SUNCORP

Suncorp Group Limited

ABN 66 145 290 124

Suncorp Bank APS 330: Quarter ended 31 December 2022

Release date 8 February 2023

Basis of Preparation

This document has been prepared by Suncorp Bank to meet the disclosure obligations under the Australian Prudential Regulation Authority (APRA) Australian Prudential Standard (APS) 330 *Public Disclosure*.

Suncorp Bank is represented by Suncorp-Metway Limited (SML) and its subsidiaries. SML is an authorised deposit-taking institution (ADI) and a wholly owned subsidiary of Suncorp Group Limited. Suncorp Group is represented by Suncorp Group Limited and its subsidiaries.

Other than statutory information required by a regulator (including APRA), all financial information is measured in accordance with Australian Accounting Standards. All figures have been quoted in Australian dollars and have been rounded to the nearest million.

This document has not been audited nor reviewed in accordance with Australian Auditing Standards. It should be read in conjunction with Suncorp Group and SML's consolidated annual and interim financial reports which have been either audited or reviewed in accordance with Australian Auditing Standards.

Figures relate to the quarter ended 31 December 2022 (unless otherwise stated) and should be read in conjunction with other information concerning Suncorp Group filed with the Australian Securities Exchange (ASX).

In future periods this document will be prepared in accordance with Basel III Prudential Capital requirements effective for reporting periods beginning on or after 1 January 2023. A proforma of the Basel III position has been included in this document and prepared in accordance with the Basel III Prudential Capital requirements.

Disclaimer

This report contains general information which is current as at 8 February 2023. It is information given in summary form and does not purport to be complete.

It is not a recommendation or advice in relation to the Suncorp Group and Suncorp Bank or any product or service offered by its entities, or intended to be relied upon as advice.

The information in this report is for general information only. To the extent that the information may constitute forward-looking statements, the information reflects Suncorp Group's intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, capital adequacy, specific provisions and risk management practices at the date of this report and undertakes no obligation to update any forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks and uncertainties, many of which are beyond Suncorp Group's control, which may cause actual results to differ materially from those expressed or implied.

Registered office

Level 23, 80 Ann Street
Brisbane QLD 4000
suncorpgroup.com.au

Investor Relations

Neil Wesley
EGM Investor Relations
+61 498 864 530
neil.wesley@suncorp.com.au

Kyran McGushin
EM Investor Relations
+61 438 087 980
kyran.mcgushin@suncorp.com.au

Table of contents

Regulatory Capital Reconciliation

The following table discloses the consolidated balance sheet of SML and its subsidiaries (Suncorp Bank), as published in its financial statements, and the balance sheet under the Level 2 regulatory scope of consolidation pursuant to APS 111 Capital Adequacy: Measurement of Capital.

Each component of capital reported below in Table 1: Common Disclosures – Composition of Capital can be reconciled to the balance sheets below using the reference letters included in both tables.

	Per table 1 Capital Disclosure	Statutory Dec-22 $M	Adjustments Dec-22 $M	Regulatory Dec-22 $M
Assets				
Cash and cash equivalents		1,902	(2)	1,900
Receivables due from other banks		4,837	-	4,837
Trading securities		1,950	-	1,950
Derivatives		475	-	475
Investment securities		5,361	-	5,361
Investment in regulatory non-consolidated subsidiaries		-	-	-
Loans and advances		64,691	(1,916)	62,775
of which: eligible collective provision component of GRCL in tier 2 capital	(o)	-	-	*137*
of which: loan and lease origination fees and commissions paid to mortgage originators and brokers in CET1 regulatory adjustments	(f)	-	-	*257*
Due from related parties		272	-	272
Deferred tax assets		126	-	126
of which: arising from temporary differences included in CET1 regulatory adjustments	(e)	-	-	*77*
Goodwill	(d)	21	-	21
Other assets		184	(4)	180
Total assets		79,819	(1,922)	77,897
Liabilities				
Payables due to other banks		75	-	75
Deposits and short-term borrowings		50,995	5	51,000
Derivatives		574	-	574
of which: securitisation derivatives in CET1 regulatory adjustments	(i)	-	-	*1*
Payables and other liabilities		373	(5)	368
Due to related parties		72	-	72
Provisions		-	-	-
Due to regulatory non-consolidated subsidiaries		-	34	34
Securitisation liabilities		1,955	(1,955)	-
of which: securitisation start-up costs in CET1 regulatory adjustments	(h)	-	-	*1*
Borrowings		20,915	-	20,915
of which: costs associated with debt raisings in CET1 regulatory adjustments	(g)	-	-	*13*
Subordinated notes		600	-	600
of which: directly issued qualifying tier 2 instruments	(k)	-	-	*600*
of which: directly issued instruments subject to phase out from tier 2	(l)	-	-	-
Total liabilities		75,559	(1,921)	73,638
Net assets		4,260	(1)	4,259
Equity				
Share capital	(a)	2,754	-	2,754
Capital notes	(j)	560	-	560
Reserves		(62)	-	(62)
of which: equity component of GRCL in tier 2 capital	(m)	-	-	*76*
of which: FVOCI reserve	(c)	-	-	*(23)*
of which: cash flow hedge reserve	(n)	-	-	*(114)*
Retained profits		1,008	(1)	1,007
of which: included in CET1	(b)	-	-	*1,007*
Total equity attributable to owners of the Company		4,260	(1)	4,259

Regulatory Capital Reconciliation (Continued)

The Level 2 group for regulatory capital purposes consists of the parent entity, SML, and its eligible subsidiaries.

The following legal entities are included in the accounting scope of consolidation but are excluded from the regulatory scope of consolidation:

	Total assets Dec-22 $	Total liabilities Dec-22 $
SPDEF #2 Pty Ltd	1	-

Principal activity:

The company acts as trustee for Suncorp Property Development Equity Fund #2 Unit Trust.

	Total assets Dec-22 $M	Total liabilities Dec-22 $M
Suncorp Property Development Equity Fund #2 Unit Trust	2	1

Principal activity:

The Trust was established by the directors of SPDEF #2 Pty Ltd (the trustee) for the purpose of forming an unincorporated joint venture to develop land for the purpose of reselling as residential housing lots.

	Total assets Dec-22 $M	Total liabilities Dec-22 $M
Securitisation special purpose vehicles [1]		
Apollo Series 2015-1 Trust	201	201
Apollo Series 2017-1 Trust	292	292
Apollo Series 2017-2 Trust	389	389
Apollo Series 2018-1 Trust	354	354
Apollo Series 2022-1 Trust	723	723

[1] The Trusts qualify for regulatory capital relief under APS 120 and are therefore deconsolidated from the Level 2 regulatory group. The assets of the Trusts include the secured loans from SML, representing the outstanding balance of securitised mortgages and accrued interest, as well as cash and other receivables.

Principal activity:

The Trusts were established for the purpose of raising funds, via the issue of mortgage backed securities, to fund the purchase of mortgage loans by equitable assignment.

Any transfer of funds or regulatory capital within the Level 2 group can occur only after the relevant approvals from management and the Board of each affected entity, in line with the Suncorp Group's capital management policies. Any such transactions must be consistent with the Suncorp Group's capital management strategy objectives to ensure each entity in the Level 2 group has sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure Suncorp Bank's ability to continue as a going concern.

Table 1: Capital Disclosure Template

The disclosures below are presented using the post 1 July 2018 common disclosure template as, pursuant to APRA guidelines, SML and its eligible subsidiaries are applying, in full, the Basel III regulatory adjustments from 1 January 2013.

		Per Regulatory Capital Reconciliation	Dec-22 $M
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities)	(a)	2,754
2	Retained earnings	(b)	1,007
3	Accumulated other comprehensive income (and other reserves)	(c)+(n)	(137)
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)		
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	**Common Equity Tier 1 capital before regulatory adjustments**		3,624
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	(d)	21
9	Other intangibles other than mortgage servicing rights (net of related tax liability)		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
11	Cash-flow hedge reserve	(n)	(114)
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit superannuation fund net assets		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		
20	Mortgage service rights (amount above 10% threshold)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	*of which: significant investments in the ordinary shares of financial entities*		
24	*of which: mortgage servicing rights*		
25	*of which: deferred tax assets arising from temporary differences*		
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)		349
26a	*of which: treasury shares*		
26b	*of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI*		
26c	*of which: deferred fee income*		
26d	*of which: equity investments in financial institutions not reported in rows 18, 19 and*		
26e	*of which: deferred tax assets not reported in rows 10, 21 and 25*	(e)	77
26f	*of which: capitalised expenses*	(f)+(g)+(h)	271
26g	*of which: investments in commercial (non-financial) entities that are deducted under APRA requirements*		-
26h	*of which: covered bonds in excess of asset cover in pools*		
26i	*of which: undercapitalisation of a non-consolidated subsidiary*		
26j	*of which: other national specific regulatory adjustments not reported in rows 26a to 26i*	(i)	1
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	**Total regulatory adjustments to Common Equity Tier 1**		256
29	**Common Equity Tier 1 Capital (CET1)**		3,368

		Per Regulatory Capital Reconciliation	Dec-22 $M
	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments		560
31	*of which: classified as equity under applicable accounting standards*	(j)	560
32	*of which: classified as liabilities under applicable accounting standards*		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	*of which: instruments issued by subsidiaries subject to phase out*		
36	**Additional Tier 1 Capital before regulatory adjustments**		560
	Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments		
38	Reciprocal cross-holdings in Additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)		
41a	*of which: holdings of capital instruments in group members by other group members on behalf of third parties*		
41b	*of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40*		
41c	*of which: other national specific regulatory adjustments not reported in rows 41a and 41b*		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	**Total regulatory adjustments to Additional Tier 1 capital**		-
44	**Additional Tier 1 capital (AT1)**		560
45	**Tier 1 Capital (T1=CET1+AT1)**		3,928
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	(k)	600
47	Directly issued capital instruments subject to phase out from Tier 2	(l)	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)		
49	*of which: instruments issued by subsidiaries subject to phase out*		
50	Provisions	(m)+(o)	213
51	**Tier 2 Capital before regulatory adjustments**		813
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments		
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)		
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions		
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)		
56a	*of which: holdings of capital instruments in group members by other group members on behalf of third parties*		
56b	*of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55*		
56c	*of which: other national specific regulatory adjustments not reported in rows 56a and 56b*		
57	**Total regulatory adjustments to Tier 2 capital**		-
58	**Tier 2 capital (T2)**		813
59	**Total capital (TC=T1+T2)**		4,741
60	**Total risk-weighted assets based on APRA standards**		36,165

		Per Regulatory Capital Reconciliation	Dec-22 $M
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)		*9.31%*
62	Tier 1 (as a percentage of risk-weighted assets)		*10.86%*
63	Total capital (as a percentage of risk-weighted assets)		*13.11%*
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)		*7.00%*
65	*of which: capital conservation buffer requirement*		*2.50%*
66	*of which: ADI-specific countercyclical buffer requirements*		
67	*of which: G-SIB buffer requirement (not applicable)*		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted		*9.31%*
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
	Amount below thresholds for deductions (not risk-weighted)		
72	Non-significant investments in the capital of other financial entities		
73	Significant investments in the ordinary shares of financial entities		
74	Mortgage servicing rights (net of related tax liability)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	(e)	77
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	(m)+(o)	213
77	Cap on inclusion of provisions in Tier 2 under standardised approach		402
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 instruments subject to phase out arrangements*		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82	*Current cap on AT1 instruments subject to phase out arrangements*		
83	*Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)*		
84	*Current cap on T2 instruments subject to phase out arrangements*	(l)	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*		

Table 2: Main Features of Capital Instruments

Attachment B of Prudential Standard APS 330 details the continuous disclosure requirements for the main features of all capital instruments included in Suncorp Bank's regulatory capital.

The Suncorp Group's main features of capital instruments are updated on an ongoing basis and are available at https://www.suncorpgroup.com.au/investors/regulatory-disclosures-current.

The full terms and conditions of all of Suncorp Group's regulatory capital instruments are available at https://www.suncorpgroup.com.au/investors/securities[1].

[1] The published full terms and conditions represent the comparable capital instruments issued by Suncorp Group Limited to external investors. The terms of these instruments may differ slightly to those instruments issued by the regulatory Level 2 group.

Table 3: Capital Adequacy

	Risk Weighted Assets	
	Dec-22	Sep-22
	$M	$M
On-balance sheet credit risk-weighted assets		
Claims secured against eligible residential mortgages	19,026	18,550
Other retail assets	45	55
Banks and other ADIs	97	88
Government and public authorities	-	-
Corporate and other claims	10,249	10,158
Securisation exposures	54	71
All other assets and claims	1,021	931
Total on-balance sheet assets	30,492	29,853
Off-balance sheet positions		
Non-market related off-balance sheet exposures	1,586	1,586
Market related off-balance sheet exposures	72	73
Securitisation exposures	12	10
Total off-balance sheet positions	1,670	1,669
Market risk capital charge	107	147
Operational risk capital charge	3,896	3,728
Total on-balance sheet credit risk-weighted assets	30,492	29,853
Total off-balance sheet credit risk-weighted assets	1,670	1,669
Total assessed risk (Total risk-weighted assets)	36,165	35,397

	Capital Ratios	
	Dec-22	Sep-22
	%	%
Common Equity Tier 1	9.31	9.12
Tier 1	10.86	10.70
Tier 2	2.25	2.28
Total risk-weighted capital ratio	13.11	12.98

Table 4: Credit Risk

Table 4A: Credit risk by gross credit exposure

Exposure Type	Gross Credit Exposure[6] Dec-22 $M	Gross Credit Exposure[6] Sep-22 $M	Average Gross Credit Exposure[6] Dec-22 $M	Average Gross Credit Exposure[6] Sep-22 $M
Receivables due from other Banks [2]	4,837	4,651	4,744	3,571
Trading Securities	1,949	1,801	1,875	2,262
Derivatives [3]	98	101	100	115
Investment Securities	5,086	4,724	4,906	5,104
Loans and Advances	62,986	61,586	62,290	60,663
Off-balance sheet exposures[3]	3,089	3,171	3,130	3,400
Total gross credit risk [4]	**78,045**	**76,034**	**77,045**	**75,115**
Securitisation exposures [1]	2,250	2,584	2,418	2,730
Total including securitisation exposures	**80,295**	**78,618**	**79,463**	**77,845**
Impairment provision	(211)	(212)	(212)	(215)
Total	**80,084**	**78,406**	**79,251**	**77,630**

Portfolios Subject to the Standardised Approach	Gross Credit Exposure[6] Dec-22 $M	Gross Credit Exposure[6] Sep-22 $M	Average Gross Credit Exposure[6] Dec-22 $M	Average Gross Credit Exposure[6] Sep-22 $M
Claims secured against eligible residential mortgages	53,272	52,188	52,730	51,530
Other retail assets	51	58	55	63
Banks and other ADIs	5,470	5,280	5,377	4,172
Government and public authorities	6,822	6,311	6,567	7,201
Corporate and other claims [5]	12,430	12,197	12,316	12,149
Total gross credit risk[4]	**78,045**	**76,034**	**77,045**	**75,115**
Securitisation exposures [1]	2,250	2,584	2,418	2,730
Total including securitisation exposures	**80,295**	**78,618**	**79,463**	**77,845**
Impairment provision	(211)	(212)	(212)	(215)
Total	**80,084**	**78,406**	**79,251**	**77,630**

Notes:

(1) Securitisation exposures for December 2022 include $1,916 million in Loans and advances, $276 million in Investment Securities, $27 million in Derivatives and $31 million in Off-balance sheet exposures. The securitisation exposures for Loans and advances qualify for regulatory capital relief under APS 120 *Securitisation* and therefore do not contribute to the Bank's total gross credit risk. The remaining securitisation exposures carry credit risk commensurate with their respective asset classes in accordance with APS 120 *Securitisation*.

(2) Receivables due from other Banks include collateral deposits provided to derivative counterparties.

(3) Off-balance sheet exposures represent the credit equivalent amount in accordance with APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*.

(4) Total credit risk excludes cash and cash equivalents, including any reverse repurchase agreements held by the ADI.

(5) Includes a portion of small business loans, with limits below $1 million, that are not classified.

(6) Gross credit exposures and Average gross credit exposures reflect on balance sheet exposures and credit equivalent amounts for off balance sheet exposures.

Table 4: Credit Risk (Continued)

Table 4B: Credit risk by portfolio

Portfolios Subject to the Standardised Approach	Gross Impaired Assets Dec-22 $M	Past due not impaired > 90 days Dec-22 $M	Specific Provisions[1] Dec-22 $M	Charges for Specific Provisions & Write Offs Dec-22 $M
Claims secured against eligible residential mortgages	37	216	7	-
Other retail assets	-	4	-	-
Banks and other ADIs	-	-	-	-
Government and public authorities	-	-	-	-
Corporate and other claims [2]	61	49	24	(1)
Total gross credit risk	**98**	**269**	**31**	**(1)**
Securitisation exposures	1	12	-	
Total including securitisation exposures	**99**	**281**	**31**	
Impairment provision	(33)	(12)	-	
Total	**66**	**269**	**31**	

[1] The specific provisions of $31 million represents the specific provisions for accounting purposes. It excludes the ineligible collective provisions of $43 million which in accordance with APS 220 *Credit Risk Management* are regulatory specific provisions. The regulatory specific provisions under APS 220 *Credit Risk Management* are $74 million.

[2] Includes SME lending defined as all lending up to up to $3m Total Business-Related Exposure (TBRE) from the SME Commercial CRMF ANZSIC segment. Also includes a portion of small business loans, with limits below $1 million, that are not classified.

Portfolios Subject to the Standardised Approach	Gross Impaired Assets Sep-22 $M	Past due not impaired > 90 days Sep-22 $M	Specific Provisions[1] Sep-22 $M	Charges for Specific Provisions & Write Offs Sep-22 $M
Claims secured against eligible residential mortgages	36	215	8	-
Other retail assets	-	4	-	-
Banks and other ADIs	-	-	-	-
Government and public authorities	-	-	-	-
Corporate and other claims [2]	69	52	24	-
Total gross credit risk	**105**	**271**	**32**	**-**
Securitisation exposures	1	12	-	
Total including securitisation exposures	**106**	**283**	**32**	
Impairment provision	(34)	(10)	-	
Total	**72**	**273**	**32**	

[1] The specific provisions of $32 million represents the specific provisions for accounting purposes. It excludes the ineligible collective provisions of $49 million which in accordance with APS 220 *Credit Risk Management* are regulatory specific provisions. The regulatory specific provisions under APS 220 *Credit Risk Management* are $81 million.

[2] Includes SME lending defined as all lending up to up to $3m Total Business-Related Exposure (TBRE) from the SME Commercial CRMF ANZSIC segment. Also includes a portion of small business loans, with limits below $1 million, that are not classified.

Table 4: Credit Risk (Continued)

Table 4C: General reserve for credit losses

	Dec-22 $M	Sep-22 $M
Collective provision for impairment	180	180
Ineligible collective provisions[1]	(43)	(49)
Eligible collective provisions	137	131
General equity reserve[2]	76	76
General reserve for credit losses[3]	**213**	**207**

[1] Ineligible collective provisions represent the collective provision for impairment on loans and advances in Stage 2 or Stage 3, where loans have experienced significant increase in credit risk (SICR) or are non-performing and a specific provision under AASB 9 has not been raised. Ineligible collective provision is considered as specific provision for regulatory purposes under APS 220 *Credit Risk Management*.

[2] Following removal of the ERCL (equity reserve for credit losses) requirement in APS 220 *Credit Risk Management* from 1 January 2022, the general equity reserve has been established in its place. The general equity reserve will be maintained at this level ($76 million) pending further consideration of its future treatment.

[3] The general reserve for credit losses amount represents the amount of provisions held against non-defaulted exposures that represent a purely forward-looking amount for future losses that are presently unidentified, per APS 111 *Capital Adequacy: Measurement of Capital*.

Table 5: Securitisation Exposures

Table 5A: Summary of securitisation activity for the period

During the quarter ending 31 December 2022, there was no new securitisation activity undertaken (quarter ending 30 September 2022: Nil).

	Exposures Securitised		Recognised Gain or (Loss) on Sale	
	Dec-22 $M	Sep-22 $M	Dec-22 $M	Sep-22 $M
Residential mortgages	-	-	-	-
Total exposures securitised during the period	-	-	-	-

Table 5B(i): Aggregate of on-balance sheet securitisation exposures by exposure type

Exposure type	Dec-22 $M	Sep-22 $M
Debt securities	276	362
Total on-balance sheet securitisation exposures	276	362

Table 5B(ii): Aggregate of off-balance sheet securitisation exposures by exposure type

Exposure type	Dec-22 $M	Sep-22 $M
Liquidity facilities	31	36
Derivative exposures	27	16
Total off-balance sheet securitisation exposures	58	52

Table 20: Liquidity Coverage Ratio Disclosure

	Total Unweighted Value (Average) Dec-22 $M	Total Weighted Value (Average) Dec-22 $M	Total Unweighted Value (Average) Sep-22 $M	Total Weighted Value (Average) Sep-22 $M	Total Unweighted Value (Average) Jun-22 $M	Total Weighted Value (Average) Jun-22 $M
Liquid assets, of which:						
High-quality liquid assets (HQLA)		12,198		11,933		10,809
Alternative liquid assets (ALA)		252		591		897
Cash outflows						
Retail deposits and deposits from small business customers, of which:	35,236	3,430	35,298	3,444	34,811	3,380
stable deposits	*22,118*	*1,106*	*22,044*	*1,102*	*21,630*	*1,081*
less stable deposits	*13,118*	*2,324*	*13,254*	*2,342*	*13,181*	*2,299*
Unsecured wholesale funding, of which:	5,138	3,265	5,739	3,985	4,726	3,134
operational deposits (all counterparties) and deposits in networks for cooperative banks	-	-	-	-	-	-
non-operational deposits (all counterparties)	*3,647*	*1,774*	*3,610*	*1,856*	*3,340*	*1,748*
unsecured debt	*1,491*	*1,491*	*2,129*	*2,129*	*1,386*	*1,386*
Secured wholesale funding		94		65		68
Additional requirements, of which:	10,037	1,463	10,122	1,561	9,723	1,555
outflows related to derivatives exposures and other collateral requirements	*997*	*997*	*1,104*	*1,104*	*1,120*	*1,120*
outflows related to loss of funding on debt products	-	-	-	-	-	-
credit and liquidity facilities	*9,040*	*466*	*9,018*	*457*	*8,603*	*435*
Other contractual funding obligations	1,358	1,045	1,470	1,141	1,414	1,125
Other contingent funding obligations	6,647	586	6,137	626	6,162	525
Total cash outflows		9,883		10,822		9,787
Cash inflows						
Secured lending (e.g. reverse repos)	749	-	675	-	57	-
Inflows from fully performing exposures	656	344	686	357	608	318
Other cash inflows	729	729	878	878	791	791
Total cash inflows	2,134	1,073	2,239	1,235	1,456	1,109
		Total Adjusted Value		Total Adjusted Value		Total Adjusted Value
Total liquid assets		12,450		12,524		11,706
Total net cash outflows		8,810		9,587		8,678
Liquidity Coverage Ratio (%)		141		131		135
Number of data points used		63		65		62

The Liquidity Coverage Ratio (LCR) promotes shorter-term resilience by requiring ADIs to maintain sufficient qualifying High Quality Liquid Assets (HQLA) to meet expected net cash outflows (NCO) under an APRA prescribed 30 calendar day stress scenario. SML manages its LCR on a daily basis and maintains a buffer over the regulatory minimum of 100%.

The amount of liquid assets held considers the amount needed to meet prudential and internal requirements (including a variety of internal stress scenarios as part of the risk management framework) and a suitable buffer reflecting management's preference.

Liquid assets included in the LCR comprise HQLA (cash, Australian Semi-Government and Commonwealth Government securities). SML has reduced the Committed Liquidity Facility (CLF) to zero as at 1 January 2023 in line with APRA's guidance and approval.

The daily average LCR was 141% over the December 2022 quarter compared to an average of 131% over the September 2022 quarter. The increase was driven by the $1 billion Senior Unsecured issuance in December to offset the final reduction to the CLF as at 1 January 2023. The planned reduction of the CLF to zero and introduction of the regulatory HQLA to NCO minimum meant that SML was required to raise funding to increase HQLA throughout the calendar year.

Table 21: Net Stable Funding Ratio Disclosure

	Dec-22 Unweighted value by residual maturity ($M) No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Dec-22 Weighted value ($M)	Sep-22 Unweighted value by residual maturity ($M) No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Sep-22 Weighted value ($M)
Available Stable Funding (ASF) Item										
Capital	3,837	-	-	560	4,397	3,678	-	-	1,160	4,838
Regulatory capital	*3,837*	-	-	*560*	*4,397*	*3,678*	-	-	*1,160*	*4,838*
Other capital instruments	-	-	-	-	-	-	-	-	-	-
Retail deposits and deposits from small business customers	-	39,993	1	-	37,222	-	39,833	2	-	37,068
Stable deposits	-	*24,535*	-	-	*23,309*	-	*24,346*	-	-	*23,128*
Less stable deposits	-	*15,458*	*1*	-	*13,913*	-	*15,487*	*2*	-	*13,940*
Wholesale funding	-	18,335	3,592	9,808	15,812	-	15,811	4,477	8,674	14,758
Operational deposits	-	-	-	-	-	-	-	-	-	-
Other wholesale funding	-	*18,335*	*3,592*	*9,808*	*15,812*	-	*15,811*	*4,477*	*8,674*	*14,758*
Liabilities with matching interdependent assets		-	-	-	-		-	-	-	-
Other liabilities	489	(6)	600	-	300	555	19	-	-	-
NSFR derivative liabilities		*(6)*					*19*			
All other liabilities and equity not included in the above categories	*489*	-	*600*	-	*300*	*555*	-	-	-	-
Total ASF					57,731					56,664
Required Stable Funding (RSF) Item										
Total NSFR (HQLA)					342					317
ALA					601					590
RBNZ securities					-					-
Deposits held at other financial institutions for operational		9	-	-	4		4	-	-	2
Performing loans and securities		3,542	884	53,962	39,970		3,031	763	52,540	39,045
Performing loans to financial institutions secured by Level 1 HQLA		*1,811*	-	-	*181*		*980*	-	-	*98*
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		-	-	-	-		-	-	-	-
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:		*1,054*	*776*	*11,688*	*10,851*		*1,304*	*660*	*11,349*	*10,631*
With a risk weight of less than or equal to 35% under APS 112		-	-	-	-		-	-	-	-
Performing residential mortgages, of which:		*677*	*108*	*42,145*	*28,829*		*747*	*103*	*40,867*	*28,040*
With a risk weight equal to 35% under APS 112		*677*	*108*	*42,145*	*28,829*		*747*	*103*	*40,867*	*28,040*
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		-	-	*129*	*109*		-	-	*324*	*276*
Assets with matching interdependent liabilities		-	-	-	-		-	-	-	-
Other assets:	668	290	5	515	1,351	659	256	1	522	1,326
Physical traded commodities, including gold	-				-	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)		*1*			*1*		*1*			*1*
NSFR derivative assets		*25*			*25*		-			-
NSFR derivative liabilities before deduction of variation margin posted		*159*			*32*		*140*			*28*
All other assets not included in the above categories	*668*	*105*	*5*	*515*	*1,293*	*659*	*115*	*1*	*522*	*1,297*
Off-balance sheet items		12,301			575		12,139			565
Total RSF					42,843					41,845
Net Stable Funding Ratio (%)					135%					135%

The Net Stable Funding Ratio (NSFR) promotes longer-term funding resilience by requiring ADIs to fund their activities with sufficiently stable sources of funding on an ongoing basis.

The NSFR requires that an ADI has sufficient Available Stable Funding (ASF), the portion of capital and liabilities expected to be a reliable source of funds over a one-year time frame, to cover its Required Stable Funding (RSF), which is based on the liquidity characteristics and residual maturities of an ADIs assets and off-balance sheet exposures. SML manages its NSFR on a daily basis and maintains a buffer over the regulatory minimum of 100%.

The NSFR was unchanged from the September quarter at 135% and remained above the operating range over the quarter (from 135.42% as at September 2022 to 134.75% at December 2022). This was consistent with growth in RSF (Performing Residential Mortgages) being funded by growth in ASF (Retail Deposits). The impact of the planned reduction of the CLF to zero as at 1 January 2023 was covered by the 5yr $1 billion Senior Unsecured issuance in December to retain long term stability of the NSFR.

Basel III Proforma

The following table discloses the 31 December 2022 capital position presented on a proforma basis allowing for the impact on the Bank from the implementation of Basel III on 1 January 2023. The implementation of Basel III is expected to result in a reduction in Risk Weighted Assets (approximately 11%), offset by an increase in capital targets of 100bps to reflect the higher regulatory buffers required under Basel III (new Basel III CET1 Target of 10.0% to 10.5%, previous CET1 Target of 9.0% to 9.5%).

	Regulatory Banking Group Dec-22 $M
Common Equity Tier 1 capital	
Ordinary share capital	2,754
Reserves	(137)
Retained profits	1,007
Goodwill and other intangible assets	(292)
Net deferred tax assets	(77)
Other Tier 1 deductions	113
Common Equity Tier 1 capital	**3,368**
Additional Tier 1 capital	
Eligible hybrid capital	560
Additional Tier 1 capital	**560**
Tier 1 capital	**3,928**
Tier 2 capital	
Provisions eligible for inclusion in Tier 2 capital (Standardised approach)	213
Eligible Subordinated notes	600
Transitional Subordinated notes	-
Tier 2 capital	**813**
Total capital	**4,741**
Risk-Weighted Assets	
Credit risk	29,609
Market risk	107
Operational risk	2,335
Total Risk-Weighted Assets	**32,051**
Common Equity Tier 1 ratio	**10.51%**
Total capital ratio	**14.79%**

Appendix - Definitions

AASB 9	AASB 9 *Financial Instruments* was issued in December 2014. It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce a forward-looking expected credit loss impairment model, and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. This standard became mandatory for the annual reporting period from 1 July 2018.
Capital adequacy ratio	Capital base divided by total assessed risk, as defined by APRA.
Collective provision	A collective provision is established to determine expected credit losses (see also Expected Credit Losses definition below) for loan exposures which are not specifically provisioned and can be in the performing or non-performing portfolios. For business banking exposures, a ratings-based approach is applied using estimates of probability of default and loss given default, at a customer level. For portfolio managed exposures, the portfolios are split into pools with homogenous risk profiles and pool estimates of probability of default and loss given default are used to calculate the collective provision.
Common Equity Tier 1 (CET1)	Common Equity Tier 1 capital comprises accounting equity plus adjustments for intangible assets and regulatory reserves.
Common Equity Tier 1 ratio	Common Equity Tier 1 divided by total risk weighted assets, as defined by APRA.
Credit value adjustment (CVA)	A capital charge that covers the risk of mark-to-market losses on the counterparty credit risk.
Eligible collective provisions	Primarily represents the collective provision for impairment on loans and advances in Stage 1 (performing and/or newly originated assets). Provisions for loans and advances in Stage 1 are established to provide for expected credit losses (ECL) for a period of 12 months. Forward-looking provisions for future, presently unidentified losses are also included within the Eligible collective provision balance.
Expected credit losses (ECL)	Expected credit losses (ECL) are calculated as the probability of default (PD) x loss given default (LGD) x exposure at default. The credit models are calibrated to reflect PD and LGD estimates based on historical observed experience, as well as reflecting unbiased forward-looking views of macroeconomic conditions, through macroeconomic variables that influence credit losses, for example unemployment rates and changes in house prices.
General reserve for credit losses (GRCL)	The general reserve for credit losses amount represents the amount of provisions held against non-defaulted exposures that represent a purely forward-looking amount for future losses that are presently unidentified, per APS 111 Capital Adequacy: *Measurement of Capital*.
Impaired assets	Impaired assets are those for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms. The Bank fully considers the counterparty's capacity to repay and security valuation position before an asset is considered impaired.
Ineligible collective provisions	Represents the collective provision for impairment on loans and advances in Stage 2 or Stage 3. Stage 2 assets include assets that have experienced a significant increase in credit risk (SICR) since origination (under-performing loans). Stage 3 assets within ineligible collective provisions include 'past due but not impaired' and 'impaired assets' (non-performing loans, other than those for which a specific provision is held under AASB 9). Collective provisions for loans and advances in Stage 2 and Stage 3 are established to provide for ECL for the remaining term of the loans and advances (lifetime ECL). Ineligible collective provision is considered as specific provision for regulatory purposes under APS 220 *Credit Risk Management*.
Liquidity coverage ratio (LCR)	An APRA requirement to maintain a sufficient level of qualifying high-quality liquid assets to meet liquidity needs under an APRA-defined significant stress event lasting for 30 calendar days. Absent of a situation of financial stress, the LCR must not be less than 100%. The LCR is calculated as the ratio of qualifying high-quality liquid assets relative to net cash outflows in a modelled APRA-defined 30-day stress scenario.
Loan-to-value ratio (LVR)	Ratio of a loan to the value of the asset purchased.
Past due loans	Loans outstanding for more than 90 days.
Risk weighted assets	Total of the carrying value of each asset class multiplied by their assigned risk weighting, as defined by APRA.
Specific provision	A specific provision for impairment is recognised where there is objective evidence of impairment and full recovery of principal and interest is considered doubtful. The present value of the expected future cash flows is compared to the carrying amount of the loan to determine the specific provision required.
Term Funding Facility (TFF)	On 19 March 2020, the RBA announced the Term Funding Facility (TFF) to support lending to Australian businesses as part of a package of measures to support the Australian economy. Under the TFF, Authorised Deposit-taking Institutions (ADIs) can access three-year funding through repurchase agreements at a fixed interest rate equivalent to the official cash rate at the time of drawdown.
Total assessed risk	Credit risk-weighted assets, off-balance sheet positions, market risk capital charge and operational risk charge, as defined by APRA.