Suncorp-Metway Ltd
and subsidiaries
ABN 66 010 831 722

Consolidated interim financial report
for the half-year ended 31 December 2009

Contents

The directors present their report together with the consolidated financial report of Suncorp-Metway Ltd ("the Company") and its subsidiaries for the half-year ended 31 December 2009 and the review report thereon.

Directors

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

Non-executive

John D Story (Chairman), director since 1995, appointed Chairman March 2003
William J Bartlett, director since 2003
Dr Ian D Blackburne, director since 2000
Paula J Dwyer, director since 2007
Stuart I Grimshaw, appointed 27 January 2010
Dr Cherrell Hirst AO, director since 2002
Martin D E Kriewaldt, director since 1996
Ewoud J Kulk, director since 2007
Geoffrey T Ricketts, director since 2007
Dr Zygmunt E Switkowski, director since 2005
Leo E Tutt, director since 2007, retired 28 October 2009

Executive

Patrick J R Snowball (Managing Director), appointed 1 September 2009
Christopher Skilton (Executive Director), retired 31 August 2009

Review of operations

Overview of the Group

Suncorp-Metway Ltd and its subsidiaries ("the Group") recorded a consolidated net profit after tax attributable to owners of the Company of $364 million for the half-year ended 31 December 2009, compared to $258 million for the corresponding prior period, representing a 41.1% increase in profit.

Financial position and capital structure

The Group has net assets attributable to shareholders of $13.6 billion (June 2009: $13.2 billion). This increase is attributed to the profit for the half-year, as well as a net decrease in unrealised losses on derivatives classified as hedges and recognised in reserves, offset by the final dividend paid in respect of 30 June 2009. The 2010 interim dividend of 15 cents per ordinary share amounting to $191 million has not yet been deducted from retained profits (refer to note 11 of the consolidated interim financial statements).

The Bank's capital adequacy ratio at 31 December 2009 is 13.70%, and the domestic General Insurance group's minimum capital ratio multiple is 1.81 times the statutory minimum.

Impact of legislation and other external requirements

The Group is currently implementing changes to its business operations to satisfy the regulatory changes being introduced by the Federal Government including regulation of margin lending and the National Consumer Credit Protection legislation which has been designed to codify existing State Uniform Consumer Credit Codes, introduce new licensing and responsible lending requirements and expand regulation of credit to individuals for residential property investment purposes. The Group is participating in the Australian Prudential Regulation Authority's working groups to consider global recommendations to improve the resilience of capital and liquidity of the banking system, expected to be implemented over the next two to three years.

The Federal Government is also proposing to make changes to the *Insurance Contracts Act*. The Australian Prudential Regulation Authority is also reviewing the capital standards for general insurers and life insurers. The Group continues to monitor these developments.

On 7 February 2010 the Government announced that on 31 March 2010 it will withdraw its Guarantee of Large Deposits and Wholesale Funding for authorised deposit-taking institutions.

Review of operations (continued)

Impact of legislation and other external requirements (continued)

The Taxation of Financial Arrangements ("TOFA") legislation will become effective for the Group from 1 July 2010. The objective of this new legislation is to reduce ongoing tax compliance costs by using accounting concepts to calculate taxable income. It sets out methods under which gains and losses from financial arrangements will be brought to account for tax purposes. The Group continues to assess the impact from this legislation.

Review of principal businesses

General Insurance

The profit after tax from the combined General Insurance division was $347 million (December 2008: $184 million), an increase of 88.6% on the prior corresponding period. The result was supported by more favourable weather and favourable returns from investment portfolios.

Gross Written Premium (GWP) increased by 4.4%. All major product portfolios experienced solid premium growth, reflecting a hardening market overall and the flow through of pricing adjustments designed to restore profitability. The Home portfolio grew by 13.9% as premiums were adjusted following a succession of major weather and natural hazard events. Motor GWP grew by 6.8% in an increasingly competitive market.

The Insurance Trading Result was $401 million, or 12.8% of net earned premium. The half-year to 31 December 2009 has been a period where weather conditions have been more stable, with no major natural hazard events. This has resulted in natural hazard claims being $56 million below the Group's long-run allowance. Claims costs have been impacted by the Group's decision to strengthen its outstanding claims provision by increasing the wage inflation assumption by 0.5% to 4.5%. This assumption change, inclusive of risk margin, increased claims expense by $75 million.

Total operating expenses decreased by 3.2%. The decrease in acquisition expenses was impacted by a positive liability adequacy test adjustment, a revised methodology allocating Bank branch and Group overhead costs, the cessation of the Covermore travel insurance partnership and an ongoing focus on discretionary expenses. Other expenses increased primarily due to higher fire services levies and a restructuring charge.

Investment income on insurance funds and shareholder funds were impacted by reduced interest rates but benefited from the positive mark-to-market impact of contracting credit spreads.

Banking

The profit after tax of the Banking division decreased to $4 million (December 2008: $60 million). Banking profit before tax and impairment losses was $287 million (December 2008: $448 million), and net interest income was $471 million (December 2008: $623 million), a reduction of 24.4%.

Solid progress was made during the half-year on the strategic repositioning of the Bank into a core, sustainable franchise and a non-core business which is being managed through run-off.

Gross banking loans, advances and other receivables at 31 December 2009 are $54.2 billion, slightly lower than 30 June 2009 at $55.4 billion. Core gross banking loans, advances and other receivables are $37.0 billion, and non-core gross banking loans, advances and other receivables are $17.2 million. The reduction in the non-core portfolio over the half-year was ahead of management expectations, although the refinancing market is yet to return to normal levels.

The Bank maintained its focus on improving the funding mix and on deposit gathering in particular, growing core retail deposits by 5.1% over the half-year to $22.5 billion. This represents continued improvement in the deposit to core lending ratio to 69%, at the top end of the target 60% to 70% range. The Bank raised $5 billion of term debt (including securitisation) during the half-year. The Bank has focused on matching the funding duration of the non-core book to the expected run-off profile of the portfolio, resulting in reduced funding risk and allowing flexibility to repay debt when required.

Impairment losses on loans and advances were $274 million (December 2008: $355 million). While loan losses have reduced from their peak in mid 2009, difficult conditions continue for non-core portfolios. Specific provisions have been recognised for a number of larger exposures as the economic conditions continue to impact on the timing and amount of anticipated recoveries on non-performing loans.

Review of operations (continued)

Review of principal businesses (continued)

Life

The Life division profit after tax is $105 million (December 2008: $136 million), a reduction of 22.8%.

Life risk profit was $36 million down 21.7% on the prior corresponding period. Policy lapse rates negatively impacted life risk profit. Life risk in-force premium grew by 6.2% to $757 million, and planned margins were up 5.3% to $40 million.

Planned profit reductions in the Participating Book negatively impacted profit in the Superannuation & Investments business which was down 24% to $19 million. Funds Under Administration increased 4.6% to $13 billion benefiting from a stronger equities market.

Asset Management profit is up 16.7% to $7 million with Funds Under Management increasing by 6.5% to $25 billion due to positive investment returns.

Life's traditional embedded value at 31 December 2009 is $2.3 billion, an increase of 7% on the 30 June 2009 traditional embedded value of $2.1 billion.

Dividends

A fully franked 2010 interim dividend of $191 million (15 cents per share) (December 2008: $203 million (20 cents per share)) has been declared by directors. Further details of dividends provided for or paid are set out in note 11 to the consolidated interim financial statements.

Events subsequent to reporting date

The Company's wholly-owned subsidiary, GIO Insurance Investment Holdings A Pty Ltd (GIOIIH), which owns 50% of the shares in the RACQ Insurance and RAA Insurance joint ventures, has served notice of its intention to terminate the joint ventures on the Motoring Clubs that hold the other shares, pursuant to a periodic termination right in each shareholders agreement.

In accordance with the prescribed processes, formal 'Put Notices' will be served on the Motoring Clubs on 26 February 2010. Each Motoring Club is obliged to acquire GIOIIH's shareholding at 'Fair Market Value' to be agreed between the parties or, failing such agreement, as determined by a nominated expert. The transactions are not considered to be material to the Group's balance sheet, and the impact on the Group's profit and loss will be determined based on the assessed Fair Market Value of GIOIIH's shareholdings. Both transactions are expected to be completed before the end of the financial year.

Except as noted above, there has not arisen in the interval between 31 December 2009 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2009.

Rounding of amounts

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

Signed in accordance with a resolution of the directors.

John D Story
Chairman

Patrick J R Snowball
Managing Director

Brisbane
24 February 2010

KPMG

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

To: the directors of Suncorp-Metway Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2009 there have been:

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

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

KPMG

Dr Andries B Terblanché
Partner

Brisbane
24 February 2010

Consolidated interim statement of financial position

as at 31 December 2009

		Consolidated	
	Note	Dec-09 $m	Jun-09 $m
Assets			
Cash and cash equivalents		1,499	2,356
Receivables due from other banks		123	118
Trading securities		7,050	6,694
Derivatives		384	552
Investment securities		20,469	20,330
Loans, advances and other receivables		55,552	56,753
Reinsurance and other recoveries		1,560	1,622
Deferred insurance assets		880	744
Investments in associates and joint ventures		220	201
Property, plant and equipment		367	407
Deferred tax assets		159	260
Investment property		156	160
Other assets		414	430
Goodwill and intangible assets		6,707	6,836
Total assets		**95,540**	**97,463**
Liabilities			
Deposits and short-term borrowings		34,638	37,866
Derivatives		2,460	1,556
Payables due to other banks		20	29
Bank acceptances		2	3
Payables and other liabilities		1,633	2,342
Current tax liabilities		72	154
Employee benefit obligations		239	251
Unearned premium liabilities		3,582	3,528
Outstanding claims liabilities		7,550	7,506
Gross policy liabilities		5,888	5,547
Unvested policyowner benefits		452	397
Managed funds units on issue		788	506
Securitisation liabilities	9	4,336	5,711
Debt issues		17,236	15,661
Total liabilities excluding loan capital		**78,896**	**81,057**
Loan capital			
Subordinated notes	9	2,207	2,312
Preference shares	9	867	865
Total loan capital		3,074	3,177
Total liabilities		81,970	84,234
Net assets		**13,570**	**13,229**
Equity			
Share capital		12,526	12,425
Reserves		93	(123)
Retained profits		942	921
Total equity attributable to owners of the Company		**13,561**	**13,223**
Non-controlling interests		9	6
Total equity		**13,570**	**13,229**

The consolidated interim statement of financial position includes the assets and liabilities of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the *Life Insurance Act 1995*.

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

	Note	Consolidated Half-year ended Dec-09 $m	Consolidated Half-year ended Dec-08 $m
Revenue			
Banking interest revenue		1,937	2,673
Banking interest expense		(1,466)	(2,050)
		471	623
Banking fee and commission revenue		118	128
Banking fee and commission expense		(39)	(53)
		79	75
General insurance premium revenue		3,437	3,256
Life insurance premium revenue		379	363
Reinsurance and other recoveries revenue		564	554
General insurance investment revenue			
- insurance funds		254	780
- shareholder funds		94	108
Life insurance investment revenue (loss)		874	(700)
Gain on sale of subsidiaries	6(a)	50	-
Other revenue		221	314
		6,423	5,373
Expenses			
Operating expenses		(1,610)	(1,709)
General insurance claims expense		(2,667)	(3,227)
Life insurance claims expense		(252)	(223)
Outwards reinsurance premium expense		(389)	(349)
(Increase) decrease in net policy liabilities		(527)	926
(Increase) in unvested policy owner benefits		(55)	(27)
Outside beneficial interests in managed funds		(82)	(70)
Non-banking interest expense		(20)	(54)
		(5,602)	(4,733)
Share of profits (losses) of associates and joint ventures		20	(10)
Profit before impairment losses on loans and advances and tax		841	630
Impairment losses on loans and advances		(274)	(355)
Profit before tax		567	275
Income tax expense		(200)	(16)
Profit for the period		367	259
Attributable to:			
Owners of the Company		364	258
Non-controlling interests		3	1
Profit for the period		367	259
Earnings per share:		**Cents**	**Cents**
Basic earnings per share		28.97	25.35
Diluted earnings per share		28.28	24.73

The consolidated interim income statement includes the income and expenses of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the *Life Insurance Act 1995*.

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

	Consolidated Half-year ended Dec-09 $m	Dec-08 $m
Profit for the period	367	259
Other comprehensive income recognised in retained earnings		
Defined benefit funds		
- Actuarial gains (losses) on defined benefit plans	5	(38)
- Income tax (expense) benefit	(1)	11
	4	(27)
Other comprehensive income recognised in reserves		
Available-for-sale financial assets		
- Change in fair value recognised in equity	11	19
- Change in fair value transferred from equity to the income statement	-	(6)
- Income tax (expense) benefit	(3)	(6)
Cashflow hedges		
- Amount recognised in equity	139	(481)
- Amount removed from equity and recognised in the income statement	8	(6)
- Income tax (expense) benefit	(40)	159
Exchange differences on translation of foreign operations		
- Exchange gains	4	38
	119	(283)
Total comprehensive income for the period	**490**	**(51)**
Total comprehensive income for the period attributable to:		
Owners of the Company	487	(52)
Non-controlling interests	3	1
Total comprehensive income for the period	**490**	**(51)**

The consolidated interim statement of comprehensive income includes the income and expenses of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the *Life Insurance Act 1995*.

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

Consolidated interim statement of changes in equity

for the half-year ended 31 December 2009

	Consolidated Half-year ended Dec-09 $m	Consolidated Half-year ended Dec-08 $m
Share capital		
Balance at the beginning of the period	12,425	10,799
Shares issued (net of transaction costs)	107	522
Share-based remuneration	1	7
Treasury shares movements	(7)	(21)
Balance at the end of the period	12,526	11,307
Reserves		
General reserve for credit losses		
Balance at the beginning of the period	195	159
Transfer to (from) general reserve for credit losses	97	(128)
Balance at the end of the period	292	31
Hedging reserve		
Balance at the beginning of the period	(254)	120
Amount recognised in equity	139	(481)
Amount removed from equity and recognised in the income statement	8	(6)
Income tax (expense) benefit	(40)	159
Balance at the end of the period	(147)	(208)
Assets available-for-sale reserve		
Balance at the beginning of the period	6	9
Change in fair value recognised in equity	11	19
Change in fair value transferred from equity to the income statement	-	(6)
Income tax expense	(3)	(6)
Balance at the end of the period	14	16
Foreign currency translation reserve		
Balance at the beginning of the period	(70)	(79)
Exchange differences on translation of foreign operations	4	38
Balance at the end of the period	(66)	(41)
Total reserves	**93**	**(202)**
Retained profits		
Balance at the beginning of the period	921	1,352
Total comprehensive income	368	231
Transfer (to) from general reserve for credit losses	(97)	128
Dividends to owners	(250)	(524)
Balance at the end of the period	942	1,187
Non-controlling interests		
Balance at the beginning of the period	6	6
Total comprehensive income	3	1
Balance at the end of the period	9	7

The consolidated interim statement of changes in equity includes the income and expenses of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the *Life Insurance Act 1995*.

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

	Consolidated Half-year ended Dec-09 $m	Dec-08 $m
Cash flows from operating activities		
Interest received	1,856	3,101
Premiums received	4,285	3,975
Reinsurance and other recoveries received	676	358
Dividends received	25	157
Other operating revenue received	744	629
Interest paid	(1,495)	(2,100)
Claims paid	(3,142)	(2,986)
Outwards reinsurance premiums paid	(418)	(374)
Operating expenses paid	(2,270)	(2,268)
Income tax paid - operating activities	(45)	(50)
	216	**442**
Net decrease (increase) in operating assets		
Banking securities	(353)	(2,661)
Loans, advances and other receivables	1,124	(182)
Net (decrease) increase in operating liabilities		
Deposits and short-term borrowings	(3,219)	3,004
Net cash from operating activities	**(2,232)**	**603**
Cash flows from investing activities		
Proceeds from disposal of plant and equipment and intangible software	4	1
Proceeds from sale of investment property	-	94
Proceeds from sale of investment securities	13,785	16,210
Proceeds from sale of associates and joint ventures	-	104
Proceeds from sale of investment in subsidiary, net of cash disposed (refer note 6(a))	143	-
Payments for plant and equipment and intangible software	(37)	(51)
Payments for purchase of investment securities	(13,274)	(16,274)
Net proceeds (payments) from development properties	5	(2)
Payments for purchase of investments in associates and joint ventures	(8)	(10)
Income taxes paid – investing activities	(172)	(55)
Net cash from investing activities	**446**	**17**
Cash flows from financing activities		
Proceeds from issue of shares	-	319
Net increase (decrease) in debt issues and securitisation liabilities	1,496	(480)
Payment of transaction costs	(1)	(1)
Payments for treasury shares	(15)	(21)
Payment on maturity of subordinated notes	(326)	-
Dividends paid on ordinary shares	(143)	(321)
Net cash from financing activities	**1,011**	**(504)**
Net (decrease) increase in cash and cash equivalents	(775)	116
Cash and cash equivalents at the beginning of the period	2,445	1,221
Cash balances (disposed) during the period	(68)	-
Effect of exchange rate fluctuations on cash held	-	2
Cash and cash equivalents at end of the period	**1,602**	**1,339**
Cash and cash equivalents at end of the period comprises:		
Cash and cash equivalents	1,499	1,295
Receivables due from other banks	123	68
Payables due to other banks	(20)	(24)
	1,602	**1,339**

The consolidated interim statement of cash flows includes the cash flows of the statutory funds of the Group's life insurance businesses which are subject to restrictions under the *Life Insurance Act 1995*.

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

Note 1. Reporting entity

Suncorp-Metway Ltd ("the Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half-year ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2009 is available upon request from the Company's registered office at Level 18, 36 Wickham Terrace, Brisbane, Qld 4000 or at www.suncorpgroup.com.au.

Note 2. Basis of preparation

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

The consolidated interim financial report does not include all of the information required for a full consolidated annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2009 and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The consolidated interim financial report was approved by the Board of Directors on 24 February 2010.

The consolidated interim financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments held to back General Insurance liabilities and Life Insurance policy liabilities, financial instruments classified as available-for-sale, investment property, short-term offshore borrowings and life investment contract liabilities.

The statement of financial position is prepared using a liquidity format in which the assets and liabilities are presented in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date).

These consolidated interim financial statements are presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the subsidiaries.

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

Where necessary, comparative information has been restated to conform with changes in presentation in the current year. The prior half-year basic and diluted earnings per share have been restated to reflect the effect of the March 2009 entitlement offer on the weighted average number of ordinary shares in the prior half-year.

Note 3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2009.

Since 1 July 2009, the Group has adopted a number of Australian Accounting Standards and Interpretations that are mandatory for annual periods beginning on or after 1 July 2009. Adoption of these standards and interpretations has not had any material effect on the financial position or performance of the Group.

Note 3. Significant accounting policies (continued)

The main standards adopted since 1 July 2009 are:

- Revised AASB 101 *Presentation of Financial Statements* – this revised standard introduces a number of amendments that impact the presentation of the Group's financial statements and notes to the financial statements. The revised standard introduces the statement of comprehensive income (previously titled statement of recognised income and expense), the statement of changes in equity and the renaming of the balance sheet to the statement of financial position. The revised standard does not impact the measurement or recognition of amounts disclosed in the financial report. There has been no impact on earnings per share as a result of the adoption of this standard. Comparatives have been restated on adoption of this standard.
- AASB 8 *Operating Segments* – this new standard introduces the "management approach" to segment reporting. It requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") in order to assess each segment's performance and to allocate resources to them. There has been no impact on earnings per share as a result of the adoption of this standard. Comparatives have been restated on adoption of this standard.
- Revised AASB 3 *Business Combinations* – this revised standard changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. It incorporates the following changes that are likely to be relevant to the Group's operations: the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations; contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss; transactions costs, other than share and debt issue costs, will be expensed as incurred; any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss; any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. There has been no material impact on earnings per share as a result of the adoption of this standard.
- Revised AASB 127 *Consolidated and Separate Financial Statements* – this revised standard changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. There has been no impact on earnings per share as a result of the adoption of this standard.

The Group elected to early adopt the following Australian Accounting Standards and Interpretations:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (amendments to AASB 8).* This amendment removes the requirement for the Group to disclose total assets if this measure is not regularly provided to the CODM. This does not have any impact on the measurement or recognition of amounts disclosed in the Group's financial report.

Note 4. Estimates

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated accounting assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Except as described below, in preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial report as at and for the year ended 30 June 2009.

In determining the outstanding claims liabilities provision at 31 December 2009, based on updated economic data showing an improving Australian economy, the assumption for wage inflation has been increased from 4.0% to 4.5%, reflecting a longer term view of average wage inflation. This has resulted in a $75 million increase in outstanding claims liabilities and a corresponding decrease to profit.

During the prior half-year, in determining the outstanding claims liabilities provision at 31 December 2008, the assumption for wage inflation was reduced from 4.5% to 4.0%. This resulted in a decrease to the outstanding claims liabilities and a benefit in claims expense of $86 million.

During the prior half-year period, management reassessed its estimates in respect of the level of the Banking collective provision required over its loans, advances and other receivables. The collective provision increased by $75 million due to the inclusion of an economic overlay to reflect ongoing economic deterioration.

Note 5. Segment reporting

Segment information is presented in respect of the Group's operating segments, which are identified based on separate financial information that is regularly reviewed by the Chief Executive Officer and his immediate executive team in assessing performance and determining the allocation of resources. The operating segments are identified according to the nature of profit generated and services performed.

Inter-segment transfers are priced on an arm's length basis and are eliminated on consolidation.

Asset segment information has not been disclosed because the balances are not used for evaluating segment performance and deciding how to allocate resources to segments.

The Group comprises the following operating segments:

Segment	Activities
General Insurance – Personal	Home and motor insurance, travel insurance, loan protection, rental bond and personal effects cover.
General Insurance – Commercial	Commercial motor, marine and aviation insurance, public liability and professional indemnity insurance, workers' compensation insurance and compulsory third party insurance.
Vero New Zealand	Home and contents insurance, rental property insurance, marine insurance, boat insurance, business insurance, rural insurance, construction and engineering insurance, travel insurance, public liability and professional indemnity, directors and officers liability, associations liability and trustees liability.
Banking	Commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts, and treasury.
Life	Life insurance, superannuation administration services, funds management, financial planning and funds administration.

As a result of the adoption of AASB 8 *Operating Segments*, Compulsory Third Party insurance has been included within the General Insurance – Commercial segment as reported to management. In prior years, this activity was included as part of the General Insurance – Personal segment, and comparatives have been restated. The result for each segment is now reported on an after tax basis.

Note 5. Segment reporting (continued)

(a) Segment information

Half-year ended 31 December 2009	General Insurance Personal $m	General Insurance Commercial $m	Vero New Zealand $m	Banking $m	Life [1] $m	Total Segments $m
Revenue from outside the Group	2,361	1,527	272	2,064	1,465	7,689
Inter-segment revenue	-	-	-	10	-	10
Total segment revenue	2,361	1,527	272	2,074	1,465	7,699
Segment profit after income tax	203	143	27	4	105	482

Half-year ended 31 December 2008	General Insurance Personal $m	General Insurance Commercial $m	Vero New Zealand $m	Banking $m	Life [1] $m	Total Segments $m
Revenue from outside the Group	2,376	2,063	263	2,872	(114)	7,460
Inter-segment revenue	-	-	-	12	-	12
Total segment revenue	2,376	2,063	263	2,884	(114)	7,472
Segment profit after income tax	56	131	32	60	136	415

Note:

(1) The Life segment revenue includes investment returns that can change significantly between reporting dates. The Life segment revenue for the half-year ended 31 December 2009 includes investment revenue whereas the half-year ended 31 December 2008 includes investment losses.

(b) Reconciliation of segment profit after tax

	Consolidated Half-year ended Dec-09 $m	Consolidated Half-year ended Dec-08 $m
Segment profit after income tax	482	415
Contribution from Hooker Corporation Limited	4	3
Amortisation of Promina acquisition intangible assets	(112)	(122)
Integration costs	(59)	(85)
General insurance corporate costs and joint venture income	(23)	(35)
Gain on sale of subsidiaries	50	-
Consolidation eliminations	(1)	14
Income tax expense	26	69
Profit after income tax for the period	**367**	**259**

Note 6. Changes in the composition of the Group

(a) Subsidiaries

Acquisitions

The Group did not acquire any subsidiaries during the current or prior interim reporting period. Following the acquisition of an additional 25% interest in Standard Pacific (Qld) Pty Ltd on 24 July 2009, the Group now has a 75% controlling interest in this entity and it is consolidated. In prior periods, the Group's investment in this entity was treated as an associate.

Disposals

On 15 October 2009, the Group sold its investment in Hooker Corporation Limited and its subsidiaries, resulting in a profit of $50 million. Details of the disposals are as follows:

	$m
Carrying value of assets and liabilities disposed	
Cash and cash equivalents	5
Property, plant and equipment	6
Intangible assets	8
Other assets	6
Payables and other liabilities	(10)
Total carrying value of assets and liabilities deconsolidated	15
Reconciliation of cash movement	
Cash received	67
Less cash deconsolidated	(5)
Net cash inflow	62

On 30 November 2009, the Group sold its investment in the Tyndall Quality Income Fund. There was no profit or loss as a result of this sale. Details of the disposal are as follows:

	$m
Carrying value of assets and liabilities disposed	
Cash and cash equivalents	63
Investment securities	81
Total carrying value of assets and liabilities deconsolidated	144
Reconciliation of cash movement	
Cash received	144
Less cash deconsolidated	(63)
Net cash inflow	81

The Group did not dispose of any entities in the prior interim reporting period.

(b) Associates and joint venture entities

Acquisitions

The Group did not acquire any interests in joint ventures or associates in the current or prior interim reporting period.

Disposals

In October 2009 the Group received proceeds of $2 million for the sale of a 5% interest in the RACT Insurance Pty Ltd, a joint venture entity. The Group now has a 65% share in the joint venture.

The Group sold its 50% share of RAC Insurance Pty Ltd to joint venture partner, The Royal Automobile Club of Western Australia Incorporated, on 5 August 2008 for $104 million.

Note 7. Income tax expense

The Group's consolidated effective tax rate for the six months ended 31 December 2009 was 35.3% (for the year ended 30 June 2009: 13.3%; for the six months ended 31 December 2008: 5.8%). The effective tax rate for the six months ended 31 December 2009 is significantly different than the last two reporting periods due to increased Group operating profits from improved economic conditions, with smaller tax expense adjustments relative to prior periods.

Income tax expense adjustments have primarily arisen from:

- The statutory fund adjustment of $28 million. Accounting standards require that the tax expense from an increase in net market values of policyowner assets be recognised as part of the Group's income tax expense, whereas the net profit before tax of the Group includes a partially offsetting transfer to policyowner liabilities. Consequently, the tax expense is disproportionate relative to the net profit before tax. The reverse (a tax credit) is required in periods where the market values of policyowner assets decrease.

- Non-deductible interest paid in respect of the convertible preference shares ($5 million) and reset preference shares ($1 million).

Note 8. Provision for impairment

	Consolidated	
	Dec-09	Dec-08
	$m	$m
Banking activities		
Collective provision		
Balance at the beginning of the period	282	80
(Credit) charge against impairment losses	(59)	171
Balance at the end of the period	223	251
Specific provision		
Balance at the beginning of the period	477	74
Charge against impairment losses	159	174
Charge against interest income	(39)	(18)
Balance at the end of the period	597	230
Total provision for impairment of loans, advances and other receivables	820	481

Note 9. Debt securities

The Group recorded the following movements of debt securities:

	Senior debt funding (1) $m	Securitisation liabilities (2) $m	Subordinated notes $m	Preference shares (3) $m
Half-year ended 31 December 2009				
Balance at the beginning of the period	18,244	5,711	2,312	865
Proceeds from issues	8,174	970	-	-
Transaction costs (incurred) amortised	-	(1)	-	2
Net proceeds	8,174	969	-	2
Repayments	(6,362)	(2,233)	(5)	-
Foreign exchange translation (4) and fair value movements	(492)	(111)	(100)	-
Balance at the end of the period	19,564	4,336	2,207	867

	Senior debt funding (1) $m	Securitisation liabilities (2) $m	Subordinated notes $m	Preference shares (3) $m
Half-year ended 31 December 2008				
Balance at the beginning of the period	11,322	6,409	2,638	863
Proceeds from issues	11,651	900	-	-
Transaction costs	-	(1)	-	-
Net proceeds	11,651	899	-	-
Repayments	(16,453)	(849)	-	-
Foreign exchange translation (4) and fair value movements	2,541	134	186	-
Balance at the end of the period	9,061	6,593	2,824	863

Notes:

(1) Senior debt funding consists of long term domestic debt issues and offshore debt issues disclosed within the statement of financial position categories 'Debt issues' and 'Deposits and short-term borrowings'.

(2) Securitisation liabilities have associated securitised home loans which are secured by residential mortgages.

(3) Preference shares consist of reset preference shares ("RPS") and convertible preference shares ("CPS"). The RPS are perpetual, paying fixed non-cumulative dividends with certain terms periodically reset. The next reset date is 14 September 2011. The CPS are fully paid preference shares which will mandatorily convert into a variable number of ordinary shares on 14 June 2013 (subject to certain requirements being met).

(4) Offshore debt securities are translated to Australian dollars at spot currency rates, with gains and losses recognised in the income statement. These movements are largely offset by movements in derivative hedging positions relating to cross currency swaps.

Note 10. Share capital

The Group recorded the following movements of issued shares:

	Ordinary shares Dec-09 Number	Ordinary shares Dec-08 Number
Balance at the beginning of the period	1,257,377,460	955,528,252
Issued under the Dividend Reinvestment Plan	13,519,822	21,162,382
Issued under an Underwriting Agreement	-	13,539,048
Conversion of non-participating shares to ordinary shares	-	2,000
Issued to existing institutional and other major shareholders	-	23,117,956
Balance at the end of the period	1,270,897,282	1,013,349,638

Note 11. Dividends

	Company Half-year ended Dec-09 Cents per share	Dec-09 $m	Dec-08 Cents per share	Dec-08 $m
Ordinary shares				
Final 2009 dividend (franked) paid 1 October 2009 (2008: Final 2008 dividend (franked) paid 1 October 2008)	20	251	55	526
Total dividends on ordinary shares		251		526
Reset preference shares recognised as liability				
Half-yearly dividend (franked) paid 14 September 2009 (2008: Half-yearly dividend (franked) paid 15 September 2008), recognised in interest expense	255	4	255	4
Total dividends on reset preference shares		4		4
Convertible preference shares recognised as liability				
Quarterly dividend (franked) paid 14 September 2009 (2008: Quarterly dividend (franked) paid 15 September 2008), recognised in interest expense	113	8	202	15
Quarterly dividend (franked) paid 14 December 2009 (2008: Quarterly dividend (franked) paid 15 December 2008), recognised in interest expense	116	9	183	13
Total dividends on convertible preference shares		17		28
Dividends not recognised in the statement of financial position				
In addition to the above dividends, since half-year end the directors have proposed the following:				
Interim 2010 dividend (franked) expected to be paid on 1 April 2010 (2008: Interim dividend 2009 (franked) paid 1 April 2009) out of retained profits at 31 December 2009, but not recognised as a liability in the statement of financial position	15	191	20	203
Total dividends not recognised in the statement of financial position		191		203

Note 12. Contingent assets and liabilities

Except as noted below, there have been no material changes in contingent assets or contingent liabilities since 30 June 2009 (2008: no material changes since 30 June 2008).

- The New Zealand Guardian Trust Company Limited, a subsidiary of the Group, has indemnified the Guardian CashPlus Mortgage Units Fund ("GIF 35") for the capital amount of GIF 35's investment in the Guardian Mortgage Fund ("GIF 2"). The capital amount outstanding at 31 December 2009 was $25 million, and a provision for $2 million has been recognised at 31 December 2009 to cover indemnified losses within GIF 2 based on information available at 31 December 2009.

Note 13. Related parties

Except as disclosed below, arrangements for related parties continue to be in place as disclosed in the 30 June 2009 consolidated annual financial report.

The following changes in Group Executives have occurred during the last half-year:

Executive	Position at 30 June 2009	Position at 31 December 2009	Date of Change
Scott Alomes	N/A	Group Executive Human Resources	Appointed 23 November 2009
Mark Blucher	Group Executive Integration	N/A	Resigned 31 August 2009
Anthony Day	N/A	Group Executive Commercial Insurance	Appointed 21 October 2009
Bernadette Inglis	Group Executive Personal Insurance	N/A	Resigned 21 October 2009
Stuart McDonald	Group Executive Strategy, People and Corporate Services	N/A	Resigned 21 October 2009
Mark Milliner	Group Executive Commercial Insurance	Group Executive Personal Insurance	Appointed 21 October 2009
Christopher Skilton	Chief Executive Officer (acting)	N/A	Resigned 31 August 2009
Patrick Snowball	N/A	Chief Executive Officer	Appointed 1 September 2009

From their appointment to resignation dates, these Group Executives have authority and responsibility for planning, directing and controlling the activities of the Company and accordingly are considered the Key Management Personnel ("KMP") of the Company.

Mr L Tutt retired as a director on 28 October 2009 and has not been a KMP from that date.

Mr Robert Stribling was appointed as Chief Risk Officer on 4 January 2010 and Mr Stuart Grimshaw was appointed as a non-executive director on 27 January 2010, and both became classified as KMP from those dates.

Under the terms of the Executive Performance Share Plan disclosed in the 30 June 2009 consolidated annual financial report, rights to 2,679,197 shares (December 2008: 989,129 shares) were offered to executives as part of their remuneration package on 1 October 2009 (December 2008: 1 October 2008). This includes an initial grant of 900,000 rights to shares in the Company to Mr Snowball in accordance with the terms of his employment contract.

The initial grant to Mr Snowball was made in three tranches of 300,000 shares with each tranche subject to a different vesting period. The fair value of each share at grant date was $6.34 for tranche 1, $6.56 for tranche 2 and $6.75 for tranche 3.

The fair value of each share at grant date, other than those disclosed above, was $6.34 (December 2008: $4.32). Unconditional ownership of the shares does not occur until the performance targets have been achieved.

In accordance with the terms of his employment contract, Mr Snowball acquired 66,123 shares at $7.55 each on 2 September 2009.

Note 14. Subsequent events

The Company's wholly-owned subsidiary, GIO Insurance Investment Holdings A Pty Ltd (GIOIIH), which owns 50% of the shares in the RACQ Insurance and RAA Insurance joint ventures, has served notice of its intention to terminate the joint ventures on the Motoring Clubs that hold the other shares, pursuant to a periodic termination right in each shareholders agreement.

In accordance with the prescribed processes, formal 'Put Notices' will be served on the Motoring Clubs on 26 February 2010. Each Motoring Club is obliged to acquire GIOIIH's shareholding at 'Fair Market Value' to be agreed between the parties or, failing such agreement, as determined by a nominated expert. The transactions are not considered to be material to the Group's balance sheet, and the impact on the Group's profit and loss will be determined based on the assessed Fair Market Value of GIOIIH's shareholdings. Both transactions are expected to be completed before the end of the financial year.

Except as noted above, there has not arisen in the interval between 31 December 2009 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

In the opinion of the directors of Suncorp-Metway Ltd ("the Company"):

1. the financial statements and notes set out on pages 6 to 20, are in accordance with the *Corporations Act 2001*, including:
   a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
   b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

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

Dated at Brisbane this 24th day of February 2010.

Signed in accordance with a resolution of the directors:

John D Story
Chairman

Patrick J R Snowball
Managing Director

Report on the financial report

We have reviewed the accompanying interim financial report of Suncorp-Metway Limited ("the Company"), which comprises the consolidated statement of financial position as at 31 December 2009, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 14 and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2009 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Suncorp-Metway Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the interim period ended on that date; and

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

KPMG

Dr Andries B Terblanché
Partner

Brisbane
24 February 2010