Suncorp Metway Limited
Australian Prudential Standard 330
Pillar 3 Report at 30 September 2008

Table 16 Capital Adequacy

	Risk Weighted Balance $m
On-Balance Sheet Risk Weighted Assets	
Cash items	15
Claims on Australian and foreign governments	1
Claims on central banks, international banking agencies, regional development banks, ADIs and overseas banks	394
Claims on securitisation exposures	20
Claims secured against eligible residential mortgages	11,230
Past due claims	1,098
Other retail assets	1,297
Corporate	21,464
Other assets and claims	1,186
Total Banking assets	**36,705**
Off balance sheet positions	
Guarantees entered into in the normal course of Business	190
Commitments to provide loans and advances	2,034
Capital commitments	61
Foreign exchange contracts	163
Interest rate contracts	107
Securitisation exposures	140
Total off balance sheet positions	**2,695**
Total Credit Risk capital charge	**39,400**
Market Risk capital charge	969
Operational Risk capital charge	2,494
Total risk weighted assets	**42,863**
Risk weighted capital ratios	**%**
Tier 1 capital	8.99%
Total risk weighted capital	11.36%

The table above illustrates the capital requirements (in terms of risk-weighted exposures) of the Suncorp-Metway Ltd consolidated banking group. Risk-weighted exposures and the capital base are calculated in accordance with APRA guidelines.

In the three months to 30 September 2008, the Bank's capital position has been positively impacted by strong underlying business performance and the issue of new ordinary shares to the Dividend Reinvestment Plan (DRP) underwriter and for the share placement.

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Table 17A Credit Risk by Gross Credit Exposure – Outstanding as at 30 September 2008

	Receivables due from other banks	Trading securities	Investment securities	Loans, advances and other receivables	Credit commitments	Derivative instruments	Total Credit Risk
	$m	$m	$m	$m	$m	$m	$m
Agribusiness	-	-	-	3,681	29	-	3,710
Construction and development	-	-	-	6,449	519	-	6,968
Financial services	86	7,588	1,806	1,431	90	1,096	12,097
Hospitality	-	-	-	1,852	-	-	1,852
Manufacturing	-	-	-	938	-	-	938
Professional services	-	-	-	827	-	-	827
Property investment	-	-	-	7,987	-	-	7,987
Real estate - Mortgage	-	-	-	22,228	1,167	-	23,395
Personal	-	-	-	810	-	-	810
Government and public authorities	-	-	-	8	-	-	8
Other commercial and industrial	-	-	-	3,498	1,146	-	4,644
Total gross credit risk	**86**	**7,588**	**1,806**	**49,709**	**2,951**	**1,096**	**63,236**
Eligible securitised loans	-	-	-	5,992	-	-	5,992
Total including eligible securitised loans	**86**	**7,588**	**1,806**	**55,701**	**2,951**	**1,096**	**69,228**

Loans, advances and other receivables has been negatively impacted by unsold bank accepted bills and other short term receivables.

Table 17A Credit Risk by Gross Credit Exposure – Average Gross Exposure over period 1 July 2008 to 30 September 2008

	Receivables due from other banks	Trading securities	Investment securities	Loans, advances and other receivables	Credit commitments	Derivative instruments	Total Credit Risk
	$m	$m	$m	$m	$m	$m	$m
Agribusiness	-	-	-	3,694	41	-	3,734
Construction and development	-	-	-	6,302	914	-	7,215
Financial services	175	6,637	1,540	1,671	94	919	11,035
Hospitality	-	-	-	1,791	-	-	1,791
Manufacturing	-	-	-	933	-	-	933
Professional services	-	-	-	839	-	-	839
Property investment	-	-	-	7,751	-	-	7,751
Real estate - Mortgage	-	-	-	21,733	1,240	-	22,973
Personal	-	-	-	837	-	-	837
Government and public authorities	-	-	-	8	-	-	8
Other commercial and industrial	-	-	-	4,103	754	-	4,857
Total gross credit risk	**175**	**6,637**	**1,540**	**49,660**	**3,042**	**919**	**61,972**
Eligible securitised loans	-	-	-	6,182	-	-	6,182
Total including eligible securitised loans	**175**	**6,637**	**1,540**	**55,842**	**3,042**	**919**	**68,154**

Credit risk

Credit risk is the likelihood of future financial loss resulting from the failure of clients or counterparties to meet contractual payment obligations as they fall due. Credit risk is managed on a structured basis combining a well-defined framework that lays out the fundamental risk management principles and guidelines, with approval decisions being taken within credit approval authorities delegated by the Board.

The table provides information regarding the aggregate credit risk exposure of the consolidated Banking Group excluding receivables due from other banks, trading securities, investment securities, credit commitments and derivative instruments.

The Board of Directors is the highest credit authority. The Board determines the Group credit risk appetite and makes decisions on individual credit assessments where the exposure exceeds the level of authority delegated to the Management Committee. Under authority of the Board of Directors, the Board Risk Committee approves the Bank's risk management framework and monitors the effectiveness of the Group's credit risk management by receiving regular reports on performance of the loan portfolios. The Board Risk Committee also defines and reviews (at least annually) the Credit Principles that are overarching statements establishing the Group's lending direction and setting the criteria within which management may make its decisions and take action.

The Group Risk division is an independent group responsible for the acceptance and management of credit risk. Within the direction defined by the Credit Principles, the Risk division has responsibility for: setting and maintaining detailed credit policies and standards; maintaining an independent credit chain with authority to accept credit risk; monitoring trends impacting the credit quality of lending portfolios; developing and maintaining risk grading and automated risk assessment systems; and managing troublesome and impaired assets.

Credit risk involves a wide spectrum of customers ranging from individuals to large institutions and as such credit risk management is divided into two distinct categories: a statistically managed portfolio, and a risk–graded portfolio. The statistically managed portfolio covers consumer business (ie personal loans and housing loans) and automated credit scoring is widely used to determine customer creditworthiness. Credit scoring is embedded within the Bank's end-to-end automated workflow system that also enforces credit policies and certain business rules. These exposures are generally not reviewed individually unless arrears occur when all collections and recovery actions are managed by a centralised team.

A structure of industry concentration limits has been developed to monitor exposure levels within the risk-graded portfolio. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes.

To ensure credit risk is managed in accordance with the approved risk management framework the Group Risk division, in conjunction with the Internal Audit division, undertake regular inspections of credit risk-related activities of the various business segments and complete an analysis of the Group risk profile and provide timely reporting to senior management and the Board.

Table 17B Credit Risk by Portfolio – 30 September 2008

	Gross Credit Risk Exposure $m	Average Gross Exposure $m	Impaired assets $m	Past Due not Impaired > 90days $m	Specific Provisions $m	Charges for Specific Provisions & Write-offs $m
Claims secured against eligible residential mortgages	23,395	22,973	10	176	3	2
Other retail	810	837	-	5	3	2
Financial services	12,097	11,035	-	-	-	-
Government and public authorities	8	8	-	-	-	-
Corporate and other claims	26,926	27,120	778	148	99	38
Total	**63,236**	**61,972**	**788**	**329**	**105**	**42**

Impaired loans are those for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. This includes loans that are individually impaired and those forming the group of homogeneous assets in respect of which a collective impairment provision has been calculated.

As forecast at the announcement of last year's financial result, the quantum of non-performing loans continues to increase due to the economic slowdown and all banks move through a deteriorating credit cycle. Impaired assets have increased to $788 million from $384 million at 30 June 2008. The extent of the increase in the three months to Sept 30 is amplified by the completion of a comprehensive review of the entire lending portfolio by stress testing accounts against a range of economic scenarios. In addition, three large non-performing exposures have been identified, namely Raptis, Sun Leisure and a private SEQ property developer, with the full lending portfolio transferred into impaired assets.

Suncorp's treatment of provisioning for impaired assets means that, where only one part of a customer's portfolio is impaired, the full portfolio balance is included in impaired assets.

The Group holds collateral against 95% of loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees.

Due to the composition of Suncorp's lending portfolio, particularly the skew towards property development and agribusiness, it does tend to have a proportionally higher level of impaired assets than the major banks, however, the higher level of security limits the actual write-offs. Traditionally, Suncorp's impairment losses are around 60% to 70% the levels of the major banks.

Suncorp's total provisioning levels, as a percentage of risk weighted assets, taking into consideration the General Reserve for Credit Loss, is in a reasonable range when compared to its peers. Actual bad debt write-offs remain historically low against the majors, reflecting the strength of Suncorp's underlying security position.

Table 17C – Total General Reserve for Credit Loss

The Total General Reserve for Credit Loss (GRCL) at 30 September 2008 is $197 million, the same level as at 30 June 2008.

The Australian Prudential Regulatory Authority (APRA) requires an allocation of the collective provision determined in accordance with Australian Accounting Standards between a portfolio that is consider 'specific' in nature and a portion that is considered 'general' in nature. Only the part of the Group's collective provision attributable to model risk, will be considered 'general' in nature. Should the level of eligible provisioning be insufficient relative to a provisioning benchmark of 0.5% of risk-weighted assets, then a portion of retained profits equivalent to the shortfall is transferred to a reserve for credit loss within the equity section of the Group's balance sheet. The Total General Reserve for Credit Loss represents the combined amount of the 'general' collective provision and the reserve for credit loss.