

**Suncorp-Metway Ltd**  
**AND CONTROLLED ENTITIES**

ACN 010 831 722

**CONSOLIDATED FINANCIAL REPORT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2002**

---

## **DIRECTORS' REPORT**

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2002 and the independent review report thereon.

### **Directors**

The names of directors holding office during or since the end of the half-year are:

R John Lamble AO (Chairman), director since 1996  
John D Story (Deputy Chairman), director since 1995  
Dr John F Mulcahy (Managing Director), appointed 6 January 2003  
W Steven Jones (Managing Director), resigned 23 September 2002  
Dr Ian D Blackburne, director since 2000  
Rodney F Cormie, director since 1996  
R Patrick Handley, appointed 23 July 2001  
Dr Cherrell Hirst, appointed 8 February 2002  
James J Kennedy AO CBE, director since 1997  
Martin D E Kriewaldt, director since 1996  
Chris Skilton, appointed 13 November 2002

### **Review and Results of Operations**

Suncorp-Metway Ltd recorded a consolidated net profit after tax of \$155 million for the half-year ended 31 December 2002, compared to \$154 million for the corresponding prior period. While the underlying business results were strong the result was affected by poor returns on general insurance shareholder funds and an increase in bad and doubtful debts expense.

The contribution before tax from the banking division fell marginally from \$153 million to \$150 million. Total revenue grew by 8% in line with the growth in the banking receivables. An increase in bad and doubtful debts expense from \$14 million to \$26 million resulted in the reduction of the banking division's contribution to the consolidated net profit. The cost to income ratio was a competitive 51.9%, to produce a 5% increase in banking contribution before bad and doubtful debts.

The general insurance division experienced a significant increase in contribution from \$43 million to \$72 million, due mainly to the realisation of benefits from the successful integration of the GIO operations. An insurance trading ratio of 8.0% was achieved compared with 4.8% in the prior comparative period. Investment income on shareholder funds returned a loss of \$17 million (2001: \$3 million loss) in line with the volatility in Australian equity markets during the period.

The wealth management division experienced a decline in contribution from \$37 million to \$16 million. This was primarily a result of a fall in investment income from \$61 million to \$11 million due to volatility in domestic and overseas equity markets. New business sales within the life company operations remained at a similar level to 31 December 2001 despite investor concerns arising from market volatility.

### **Rounding Off**

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 directors' report have been rounded off to the nearest million dollars, unless otherwise stated.

Dated at Brisbane this        day of February 2003.

Signed in accordance with a resolution of the directors:

**R John Lamble AO**  
Chairman

**John Mulcahy**  
Managing Director

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	Half-Year Ended	
	Dec-02	Dec-01
	\$m	\$m
<b>Income from ordinary activities</b>		
Banking interest revenue	821	773
Banking interest expense	(526)	(496)
	<u>295</u>	<u>277</u>
General insurance premium revenue	1,114	977
Life insurance premium revenue	41	37
Reinsurance and other recoveries revenue	120	133
General insurance investment revenue		
- insurance provisions	165	100
- shareholder funds	(17)	(3)
Life insurance investment revenue	11	61
Other revenue	110	128
Banking fee and commission revenue	97	73
Banking fee and commission expense	(32)	(20)
<b>Total income from ordinary activities</b>	<u>1,904</u>	<u>1,763</u>
<b>Expenses from ordinary activities</b>		
Operating expenses from ordinary activities	(565)	(549)
General insurance claims expense	(976)	(848)
Life insurance claims expense	(33)	(32)
Outwards reinsurance premium expense	(80)	(78)
Decrease in net life insurance policy liabilities	70	53
Increase in policy owner retained profits	(46)	(55)
Non-banking interest expense	(9)	(4)
<b>Total expenses from ordinary activities</b>	<u>(1,639)</u>	<u>(1,513)</u>
Share of net profits of associates accounted for using the equity method	4	-
Profit from ordinary activities before bad and doubtful debts expense, amortisation of goodwill and related income tax expense	269	250
Bad and doubtful debts expense	(27)	(13)
Profit from ordinary activities before amortisation of goodwill and related income tax expense	242	237
Amortisation of goodwill	(30)	(30)
<b>Profit from ordinary activities before related income tax expense</b>	<u>212</u>	<u>207</u>
Income tax expense relating to ordinary activities	(57)	(53)
<b>Net profit attributable to members of the parent entity</b>	<u>155</u>	<u>154</u>
<b>Non-owner transaction changes in equity</b>		
Increase in retained profits on the initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	152	-
Decrease in retained profits on the initial adoption of revised AASB 1028 Employee Benefits	(1)	-
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	<u>306</u>	<u>154</u>
<b>Earnings per share</b>		
Basic (cents per share)	27.9	29.7
Diluted (cents per share)	27.9	29.6

The above consolidated statement of financial performance is to be read in conjunction with the accompanying notes to the half-year financial statements set out on pages 5 to 7.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Dec-02	As At Jun-02	Dec-01
	\$m	\$m	\$m
<b>Assets</b>			
Cash and liquid assets	835	1,194	905
Receivables due from other financial institutions	17	57	18
Trading securities	2,057	1,498	1,703
Investment securities	7,810	7,544	7,481
Investments in associates	83	86	80
Loans, advances and other receivables	23,165	22,955	21,954
Property, plant and equipment	231	206	197
Deferred tax assets	153	193	173
Intangible assets	1,071	1,099	1,122
Excess of net market value of interests in life insurance controlled entities	12	16	15
Other financial assets	560	633	994
<b>Total assets</b>	<b>35,994</b>	<b>35,481</b>	<b>34,642</b>
<b>Liabilities</b>			
Deposits and short term borrowings	20,143	18,176	17,773
Payables due to other financial institutions	16	70	9
Payables	699	858	1,004
Current tax liabilities	50	72	25
Provisions	128	349	327
Deferred tax liabilities	144	198	224
Outstanding claims and unearned premiums provisions	4,813	4,591	4,468
Life insurance gross policy liabilities	2,624	2,780	2,704
Policy owner retained profits	317	271	302
Bonds, notes and long term borrowings	2,773	3,952	3,652
Subordinated notes	751	802	806
<b>Total liabilities</b>	<b>32,458</b>	<b>32,119</b>	<b>31,294</b>
<b>Net assets</b>	<b>3,536</b>	<b>3,362</b>	<b>3,348</b>
<b>Equity</b>			
Contributed equity	2,805	2,777	2,760
Reserves	22	22	21
Retained profits	703	557	561
<b>Total parent entity interest</b>	<b>3,530</b>	<b>3,356</b>	<b>3,342</b>
Outside equity interests	6	6	6
<b>Total equity</b>	<b>3,536</b>	<b>3,362</b>	<b>3,348</b>

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

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes to the half-year financial statements set out on pages 5 to 7.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Half-Year Ended	
	Dec-02	Dec-01
	\$m	\$m
<b>Cash flows from operating activities</b>		
Interest received	918	851
Dividends received	31	31
Premiums received	1,311	918
Reinsurance and other recoveries received	195	92
Other operating revenue received	385	330
Interest paid	(557)	(506)
Outwards reinsurance premiums paid	(88)	(80)
Claims paid	(922)	(862)
Operating expenses paid	(868)	(621)
Income taxes paid – operating activities	(76)	(51)
<b>Net cash inflow from operating activities</b>	<b>329</b>	<b>102</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of controlled entities (net of cash acquired)	(1)	(1,273)
Payments for property, plant and equipment	(63)	(30)
Net purchase of banking securities	(557)	(67)
Net increase in loans, advances and other receivables	(337)	(858)
Purchase of investments integral to insurance activities	(15,733)	(14,606)
Proceeds from disposal of insurance investments	15,385	15,130
Income taxes paid – investing activities	(11)	(9)
<b>Net cash (outflow) from investing activities</b>	<b>(1,317)</b>	<b>(1,713)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	28	617
Proceeds from/(repayment of) subordinated notes	(51)	271
Net increase in borrowings	826	1,442
Dividends paid	(160)	(152)
<b>Net cash inflow from financing activities</b>	<b>643</b>	<b>2,178</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(345)</b>	<b>567</b>
Cash at the beginning of the half-year	1,181	300
Cash acquired on acquisition of GIO	-	47
<b>Cash at the end of the half-year</b>	<b>836</b>	<b>914</b>

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the half-year financial statements set out on pages 5 to 7.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT**

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029 'Interim Financial Reporting', the Banking Act 1959 (as amended), the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. This half-year financial report is to be read in conjunction with the 30 June 2002 Annual Financial Report and any public announcements by Suncorp-Metway Ltd and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

This report is prepared in accordance with the historical convention, except for certain assets, which, as noted, are at valuation.

The accounting policies adopted have been consistently applied by each entity in the economic entity and, except where there was a change in accounting policy, are consistent with those applied in the 30 June 2002 Annual Financial Report. For the purposes of preparing the half-year consolidated financial report, the half-year has been treated as a discrete reporting period.

The half-year consolidated financial report does not include full note disclosures of the type normally included in an annual financial report.

### **2 CHANGE IN ACCOUNTING POLICY**

The consolidated entity adopted Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" effective from 1 July 2002. Previously, the consolidated entity has provided for ordinary share dividends where there was an expectation of payment after the reporting date. AASB 1044 now prohibits the recognition of dividends as liabilities where they were not declared, determined or publicly recommended on or before the reporting date. Accordingly, the consolidated entity has not provided for ordinary share dividends at 31 December 2002.

As a result of this change, the adjustments to the consolidated financial report as at 1 July 2002 are:

- \$152 million increase in opening retained profits
- \$152 million decrease in provision for ordinary dividends

There was no impact on profit or loss for the reporting period to 31 December 2002.

The consolidated entity adopted revised Accounting Standard AASB 1028 "Employee Benefits" effective from 1 July 2002. Previously, calculations of employee benefits were required to be based on remuneration rates current as at the reporting date. Under the revised AASB 1028, calculation of these employee benefits must be based on remuneration rates effective when the liabilities are expected to be paid.

As a result of this change, the adjustments to the consolidated financial report as at 1 July 2002 are:

- \$1 million decrease in opening retained profits
- \$1 million increase in provision for employee benefits

As a result of this change in accounting policy, employee benefits expense decreased by \$713,466 and income tax expense increased by \$214,040 for the reporting period to 31 December 2002.

### 3 DIVIDENDS

	<b>Half-Year Ended</b>	
	<b>Dec-02</b>	<b>Dec-01</b>
	<b>\$m</b>	<b>\$m</b>
<b>Ordinary shares</b>		
Fully franked at 30% dividend paid (31 December 2001 dividend provided: fully franked at 30%)	152	134
<b>Preference shares</b>		
Fully franked at 30% semi-annual dividend provided	8	5
	<u>160</u>	<u>139</u>

The directors have recommended an interim dividend of 26 cents per ordinary share amounting to \$137 million expected to be paid on 31 March 2003. The ordinary dividend has not been provided for in the consolidated financial report as detailed in Note 2.

### 4 SEGMENT INFORMATION

	Banking	General Insurance	Wealth Management	Other	Eliminations	Consolidated
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Half-year ended 31 December 2002</b>						
Revenue outside the consolidated entity	923	1,443	83	13	-	2,462
Inter-segment revenue	8	-	-	-	(8)	-
Total segment revenue	<u>931</u>	<u>1,443</u>	<u>83</u>	<u>13</u>	<u>(8)</u>	<u>2,462</u>
Segment result	<u>150</u>	<u>68</u>	<u>16</u>	<u>4</u>	<u>(30)</u>	<u>208</u>
Shares of net profits of associates	-	4	-	-	-	<u>4</u>
Profit from ordinary activities before income tax expense						212
Income tax expense						<u>(57)</u>
<b>Net profit</b>						<u>155</u>

#### 4 SEGMENT INFORMATION (CONTINUED)

	Banking	General Insurance	Wealth Management	Other	Eliminations	Consolidated
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Half-year ended 31 December 2001</b>						
Revenue outside the consolidated entity	854	1,291	122	12	-	2,279
Inter-segment revenue	10	-	-	-	(10)	-
<b>Total segment revenue</b>	<b>864</b>	<b>1,291</b>	<b>122</b>	<b>12</b>	<b>(10)</b>	<b>2,279</b>
Segment result	153	43	37	4	(30)	207
Shares of net profits of associates	-	-	-	-	-	-
Profit from ordinary activities before income tax expense						207
Income tax expense						(53)
<b>Net profit</b>						<b>154</b>

The above industry segments derive revenue from the following activities:

Banking	Banking, finance and other services.
General Insurance	General insurance services.
Wealth Management	Life insurance and superannuation administration services, funds management, financial planning, and funds administration
Other	Property management services.

#### 5 CONTINGENT ASSETS AND LIABILITIES

There have been no material changes in contingent assets or contingent liabilities since 30 June 2002.

#### 6 MATTERS SUBSEQUENT TO THE HALF-YEAR ENDED 31 DECEMBER 2002

No matters or circumstances have arisen since the half-year ended 31 December 2002 which have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent periods.



## **DIRECTORS' DECLARATION**

In the opinion of the directors of Suncorp-Metway Ltd:

1. the financial statements and notes set out on pages 2 to 7, are in accordance with the Corporations Act 2001, including:
  - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2002 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 Accounting Standard AASB 1029 '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        day of February 2003

Signed in accordance with a resolution of the directors:

**R John Lamble AO**  
Chairman

**John Mulcahy**  
Managing Director

## **INDEPENDENT REVIEW REPORT TO THE MEMBERS OF SUNCORP-METWAY LTD**

### **Scope**

We have reviewed the financial report of Suncorp-Metway Ltd for the half-year ended 31 December 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes (1 to 6) and the directors' declaration set out on pages 2 to 8. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 'Interim Financial Reporting' and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### **Statement**

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

- (a) the Corporations Act 2001, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2002 and of its performance for the half-year ended on that date; and
  - ii) complying with Australian Accounting Standard AASB 1029 'Interim Financial Reporting' and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

### **KPMG**

**Brian Greig**  
Partner

**Brisbane 28 February 2003**