Suncorp-Metway Ltd

and subsidiaries

ABN 66 010 831 722

Consolidated interim financial report

for the half-year ended 31 December 2008

Contents

Directors' report 1

Lead auditor's independence declaration under section 307C of the Corporations Act 2001 4

Consolidated interim Balance Sheet 5

Consolidated interim Income Statement 6

Consolidated interim Statement of Recognised Income and Expense 7

Consolidated interim Statement of Cash Flows 8

Condensed notes to the consolidated interim financial statements 9

- Note 1. Reporting entity 9
- Note 2. Basis of preparation 9
- Note 3. Significant accounting policies 9
- Note 4. Estimates 10
- Note 5. Segment reporting 11
- Note 6. Changes in the composition of the Group 12
- Note 7. Income tax expense 12
- Note 8. Dividends 13
- Note 9. Debt securities 14
- Note 10. Capital and reserves 15
- Note 11. Contingencies 16
- Note 12. Related parties 16
- Note 13. Subsequent events 16

Directors' declaration 17

Independent review report to the members 18

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 2008 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
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

Executive

John F Mulcahy (Managing Director), director since 2003
Christopher Skilton (Chief Financial Officer and Executive Director), director since 2002

Review of operations

Overview of the Group

Suncorp-Metway Ltd and its subsidiaries ("the Group") recorded a consolidated net profit after tax attributable to equity holders of the Company of $258 million for the half-year ended 31 December 2008, compared to $384 million for the corresponding prior period, representing a 32.8% decrease in profit.

Financial position and capital structure

The Group has net assets attributable to shareholders of $12.3 billion (June 2008: $12.4 billion). This net asset position was due to the lower profit for the half-year, offset by unrealised losses on derivatives classified as hedges and recognised in reserves. The 2009 interim dividend of 20 cents per ordinary share amounting to $203 million has not yet been deducted from retained profits (refer to note 8 of the consolidated interim financial statements).

Suncorp-Metway Ltd was rated 'A+' by Standard & Poor's and 'Aa3' stable by Moody's Investor Services and 'A+' stable by Fitch during the half-year ended 31 December 2008. In January 2009, Standard & Poor's reduced the long-term counterparty credit rating for the Bank to 'A' with a stable outlook. Other ratings, including ratings for the General Insurance and Wealth Management subsidiaries, remain at 'A+' with a stable outlook.

The Bank's capital adequacy ratio at 31 December 2009 is 10.67%, and the domestic General Insurance group's minimum capital ratio multiple of 1.73 times the statutory minimum. The Bank's capital adequacy ratio and the General Insurers' minimum capital ratios are above the requirements of APRA being 9.5% and 1.2 times respectively.

Impact of legislation and other external requirements

The Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding ("the Guarantee Scheme") formally commenced on 28 November 2008, although interim arrangements were in place from 12 October 2008. Under the Guarantee Scheme, the Company can obtain guarantees for deposit balances totalling over $1 million per customer and for wholesale funding liabilities, but this guarantee incurs a fee of 1% of the amount guaranteed. The Australian Government guarantee of deposit balances totalling less than $1 million per customer does not incur a fee.

During the half-year ended 31 December 2008, the Company raised wholesale funding totalling $2.3 billion that was guaranteed under the Guarantee Scheme. The Guarantee Scheme also assisted in the increasing the Group's retail deposits during the half-year.

Except as noted above, there were no changes in environmental or other legislative requirements during the half-year that have significantly impacted the results or operations of the Group.

Review of operations (continued)

Review of principal businesses

Banking

The contribution before tax of the Banking division, including Treasury, decreased to $97 million (December 2007: $307 million), a result of strong underlying profit growth being offset by significantly higher impairment charges.

The contribution before tax and impairment charges is $452 million (December 2007: $323 million). This increase was largely attributable to higher net interest margins resulting from pricing adjustments applied to higher average receivables, as well as a focus on expense management during the half-year.

Gross banking loans, advances and other receivables at 31 December 2008 are $55.8 billion, slightly lower than 30 June 2008 at $56.0 billion. Retail lending grew by 2.7% and business lending decreased 2.2% reflecting a slowing of credit growth in the Australian market and the refocussing of the Bank's lending strategy to its core customer segments.

Impairment losses on loans and advances have increased significantly to $355 million (December 2007: $16 million). Specific provisions have been recognised for a number of larger exposures as deteriorating economic conditions impact on the timing and amount of anticipated recoveries on non-performing loans. The collective provision was increased by $171 million, including a $75 million economic overlay allowance to reflect ongoing economic deterioration.

General Insurance

The contribution before tax from the combined General Insurance division was $230 million (December 2007: $146 million), an increase of 57.5% on the prior corresponding period. This result includes amortisation of intangible assets of $99 million (December 2007: $157 million).

Premium growth in the home and motor portfolios was largely driven by strong premium rate increases across both new and renewal products. Premium growth from increases in average premium rates for compulsory third party insurance was partly offset by a slight reduction in risks in force. The commercial portfolio premium growth was achieved from high retention rates and a focus on new products and broker business.

The Insurance Trading Result, which excludes non-underwritten business and investment income on Shareholder Funds, was $136 million (December 2007: $151 million). This equates to an insurance trading margin of 4.6% (December 2007: 5.1%) on net earned premium for the half-year. The insurance trading result has been impacted by higher claims costs arising from adverse weather events and the unfavourable impact of widening credit spreads on investment assets backing outstanding claims liabilities.

Wealth Management

The Wealth Management division contribution before tax of $100 million (December 2007: $95 million) includes amortisation of intangible assets of $24 million (December 2007: $23 million). Key contributors to this result were strong life risk sales and expense management, offset by falling funds under management. The impact of falling equity markets was largely offset by the favourable impact of reducing discount rates on the valuation of life insurance policy liabilities.

Dividends

A fully franked 2009 interim dividend of $203 million (20 cents per share) has been declared by directors. Further details of dividends provided for or paid are set out in the notes to the consolidated interim financial statements.

Events subsequent to reporting date

On 5 February 2009 the Group announced equity raisings commencing 5 February 2009 and concluding 23 March 2009 comprising: an accelerated, non-renounceable institutional entitlement offer and a simultaneous institutional placement; and a non-renounceable retail entitlement offer. Shareholders will be entitled to subscribe for 1 new share for every 5 existing ordinary shares at an issue price of $4.50.

The institutional component was competed on 6 February 2009 with approximately $390 million raised through the placement of approximately 86.7 million shares and approximately $467 million through the issue of approximately 103.7 million shares from the entitlement offer. The retail offer opening on 16 February 2009 and closing on 13 March 2009 can potentially raise approximately $443 million.

Events subsequent to reporting date (continued)

All new shares issued will be fully paid and rank equally with existing Suncorp shares on issue, except that they will not be eligible for an interim dividend declared in respect of the period to 31 December 2008.

On 5 February 2009 Chief Executive Officer ("CEO") John Mulcahy announced that he has agreed with the Board to step down from his current role, but to continue his leadership as the Company transitions to a new CEO.

Subsequent to 31 December 2008 severe fires have occurred in Victoria and floods in North Queensland. The Group expects the maximum combined cost of these events, including reinstatement premiums and the purchase of additional reinsurance cover, to be approximately $180 million net of reinsurance recoveries. Any additional claims events throughout the remainder of the financial year would cost the Group a maximum of $10 million per event, with a limit of $300 million on recoveries under the aggregate cover program.

Except as noted above, there has not arisen in the interval between 31 December 2008 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 4 and forms part of the directors' report for the half-year ended 31 December 2008.

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

John F Mulcahy
Managing Director

Brisbane
24 February 2009

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 six month period ended 31 December 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Dr Andries B Terblanché
Partner

Brisbane
24 February 2009

Consolidated interim Balance Sheet

as at 31 December 2008

	Consolidated Dec-08 $m	Consolidated Jun-08 $m
Assets		
Cash and cash equivalents	1,295	1,003
Receivables due from other banks	68	263
Trading securities	8,336	5,685
Investment securities	18,687	19,136
Loans, advances and other receivables	57,194	57,343
Reinsurance and other recoveries	1,616	1,382
Deferred insurance assets	717	688
Assets classified as held for sale	56	151
Investments in associates and joint ventures	155	264
Property, plant and equipment	338	350
Deferred tax assets	94	-
Investment property	175	171
Other assets	1,592	643
Goodwill and intangible assets	6,971	7,090
Total assets	**97,294**	**94,169**
Liabilities		
Deposits and short term borrowings	48,436	45,300
Payables due to other banks	24	45
Bank acceptances	121	865
Payables and other liabilities	1,815	2,332
Current tax liabilities	5	9
Employee benefit obligations	305	250
Unearned premium liabilities	3,367	3,263
Outstanding claims liabilities	7,856	7,140
Gross policy liabilities	5,782	6,793
Unvested policy owner benefits	341	314
Deferred tax liabilities	-	174
Managed funds units on issue	527	813
Securitisation liabilities (note 9)	6,593	6,409
Bonds, notes and long term borrowings	6,136	4,595
Total liabilities excluding loan capital	**81,308**	**78,302**
Loan capital		
Subordinated notes (note 9)	2,824	2,638
Preference shares (note 9)	863	863
Total loan capital	**3,687**	**3,501**
Total liabilities	**84,995**	**81,803**
Net assets	**12,299**	**12,366**
Equity		
Share capital	11,307	10,799
Reserves	(202)	209
Retained profits	1,187	1,352
Total equity attributable to equity holders of the Company	**12,292**	**12,360**
Minority interests	7	6
Total equity (note 10)	**12,299**	**12,366**

The consolidated interim Balance Sheet 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 Balance Sheet is to be read in conjunction with the accompanying notes.

Consolidated interim Income Statement

for the half-year ended 31 December 2008

	Consolidated Half-year ended Dec-08 $m	Dec-07 $m
Revenue		
Banking interest revenue	2,673	2,118
Banking interest expense	(2,050)	(1,634)
	623	484
Banking fee and commission revenue	128	121
Banking fee and commission expense	(53)	(44)
	75	77
General insurance premium revenue	3,256	3,141
Life insurance premium revenue	363	357
Reinsurance and other recoveries revenue	554	508
General insurance investment revenue		
- insurance funds	780	205
- shareholder funds	108	43
Life insurance investment (loss) / revenue	(700)	118
Other revenue	314	304
	5,373	5,237
Expenses		
Operating expenses	(1,709)	(1,627)
General insurance claims expense	(3,227)	(2,614)
Life insurance claims expense	(223)	(212)
Outwards reinsurance premium expense	(349)	(289)
Decrease in net policy liabilities	926	123
Increase in unvested policy owner benefits	(27)	(80)
Outside beneficial interests in managed funds	(70)	22
Non-banking interest expense	(54)	(63)
	(4,733)	(4,740)
Share of (losses) / profits of associates and joint ventures	(10)	12
Profit before impairment losses on loans and advances and tax	630	509
Impairment losses on loans and advances	(355)	(16)
Profit before tax	275	493
Income tax expense	(16)	(107)
Profit for the period	259	386
Attributable to:		
Equity holders of the Company	258	384
Minority interests	1	2
Profit for the period	259	386
Earnings per share for profit attributable to the ordinary equity holders of the Company:	**Cents**	**Cents**
Basic earnings per share	26.38	41.61
Diluted earnings per share	26.38	41.61

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 interim Statement of Recognised Income and Expense

for the half-year ended 31 December 2008

	Consolidated Half-year ended Dec-08 $m	Dec-07 $m
Items of income and expense (net of tax)		
Change in fair value of assets available for sale	7	(1)
Cash flow hedges recognised in equity	(328)	32
Actuarial losses on defined benefit plans	(27)	(2)
Net income recognised directly in equity	(348)	29
Profit for the period	259	386
Total recognised income and expense for the period	(89)	415
Total recognised income and expense for the period attributable to:		
Equity holders of the Company	(90)	413
Minority interests	1	2
Total recognised income and expense for the period	(89)	415

The consolidated interim Statement of Recognised Income and Expense 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 Recognised Income and Expense is to be read in conjunction with the accompanying notes.

	Consolidated Half-year ended Dec-08 $m	Consolidated Half-year ended Dec-07 $m
Cash flows from operating activities		
Interest received	3,101	2,007
Premiums received	3,975	4,536
Reinsurance and other recoveries received	358	630
Dividends received	157	88
Other operating revenue received	629	979
Interest paid	(2,100)	(1,663)
Claims paid	(2,986)	(2,953)
Outwards reinsurance premiums paid	(374)	(318)
Operating expenses paid	(2,268)	(2,281)
Income tax paid - operating activities	(50)	(66)
	442	**959**
Net increase in operating assets:		
Banking securities	(2,661)	(3,451)
Loans, advances and other receivables	(182)	(5,279)
Net increase in operating liabilities:		
Deposits and short term borrowings	3,004	9,886
Net cash from operating activities	**603**	**2,115**
Cash flows (used in) / from investing activities		
Proceeds from disposal of plant and equipment and intangible software	1	-
Proceeds from sale of investment securities	16,210	21,209
Proceeds from sale of investment properties	94	-
Proceeds from sale of associates	104	-
Proceeds from sale of investment in subsidiary, net of cash disposed	-	10
Payments for plant and equipment and intangible software	(51)	(53)
Payments for purchase of investment securities	(16,274)	(20,954)
Payments for purchase of development properties	(2)	(10)
Payments for purchase of investments in associates and joint ventures	(10)	(2)
Income taxes paid – investing activities	(55)	(90)
Net cash from investing activities	**17**	**110**
Cash flows (used in) / from financing activities		
Proceeds from issue of shares	319	2
Proceeds from issue of subordinated notes	-	735
Proceeds from issue of securitisation liabilities	900	-
Net increase (decrease) in borrowings	(1,380)	(2,464)
Payment of transaction costs	(1)	-
Payments for treasury shares	(21)	(24)
Dividends paid on ordinary shares	(321)	(385)
Net cash used in financing activities	**(504)**	**(2,136)**
Net increase in cash and cash equivalents	**116**	**89**
Cash and cash equivalents at the beginning of the period	1,221	1,110
Effect of exchange rate fluctuations on cash held	2	(1)
Cash and cash equivalents at the end of the period	**1,339**	**1,198**
Cash and cash equivalents at the end of the period are comprised of:		
Cash and cash equivalents	1,295	1,237
Receivables due from other banks	68	4
Payables due to other banks	(24)	(43)
	1,339	**1,198**

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 2008 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 2008 is available upon request from the Company's registered office at Level 18, 36 Wickham Terrace, Brisbane, Qld 4000 or at www.suncorp.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 2008.

The consolidated interim financial report was approved by the Board of Directors on 24 February 2009.

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.

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 Group.

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.

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 2008.

Where necessary, comparative information has been restated to conform with changes in presentation in the current period.

<u>Business Combinations: Common control transactions</u>

In a business combination arising from transfers of interests in entities that are under the control of the ultimate parent entity, the assets and liabilities are acquired at the carrying amounts recognised previously in the Group's controlling consolidated financial statements.

<u>Employee Entitlements: Post employment benefits (superannuation)</u>

The Group recognises all actuarial gains and losses arising from defined benefit plans directly in equity. In the consolidated financial statements for periods beginning before 1 July 2008, the Group recognised actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the Income Statement. This change in accounting policy has been made to enable the consolidated financial statements of the Group to be more comparable to industry peers and better represent the Group's underlying financial performance.

The change in accounting policy was applied retrospectively in accordance with the accounting standards, and comparatives have been restated. The change in accounting policy had the following impact on these consolidated financial statements:

Note 3. Significant accounting policies (continued)

	Consolidated Half-year ended	
	Dec-08 $m	Dec-07 $m
Consolidated interim Income Statement		
Decrease in operating expenses	(38)	(3)
Increase in profit for the period	27	2
Increase in basic and diluted earnings per share (cents)	2.79	0.20
Consolidated interim Statement of Recognised Income and Expense		
Actuarial gains (losses) on defined benefit plans	(27)	(2)
Increase in expense recognised directly in equity	(27)	(2)
Increase in profit for the period	27	2

There has been no impact on total recognised income and expense for the period, or on net assets.

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 2008.

During the six months ended 31 December 2008 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.

In determining the outstanding claims liabilities provision at 31 December 2008, consistent with widespread forecasts for a slowing Australian economy in the coming years, the assumption for wage inflation has been 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, estimates were reassessed in respect of the level of the Banking collective provision required over its loans, advances and other receivables. The provision decreased by $16 million due to changes made to more accurately calculate historical "Loss Given Default" factors which are used to estimate the collective provision.

Note 5. Segment reporting

Segment information is presented in respect of the Group's business segments, which is the primary format for segment information. This format is based on the Group's management and internal reporting structure.

Inter-segment transfers are priced on an arm's length basis and are eliminated on consolidation. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following business segments:

Segment	Activities
Banking	Commercial banking, agribusiness, property and equipment finance, home, personal and small business loans, savings and transaction accounts.
General Insurance – Personal	Home and motor insurance, travel insurance, loan protection, rental bond, personal effects cover and Compulsory Third Party insurance.
General Insurance – Commercial	Commercial motor, marine and aviation insurance, public liability and professional indemnity insurance and workers' compensation services.
Wealth Management	Life insurance and superannuation administration services, funds management, financial planning and funds administration.
Vero New Zealand	Commercial motor and marine insurance, travel insurance, public liability and professional indemnity.
Other	Treasury, property management services and integration costs.

	Banking	General Insurance - Personal	General Insurance - Commercial	Wealth Manage-ment	Vero New Zealand	Other	Eliminations / unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2008								
Revenue from outside the Group	2,449	3,053	1,384	(114)	324	440	(60)	7,476
Inter-segment revenue	757	-	-	-	-	1,412	(2,169)	-
Total segment revenue	3,206	3,053	1,384	(114)	324	1,852	(2,229)	7,476
Segment result	29	163	48	100	19	(15)	(15)	329
Non-banking interest expense								(54)
Profit before tax								275
Income tax expense								(16)
Profit for the period								259

	Banking	General Insurance - Personal	General Insurance - Commercial	Wealth Manage-ment	Vero New Zealand	Other	Eliminations / unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2007								
Revenue from outside the Group	1,981	2,589	973	608	347	388	29	6,915
Inter-segment revenue	623	-	-	-	-	1,162	(1,785)	-
Total segment revenue	2,604	2,589	973	608	347	1,550	(1,756)	6,915
Segment result	**286**	**43**	**73**	**95**	**30**	**19**	**10**	**556**
Non-banking interest expense								**(63)**
Profit before tax								**493**
Income tax expense								(107)
Profit for the period								**386**

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.

Disposals

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

On 31 August 2007 Suncorp Metway Insurance Limited sold a 30% interest in RACT Insurance Pty Ltd.

(b) Associates and joint venture entities

Acquisitions

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

Following the disposal of a 30% interest, from 1 September 2007, the Group holds a 70% ownership interest in RACT Insurance Pty Ltd, but as any strategic financial or operating decisions relating to its activities are made jointly between the Group and the acquiring entity, the Group's interest in RACT Insurance Pty Ltd is treated as an interest in a jointly controlled entity.

The Group acquired a 50% share in MMc Limited, a specialist fund administration business on 2 July 2007 and a 50% interest in Standard Pacific (Qld) Pty Ltd which was incorporated on 19 October 2007, both of which are accounted for as associates.

Disposals

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.

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

Note 7. Income tax expense

The Group's consolidated effective tax rate for the six months ended 31 December 2008 was 5.8% (for the year ended 30 June 2008: 10.7%; for the six months ended 31 December 2007: 21.7%). The effective tax rate for the six months ended 31 December 2008 is significantly different than the last two reporting periods due to the interaction of relatively large income tax adjustments with lower Group operating profits.

Income tax expense adjustments have arisen from:

- A prior year income tax credit of $7 million arising from the Group's 2008 research and development claim;
- The write back of a deferred tax liability of $9 million for amortising identified intangibles associated with a Group joint venture interest which was disposed in the current interim reporting period. Deferred tax balances were established for these identified intangibles at the date of acquisition pursuant to AASB 112 *Income Taxes*;
- The statutory fund adjustment of $61 million. Accounting standards require that the tax credit from a reduction in net market values of policyholder 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 release of policyholder liabilities. Consequently, the tax credit is disproportionate relative to the net profit before tax. The reverse (a tax expense charge) is required in periods where the market values of policyholder assets increase; and
- Non-deductible distributions from Converting Preference Shares issued in June 2008 ($8 million) in addition to the non–deductible distributions from the remaining Reset Preference Shares ($1 million).

Note 8. Dividends

	Consolidated Half-year ended			
	Dec-08		Dec-07	
	Cents per share	$m	Cents per share	$m
Ordinary shares				
Final 2008 dividend (franked) paid 1 October 2008 (2007: 1 October 2007)	55	526	55	509
Reset preference shares recognised as liability				
Half-yearly dividend (franked) paid 15 September 2008 (2007: 14 September 2007), recognised in interest expense	255	4	255	4
Convertible preference shares recognised as liability				
Quarterly dividend (franked) paid 15 September 2008 (2007: nil), recognised in interest expense	202	15	-	-
Quarterly dividend (franked) paid 15 December 2008 (2007: nil), recognised in interest expense	183	13	-	-
Dividends not recognised in the Balance Sheet				
In addition to the above dividends, since half-year end the directors have proposed the following:				
Interim 2009 dividend (franked) expected to be paid on 1 April 2009 (2008: 1 April 2008) out of retained profits at 31 December 2008, but not recognised as a liability in the Balance Sheet	20	203	52	484

Note 9. Debt securities

The Group recorded the following movements of debt securities:

	Senior debt funding (1) $m	Securitisation liabilities (2) $m	Subordinated notes (3) $m	Preference shares (4) $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 (5)	2,541	134	186	-
Balance at the end of the period	9,061	6,593	2,824	863

	Senior debt funding (1) $m	Securitisation liabilities (2) $m	Subordinated notes (3) $m	Preference shares (4) $m
Half-year ended 31 December 2007				
Balance at the beginning of the period	7,228	7,948	2,202	144
Proceeds from issues	6,657	801	735	-
Transaction costs	(1)	(1)	-	-
Net proceeds	6,656	800	735	-
Repayments	(6,554)	(1,325)	-	-
Foreign exchange translation (5)	174	143	(11)	-
Balance at the end of the period	7,504	7,566	2,926	144

Notes:

(1) Senior debt funding consists of long term domestic debt issues and offshore debt issues disclosed within the balance sheet categories ‘Bonds, notes and long term borrowings’ and ‘Deposits and short term borrowings’.

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

(3) Subordinated fixed rate notes were issued in October 2007 with a face value of GBP 325 million. The notes are callable 23 October 2012 and mature 23 October 2017 if not previously called. The issue will pay a fixed rate coupon of 6.625% on a semi-annual basis.

(4) 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).

(5) Offshore debt securities are translated to AUD 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. Capital and reserves

Reconciliation of movement in capital and reserves

	Issued capital $m	Share-based payments $m	Treasury shares $m	General reserves for credit losses $m	Hedging reserve $m	Assets available for sale reserve $m	Other reserves $m	Retained profits $m	Total $m	Minority interests $m	Total equity $m
Half-year ended 31 December 2008											
Balance at the beginning of the period	10,855	28	(84)	159	120	9	(79)	1,352	12,360	6	12,366
Total recognised income and expense	-	-	-	-	(328)	7	-	258	(63)	1	(62)
Defined benefit plan actuarial losses	-	-	-	-	-	-	-	(27)	(27)	-	(27)
Transfer from general reserve for credit losses	-	-	-	(128)	-	-	-	128	-	-	-
Shares issued	522	-	-	-	-	-	-	-	522	-	522
Share-based remuneration	-	7	-	-	-	-	-	-	7	-	7
Treasury shares movements	-	-	(21)	-	-	-	-	-	(21)	-	(21)
Currency translation differences	-	-	-	-	-	-	38	-	38	-	38
Dividends to shareholders	-	-	-	-	-	-	-	(524)	(524)	-	(524)
Balance at the end of the period	11,377	35	(105)	31	(208)	16	(41)	1,187	12,292	7	12,299
Half-year ended 31 December 2007											
Balance at the beginning of the period	10,419	18	(75)	119	64	3	30	1,812	12,390	1	12,391
Total recognised income and expense	-	-	-	-	32	(1)	-	384	415	2	417
Defined benefit plan actuarial losses	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Transfer to general reserve for credit losses	-	-	-	20	-	-	-	(20)	-	-	-
Shares issued	121	-	-	-	-	-	-	-	121	-	121
Share-based remuneration	-	5	-	-	-	-	-	-	5	-	5
Treasury shares movements	-	-	(21)	-	-	-	-	-	(21)	-	(21)
Currency translation differences	-	-	-	-	-	-	(20)	-	(20)	-	(20)
Dividends to shareholders	-	-	-	-	-	-	-	(506)	(506)	-	(506)
Balance at the end of the period	10,540	23	(96)	139	96	2	10	1,668	12,382	3	12,385

Share capital

The Group recorded the following movements of issued shares:

	Ordinary shares		Non-participating shares	
	Dec-08 '000	Dec-07 '000	Dec-08 '000	Dec-07 '000
Share capital				
Balance at the beginning of the period	955,528	924,895	2	2
Issued under the Dividend Reinvestment Plan	21,162	6,184	-	-
Issued under an Underwriting Agreement in relation to the final dividend	13,539	-	-	-
Issued to existing institutional and other major shareholders	23,118	-	-	-
Conversion of non-participating shares to ordinary	2	-	(2)	-
Balance at the end of the period	1,013,349	931,079	-	2

Note 11. Contingencies

There have been no material changes in contingent assets or contingent liabilities since 30 June 2008.

Note 12. Related parties

Except as disclosed below, arrangements for related parties continue to be in place as disclosed in the 30 June 2008 consolidated annual financial report.

Following the merger of the retail and business banking businesses in August 2008, Group Executive Retail Banking David Foster was appointed Group Executive Banking. Stuart McDonald who held the position of Group Executive Business Banking was appointed to the position of Group Executive Strategy, People and Corporate Services. Bernadette Inglis who previously held this position was appointed as Group Executive Personal Insurance, replacing Robert Belleville who retired on 27 November 2008.

Under the terms of the Executive Performance Share Plan disclosed in the 30 June 2008 consolidated annual financial report, 989,129 shares (December 2007: 560,292 shares) were offered to executives as part of their remuneration package on 1 October 2008 (December 2007: 1 October 2007). The fair value of each share at grant date was $6.26 (December 2007: $14.60). Unconditional ownership of the shares does not occur until the performance targets have been achieved.

Note 13. Subsequent events

On 5 February 2009 the Group announced equity raisings commencing 5 February 2009 and concluding 23 March 2009 comprising: an accelerated, non-renounceable institutional entitlement offer and a simultaneous institutional placement; and a non-renounceable retail entitlement offer. Shareholders will be entitled to subscribe for 1 new share for every 5 existing ordinary shares at an issue price of $4.50.

The institutional component was competed on 6 February 2009 with approximately $390 million raised through the placement of approximately 86.7 million shares and approximately $467 million through the issue of approximately 103.7 million shares from the entitlement offer. The retail offer opening on 16 February 2009 and closing on 13 March 2009 can potentially raise approximately $443 million.

All new shares issued will be fully paid and rank equally with existing Suncorp shares on issue, except that they will not be eligible for an interim dividend declared in respect of the period to 31 December 2008.

On 5 February 2009 Chief Executive Officer ("CEO") John Mulcahy announced that he has agreed with the Board to step down from his current role, but to continue his leadership as the Company transitions to a new CEO.

Subsequent to 31 December 2008 severe fires have occurred in Victoria and floods in North Queensland. The Group expects the maximum combined cost of these events, including reinstatement premiums and the purchase of additional reinsurance cover, to be approximately $180 million net of reinsurance recoveries. Any additional claims events throughout the remainder of the financial year would cost the Group a maximum of $10 million per event, with a limit of $300 million on recoveries under the aggregate cover program.

Except as noted above, there has not arisen in the interval between 31 December 2008 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 5 to 16, are in accordance with the *Corporations Act 2001*, including:
   a) giving a true and fair view of the Group's financial position as at 31 December 2008 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 2009.

Signed in accordance with a resolution of the directors:

John D Story
Chairman

John F Mulcahy
Managing Director

Report on the financial report

We have reviewed the accompanying interim financial report of Suncorp-Metway Ltd, which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of recognised income and expense and cash flow statement for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 13 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 2008 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 2008 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 2009