Suncorp-Metway Ltd
and controlled entities
ABN 66 010 831 722

Consolidated interim financial report
for the half-year ended 31 December 2006

Contents

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2006 and the review report thereon.

Directors

The directors of Suncorp-Metway Ltd ("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

Dr Cherrell Hirst AO, director since 2002

James J Kennedy AO CBE, director since 1997, retired 31 December 2006

Martin D E Kriewaldt, director since 1996

Dr Ziggy Switkowski, director since 2005

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 controlled entities ("the Group") recorded a consolidated net profit after tax attributable to equity holders of the parent of $527 million for the half-year ended 31 December 2006, compared to $454 million for the corresponding prior period, representing a 16.1% increase in profit. The strong results for the half year continue to reflect the disciplined manner in which management is responding to the challenge of increasing competition across all lines of business.

The result of the combined Banking division, including Treasury, increased to $289 million, 13.3% above the prior corresponding period. The result featured strong growth in receivables, ongoing tight control over costs and disciplined credit practices.

The contribution before tax from the Business Banking division increased from $135 million in the prior corresponding period to $139 million. Total business lending assets grew to $18.5 billion, an increase of 15.2% on the prior December. Strong growth was achieved in Commercial (SME), Corporate and Property investment.

The contribution before tax from the Retail Banking division was $119 million (December 2005: $100 million). Retail lending grew by 14.5% to $23.3 billion and total retail funding increased by 15.9% to $18.7 billion.

The pre-tax contribution from the combined General Insurance division was $383 million for the half-year (December 2005: $ 330 million), up 16.1% on the prior corresponding period, as the business further improved its claims management processes and benefited from a generally favourable claims experience. The Insurance Trading Result, which excludes non-underwritten business and investment income on Shareholder Funds, reached a record $262 million (December 2005: $209 million). This equates to an insurance trading margin of 21.0% (December 2005: 17.0%) on net earned premium (net of certain statutory fees and charges) for the half-year, well above the company's long term 11% to 14% target range.

The contribution before tax from the Commercial General Insurance division increased from $125 million in the prior corresponding period to $190 million. The result featured a significant decrease in the half-year loss ratio from 74.2% in the prior corresponding period to 44.8% as the division benefited from lower average claim size and frequency from Commercial property working losses, tort reform on liability products and improvements flowing from the claims cost reduction initiatives.

The contribution before tax from the Personal General Insurance division was $193 million (December 2005: $205 million). Premium growth was again constrained by the compulsory third party ("CTP") portfolio, where the benefits of the tort law reforms were passed on to customers in the form of reduced premiums. Whilst the Home and Motor portfolios experienced a relatively benign claims environment, releases from CTP outstanding claims provisions were lower than in the prior period.

Review of operations (continued)

Overview of the Group (continued)

The Wealth Management contribution of $99 million (December 2005: $82 million) includes interests of $45 million (December 2005: $40 million) belonging to policy owners within the statutory funds. Excluding policy owners interests and outside equity interests, the contribution of the wealth management division was $54 million (December 2005: $42 million), reflecting strong growth in funds under administration, strong personal risk sales and good retention.

Financial position and capital structure

The Group has net assets attributable to shareholders of $4.9 billion (June 2006: $4.4 billion). The increase of $0.5 billion has been raised through retained profits and increased share capital from the exchange of reset preference shares for ordinary shares, shareholder participation in the dividend reinvestment plan and the exercise of options. Retained profits have not yet deducted the interim dividend of 52 cents per ordinary share amounting to $294 million (refer to note 7 of the consolidated interim financial statements).

The strong capital position of the Group is demonstrated by the Bank's capital adequacy ratio of 11.34% and the General Insurer's minimum capital ratio multiple of 1.83 times the statutory minimum. The Bank's capital adequacy ratio and the General Insurer's minimum capital ratio are significantly above the requirements of APRA being 9.5% and 1.25 times respectively and Board targets of 10% and 1.6 times respectively.

Impact of legislation and other external requirements

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.

Merger with Promina Group Limited

On 21 October 2006 the Company entered into a Merger Implementation Agreement whereby it is proposed that the Company will acquire all of Promina Group Limited's ordinary shares. The transaction had not occurred at the date this report was authorised for issue. Further information is provided in note 11 to the consolidated interim financial statements.

Dividends

A fully franked 2007 interim dividend of $294 million (52 cents per share) has been declared by directors. Further details of dividends provided for or paid are set out in the notes to the financial statements.

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

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the half-year ended 31 December 2006.

Rounding of amounts

The Group 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
20 February 2007

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 financial period ended 31 December 2006 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
20 February 2007

	As at Dec-06 $m	As at Jun-06 $m
Assets		
Cash and cash equivalents	1,004	489
Receivables due from other banks	10	26
Other financial assets		
Trading securities	4,114	3,773
Investment securities	11,386	10,926
Investments in associates and joint ventures	193	138
Loans, advances and other receivables	41,734	39,149
Bank acceptances of customers	671	316
Reinsurance and other recoveries	547	484
Deferred insurance assets	218	223
Property, plant and equipment	183	131
Investment property	197	196
Intangible assets	1,137	1,124
Other assets	373	395
Total assets	**61,767**	**57,370**
Liabilities		
Deposits and short term borrowings	30,420	27,683
Payables due to other banks	28	120
Bank acceptances	671	316
Payables and other liabilities	1,091	778
Current tax liabilities	71	135
Provisions	11	15
Employee benefits	122	139
Deferred tax liabilities	123	67
Unearned premiums and unexpired risk liabilities	1,371	1,400
Outstanding claims liabilities (note 9)	4,262	4,272
Gross policy liabilities	4,195	3,906
Unvested policy owner benefits	341	270
Outside beneficial interests	1,069	854
Securitisation liabilities (note 8)	5,633	5,700
Bonds, notes and long term borrowings	5,756	5,504
Subordinated notes (note 8)	1,525	1,466
Other financial liabilities	54	56
Preference shares (note 8)	144	250
Total liabilities	**56,887**	**52,931**
Net assets	**4,880**	**4,439**
Equity		
Share capital	3,144	2,973
Reserves	165	121
Retained profits	1,571	1,345
Total equity attributable to equity holders of the parent (note 10)	**4,880**	**4,439**

The consolidated interim Balance Sheet includes the assets and liabilities of the statutory funds of the Group's life insurance business 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.

	Half-year ended Dec-06 $m	Half-year ended Dec-05 $m
Revenue		
Banking interest revenue	1,646	1,416
Banking interest expense	(1,192)	(994)
	454	422
General insurance premium	1,346	1,323
Life insurance premium	79	63
Banking fee and commission revenue	107	100
Banking fee and commission expense	(40)	(35)
Reinsurance and other recoveries	199	154
General insurance investment	214	247
Life insurance investment	562	441
Other revenue	118	121
	3,039	2,836
Expenses		
Operating expenses	(747)	(676)
General insurance claims expense	(978)	(1,018)
Life insurance claims expense	(43)	(37)
Outwards reinsurance premium expense	(76)	(71)
Increase in net policy liabilities	(223)	(193)
Increase in unvested policy owner benefits	(71)	(63)
Non-banking interest expense	(160)	(106)
	(2,298)	(2,164)
Share of profits of associates and joint ventures	33	10
Profit before impairment losses on loans and advances and tax	774	682
Impairment losses on loans and advances	(5)	(15)
Profit before tax	769	667
Income tax expense	(242)	(213)
Profit attributable to equity holders of the parent	527	454
Earnings per share for profit attributable to the ordinary equity holders of the Company:	**Cents**	**Cents**
Basic earnings per share	94.41	82.89
Diluted earnings per share	94.41	82.87

The consolidated interim Income Statement includes the income and expenses of the statutory funds of the Group's life insurance business 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.

	Half-year ended Dec-06 $m	Half-year ended Dec-05 $m
Items of income and expense (net of tax)		
Change in fair value of assets available for sale	3	-
Change in fair value of cash flow hedges	18	(2)
Net income recognised directly in equity	21	(2)
Profit for the period	527	454
Total recognised income and expense for the period attributable to equity holders of the parent	548	452
Effect of change in accounting policy		
Effect of adoption of AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038 on 1 July 2005 (note 3):		
Net decrease in retained profits	-	(53)
Net decrease in cash flow hedge reserve	-	(17)
	548	**382**

The consolidated interim Statement of Recognised Income and Expense includes the income and expenses of the statutory funds of the Group's life insurance business 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.

	Half-year ended Dec-06 $m	Half-year ended Dec-05 $m
Cash flows from operating activities		
Interest received	1,822	1,621
Premiums received	1,573	1,531
Reinsurance and other recoveries received	155	94
Dividends received	55	49
Recoveries on loans previously written-off	-	1
Other operating revenue received	533	387
Interest paid	(1,219)	(951)
Claims paid	(1,130)	(1,059)
Outwards reinsurance premiums paid	(82)	(77)
Operating expenses paid	(663)	(769)
Income tax paid - operating activities	(124)	(169)
	920	**658**
Increase in operating assets:		
Banking securities	(693)	(304)
Loans, advances and other receivables	(2,690)	(1,529)
Increase in operating liabilities		
Deposits and short term borrowings	3,111	678
Net cash from operating activities	**648**	**(497)**
Cash flows from investing activities		
Proceeds from sale of insurance investments	7,457	11,036
Payments for plant and equipment and intangible software	(111)	(53)
Payments for purchase of insurance investments	(7,509)	(11,082)
Payments for purchase of investments in associates and joint ventures	(24)	-
Income taxes paid – investing activities	(131)	(98)
Net cash from investing activities	**(318)**	**(197)**
Cash flows from financing activities		
Net proceeds from issue of shares	2	8
Proceeds from issue of subordinated notes	355	220
Proceeds from net increase in bonds, notes and long term borrowings	119	870
Payments for net increase in treasury shares	(8)	(13)
Dividends paid	(207)	(595)
Net cash from financing activities	**261**	**490**
Net increase (decrease) in cash and cash equivalents	591	(204)
Cash and cash equivalents at the beginning of the period	395	1,085
Cash and cash equivalents at the end of the period	**986**	**881**
Cash and cash equivalents at the end of the period are comprised of:		
Cash and cash equivalents	1,004	904
Receivables due from other banks	10	32
Payables due to other banks	(28)	(55)
	986	**881**

The consolidated interim Statement of Cash Flows includes the cash flows of the statutory funds of the Group's life insurance business 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 2006 comprises the Company and its controlled entities ("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 2006 is available upon request from the Company's registered address at Level 18, 36 Wickham Terrace, Brisbane, Qld 4000 or at www.suncorp.com.au.

Note 2. Statement of compliance

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 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 2006.

The financial report of the Group also complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The consolidated interim financial report was approved by the Board of Directors on 20 February 2007.

The Group 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 financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the Reconciliation of movements in equity (note 10).

The Group adopted amendments to AASB 4 Insurance Contracts, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement and AASB 1023 General Insurance Contracts pursuant to AASB 2005-9 Amendments to Australian Accounting standards as at 1 July 2006. The Group now includes all financial guarantee contracts within the scope of AASB 132 and AASB 139 and not within the scope of AASB 1023 (previous treatment) unless an issuer of the financial guarantee contract has previously asserted explicitly that it regards such a contract as an insurance contract, in which case the issuer can elect to apply AASB 132 and AASB 139, or AASB 1023. With total fee income relating to financial guarantee contracts for the half-year ended 31 December 2006 of $2.1 million, the impact of adopting this standard is not material to the Group.

In accordance with APRA's AIFRS requirements for loan provisioning, the Bank has changed its 'Impairment' accounting policy and established a general reserve for credit losses through an allocation of retained profits. APRA requires banks to maintain a provisioning benchmark of at least 0.5% of risk weighted assets to cover potential credit losses. The provisioning benchmark consists of eligible collective provisions and the general reserve for credit losses. The change in accounting policy was recognised retrospectively and comparatives have been restated. There was no impact on the Income Statement. In relation to the Balance Sheet, the change resulted in a reserve of $48 million being established as at 1 July 2005 (31 December 2005: $82 million; 30 June 2006: $93 million; 31 December 2006: $116 million). Further disclosures are included at note 10.

Note 4. Estimates

The preparation of the 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 expense. 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 financial report as at and for the year ended 30 June 2006.

During the six months ended 31 December 2006 management reassessed its estimates in respect of:

- the level of the Banking collective provision required over its loans, advances and other receivables. The provision decreased by $9 million due to changes in the model used to determine the collective provision ($11 million) offset by the impact of an increase in impaired assets ($2 million).
- the level of the General Insurance outstanding claims liability. The liability decreased by $11 million reflecting improved claims experience in commercial liability and short tail property business and an increase in discount rates applied in the valuation of the liability, offset by a slow down in claims settlement patterns.
- the level of Life insurance gross policy liabilities. Policy liabilities increased by $289 million in the half-year to December 2006. This is due to growth in funds under management underpinned by investment earnings, new business and surrender experience.

Note 5. Segment reporting

Segment information is presented in respect of the Group's business segments, which are the primary basis of segment reporting. 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 include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

The Group comprises the following business segments:

Segment	Activities
Business Banking	Commercial banking, agribusiness, property investment, development finance and equipment finance.
Retail Banking	Home, personal and small business loans, savings and transaction accounts.
General Insurance – Commercial	Commercial motor, marine and aviation insurance, public liability and professional indemnity insurance and workers' compensation services.
General Insurance - Personal	Home and motor insurance, Compulsory Third Party insurance and personal effects cover.
Wealth Management	Life insurance and superannuation administration services, funds management, financial planning and funds administration.
Other	Treasury and property management services.

Note 5. Segment reporting (continued)

Business segments (continued)

	Business Banking	Retail Banking	General Insurance - Commercial	General Insurance - Personal	Wealth Management	Other	Eliminations / unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2006								
Revenue from outside the Group	680	933	576	1,270	646	157	9	4,271
Inter-segment revenue	56	434	-	-	-	794	(1,284)	-
Total segment revenue	736	1,367	576	1,270	646	951	(1,275)	4,271
Segment result	**139**	**119**	**190**	**193**	**99**	**38**	**(9)**	**769**
Unallocated revenue less unallocated expenses								-
Profit before tax								769
Income tax expense								(242)
Profit for the period								**527**

	Business Banking	Retail Banking	General Insurance - Commercial	General Insurance - Personal	Wealth Management	Other	Eliminations / unallocated	Consolidated
	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2005								
Revenue from outside the Group	633	771	583	1,199	567	135	(23)	3,865
Inter-segment revenue	29	369	-	-	-	682	(1,080)	-
Total segment revenue	662	1,140	583	1,199	567	817	(1,103)	3,865
Segment result	**135**	**100**	**125**	**205**	**82**	**26**	**(6)**	**667**
Unallocated revenue less unallocated expenses								-
Profit before tax								**667**
Income tax expense								(213)
Profit for the period								**454**

Geographical segments

The Group operates in one geographical area being Australia.

Note 6. Income tax expense

The Group's consolidated effective tax rate for the six months ended 31 December 2006 was 31.5% (for the year ended 30 June 2006: 32%; for the six months ended 31 December 2005: 32%). The rates have remained consistent over the last three reporting periods.

Note 7. Dividends

	Half-year ended			
	Dec-06		Dec-05	
	Cents per share	$m	Cents per share	$m
Ordinary shares				
Final 2006 dividend (franked) paid 2 October 2006 (2005: 3 October 2005)	50	278	45	248
Special 2005 dividend (franked) paid 3 October 2005	-	-	75	412
		278		660
Preference shares recognised as liability				
Half-yearly dividend (franked) paid 14 September 2006 (2005: 14 September 2005), recognised in interest expense	315	8	315	8
Dividends not recognised in the balance sheet				
In addition to the above dividends, since half-year end the directors have proposed the following:				
Interim 2007 dividend (franked) expected to be paid on 2 April 2007 (2006: 3 April 2006) out of retained profits at 31 December 2006, but not recognised as a liability in the balance sheet	52	294	47	260

Note 8. Debt securities

The Group recorded the following movements of debt securities:

	Senior debt funding $m	Securitisation liabilities (1) $m	Subordinated debt $m	Preference shares (2) $m
Half-year ended 31 December 2006				
Balance at the beginning of the period	7,029	5,700	1,466	250
Proceeds from issues (3)	5,788	1,001	349	-
Transaction costs	(1)	(1)	-	-
Net proceeds	5,787	1,000	349	-
Repayments	(5,709)	(1,070)	(275)	-
Conversion to ordinary shares	-	-	-	(106)
Foreign exchange translation	(160)	3	(15)	-
Balance at the end of the period	6,947	5,633	1,525	144
Half-year ended 31 December 2005				
Balance at the beginning of the period	8,254	3,906	968	-
Opening AIFRS reclassification	-	(96)	-	250
Proceeds from issues (4)	6,070	800	220	-
Transaction costs	(1)	(2)	(1)	-
Net proceeds	6,069	798	219	-
Repayments	(7,059)	(861)	-	-
Foreign exchange translation	133	34	(5)	-
Balance at the end of the period	7,397	3,781	1,182	250

Notes:

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

(2) The first reset date for the preference shares occurred on 13 September 2006, with $106 million worth of shares being converted into ordinary shares. The next reset date is 13 September 2011.

(3) Subordinated floating rate notes were issued in October 2006 with a face value of EUR $150 million. Subordinated fixed rate notes were issued in September 2006 with a face value of $100 million. The Apollo Warehouse Trust No.1 issued short term commercial paper during the period with at total face value of AUD $1,001 million. The proceeds and repayments for Euro Commercial Paper ("ECP") and Medium Term Notes ("MTN") funding represent normal turnover for a portfolio of this nature. The largest single issue for the period was a floating rate note denominated in EUR issued in October 2006 with a face value of EUR $500 million.

(4) Subordinated floating rate notes were issued in September 2005 with a face value of $220 million. The Apollo Trust series 2005-2 issued floating rate notes in July 2005 with a face value of $800 million. The proceeds and repayments for ECP and MTN funding represent normal turnover for a portfolio of this nature. The largest single issue for the period was a floating rate note denominated in EUR issued in October 2005 with a face value of EUR $500 million.

Note 9. Outstanding claims liabilities

	As at Dec-06 $m	As at Jun-06 $m
Outstanding claims - general insurance		
Gross central estimate - undiscounted	4,003	4,001
Risk margin	1,042	1,056
Claims handling costs	179	178
	5,224	5,235
Discount to present value	(986)	(986)
Gross outstanding claims liability - discounted - general insurance	4,238	4,249
Outstanding claims - life insurance	24	23
	4,262	4,272

Process for determining risk margin

The overall risk margin was determined allowing for the uncertainty of the outstanding claims estimate for each class of business and the diversification between classes. Uncertainty was analysed for each class taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform.

The estimate of uncertainty is greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The assumptions regarding uncertainty for each class were applied to the net central estimates and the results were aggregated, allowing for diversification in order to arrive at an overall position which has an approximate 94% probability of sufficiency (June 2006: 94%).

Note 10. Capital and reserves

Reconciliation of movement in equity

	Issued capital $m	Share-based payments $m	Preference shares $m	Treasury shares $m	Hedging reserve $m	Assets available for sale reserve $m	Other reserves $m	Retained profits $m	Total $m	Outside equity interests $m	Total equity $m
Half-year ended 31 December 2006											
Balance at the beginning of the period	3,007	9	-	(43)	14	1	106	1,345	4,439	-	4,439
Total recognised income and expense	-	-	-	-	18	3	-	527	548	-	548
Transfer to general reserve for credit losses	-	-	-	-	-	-	23	(23)	-	-	-
Shares issued	178	-	-	-	-	-	-	-	178	-	178
Share-based remuneration	-	1	-	-	-	-	-	-	1	-	1
Treasury shares purchased	-	-	-	(8)	-	-	-	-	(8)	-	(8)
Dividends to shareholders	-	-	-	-	-	-	-	(278)	(278)	-	(278)
Balance at the end of the period	3,185	10	-	(51)	32	4	129	1,571	4,880	-	4,880
Half-year ended 31 December 2005											
Balance at the beginning of the period	2,796	5	244	(27)	-	-	12	1,484	4,514	747	5,261
Effect of change in accounting policy - remeasure (note 3)	-	-	6	-	(17)	-	-	(47)	(58)	-	(58)
Effect of change in accounting policy - reclassify (note 3)	-	-	(250)	-	-	-	48	(54)	(256)	(747)	(1,003)
Balance at the beginning of the financial year - restated	2,796	5	-	(27)	(17)	-	60	1,383	4,200	-	4,200
Total recognised income and expense	-	-	-	-	(3)	-	1	454	452	-	452
Transfer to general reserve for credit losses	-	-	-	-	-	-	34	(34)	-	-	-
Shares issued	150	-	-	-	-	-	-	-	150	-	150
Share-based remuneration	-	2	-	-	-	-	-	-	2	-	2
Treasury shares purchased	-	-	-	(13)	-	-	-	-	(13)	-	(13)
Dividends to shareholders	-	-	-	-	-	-	-	(660)	(660)	-	(660)
Balance at the end of the period	2,946	7	-	(40)	(20)	-	95	1,143	4,131	-	4,131

Note 10. Capital and reserves (continued)

Share capital

The Group recorded the following movements of issued shares:

	Ordinary shares		Partly paid shares		Non-participating shares	
	Dec-06	Dec-05	Dec-06	Dec-05	Dec-06	Dec-05
	'000	'000	'000	'000	'000	'000
Balance at the beginning of the period	556,707	545,846	-	11	2	2
Issued due to exercise of options under the Executive Option Plan	374	798	-	-	-	-
Issued under the Dividend Reinvestment Plan	3,218	3,504	-	-	-	-
Issued due to conversion of reset preference shares to ordinary shares (note 8)	5,408	-	-	-	-	-
Issued as settlement of cash settleable warrants relating to the Group's acquisition of GIO Insurance Investment Holdings A Pty Ltd and its wholly-owned subsidiaries	-	3,422	-	-	-	-
Converted from partly paid to fully paid ordinary shares	-	11	-	(11)	-	-
Balance at the end of the period	565,707	553,581	-	-	2	2

Note 11. Changes in the composition of the Group

Subsidiaries

The Group did not acquire any subsidiaries during the current or comparative interim reporting periods.

The Suncorp Property Development Equity Fund #2 Unit Trust and SPDEF #2 Pty Ltd were established on 18 October 2006. No subsidiaries were established during the comparative interim reporting period.

No subsidiaries were deregistered during the current interim reporting period. The following subsidiaries were deregistered during the comparative interim reporting period, on 20 November 2005:

- PFC Finance Pty Ltd
- Permanent Financial Corporation (Aust) Pty Ltd
- Permanent Holdings Pty Ltd

No subsidiaries were disposed of during the current or comparative interim reporting periods.

Associates and joint venture entities

The Group acquired a 50% interest in a joint venture on 30 November 2006. The joint venture is involved in residential land sub-division and development.

The Group did not acquire or dispose of any other interests in associates or joint venture entities during the current or comparative interim reporting periods.

Note 11. Changes in the composition of the Group (continued)

Merger with Promina Group Limited

On 21 October 2006 the Company entered into a Merger Implementation Agreement ("MIA") whereby it is proposed that the Company will acquire all of Promina Group Limited's ordinary shares. Promina Group Limited's principal activities are the underwriting of general and life insurance and the investment and administration of insurance and non-insurance funds.

The transaction had not completed at the date this financial report was authorised for issue. The transaction is to be completed by way of a Scheme of Arrangement ("Scheme"). The implementation of the Scheme is subject to various conditions, including the approval of Promina Group Limited ("Promina") shareholders at a Court-convened meeting to be held on 5 March 2007 and the approval of the Federal Court of Australia (expected to be 12 March 2007).

The MIA specifies that Promina shareholders will receive 0.2618 Suncorp shares plus $1.80 in cash for each Promina share. The exchange ratio is subject to adjustment for the dilutionary impact of any entitlements based equity raising required to fund the cash component of the transaction.

The cost of the acquisition will be measured as the fair value of the assets given (ie the cash component) and equity instruments issued, plus costs directly attributable to the acquisition. The fair value of the equity instruments issued (being Suncorp fully paid ordinary shares) will be based on the quoted price on Australian Securities Exchange Limited of Suncorp fully paid ordinary shares at the date of acquisition.

The date of acquisition will be the Implementation Date of the Scheme, anticipated to be 20 March 2007. Accordingly, it is not possible to determine the cost of acquisition at the date this financial report was authorised for issue.

Promina's identifiable assets, liabilities and contingent liabilities will be measured at their fair value at the acquisition date. If the cost of acquisition is more than the fair value of the identifiable assets, liabilities and contingent liabilities acquired, including intangible assets, the excess will be recorded as goodwill.

As at 31 December 2006 $13 million of deferred transaction costs relating to the proposed merger have been included in assets.

Note 12. Contingencies

Except as noted below, there have been no material changes in contingent assets or contingent liabilities since 30 June 2006.

Under the MIA with Promina (refer to note 11), the Company must pay Promina $35 million if the merger does not proceed due to certain actions or omissions by the Company. Promina must pay the Company $35 million if the merger does not proceed due to certain actions or omissions by Promina or the Promina Board or if another third party gains a material interest in Promina under certain conditions.

Note 13. Related parties

Except as disclosed below, arrangements for related parties continue to be in place as disclosed in the 30 June 2006 annual financial report.

The following changes have been made to related parties' arrangements since 30 June 2006:

- a non-executive director, James J Kennedy AO CBE, retired on 31 December 2006. Mr Kennedy had been a director since 1997.
- two executives ceased employment with the Group during the reporting period – Hemant Kogekar (July 2006) and Peter Johnstone (September 2006).
- the Total Shareholder Return ("TSR") comparator group for long term incentives ("LTI") has been re-confirmed as the top 50 ASX listed companies in the S&P/ASX 100 excluding listed property trusts. At 30 June 2006, the comparator group was under review.
- the LTI share offers made in October 2004 and October 2005 originally included performance targets linked to TSR. These performance targets have been waived for all offers, excluding offers made to the Chief Executive Officer.

Note 14. Subsequent events

There has not arisen in the interval between 31 December 2006 and the date of this report any 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 4 to 15, are in accordance with the *Corporations Act 2001*, including:
   a) giving a true and fair view of the financial position of Suncorp-Metway Ltd and its controlled entities as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows 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 20th day of February 2007

Signed in accordance with a resolution of the directors:

John D Story	**John F Mulcahy**
Chairman	Managing Director

We have reviewed the accompanying interim financial report of Suncorp-Metway Ltd, which comprises the consolidated interim balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of recognised income and expense and consolidated statement of cash flows for the interim period ended on that date, a description of accounting policies, other explanatory notes 1 to 14 and the directors' declaration set out on page 16 of the consolidated entity 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 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 Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing 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 an opinion 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 an Interim Financial Report 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 consolidated entity's financial position as at 31 December 2006 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.

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 consolidated entity's financial position as at 31 December 2006 and of its performance for the interim period ended on that date; and

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

KPMG

Dr Andries B Terblanché
Partner

Brisbane
20 February 2007