent Developments — Appointment of new Chief Executive Officer of the Group" for further information. Mr. Steve Johnston, the Group Chief Financial Officer, has over 20 years of experience in senior corporate and government positions and has held a number of senior executive positions with the Group since 2006. The Bank's management team has extensive experience in financial services. Mr. John Nesbitt, the Chief Executive Officer of Suncorp Bank, has over 20 years of experience in senior finance and business positions and was formerly the Group Chief Financial Officer, and Mr. David Carter, the Chief Financial Officer of Suncorp Bank, has over 25 years of experience within the financial services sector across banking, wealth management and life insurance.

Recent Developments

Appointment of new Chief Executive Officer of the Group

In April 2015, Mr. Michael Cameron was appointed the successor to Patrick Snowball as Chief Executive Officer of the Group. Mr. Cameron will commence in this role on October 1, 2015. Mr. Cameron has been Chief Executive Officer and Managing Director of The GPT Group since May 2009

and Non-executive Director of the Group since 2012. Mr. Cameron is a fellow of each of the Australian Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors. He has over 30 years of experience in finance and business and has held senior executive roles including Chief Financial Officer of St. George Bank Limited from July 2007 until the sale to Westpac Banking Corporation in December 2008 and Group Executive, Retail Banking Services, Group Chief Financial Officer and Deputy Chief Financial Officer of Commonwealth Bank of Australia from November 2002 to May 2007.

Appointment of new Treasurer of the Bank

In September 2015, Mr. Timothy Hughes resigned as Treasurer of the Bank, effective October 15, 2015. Mr. Stephen Butcher, who is currently Executive Manager, Balance Sheet Management, of the Bank, will be Acting Treasurer of the Bank, effective October 15, 2015, until a permanent replacement is appointed. Mr. Butcher has over 20 years of banking and finance industry experience and has held a senior executive position with the Bank since March 2013. Mr. Butcher has a Master in Applied Finance degree and previously held senior management roles in the Treasury department of National Australia Bank.

Businesses

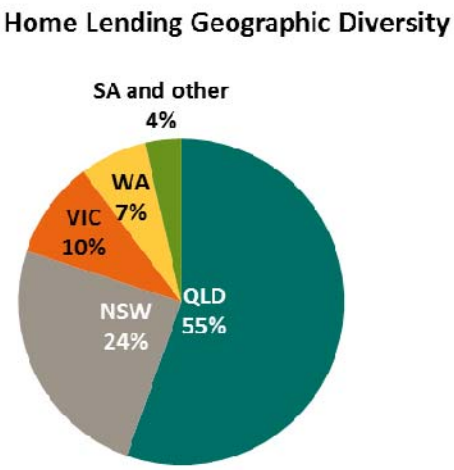
The Bank's business operates predominantly in Queensland, and to a lesser extent New South Wales, Victoria and Western Australia. The Bank provides retail banking services and business banking services.

Retail Banking

The Bank's retail banking business provides home and retail loans, transactional, savings and investment accounts, credit cards and foreign currency services for over one million customers in Australia. These services are delivered through 210 offices and branches located primarily in Queensland, as well as in New South Wales, Western Australia and Victoria. In addition, the Bank also operates call centers and provides internet banking and ATM services. As at June 30, 2015, the Bank's total retail loans were A$42.2 billion and total retail deposits were A$33.9 billion. Housing loans represented 80% of the Bank's total lending portfolio as at June 30, 2015.

The Bank's retail banking business primarily offers the following products:

- *Housing Loans*. The Bank provides a range of housing loans, including owner-occupied and investment loans. As at June 30, 2015, the Bank had a total of A$41.8 billion in outstanding total housing loans. The Bank's housing loan portfolio is predominantly concentrated in Queensland and New South Wales, which together represented 79% of the Bank's total housing loans as at June 30, 2015. The chart below illustrates the distribution of housing loans by state as a percentage of the total housing loans outstanding as at June 30, 2015.



- *Consumer Loans*. The Bank provides a range of consumer loan products, including retail loans, overdrafts, credit cards and margin lending. As at June 30, 2015, the Bank had a total of A$380 million in consumer loans outstanding.

The Bank remains focused on improving the quality of its lending portfolio. Over 80% of new retail loans written during fiscal 2015 had a LVR of less than 80%. Tighter mortgage servicing standards have also contributed to the improved quality of the Bank's lending portfolio.

The Bank continues to invest in the optimization of its branch network. Retail customers typically rely on branches to originate loans and open customer accounts, despite the rise in the use of digital distribution channels for research and transactions. The Bank continues to use branches as a key place to acquire new customers and maintain brand awareness. The Bank has established new branch locations and branch designs in response to customer needs and preferences, as part of the optimization program. In addition, the Bank has sought to broaden its deposit base in other Australian states, particularly in New South Wales and Western Australia, through increasing the number of branches in each of these states, albeit using smaller branch designs than those established by the Bank's competitors. This strategy is intended to increase consumer awareness of the Bank's brand through its physical presence. When coupled with competitive pricing on term deposits and a focus on customer service, this is expected to lead to increased deposits, while also keeping the costs of maintaining the branches low.

The Bank's strategy to date has delivered relatively lower-cost deposit growth, with total retail funding increasing 3.1% from A$32.9 billion as at June 30, 2014 to A$33.9 billion as at June 30, 2015. The Bank expects that its current strategy will enable it to continue to match the funding of its lending activities predominantly with retail deposits and long-term wholesale funding.

In order to better satisfy customer needs, the Bank is also trialing new branch formats, including kiosks and new flagship designs. These new formats incorporate greater use of self-service technologies, such as smart ATMs, interactive displays and internet banking terminals. Outside of the branch network, the Bank continues to invest in its digital infrastructure and online presence.

Business Banking

Business banking has a focus on customers in the agribusiness and commercial (SME) market segments. The Bank's business banking portfolio is predominantly concentrated in Queensland, which

represented 71% of the Bank's business banking portfolio as at June 30, 2015. The Bank is focused on lending growth both in its home state of Queensland and interstate in New South Wales. The Bank's commercial (SME) loans were A$5.4 billion as at June 30, 2015, of which 22% were outside of Queensland. The Bank's agribusiness loans were A$4.4 billion as at June 30, 2015, with 37% of lending outside of Queensland. Business banking offers products through the following core banking businesses:

- *Agribusiness banking*. Providing financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

- *Commercial (SME) banking*. Providing financial solutions and products for small businesses and SMEs.

The tables below illustrate the distribution of business banking loans in the commercial (SME) and agribusiness portfolios, by type of loan and by state as a percentage of the total loans outstanding as at June 30, 2015:

Breakdown of the Bank's commercial (SME) and agribusiness loan portfolios

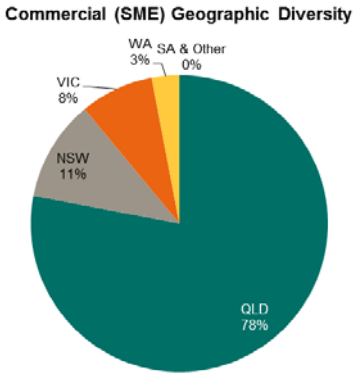
	QLD %	NSW %	Other %	Total %	Total $M
Commercial (SME) breakdown					
Property Investment	33%	4%	5%	42%	2,242
Hospitality & Accommodation	17%	1%	1%	19%	1,005
Construction & Development	4%	2%	1%	7%	364
Services (Inc. professional services)	7%	0%	1%	8%	444
Retail	3%	1%	1%	5%	278
Manufacturing & Mining	6%	2%	1%	9%	473
Other	8%	1%	1%	10%	547
Total %	78%	11%	11%	100%	
Total $M	4,175	584	594		5,353

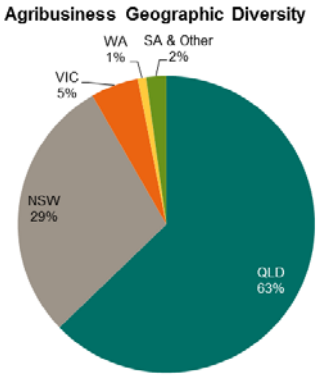
	QLD %	NSW %	Other %	Total %	Total $M
Agribusiness breakdown					
Beef	29%	2%	0%	31%	1,366
Grain & Mixed Farming	11%	17%	2%	30%	1,295
Sheep & Mixed Livestock	5%	4%	1%	10%	424
Cotton	4%	4%	0%	8%	363
Sugar	3%	0%	0%	3%	142
Fruit	3%	0%	0%	3%	145
Other	8%	2%	5%	15%	665
Total %	63%	29%	8%	100%	
Total $M	2,787	1,214	399		4,400

As at June 30, 2015, the Bank's commercial property investment assets, managed as part of the commercial (SME) loan portfolio, had an average loan size of approximately A$3 million. The portfolio is predominantly comprised of loans less than A$5 million, with 99% of customer groups with loans in

this range. As at June 30, 2015, the Bank's agribusiness portfolio had an average loan size of approximately A$1.5 million.

The charts below show the geographic distribution of the Bank's commercial (SME) and agribusiness loan portfolios by state.





Outsou

Consistent with the strategy adopted by a number of Australian and international financial institutions, the Bank uses suppliers and third-party providers to fulfill certain processes such as data entry and management, loan processing and paper-based clearing and settlement. Such outsourcing arrangements are intended to reduce the costs of back office operations and to focus the Bank's efforts on modernizing its operational systems and those areas which have a direct impact on revenue generation, efficiency, customer service and satisfaction.

Competition

The Australian financial services industry consists of banks, life insurance companies and non-bank financial institutions, which provide a range of financial services including customer deposits, the provision of lending, funds management and life insurance. Four major banking groups dominate the Australian banking environment, namely, Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation. Collectively, these banking groups held over 81% of the total gross loans and advances in Australia as at June 30, 2015 (Source: APRA, Monthly Banking Statistics, June 2015) and 82.5% of market share for retail home lending as at June 30, 2015 (Source: APRA, Monthly Banking Statistics, June 2015). The Bank's direct competitors also include regional Australian banks. In particular, two key regional banks – Bendigo and Adelaide Bank Limited and Bank of Queensland Limited – as well as smaller regional banks owned by one of the four major banking groups. Examples of regional banks owned by the four banking groups include St George Bank and the Bank of Melbourne, both of which are wholly owned by the Westpac Banking Corporation, and Bankwest, which is wholly owned by the Commonwealth Bank of Australia. Mutual banks and credit unions, as well as other financial institutions, such as Macquarie Bank Limited, ME Bank and AMP Limited, and foreign banks such as HSBC Bank (Australia) Limited and ING Bank (Australia) Limited make up the remainder of the industry.

The Bank competes in selected banking markets, namely, mortgages, agribusiness lending and commercial lending (predominantly to SMEs). The Bank has a strong market position in Queensland due to its long heritage in the state, with 8.8% market share for retail banking in Queensland as at June 30, 2015 (Source: Roy Morgan, Retail Banking, June 2015). The Bank is significantly smaller than the four major Australian banking groups and has a national market share of approximately 2.2% of gross loans and advances and 2.2% of deposits as at June 30, 2015 (Source: APRA, Monthly Banking

Statistics, June 2015). In contrast, the largest of the four major banking groups, Commonwealth Bank of Australia, has 24.4% market share of gross loans and advances and 25.5% of deposits (Source: APRA, Monthly Banking Statistics, June 2015).

Each of the four major banking groups offer a full range of financial products and services through branch networks, electronic channels and third party intermediaries across Australia. The regional banks, while smaller than the major banking groups, operate across state borders or nationally, primarily in mortgage lending, supported by non-bank mortgage originators and brokers. There are other non-bank and mutual bank financial intermediaries, such as building societies and credit unions. As their funding markets have stabilized over the course of fiscal 2015, regional banks have regained some competitiveness in the mortgage lending business against the major banking groups who had dominated the market in the aftermath of the global financial crisis of 2008. However, prudential regulation, particularly capital requirements with respect to mortgage lending, has continued to disadvantage the competitiveness of regional banks compared with the major Australian banking groups across the full LVR spectrum of mortgage lending. See "Risk Factors — The Bank faces intense competition in all aspects of its business" for further information.

The Bank actively competes for retail deposit funding, which typically represents a more stable source of funds than wholesale funding and, in the case of transaction accounts, is less expensive. The Bank seeks to maintain a deposits-to-loans ratio of between 60 and 70%. As at June 30, 2015, the Bank's deposits-to-loans ratio was 65.3%. The Bank's deposit offering is underpinned by a full range of savings and transactional deposit accounts, an attractive customer service proposition and competitive pricing points. The Bank attracts deposits through its loyal customer base in Queensland and through the expansion of its network in other Australian states. The Bank has broadened its deposit base in other Australian states, particularly in New South Wales, Victoria and Western Australia, by increasing the number of branches in each of these states. In order to better satisfy customer needs, the Bank is also trialing new branch formats, including kiosks and new flagship designs. These new formats incorporate greater use of self-service technologies, such as smart ATMs, interactive displays, internet banking terminals. Outside of the branch network, the Bank continues to invest in its digital platform including improving its mobile banking "app" and digital account opening systems. The new mobile app offers enhanced mobile functionality and an improved experience for the Bank's deposit account customers.

Changes in the financial needs of consumers, deregulation and technological developments have also changed the competitive environment. In particular, the development of electronic delivery channels and the reduced reliance on a physical network facilitate the entry of new players from related industries, such as retailers, telecommunication companies, insurers, supermarkets and utility companies. These potential competitors are characterized by strong consumer brands, advanced technology and large customer bases. Technological change is also encouraging new entrants with differing combinations of expertise.

Property

The Bank operates approximately 210 offices and branches located primarily in Queensland, New South Wales, Western Australia and Victoria. The Bank's premises are subject to regular maintenance and upgrading and are considered suitable and adequate for its current and foreseeable future requirements.

Employees

The Bank presents its employee numbers in terms of the Group's employee numbers, which it views as having greater relevance given its reliance on shared services from other members of the Group and given the practice of the Group to share facilities (such as branches) and, where appropriate and necessary, to deploy personnel from one part of the Group's business (including the Bank) to

another. As at June 30, 2015, approximately 20% of the Group's employees were employed specifically in connection with the Bank's businesses.

The Group's employees (including those of the Bank) are located throughout Australia and New Zealand, predominantly in Queensland, New South Wales, Western Australia and Victoria. The table below illustrates the breakdown of the Group's employees as at June 30, 2015, 2014 and 2013.

Number of full time equivalent roles[1] as at June 30,		
2015	**2014**	**2013**
13,843	13,738	14,239

(1) Full time equivalent ("FTE") roles includes all permanent, casual, fixed term contractors and non-payroll contractors minus the total FTE of employees on extended leave.

With the exception of its senior executives, the Bank's employees are covered by the terms and conditions of employment set forth in the Group's enterprise agreement, which was first implemented in February 2011. The agreement is valid until February 2019 and covers such issues as leave and overtime entitlements, flexible working arrangements, remuneration and termination of employment.

Legal Matters

The Bank is party to certain claims and litigation in the ordinary course of business. The Bank is not currently involved in any legal proceedings that it believes will result, individually or in the aggregate, in a material adverse effect on the Bank's financial condition or results of operations.

In July 2010, the Australian law firm, Maurice Blackburn, announced that it intended to sue 12 Australian banks, including the Bank, with respect to the charging of exception fees. Between September 2010 and April 2012, proceedings were commenced against a total of eight Australian banks, seven of which were stayed pending the decision against the test defendant, Australian and New Zealand Banking Group Limited. No action, however, was commenced against the Bank. On February 5, 2014, the Federal Court of Australia ruled that credit card late payment fees were penalties, but otherwise held that overdraw honour fees, dishonour fees, non-payment fees and overlimit fees were not penalties. The decision was appealed. A decision on the appeal was handed down on April 8, 2015 which upheld the appeal of Australia and New Zealand Banking Group Limited and overturned the findings against its credit and late payment fees. Maurice Blackburn had previously filed open class actions, similar to the claims against Australia and New Zealand Banking Group Limited, against Westpac, St George, Bank SA, Citibank and the National Australia Bank. On September 11, 2015, Maurice Blackburn obtained special leave to appeal to the High Court of Australia. The appeal has yet to be heard. To date, the Bank has not been the subject of legal proceedings with respect to exception fees. Accordingly, the financial impact of any future class action against the Bank cannot be reliably measured at this stage. However, based on the information currently available to the Bank, it is not anticipated to have a material impact on the Bank.

Additional Information

Additional information regarding the Bank's directors, management, executive remuneration, corporate governance policies and risk management policies and framework are included in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

You should read the following discussion of the Bank's financial condition and results of operations together with the Bank's financial statements and the notes to such financial statements, incorporated by reference in this Report. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. See "Special Note Regarding Forward-Looking Statements." The Bank's actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under the caption "Risk Factors" and elsewhere in this Report.

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 110 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with a market capitalization of A$16.0 billion (US$12.3 billion) as at September 16, 2015.

The Bank is one of Australia's largest regional banks with A$52.2 billion of gross loans and advances as at June 30, 2015. It services more than one million individual, agribusiness, and commercial (SME) banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Retail banking, including home and personal loans, savings and transaction accounts, margin lending, credit cards and foreign currency services;
- Commercial (SME) banking, including small business banking and financial solutions for SMEs; and
- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial (SME) and to run off its Non-Core Portfolio. As at June 30, 2015, only a residual portfolio of non-core assets remained, which is now managed as part of the Bank's commercial (SME) loan portfolio.

Basis of Presentation

The Bank has presented its consolidated statements of financial position as at June 30, 2015, 2014 and 2013 and its consolidated statements of comprehensive income and statements of cash flow for fiscal 2015, 2014 and 2013 as they are presented in the Bank's 2015 annual financial statements, 2014 annual financial statements and 2013 annual financial statements, as applicable. All other tables (except those relating to the Bank's regulatory capital which are presented in accordance with the Bank's APS 330 reports) are presented on the same basis as the Bank's 2015 annual financial statements, 2014 annual financial statements and 2013 annual financial statements, as applicable, except that, consistent with the Bank's other public disclosures, they do not include the Bank's exposures to, or transactions with, related parties within the Group. For more information, see Note 28 to the Bank's 2015 annual financial statements and "Suncorp-Metway Limited — Relationship between the Group and the Bank."

As a result of the program to run off or sell the Bank's Non-Core Portfolio, the Bank's financial statements for fiscal 2013 includes the activities and operations of the Non-Core Portfolio during that period.

Principal Factors impacting on the Bank's Results

The Bank is largely impacted by economic conditions in the Australian economy, as described in "Risk Factors — The Bank's business is substantially dependent on the Australian economy, including general economic conditions and other business conditions." In particular, the Bank is sensitive to movements in interest rates. In a declining interest rate environment, the Bank may experience margin compression from an inability to reprice lower-cost deposits and transaction accounts. Similarly, yields on the Bank's invested capital may also be impacted. The level of interest rates also has a direct relationship with the growth of the Australian housing market, consumer demand for deposits and loans and the performance of non-performing loans and impaired assets. Active interest rate management through the use of derivative financial instruments may moderate this impact to some extent. For a further discussion of the Bank's interest rate management activities, see Note 11 to the 2015 annual financial statements.

The Bank's ability to fund its lending, through both retail and wholesale deposits, is key to the success of the Bank's lending business and its financial results. The Bank relies on credit and capital markets, both domestic and offshore, to fund its lending, and its ability to access these markets affected by general financial and economic conditions, as described in "Risk Factors — Adverse credit and capital market conditions." To mitigate the risk of non-performing wholesale markets, the Bank has committed to maintaining a 60% to 70% deposits-to-loans ratio, sourcing deposits from its customers through transaction accounts and term deposits to keep pace with the desired growth in the lending book.

In addition, the Bank's financial results are impacted by the composition of its loan portfolio, in particular, its non-performing loans and impaired assets.

The cyclical nature of the Australian agribusiness industry, namely its susceptibility to adverse weather conditions such as droughts, floods, bushfires and other natural disasters, is expected to continue to affect the performance of the Bank's agribusiness mortgage book and its future financial results. The Bank manages such exposures by employing agribusiness specialists with an understanding of the industry, in particular, the risks associated with their region, allowing them to assess a customer's capabilities and needs.

Key Drivers of Business and Trends

The key drivers for the Bank's financial results for fiscal 2015, 2014 and 2013 were as follows:

- Lending growth was achieved during fiscal 2015, 2014 and 2013. This was primarily due to:
    - growth in residential mortgage lending as the Bank continued its strategy of targeting lower risk owner-occupier buyers and other borrowers within the "Middle Australia" customer segment, namely aspirational 25-55 year-old consumers who are considering the purchase of a financial product or service. The Bank continued to focus on maintaining margin and credit quality over growth and remained focused on improving the quality of the portfolio by concentrating on the origination of sub-80% LVR loans, driving better quality business and more optimal use of capital;

- continued focus on further increasing the Bank's brand presence in the Queensland market and expanding outside of Queensland, particularly in New South Wales and Victoria through its interstate branch offices and the intermediated channel;

- targeted new lending in commercial (SME) loan portfolio, primarily due to the Bank's continued focus on increasing its brand presence in the Queensland market. Heightened price competition and subdued business confidence has seen growth rates decline over the past 12 months as the Bank has chosen to maintain profitable margins; and

- cautious and selective growth in the agribusiness loan portfolio in light of the current drought conditions in Queensland, supported by the Bank's long heritage and strength of brand in the agribusiness sector across the Bank's core market in Queensland and, to a lesser extent, New South Wales.

- Deposit growth was achieved during fiscal 2015, 2014 and 2013, primarily as a result of growth in the retail deposit base across Queensland and New South Wales.

- Impairment expense on loans and advances decreased between fiscal 2015 and 2014 due to improvements in lending asset quality and the partial release of a collective provision relating to the Bank's agribusiness lending raised in 2014. Impairment expense on loans and advances decreased between fiscal 2014 and 2013, primarily due to a reduction in provisions associated with the run off of the Non-Core Portfolio and improvements in credit quality across the Bank's lending portfolio. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio. The Bank continues to maintain what it believes to be adequate provisioning for stress across the Bank's agribusiness loan portfolio in response to ongoing drought conditions and a subdued rural property market, particularly in Queensland.

- Operating expenses increased for each of fiscal 2015, 2014 and 2013, primarily due to expenses associated investment into Project Ignite and the Basel II advanced accreditation program. However, the cost-to-income ratio for each of fiscal 2015, 2014 and 2013 has decreased from 59.2% for fiscal 2013 to 57.4% for fiscal 2014 to 53.4% for fiscal 2015, primarily as a result of the Bank continuing to exercise strategic cost management in its business.

- The net loss contribution from the Non-Core Portfolio during fiscal 2013 was A$902 million, primarily due to a A$484 million loss incurred as a result of the sale of the A$1.6 billion portfolio and an early buyback of Australian government-guaranteed debt.

Significant and Critical Accounting Policies

The preparation of the Bank's financial statements requires its management to exercise judgment and make estimates and assumptions that affect the application of its accounting policies and the amounts reported in the financial statements. A description of the Bank's significant accounting policies is contained in Note 31 to its 2015 annual financial statements, Note 32 of its 2014 annual financial statements, Note 3 of its 2013 annual financial statements and in "Financial Information Presentation."

While the Bank regards all of its significant accounting policies as important to consider when evaluating its financial statements, the Bank has identified two accounting policies as particularly

involving critical accounting estimates and requiring management's exercise of judgments, namely: (i) those relating to specific and collective provisions for loan impairment, which is discussed in Notes 24.2 and 31.11 of the Bank's 2015 annual financial statements, Note 15 of the Bank's 2014 annual financial statements and Note 16 to the Bank's 2013 annual financial statements and (ii) the valuation of financial instruments and fair value hierarchy disclosures, which is discussed in Note 23 of the Bank's 2015 annual financial statements, Note 27 of the Bank's 2014 annual financial statements and Note 28 of the Bank's 2013 annual financial statements.

Results of Operations

The following table presents the Bank's consolidated results of operations from continuing operations for the periods presented:

	Fiscal			
	2015	**2015**	**2014**	**2013**
	(US$m)		*(A$m)*	
Net interest income	**850**	**1,103**	**1,011**	**986**
Other operating income	82	107	76	60
Total net operating income	**932**	**1,210**	**1,087**	**1,046**
Operating expenses	(498)	(646)	(624)	(628)
Loss on disposal of loans and advances[(2)]	(-)	(-)	(13)	(527)
Impairment expense	(45)	(58)	(124)	(375)
Profit/(loss) before income tax	**389**	**506**	**326**	**(484)**
Income tax (expense)/benefit	(117)	(152)	(98)	135
Profit/(loss) for the period	**272**	**354**	**228**	**(349)**

(1) For purposes of this Report, currencies have been translated at the exchange rate at June 30, 2015 of US$0.7704 per A$1.00.

(2) The loss on disposal of loans and advances during fiscal 2013 related to the disposal of A$1.6 billion of loans in the Non-Core Portfolio in June 2013 and other costs associated with smaller transactions throughout the period.

Comparison of fiscal 2015 to fiscal 2014

	Fiscal		Percentage
	2015	**2014**	**Change**
	(A$m)		*(%)*
Net interest income	**1,103**	**1,011**	9.1
Other operating income			
Net banking fee income	69	67	3.0
Mark-to-market on financial instruments	10	4	150.0
Other income	28	5	460.0
Other operating income	**107**	**76**	40.8
Total income	**1,210**	**1,087**	11.3
Operating expenses	**(646)**	**(624)**	3.5
Profit before impairment losses on loans and advances	**564**	**463**	
Losses on loans and advances	(58)	(137)	(57.7)

	Fiscal		Percentage
	2015	**2014**	**Change**
	(A$m)		*(%)*
Profit before tax	**506**	**326**	55.2

Overview. Profit before tax increased 55.2% from A$326 million for fiscal 2014 to A$506 million for fiscal 2015. This significant increase was primarily driven by an improved net interest margin and lower impairment expenses, as discussed further below. The Bank achieved 4.1% growth in total loans, advances and other receivables from A$49.9 billion as at June 30, 2014 to A$52.0 billion as at June 30, 2015.

Drivers of the Bank's profit before tax for fiscal 2015 included:

- Total housing loans increased 7.1% from A$39.0 billion for fiscal 2014 to A$41.8 billion for fiscal 2015, principally due to higher lending volumes following a successful home lending campaign in October and November 2014. The Bank continued its home lending strategy of targeting lower risk first home buyers and other borrowers within the "Middle Australia" customer segment, namely aspirational 25-55 year-old consumers who are considering the acquisition of a financial product or service. The Bank also continued to focus on increasing its brand presence outside of Queensland, primarily in New South Wales and Victoria by capitalizing on its established interstate branches and its relationships in the intermediated channel. As at June 30, 2015, 48% of the Bank's housing loans were originated outside of Queensland. In addition, the Bank continued to focus on converting new and existing lending customers into "connected customers" who have both lending and deposit products with the Bank, as well as insurance products with the Group. As at June 30, 2015, over 65% of the Bank's mortgage customers were "connected customers" with an average of seven products with the Group.

- Total business loans (including agribusiness and commercial (SME) loans) decreased 7.3% from A$10.5 billion for fiscal 2014 to A$9.8 billion for fiscal 2015, primarily due to the impact of subdued business confidence and heightened price competition, which has seen growth rates for business lending decline over the past 12 months and refinancing activity by customers, as well as the managed removal and refinancing of a number of commercial (SME) exposures deemed outside of the Bank's core service proposition and run off of similar residual corporate and property exposures and loans to beef cattle producers and sugar growers in Queensland.

- Total retail funding increased 3.1% from A$32.9 billion as at June 30, 2014 to A$33.9 billion as at June 30, 2015, principally due to a change in deposit mix evidenced by strong growth in the lower-cost retail call deposit customer base in line with a focus on acquiring relatively stable transactional customer relationships, which was partially offset by a decrease in relatively higher-cost term deposits. The Bank's deposits-to-loans ratio was 65.3% as at June 30, 2015, compared with 65.8% as at June 30, 2014 and was maintained within the Bank's target range of 60% to 70% throughout fiscal 2015.

- Net interest income increased 9.1% from A$1,011 million for fiscal 2014 to A$1,103 million during fiscal 2015, primarily due to lower interest expenses as a result of the Bank's replacement of higher-cost term deposits with lower-cost call deposits and reduction in term funding costs.

- Net interest margin increased from 1.72% for fiscal 2014 to 1.85% for fiscal 2015, primarily due to an improvement in retail and wholesale funding mix and favorable term deposit pricing, which was partially offset by price competition in the Bank's lending markets and margin compression on lower-cost deposits and invested capital resulting from reductions in the RBA's cash rate in February and March 2015.

- Other operating income increased 40.8% from A$76 million for fiscal 2014 to A$107 million for fiscal 2015, principally due to a one-off recovery of A$19 million in settlement of a claim and a favorable foreign exchange trading result relative to fiscal 2014, which was partially offset by higher commissions paid to intermediaries as a result of higher volumes of loans generated through the intermediate channel in fiscal 2015 compared with fiscal 2014.

- Operating expenses increased 3.5% from A$624 million for fiscal 2014 to A$646 million for fiscal 2015, primarily due to the Bank's investment in frontline capability, enhanced risk management processes and improved customer experience through the Project Ignite and the Basel II advanced accreditation programs and the significant resources dedicated to these two key programs across the Bank as they both approached critical project stages. The cost-to-income ratio for fiscal 2015 was 53.4% compared with 57.4% for fiscal 2014.

- Impairment expense on loans, advances and other receivables decreased 53.2% from A$124 million for fiscal 2014 to A$58 million for fiscal 2015. Credit impairment losses in fiscal 2015 were 0.11% of gross loans and advances. Impairment losses are expected to trend within the target operating range of 0.10% to 0.20% of gross loans and advances given the challenging operating environment and ongoing economic uncertainty.

The Bank's consolidated effective tax rate for fiscal 2015 was 30%, compared with 30% for fiscal 2014.

Lending Growth. The Bank's gross banking loans, advances and other receivables (including securitized assets) of A$51.9 billion as at June 30, 2015 represent an increase of 3.9% on A$50.0 billion as at June 30, 2014.

	As at June 30,		**Percentage Change**
	2015	**2014**	
	(A$m)		*(%)*
Housing loans	34,977	32,540	7.5
Securitized housing loans and covered bonds	6,808	6,461	5.4
Total housing loans	**41,785**	**39,001**	7.1
Consumer loans	380	431	(11.8)
Retail loans	**42,165**	**39,432**	6.9
Commercial (SME)	5,353	5,900	(9.3)
Agribusiness	4,400	4,624	(4.8)
Total business loans	**9,753**	**10,524**	(7.3)
Total lending	**51,918**	**49,956**	3.9
Other receivables[(1)]	25	51	(51.0)
Gross banking loans, advances and other receivables	**51,943**	**50,007**	3.9
Provision for impairment	(208)	(226)	(8.0)

	As at June 30, 2015	As at June 30, 2014	Percentage Change
	(A$m)		*(%)*
Loans, advances and other receivables	**51,735**	**49,781**	3.9
Credit risk-weighted assets	**25,487**	**25,903**	(1.6)
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	28,792	28,748	0.2
Outside of Queensland	23,126	21,208	9.0
New South Wales	12,773	12,095	5.6
Victoria	5,012	4,436	13.0
Western Australia	3,468	3,139	10.5
South Australia and other	1,873	1,538	21.8
Total lending	**51,918**	**49,956**	3.9

(1) Other receivables are primarily collateral deposits provided to derivative counterparties.

Retail loans increased 6.9% from A$39.4 billion as at June 30, 2014 to A$42.2 billion as at June 30, 2015, driven primarily by strong housing lending. Home lending receivables (excluding securitized housing loans and covered bonds) increased 7.5% from A$32.5 billion as at June 30, 2014 to A$35.0 billion as at June 30, 2015, primarily due the success of a home lending campaign in October and November 2014, particularly in New South Wales. The intermediated channel remained integral to the Bank's retail customer acquisition and portfolio diversification strategy, particularly outside of Queensland. This channel has helped the Bank grow the portfolio despite the impact of subdued system growth in the Bank's traditional Queensland market. As at June 30, 2015, the Bank's portfolio outside of Queensland accounted for 48% of its total home lending. The Bank's lending growth also benefited from ongoing simplification and automation of loan origination processes combined with an emphasis on retention and post-settlement engagement.

Business loans decreased 7.3% from A$10.5 billion as at June 30, 2014 to A$9.8 billion as at June 30, 2015, primarily due to the decrease in commercial (SME) loans which declined by 9.3% from A$5.9 billion as at June 30, 2014 to A$5.4 billion as at June 30, 2015, primarily due to the impact of subdued business confidence and heightened price competition, which has seen growth rates for business lending decline over the past 12 months and refinancing activity by customers, as well as the managed removal and refinancing of a number of commercial (SME) exposures deemed outside of the Bank's core service proposition and the run off of similar residual corporate and property exposures. The portfolio remained relatively well-diversified across industry and by geography. As at June 30, 2015, 78% of the commercial (SME) loan portfolio was located within Queensland. The Bank's agribusiness loan portfolio declined 4.8% from $4.6 billion at June 30, 2014 to $4.4 billion at June 30, 2015, primarily as a result of the managed run off of loans to beef cattle producers and sugar growers in Queensland. Given the ongoing impact of drought across Queensland and the subdued rural property market, the Bank continued to exercise care and caution with its approach to risk selection in this sector.

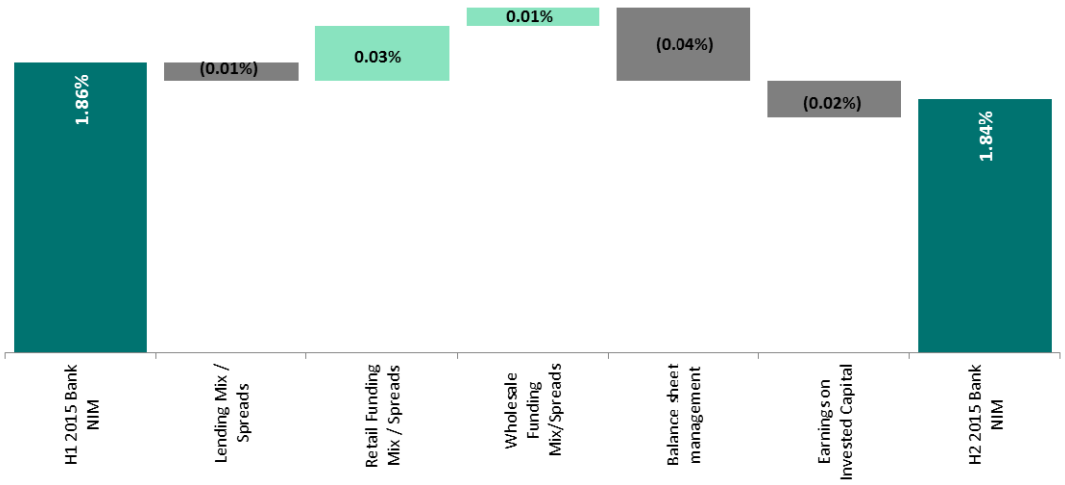
Net Interest Income. Net interest income increased 9.1% from A$1,011 million for fiscal 2014 to $1,103 million for fiscal 2015. This was primarily due to lower interest expenses for deposits and funding, as a result of the Bank's replacement of higher-cost term deposits with lower-cost call deposits and reduction in term funding costs.

	Fiscal		Percentage
	2015	**2014**	**Change**
	(A$m)		*(%)*
Net interest income			
Interest income	2,843	2,975	(4.4)
Interest expense	(1,740)	(1,964)	(11.4)
Total net interest income	**1,103**	**1,011**	9.1

Net interest margin on interest earning assets increased from 1.72% for fiscal 2014 to 1.85% for fiscal 2015. Improved retail and wholesale funding mix and favorable term deposit pricing supported the result, which was partially offset by ongoing price competition in lending markets and margin compression on lower-cost deposits and invested capital resulting from reductions in the RBA's cash rate in February and March 2015.

	Fiscal	
	2015	**2014**
	(%)	
Net interest margin[1]		
Interest-earning assets	1.85	1.72
Lending Assets	3.93	3.65

(1) Based on average statement of financial position.



The table below illustrates the Bank's average statement of financial position and annualized average interest rate, as broken down by asset type for fiscal 2015 and 2014.

	Fiscal			Fiscal		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
	(A$m)		*(%)*	*(A$m)*		*(%)*
Assets						
Interest earning assets						
Trading and investment securities	9,213	310	3.4	9,693	339	3.5
Gross loans, advances and other receivables	50,503	2,533	5.0	49,008	2,634	5.4
Total interest earning assets	**59,716**	**2,843**	**4.8**	**58,701**	**2,973**	**5.1**
Non-interest earning assets						
Other assets	846			1,035		
Total non-interest earning assets	846			1,035		
Total assets	**60,562**			**59,736**		
Liabilities						
Interest-bearing liabilities						
Retail deposits	33,136	922	2.8	32,274	1,056	3.3
Wholesale liabilities	22,017	780	3.5	22,174	863	3.9
Debt capital	742	38	5.1	843	43	5.1
Total interest-bearing liabilities	**55,895**	**1,740**	**3.1**	**55,291**	**1,962**	**3.6**
Non-interest-bearing liabilities						
Other liabilities	796			874		
Total non-interest-bearing liabilities	796			874		
Total liabilities	**56,691**			**56,165**		
Average shareholders equity	**3,871**			**3,571**		
Analysis of interest margin and spread						
Interest earning assets	59,716	2,843	4.8	58,701	2,973	5.1
Interest-bearing liabilities	55,895	1,740	3.1	55,291	1,962	3.6
Net interest spread			**1.7**			**1.5**
Interest-earning assets net interest margin	**59,716**	**1,103**	**1.9**	**58,701**	**1,011**	**1.7**
Lending assets net interest margin	**50,503**	**1,103**	**2.2**	**49,008**	**1,011**	**2.1**

Other operating income. Other operating income increased by 40.8% from A$76.0 million for fiscal 2014 to A$107 million for fiscal 2015, primarily due to a one-off recovery of A$19 million in settlement of a claim and a favorable foreign exchange trading result relative to fiscal 2014.

Net banking fee income increased by 3.0% from A$67 million for fiscal 2014 to A$69 million for fiscal 2015. Banking fee income continues to remain under pressure given customer preference for

lower fee products, and higher commissions paid to intermediaries as a result of higher volumes of loans generated through the intermediate channel in fiscal 2015 compared with fiscal 2014.

	Fiscal		Percentage
	2015	**2014**	**Change**
	(A$m)		*(%)*
Other operating income			
Net banking fee income	69	67	3.0
Mark-to-market on financial instruments	10	4	150.0
Other income	28	5	460.0
Other operating income	**107**	**76**	40.8

Operating Expenses. The Bank's operating expenses increased 3.5% from A$624 million for fiscal 2014 to A$646 million for fiscal 2015, primarily due to the Bank's investment in frontline risk management capability, enhanced risk management processes and improved customer experience through the delivery of Project Ignite and the Basel II advanced accreditation programs and significant resources being dedicated to these two key programs across the Bank as they both approached critical project stages. At the same time, the Bank maintained cost discipline across its businesses outside of these two programs.

The Bank's cost-to-income ratio for fiscal 2015 was 53.4% compared with 57.4% for fiscal 2014.

Loan Impairment. Impairment expense on loans, advances and other receivables decreased 53.2% from A$124 million for fiscal 2014 to A$58 million for fiscal 2015 and was within the Bank's target operating range of 0.10% to 0.20%. The result also included a A$13 million partial release of the A$21 million overlay provision raised in June 2014 associated with the Bank's agribusiness lending portfolio. The reduction in both specific and collective provisions reflects improvements in the credit quality across the Bank's lending portfolio. Credit impairment losses (annualized) for fiscal 2015 were 0.11% of gross loans and advances.

	As at June 30,		Percentage
	2015	**2014**	**Change**
	(A$m)		*(%)*
Gross balances of impaired loans			
Retail	31	26	19.2
Agribusiness	125	208	(39.9)
Commercial (SME)	62	99	(37.4)
Gross impaired assets	**218**	**333**	(34.5)
Specific provision for impairment	(82)	(106)	(22.6)
Net impaired assets	**136**	**227**	(40.1)
Size of gross impaired assets			
Less than one million	21	22	(4.5)
Greater than one million but less than ten million	115	183	(37.2)
Greater than ten million	82	128	(35.9)
Gross impaired assets	**218**	**333**	(34.5)

	As at June 30, 2015	As at June 30, 2014	Percentage Change
	(A$m)		*(%)*
Past due loans not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	399	439	(9.1)
Gross non-performing loans	**617**	**772**	(20.1)
Gross impaired assets as a percentage of gross loans, advances and other receivables[1]	0.42%	0.67%	
Gross non-performing loans as a percentage of gross loans, advances and other receivables[2]	1.19%	1.54%	

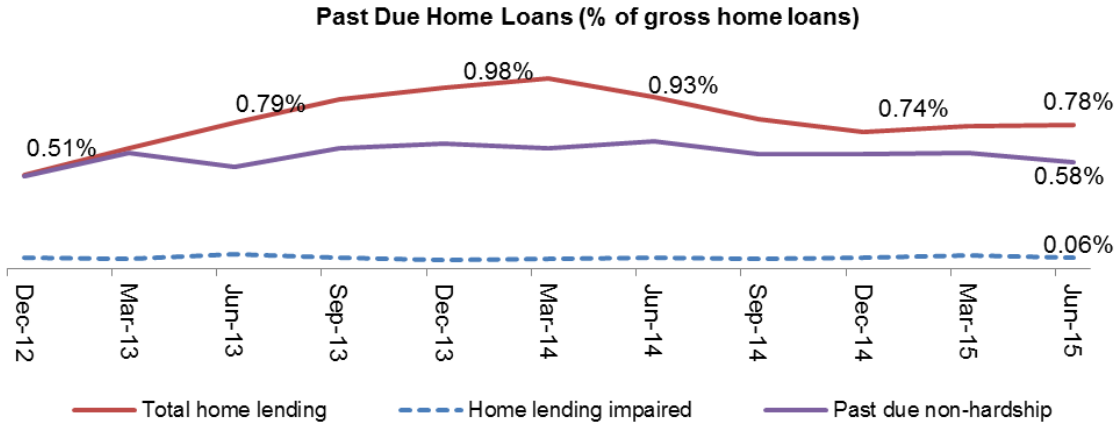
	Fiscal 2015	Fiscal 2014	Percentage Change
	(A$m)		*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the period..	**333**	**506**	(34.2)
Recognition of new impaired assets.....	123	306	(59.8)
Increases in previously recognized impaired assets	8	5	60.0
Impaired assets written off/sold during the year	(61)	(179)	(65.9)
Impaired assets which have been reclassified as performing assets or repaid.....	(185)	(305)	(39.3)
Balance at period end	**218**	**333**	(34.5)

(1) Calculated as (gross impaired assets) / (gross banking loans, advances and other receivables) for the end of the period.

(2) Calculated as (gross non-performing loans) / (gross banking loans, advances and other receivables) for the end of the period.

Gross impaired assets decreased by 34.5% from A$333 million as at June 30, 2014 to A$218 million as at June 30, 2015 and represents 0.42% of gross loans and advances, primarily due to a reduction in impaired assets in the agribuiness loan portfolio, improvements in weather conditions and asset values, which enabled the resolution of a number of impaired assets and a reduction in new impairments. The Bank continues to closely monitor emerging issues on an individual exposure basis and has decided to maintain an overlay provision of A$8 million given the continued outlook for dry weather conditions in Queensland, which has been reduced from the A$21 million overlay provision raised in 2014.

Past due loans not shown as impaired. Total home lending past due loans as a percentage of gross home loans decreased from 0.93% as at June 30, 2014 to 0.78% as at June 30, 2015. Overall past due arrears have continued to improve in line with reduced delinquency in the home lending portfolio. Realized losses from the home lending portfolio remain low reflecting the strength of underlying security and the application of lenders mortgage insurance coverage.



A breakdown of impaired assets and specific provisions as at June 30, 2015 and 2014 are as follows:

	Fiscal		Percentage
	2015	**2014**	**Change**
	(A$m)		*(%)*
Collective provision			
Balance at the beginning of the period	120	102	17.6
(Credit)/charge against contribution to profit	6	18	(66.7)
Balance at end of the period	**126**	**120**	5.0
Specific provision			
Balance at the beginning of the period	106	198	(46.5)
Charge against contribution to profit	46	104	(55.8)
Write-off of impaired assets	(61)	(179)	(65.9)
Unwinding of interests	(9)	(17)	(47.1)
Balance at end of the period	**82**	**106**	(22.6)
Total provision for impairment – Banking activities	**208**	**226**	(8.0)
Equity reserve for credit loss[1]			
Balance at the beginning of the period	151	131	15.3
Transfer from retained earnings	(5)	20	(125.0)
Balance at end of the period	**146**	**151**	(3.3)
Pre-tax equivalent coverage	**209**	**216**	(3.2)
Total provision for impairment and equity reserve for credit loss – Banking activities	**417**	**442**	(5.7)

	Fiscal 2015	Fiscal 2014	Percentage Change
	(A$m)		*(%)*
Provision for impairment expressed as a percentage of gross loans and advances are as follows:	*%*		
Collective provision	0.24	0.24	
Specific provision	0.16	0.21	
Total provision	0.40	0.45	
Equity reserve for credit loss	0.40	0.43	
Total provision and equity reserve for credit loss	**0.80**	**0.88**	

(1) The equity reserve for credit losses comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the equity reserve for credit losses and associated ratios as presented in the table above.

	As at June 30, 2015 (1)			As at June 30, 2014 (1)		
	(A$m)					
	Gross Loans	**Impaired Assets**	**Specific Provisions**	**Gross Loans**	**Impaired Assets**	**Specific Provisions**
Agribusiness	3,983	111	27	4,269	197	50
Construction and development	489	15	8	606	36	12
Financial services	334	-	-	341	-	-
Hospitality	912	25	16	1,002	29	11
Manufacturing	319	14	11	364	11	10
Professional services	233	7	2	258	5	2
Property investment	1,997	3	3	1,995	12	9
Real estate mortgage	41,800	21	4	38,947	22	4
Personal	380	-	-	431	-	-
Government and public authorities	-	-	-	1	-	-
Other commercial and industrial	1,722	22	11	1,939	21	8
Total	**52,169**	**218**	**82**	**50,153**	**333**	**106**

(1) The table as at June 30, 2015 and June 30, 2014 has been prepared in accordance with the Bank's 2015 annual financial statements, 2014 annual financial statements and APS 330 as in effect as of June 30, 2015 and June 30, 2014.

Comparison of fiscal 2014 to fiscal 2013

	Fiscal 2014	Fiscal 2013	Percentage Change
	(A$m)		*(%)*
Net interest income	**1,011**	**986**	2.5
Other operating income			
Net banking fee and commission income	67	77	(13.0)
Net profit on derivative and other financial instruments[(1)]	4	(21)	n/a
Other income	5	4	25.0
Other operating income	**76**	**60**	26.7
Total net operating income	**1,087**	**1,046**	3.9
Operating expenses	**(624)**	**(628)**	(0.6)
Profit before impairment losses on loans and advances	**463**	**418**	10.8
Losses on loans and advances	(137)	(902)	(84.8)
Profit/(loss) before tax	**326**	**(484)**	n/a

(1) The mark-to-market results included unrealized losses on short-term derivative positions offset by realized gains on the sale of treasury bank book assets. The Bank purchases liquid assets and uses hedging instruments for balance sheet risk management purposes. The Bank places some of its liquid assets into a trading portfolio which it uses to manage liquidity and is accounted for on a fair value basis. This trading position is hedged using short-dated instruments which do not qualify for hedge accounting and are valued on a mark-to-market basis. These instruments are often held to maturity and as such any unrealized mark-to-market result will unwind through net interest income until maturity. See "— Other Operating Income" for further information.

Overview. Net profit before tax increased significantly from a loss of A$484 million for fiscal 2013 to a profit of A$326 million for fiscal 2014. Despite subdued consumer confidence and intense competition, the Bank achieved 3.1% growth in total loans, advances and other receivables from A$48.4 billion as at June 30, 2013 to A$49.9 billion as at June 30, 2014.

Drivers of the Bank's net profit for fiscal 2014 included:

- Total housing loans increased 5.0% from A$37.2 billion for fiscal 2013 to A$39.0 billion for fiscal 2014, primarily due to the continuation of the Bank's home lending strategy of targeting lower risk first home buyers and other borrowers within the "Middle Australia" customer segment, namely aspirational 25-55 year-old consumers who are considering the acquisition of a financial product or service. The Bank continued to focus on increasing its brand presence in the Queensland market while retaining market share outside of Queensland, primarily in New South Wales and Western Australia. This result was partially offset by a low credit growth environment characterized by intense price competition and heightened consumer refinancing activity.

- Total business loans (including agribusiness and commercial (SME) loans) increased 5.6% from A$9.8 billion for fiscal 2013 to A$10.4 billion for fiscal 2014. Growth was moderate in an environment shaped by low business confidence, the high Australian dollar and record low interest rates. Construction and property development sectors

responded to favorable interest rates and increased demand for apartments, while manufacturing, mining and hospitality sectors faced challenges from the high Australian dollar. Growth in the agribusiness portfolio was largely sourced from existing customers in drought unaffected regions. The portfolio continued to be impacted by the ongoing drought in Queensland, residual impacts from previous flooding events in New South Wales, a subdued rural property market and intense price competition.

- The corporate and property loan portfolio decreased 82.6% from A$735 million as at June 30, 2013 to A$128 million as at June 30, 2014, in line with the planned run off of the residual portfolio of non-core assets, formerly known as the Non-Core Portfolio. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio.

- Total retail funding increased 4.2% from A$31.6 billion as at June 30, 2013 to A$32.9 billion as at June 30, 2014, principally due to growth in transaction and investment accounts during the year. The Bank's deposits-to-loan ratio was 65.8% as at June 30, 2014, compared with 65.5% as at June 30, 2013. It was maintained within the Bank's target range of 60% to 70% throughout fiscal 2014. Building complete customer relationships remained a key focus across both intermediated and direct channels. As at June 30, 2014, 80% of new home loan customers had a transaction relationship with the Bank.

- Net interest income increased 2.5% from A$986 million for fiscal 2013 to A$1,011 million during fiscal 2014, primarily due to lower interest expenses for deposits and funding, as a result of the Bank's focus on the deposit and funding mix and liquidity management. See "— Lending Growth" for further information.

- Net interest margin increased from 1.64% for fiscal 2013 to 1.72% for fiscal 2014, primarily due to improved funding spreads and balance sheet optimization.

- Other operating income increased 26.7% from A$60 million for fiscal 2013 to A$76 million for fiscal 2014, primarily due to a A$20 million profit recognized in connection with a buy-back of FRCNs in June 2014.

- Operating expenses decreased marginally from A$628 million for fiscal 2013 to A$624 million for fiscal 2014. Investment into risk management capability, distribution alignment and marketing initiatives contributed to an increase in expenses in the second half of fiscal 2014. The cost-to-income ratio for fiscal 2014 was 57.4% compared with 59.2% for fiscal 2013.

- Impairment expense on loans, advances and other receivables decreased 66.9% from A$375 million for fiscal 2013 to A$124 million for fiscal 2014, primarily due to the run off of the Non-Core Portfolio. Credit impairment losses in fiscal 2014 were 0.25% of gross loans and advances. Ongoing drought conditions in Queensland, the ongoing impact of previous flooding events in New South Wales and a subdued rural property market continued to impact credit quality in the agribusiness portfolio. See "— Loan Impairment" for further information.

The Bank's consolidated effective tax rate for fiscal 2014 (as part of the Suncorp Group Limited consolidated tax group) was 30%, compared with 28% for fiscal 2013. Income tax expense adjustments primarily arose from non-deductible interest paid in respect of the Bank's convertible

preference shares (A$0 for fiscal 2014 and A$32 million for fiscal 2013) and the Bank's reset preference shares (A$0 million for fiscal 2014 and A$1 million for fiscal 2013).

Lending Growth. The Bank's gross banking loans, advances and other receivables (including securitized assets) increased 3.5% from A$48.3 billion as at June 30, 2013 to A$50.0 billion as at June 30, 2014. The Bank's total retail and business loans increased 5.0% from A$47.5 billion as at June 30, 2013 to A$49.8 billion as at June 30, 2014.

	As at June 30,		Percentage
	2014	**2013**	**Change**
	(A$m)		*(%)*
Housing loans	32,540	29,399	10.7
Securitized housing loans and covered bonds	6,461	7,759	(16.7)
Total housing loans	**39,001**	**37,158**	5.0
Consumer loans	431	463	(6.9)
Retail loans	**39,432**	**37,621**	4.8
Commercial (SME)	5,772	5,531	4.4
Agribusiness	4,624	4,311	7.3
Total business loans	**10,396**	**9,842**	5.6
Total retail and business loans	**49,828**	**47,463**	5.0
Corporate and property	**128**	**735**	(82.6)
Total lending	**49,956**	**48,198**	3.6
Other receivables[1]	51	101	(49.5)
Gross banking loans, advances and other receivables	**50,007**	**48,299**	3.5
Provision for impairment	(226)	(300)	(24.7)
Loans, advances and other receivables[2]	**49,781**	**47,999**	3.7
Credit risk-weighted assets	**25,903**	**25,364**	2.1
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	28,748	28,254	1.7
Outside of Queensland	21,208	19,944	6.3
New South Wales	12,095	11,212	7.9
Victoria	4,436	4,273	3.8
Western Australia	3,139	3,066	2.4
South Australia and other	1,538	1,393	10.4
Total lending	**49,956**	**48,198**	3.6

(1) Other receivables are primarily collateral deposits provided to derivative counterparties.

(2) During fiscal 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statements of financial position as at June 30, 2014 and June 30, 2013. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

Retail loans increased 4.8% from A$37.6 billion as at June 30, 2013 to A$39.4 billion as at June 30, 2014, driven by strong housing lending growth. Home lending receivables (excluding securitized housing loans and covered bonds) increased 10.7% from A$29.4 billion as at June 30, 2013 to A$32.5 billion as at June 30, 2014. Growth benefited from the Bank's investment in direct and intermediated

loan distribution in Australian states other than Queensland, particularly in New South Wales and Western Australia. The intermediated channel remained integral to the Bank's customer acquisition and portfolio diversification strategy, particularly outside Queensland. Growth also benefited from the Group's focus on building complete customer relationships with its existing customers. As at June 30, 2014, 80% of new home loan customers had a transactional relationship with the Bank. During fiscal 2014, the Bank's portfolio outside of Queensland accounted for 42% of total home lending. The Bank's lending growth was partially offset by the low credit growth environment characterized by intense price competition and heightened consumer refinancing.

Business loans increased 5.6% from A$9.8 billion as at June 30, 2013 to A$10.4 billion as at June 30, 2014. The commercial (SME) loan portfolio grew 4.4% from A$5.5 billion as at June 30, 2013 to A$5.8 billion as at June 30, 2014. Growth reflected industry sensitivity to macroeconomic trends, including low business confidence, a high Australian dollar and record low interest rates, as construction and property development responded to the lower interest rates while manufacturing, mining and hospitality faced challenges from the relatively high Australian dollar. As at June 30, 2014, 74% of the commercial (SME) loan portfolio was located in Queensland. The Bank's agribusiness loan portfolio increased 7.3% from A$4.3 billion as at June 30, 2013 to A$4.6 billion as at June 30, 2014. The growth in the agribusiness loan portfolio was primarily from existing Bank customers operating in non-drought affected regions and industries, such as grain and mixed farming. The target market remained family-operated farms with an average loan size of approximately A$1.8 million. The portfolio was heavily weighted towards less than A$5 million lending, with 91% of customer groups with loans in this range. By value, approximately half of the agribusiness portfolio consisted of customer groups with an average exposure of less than A$5 million. See "Suncorp-Metway Limited — Businesses — Business Banking" for more information on the Bank's commercial (SME) and agribusiness loan portfolios.

The corporate and property loan portfolio decreased 82.6% from A$735 million as at June 30, 2013 to A$128 million at June 30, 2014, in line with the planned run off of the residual portfolio of non-core assets, formerly known as the Non-Core Portfolio. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio. Impaired assets on the corporate and property portfolio as at June 30, 2014 amounted to A$48 million. Provisioning allocated against these remained adequate with specific provision coverage of 42%.

Net Interest Income. Net interest income increased 2.5% from A$986 million for fiscal 2013 to A$1,011 million for fiscal 2014. This was primarily due to lower interest expenses for deposits and funding as a result of the Bank's active repricing of retail and wholesale funding.

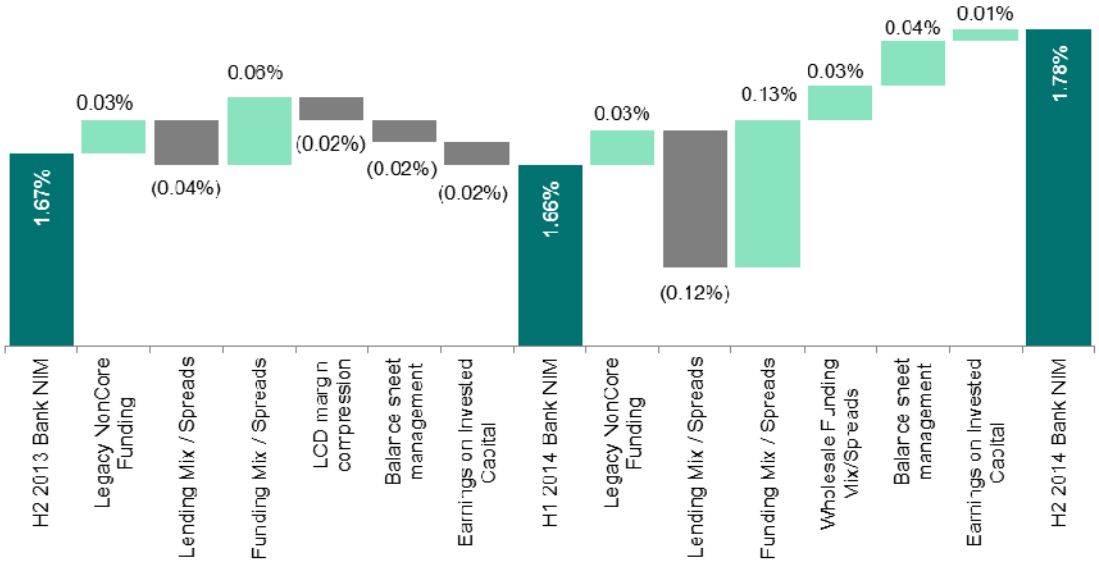
	Fiscal		**Percentage**
	2014	**2013**	**Change**
	(A$m)		*(%)*
Net interest income			
Interest income	2,975	3,421	(13.0)
Interest expense	(1,964)	(2,435)	(19.3)
Total net interest income	**1,011**	**986**	2.5

Net interest margin on interest earning assets increased by 0.08% from 1.64% for fiscal 2013 to 1.72% for fiscal 2014. This result was shaped by the following drivers: (i) the expansion in retail product margins with the impact of price competition in lending more than offset by benefits from funding mix and reduction in term deposit pricing, (ii) margin compression on lower-cost deposits and invested capital in the first half of fiscal 2014 due to the reduction in the RBA cash rate in May and August 2013, (iii) the unwinding of legacy funding relating to the former Non-Core Portfolio and term debt issuances completed during the second half of fiscal 2013, extending the duration of the Bank's

debt at a reduced cost; and (iv) benefits realized in the second half of fiscal 2014 from a focus on efficiency in liquidity management and funding requirements which optimized the performance of the balance sheet.

	Fiscal	
	2014	**2013**
	(%)	
Net interest margin[1]		
Interest-earning assets	1.72%	1.64%
Lending Assets	2.06%	2.00%

(1) Based on average statement of financial position.



The table below illustrates the Bank's average statement of financial position and annualized average interest rate, as broken down by asset type for fiscal 2014 and 2013.

	Fiscal					
	2014			**2013**		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
	(A$m)		*(%)*	*(A$m)*		*(%)*
Assets						
Interest earning assets						
Trading and investment securities	9,693	339	3.5	10,908	430	3.9
Gross loans, advances and other receivables [1]	49,008	2,634	5.4	49,379	2,984	6.0
Total interest earning assets	**58,701**	**2,973**	**5.1**	**60,287**	**3,414**	**5.7**
Non-interest earning assets						
Other assets	1,035			206		

	Fiscal					
	2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(A$m)		(%)	(A$m)		(%)
Total non-interest earning assets	1,035			206		
Total assets	**59,736**			**60,493**		
Liabilities						
Interest-bearing liabilities						
Retail deposits	32,274	1,056	3.3	30,450	1,239	4.1
Wholesale liabilities	22,174	863	3.9	24,656	1,136	4.6
Debt capital	843	43	5.1	1,167	53	4.5
Total interest-bearing liabilities	**55,291**	**1,962**	**3.6**	**56,273**	**2,428**	**4.3**
Non-interest-bearing liabilities						
Other liabilities	874			951		
Total non-interest-bearing liabilities	874			951		
Total liabilities	**56,165**			**57,224**		
Average shareholders equity	**3,571**			**3,269**		
Analysis of interest margin and spread						
Interest earning assets	58,701	2,973	5.1	60,287	3,414	5.7
Interest-bearing liabilities	55,291	1,962	3.6	56,273	2,428	4.3
Net interest spread			**1.5**			**1.4**
Interest-earning assets net interest margin	**58,701**	**1,011**	**1.7**	**60,287**	**986**	**1.6**
Lending assets net interest margin	**49,008**	**1,011**	**2.1**	**49,379**	**986**	**2.0**

(1) During fiscal 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statements of financial position as at June 30, 2014 and June 30, 2013. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

Other operating income. Other operating income increased 26.7% from A$60 million for fiscal 2013 to A$76 million for fiscal 2014, primarily due to a A$20 million increase from a buy-back of FRCNs in June 2014.

Net banking fee and commission income decreased 13.0% from A$77 million for fiscal 2013 to A$67 million for fiscal 2014. Retail fees are reducing due to customer preferences for low fee and/or fee-free banking. The result also included higher commissions paid to intermediaries as a result of higher lending volumes delivered by brokers.

Net profit on derivatives and other financial instruments include (i) losses on derivatives held in qualifying fair value hedging relationships of A$15 million for fiscal 2014 and gains of A$12 million

for fiscal 2013, (ii) gains representing changes in fair value of the hedged items attributable to the hedged risk of A$15 million for fiscal 2014 and losses of A$12 million for fiscal 2013, (iii) gains on financial assets and liabilities carried at fair value through profit and loss related to trading assets of A$1 million for fiscal 2014 and gains of A$1 million for fiscal 2013, and (iv) liabilities designated at fair value through profit and loss, resulting in a gain of A$2 million for fiscal 2014 and a loss of A$2 million for fiscal 2013. Net profit on derivatives and other financial instruments for fiscal 2014 also included a A$20 million profit before tax on the buyback of the FRCNs in June 2014, offset by a A$16 million loss before tax on the buyback of Government guaranteed debt issues during the year.

	Fiscal		Percentage
	2014	**2013**	**Change**
	(A$m)		*(%)*
Other operating income			
Net banking fee and commission income	67	77	(13.0)
Net profit on derivative and other financial instruments[(1)]	4	(21)	n/a
Other income	5	4	25.0
Other operating income	**76**	**60**	26.7

(1) The mark-to-market results included unrealized losses on short-term derivative positions offset by realized gains on the sale of treasury bank book assets. The Bank purchases liquid assets and uses hedging instruments for balance sheet risk management purposes. The Bank places some of its liquid assets into a trading portfolio which it uses to manage liquidity and is accounted for on a fair value basis. This trading position is hedged using short-dated instruments which do not qualify for hedge accounting and are valued on a mark-to-market basis. These instruments are often held to maturity and as such any unrealized mark-to-market will unwind through net interest income until maturity.

Operating Expenses. The Bank's operating expenses decreased marginally from A$628 million for fiscal 2013 to A$624 million for fiscal 2014. The Bank maintained a strategic approach to cost management and remained committed to investment into brand, capability and capacity. Expenses associated with Project Ignite and the continuation of the Basel II advanced accreditation program were partly offset by cost reductions as the Bank continued to leverage the Group's capability and scale in the management of occupancy, technology and procurement, such as the adoption of flexible working environments, which delivered benefits in the cost of real estate. See "Suncorp-Metway Limited — Business Strategy — Evolving the Bank's culture." Recent investment into risk management capability, distribution alignment and marketing initiatives contributed to an increase in expenses in the second half of fiscal 2014 compared with the first half of fiscal 2014.

The Bank's cost-to-income ratio was 57.4% for fiscal 2014, compared with 59.2% for fiscal 2013.

Loan Impairment. Impairment expense on loans, advances and other receivables decreased 66.9% from A$375 million for fiscal 2013 to A$124 million for fiscal 2014, primarily due to the significant run off of the Non-Core Portfolio. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio. The result also reflected an increase in ongoing provisioning for stress across the Bank's agribusiness loan portfolio caused by ongoing drought conditions in Queensland, the ongoing impact of previous flooding events in New South Wales and a subdued rural property market. Credit impairment losses (annualized) for fiscal 2014 were 0.25% of gross loans and advances.

	As at June 30, 2014	As at June 30, 2013	Percentage Change
	(A$m)		*(%)*
Gross balances of impaired loans			
Retail	26	33	(21.2)
Agribusiness	208	139	49.6
Commercial (SME)	99	334	(70.4)
Gross impaired assets	**333**	**506**	(34.2)
Specific provision for impairment	(106)	(198)	(46.5)
Net impaired assets	**227**	**308**	(26.3)
Size of gross impaired assets			
Less than one million	22	32	(31.3)
Greater than one million but less than ten million	183	245	(25.3)
Greater than ten million	128	229	(44.1)
Gross impaired assets	**333**	**506**	(34.2)
Past due loans not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	439	434	1.2
Gross non-performing loans	**772**	**940**	(17.9)
Gross impaired assets as a percentage of gross loans, advances and other receivables[1]	0.67	1.05	
Gross non-performing loans as a percentage of gross loans, advances and other receivables[2]	1.54	1.95	

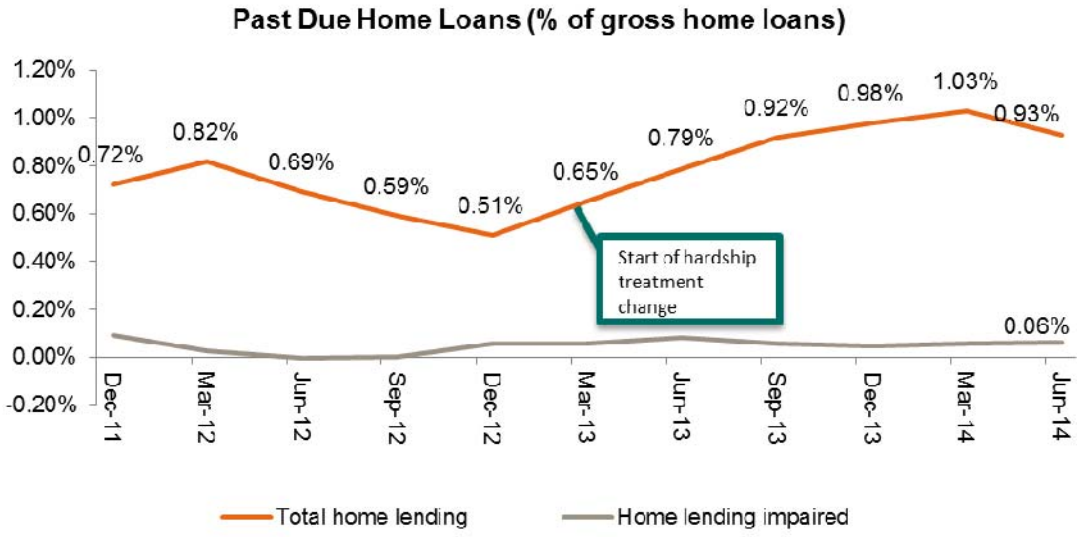
	Fiscal 2014	Fiscal 2013	Percentage Change
	(A$m)		*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the period	**506**	**2,090**	(75.8)
Recognition of new impaired assets	306	428	(28.5)
Increases in previously recognized impaired assets	5	42	(88.1)
Impaired assets written off/sold during the year	(179)	(1,627)	(89.0)
Impaired assets which have been reclassified as performing assets or repaid	(305)	(427)	(28.6)
Balance at period end	**333**	**506**	(34.2)

(1) Calculated as (gross impaired assets) / (gross banking loans, advances and other receivables) for the end of the period.

(2) Calculated as (gross non-performing loans) / (gross banking loans, advances and other receivables) for the end of the period.

Gross impaired assets decreased 34.2% from A$506 million as at June 30, 2013 to A$333 million as at June 30, 2014, primarily due to the run off of the Non-Core Portfolio. The Non-Core Portfolio is now managed as part of the Bank's commercial (SME) loan portfolio. Impairments in the agribusiness loan portfolio increased 49.6% from A$139 million to A$208 million, as a result of ongoing drought conditions in Queensland and the ongoing impact of previous flooding events in New South Wales impacting certain customers.

Past due loans not shown as impaired. Past due loans increased marginally from A$434 million for fiscal 2013 to A$439 million for fiscal 2014. In the second half of fiscal 2014, the Bank undertook a change in methodology for hardship seasoning in line with industry practice. In particular, the Bank adopted a three-month period for seasoning of loans in hardship having previously implemented a six-month timeframe. This resulted in an improvement in past due home loans against the first half of fiscal 2014. Although past due loans trended at the high end of the Bank's historical experience, levels of impairment in retail loans remained low, with A$26 million of impaired retail loans for fiscal 2014, down from A$33 million for fiscal 2013. The Bank continued to refine its management of hardship, with ongoing monitoring of hardship and loan delinquency regularly undertaken.



A breakdown of impaired assets and specific provisions as at June 30, 2014 and 2013 are as follows:

	Fiscal		Percentage
	2014	**2013**	**Change**
	(A$m)		*(%)*
Collective provision			
Balance at the beginning of the period.....	102	145	(29.7)
(Credit)/charge against impairment loss	18	(43)	n/a

	Fiscal 2014	Fiscal 2013	Percentage Change
	(A$m)		*(%)*
Balance at end of the period	**120**	**102**	17.6
Specific provision			
Balance at the beginning of the period	198	392	(49.5)
Charge against impairment losses	104	399	(73.9)
Impaired assets written off	(179)	(485)	(63.1)
Unwind of discount	(17)	(108)	(84.3)
Balance at end of the period	**106**	**198**	(46.5)
Total provision for impairment – Banking activities	**226**	**300**	(24.7)
Equity reserve for credit losses[1]			
Balance at the beginning of the period	131	147	(10.9)
Transfer to/(from) retained earnings	20	(16)	n/a
Balance at end of the period	**151**	**131**	15.3
Pre-tax equivalent coverage	**216**	**187**	15.5
Total provision for impairment and general reserve for credit loss – Banking activities	**442**	**487**	(9.2)
Provision for impairment expressed as a percentage of gross impaired assets are as follows:	*%*		
Collective provision	36.0	20.2	
Specific provision	31.8	39.1	
Total provision	67.9	59.3	
General reserve for credit loss	64.9	37.0	
Total provision and general reserve for credit loss	**132.7**	**96.3**	

(1) The general reserve for credit losses comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the general reserve for credit losses and associated ratios as presented in the table above.

	As at June 30, 2014[1]			As at June 30, 2013[1]		
	(A$m)					
	Gross Loans	**Impaired Assets**	**Specific Provisions**	**Gross Loans**	**Impaired Assets**	**Specific Provisions**
Agribusiness	4,269	197	50	3,919	129	31
Construction and development	606	36	12	790	155	57
Financial services	341	-	-	560	-	-
Hospitality	1,002	29	11	1,017	39	12
Manufacturing	364	11	10	393	13	5
Professional services	258	5	2	259	3	2
Property investment	1,995	12	9	2,205	44	44
Real estate mortgage	38,947	22	4	37,092	29	6
Personal	431	-	-	462	-	-
Government and public	1	-	-	1	-	-

	As at June 30,					
	2014[1]			2013[1]		
	(A$m)					
	Gross Loans	Impaired Assets	Specific Provisions	Gross Loans	Impaired Assets	Specific Provisions
authorities						
Other commercial and industrial	1,939	21	8	1,967	94	41
Total.....	**50,153**	**333**	**106**	**48,665**	**506**	**198**

(1) The table as at June 30, 2014 and June 30, 2013 been prepared in accordance with the Bank's 2014 annual financial statements, 2013 annual financial statements and APS 330 as in effect as of June 30, 2014 and June 30, 2013.

Liquidity and Capital Resources

Liquidity

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation and the ability to fund new and existing loan and contractual commitments.

The Bank's liquidity risk management framework and policies are set by its Board of Directors to ensure that the Bank has sufficient funds available to meet all known and potential commitments. Under authority of the Board of Directors, the Board Risk Committee has responsibility for oversight of liquidity risk. The Board Risk Committee approves all liquidity policies and reviews relevant risk limits. Executive management of liquidity risk is delegated to the Asset and Liability Committee who review risk measures and limits, provide guidance, and endorse and monitor funding and liquidity strategy. The primary objective of the liquidity risk management framework and policies are to ensure that the Bank has sufficient funds available to meet all of the Bank's known and potential commitments on a normal, going concern basis and in a crisis situation. Liquidity risk is managed using a framework that includes going concern and crisis scenario analysis, minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits. The Bank has reviewed and updated its risk appetite and limit structures in light of the introduction of the Liquidity Coverage Ratio. The changes to the Liquidity Limit Framework were approved by the Bank Asset and Liability Committee and the Board Risk Committee. See "Regulation and Supervision — APRA's prudential supervision — Liquidity."

Under current Australian Prudential Standard APS 210, each ADI:

- is responsible for the sound management of its liquidity risk and must have a robust framework to manage its liquidity risk accordingly;
- must at all times maintain sufficient liquidity to meet its obligations as they fall due and hold a minimum level of high-quality liquid assets to survive a severe liquidity stress;
- must ensure that its activities are funded with stable sources of funding on an ongoing basis; and
- must inform APRA as soon as possible of any concerns it has about its current or future liquidity, and its plans to address these concerns. If an ADI experiences severe liquidity

stress, it must notify APRA immediately and advise APRA of the action being taken to address the situation.

The Bank's funding risk is managed through the sourcing of retail deposits and long-term funding to provide the majority of asset-lending funds. Funding capacity is monitored and diversity in the Bank's funding portfolio is managed with a consideration for product, tenor, geography and customer concentrations.

Sources of Liquidity

The Bank's principal sources of liquidity are:

- Retail funding, comprising retail deposits (A$33.9 billion as at June 30, 2015); and
- Wholesale funding, comprising:
  - US$15 billion Euro Medium-Term Notes Program and Euro Commercial Paper Program (A$0.6 billion of Euro medium-term notes and A$0 million of Euro commercial paper outstanding as at June 30, 2015);
  - Australian Medium-Term Notes and Transferable Certificate of Deposit Program with an unlimited principal amount and Negotiated Certificates of Deposit (A$9.0 billion outstanding as at June 30, 2015);
  - US$5 billion Global Covered Bond Programme (A$2.7 billion outstanding as at June 30, 2015);
  - Securitization of residential mortgages through the APOLLO series trusts – (9 term trusts with A$3.7 billion outstanding as at June 30, 2015);
  - US$5 billion United States Commercial Paper Program (A$2.7 billion outstanding as at June 30, 2015); and
  - US$15 billion U.S. Medium-Term Notes Program (A$2.0 billion outstanding as at June 30, 2015).

Funding Profile

The table below illustrates the Bank's current retail and wholesale funding sources as at June 30, 2015, 2014 and 2013.

	Fiscal		
	2015	**2014**	**2013**
		(A$m)	
Retail funding			
Australian retail deposits			
Transaction[1]	6,642	5,333	4,301
Investment[1]	9,504	8,085	6,673
Term deposits	12,246	15,305	16,599
Total retail deposits	28,392	28,723	27,573
Retail treasury deposits	5,533	4,169	3,981
Total retail funding	**33,925**	**32,892**	**31,554**

	Fiscal		
	2015	**2014**	**2013**
		(A$m)	
Wholesale funding			
Domestic funding sources			
Short-term wholesale funding	7,730	8,551	8,308
Long-term wholesale funding	2,400	2,750	2,866
Covered Bonds	2,648	2,197	2,196
Subordinated notes	742	742	840
Reset preference shares	-	-	30
Convertible preference Shares	-	-	-
Overseas funding sources[2]			
Short-term wholesale	2,776	2,711	3,999
Long-term wholesale	2,828	1,892	2,251
Subordinated notes	-	-	-
Total wholesale funding	**19,124**	**18,843**	**20,490**
Total funding (excluding securitization)	**53,049**	**51,735**	**52,044**
Securitized funding			
APS 120 qualifying[3]	3,344	3,140	3,733
APS 120 non-qualifying	307	458	1,069
Total securitized funding	**3,651**	**3,598**	**4,802**
Total funding (including securitization)	**56,700**	**55,333**	**56,846**
Total funding is represented on statement of financial position by:			
Deposits	33,925	32,892	31,554
Short-term borrowings	10,506	11,262	12,307
Securitization liabilities	3,651	3,598	4,802
Bonds, notes and long-term borrowings	7,876	6,839	7,313
Subordinated notes	742	742	840
Preference shares	-	-	30
Total	**56,700**	**55,333**	**56,846**

(1) Comparative periods have been restated to conform to the presentation for fiscal 2015.
(2) Foreign currency borrowings are hedged back into Australian dollars.
(3) Qualifies for capital relief under APS 120.

The following table illustrates the Bank's maturity profile of its short-term and long-term indebtedness as at June 30, 2015, 2014 and 2013:

	Short-Term	Long-Term	As at June 30, 2015		
			2015	2014	2013
			(A$m)		
0 to 3 months	6,692	583	7,275	9,463	10,648
3 to 6 months	3,570	599	4,169	3,361	3,322
6 to 12 months	244	1,613	1,857	1,814	2,695
1 to 3 years	-	5,112	5,112	4,783	5,882
3+ years	-	4,362	4,362	3,020	2,745
Total wholesale funding instruments	**10,506**	**12,269**	**22,775**	**22,441**	**25,292**

The Bank has a tiered limit structure to ensure the amount of qualifying liquid assets held is always sufficient to satisfy APRA's LCR requirements (i.e., with a buffer above the APRA Prudential Limit of 100% and the Bank's internal Board limit of 103%). This means that the amount of qualifying liquid assets held will always be sufficient to cover net cash outflows, comprising of the expected runoff of liabilities/commitments less the inflow of contractual receivables, over a 30-day stress scenario. The Bank was granted a $4.8 billion CLF with the RBA by APRA for calendar 2015 and has applied to APRA for a CLF for calendar 2016. The CLF is available for Australian dollar-denominated cash outflows and has a 15 basis point commitment fee, with additional cost if utilized. It is collateralized by securities which are repo-eligible with the RBA, which includes internal RMBS.

The Bank also has access to contingent liquidity in a crisis, including A$4.3 billion (cash equivalent as at June 30, 2015) of untapped on-balance sheet residential mortgage backed securities as part of the Apollo Series 2008-1R Trust, which is the Bank's internal RMBS, some of which is allocated to the CLF, and additional A$14.2 billion (cash equivalent as at June 30, 2015) of mortgages that could be included in the facility if required.

The A+/A1 rating of the Bank enables it to access a range of wholesale funding products and markets, while its retail deposit base permits the Bank to be less reliant on the more expensive offshore term funding markets. This provides the Bank with funding flexibility and the potential capacity for future growth.

Retail Funding. The Bank has sought to broaden its deposit base nationally, particularly in New South Wales and Victoria through increasing points of presence in each of these states. The Bank has also focused on converting new lending customers into "connected customers" who have both lending and deposit products with the Bank, as well as insurance products with the Group. As at June 30, 2015, over 65% of the Bank's mortgage customers were "connected customers" with an average of seven products with the Group. This strategy increases consumer loyalty, which, when coupled with competitive pricing on term deposits and the superior customer service, supports diversification of the Bank's deposit base. This approach has delivered lower-cost deposit growth to date, with retail transaction deposit balances increasing by 24.5% between June 30, 2014 and June 30, 2015. These strategies are designed by the Bank to enable it to continue to match the funding of its lending activities predominantly with retail deposits and long-term wholesale funding. In order to better satisfy customer needs, the Bank is also trialing new branch formats, including kiosks and new flagship designs. The Bank manages its funding portfolio, including treasury deposits, to support lending growth, margin and liquidity objectives.

Retail deposits are managed to support the Bank's lending growth, liquidity and revenue objectives. The acquisition of high quality, relatively stable retail deposits remains a key focus for the Bank. Total retail deposits decreased 1.2% from A$28.7 billion as at June 30, 2014 to A$28.4 billion as at June 30, 2015, principally due to a decrease in higher-cost term deposits, which was partially offset by strong growth in the lower-cost retail call deposits customer base in line with a focus on acquiring

relatively stable transactional customer relationships. The Bank continues to manage retail deposits in line with its lending growth, with the deposits-to-loans ratio of 65.3% at June 30, 2015, within the Bank's target range of 60% to 70%. The Bank's "at call" deposit portfolio grew 20.3% from A$13.4 billion at June 30, 2014 to A$16.1 billion at June 30, 2015. As a result of the strong growth in at call deposits, demand for term deposits eased in fiscal 2015. This portfolio provided a relatively steady source of funding as the Bank has a well-established term deposit business with historically strong retention among its existing customers.

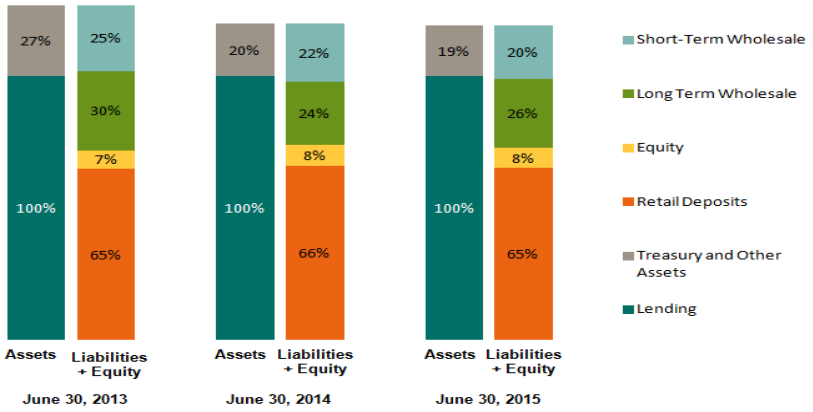
Wholesale Funding. During fiscal 2015, the Bank issued £250 million of three-year senior unsecured notes in September 2014, A$950 million of five-year covered bonds in October 2014, A$1.25 billion of RMBS with a weighted average life of 4 years in March 2015 and US$600 million of five-year senior unsecured debt issuance in April 2015. Between July 2015 and August 2015, the Bank also issued A$400 million of senior unsecured notes with maturities between 12 and 18 months.

During fiscal 2014, the Bank issued US$1,150 million of senior unsecured medium term notes of maturities between one and three years and A$750 million of five-year senior unsecured medium term notes.

During fiscal 2013, the Bank issued A$750 million of three-year senior unsecured medium term notes, A$2.15 billion of RMBS with a weighted average life of four years and A$600 million of "AAA" rated covered bonds.

The Bank operates what it believes to be an appropriate wholesale funding instrument duration profile given its strong retail deposits-to-loans ratio. Securitization represents a large proportion of wholesale funding with a maturity of greater than 12 months. While this funding amortizes over time, its rate of duration decline is lower than other term funding instruments. This reduces the profile of future funding maturity towers and is important in reducing refinancing risk.

Bank Funding Composition. The following chart outlines the Bank's funding composition as at June 30, 2015, 2014 and 2013. The sale of the Non-Core Portfolio in July 2013 has resulted in a more stable balance sheet and a less volatile level of liquidity due to smaller more dispersed wholesale maturities. This has allowed the Bank to comfortably lower liquidity levels. The Bank's liquidity risk metrics were revised in November 2013 to reflect the lower risk appetite of the Bank. The Bank has transitioned the balance sheet to be compliant with APRA's adoption of the Basel III Liquidity Framework which commenced January 1, 2015. See "Regulation and Supervision — APRA's prudential supervision – Liquidity." The resulting change in the balance sheet composition is shown in the chart below.



Credit Ratings

As of the date of this Report, credit ratings for the Bank's short-term and long-term senior unsecured debt were as follows:

	Short-term debt	Long-term debt	Outlook
Standard & Poor's	A1	A+	Stable
Moody's Investors Service, Inc.	P1	A1	Stable
Fitch, Inc	F1	A+	Stable

Note: Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, suspended or withdrawn at any time.

Cash Flow Analysis

Set forth below is a summary of the Bank's cash flow for the periods indicated. See the consolidated statements of cash flows in the 2015 annual financial statements, 2014 annual financial statements and the 2013 annual financial statements for more detailed cash flow information.

	Fiscal		
	2015	**2014**	**2013**
		(A$m)	
Cash flows from operating activities	(1,203)	794	2,713
Cash flows from investing activities	241	171	(337)
Cash flows from financing activities	542	(1,808)	(2,753)
Net decrease in cash and cash equivalents	**(420)**	**(843)**	**(377)**

Cash Flows From Operating Activities

Comparison of fiscal 2015 to fiscal 2014

Cash flows from operating activities decreased significantly from a cash inflow of A$794 million in fiscal 2014 to a cash outflow of A$1,203 million in fiscal 2015, primarily due to a decrease of A$1,645 million in cash inflow as a result of a fall in discount securities held in the trading book during fiscal 2015 and a decrease of A$307 million in cash inflow predominantly related to growth in housing loans and advances.

Comparison of fiscal 2014 to fiscal 2013

Cash flow from operating activities decreased significantly from a cash inflow of A$2,713 million in fiscal 2013 to a cash inflow of A$794 million in fiscal 2014. This was primarily due to a decrease of A$2,211 million in cash inflow related to deposits and short-term borrowings, payables and other liabilities, primarily due to a A$1,053 million decrease in term deposits during fiscal 2014, compared with A$430 million growth in fiscal 2013, as a result of the low interest rate environment and competitive pricing pressures.

Cash Flows From Investing Activities

Comparison of fiscal 2015 to fiscal 2014

Cash flow from investing activities increased from A$171 million fiscal 2014 to A$241 million in fiscal 2015. This was primarily due to an increase of A$70 million in cash inflow related to net proceeds from sales of investment securities of A$241 million, which was offset by a decrease in held-to-maturity investments as the result of a strategic rebalancing from floating rate notes to semi-government and Australian Government bonds.

Comparison of fiscal 2014 to fiscal 2013

Cash flow from investing activities increased significantly from a cash outflow of A$337 million in fiscal 2013 to a cash inflow of A$171 million in fiscal 2014, primarily due to net proceeds from sales of investment securities of A$171 million.

Cash Flows From Financing Activities

Comparison of fiscal 2015 to fiscal 2014

Cash flow from financing activities increased significantly from a cash outflow of A$1,808 million in fiscal 2014 to a cash inflow of A$542 million in fiscal 2015, primarily due to a net increase of A$1,277 million in cash inflow relating to certain securitization transactions and a net increase of A$1,191 million in cash inflow from the issuance of debt.

Comparison of fiscal 2014 to fiscal 2013

Cash flow from financing activities decreased 34% from a cash outflow of A$2,753 million in fiscal 2013 to a cash outflow A$1,808 million in fiscal 2014. This was due to a decrease of A$1,088 million in cash outflow from borrowings and a decrease of A$705 million in cash outflow relating to payments for preference share redemption, which were partially offset by a decrease of A$670 million in cash inflow from the issue of subordinated notes, and a decrease of A$450 million in cash inflows from the issue of perpetual Tier 1 capital notes, to Suncorp Group Limited.

Contractual Obligations

Each fiscal year the Bank prepares an analysis of its contractual commitments. See Note 24 to the 2015 annual financial statements for a quantitative and qualitative discussion of these risks. The Bank's most significant contractual obligation is the commitments to provide loans and advances to customers, which was A$8.1 billion as at June 30, 2015.

Off-Balance Sheet Transactions

In the ordinary course of business and primarily to facilitate client transactions, the Bank enters into off-balance sheet arrangements with unconsolidated entities of the Group. Under AASBs and IFRS all such entities are consolidated where the Bank is exposed to the majority of the risks and rewards. In accordance with the Group's policies, exposure to any of these transactions is not carried at a level that would have a material effect on the financial condition of the Bank. The impact on the Bank's consolidated statement of comprehensive income from these off-balance sheet arrangements is not considered material by the Bank.

Derivative Financial Instruments

Derivatives are used by the Bank to manage interest rate and foreign exchange risk. The use of derivatives to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded cash, bill and bond futures, interest rate swaps, forward rate agreements, OTC forward foreign exchange contracts, foreign exchange and cross currency swaps and interest rate and foreign exchange

options. Derivative restrictions are designed to either prevent gearing or to limit unrealized and potential losses. Counterparty risk procedures are in place for OTC-type derivatives. As at June 30, 2015, there was no significant counterparty exposure to any one single entity. For a further discussion of the Bank's hedging activities, see Note 11 to the 2015 annual financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Each fiscal year the Bank prepares an analysis of market risk as it applied to the Bank and a quantitative analysis of the Bank's value at risk for interest rates and foreign exchange, individually and in the aggregate. See Note 11 to the 2015 annual financial statements for a quantitative and qualitative discussion of these risks.

Capital Adequacy

As discussed under "Regulation and Supervision," the Bank must comply with separate regulatory capital adequacy prudential standards and guidelines from the Group. The standards and guidelines are prescribed by, and are continually being refined by, APRA. Regulatory capital will differ from statutory accounting capital due to the inclusion of some liabilities such as preference shares and subordinated debt for the purposes of calculating regulatory capital, and the deduction of intangible assets such as goodwill and software assets from regulatory capital. See "Selected Financial Information—Regulatory Capital and Ratios" for details of the Bank's Tier 1 and Tier 2 capital as at June 30, 2015, 2014 and 2013.

For a discussion of the Bank's capital adequacy requirements and how its ratios are calculated, see "Regulation and Supervision."

APS 330 details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. These disclosures are required to be published by the Bank within 40 business days of the reporting date and are posted on the Bank's U.S. Investors' Website.

The Bank's capital adequacy policy is set by its Board of Directors to ensure that the Bank satisfies both the capital adequacy prudential standards and guidelines set by APRA and the internal capital targets set by management. The Board Risk Committee has ultimate responsibility for the Bank's capital adequacy policies and delegates to the Asset and Liability Committee the role of reviewing and monitoring ongoing capital levels and implementing the necessary funding actions to ensure the Bank has sufficient capital requirements to meet regulatory and internal requirements.

As part of the Bank's capital management, the Bank relies on investments of capital from the Group from time to time in order to meet particular capital targets, including a "Common Equity Tier 1" Ratio in excess of 8.5%. Since the NOHC Restructure, the Bank has sought to simplify its capital structure by redeeming its redeemable preference shares in exchange for common equity and internal subordinated notes offered to Suncorp Group Limited. During fiscal 2013, the Group purchased further ordinary shares of the Bank (A$263 million in June 2013) and acquired two series of subordinated notes from the Bank (A$450 million in December 2012 and A$670 million in June 2013). During fiscal 2014, the Group purchased further ordinary shares of the Bank of A$113 million in connection with the Bank's buyback of FRCNs and its repurchase of A$30 million of reset preference shares. In February 2015, as part of the capital management between the Bank and the Group, the Bank issued A$82.5 million shares to the Group.

For details of the Bank's Tier 1 and Tier 2 capital as at June 30, 2015, 2014 and 2013, see "Selected Financial Information — Regulatory Capital and Ratios."

REGULATION AND SUPERVISION

Overview

The principal regulators that supervise and regulate the Bank's activities are APRA, ASIC, RBA, ACCC and AUSTRAC.

APRA is responsible for the prudential supervision of ADIs, such as the Bank, as well as insurance companies and other financial services entities such as mutual societies and superannuation companies and has wide powers to act in the interests of depositors if an ADI is in difficulty.

ASIC is responsible for the administration and enforcement of Australian law in relation to companies, financial service organizations and professionals who deal and advise in respect of investments, superannuation, insurance, deposit taking and credit. ASIC is also responsible for consumer protection, monitoring and promoting market integrity and licensing in relation to the Australian financial system, the provision of financial services and the payment system.

In exercising its powers, APRA works closely with the RBA. The RBA is Australia's central bank and an active participant in the financial markets. It also manages Australia's foreign reserves, issues Australian currency notes, provides services as a banker to the Australian Government and, through the Payment Systems Board, supervises the payments system.

ACCC is Australia's competition regulator. Its key responsibilities are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third-party access to facilities of national significance.

AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. It works collaboratively with Australian industries and businesses (including certain entities of the Group) in their compliance with anti-money laundering and counter-terrorism financing legislation. As Australia's financial intelligence unit, AUSTRAC contributes to investigative and law enforcement work to combat financial crime and prosecute criminals in Australia and overseas.

Set out below is a summary of certain key Australian legislative provisions that are applicable to the Bank's operations, and a summary of APRA's prudential supervision regulations and other principal regulators or regulations.

APRA

APRA's prudential supervision – General

The Bank is an ADI, and, as such, is subject to prudential regulation and supervision by APRA. The Bank has corporate governance and policy frameworks designed to meet APRA's requirements for ADIs. In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities and governance. APRA discharges its responsibilities by requiring ADIs to regularly provide it with reports which set forth a broad range of information, including financial and statistical information relating to their financial position and information in respect of prudential and other matters. This information is not generally available to investors. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective "on site" visits and formal meetings with the ADI's senior management and external auditors. External auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

APRA's prudential supervision – Capital adequacy

APRA's approach to the assessment of an ADI's capital adequacy is based on the risk-based capital adequacy framework set out in the Basel Committee on Banking Supervisions' ("Basel Committee") publication, "*Basel III: A global regulatory framework for more resilient banks and banking systems*" ("Basel III"), released in December 2010 and revised in June 2011. APRA's implementation of the Basel III capital framework began on January 1, 2013 with four prudential standards implementing the Basel III capital reforms in Australia coming into effect.

For an ADI adopting the standardized approach, APRA provides for a quantitative measure of an ADI's capital adequacy and focuses on matters including: (i) the credit risk associated with an ADI's on-balance sheet and off-balance sheet exposures; (ii) the operational risk associated with an ADI's banking activities; (iii) the market risk arising from an ADI's trading activities; (iv) the risk associated with securitization; and (v) the amount, form and quality of capital held by an ADI to act as a buffer against these and other exposures.

Under its Prudential Standard APS 111 – Capital Adequacy: Measurement of Capital ("APS 111"), APRA requires that an ADI maintains a certain amount of regulatory capital. An ADI's regulatory capital is assessed by APRA in two tiers: (1) Tier 1 Capital (going concern capital), which comprises of the sum of an ADI's Common Equity Tier 1 Capital and Additional Tier 1 Capital; and (2) Tier 2 Capital (gone concern capital), in each case, less any prescribed regulatory adjustments (where applicable). Common Equity Tier 1 Capital comprises the highest quality components of capital that: (i) provide a permanent and unrestricted commitment of funds; (ii) are freely available to absorb losses; (iii) do not impose any unavoidable servicing charge against earnings; and (iv) rank behind the claims of depositors and other creditors in the event of a winding-up of the ADI. Additional Tier 1 Capital comprises high quality components of capital that meet the requirements described in (i), (ii) and (iv) above, and also provide for fully discretionary capital distributions. Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses. An ADI's regulatory capital base (the numerator of the capital ratio) is defined as the sum of eligible Tier 1 Capital and Tier 2 Capital ("total capital").

Under its Prudential Standard APS 110 – Capital Adequacy ("APS 110"), APRA requires all ADIs to, at all times, maintain the following minimum prudential capital ratios (as measured against total risk-weighted assets): (i) a Common Equity Tier 1 Capital ratio of 4.5%; (ii) a Tier 1 Capital ratio of 6.0%; and (iii) a Total Capital (being the sum of all Tier 1 Capital and Tier 2 Capital) ratio of 8.0%. APRA may also require an ADI to hold prudential capital above these levels if it so determines and may change these levels at any time. As at September 18, 2015, the Bank is fully compliant with all prudential capital requirements that are applicable to it.

Pursuant to APS 110, APRA also requires ADIs to, from January 1, 2016, hold a capital conservation buffer above the prudential capital requirement for the Common Equity Tier 1 Capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets unless determined otherwise by APRA in writing. APS 110 provides that the Common Equity Tier 1 Capital plus the

capital conservation buffer determined by APRA should be no less than 7.0% of the ADI's total risk-weighted assets. As at June 30, 2015, the Bank's Common Equity Tier 1 capital ratio was 9.13%, which is currently above the levels required by APS 110. The Bank expects to comply with the capital positions required under the prudential requirements from January 1, 2016.

From January 1, 2016, APRA may, by notice in writing to all ADIs, require them to hold additional Common Equity Tier 1 Capital of between zero and 2.5% of total risk-weighted assets, as a countercyclical capital buffer. It is currently not possible to predict whether APRA will require ADIs to hold a countercyclical capital buffer but any such decision of APRA to do so must be notified by APRA to all ADIs 12 months prior to coming into effect.

APRA has stipulated a capital adequacy framework that applies to the Bank as an ADI. APS 330 details the market disclosure requirements for Australian domiciled ADIs. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. These disclosures are required to be published by the Bank within 40 business days of the reporting date and are posted on the Bank's U.S. Investors' Website. Measurement of capital adequacy is more fully described in the Bank's APS 330 disclosure document as at June 30, 2015, which is posted on the Bank's U.S. Investors' Website. APRA monitors the overall Group and has power to increase the prudential requirements it applies to the Bank if APRA determines that the activities of the Group places financial strain on the Bank.

APRA's approach to capital frameworks

APRA requires ADIs to manage and maintain an adequate internal capital adequacy assessment process ("ICAAP"), which has been approved by the ADI's Board of Directors. The ICAAP ensures that the ADI has an integrated approach to risk and capital management and includes: (i) processes for assessing the risks arising from an ADI's activities and ensuring that capital held is commensurate with the level of risk and (ii) a strategy for maintaining adequate capital overtime, including the setting of capital targets consistent with the risk profile of the ADI, the risk appetite and regulatory capital requirements.

APRA's prudential supervision – Liquidity

Under APRA's Prudential Standard APS 210: Liquidity ("APS 210"), APRA requires ADIs to at all times maintain sufficient liquidity to meet their obligations as they fall due and hold a minimum level of high-quality liquidity assets to survive a severe liquidity stress. APRA also requires ADIs to have a robust liquidity risk management framework to manage their liquidity risk. The ADI's liquidity risk management framework must include, at a minimum: a statement of the ADI's liquidity risk tolerance, a liquidity management strategy, policy statement and funding strategy which, in each case, must be approved by the ADI's board of directors. It must also include a system for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk tolerance and a formal contingency plan for dealing with a liquidity crisis.

In November 2014, APRA issued its final prudential standards and practice guides to implement the global liquidity standards issued by the Basel Committee in the Basel III framework.

In line with the liquidity standards contained within the Basel III framework, APRA introduced the Liquidity Coverage Ratio ("LCR") as part of its liquidity framework. The LCR requires high-quality liquid assets to be held to cover net cash outflows and provide an adequate buffer under a combined "idiosyncratic" and market wide stress scenario lasting 30 calendar days and commenced as a requirement on January 1, 2015.

In its implementation of the LCR, APRA adopted the Basel III rules text in full, with the exception of certain items where APRA has made use of the national discretion allowed by the rules or where APRA has departed from the rules text to reflect circumstances particular to Australia. Items under the first category include not expanding the definition of high-quality liquid assets, different treatment for the cash outflow rate for high run off less stable retail deposits, contingent funding obligations and the method of calculating collateral flows related to the valuation of derivatives. Items under the second category include the treatment of self-managed superannuation funds and recognition of head office liquidity to support Australian branches of foreign banks.

As a consequence of APRA choosing not to expand the definition of high-quality liquid assets, the only assets that would qualify as high-quality liquid assets for the purposes of satisfying the LCR requirement are cash balances held with the RBA and Australian Government and semi-government securities. APRA has acknowledged that the supply of Australian Government and semi-government securities in Australia is relatively limited. To assist ADIs with meeting their LCR requirements, APRA and the RBA have agreed an approach to allow ADIs, if approved by APRA, to establish a secured committed liquidity facility ("CLF") with the RBA to cover any shortfall of its holdings of high-quality liquid assets and the LCR requirement in return for a market based commitment fee of 0.15% and an interest rate that is in line with current arrangements for RBA's overnight repurchase facility. Qualifying collateral for the facility will comprise of all assets eligible for repurchase transactions with the RBA under normal market operations and other assets the RBA deems appropriate (including certain related-party assets issued by bankruptcy remote vehicles like self-securitized residential mortgage backed securities).

On August 8, 2013, APRA released details on its process for determining the appropriate size of the CLF for each ADI. The main steps in the process are: (i) ADIs will be required to apply for inclusion of a CLF for calculation of the ADI's LCR on an annual basis; (ii) ADIs will be required to demonstrate that they have taken "all reasonable steps" towards meeting their LCR requirements through their own balance sheet management, before relying on the CLF; (iii) ADIs must meet relevant qualitative and quantitative liquidity requirements, including having in place a statement of the relevant institution's Board's tolerance for liquidity risk, an appropriately robust liquidity transfer pricing mechanism, and appropriate remuneration arrangements for those executives responsible for the ADI's funding plan and liquidity management. The CLF will only be made available to address an ADI's Australian dollar liquidity needs and the size of the CLF for any particular ADI will be limited to a specified percentage of that ADI's Australian dollar net cash outflow target as agreed to by APRA, plus an allowance of an appropriately sized buffer. In a letter released on January 30, 2014 to all ADIs subject to the LCR requirement, APRA provided further details on the operation of the CLF. APRA has indicated that it will not generally specify a required CLF collateral mix but instead will employ the following two principles when assessing the suitability of an ADI's CLF collateral mix: (i) the CLF collateral submitted by an ADI has an appropriate degree of diversification; and (ii) the need for liquid markets in debt securities be balanced against the dangers of exacerbating interconnectedness. APRA has approved the Bank's use of a CLF with the RBA to use in LCR calculations for the 2015 calendar year.

In September 2014, the RBA released legal documentation for a CLF including the terms and conditions of the CLF ("CLF Terms and Conditions"). Additionally, in December 2014, the RBA released the CLF Operational Notes to assist ADIs to better understand how a CLF will operate in practice.

If there is any failure of, or breach by, the RBA in respect of a CLF, the liability of the RBA to the relevant CLF participant in respect of claims the CLF is expressly limited and, notwithstanding such limitations, is capped at A$50 million in aggregate.

Amounts owing to the RBA in respect of a CLF by the relevant CLF participant (which may include, without limitation, fees due but unpaid and amounts owing under an indemnity provided by the CLF participant under the CLF Terms and Conditions) may, in a winding-up of the CLF participant, be mandatorily preferred over other debts of the CLF participant (including, pursuant to section 13A(3)(d) of the *Australian Banking Act* (Cth) and section 86 of the *Reserve Bank Act 1959* (Cth) of Australia).

In addition to implementing the LCR, APRA announced that it plans to introduce the Net Stable Funding Ratio ("NSFR") into its liquidity framework from January 1, 2018. The NSFR is a 12 month structural funding metric, requiring that 'available stable funding' is sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. In addition, APRA has also announced its proposal to introduce a specific required stable funding factor for assets held by ADIs as collateral for their CLF. This will approximate the factor that would apply if adequate supplies of high-quality liquid assets were available in Australia. On October 31, 2014, the Basel Committee issued its final NSFR. The Bank currently expects that it will meet the requirements of the NSFR. However, final details of the NSFR as it applies to Australian banks have not yet been released by APRA.

APRA's prudential supervision - Counterparty credit risk

In September 2012, APRA released its final prudential standards on its implementation of the Basel III reforms to the capital framework for counterparty credit risk and other credit exposures, which came into effect on January, 1 2013. Under its prudential standards, APRA extended its existing capital framework for counterparty credit risk in bilateral transactions to be the sum of the existing counterparty credit default component that applies under its existing prudential standards and a risk capital Credit Value Adjustment ("CVA") risk capital charge introduced as part of the Basel III reforms. The CVA risk capital charge is intended to cover the risk of mark-to-market losses on the expected counterparty credit risk arising from bilateral OTC derivatives. In January 2013, APRA also adopted Basel III reforms on capital charges for exposure to central counterparties arising from over the counter derivatives, exchange traded derivatives and securities financing transactions. These prudential standards require the Bank to hold more capital for its counterparty credit risk exposures and other credit exposures.

Anti-Money Laundering and Counter Terrorism Financing

The Anti-Money Laundering and Counter Terrorism Financing Act ("AML-CTF") of Australia places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in the Group are considered to be "reporting entities" for the purposes of the AML-CTF Act and are required to undertake certain obligations, including "know your customer" obligations, on-boarding, identification and verification obligations, enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering and terrorism financing, enhanced record-keeping and reporting on suspicious matters, cash transactions above a set threshold and international funds transfer instructions to and from the Australia.

The Bank continues to monitor, manage and implement changes to the AML-CTF legislation. The Bank is on track to meet rule changes that are required to be in place by December 31, 2015.

Other Australian regulatory developments

APRA's supervision of conglomerate groups

In December 2012 and May 2013, APRA released two consultation packages on its revised requirements for the supervision of conglomerate groups ("Level 3 Groups"), which includes the Bank. APRA has indicated that its proposed Level 3 Group framework is intended to meet the principles set out in the Joint Forum's Principles for the Supervision of Financial Conglomerates published in September 2012 and consists of four components: group governance, risk exposures, risk management and capital adequacy. The proposed overarching requirements of the framework are as follows: (i) a Level 3 Group must have a robust governance framework that is applied appropriately throughout the group; (ii) the intra-group exposures and external aggregate exposures of a Level 3 Group must be transparent and prudently managed; (iii) a Level 3 Group must have an effective group-wide risk management framework in place; and (iv) a Level 3 Group must have sufficient capital to support the risks of the entire group, including material risks that arise from non-APRA-regulated activities.

On August 15, 2014, APRA released its planned framework for Level 3 Groups, but advised it will defer a decision on its final implementation until the recommendations of the Financial Services Inquiry, and the Australian Government's response to them, have been announced. The package included updated prudential standards in relation to governance, exposures management, risk management and capital adequacy, as well as a number of draft prudential practice guides that, when finalized, are intended to accompany the prudential standards. APRA is committed to ensuring the affected eight groups (including the Bank) would have a minimum of 12 months transition time before any new standards come into force, and as currently proposed, no affected group would need additional capital to meet the planned new requirements. It is not possible, at this stage, to further predict the final impact and timing of these reforms planned by APRA and, in particular, their impact on the capital structure or businesses of the Bank.

Basel Committee requirements for loss absorbency at the point of non-viability

On January 13, 2011, the Basel Committee issued the minimum requirements to ensure loss absorbency at the point of non-viability. These requirements enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market and are in addition to the criteria detailed in the text of the Basel III framework that were published in December 2010.

Under the requirements, all non-common Tier 1 and Tier 2 instruments issued by a bank on or after January 1, 2013 must have a provision which allows a relevant authority to require the debt to be written off or converted into common equity upon the earlier of such authority determining that (1) a write-off is necessary; and (2) rescue funds from the public sector (or equivalent) are required, for the bank to continue to be viable. Instruments issued prior to January 1, 2013 that do not meet these criteria but otherwise met all of the criteria for Additional Tier 1 or Tier 2 Capital as set out in the text of the Basel III framework will be considered as an instrument that no longer qualifies as such and phased out from January 1, 2013.

APRA's implementation of these new minimum requirements were included in its revised prudential standard relating to capital adequacy which came into effect on January 1, 2013. All additional Tier 1 instruments currently issued by the Bank meet the requirements of the revised prudential standard requirements for loss absorbency at the point of non-viability. All Tier 2 instruments currently issued by the Bank meet the requirements of the revised prudential standard or are eligible for transitional relief that phases out from January 1, 2013. Transitional relief is available for qualifying instruments on a progressively decreasing basis from January 1, 2013 until January 2, 2022.

Crisis management

On September 28, 2012, the Australian Government released a consultation paper titled "*Strengthening APRA's Crisis Management Powers*" seeking comments on a range of options to enhance Australia's financial sector, particularly prudential regulation. The options canvassed in the paper aim to strengthen APRA's crisis management powers in relation to non-operating holding companies, ADIs, superannuation entities and general and life insurers. Implementation of these options is intended to bring Australia's regulatory framework more closely into line with the G20 endorsed international standard for crisis management arrangements published by the Financial Stability Board in its paper "*Key Attributes of Effective Resolution Regimes for Financial Institutions*" dated October 2011. Strengthening crisis management powers was also one of the recommendations contained in the final FSI report published on December 7, 2014 (see "— Australia's financial system inquiry"). If implemented, the key implications for the Bank are likely to be an increase in APRA's powers to intervene in the affairs of the Bank during periods of stress.

Central clearing of OTC derivatives

In April 2014, ASIC, the RBA and APRA recommended that the Australian Government consider a central clearing mandate for interest rate derivatives denominated in Australian dollars. This followed their recommendation in July 2013 for the Australian Government to consider a central clearing mandate for interest rate derivatives denominated in US$, euros, British pounds or Japanese yen. In September 2015, the Australian Government implemented the mandate in Australia for the central clearing of interest rate derivatives denominated in A$, US$, euros, British pounds, Japanese yen between internationally active dealers. Although the rules imposing the clearing requirement and associated provisions are not finalized yet, mandated central clearing for the derivatives specified is expected to take effect in the first half of calendar 2016.

Future of Financial Advice Reforms

The Australian financial services industry in which the Bank operates is subject to a range of laws and regulations which have been subject to increasing regulatory compliance. In particular, the Future of Financial Advice ("FoFA") reforms have imposed regulatory obligations on the Australian financial services industry designed to improve the quality of financial advice to retail investors and enhance consumer protection. In addition to these risks, compliance with the new FoFA requirements could also lead to increased costs.

The current FoFA provisions require additional "best interest" obligations, including disclosure, when bank staff provide financial product advice. Implementation of the new FoFA obligations required process changes, system changes, staff training, document changes and monitoring of activities to ensure compliance. The Australian Government continues to consult with the industry and implement streamlining reforms of the original FoFA legislation.

Australia's financial system inquiry

On December 20, 2013, the Australian Government released the final terms of reference for its inquiry into the Australian financial system. Among its considerations, the FSI was asked to report to the Australian Government on: (i) how the Australian financial system can more efficiently allocate Australian sourced capital to minimize Australia's exposure to volatility in global capital markets; (ii) how Australia can best balance competition, innovation and efficiency, with stability and consumer protection; (iii) the consequences of financial regulation, including its impact on compliance costs, flexibility, innovation and financial services trade; (iv) the corporate governance structures across the financial system and how they affect stakeholder interests; and (iv) the international integration (including international financial regulation) of Australia's financial system.

Following extensive consultation in the first half of 2014, and public submissions by the Bank and other regional banks, the FSI published an interim report on July 15, 2014 setting out its initial findings. The final FSI report was published on December 7, 2014, containing 44 recommendations which were intended to serve as a blueprint for the financial system over the next decade. The Australian Government intends to consult with industry and consumers before making any decisions on the recommendations. This consultation took place until March 31, 2015. It is not possible, at this stage, to predict with any certainty the impact the FSI will have on the reforms that will be adopted by the Australian Government and how such reforms may be implemented by regulators, including in particular, their impact on the capital structure or businesses of the Bank.

The outcomes of the above and other Australian Government or regulatory reviews and changes, including various workers' compensation schemes, the taxation system and various reforms proposed or already implemented for various Federal and State judicial systems, may impact the Bank's operations.

Sound residential mortgage lending practices

On November 5, 2014, APRA released a final prudential practice guide for ADIs on sound risk management practices for residential mortgage lending "Prudential Practice Guide APG 223 Residential mortgage lending" ("APG 223"). APG 223 summarizes APRA's expectations for good residential lending practices. It does not create any new prudential requirements for ADIs.

In a letter to all ADIs dated December 9, 2014, APRA outlined further steps it plans to take to reinforce sound residential mortgage lending practices. In the context of historically low interest rates, high levels of household debt, strong competition in the housing market and accelerating credit growth, APRA has indicated it will be increasing the level of its supervisory oversight on mortgage lending in the period ahead. In the letter, APRA indicated that it currently does not propose to introduce across-the-board increases in capital requirements, or caps on particular types of loans, to address current risks in the housing sector. However, APRA has flagged to ADIs that it will be paying particular attention to specific areas of prudential concern.

APRA and ASIC will be continually reviewing the lending practices of ADIs and, where an ADI is not maintaining a prudent approach, may institute further supervisory action. On July 20, 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by certain ADIs accredited to use the internal ratings-based ("IRB") approach to credit risk. For those ADIs using the IRB approach, the average risk weight on Australian residential mortgage exposures will increase from approximately 16% to at least 25%. The affected ADIs are Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, Macquarie Bank Limited, National Australia Bank Limited and Westpac Banking Corporation. While the Bank considers its operations are substantially in line with the practices set out in APG 223, it undertakes periodic reviews and continuous improvements to further align its operations from a risk management perspective and with APRA's expectations.

Foreign Account Tax Compliance Act

The Bank is registered as a Compliant PFFI and obtained a GIIN via the Internal Revenue Service ("IRS") portal. The Bank will meet the requirements outlined in the Inter-Governmental Agreement ("IGA") between the Australian Tax Office (Australia's Regulator under the IGA) and the IRS. The Bank continues to monitor, manage and implement changes under the IGA legislation. The Bank is on track to meet its compliance and reporting obligations as outlined in the IGA.