2002 ANNUAL REPORT

Remember service? We do.

SUNCORP

BANKING • INSURANCE • INVESTMENT

Suncorp-Metway Ltd

Core Purpose

Our Core Purpose is to make it **far easier** for customers to manage their finances better so they can realise their dreams and protect the things they hold dear.

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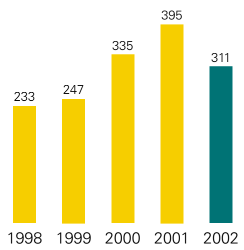
Suncorp-Metway Ltd ABN 66 010 831 722

Financial Highlights

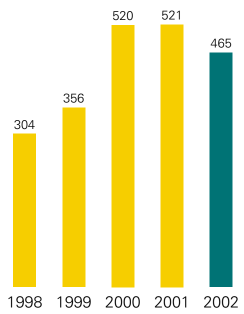
- **Net profit $311 million**
- **Profit before goodwill, tax and investment income on general insurance shareholder's funds** increased by 9.3% to $469 million*
- **Annual dividend** increased by 2 cents to 54 cents per share
- **Acquisition of GIO** effective from 1 July, settled 28 September
- **Total assets** up 19.4% to $35.5 billion
- **Market capitalisation** $6.5 billion

*Excluding life insurance policy owners' interest

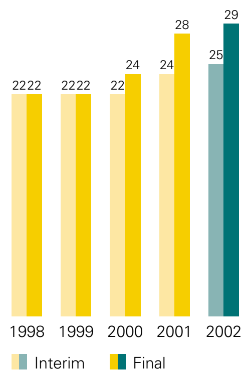
Operating profit after tax
($m)



Profit before tax and goodwill
($m)



Dividends interim/final
(c)

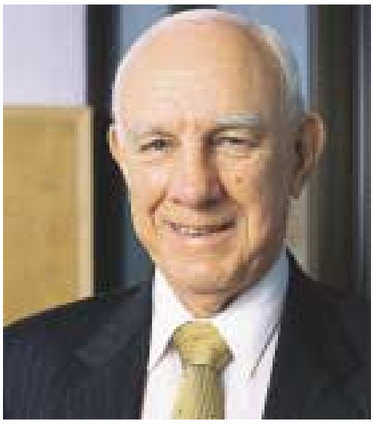


Credit Ratings	Short term	Long term	Insurer financial strength general insurance	Insurer financial strength life and super
Standard & Poor's (Positive Outlook – February 2001, reaffirmed December 2001)	A-2	A-	A-	A-
Moody's				
Bank Deposits	P-1	A2	n/a	n/a
Senior Debt	P-1	A2	n/a	n/a
(Upgrade June 2002)				
Fitch (Stable Outlook – April 2001)	F1	A	A+	A

Chairman's Letter to Shareholders

DEAR SHAREHOLDER,

On behalf of the Board I am pleased to announce a satisfactory profit after tax of $311 million, for the year ending 30 June 2002.



I say satisfactory, even though it is a substantial reduction from the $395 million we earned last year. If you analyse the components of the result, which I will do later in this letter, then you may appreciate that on a long term basis, the Company is on an appropriate growth path.

After reviewing the results, directors have declared a final dividend of 29 cents fully franked, taking the full year dividend to 54 cents a share, up two cents. This reflects the fact that directors remain quite satisfied with the progress the Company is making, particularly in achieving the synergies available through the GIO integration.

In this letter, I will discuss some of the background in which financial institutions such as ours have operated in the past year, including the GIO acquisition. I will then go on to analyse those results. To give you comfort that you can have confidence in our accounts, I will tell you a bit about how our Board manages the group.

The Managing Director, Steve Jones, will give you a more in-depth analysis of the Company's operations, including the factors which lie behind our confidence in our improved underlying operating performance for the year to 30 June 2003.

BACKGROUND

As I look back on the 2002 financial year, it is hard to describe it in any other way than as a year of turmoil – financial, economic and political.

It began with profound horror as we witnessed the terror of the September 11 World Trade Center attack, which destroyed so many lives, sent shocks through global financial markets, and triggered war in Afghanistan.

By seriously undermining investor and consumer confidence, those events then contributed to the deepening recession in the world's biggest economy – the US, which has rippled through the international economy.

As the year wore on, we saw global share markets, which had been so strong for the past decade, run out of steam. Trillions of dollars have been stripped from share values around the world in the last six months.

Finally, as the year was drawing to a close, investor confidence again was shaken by the emergence of serious accounting fraud in major US companies like Enron, WorldCom and others.

In Australia, we've been fortunate to be distanced from some of these shocks. But the home front has not been without its own horrors. Through the year we watched a series of corporate disasters unfold, including the fallout from HIH and One Tel. The share market recorded negative returns for the first time since 1988, and we saw signs of an economy beginning to slow.

In particular the S & P ASX 200 Accumulation Index, which takes into account both the dividends received and any change in stock market prices, actually fell by 4.7 percent in the year to 30 June 2002.

In our case, we had about $840 million of our general insurance shareholder's funds invested in the stock market and we were able to do better than the market as a whole, reporting a loss of 3.5 percent or $29 million. In a normal year, we would expect to earn in the region of $71 million, based on the long term average return of about 8.5 percent.

For the entire General Insurance Shareholder Fund, which includes other investment assets aside from equities, we reported total investment income of zero in the year to June, compared with $80 million in the prior year. The difference is a major factor in the reduction of our profits for the year.

Steve Jones will further explain why we believe the underlying performance of the Company is sufficient to justify our positive outlook.

GIO ACQUISITION

The acquisition of the GIO general insurance business, which took effect from 1 July, was a major step for the group making us a major Australia-wide player. During the year, we made excellent progress in the integration of GIO, despite the backdrop of the dramatic external events I have described above.

The GIO acquisition will produce significant rewards for shareholders, but we are still only part of the way through the process of transforming the company, so the financial benefits of the acquisition are yet to flow through fully to our bottom line.

Moreover, we are already bearing all of the costs of the acquisition (funded by new shares and by subordinated debt), as well as substantial integration expenses, and a significant GIO goodwill expense of $50 million per annum.

RESULTS SUMMARY

The profit result is summarised in the table below.

Banking, which constitutes our largest source of income, increased marginally to $293 million before tax and goodwill. The feature of the banking result was the continued good growth in lending, which increased by 13 percent to $22.9 billion (including securitised assets). Our credit quality also remains strong, with gross impaired assets reducing at June.

In wealth management, we again managed a small rise in profit, to $58 million, driven by increased funds management profits.

The key reason for the reduction in net profit is the fall in the general insurance result, excluding GIO, and the increase in goodwill amortisation arising from the GIO acquisition. So I would like say a few words about those two items.

Most of our shareholder's funds for the Suncorp general insurance businesses are invested in equities and as I have mentioned, that has had the effect of reducing our return by $80 million compared to 2001.

For part of the year, some of the prudential margin, which we include in our outstanding claims, was invested in equities, and this has resulted in lower investment income available for our insurance trading result.

As regards the goodwill amortisation, many analysts would tend to ignore this in their assessment of profitability. At this stage of the GIO integration process, there is only a small margin between the profit that we have reported on GIO of $56 million and the $50 million of goodwill amortisation that we attribute to GIO. But we plan to see that GIO profit increase substantially.

CONFIDENCE IN OUR ACCOUNTS

Wide publicity about unethical accounting practices at large US companies like Enron and WorldCom and, amongst other things, inadequate provision for outstanding claims in Australian insurance companies (FAI and HIH) have left many investors wondering whether they can have confidence in company accounts.

I hasten to assure you that your directors and management take a careful and conservative approach to preparing our accounts. Considerable diligence is exercised, advice is sought from qualified external advisers, but most of all there is frank and open discussion on all matters.

The wayward companies mentioned above variously broke accepted accounting principles by capitalising costs that should have been expensed; bringing to account revenue that had not been earned; or did not provide for expenses incurred (particularly outstanding claims). As briefly as I can I will tell you a bit about how we handle the most important of these issues.

By the way, all expense accounts are approved by a senior officer. Modesty, not profligacy is the watchword.

	Year to		
	June-02 $m	June-01 $m	Change %
Profit Overview			
Banking	293	284	3.2
General insurance, excluding GIO	54	163	(66.9)
GIO	56	-	-
Wealth management	58	56	3.6
Other	8	6	33.3
Profit before tax and goodwill	469	509	(7.8)
Goodwill amortisation	60	10	500.0
Tax	98	104	(5.8)
Net profit	311	395	(21.3)

(Excludes tax on life insurance policyholders' funds)

Chairman's Letter to Shareholders

OUTSTANDING CLAIMS

This is a very large item in our balance sheet, totalling $3.5 billion. It represents our estimate of the future expenditure on claims which are validly payable, arising from all the policies we have issued, up to 30 June 2002.

The task that our management has is to estimate, today, the full value of all those claims, no matter how long they take to settle.

Comments made by the US Defence Secretary, Donald Rumsfeld, at a recent NATO meeting are apposite. He said:

> *"There are things we know that we know.*
>
> *"There are known unknowns – that is to say, there are things that we now know we don't know.*
>
> *"But there are also unknown unknowns. These are things we do not know we don't know."*

At first reading this sounds like gobbledegook, but on second reading you will see it contains an interesting concept – a concept that has many parallels with estimating our outstanding claims.

Known Knowns are things like car insurance claims where we have received a quote for panel beating repairs and we know pretty accurately how much to provide for that claim in our books.

Known Unknowns arise because we know from past experience that there will be a lot of claims notified after the end of the financial year, but which occurred before the balance date. We call these Incurred But Not Reported claims (IBNR). We make a provision for these claims even before they are reported to us.

Unknown Unknowns arise in situations such as a recent Sydney court case which found a local municipal council liable for injuries sustained when a surfer ran into the water, dived and injured his neck on a sandbank. The court found that in some way the council should have warned the swimmer about the dangers of surfing. Until the verdict in that case, any insurer of a municipal council would not have considered that such an accident would incur any insurable liability. The recent case creates a precedent that changes all that – such claims have moved from the unknown to the known category. Thus, insurers may have to increase their claim valuations as unknown unknowns come to light. We make a very considerable provision for unknown unknowns, and from the past patterns of settlement, we think that we have made a proper evaluation but sometimes new events occur which extend the boundaries to cover new liabilities.

The process for setting outstanding claims is a long and complex one which requires study of every claim file that is current on our books, and making a judgement as to the likely cost of the claim.
On top of this we look at all the patterns of claim notifications and claim settlements in the past, and through the use of actuarial techniques attempt to forecast what we call a central estimate or most likely estimate of what these claims will cost. Having done that, we add a substantial prudential margin (about $500 million) because of the uncertainty.

We believe our process for estimating outstanding claims is both thorough and prudent.

GOODWILL

One major item on the asset side of the balance sheet is intangible assets comprising goodwill totalling $1.1 billion. This goodwill arises because we paid more for the original Suncorp general insurance business than we received in net tangible assets and secondly, we paid more for GIO than we received in net tangible assets. These differences represent goodwill or, in effect, a payment for the value of the list of policies, the ongoing business, any excess values in the outstanding claims provisions, and the likelihood that future profits would make the value placed on goodwill a realistic figure.

This goodwill is written off over a period of 20 years and can be subject to revaluation downwards, if at any time the Board felt that the figure was too high (we do not revalue upwards under any circumstances).

The value remaining on the original Suncorp acquisition is $144 million and this represents only a fraction of the real value of the Company when it is realised that it now writes $900 million of premium each year, from which the Board believes satisfactory profits will be generated in future.

The balance of goodwill outstanding on the acquisition of GIO, including our share of the joint ventures with the RACQ and RAA is now $954 million. We believe that GIO has a great and profitable future based on the fact that it has an annual premium income of $1.1 billion and that the program of making GIO significantly more efficient is operating to timetable.

The fact that we are confident of making total synergistic benefits out of the GIO acquisition at the rate of $240 million each year would more than justify the amount of goodwill that we have put aside.

The Board is satisfied that the provision for goodwill is appropriate and recoverable over the long term.

As regards insurance investments, these are mainly in listed securities where we adopt the market value at 30 June, or in fixed interest securities which can be valued with reference to current interest rates.

Overall, the Board is satisfied that the assets of the Company are worth at least the amounts which are shown in the books.

SUMMARY

The point of this discussion is really to reassure all our shareholders that we have a sensible and conservative approach to our accounting, so that you can have confidence that the accounts we publish reflect a true and fair picture of the Company.

BOARD CHANGES

The only change to the composition of the Board during the second half of the year was the retirement of one of our most highly regarded directors, Frank Haly, and the appointment of his replacement, Dr Cherrell Hirst. I mentioned this in the half year report. However, I announced in June that I intend to step down as Chairman in March 2003. I am 71 and have been Chairman since 1996. The Company has grown substantially in that period, and the share price has almost tripled.

By March, we will have largely completed the GIO integration, and it is an appropriate time for me to step aside, to make way for a new Chairman.

The Board has selected John Story to replace me. John was appointed Deputy Chairman in June, to prepare him for the Chairmanship. He replaced Martin Kriewaldt, who has stepped down from the position after more than five years to enable a smooth succession for John. I would like to again thank Martin for his excellent support over the years. He will continue as a director of the Company and a member of the Audit and Investment Committees.

John Story, 56, has a long history with the group. He was appointed a director of Metway Bank in January 1995, and remained a director following the merger that formed Suncorp Metway in 1996. He has been a partner of Corrs Chambers Westgarth for 33 years and was Managing Partner of the firm's Queensland office from 1991, until June, when he stepped down from that role to focus on his directorships. John is a director of Jupiters Limited, Australian Magnesium Corporation Limited, Ruralco Holdings Limited and Breakwater Island Limited.

I am very happy to announce his appointment as Chairman-elect, and I look forward to working with him over the period to March.

OUTLOOK

I would now like to turn to the outlook for the current year. The first point I would make is that there are a number of other factors that affect our results. These include the economy, movements in interest rates, claims patterns, the weather and the investment markets. So on that basis, I would be brave to make a definitive prediction!

However, it is clear that the focus of our activities this year will again be on delivering the savings and synergies available through the GIO acquisition. Our earnings in the current year will benefit considerably from the improvements made to date.

Therefore, I think it is safe to say that, assuming no unusual claims events, or a further sharp deterioration in investment returns, we should report a very strong improvement in underlying operating performance for the full year.

CONCLUSION

At first glance, our result is a bit disappointing but I know that our management and staff have worked very hard in the last year to improve the position of the Company (as reflected in the outlook statement). I would like to thank them for their efforts and compliment the senior executives and the Managing Director, Steve Jones, for their leadership.

Your Board has worked hard and diligently and I am most grateful for their support and contribution.

Lastly, I would like to thank shareholders for their continuing interest in the Company.

John Lamble AO
Chairman

Managing Director's Letter to Shareholders

DEAR SHAREHOLDER,

The year to June 2002 was one of great opportunities as well as significant challenges for Suncorp Metway. A great deal was accomplished during the year, and I'm excited about what it means for the Company's future.

I am pleased to report on the Company's results and achievements.

The obvious highlight of the year was the acquisition of the GIO general insurance business, which has greatly expanded our operations and prospects and made us a national company.

The profit for the year was $311 million after tax, which was lower than the previous year, but that reflects the worst investment climate in 14 years and the impact of an accounting charge for goodwill.

The underlying business produced a solid profit and grew very strongly, boding well for the future. Underlying profit, before tax, goodwill and investment income on general insurance shareholder's funds increased by 9.3 percent to $469 million. Most of that increase came from the added profits from GIO.

The increase in the accounting charge for goodwill was $50 million and represents the amortisation of the goodwill paid for GIO. Accounting standards require that goodwill be written off over 20 years. The $50 million is not a cash expense and does not mean the value of the GIO business has reduced. In fact, with synergies from integration and growth in the business its value will increase considerably.

In this letter I will explain the main features of the operating and investment results, as well as other aspects of the year's activities that are not reflected in the profit figures.

For those who appreciate an executive summary, the key features of the year were:

- Settlement of the acquisition of GIO for $1.4 billion. This made our general insurance business the second largest in Australia and includes joint ventures with the motoring clubs of Queensland and South Australia.
- The integration of our general insurance businesses ran to plan and is on track to make improvements worth $240 million annually by the end of the current financial year.
- Investment markets were down and our investment income fell sharply. The bright spot was the performance of our investments team, which was better than the market.
- The insurance trading result of the GIO business was 4.9 percent of premiums, in line with our expectations and reflecting the start of the merger synergies.
- The Suncorp general insurance business grew strongly but suffered lower investment returns and increased provisions for liability classes. This pulled the trading result down to 7.9 percent from its historical range of 10 to 14 percent.
- Banking receivables grew very strongly. But income growth did not keep pace because margins contracted and so the banking profit grew a modest 3.2 percent.
- Wealth management also suffered poor investment returns but still achieved a very strong 49 percent increase in underlying earnings.
- The Company's credit rating improved, with a ratings upgrade from Moody's. This lowers the Company's borrowing costs.
- Service standards were raised to 'best in class' for telephone and motor claims service and for turnaround times on business loan decisions, raising customer satisfaction.

In the rest of this letter, I will summarise the results of the three main lines of business and then explain some terrific service initiatives launched during the year that are raising customer satisfaction. Finally, I will make some comments on our expectations for the current year.

BANKING

The group's banking profit before tax was $293 million, up 3.2 percent from the previous year.

Business growth was very strong. Housing lending increased by 13 percent (9.6 percent net of securitisation) and business lending was up 12.3 percent. Lending to small business was particularly strong, growing 18 percent for the year. Fee income was up 21 percent, not so much because the charges for services were increased, but because high levels of customer re-financing between banks and better collection of our fee schedules generated more income. Other income was down and this reflects reduced profits on investment securities.

While growth was very strong, the banking margin declined during the year and this held revenue growth to 7 percent, despite the increase in volume. Margins declined partly because of competitive pressures but mostly because interest rates across the board were generally lower than the year before. As financial market interest rates come down, so do lending and deposit rates for customers. Deposit rates stop falling before loan rates and so the margin between them reduces.

Bad debts were $40 million, which is in the normal range for the size of the business and on par with the year before. The $40 million includes $5 million to increase the general provision for bad debts so the general provision keeps pace with the growth in the loan book. Credit quality remains sound. Over the second half of the year impaired assets were reduced by 31 percent, to $83 million, mainly from the improvement of previously non-performing loans.

Expenses increased in line with this growth, by 10 percent, reflecting the considerable investment begun the year before aimed at fuelling the growth. Even though expenses grew considerably, efficiency remained very high and costs as a percent of assets fell from 1.43 percent to 1.35 percent. At the same time though, costs as a percent of income increased slightly to 50.7 percent, up from 49.3 percent. This highlights that the efficiency gains made while the business grew were offset by the margin squeeze on income. Nonetheless, the business remains very efficient and by these measures is close or equal to Australian best practice.

While business growth, credit quality and efficiency remained strong, the profit increase of 3.2 percent is modest and below our targets. Looking to the coming year, we share the view of most economists that interest rates will begin to rise. If that occurs it may present the opportunity to recover some margin. As the year unfolds we will watch that carefully and moderate any further growth spending accordingly.

Credit quality is expected to remain good. Drought is a severe problem for farmers in several parts of Australia and structural reform is pending in the cane-growing sector. We will be working closely with customers in those areas to manage through these difficult conditions and minimise losses to themselves and the bank. Taking those areas into account we expect bad debts from the overall portfolio to again be in the normal range.

GENERAL INSURANCE

The group's profit from general insurance was $110 million pre-tax, down from $163 million the year before.

The addition of GIO dramatically changed the size and nature of our general insurance business and means this year is not comparable to the prior year. That said, one would expect to see the profit increase rather than drop following an acquisition that more than doubles the size of the business!

The good news is that the underlying operating earnings of the acquired GIO business were very sound. But poor investment earnings in both businesses and increased claims costs in the Suncorp business pulled the overall result down. Neither of these factors has changed our view that the long-term prospects for the group's general insurance business are very good.

	Year to June-02 $m	Year to June-01 $m	Change %
Banking Profit Contribution			
Net interest income	550	514	7.0
Other operating income	126	117	7.6
Total operating income	676	631	7.1
Operating expenses	(343)	(311)	10.3
Net operating profit	333	320	4.1
Bad and doubtful debts expense	(40)	(36)	11.1
Contribution to profit before tax from Banking	293	284	3.2

Managing Director’s Letter to Shareholders

In general insurance our profit comes from three sources (the first two of these items comprise the Insurance Trading Result):

1. the operating result from premiums less claims and expenses
2. the investment income earned on premiums and on provisions set aside to pay claims
3. the investment earnings on Shareholder’s Funds that are held as an extra cushion to pay claims in case of catastrophic events.

The insurance trading result for general insurance increased from $83 million to $113 million, with all of the increase due to the addition of GIO. $113 million is 6.3 percent of premiums, which is not up to our usual standards. The Suncorp margin was 7.9 percent, down from its long-term range of 10 to 14 percent. The GIO margin was 4.9 percent, which did meet our target for the first year of ownership. (This percentage is calculated net of statutory fees and charges, which we simply collect and pay on behalf of the government. The insurance numbers in this letter are calculated on that basis, although the statutory accounts require statutory fees and charges to be included.)

Because investment returns feature in both the Insurance Trading Result and in the investment income on Shareholder’s Funds I will comment on them before delving deeper into the trading results.

Investment returns

Investment returns were down because equity markets performed poorly and because interest rates were lower than last year. Equities performed poorly because of general economic uncertainty and concerns that some equity markets were overvalued, especially the U.S. The events of September 11 were both a catalyst and a cause for greater uncertainty. Interest rates were reduced by central banks to help stimulate weakening economies; and so the interest income received on cash and bonds held to pay claims was reduced.

Investment income on premiums and provisions for claims was $173 million. While this is above the prior year’s $163 million, the prior year did not include GIO’s provisions and the income that would be earned on the assets backing them. Looking at the Suncorp investment income by itself illustrates what happened. Suncorp investment income on provisions was $107 million, down $56 million from the $163 million the year before. It fell because earning rates were lower and because some of the provisions were invested in equities (they no longer are) and equities performed poorly as well.

Investment income on shareholder funds was zero for the year, down from $80 million the year before. Simply put, positive returns from property investments matched the losses in equities.

I think it is important to point out that while it was a poor year for investment returns our investment team earned returns in both equities and fixed interest investments that were better than the market. For example, in Australia the ASX Accumulation Index lost approximately 4.7 percent for the 12 months to June, the first negative return since 1988. Our investment team held our loss on equities to 3.5 percent. Over the last five years their performance has been consistently better than the market.

To further explain performance in general insurance I’ll return to the trading results for Suncorp and GIO and then to the Transformation program that affects them both.

General Insurance Profit Contribution	Consol. June-02 $m	GIO June-02 $m	Ex GIO June-02 $m	Ex GIO June-01 $m	Ex GIO Change %
Net premium revenue	1,797	977	820	744	10.2
Net incurred claims	(1,409)	(706)	(703)	(665)	5.7
Operating expenses	(471)	(304)	(167)	(164)	1.8
Other income	23	15	8	5	60.0
Underwriting result	(60)	(18)	(42)	(80)	47.5
Investment revenue – insurance provisions	173	66	107	163	(34.4)
Insurance trading result	113	48	65	83	(21.7)
Investment revenue – Shareholder’s funds	-	(3)	3	80	(96.3)
Contribution to profit before tax from General Insurance	110	56	54	163	(66.9)

Suncorp trading results

Net premium revenue of the Suncorp business grew by 10 percent to $820 million. This reflected very strong growth in personal and commercial lines.

Personal lines grew 17 percent reflecting strong growth in the number of risks and in rates. Commercial net premium grew 15 percent reflecting higher premium rates offset in part by price increases and a reduction in risks. We declined to renew business in some sectors of liability insurance where the premiums are too low for the risk being taken. Compulsory Third Party (CTP) net premium revenue was steady. Claims costs in personal lines were on par with last year.

In commercial lines we increased provisions for claims by a total of $27 million, mostly in public liability. The increase in public liability reflects the trend of higher court awards for damages. Governments across Australia have begun taking actions aimed at ending this trend and we expect they will have the intended effect provided they are followed through.

In CTP claims there were indications in the first half of the year of increasing average claims costs due to rising court awards. With the benefit of a further six months' experience, we are satisfied that claims inflation has stabilised. The Queensland government had already taken action to reduce CTP claims costs in the future and we hope this will be effective over time. The increase experienced during the first half related to claims incurred before the government reforms were enacted.

Efficiency of the Suncorp business improved in the year, with expenses as a percent of premium improving to 20.4 percent from 22.0 percent the year before.

As already noted, this year's Suncorp trading ratio of 7.9 percent is below the 10 to 14 percent range it has historically performed in. We see this year's result as an aberration rather than a change to the historical trend. It does illustrate that general insurance results can vary from year to year more than is usual in our banking and wealth management activities.

GIO trading results

Because we did not own GIO the previous year there are no relevant year-to-year comparisons but we can look at the second half results compared to the first.

Net premium revenue of the GIO business grew 4 percent in the second half, reflecting particularly strong growth in Commercial insurance. We believe this is quite satisfactory growth under the circumstances of a change in ownership and the extensive changes of Transformation.

Claims costs were favourable overall. The New South Wales bush fires and storms increased personal lines claims. Otherwise claims experience was good, especially in the long tail classes of CTP, Public Liability and Workers Compensation.

The GIO expense ratio increased from 30.7 percent to 31.5 percent. This reflected the early savings of Transformation being offset by a return to normal levels of spending in areas like advertising and marketing. This half-on-half increase is not a concern because the high cost nature of the GIO operations will be comprehensively lowered as the Transformation changes flow into the financial results.

As noted above the GIO insurance trading ratio was 4.9 percent for the year, reflecting a pleasing improvement from 0.2 percent in the first half to 9.4 percent in the second. The overall result of 4.9 percent for the first year of ownership is in line with our expectations.

The sound first year result by GIO helped to offset the unusual dip in the Suncorp Insurance Trading Result and is a good illustration of the diversification benefit provided by the GIO acquisition.

Transformation program

Following settlement of the GIO acquisition in September we conducted a comprehensive and detailed integration planning process. We call the resulting 700+ improvement ideas the Transformation program. In December, after completing the planning, we announced we expected $240 million in total annual synergies from Transformation once the program is completed in June 2003.

The $240 million comprises expense reductions, reduced claims costs and incremental revenue. It is a big number and implies that the GIO purchase was a bargain, presuming the GIO business as it was would have been modestly profitable without too much change. Some industry analysts have been sceptical that the synergies could be so great and have adopted a wait and see attitude in their valuations of the Company's future earnings potential.

Having now completed six of the 18 months of the Transformation program I am pleased to report it is progressing on schedule and we have every expectation of achieving the target synergies. That is not to say it is easy, quite the contrary, but it is

Managing Director's Letter to Shareholders

going to plan. The improvement ideas and plans were developed by and owned by the staff responsible for implementing them and that underpins our confidence.

Some of the highlights of the improvements made so far are:

- Restructuring the telephone service, including opening a major new call centre in Toowoomba. Previously, GIO operated a distributed call system, where calls were answered in branches as staff were available to take them. This was inefficient and gave poor service; at times over 20 percent of customers abandoned their call after waiting too long. Under the new centralised system abandoned call rates are down to 3 percent and staff in branches can focus on serving customers in person.
- Insourcing the operation of GIO computer systems. Suncorp had the capability internally to manage and support the GIO systems. Bringing this in-house was completed in record time, without a hitch, and saves nearly $30 million a year.
- We began restructuring the GIO branch network, which involves turning many of these 40 former insurance-only outlets into full scale Allfinanz sales centres, offering insurance, banking and wealth management products. This is a growth initiative rather than one aimed at improved efficiency.

The other improvements made are too numerous to mention but these three give an indication of their range and scope. All the ideas implemented this year contributed $33 million pre-tax to the result. Their contribution depends on the value of the idea, how early or late in the year it was implemented and the cost to make the change. In future years the value of all ideas implemented this year will be $111 million, once the $61 million spent to implement them is written off. As you can see we are nearly half way toward the $240 million target.

As a result of these improvements the business will be much more efficient, have better underwriting skills and give customers higher standards of service. When the full synergies flow into the financial results we expect the ongoing annual trading results of the consolidated business will be in the 9 to 12 percent range.

WEALTH MANAGEMENT

The group's profit from wealth management activities was $58 million, before tax, up 3.6 percent from the previous year.

As in general insurance, the result was negatively affected by poor investment returns, even though our investment team outperformed the market. The underlying operating result, factoring out tax, investment returns and one-off items, showed very strong improvement. It rose from $31 million in 2001 to $46 million in 2002.

The wealth management result has two main parts – the profits of the life insurance business and the fee income we derive from funds management.

	Year to		
	June-02 $m	June-01 $m	Change %
Wealth Management Profit Contribution			
Planned profit margins	31	28	10.7
Experience profit	4	3	33.3
Investment income	1	10	(90.0)
Interest in statutory funds' earnings	36	41	(12.2)
Other revenue	17	26	(34.6)
Other expenses	(14)	(14)	-
Contribution to profit before tax from life company	39	53	(26.4)
Fee income funds management	51	29	75.9
Other expenses funds management	(32)	(26)	23.1
Contribution to profit before tax from funds management	19	3	533.1
Contribution to profit before tax from Wealth Management	58	56	3.6

LIFE INSURANCE

Planned profits in life insurance increased by 11 percent to $31 million, reflecting the flow through of very good new business growth in the previous year. Experience profits grew as well, up 33 percent to $4 million, reflecting better than projected experience in lapse rates, surrenders and claims.

While the operating results in life insurance were very strong, investment returns on the statutory funds were only $1 million, down 90 percent from the prior year. Shareholders and policyholders share the returns from the Company's statutory funds. The investment return was down because the overall market was lower, even though the Company's funds outperformed the market in every sector except one. The Balanced No 2 Super Fund has been a top 10 performer over the last one, two, three and four year periods and the Capital Stable No 3 Fund was in the top five for the same periods. The performance bodes well for continuing to win new business.

Investment return on shareholder's funds that back the life business also fell to a loss of $300,000, from a profit of $2 million in 2001.

The 2001 result included a gain of $13 million from the revaluation of a life company subsidiary, and a further revaluation resulted in a $3 million gain in 2002.

Leaving aside investment returns and these revaluations, the underlying profit from life insurance activities increased from $28 million to $35.3 million.

FUNDS MANAGEMENT

The profit before tax from funds management activities increased sharply, from $3 million to $19 million. Approximately $8 million of the increase was a one-off profit from a restructuring of the group's property assets.

So on an underlying basis, profit increased from $3 million to $11 million.The main reasons for the increase were a $2 million rise in property management fee income, following the restructure of the property assets, and an additional $3 million in management fees associated with the transfer of GIO's $1.8 billion in general insurance funds to Suncorp investment management. Funds under management grew very strongly relative to market growth.

CUSTOMER SERVICE IMPROVEMENTS

While the acquisition and integration of GIO was the most prominent feature of the year's activities, some very important work was underway to further improve customer service across the Company.

A key part of our Allfinanz strategy is to attract customers to use products from all three lines of business. Ours is a service business above all else and so a customer's desire to buy other products is directly related to the quality of service they get with the products they have now.

Customer service and how we improve it is at the heart of our marketing strategy. Over the past year we put in place a range of Customer Service Commitments. The rollout began in October with the launch of five commitments. Some examples are:

- We are committed to short wait time in branch queues. Our aim is to serve customers within five minutes on 9 out of 10 occasions.
- We're committed to having you back on the road quickly. If you can drive your damaged car into one of our Assessment Centres, our standard is to have it repaired within seven days. If the repairs need longer we'll provide you with a free courtesy car.
- We're committed to having a person in our call centre answer your phone calls promptly. The standard is for customers to wait less than one minute in 9 out of 10 cases.
- We're committed to giving you a fast answer on your business loan application. Our standard is to provide it in writing, within five working days. This compares to the industry average of 12.
- We're committed to confirming how much you can borrow for a home or car in one 15 minute phone call.

These are measurable standards, not fuzzy statements of good intention. They let our customers know what to expect and let us measure our performance. These and other service commitments are profiled throughout the Concise Report.

OUTLOOK

After reading this review of the Company's performance and activities over the past year I hope shareholders will agree that it was a year of good progress and one that will add considerably to the value of the Company in the future. I'll now turn to our expectations for the year ahead.

Managing Director's Letter to Shareholders

The Australian economy performed well through the turbulence of last year and should do relatively well again this year. Interest rates are expected to rise and that may enable banking margins to improve, although loan demand will probably be lower. Our plans should enable our banking business to grow a bit faster than the market and so overall we expect a good improvement in banking earnings.

General insurance will benefit substantially from the initiatives being implemented through the Transformation process. Providing there are no extraordinary natural disasters, we expect a good improvement in the trading margin. This year we aspire to reach the lower end of the 9 to 12 percent range that we expect to operate in over the longer-term.

Wealth management should continue its steady progress and again achieve healthy growth in its underlying profit.

Investment markets cannot be reliably predicted and so we do not try to predict the income on shareholder's funds that features in the general insurance and wealth management results.

For planning purposes we assume income on shareholder's funds will be in line with long-term averages. Provided that occurs, we expect a very substantial increase in the group's profit for the year. Investment markets and insurance claims experience often vary widely between the first and second halves of a year, so I emphasise that this is our expectation for the full year. I look forward to reporting progress in six months time.

In closing I would like to once again thank the Board for its support and thank all staff in the Company for their tremendous efforts through the year and their many accomplishments. In a year like this, when investment returns and charges for goodwill overshadowed the underlying progress, it is important to recognise that it is their efforts that are improving service to customers and creating value for shareholders.

W S Jones
Managing Director

Corporate Governance

The Board of Directors is responsible for the Corporate Governance of Suncorp-Metway Ltd and its controlled entities. Summarised in this statement are the main Corporate Governance practices that have been established by the Board and were in place throughout the financial year, unless otherwise stated, to ensure the interests of shareholders, customers and staff are protected.

BOARD RESPONSIBILITIES

The Board of Directors is accountable to shareholders for the performance of the Suncorp Metway group and has overall responsibility for its operations. The group conducts a diverse and complex range of business including banking, general insurance, life insurance and funds management, which means an important feature of the work of the Board is to ensure compliance with the prudential and solvency requirements of the Australian Prudential Regulation Authority (APRA). Board members of Suncorp-Metway Ltd also undertake roles as directors of Suncorp Metway Insurance Limited, GIO General Ltd and Suncorp Life & Superannuation Limited, which are all subject to APRA regulation.

The key responsibilities of the Board include:

- Approving the strategic direction and related objectives for the group and monitoring management performance in the achievement of these objectives.
- Adopting an annual budget and monitoring the financial performance of the group.
- Selecting, appointing, setting targets for and reviewing the performance of the Managing Director.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the group meets its legal and statutory obligations.

BOARD COMPOSITION

At the date of this statement, the Board comprises eight non-executive directors and the Managing Director. Whilst the non-executive directors of the Board have no other material relationship or association with the Company or its subsidiaries (other than their directorships) and therefore are regarded as independent of the Company and management, Mr Story is a member of a legal firm which may provide services to the group from time to time. The names of directors of the Company in office at the date of this statement including details of director's qualifications and experience are set out in the director's profile section of the Concise Report and the Annual Report.

The composition/membership of the Board is subject to review in a number of ways, as outlined below:

- The Company's Constitution provides that at every Annual General Meeting, one third of the directors, excluding the Managing Director, shall retire from office but may stand for re-election. Once a director reaches 72 years of age, that director must stand for re-appointment at each subsequent Annual General Meeting.
- Board composition is also reviewed periodically either when a vacancy arises or if it is considered that the Board would benefit from the services of a new director, given the existing mix of skills and experience of the Board which should match the strategic demands of the group. Once it has been agreed that a new director is to be appointed, a search is undertaken, sometimes using the services of external consultants. Nominations are subsequently received and reviewed by the Board.

BOARD APPRAISAL

A structured process has been established to review and evaluate the performance of the Board. Each year, a survey of directors is coordinated by the Chairman to review the role of the Board, to assess the performance of the Board over the previous 12 months and to examine ways of assisting the Board in performing its duties more effectively. The issues examined include Board interaction with management, the type of information provided to the Board by management and overall management performance in helping the Board meet its objectives.

COMPENSATION ARRANGEMENTS

As indicated elsewhere in this statement, the HR & Remuneration Committee has responsibility for recommending appropriate remuneration arrangements for directors. Recommendations are based on a number of factors, including the overall performance of the Company, comparisons with the remuneration levels of other companies of similar size in the financial services industry and the demands placed on directors in performing their role.

The total remuneration pool available for distribution to directors is determined by shareholders at the Annual General Meeting. Also, in accordance with approvals granted by shareholders, retirement

Corporate Governance

benefits are paid to non-executive directors. Details of directors' benefits and interests are set out in the Directors' Report and the Related Party section of the notes to the 2002 Consolidated Financial Statements.

INDEPENDENT PROFESSIONAL ADVICE

The Board collectively and each director individually has the right to seek independent professional advice at the expense of the Company.

A director seeking such advice must obtain the approval of the Chairman or in his absence the Board and such approval may not be unreasonably withheld. A copy of advice received by a director is made available to all other members of the Board except where the circumstances make that inappropriate.

CONFLICTS OF INTEREST

In accordance with the Corporations Act and the Company's Constitution directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the director concerned does not receive the relevant Board papers, is not present at the meeting whilst the item is considered and takes no part in any decision.

DIRECTOR EDUCATION

The Company has an informal process to educate new and existing directors about the nature of the business, current issues, and the corporate strategy. Directors also regularly visit the Company's business units and meet with management to gain a better understanding of business operations.

DIRECTOR AND SENIOR MANAGEMENT DEALINGS IN COMPANY SECURITIES

The Company's Constitution permits directors to acquire securities in the Company, however Company policy prohibits directors and senior management from dealing in the Company's securities or exercising options for a 30 day period prior to:

- the release of the Company's half-year and annual results to the Australian Stock Exchange;
- the Annual General Meeting;
- any major announcements; and
- at any time whilst in possession of price sensitive information.

Directors (including the Managing Director) must advise the Chairman of the Board before buying or selling securities in the Company. The Chairman must advise the Deputy Chairman before buying or selling securities in the Company. All such transactions are reported to the Board. In accordance with the provisions of the Corporations Act and the Listing Rules of the Australian Stock Exchange, the Company advises the Exchange of any transaction conducted by directors in securities in the Company.

BOARD COMMITTEES

In order to provide adequate time for the whole Board to concentrate on strategy, planning and performance enhancement, the Board has delegated certain specific duties to Board committees. To this end the Board has established four committees each with a defined charter, to assist and support the Board in the conduct of its duties and obligations. The structure and membership of the Committees and the Committee Charters are reviewed annually.

Audit, Business Risk and Compliance Committee

The primary role of this committee is to monitor and review the effectiveness of the group's control environment in the areas of operational risk, legal/regulatory compliance and financial reporting.

Specific issues addressed throughout the year in accordance with its Charter included:

- Evaluation of the group's Reinsurance Program.
- Evaluation of the group's compliance and risk management structure and procedures.
- Business Continuity Planning.
- APRA Re-authorisation for the general insurance entities.
- Financial Services Reform Act.
- Audit Planning.
- Reviewing internal and external audit reports to ensure that where weaknesses in controls or procedures have been identified, appropriate and prompt remedial action is taken by management.
- Reviewing half-year and consolidated financial statements and reports prior to consideration by the Board.

The committee is also responsible for recommending to the Board the appointment and removal of the external auditors and for determining the terms of engagement. During the year the group's external audit engagements were put out to tender and the committee was responsible for oversight and administration of the tender process including:

- Determining the tender/selection process to be followed including identification of key issues to be addressed.
- Selecting the firms invited to tender.

- Making presentations to the tendering firms.
- Receiving and assessing presentations from the tendering firms.
- Making a recommendation to the Board.

To enhance the independence of the audit functions (both internal and external) there are no management representatives on the committee, however the Managing Director, Chief Financial Officer, and the internal and external auditor are invited to committee meetings at the discretion of the committee. The committee also holds discussions with the auditors in the absence of management on a regular basis and the provision of non-audit services by the external auditor is reviewed by the committee to ensure the integrity of the auditor's independence is not prejudiced.

Membership: Dr I D Blackburne (Chairman), M D E Kriewaldt, J D Story (appointed 1 January 2002), Dr C Hirst (appointed 13 February 2002), F C B Haly (resigned 31 January 2002)

Board Credit Committee

The primary role of this committee is to monitor the effectiveness of the credit function of the group to control and manage the credit risks within the group, including the loan, investments and insurance portfolios and to identify and monitor the group balance sheet risk (interest rate risk and liquidity risk) within limits set by the Board.

Membership: R F Cormie (Chairman), J J Kennedy, J D Story, P Handley (appointed 29 August 2001), W S Jones (Managing Director)

Investment Committee

The primary role of this committee is to monitor the effectiveness of the investment processes of the group in achieving optimum return relative to risk.

Membership: P Handley (Chairman) (appointed 29 August 2001), M D E Kriewaldt, R J Lamble, (ex-officio only from 1 December 2001), R F Cormie, W S Jones (Managing Director)

HR & Remuneration Committee

The HR & Remuneration Committee was formed on 29 November 2001 in place of the Chairman's Committee and is responsible for making recommendations to the Board on:

- The remuneration of directors and the remuneration and performance targets of the Managing Director. (The committee also reviews the remuneration and performance targets of direct reports to the Managing Director.)
- Appointments to and terminations of senior executive positions reporting to the Managing Director.
- Remuneration and human resource policy matters.
- Review management succession planning.

Membership: J D Story (Chairman), Dr I D Blackburne, P Handley

Since 1 December 2001, the Chairman of the Board is entitled to attend all meetings of Board committees in an ex-officio capacity.

RISK MANAGEMENT

The Company is required to manage a diverse and complex range of significant risks. Details of those risks and the type of controls and structures that are in place to ensure they are effectively managed, are set out in the 'Risk Management' section of the notes to the 2002 Consolidated Financial Statements.

CONTINUOUS DISCLOSURE

The Company has a policy that all shareholders and investors have equal access to the Company's information. There are procedures in place to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules. The Head of Investor Relations has primary responsibility for all communications with the ASX. All Company announcements are placed on the Company's website at www.suncorp.com.au following release to the ASX.

CODE OF ETHICS

Directors, management and staff are expected to perform their duties for the group in a professional manner and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the group.

Board of Directors


John Lamble


John Story


Steve Jones


Ian Blackburne


Rod Cormie


Pat Handley


Cherrell Hirst


Jim Kennedy


Martin Kriewaldt

R John Lamble AO BSc(Hons), Hon D Univ (UNSW), FAII
Chairman, Non-executive Director Age 71

Director and Chairman since December 1996. John Lamble's principal career was as Chief Executive Officer of NRMA Insurance Limited from 1968 to 1992. He has had extensive experience as Chairman and director of public companies in the financial services industry.

John D Story BA, LLB, FAICD
Deputy Chairman Age 56

Director since January 1995 and Deputy Chairman since June 2002. John Story is a partner of the law firm Corrs Chambers Westgarth and is a director of Jupiters Limited, Breakwater Island Limited, Ruralco Holdings Limited and Australian Magnesium Corporation Limited. He is an Adjunct Professor of Law at the University of Queensland and a member of the Queensland Council of the Australian Institute of Company Directors.

Steve Jones MBA (Hons), BEcon
Managing Director Age 50

Director since joining the Company in January 1997 as Managing Director and Chief Executive Officer. Steve Jones guided the Company through the merger of Suncorp Insurance, Metway Bank and QIDC which created the group. He is also a director of the Insurance Council of Australia Limited and a member of the Australian Bankers Association Council.

Ian D Blackburne MBA, PhD, BSc (First Class Hons)
Non-executive Director Age 56

Director since August 2000. Ian Blackburne is Chairman of the Royal Botanic Gardens and Domain Trust (NSW) and a director of the Australian Nuclear Science & Technology Organisation, CSR Limited and Teekay Shipping Corporation Limited. He retired in 2000 as Managing Director of Caltex Australia Limited after having spent 25 years in the petroleum industry.

Rodney F Cormie BCom, AAUQ, ASA, FSIA, FAICD
Non-executive Director Age 69

Director since December 1996. Rod Cormie is also a director of Magellan Petroleum Australia Limited. He has had extensive experience as a company director and was a director of the Queensland Industry Development Corporation from 1990 until the creation of the Suncorp Metway group in 1996.

R Patrick Handley MBA, BA, AICD
Non-executive Director Age 57

Director since July 2001. Pat Handley has extensive experience in the financial services industry, both overseas and in Australia. From 1993 to 2001 he was an Executive Director and Chief Financial Officer of Westpac Banking Corporation. He is currently Chairman of Pacific Brands Holdings Pty Ltd and a consultant to PricewaterhouseCoopers.

Cherrell Hirst AO MBBS, BEdSt, DUniv(Hon), FAICD
Non-executive Director Age 57

Director since February 2002. Cherrell Hirst is a medical doctor and leading practitioner in the area of breast cancer diagnosis. She is Chairman of Peplin Biotech Limited, a director of Anti Bio Technologies Limited and has been Chancellor of Queensland University of Technology since 1994. Cherrell was a former director of Metway Bank from July 1995 to December 1996.

James J Kennedy AO CBE D Univ (QUT) FCA
Non-executive Director Age 68

Director since August 1997. Jim Kennedy is a Chartered Accountant and a director of GWA International Limited, Macquarie Goodman Management Ltd, Macquarie Goodman Funds Management Ltd, Qantas Airways Limited and the Australian Stock Exchange Ltd. He is also a member of the Prime Minister's 'Community Business Partnership'.

Martin D E Kriewaldt BA, LLB(Hons), FAICD
Non-executive Director Age 52

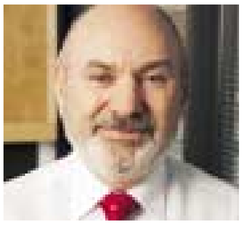
Director since 1 December 1996, Martin Kriewaldt was also a director of the Suncorp group from 1990 and Chairman at the time of the creation of the Suncorp Metway group in 1996. He is Chairman of Airtrain Citylink Limited and Opera Queensland Limited, and a director of Campbell Brothers Limited, GWA International Limited and Oil Search Limited. Martin is a consultant for Allens Arthur Robinson and Aon Holdings Australia Limited and a member of the Redeemer Lutheran College Council.

Group Executive


Steve Jones


Mark Blucher


Carmel Gray


Peter Johnstone


Greg Moynihan


Ray Reimer


Chris Skilton


John Trowbridge

Steve Jones MBA (Hons), BEcon
Managing Director

Steve Jones became Managing Director/CEO in January 1997 following the merger of Suncorp, Metway Bank and QIDC on 1 December 1996. Prior to Suncorp he was Managing Director of the ANZ Banking group (New Zealand) from 1995 to 1996 and Senior General Manager ANZ Melbourne from 1993 to 1995, responsible for Australia Retail Banking and ANZ Funds Management. Previously with McKinsey and Co, Steve had significant experience advising large companies on competitive strategy, growth opportunities and merger management. He holds an MBA with Distinction from Harvard University and a BA in Economics from the University of North Carolina where he was a Morehead Scholar.

Mark Blucher AAIBF
Group Executive Retail Distribution & HR

Mark Blucher was appointed to his current position in 2001 having previously held the position of Group General Manager Distribution and HR since December 1998. His responsibilities include the branch network, call centres, intermediaries and alliances, small business and human resources. Mark joined Suncorp as General Manager HR in September 1997 after having spent 19 years in a number of senior positions with the ANZ Bank's operation in New Zealand.

Carmel Gray BBus (Econ & Acc)
Group Executive Information Technology

Carmel Gray was appointed to her current position in 2001 and is responsible for the group's IT activities. She had previously held the position of General Manager IT since 1999, with a focus on organisational change and strategic alignment of the business. Carmel has spent her career in the IT industry in a variety of management positions including Australian Managing Director of United Kingdom based software and services provider Logica.

Peter Johnstone LLB
Group Executive Operations & Integration

Peter Johnstone's role, which includes the integration of Suncorp and GIO businesses, draws on his previous experience with the Suncorp Metway group merger in 1996. He also has responsibility for the back-office functions of banking, Legal Department, Corporate Projects and Group Services. He was appointed to the role of Group General Manager Operations in March 1997 and added IT to his portfolio in November 1998. Before joining Suncorp, Peter was General Manager Operational Support and General Counsel of the Bank of South Australia. He has 30 years' experience in finance, business and law.

Greg Moynihan BCom, ASA, ASIA
Group Executive Banking & Wealth Management

Greg Moynihan is responsible for the Banking and Wealth Management lines of business and his responsibilities include group marketing, actuarial and investment management. He has held a number of senior executive positions in the group and prior to the Suncorp Metway merger in 1996, Greg was CEO of Metway Bank Ltd.

Ray Reimer
Group Executive Business Distribution

Ray Reimer is responsible for property finance, commercial banking, equipment finance and corporate and trade finance. He was previously Group General Manager Business Banking. He has been with the Group for over 25 years having commenced his banking career with the Agricultural Bank. After 14 years in a number of positions in Metway Bank's retail banking, Ray became Queensland Manager and National Manager in Commercial Banking, and General Manager Commercial Banking.

Chris Skilton BSc (Econ), ACA
Chief Financial Officer

Chris Skilton was appointed Suncorp's Chief Financial Officer in June 2001. He was previously with Westpac where his final position was Group Executive, New Zealand and the Pacific Islands and prior to that Deputy Chief Financial Officer. Prior to Westpac, Chris was Managing Director and CEO of AIDC Ltd. He has over 15 years of direct experience in various senior roles in the finance sector.

John Trowbridge BSc, BE, BA, FIA, FIAA
Group Executive General Insurance

John Trowbridge recently joined Suncorp, and is responsible for the general insurance business. He was previously Chairman of Trowbridge Consulting, one of Australia's leading actuarial and financial services consulting firms which he established in 1981. John is an acknowledged leader in the insurance industry, with both strategic and operational expertise and has been an adviser to Suncorp for some years.

Group Overview

CORPORATE PROFILE

Suncorp is one of Australia's 25 largest companies, and the biggest listed corporation in Queensland.

Its shareholder base more than doubled to around 200,000 on 31 October 2001 when 118,000 Exchanging Instalment Noteholders became shareholders through their notes being exchanged for Suncorp ordinary shares. The notes had been issued to the public by the Queensland Government in 1998 as part of the sale of its shareholding in the group. Suncorp now has a sharemarket value of $6.5 billion and 525 million shares on issue.

The group's main businesses are banking, insurance, investment, managed funds and superannuation services, focused on retail consumers and small to medium sized businesses. Suncorp is Australia's sixth largest bank and second largest general insurer, with assets of $35.5 billion. Total funds under management exceed $9.5 billion.

Suncorp is a well-established market leader in Queensland in home insurance, motor insurance and Compulsory Third Party insurance and since the GIO acquisition, also holds substantial general insurance market shares nationally. The business mix has become more diversified, with growth in personal and commercial insurance lines and the addition of workers compensation.

Suncorp also has a 50 percent shareholding in motorclub insurance joint ventures in RACQ (Queensland) and RAA (South Australia). Both of these joint ventures hold substantial market shares in their respective states.

The group has 3.8 million customers and 7,800 staff spread throughout Australia but mainly in Queensland, New South Wales and Victoria. The GIO acquisition added 1.5 million customers and approximately 2,800 staff. Suncorp has 195 retail and business banking branches and outlets, predominantly in Queensland, and GIO has 74 branches and agencies nationally. Over the next 12 months, Suncorp and GIO branches outside of Queensland will be transformed into a network of 36 Allfinanz sales and service centres offering insurance, banking and wealth management products.

Customers also have access to over 240 Suncorp ATMs and 14,700 ATMs of other banks, as well as 5,600 EFTPOS terminals. Nearly 120,000 customers now use the internet for their everyday banking needs, with the number and value of transactions increasing 50 percent over the last year. A timesaving feature introduced during the year was the '2tosign' function, which allows customers in different locations to complete a transaction on-line that requires two signatures.

Six call centres, located in Brisbane, Toowoomba, Parramatta (Sydney) and Melbourne take care of customers banking, insurance and wealth management needs, responding to over 550,000 calls each month. Suncorp's newest $10.8 million call centre in Toowoomba has created 300 jobs and is equipped to handle around 8,000 calls a day.

CORPORATE HISTORY

On 1 December 1996, the Queensland Government-owned Suncorp and QIDC financial entities were merged into the publicly listed company Metway Bank to create the new Allfinanz group Suncorp Metway.

However the group's history goes back 100 years when the Queensland Government established the Agricultural Bank in 1902. The Ag Bank ultimately became part of QIDC, which was formed in 1986 primarily as a rural financier. Suncorp started business in 1916 as the State Accident Insurance Office and grew into SGIO before becoming Suncorp. And Metway Bank was first established in 1959 as Metropolitan Permanent Building Society before converting to bank status in 1988.

At the time of the merger, the group's assets were $19.9 billion. There were 28,900 shareholders and 191 million shares on issue with a sharemarket value of $917 million.

BANKING

Retail Banking

Retail Banking offers a full range of financial services, including home and personal loans, transaction and savings accounts, credit cards and foreign currency services, to over 837,000 customers.

Retail banking loans total $13.3 billion, including $12.8 billion in housing loans and $514 million in consumer loans.

Interstate lending continued to be strong, particularly in Victoria, South Australia and Western Australia where housing loans increased by 68 percent to $974 million. Lending outside of Queensland now accounts for 29 percent of assets,

"When I phone your call centre, I don't want to be on hold until I forget why I called in the first place."

Using the telephone is about convenience. And when Gwen Cotterell forgot her PIN at a time she urgently needed to access some cash, she found help was quickly at hand through call centre consultant Michael Coppin. His courteous and compassionate manner, she said, changed a very unhappy and irate customer into a satisfied 'old girl'. "I'm truly grateful that he saw me through a traumatic time."

"Suncorp is committed to having a person in our call centre answer a customer's phone call promptly. In fact nine out of 10 times, a customer will wait less than a minute."

Michael Coppin, Acting Team Leader

Group Overview

compared with 23 percent as at June 2001 (17 percent just two years ago), and 40 percent of disbursements, indicating the continued geographical diversification of the loan business.

Lending through the group's LJ Hooker real estate alliance channel was strong with receivables increasing by 52 percent over the year. The Company now has 55 mobile consultants serving the LJ Hooker chain and 15 consultants with the First National real estate network, an additional alliance established during the year.

The personal lending portfolio has been enhanced with the introduction of a very competitive secured car loan, whilst a broad suite of credit card products is being developed for release late in 2002.

Distribution of products and services are via 147 retail outlets, ATMs, call centres and the internet. On-line margin lending, integrated with on-line brokering, was launched during the year, giving customers the convenience of on-line share trading with the benefit of settling trades through margin lending accounts.

Business Banking

The Business Banking division is focused particularly on the needs of small to medium sized businesses, with an emphasis on owner-managed businesses, and has more than 59,000 customers.

Suncorp offers a variety of loan, leasing and everyday banking services as well as specialised facilities for importers and exporters. A specialist Corporate Finance division provides a tailored service to larger businesses requiring lending facilities of $10 million or more.

New internet banking facilities were introduced during the year for business banking customers with the ability to download transaction history details into standard accounting packages and bulk payment (single debit, multiple credit) transactions for small business payrolls.

Business Banking has grown its assets by $944 million, or 12.3 percent to $8.6 billion over the year to June 2002 and has four major areas of operation:

Commercial Banking provides working capital and term finance for business clients with borrowing requirements of more than $250,000. Total assets in Commercial Banking, including Corporate Finance, are approximately $1.9 billion, predominantly in Queensland. Commercial Banking continues to expand in New South Wales and Victoria with the number of staff doubling to help grow a greater share of owner-managed segments. The rollout of Allfinanz centres in New South Wales over the next 12 months will enable Commercial Banking to offer business customers a full range of banking products and services.

Business and investment centres at Mount Gravatt and Virginia were opened during the year providing business and investment customers with a 'one stop shop' for their banking, insurance and wealth management needs.

Commercial Banking also introduced specific lending packages for owner-managed businesses in niche markets such as the medical and pharmaceutical industries.

Agribusiness For 100 years, Suncorp has been providing financial services for rural producers and associated businesses in Queensland. Miles, the first rural branch of Ag Bank, the forerunner of QIDC which became part of the Suncorp Metway group in 1996, is still open today and forms part of Suncorp's South West Queensland Agribusiness Division.

Suncorp now has a network of 60 agribusiness managers throughout Queensland, New South Wales and Victoria and provides over $2 billion in loans to the rural sector, with growth of 13 percent over the year. The fastest growth occurred in Victoria and New South Wales where Suncorp has established 10 agribusiness lending centres through an alliance with the Pivot fertiliser company. Suncorp retains a 25 percent market share in Queensland.

Property Finance includes development finance and property investment. This division, with operations in Queensland, New South Wales, Victoria, Western Australia and Canberra, provides project finance for real estate developments and term finance for investment properties. Total loans in development finance were $1.2 billion, with 70 percent of business in residential housing and unit developments. Property Investment loans total $2.2 billion.

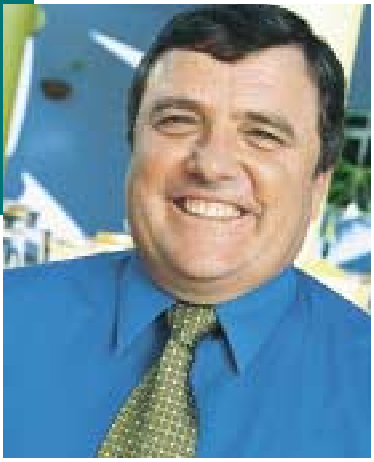
Equipment Finance provides leases to business customers, mainly for vehicles and equipment. The product range has been extended to include rental and chattel mortgage. Total loans were $1.6 billion.

"Time is money and the more time I wait for a business loan, the more money I lose."

Terry and Di Marsay have an eye on their future financial security as well as looking at new business opportunities. With over 20 years' experience in the seafood industry, including owning and operating a fishing trawler and several seafood outlets on the Sunshine Coast, there isn't much the Marsays don't know about the business. Their relationship with Business Banking Manager Craig Nielsen goes back to Metway Bank in 1992 and since then Craig has worked with them to help them achieve financial success. "Right from the start the bank looked outside the square to help with my business proposals," said Terry. "They've always been responsive to requests and have shown a genuine interest in our business."

"Suncorp is committed to giving customers an answer on their business loan, in writing, within five working days."*

Business Banking Manager Craig Nielsen



*Subject to terms and conditions that appear on page 24

Group Overview

INSURANCE

General Insurance

Suncorp's general insurance operations doubled during the year with the acquisition of the GIO business. The General Insurance division takes care of the personal, commercial, compulsory third party insurance and workers' compensation needs of 3.2 million customers. In the year to June, Suncorp paid out more than 425,000 motor, home and commercial insurance claims.

Summer storms in New South Wales resulted in 12,400 claims while bushfires that swept through the state led to over 1,000 claims. The group also settled 8,000 compulsory third party, disability, trauma and accidental death claims last year. Around 22,000 customers call each week seeking insurance assistance.

Insurance premium revenue across all classes of business totalled $1.9 billion for the year to June 2002.

Suncorp remains one of Australia's strongest insurers in terms of claims provisioning, maintaining a high probability of sufficiency and retaining prudent risk margins.

Compulsory Third Party (CTP)

Suncorp continues to hold a strong position in the Queensland CTP market, despite the partial deregulation of the State Government regulated scheme from October 2000 when CTP providers were able to set their own prices within a range set by the State Government. Suncorp is the largest CTP provider in Queensland, with a 55 percent market share. The group insures almost 1.4 million of the total 2.4 million vehicles in the state. CTP insurance premiums are collected from customers on the group's behalf through motor dealers on the purchase of a new vehicle and by Queensland Transport where CTP insurance is paid as part of vehicle registration renewal. Suncorp, through GIO also underwrites CTP insurance in New South Wales with a portfolio of 300,000 vehicles, built largely through actively focusing on cross-selling CTP insurance to GIO's motor insurance customers.

Personal

This includes home and contents, personal effects, motor and boat insurance. Suncorp is the market leader in motor insurance in Queensland with more than 550,000 vehicles insured (29 percent market share), an increase of nearly 13 percent over the last 12 months. It is also number one in home insurance with more than 400,000 homes insured (28 percent market share), up nearly nine percent from June 2001. The group enjoys high retention rates in home and motor insurances in Queensland of around 90 percent.

GIO has over 800,000 home insurance customers throughout Australia and holds the number two market share position in New South Wales. GIO insures around 800,000 motor vehicles nationally.

Paying home and motor insurance premiums via the easy monthly payment option has become a popular payment alternative for customers. Around 22 percent of GIO home insurance premiums and 30 percent of motor insurance premiums are paid by this method Australia wide. Suncorp, which introduced the option more recently, has seen a 50 percent increase in the use of the monthly payment option over the last year.

The internet provides quick home and motor insurance quotes to new and existing customers. Currently Suncorp provides over 7,000 quotes each month and this number is growing steadily.

Commercial Insurance

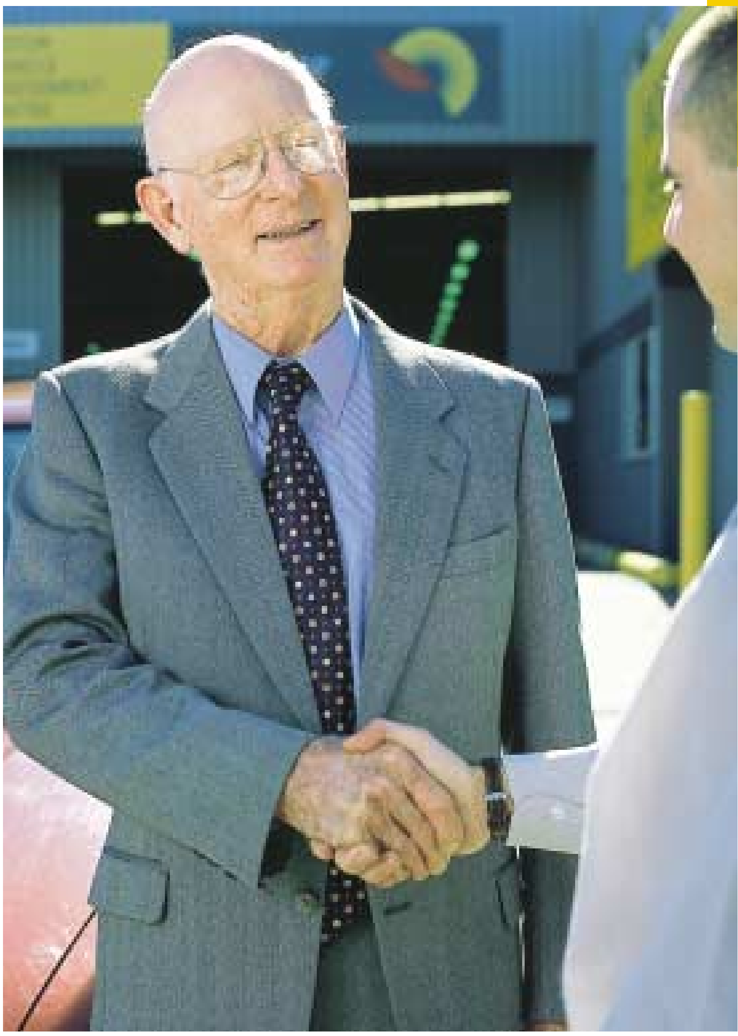
Commercial Insurance has gross written premium revenues in excess of $450 million covering property, liability, motor, marine and associated risks.

The group has nearly 270,000 businesses as customers with approximately 290,000 current policies.

Suncorp and GIO offer products throughout Australia, with underwriting and sales staff in all states. The group is the leading provider of commercial insurance products to small to medium size businesses, attracting almost 25 percent of the national small to medium business market.

Workers' Compensation

Through GIO, the group provides workers' compensation services in New South Wales, Australian Capital Territory, Western Australia and Tasmania to over 125,000 business clients, from small to medium private sector employees through to self managed private and government enterprises. GIO has a 22 percent market share in New South Wales. The group's focus is on servicing small to medium businesses where GIO is the largest insurer in this market segment. Electronic imaging of policy and claims files and automated file tracking were recently introduced through the group's major businesses in New South Wales and Western Australia.



"Every day I'm off the road I lose time and money".

Fortunately for Dr John O'Hagen of Annerley the repair to the rear of his vehicle was only minor. It was authorised promptly, using a recommended repairer, and a handshake later, Dr O'Hagen was on his way with a courtesy cab voucher. The team at the Moorooka Assessment Centre also took the opportunity to resolve a warranty claim that was outstanding for a rear windscreen problem from several years ago.

"Suncorp is committed to having customers back on the road quickly. If you are able to drive your car into one of our Assessment Centres we'll repair it within seven days. If we don't, we'll provide you with a free courtesy car." *

Assessor Stuart Bingham

*Subject to terms and conditions that appear on page 24

Group Overview

WEALTH MANAGEMENT

Wealth management covers life, super and managed investments. The division also includes the funds management activities of Suncorp Metway Investment Management Ltd (SMIML).

Products and services provided for the division's 150,000 individual and small business customers include superannuation (personal, allocated pensions and employer sponsored), managed investments (unit trusts), life insurance (term life, trauma and disability income), and financial planning and advice.

Personal superannuation and allocated pension customers have nine fund options and the flexibility to invest in one portfolio or in any combination of portfolios to tailor their investment needs. The introduction of eSuper has enabled registered members and employers access to a range of services on-line. For members these include viewing current investments and insurance details and updating personal details and beneficiaries. Employers are able to make contributions on behalf of members, add new members and update members' personal details. A number of additional services will be available in the coming months including the ability for members to change investments and for employers, importing a payroll file to make contributions.

Investors in managed funds have seven fund options including the recent addition of a conservative and secure cash fund option.

Funds under management exceed $9.5 billion.

The distribution network continues to expand with the financial adviser channel having grown to 137 consultants, including mobile and business financial advisers and call centre investment consultants. This expansion follows the introduction of financial advisers to the branch network where they are able to take advantage of leads through the banking business to sell life insurance, superannuation and managed funds. The conversion of GIO branches to Allfinanz centres in New South Wales will present further opportunities for the advisory channel to sell the wealth management product range.

Excellent investment management has once again enabled the division to enjoy above average investment returns despite weaker world and Australian equity markets and a slowdown in the international economy. Suncorp funds have continued their strong performance ranking. The Balanced No 2 Fund remained in the top 10 performers over one, two, three and four year returns, while the Capital Stable No 3 Fund was ranked within the top five performers over the same period.

	Year ended 30 June 2002	
	Market average results %	SMIML performance %
Asset class		
Australian cash	4.66	4.92
Australian fixed interest	6.21	6.87
World fixed interest	8.00	8.25
Australian equities	(4.69)	(3.41)
World equities	(23.26)	(24.17)
Listed property trusts	14.85	15.97
Direct property	8.53	10.25

Table represents the performance of all funds under Suncorp Metway Investment Management Ltd management.

Customer Service Commitments Terms and Conditions

Suncorp is committed to having you back on the road quickly. If you can drive your car into one of our Assessment Centres we'll repair it within seven days. If we don't we'll provide you with a free courtesy car. (page 23)

The offer applies to cars, 4WDs, utilities, and vans up to two tonne carrying capacity, which were manufactured less than 31 years ago, which are comprehensively insured with Suncorp. The car must be driven to a Suncorp or GIO Motor Vehicle Assessment Centre for repairs following an approved claim. The offer excludes cars towed to a Suncorp or GIO Motor Vehicle Assessment Centre. Repairs to cars are to be carried out as directed by Suncorp. The offer excludes cars damaged as a result of hail or flood, or cars to which additional private work is to be carried out. The seven day offer is available for repairs for one claim only. Repairs to be made at the same time for additional claims will increase term of offer by seven days for each claim (eg two claims, 14 days). The courtesy car provided will be a 'small category' vehicle.

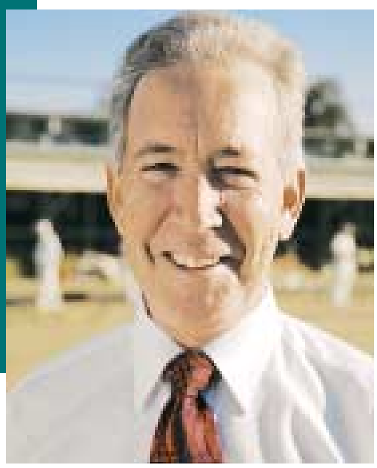
Suncorp is committed to giving a customer an answer on their business loan, in writing, within five working days. (page 21)

Offer excludes Development Finance and Commercial Property Investment Finance. Excludes loans in excess of $3 million. Five day period commences on receipt of all information requested by Suncorp.

"I doubted I'd be comfortable getting financial advice from a bank-based financial adviser."

Tom Bawden, the Chairperson of the Hendra Nundah Bowls Club has no hesitation in dealing with a Suncorp financial adviser. In fact Tom and his committee at the bowls club have placed $750,000 of the club's funds with Senior Financial Adviser Glenn Rice. Tom thinks Suncorp is great and has organised investment seminars for members. "I like the idea of having my adviser and bank together – it promotes convenience and trust," said Tom.

"Suncorp is committed to providing customers with high quality financial advice. In a customer satisfaction survey last year, customers rated Suncorp advisers nine out of ten for 'making you feel comfortable' and 'being qualified and knowledgable'."*



Bill Justo, National Business Manager FA

*Enhance Management research March 2001

Supporting the Community

Suncorp's responsibilities to the community are more than just providing a range of financial services and establishing business relationships. The group has a long history of supporting the communities it serves by sponsoring events and providing much-needed assistance to charities. As well as direct Company support, Suncorp staff give freely of their time and expertise to help charities and to participate in a range of community activities. Suncorp is committed to continuing its community involvement.

Hear and Say Centre Suncorp has supported the centre, which helps deaf children to learn, listen and speak through cochlear implant technology, since the early nineties. Through corporate donations, luncheons, golf days and the Queensland-wide initiative, Butterfly Week, over $40,000 has been raised this year.

Youth Enterprise Trust (YET) For four years Suncorp and YET, which was founded by Lloyd Hancock, Queenslander of the Year 2001, have worked as partners in a very successful program which takes small groups of disadvantaged young people through an intensive wilderness course that helps them develop fulfilling lives. Suncorp staff 'mentor' graduates, attend working bees and actively fundraise through their own initiatives.

Royal Flying Doctor Service Suncorp has been a proud partner of the RFDS since 1999, reinforcing the group's appreciation to rural and regional customers for their support. Suncorp's branches in regional and rural Queensland get behind a range of fundraising activities throughout the year.

Sunday Mail/Suncorp Bridge to Brisbane Fun Run
This event is one of Brisbane's largest community events with the proceeds going to a number of charities each year. Over $500,000 has been raised since Suncorp became a co-naming rights sponsor six years ago, with the RFDS being the major beneficiary of the 2002 event. The event attracts over 12,000 participants, including 1,500 Suncorp staff.

Other sponsorships Suncorp also sponsors the Queenslander of the Year and Young Queenslander of the Year awards, which recognise outstanding people from many disciplines and walks of life, and the Australian Cotton Industry's award ceremony, now the benchmark by which excellence is measured within that industry. Charities such as the Royal Children's Hospital Christmas Appeal, Salvation Army, and Queensland Cancer Fund's Daffodil Day are similarly supported.

Sporting Events The largest multi-sports carnival in Australia, the biennial North Queensland Games, is one of Suncorp's longest sponsorships, dating back to the beginning of the games in 1984. This year it was Mt Isa's turn to host the event which covered 27 different sports and involved over 1,800 competitors.

In Western Australia, GIO is a sponsor of the 20 kilometre Rottnest Channel Swim. The world's longest, and largest, open water swimming event attracts over 2,000 competitors, plus spectators and media from around the world.

Queensland Cricket

Suncorp and Queensland Cricket have enjoyed a winning partnership over the last 11 years. As a major sponsor, Suncorp is involved with the development of cricket in regional Queensland and also the growth of cricket as a sport for young women.

Hear and Say Centre

Photo: courtesy Gold Coast Bulletin

It was an emotional time for 13-month-old Jye Mason's family when his cochlear implant was 'switched on' and he recognised sound for the first time. Diagnosed as profoundly deaf when he was just a few weeks old, Jye has now taken the first step on a long road to learn how to listen and speak using Auditory-Verbal therapy. Other Hear and Say Centre students Jessika-Lee Burdell (left) and Julian Lloyd (right) will be learning alongside him.

Suncorp River*fire*

This annual fireworks extravaganza lights up the skies of Brisbane, watched by 600,000 spectators who line the Brisbane River banks.

Suncorp-Metway Ltd and Controlled Entities

Consolidated Financial Statements 30 June 2002

SUNCORP

A SUNCORP COMPANY

Remember service? We do.

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Directors' report

Your directors present their report on the consolidated entity consisting of Suncorp-Metway Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2002.

Directors

The directors of the Company at any time during or since the financial year are:

R John Lamble AO (Chairman)
John D Story (Deputy Chairman)
W Steven Jones (Managing Director)
Dr Ian D Blackburne
Rodney F Cormie
R Patrick Handley (appointed 23 July 2001)
Dr Cherrell Hirst AO (appointed 8 February 2002)
James J Kennedy AO CBE
Martin D E Kriewaldt

Frank C B Haly AO was a director from the beginning of the financial year until his resignation on 31 January 2002.

Particulars of the directors' qualifications and experience are set out under Board of Directors in the Annual Report.

Principal activities

The principal activities of the consolidated entity during the course of the year were the provision of banking, insurance, superannuation and funds management products and related services to the retail, corporate and commercial sectors.

Effective 1 July 2001, the consolidated entity entered into an agreement with AMP Life Ltd to acquire the Australian general insurance business of AMP and GIO (the GIO acquisition) for $1.4 billion. The business acquired included the acquisition of AMP Ltd's shares in general insurance joint ventures with motoring clubs in South Australia and Queensland and was completed in January 2002, with the effective dates of acquisition being 1 July 2001 and 31 December 2001 respectively. The acquisitions provide significant expansions to the consolidated entity's general insurance interests, particularly in New South Wales, Victoria, Western Australia and South Australia, where the group previously has had no substantial general insurance interests.

There were no other significant changes in the nature of the activities carried out by the consolidated entity during the year.

Review of operations

Consolidated profit from ordinary activities before amortisation of goodwill and income tax for the year ended 30 June 2002 was $465 million (2001: $521 million). Consolidated profit from ordinary activities after amortisation of goodwill and income tax was $311 million (2001: $395 million).

During the year the consolidated entity completed the GIO acquisition. Control of the acquired business was effective from 1 July 2001 and the financial report includes the financial position, results from operations and cash flows from that date. GIO contributed an operating profit before amortisation of goodwill and income tax of $56 million (2001: n/a) to the consolidated entity's results. Integration of the GIO business is proceeding according to plan. The full benefits and savings anticipated from the acquisition have yet to be realised and reflected in the results. These returns will be achieved progressively during the period to 30 June 2003 with full effect in the 2004 financial year.

During the year, the Government introduced significant reforms to the legislation that governs general insurance activities and the prudential standards expected of general insurers, supervised by the Australian Prudential Regulation Authority (APRA). Included in the reforms was the requirement for Suncorp Metway Insurance Limited and GIO General Limited to reapply for their licence to conduct general insurance business and meet new standards of capital adequacy (compared with the previous solvency standards).

Directors' report

Review of operations (continued)

Both Suncorp Metway Insurance Limited (SMIL) and GIO General Limited were granted licences to conduct general insurance business under the new regime. APRA has also prescribed a minimum capital requirement for the consolidated general insurance business. The capital structures of Suncorp Metway Insurance Limited and GIO General Limited have been put in place to meet the prudential standards and APRA's prescribed requirements on capital adequacy from 1 July 2002.

Further information on the operations of the Company, and the results of those operations, can be found in the Chairman's Letter to Shareholders and the Managing Director's Letter to Shareholders in the Annual Report.

Dividends

A fully franked 2002 interim ordinary dividend of $135 million (25 cents per share) was paid on 2 April 2002. A fully franked 2002 final dividend of $153 million (29 cents per share) is recommended by directors.

Further details of dividends provided for or paid are set out in note 25 on page 74 of the annual financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows.

On 28 September 2001 the consolidated entity completed the GIO acquisition. Control of the acquired business, including the 50 percent interest in the general insurance joint venture with The Royal Automobile Association in South Australia (RAA (SA)) was effective from 1 July 2001. The effective date of acquisition of the 50 percent interest in the general insurance joint venture with The Royal Automobile Club of Queensland (RACQ) was 31 December 2001. The financial report includes the financial position, the results from operations and cash flows of the GIO Group and the equity accounting results of the interests in the joint ventures from those dates.The business acquired includes the Australian general insurance business of AMP and GIO, but excludes the GIO inwards reinsurance business, GIO Australia Holdings Limited (the former listed company) and GIO's run-off-book of its former large scale Commercial and Special Risks Insurance Business.

On 4 July 2001 the remaining 124 million converting capital notes were converted to ordinary shares of the equivalent number.

On 7 September 2001, 12,135,338 ordinary shares were issued at $13.30 per share by way of placement with AMP Life. The placement was part of the funding package for the acquisition of the Australian general insurance operations of AMP and GIO.

On 31 December 2001, 15,765,833 ordinary shares were issued at $12.81 under the share purchase plan offer. This offer provided smaller shareholders with the opportunity to purchase up to $3,000 worth of new shares at a discount to the market price ($14.01 when applications closed on 19 December 2001).

On 28 September 2001, the Company issued 2.5 million preference shares at an issue price of $100 per share as part of the funding of the acquisition of the Australian general insurance operations of AMP and GIO.

On 6 June 2002, international investment rating agency Moody's upgraded Suncorp's long term credit rating from A3 to A2 and its short term credit rating from Prime-2 to Prime-1.

During the financial year, the Company entered into the following floating rate note benchmark transactions:

Month	Amount	Maturity
November 2001	Euro 250 million	2 years
April 2002	US $400 million	3 years
May 2002	Stg 150 million	2 years

In February 2002, the Company completed a $500 million loan mortgage securitisation (Apollo Series 2002–1). The securities were sold in both domestic and offshore markets.

Directors' report

Matters after the end of financial year

No matters or circumstances have arisen since the end of the financial year 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 financial years.

A new code of banking practice is due for implementation across the banking industry in August 2003. As a member of the Australian Bankers Association (ABA), the Company will be adopting the new code and has a special project team dedicated to adopting the new code and to be ready for its implementation in August 2003. The new code specifies standards of service for conduct, information and disclosure by ABA bank members who adopt it.

Environmental regulation

The operations of the consolidated entity are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories. The consolidated entity may however become subject to environmental regulation when enforcing securities over land for the recovery of loans.

The consolidated entity has not incurred any liability (including for rectification costs) under any environmental legislation.

Likely developments

Information as to the likely developments in the operations of the consolidated entity is set out in the Chairman's Letter to Shareholders and Managing Director's Letter to Shareholders in the Annual Report.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Insurance of officers

During the financial year ended 30 June 2002 the Company paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the Corporations Act 2001) of the Company against certain liabilities arising in the course of their duties to the Company and its controlled entities. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

During the financial year, a controlled entity, Hedge Funds Limited (HFL) paid an insurance premium in respect of a contract insuring each of the directors, each full-time executive officer and the secretary of HFL, against all liabilities and expenses arising as a result of work performed in their respective capacities.

Indemnification of officers

Under the Company's Constitution, the Company indemnifies each person who is or has been a director or officer of the Company. The indemnity relates to all liabilities to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that the Company will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the Corporations Act 2001.

Directors' report

Directors' and senior executives' emoluments

The HR & Remuneration Committee (the Chairman's Committee to 1 December 2001) is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Employees, including executive directors and senior executives, may receive annual bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow). Such bonuses may include options over ordinary shares. The ability to exercise the options is conditional on the Company achieving certain share price levels. Non-executive directors do not receive any performance related remuneration.

Note 40 sets out the details of the nature and amount of each major element of emolument for each director and for each of the five most highly remunerated officers of the Company and the consolidated entity.

Options

During or since the end of the financial year, the Company granted options over unissued ordinary shares to a number of employees as part of their remuneration and details of these are set out in note 46 on page 130 of the annual financial statements.

Ordinary shares in the Company were issued during the year ended 30 June 2002 on the exercise of options granted under the Executive Option plan. These are set out in note 46 on page 130 of the annual financial statements.

Directors' report

Directors' interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the directors to the Australian Stock Exchange in accordance with section 205G(1) of the Corporations Act 2001, at the date of the report is as follows:

	Fully paid ordinary shares	Options over ordinary shares
R J Lamble	45,170	-
J D Story	67,067	-
W S Jones	388,859	2,000,000
I D Blackburne	8,000	-
R F Cormie	7,735	-
R P Handley	27,397	-
C Hirst	3,383	-
J J Kennedy	11,735	-
M D E Kriewaldt	48,320	-

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year were:

	Board of Directors		Audit, Business Risk & Compliance Committee		Investment Committee		Credit Committee		HR & Remuneration Committee (2)	
	A	B	A	B	A	B	A	B	A	B
R J Lamble	14	14	-	-	3	3 (1)	-	-	2	2 (1)
J D Story	14	13	8	8	-	-	12	9	10	10
W S Jones	14	14	-	-	6	6	12	9	8	8
I D Blackburne	14	13	14	12	-	-	-	-	8	7
R F Cormie	14	13	-	-	6	6	12	12	-	-
P Handley	14	14	-	-	3	3	10	8	8	7
C Hirst	5	5	7	7	-	-	-	-	-	-
J J Kennedy	14	14	-	-	-	-	12	10	2	2
M D E Kriewaldt	14	12	14	13	6	6	-	-	-	-
F C B Haly	9	9	6	6	-	-	-	-	-	-

Column A indicates the number of meetings held during the year while the director was a member of the Board or Committee.

Column B indicates the number of meetings attended by the director during the year while the director was a member of the Board or Committee.

(1) Represents the number of committee meetings attended by Mr Lamble during the period 1 July 2001 to 1 December 2001 only. For the period 1 December 2001 to 30 June 2002, Mr Lamble is entitled to and did attend some meetings of all committees in an ex-officio capacity only.

(2) The responsibilities of the Chairman's Committee were transferred to the HR & Remuneration Committee on 1 December 2001.

Directors' report

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 annual financial statements and directors' report have been rounded off to the nearest one million dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.

R John Lamble AO
Chairman

W Steven Jones
Managing Director

Brisbane
29 August 2002

Summary of key financial information

for the year ended 30 June 2002

		2002	2001	2000	1999	1998	1997[2]
Financial performance							
Net interest income	– banking ($m)	550	514	475	470	472	355
Fees and commissions	– banking ($m)	155	123	97	108	115	62
Premium revenue	– general insurance ($m)	2,018	824	788	725	703	387
	– life insurance ($m) [1] [3]	76	610	543	572	399	220
Investment revenue	– general insurance ($m)	173	243	244	197	212	300
	– life insurance ($m) [1]	27	221	307	208	173	195
Claims expense	– general insurance ($m)	1,697	810	684	655	674	407
	– life insurance ($m) [1] [3]	58	396	486	597	465	247
Operating expenses ($m)		1,126	615	604	602	551	419
Bad and doubtful debts expense ($m)		39	37	28	20	61	22
Profit from ordinary activities before amortisation of goodwill and income tax ($m)		465	521	520	356	304	243
Net profit attributable to members of the parent entity ($m)		311	395	335	247	233	150
Contributions to profit before tax and goodwill							
Banking ($m)		293	284	229	157	157	117
General insurance excluding GIO ($m)		54	163	211	169	120	109
GIO ($m)		56	n/a	n/a	n/a	n/a	n/a
Wealth management ($m)		54	69	76	25	24	16
Other ($m)		8	5	4	5	3	1
Financial position							
Investment securities	– general insurance ($m)	4,375	3,091	2,828	2,390	2,183	3,618
	– life insurance ($m) [1]	3,161	3,000	2,732	2,488	2,401	2,490
Loans, advances and other receivables ($m)		22,955	20,146	18,067	16,769	15,812	14,644
Total assets ($m) [1]		35,481	29,717	26,219	21,484	21,424	19,908
Deposits and short term borrowings ($m)		18,176	16,908	14,509	11,671	11,846	11,734
Outstanding claims and unearned premiums provisions ($m)		4,591	2,343	2,128	2,097	2,038	1,902
Life insurance gross policy liabilities ($m) [1] [3]		2,780	2,651	2,363	2,136	2,058	2,068
Total liabilities ($m) [1]		32,119	27,000	24,295	19,596	19,609	18,172
Total equity ($m)		3,362	2,717	1,924	1,888	1,815	1,736
Shareholder summary							
Dividends per ordinary share (cents)		54.0	52.0	46.0	44.0	44.0	40.0
Payout ratio (basic) (%)		96.5	58.0	60.9	67.2	65.2	66.4
Weighted average number of shares (basic) (million)		514.2	325.5	316.9	305.1	292.4	292.4
Net tangible asset backing per share (basic) ($)		3.83	5.41	3.72	3.26	2.93	2.62
Share price at end of period ($)		12.31	15.00	8.62	9.00	8.16	6.94
Performance ratios							
Return on average shareholders' equity (basic) (%)		11.40	19.70	22.13	23.25	27.15	22.84
Return on average total assets (%)		1.05	1.58	1.40	1.16	1.13	0.92
Productivity							
Group efficiency ratio (%)		28.5	29.4	28.5	n/a	n/a	n/a

(1) The assets, liabilities, income and expenses of the life insurance statutory funds are shown above where noted but were not included in the consolidated entity's financial report prior to 2000.
(2) The Suncorp/Metway/QIDC merger took place on 1 December 1996.
(3) The 2002 numbers have been impacted by the change in accounting policy relating to Accounting Standard AASB 1038 "Life Insurance Business", as set out in note 2 to the financial statements.

Refer page 136 for ratio definitions.

Statements of financial performance

for the year ended 30 June 2002

	Notes	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Income from ordinary activities					
Banking interest revenue	3	1,514	1,557	1,538	1,588
Banking interest expense	4	(964)	(1,043)	(983)	(1,074)
	28(a)	550	514	555	514
General insurance premium revenue	3, 29(a)	2,018	824	-	-
Life insurance premium revenue	3, 30(a)	76	610	-	-
Reinsurance and other recoveries revenue	3	299	156	-	-
General insurance investment revenue					
insurance provisions	3	173	170	-	-
shareholder funds	3	-	73	-	-
Life insurance investment revenue	3, 30(a)	27	221	-	-
Other revenue	3	241	86	354	145
Banking fee and commission revenue	3, 28(a)	155	123	155	123
Banking fee and commission expense	3, 28(a)	(44)	(31)	(44)	(31)
Share of net profits of associates accounted for using the equity method	39	5	-	-	-
Total income from ordinary activities		3,500	2,746	1,020	751
Expenses from ordinary activities					
Operating expenses from ordinary activities	4	(1,126)	(615)	(490)	(467)
General insurance claims expense	29(a)	(1,697)	(810)	-	-
Life insurance claims expense	30(a)	(58)	(396)	-	-
Outwards reinsurance premium expense	29(a), 30(a)	(167)	(66)	-	-
(Increase)/decrease in net life insurance policy liabilities	30(a)	90	(287)	-	-
Increase in policy owner retained profits	30(a)	(24)	(14)	-	-
Non-banking interest expense		(14)	-	(14)	-
Total expenses from ordinary activities		(2,996)	(2,188)	(504)	(467)
Profit from ordinary activities before bad and doubtful debts expense, amortisation of goodwill and related income tax expense		504	558	516	284
Bad and doubtful debts expense	5	(39)	(37)	(37)	(36)
Profit from ordinary activities before amortisation of goodwill and related income tax expense		465	521	479	248
Amortisation of goodwill		(60)	(10)	-	-
Profit from ordinary activities before related income tax expense		405	511	479	248
Income tax expense relating to ordinary activities	6	(94)	(116)	(68)	(63)
Net profit attributable to members of the parent entity		311	395	411	185
Total changes in equity other than those resulting from transactions with owners as owners		311	395	411	185
		Cents	**Cents**		
Basic earnings per share	7	58.02	106.56		
Diluted earnings per share	7	57.87	83.90		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of financial position

as at 30 June 2002

	Notes	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Assets					
Cash and liquid assets	8	1,194	288	664	132
Receivables due from other financial institutions		57	68	57	68
Trading securities	9	1,498	1,649	1,498	1,649
Investment securities	10	7,544	6,095	2,060	901
Investments in associates	39	86	-	-	-
Loans, advances and other receivables	11	22,955	20,146	21,444	19,660
Due from controlled entities	38	-	-	1,255	553
Property, plant and equipment	13	206	141	35	36
Deferred tax assets	6	193	112	59	54
Intangible assets	14	1,099	154	-	-
Excess of net market value of interests in life insurance controlled entities		16	13	-	-
Other financial assets	15	633	1,051	291	937
Total assets		35,481	29,717	27,363	23,990
Liabilities					
Deposits and short term borrowings	16	18,176	16,908	18,745	17,382
Payables due to other financial institutions		70	56	37	56
Payables	17	858	709	367	372
Current tax liabilities	6	72	18	66	-
Provisions	18	349	266	170	168
Due to controlled entities	38	-	-	227	164
Deferred tax liabilities	6	198	237	53	84
Outstanding claims and unearned premiums provisions	19	4,591	2,343	-	-
Life insurance gross policy liabilities	20	2,780	2,651	-	-
Policy owner retained profits		271	247	-	-
Bonds, notes and long term borrowings	21	3,952	3,030	3,952	3,030
Subordinated notes	22	802	535	802	535
Total liabilities		32,119	27,000	24,419	21,791
Net assets		3,362	2,717	2,944	2,199
Equity					
Contributed equity	23	2,777	2,143	2,777	2,143
Reserves	24	22	22	21	21
Retained profits		557	546	146	35
Total parent entity interest		3,356	2,711	2,944	2,199
Outside equity interests		6	6	-	-
Total equity		3,362	2,717	2,944	2,199

Derivative financial instruments	33
Contingent liabilities and credit commitments	42
Other commitments	43, 44, 45

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. Refer to note 30(c) for further details.

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of changes in equity
for the year ended 30 June 2002

	Notes	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Contributed equity					
Ordinary shares					
Balance at the beginning of the financial year		1,585	958	1,585	958
Conversion of capital notes		558	-	558	-
Issue to fund GIO acquisition		162	639	162	639
Group executive option plan		13	2	13	2
Share purchase plan		201	-	201	-
Dividend reinvestment plan		18	-	18	-
Transaction costs		(4)	(14)	(4)	(14)
Balance at the end of the financial year	23	2,533	1,585	2,533	1,585
Converting capital notes					
Balance at the beginning of the financial year		558	558	558	558
Conversion to ordinary shares		(558)	-	(558)	-
Balance at the end of the financial year	23	-	558	-	558
Preference shares					
Balance at the beginning of the financial year		-	-	-	-
New issue to fund acquisition		250	-	250	-
Associated transaction costs		(6)	-	(6)	-
Balance at the end of the financial year	23	244	-	244	-
Total contributed equity		2,777	2,143	2,777	2,143
Reserves					
Asset revaluation reserve		13	13	13	13
Preconversion reserve		9	9	8	8
Total reserves	24	22	22	21	21
Retained profits					
Balance at the beginning of the financial year		546	380	35	79
Net profit attributable to members of the parent entity		311	395	411	185
Total available for appropriation		857	775	446	264
Ordinary share dividends provided for or paid	25	(288)	(180)	(288)	(180)
Preference share/converting capital note dividends provided for or paid	25	(12)	(49)	(12)	(49)
Retained profits at the end of the financial year		557	546	146	35
Total parent entity interest in equity		3,356	2,711	2,944	2,199

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of cash flows
for the year ended 30 June 2002

	Notes	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Cash flows from operating activities					
Interest received		1,677	1,663	1,536	1,585
Dividends received		58	74	208	4
Premiums received		2,086	1,467	-	-
Reinsurance and other recoveries received		360	74	-	-
Other operating revenue received		598	455	377	330
Interest paid		(981)	(1,054)	(999)	(1,079)
Outwards reinsurance premiums paid		(179)	(71)	-	-
Claims paid		(1,715)	(1,032)	-	-
Operating expenses paid		(1,134)	(1,158)	(349)	(845)
Income taxes paid – operating activities		(55)	(107)	(21)	(72)
Net cash inflow (outflow) from operating activities	26	715	311	752	(77)
Cash flows from investing activities					
Proceeds from disposal of controlled entities		-	38	-	-
Payments for purchase of controlled entities, net of cash acquired		(1,333)	-	(1,159)	-
Payments for purchase of investments in associates		(80)	-	-	-
Payments for plant and equipment		(96)	(45)	(2)	(1)
Proceeds from sale of plant and equipment		5	12	1	-
Net (purchase) disposal of banking securities		172	(646)	156	(669)
Net increase in loans, advances and other receivables		(1,848)	(2,024)	(2,533)	(1,755)
Payments for insurance investments		(33,723)	(23,215)	-	-
Proceeds from disposal of insurance investments		33,860	22,808	-	-
Income taxes paid – investing activities		(42)	(39)	-	-
Net cash outflow from investing activities		(3,085)	(3,111)	(3,537)	(2,425)
Cash flows from financing activities					
Proceeds from issue of shares		634	627	634	627
Proceeds from issue (repayment) of subordinated notes		267	(7)	267	(7)
Proceeds from net increase in borrowings		2,597	2,057	2,719	1,924
Dividends paid		(295)	(207)	(295)	(207)
Net cash inflow from financing activities		3,203	2,470	3,325	2,337
Net increase (decrease) in cash and cash equivalents		833	(330)	540	(165)
Cash at the beginning of the financial year		300	630	144	309
Cash acquired on acquisition of GIO general insurance business	36	48	-	-	-
Cash at the end of the financial year	8	1,181	300	684	144

The above statements of cash flows should be read in conjunction with the accompanying notes.

1. Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

Basis of preparation

This general purpose financial report has been prepared in accordance with the Banking Act, Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2002 and the results of all controlled entities for the year then ended. The Company and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

In relation to the consolidated entity's life insurance business, which is conducted by Suncorp Life and Superannuation Limited, assets, liabilities, revenues and expenses are recognised in the consolidated financial report irrespective of whether they are designated as relating to policy owners or the shareholder. The shareholder's entitlement to monies held in the Statutory Funds is subject to the distribution and transfer restrictions and other requirements of the Life Insurance Act 1995 (the Life Act).

Any excess in the valuation of entities controlled by Suncorp Life and Superannuation Limited, over their recognised net assets is disclosed in the consolidated financial report as an investment entitled "Excess of net market value of interests in controlled entities". The recoverable amount of this asset is assessed regularly.

b) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Goodwill is brought to account on the basis described in note 1(x).

c) Revenue recognition

Banking activities

Interest income
Interest income is recognised as it accrues.

Non-interest income
Fees and commissions are brought to account on an accruals basis. Material non-refundable front-end fees that are yield related and do not represent cost recovery are taken to the statement of financial performance over the period of the loan. Non-yield related application and activation lending fees received are recognised as income when the loan is disbursed or the commitment to lend expires. Fees received on an on-going basis that represent the recoupment of the costs of providing service, for example maintaining and administering existing facilities, are taken to income when the fees are receivable.

Dividends from controlled entities are brought to account when they are provided for in the financial statements of the controlled entities. Dividends from listed corporations are recognised as income on the date the shares are quoted ex-dividend.

1. Statement of Significant Accounting Policies (continued)

c) Revenue recognition (continued)

Insurance activities

General insurance premium revenue
Direct premiums and inwards reinsurance premiums comprise amounts, including applicable levies and charges but excluding stamp duties collected on behalf of third parties, charged to policy owners or other insurers and are recognised net of the amount of goods and services tax (GST). The earned portion of premiums received and receivable, including that on unclosed business, is recognised as revenue. Premium revenue accrues on a daily basis from the date of attachment of risk. Premiums on unclosed business are brought to account by reference to previous years' experience and information that has become available between the reporting date and the date of completing the financial statements.

The pattern of recognition of income over the policy or indemnity periods is based on time, where this closely approximates the pattern of risks underwritten. Where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk. Unearned premium is determined by apportioning the premiums written in the year on a daily pro-rata basis, using the 24ths method over the period of indemnity from the attachment of risk, or in the same pattern as the claims experience where time does not approximate the pattern of risk.

Life insurance premium revenue
Premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as "Outstanding premiums" in Loans, advances and other receivables. Premiums due after but received before the end of the financial year are shown as "Premiums in advance" in Payables.

Investment revenue
Investment revenue is brought to account on an accruals basis.

Dividends from listed corporations are recognised as revenue on the date the shares are quoted ex-dividend. Distributions from listed and unlisted unit trusts are recognised on the date the unit value is quoted ex-distribution.

Changes in the net market value of investments are recognised as revenue or expenses in the statement of financial performance and are determined as the difference between the net market value at year end or consideration received (if sold during the period) and the net market value as at the prior year end or cost (if the investment was acquired during the period).

Insurance managed funds income
Insurance managed funds income is earned from rendering of general insurance and portfolio management services to external clients, and is recognised as it accrues.

Other revenue
Other items of revenue are recognised as they accrue.

d) Interest expense

Interest expense is recognised in the period in which it accrues. Interest, including premiums or discounts on issue of securities, is brought to account on either a yield to maturity or straight line basis according to the nature of the underlying security.

e) Outwards reinsurance – insurance activities

Premiums ceded to reinsurers are recognised as expenses in accordance with the pattern of reinsurance services received, being on a daily pro-rata basis for facultative and proportional reinsurance, and on an annual basis for non-proportional reinsurance.

1. Statement of Significant Accounting Policies (continued)

f) Claims

General insurance activities

Claims expense and a liability for outstanding claims are recognised as losses occur. The liability for outstanding claims includes claims reported but not yet paid, claims incurred but not yet reported (IBNR) and the anticipated direct and indirect costs of settling those claims. Incurred but not enough reported (IBNER) claims outstanding are assessed by reviewing individual claim files and estimating changes in the ultimate settlement costs using statistics based on past experience and trends. Outstanding claims on all classes are subject to either external or internal actuarial assessment.

The liability for outstanding claims for long-tail business is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and superimposed inflation. The expected future payments are discounted to present value at balance date using market determined risk adjusted discount rates. The liability for outstanding claims for short-tail business is not discounted as the majority of these claims are settled within a 12 month period after balance date. The details of rates applied are included in note 19. These liabilities include appropriate prudential margins.

Life insurance activities

Claims under investment-linked business are recognised when the policy ceases to participate in the earnings of the fund. Claims on non-investment-linked business are recognised when the liability to the policy owner under the policy contract has been established.

g) Reinsurance and other recoveries receivable – general insurance activities

Expected reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR claims are recognised as revenue at the same time that associated claims liabilities are recognised. Reinsurance and other recoveries receivable are estimated based on expected gross claims and reinsurance contracts. Recoveries receivable in relation to long-tail business are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Reinsurance and other recoveries receivable on short-tail business are not discounted as the majority of these claims are settled within a 12 month period after balance date.

h) Acquisition costs

Banking activities

Commissions paid to mortgage loan and lease brokerage originators are deferred and amortised over the period the benefits (net interest income) are expected to arise from the loans generated. Other commissions are expensed in the period the liability to pay commissions was incurred.

General insurance activities

Costs associated with the acquisition of business are deferred and amortised as an expense in line with the earning of the premium to which it relates. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Recoverable amount of deferred acquisition costs is assessed by reference to the expected future profit implicit within the unearned portion of premiums written.

1. Statement of Significant Accounting Policies (continued)

h) Acquisition costs (continued)

Life insurance activities

Acquisition costs, being the fixed and variable costs of acquiring new business, include commission, certain advertising, policy issue and underwriting costs, agency expenses and other sales costs. The actual acquisition costs incurred are recognised in the statement of financial performance.

Policy liabilities are determined by the Appointed Actuary after taking into account the value and future recovery of acquisition costs resulting in policy liabilities being lower than otherwise, and those costs being amortised over the period that they will be recoverable. The deferral and amortisation of acquisition costs are recognised in the statement of financial performance within "(increase)/decrease in net policy liabilities".

The acquisition costs deferred are determined as the lower of actual costs incurred and the allowance for the recovery of those costs from the premiums or policy charges (as appropriate for each policy class). The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative. Acquisition losses are recognised at inception to the extent this situation arises.

i) Basis of expense apportionment – life insurance activities

Expenses have been apportioned in accordance with Division 2 of Part 6 of the Life Act.

All expenses, excluding investment management fees which are directly identifiable, have been apportioned between policy acquisition and policy maintenance on the basis of the objective when incurring each expense, and the outcome achieved. Where allocation is not feasible between the disclosure categories, expenses have been allocated as maintenance expenses. Expenses which are directly attributable to an individual policy or product are allocated directly to the statutory fund within which the class of business to which that policy or product belongs. All indirect expenses charged to the statement of financial performance are equitably apportioned to each class of business. The expense apportionment basis is in line with the principles set out in the Life Insurance Actuarial Standards Board (LIASB) Valuation Standard (Actuarial Standard AS 1.03: Valuation Standard).

j) Foreign currency

Transactions

Transactions denominated in foreign currencies are initially translated to Australian dollars at the exchange rates ruling at the dates of the transactions. All foreign currency assets and liabilities at balance date are translated to Australian dollars at the rates of exchange current on that date. The resulting differences are recognised in the statement of financial performance as exchange gains and losses in the financial year in which the exchange rates change. Gains and losses on translation of insurance investments denominated in foreign currencies are recorded as a component of changes in the net market value of investments.

Where a foreign exchange hedge is terminated early because the anticipated transaction is no longer expected to occur, deferred gains or losses that arose on the terminated hedge are recognised in the statement of financial performance for that period. All other hedge transactions are initially recorded at the spot rates ruling at the dates of the transactions. Hedges outstanding at balance date are translated at the rates of exchange current on that date and any exchange differences are brought to account in the statement of financial performance. Costs or gains arising from hedges are deferred and amortised over the lives of the hedged positions.

Translation of controlled foreign entities

The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. The statement of financial performance is translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

1. Statement of Significant Accounting Policies (continued)

j) Foreign currency (continued)

The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

k) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

In respect of life insurance business, provisions for deferred income tax and future income tax benefits have been discounted to present values using reasonable assumptions as to interest rates, average periods for which each asset category of investments will be held and the tax rate applicable to the respective classes of business. Accounting Standard AASB 1038 Life Insurance Business requires shareholder and policy owner tax to be included in income tax expense in the statement of financial performance. The majority of life insurance tax is allocated to policy liabilities and does not affect net profit attributable to members of the Company.

l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Gross written premium and net earned premium are net of the GST component of premium.

Receivables, payables and the provision for outstanding claims are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

m) Cash and liquid assets

Cash and liquid assets includes cash at branches, cash on deposit, balances with central bank and money at short call. They are brought to account at the face value or the gross value of the outstanding balance.

n) Due from other financial institutions

Receivables due from other financial institutions include nostro balances and settlement account balances. They are brought to account at the gross value of the outstanding balance.

o) Trading securities

Trading securities are government and other debt securities that are purchased for sale in the day-to-day trading operations of the banking business. They are brought to account at net fair value based on quoted market prices, broker or dealer price quotations. Realised gains and losses on disposal and unrealised fair value adjustments are reflected in "other income". Interest on trading securities is reported in net interest income. Trading securities are recorded on a trade date basis.

1. Statement of Significant Accounting Policies (continued)

p) Investment securities

Banking activities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Insurance activities

Investments integral to insurance activities are measured at net market value at each balance date. Differences in the net market values of integral investments at the previous balance date (or cost of acquisition if acquired in the current financial year) are recognised in the statement of financial performance.

Investments include listed investments, government securities, cash deposits and other short term negotiable securities and freehold land and buildings, whether wholly or partly owner occupied or fully leased.

Net market values for listed investments and government securities are determined by reference to market quotations. Net market values for unlisted investments are determined by reference to independent valuations based on the latest available information on the investments. Net market values for freehold land and buildings are determined by independent valuations by registered property valuers. Buildings are not depreciated.

Investments not integral to insurance activities including cash deposits, short term negotiable securities and interests in unlisted investments are carried at the lower of cost and recoverable amount.

q) Investments in associates

Investments in associates are accounted for in the annual financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits of associates are recognised in the statement of financial performance and its share of post-acquisition movements in reserves is recognised in consolidated reserves.

The cumulative post-acquisition movements are adjusted against the cost of the investment. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount in the annual financial statements. Associates are those entities over which the consolidated entity exercises significant influence but not control.

r) Loans and other non-lease receivables

Loans and other non-lease receivables include all forms of lending and direct finance provided to customers, such as variable, controlled and fixed rate loans, overdrafts, bill financing and other facilities. They are carried at the principal amount outstanding less provisions for impairment.

s) Lease receivables

Finance leases

Finance leases, in which the consolidated entity is the lessor, are recognised in loans, advances and other receivables in the statement of financial position at the beginning of the lease term at the present value of the minimum lease payments receivable plus the present value of any non-guaranteed residual value.

The finance revenue attributable to the leases is brought to account progressively in the statement of financial performance over the lease term in accordance with an actuarial method so as to achieve a constant periodic rate of return on the leases outstanding.

Leveraged leases

Investments by the consolidated entity in leveraged leases are recorded at amounts equal to the equity participation, and included in Loans, advances and other receivables in the statement of financial position. Debt participants have no recourse to the consolidated entity in the event of default by the lessee.

1. Statement of Significant Accounting Policies (continued)

t) Impaired assets

All loans and advances receivable are subject to continuous management review. The consolidated entity has adopted definitions of non-accrual and past due loans consistent with Prudential Statement No. APS 220 "Credit Quality" issued by APRA.

Non-accrual loans

Loans are classified as non-accrual where:

- there is reasonable doubt about the ultimate repayment of principal and interest;
- contractual payments are 90 or more days in arrears and the fair market value of the security is insufficient to cover payment of principal and interest;
- in the case of overdrafts, they have remained outside approved limits for 90 or more consecutive days and the fair market value of the security is insufficient to cover payment of principal and interest; or
- a specific provision has been made.

When an impaired asset is classified as non-accrual, the consolidated entity ceases to recognise interest and other income earned but not yet received. Accrued but unpaid interest and other income is reversed back to the last reporting date or the date when interest and other income was last paid, whichever is more recent. Unpaid interest or other income dating prior to the last reporting date is reviewed to establish collectibility and a provision against loss is raised as appropriate.

Cash inflows on non-accrual loans on which interest and/or principal payments are contractually past due are applied against interest and fees and then principal. The amounts applied against interest and fees are recognised as revenue.

Past due loans

Past due loans are loans where payment of principal and interest are at least 90 days in arrears. Full recovery of both principal and interest is expected.

Restructured loans

Restructured loans arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not commercial to the Company. Loans with revised terms are included in non-accrual loans when impairment provisions are required.

Bad and doubtful debts

A specific provision for impairment is made for all identified doubtful debts. All bad debts are written off against the specific provision in the period in which they are classified as irrecoverable.

Specific provisions for impairment are based on the face value of the exposure less the current market value less disposal costs.

General provisions for impairment are maintained to cover non-identifiable possible losses and latent risks inherent in the overall portfolio of loans and advances. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria.

The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the statement of financial performance.

1. Statement of Significant Accounting Policies (continued)

u) Securitisation

The Company conducts a loan securitisation program whereby housing mortgage loans are packaged and sold as securities to Trusts, thereby removing the assets from the consolidated entity's statement of financial position. In performing these transactions, the consolidated entity receives various fees for services provided to the program on an arm's length basis. Fee income is recognised in income on an accruals basis in relation to the reporting period in which the costs of providing these services are incurred.

Interest rate swaps and liquidity facilities are provided to the program by the Company on an arm's length basis, in accordance with APRA guidelines.

The Company is entitled to any residual income of the program after all payments due to investors and associated costs of the program have been met. The residual income is recognised in other revenue when received.

Due to the significant uncertainties inherent in estimating the underlying loan repayment rates and interest margins, future cash flows cannot be reliably measured. Therefore, no asset/liability or gain/loss on sale of the loans has been recognised.

The Trustee of the program has funded its purchase of the mortgage loans by issuing floating-rate pass-through debt securities. The securities issued by the Trust do not represent deposits or other liabilities of the consolidated entity. The consolidated entity does not stand behind the capital value or the performance of the securities or the assets of the Trust. The consolidated entity does not guarantee the payment of interest or the repayment of principal due on the securities. The consolidated entity is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The consolidated entity has no right to repurchase any of the securitised loans and has no obligation to do so.

v) Property, plant and equipment

Acquisition

Items of property, plant and equipment are initially recorded at cost on acquisition and depreciated as outlined below.

Costs incurred in acquiring, installing, enhancing and developing application software for internal use are capitalised and amortised over their estimated useful lives not exceeding three years, as outlined below.

The consolidated entity applies the cost basis for measuring all land and buildings. Independent valuations of land and buildings are obtained at least every three years, however they are not reflected in the financial statements unless they indicate a deficit in net recoverable amount.

Subsequent additional costs

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset, will flow to the consolidated entity in future years. Where these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for capitalisation are expensed as incurred.

Depreciation and amortisation

The cost of each item of property, plant and equipment, including buildings (other than buildings included in investments integral to general insurance activities) but excluding freehold land is depreciated or amortised over its estimated useful life to the consolidated entity. Estimates of remaining useful lives are made regularly for all assets with annual assessments for major items. Assets are depreciated or amortised from the date of acquisition or, in respect of capital work in progress, from the time an asset is completed and held ready for use.

1. Statement of Significant Accounting Policies (continued)

v) Property, plant and equipment (continued)

The prime cost method of depreciation is adopted for all assets. The depreciation rates used for each class of asset are as follows:

Buildings (excluding integral plant)	2.5%
Leasehold improvements	20.0% or life of the lease
Motor vehicles	15.0%
Technology hardware	33.3%
Automatic teller machines	20.0%
Computer equipment	33.3%
Development software	33.3%
Other plant and office equipment	20.0%

The costs of improvements to or on leasehold properties are amortised over the lesser of the unexpired period of the relevant leases or the estimated useful life of the improvement to the consolidated entity.

Leased non-current assets

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the minimum lease payments are discounted at the interest rate implicit in the lease. The discounted amount is established as a non-current asset at the beginning of the lease term and amortised on a straight line basis over its expected life. A corresponding liability is also established and each lease payment is allocated between the principal component and the interest expense.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the statement of financial performance in the periods in which they are incurred.

Surplus leased premises

Provision is made for surplus leased premises where it is determined that no material benefit will be obtained by the consolidated entity from its occupancy. This arises where premises are leased under non-cancellable operating leases and the consolidated entity either:

- currently does not occupy the premises and does not expect to occupy it in the future;
- sublets the premises for lower rentals than it is presently obliged to pay under the original lease; or
- currently occupies the premises which have been assessed to be of no material benefit beyond a known future date.

The provision is calculated on the basis of discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

w) Recoverable amount of non-current assets valued on the cost basis

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the statement of financial performance in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

1. Statement of Significant Accounting Policies (continued)

x) Goodwill

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, on the acquisition of a controlled entity or business, is amortised over the period of time during which benefits are expected to arise. Goodwill is amortised on a straight line basis over the maximum allowable period of 20 years, as the benefits are believed to exceed this term. The unamortised balance of goodwill is reviewed at least annually by the directors. Where the balance exceeds the value of expected future benefits, the excess is charged to the statement of financial performance.

y) Excess of net market value of interests in life insurance controlled entities

All investment assets including controlled entities are stated at net market value. On consolidation, the investment in controlled entities is eliminated and the excess of market value of controlled entities over their underlying net assets is separately recognised in the statement of financial position. This amount is assessed periodically as part of the valuation of investments.

Changes in market value of controlled entities are recorded as investment revenue in the statement of financial performance.

z) Other assets

Deferred expenditure

In addition to acquisition costs, refer note 1(h), items of expenditure are deferred to the extent that the benefits are recoverable out of future revenue, do not relate solely to revenue which has already been brought to account and will contribute to the future earning capacity of the consolidated entity. Up-front costs relating to the establishment of the Apollo Series 2002-1 securitisation trust have been deferred and are being amortised over four years, being the weighted average life of the securitised loans.

Franchise systems

Franchise systems are brought to account at cost.

Franchise systems are amortised on a straight line basis over 20 years. The unamortised balance relating to franchise systems is reviewed annually in light of income generated. Where the balance exceeds the value of future benefits, the difference is charged to the statement of financial performance.

aa) Deposits and borrowings

Deposits and short term borrowings comprise deposits raised and securities issued by the consolidated entity.

Deposits are carried at the principal amount outstanding. Interest expense on amounts outstanding is charged to the statement of financial performance on an accruals basis.

Securities issued are recorded at issue consideration adjusted for premium or discount amortisation and interest accrual. Premiums or discounts are amortised and interest is accrued from the date of issue up to maturity or interest payment date and charged to the statement of financial performance.

Obligations to repurchase securities sold under repurchase agreements are recorded as deposit liabilities. The applicable securities are retained within the investment or trading portfolios and accounted for accordingly.

ab) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. Accounts payable are normally settled in 30 days.

1. Statement of Significant Accounting Policies (continued)

ac) Provision for restructuring

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

ad) Policy liabilities – life insurance activities

Policy liabilities in the statement of financial position and change in policy liabilities disclosed in the statement of financial performance have been calculated using margin on services (MoS) methodology in line with guidance provided by Actuarial Standard 1.03 Valuation Standard issued by the Life Insurance Actuarial Standards Board.

Policy liabilities are measured at net present values of estimated future cash flows (the projection method) or, where the result would not be materially different, as the accumulated benefits available to policy owners (the accumulation method).

ae) Employee entitlements

Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at current pay rates in respect of employees' services up to that date, and include related on-costs at the reporting date in respect of services up to that date.

Long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs are also included in the liability.

Superannuation

The consolidated entity contributes to both defined contribution and defined benefit superannuation schemes. Contributions are charged to the statement of financial performance as the obligation to pay is incurred.

Sick leave

Sick leave entitlements are non-vesting and are paid only upon valid claims for sick leave by employees. No liability for sick leave has been recognised as experience indicates that on average, sick leave taken each financial year is less than the entitlement accruing in that period. This experience is expected to recur in future financial years.

Employee share and option plans

Certain employees are entitled to participate in share and option ownership schemes. Where shares issued to employees as remuneration for past services, or in settlement of options previously issued to employees, are acquired on market, the difference between the purchase cost of the shares and the consideration received, if any, from the employee is expensed. When new shares are issued to employees as remuneration for past services or in settlement of options previously issued to employees, no remuneration expense is recognised. The consideration received on exercise of the options issued is recorded in contributed equity.

Administrative costs associated with issuing shares and options are expensed.

af) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date, as well as any dividends to be paid out of retained profits at the end of the financial year where the dividend was proposed, recommended or declared between the end of the financial year and the completion of the financial report.

1. Statement of Significant Accounting Policies (continued)

ag) Derivative financial instruments

Derivative financial instruments used by the consolidated entity are swaps, forwards, futures and options in the foreign exchange, interest rate and equity markets. They are used to hedge the consolidated entity's assets and liabilities or as part of the consolidated entity's trading and investment activities.

Banking activities

The banking entity utilises derivative financial instruments predominantly for hedging activities. However, they are also held for speculative purposes.

Hedge transactions
Hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at balance date are brought to account in the statement of financial performance on an accruals basis. Costs or gains arising at the time of entering into the hedge, including option premiums, are deferred and amortised over the life of the hedge.

Where the hedged transaction has been terminated, all gains and losses associated with the hedge are brought to account immediately in the statement of financial performance on a mark to market basis. Where the hedge is terminated early and the hedged transaction is still recognised, all gains and losses associated with the hedge are amortised over the life of the hedged transaction.

Speculative transactions
Speculative trading of derivative financial instruments is conducted solely within the Value-at-Risk measure of discretionary market risk as detailed in note 32(f). Speculative transactions outstanding at balance date are valued at the rates ruling on that date and any gains or losses are brought to account immediately in the statement of financial performance on a mark to market basis.

Insurance activities

Derivative financial instruments used by the consolidated entity are swaps, forwards, futures and options in the foreign exchange, interest rate and equity markets. Derivative financial instruments that are used to hedge underlying exposures are accounted for in a manner consistent with the accounting treatment of the underlying exposures. Accordingly, derivative financial instruments are marked to market and the resulting gains and losses are reported in the statement of financial performance.

Foreign exchange derivatives are entered into in order to hedge exchange rate risks arising from offshore liabilities. Interest rate derivatives are used to hedge interest rate risks inherent in the business. Equity options and futures are purchased to hedge exposures arising from equity investments. Derivative financial instruments are not held for speculative purposes.

ah) Commitments to extend credit, letters of credit, guarantees, warranties and indemnities

Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are financial instruments and relate to credit risk and attract fees in line with market prices for similar arrangements. They are not sold or traded. These instruments do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are disclosed as contingent liabilities at their face value.

1. Statement of Significant Accounting Policies (continued)

ai) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Change in basis of determining earnings per share

Diluted earnings per share in previous years adjusted the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and earnings that would have arisen had the dilutive options been exercised during the financial year rather than adjusting the weighted average number of shares to include potential ordinary shares assumed to have been issued for no consideration.

The change in the basis for calculating earnings per share figures was made to comply with Accounting Standard AASB 1027 'Earnings per Share', issued in June 2001.

The earnings per share information for the year ended 30 June 2001 has been recalculated to present the comparative amounts on a consistent basis with the current financial year.

2. Change in accounting policy

The consolidated entity adopted Accounting Standard AASB 1038 'Life Insurance Business' (AASB 1038) effective 1 July 1999. The consolidated entity elected to take advantage of the transitional provisions contained within AASB 1038 which allow premiums and claims to be treated as revenue and expenses until the first financial year ending on or after 31 December 2001.

For the year ended 30 June 2002, the consolidated entity has fully adopted AASB 1038 which requires that components of premiums that are revenues and components of claims that are expenses be recognised separately in the statement of financial performance. Components of premiums that are not revenue (i.e. amounts that are akin to deposits and which qualify for recognition as liabilities) and components of claims that are not expenses (i.e. amounts that are akin to withdrawals from deposits and which qualify for recognition as reductions in liabilities) are also removed from reported changes in policy liabilities.

The change in accounting policy has resulted in reduction to:

- life insurance premium revenue – $702 million;
- life insurance claims expense – $479 million; and
- net life insurance policy liabilities – $223 million.

The change in accounting policy has no financial effect on the net profit in the current or prior periods.

Comparative figures have not been restated, and therefore are inconsistent with current year disclosures.

3. Revenue from ordinary activities

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Revenue from ordinary activities				
Interest received or due and receivable:				
controlled entities	-	-	33	49
other persons	1,691	1,667	1,505	1,539
Dividends received or due and receivable:				
controlled entities	-	-	208	4
other persons	58	74	-	-
Property income received or due and receivable	24	18	-	-
General insurance premium revenue:				
direct	2,018	824	-	-
reinsurance and other recoveries revenue	288	145	-	-
Life insurance premium revenue:				
direct	76	610	-	-
reinsurance and other recoveries revenue	11	11	-	-
Changes in net market value of investments integral to general insurance activities:				
realised	(11)	1	-	-
unrealised	(45)	59	-	-
Changes in net market value of investments integral to life insurance activities:				
realised	(11)	(18)	-	-
unrealised	(114)	20	-	-
Trust distributions received or due and receivable	133	202	-	-
Net profits on trading securities	16	35	-	8
Net profits on derivative and other financial instruments:				
realised	5	5	5	5
Fees and commissions received or due and receivable:				
controlled entities	-	-	139	121
other persons	208	154	155	122
Share of net profits of associates accounted for using the equity method	5	-	-	-
Managed funds revenue	116	-	-	-
Other revenue	40	13	2	8
Total revenue from ordinary activities	4,508	3,820	2,047	1,856
Disclosed in the statements of financial performance as:				
Banking interest revenue	1,514	1,557	1,538	1,588
General insurance premium revenue	2,018	824	-	-
Life insurance premium revenue	76	610	-	-
Reinsurance and other recoveries revenue	299	156	-	-
General insurance investment income	173	243	-	-
Life insurance investment income	27	221	-	-
Share of net profits of associates accounted for using the equity method	5	-	-	-
Banking fee and commission revenue	155	123	155	123
Other revenue	241	86	354	145
Total revenue from ordinary activities	4,508	3,820	2,047	1,856
Interest expense	(964)	(1,043)	(983)	(1,074)
Banking fee and commission expense	(44)	(31)	(44)	(31)
Total income from ordinary activities	3,500	2,746	1,020	751

There was no revenue from non-operating activities.

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
4. Profit from ordinary activities				
Profit from ordinary activities before income tax expense includes the following expenses:				
Interest expense				
controlled entities	-	-	19	49
other persons	978	1,043	978	1,025
Total interest expense	978	1,043	997	1,074
Operating expenses from ordinary activities				
Staff expenses	551	313	28	26
Equipment and occupancy expenses				
Depreciation				
buildings	2	5	1	3
plant and equipment	36	29	1	1
leasehold improvements	12	7	-	-
Total depreciation	50	41	2	4
Loss on disposal of property, plant and equipment	2	1	-	-
Operating lease rentals	48	25	24	26
Other	23	7	13	7
Total equipment and occupancy costs	123	74	39	37
Other expenses				
Hardware, software and data line expenses	90	30	35	26
Advertising and promotion expenses	46	34	24	21
Office supplies, postage and printing	68	37	31	29
Amortisation of franchise systems	1	-	-	-
Acquisition costs – insurance activities	147	68	-	-
Intra group expenses	-	-	297	283
Financial expenses	76	49	32	35
Other underwriting expenses	30	-	-	-
Other	46	10	4	10
Total other expenses	504	228	423	404
Expenses allocated as follows				
Claims expense	(52)	-	-	-
Total operating expenses from ordinary activities	1,126	615	490	467
Individually significant items				
Revenue				
Excess of net market value of interests in subsidiaries over their recognised net amounts	-	13	-	-
Expenses				
Increase in general insurance deferred acquisition costs (expense reduction)	-	17	-	-
	-	30	-	-

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
5. Bad and doubtful debts				
Banking activities				
Charge for bad and doubtful debts (note 12)				
general provision for impairment	5	-	4	1
specific provision for impairment	35	36	33	35
	40	36	37	36
General insurance activities				
Charge for bad and doubtful debts (note 12)				
general provision for impairment	-	1	-	-
specific provision for impairment	(1)	-	-	-
	(1)	1	-	-
Total bad and doubtful debts expense	39	37	37	36
6. Income tax				
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit from ordinary activities before income tax expense	405	511	479	248
Prima facie income tax expense calculated at 30% (2001: 34%) on profit from ordinary activities before income tax	122	174	144	85
Tax effect of permanent differences:				
Non-deductible expenditure	4	3	2	2
Non-deductible write-downs	1	1	3	1
Amortisation of goodwill	18	3	-	-
Life insurance company Statutory Fund adjustment	(11)	2	-	-
Non-assessable income	(5)	(6)	-	(1)
Distribution on converting capital notes	-	(16)	-	(16)
Dividend rebates	(9)	(15)	(63)	(1)
Future income tax benefits not previously brought to account	(17)	(4)	(14)	(2)
Other	(2)	(6)	(1)	(2)
Income tax adjusted for permanent differences	101	136	71	66
Over provision in prior year	(7)	(5)	(3)	-
Restatement of deferred tax balances due to change in company tax rate	-	(15)	-	(3)
Income tax expense	94	116	68	63
Income tax expense by segment				
Banking	69	68	68	63
General insurance	20	29	-	-
Wealth management	2	16	-	-
Other	3	3	-	-
	94	116	68	63

6. Income tax (continued)

Prima facie income tax benefit includes an amount of $4 million (2001 expense: $11 million) attributable to the life insurance company Statutory Fund. The income tax expense is partly determined on a product basis and partly determined on a profit basis. The income tax expense has been determined after aggregating various classes of business, each with different tax rates. The statutory rates of taxation applicable to the taxable income of significant classes of business are as follows:

	2002 %	2001 %
Class of business		
Ordinary life insurance business	30	34
Complying superannuation	15	15
Controlled companies	30	34
Current pension business	Exempt	Exempt
Non-complying superannuation	47	47
Immediate annuity business	Exempt	Exempt
RSA business	15	15
Other business (including accident and disability)	30	34
Shareholder funds	30	34

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Income tax expense is made up of:				
Current income tax provision	152	75	92	25
Deferred income tax provision	(58)	28	(31)	39
Future income tax benefit	-	13	(5)	(1)
Intercompany/interfund balances	-	-	12	-
	94	116	68	63
Provision for current income tax				
Movements during the year were as follows:				
Balance at the beginning of the financial year	18	90	-	47
Income tax paid	(97)	(146)	(20)	(72)
Current year's income tax expense on profit from ordinary activities	152	75	92	25
Over provision in prior year	-	(1)	-	-
Tax losses transferred for consideration	(1)	-	(6)	-
	72	18	66	-
Provision for deferred income tax				
Provision for deferred income tax comprises the estimated expense at the applicable tax rate of 30% (2001: 30%) on the following items:				
Difference in depreciation for accounting and income tax purposes	2	-	-	-
Leveraged leases	24	16	17	16
Lease finance	22	1	3	-
Expenditure currently deductible but deferred and amortised for accounting purposes	30	65	30	63
Income not currently assessable for tax purposes	120	155	3	5
	198	237	53	84

Notes to the financial statements
for the year ended 30 June 2002

6. Income tax (continued)

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Future income tax benefit				
Future income tax benefit comprises the estimated future benefit at the applicable tax rate of 30 % (2001: 30 %) on the following items:				
Income currently assessable but deferred for accounting purposes	9	-	7	-
Difference in depreciation for accounting and income tax purposes	28	28	16	20
Provision for impairment	35	21	21	20
Other provisions and accrued expenses	110	63	15	14
Lease finance	7	-	-	-
Tax losses	4	-	-	-
	193	112	59	54

The future income tax benefit relating to tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or

(ii) the losses are transferred to an eligible entity in the consolidated entity, and

(iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and

(iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

7. Earnings per share

	Consolidated 2002 cents	Consolidated 2001 cents
Basic earnings per share	58.02	106.56
Diluted earnings per share	57.87	83.90

	Number of shares	
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	514,190,097	325,531,014
Weighted average number of potential ordinary shares relating to		
options on ordinary shares	1,276,567	2,082,783
partly paid ordinary shares	22,747	23,944
converting capital notes	-	124,000,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	515,489,411	451,637,741

The following securities have been classified as potential ordinary shares and included in diluted earnings per share only:

- options outstanding on ordinary shares
- partly paid ordinary shares
- converting capital notes

The 2,500,000 preference shares recognised in equity are not considered to be either ordinary or potential ordinary shares as they cannot convert to ordinary shares in the first five years from issue, and so have not been included in either basic or diluted earnings per share.

Notes to the financial statements

for the year ended 30 June 2002

7. Earnings per share (continued)

	Consolidated 2002 $m	Consolidated 2001 $m
Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Net profit	311	395
Preference share dividends	(12)	-
Converting capital note dividends	-	(48)
Earnings used in calculating basic earnings per share	299	347
Diluted earnings per share		
Net profit	311	395
Preference share dividends	(12)	-
Converting capital note dividends	-	-
Tax benefit on converting capital notes	-	(17)
Earnings used in calculating diluted earnings per share	299	378

8. Cash and liquid assets

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Cash at bank and on hand	165	111	99	132
Deposits at call	1,029	177	565	-
	1,194	288	664	132
The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows as follows:				
Balances as above	1,194	288	664	132
Add: Receivables due from other financial institutions	57	68	57	68
Less: Payables due to other financial institutions	(70)	(56)	(37)	(56)
	1,181	300	684	144

9. Trading securities

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Banking activities				
Interest bearing securities at net market value				
Government and semi-government securities	140	236	140	236
Bank bills, certificates of deposits and other short term negotiable securities	1,358	1,270	1,358	1,270
Other interest bearing securities	-	143	-	143
Total trading securities	1,498	1,649	1,498	1,649

Notes to the financial statements
for the year ended 30 June 2002

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
10. Investment securities				
Banking activities				
Investments at cost				
Shares in controlled entities (note 35)	-	-	2,057	898
Shares in other companies	3	4	3	3
	3	4	2,060	901
General insurance activities				
Quoted investments at net market value				
Debentures	876	325	-	-
Government and semi-government securities	1,149	738	-	-
Shares in other companies	1,026	892	-	-
Other quoted investments	87	86	-	-
	3,138	2,041	-	-
Unquoted investments at net market value				
Freehold land and buildings	101	97	-	-
Property trusts	33	155	-	-
Short term negotiable securities	335	262	-	-
Other interest bearing securities	768	536	-	-
	1,237	1,050	-	-
	4,375	3,091	-	-
Wealth management activities				
Life insurance activities				
Equity securities	1,148	1,086	-	-
Debt securities	1,375	1,225	-	-
Property	600	641	-	-
Other	38	48	-	-
	3,161	3,000	-	-
Funds management activities				
Unlisted unit trusts and unlisted managed investment schemes at fair value	5	-	-	-
	3,166	3,000	-	-
Total investment securities	7,544	6,095	2,060	901

11. Loans, advances and other receivables

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Banking activities				
Overdrafts	293	262	293	262
Credit card outstandings	84	85	84	85
Housing loans (1)	12,778	11,657	12,778	11,653
Term loans	7,139	6,331	7,085	6,212
Lease finance	1,591	1,490	1,164	1,481
Structured finance	25	48	21	26
Other lending	131	65	139	65
	22,041	19,938	21,564	19,784
Provision for impairment (note 12)	(124)	(125)	(120)	(124)
	21,917	19,813	21,444	19,660
General insurance activities				
Premiums outstanding	455	100	-	-
Provision for lapses	(2)	(8)	-	-
Provision for impairment (note 12)	(6)	(4)	-	-
	447	88	-	-
Investment revenue receivable	15	13	-	-
Insurance managed funds receivable	30	-	-	-
Insurance recoveries and other receivables	503	198	-	-
Provision for impairment (note 12)	(11)	(10)	-	-
	984	289	-	-
Life insurance activities				
Premiums outstanding	3	3	-	-
Investment revenue receivable	43	27	-	-
Reinsurance recoveries receivable	7	13	-	-
Other	1	1	-	-
	54	44	-	-
Total loans, advances and other receivables	22,955	20,146	21,444	19,660

(1) Excludes securitised residential mortgage loans of $525 million (2001: $123 million). The consolidated entity completed a second securitisation transaction in February 2002 when it sold a pool of residential mortgage loans of $500 million to the Apollo Series 2002-1 Trust at its book value.

12. Provision for impairment

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Banking activities				
General provision				
Balance at the beginning of the financial year	92	82	91	80
Charge against the statements of financial performance	5	-	4	1
Restatement to partially reflect future income tax benefit	-	10	-	10
Balance at the end of the financial year	97	92	95	91
Specific provision				
Balance at the beginning of the financial year	33	28	33	26
Charge against the statements of financial performance				
new and increased provisions	51	45	49	44
write-back of provisions no longer required	(16)	(9)	(16)	(9)
Bad debts recovered	5	1	5	1
Bad debts written-off	(46)	(32)	(46)	(29)
Balance at the end of the financial year	27	33	25	33
Total provision for impairment – banking activities	124	125	120	124

	%	%	%	%
The provisions for impairment expressed as a percentage of gross impaired assets less interest reserved are as follows:				
specific provision	24.55	28.95	23.36	29.46
total provision	112.73	109.65	112.15	110.71
General provision as a percentage of risk weighted assets	0.58	0.59	0.57	0.59
Specific provision as a percentage of gross loans and advances	0.12	0.17	0.12	0.17

	$m	$m	$m	$m
Insurance activities				
General provision				
Balance at the beginning of the financial year	4	3	-	-
Charge against the statement of financial performance	-	1	-	-
Balance at the end of the financial year	4	4	-	-
Specific provision				
Balance at the beginning of the financial year	10	10	-	-
Provisions acquired through acquisition	4	-	-	-
Write-back of provisions no longer required	(1)	-	-	-
Balance at the end of the financial year	13	10	-	-
Total provision for impairment – insurance activities	17	14	-	-

13. Property, plant and equipment

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Property				
Freehold land at cost	14	14	4	4
Buildings at cost	61	58	41	40
Accumulated depreciation	(15)	(13)	(12)	(10)
	46	45	29	30
Leasehold improvements at cost	80	42	8	9
Accumulated amortisation	(57)	(32)	(8)	(9)
	23	10	-	-
Total property	83	69	33	34
Plant and equipment				
Computer and office equipment, furniture and fittings, computer software and motor vehicles at cost	216	140	33	34
Accumulated depreciation	(130)	(96)	(31)	(33)
	86	44	2	1
Capital works in progress				
Plant and equipment	2	-	-	-
Computer software	35	28	-	1
	37	28	-	1
Total plant and equipment	123	72	2	2
Total property, plant and equipment	206	141	35	36

An independent valuation of the consolidated entity's land and buildings was carried out as at 31 December 2000 on the basis of open market values for existing use and provided a valuation of $106 million (Company: $49 million). As land and buildings are recorded at cost the valuation has not been brought to account.

13. Property, plant and equipment (continued)

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Land $m	Buildings $m	Leasehold improvements $m	Plant & equipment $m	Computer software $m	Total $m
Consolidated						
Carrying amount at the beginning of the financial year	14	45	10	44	28	141
Additions	-	4	12	27	55	98
Additions through acquisition of GIO (note 36)	-	-	14	11	-	25
Disposals	-	(1)	(1)	(6)	-	(8)
Transfers (to)/from plant and equipment	-	-	-	48	(48)	-
Depreciation expense (note 4)	-	(2)	(12)	(36)	-	(50)
Carrying amount at the end of the financial year	14	46	23	88	35	206
Company						
Carrying amount at the beginning of the financial year	4	30	-	1	1	36
Additions	-	1	-	1	-	2
Disposals	-	(1)	-	-	-	(1)
Transfers (to)/from plant and equipment	-	-	-	1	(1)	-
Depreciation expense (note 4)	-	(1)	-	(1)	-	(2)
Carrying amount at the end of the financial year	4	29	-	2	-	35

14. Intangible assets

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Goodwill	1,205	200	-	-
Accumulated amortisation	(106)	(46)	-	-
Total intangible assets	1,099	154	-	-

15. Other financial assets

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Franchise systems	14	14	-	-
Provision for amortisation	(2)	(1)	-	-
	12	13	-	-
Deferred expenditure:				
lease brokerage	14	13	14	13
housing loan brokerage	12	8	12	8
establishment costs on securitisation	3	-	3	-
Total deferred expenditure	29	21	29	21
Deferred acquisition costs on general insurance policies	161	41	-	-
Unrealised gains on derivative hedging positions	97	598	97	598
Accrued interest receivable	89	75	56	54
Prepayments	120	152	81	148
Sundry assets	125	151	28	116
	621	1,038	291	937
Total other financial assets	633	1,051	291	937

An independent valuation of the franchise systems was carried out at 31 May 2001 on the basis of current fair market value and provided a valuation range of $23.3 to $25.6 million. As franchise systems are recorded at cost, the valuation has not been brought to account (refer note 1(z)).

16. Deposits and short term borrowings

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Secured				
Long term securities issued matured and unclaimed or maturing within 12 months	2	6	-	-
Unsecured				
Call deposits	5,295	4,735	5,866	5,215
Term deposits	5,166	4,544	5,166	4,544
Short term securities issued	4,286	4,724	4,286	4,724
Offshore borrowings	1,375	1,126	1,375	1,126
Long term securities issued maturing within 12 months	2,052	1,773	2,052	1,773
	18,174	16,902	18,745	17,382
Total deposits and short term borrowings	18,176	16,908	18,745	17,382

The secured borrowings are secured by charges over various assets of certain controlled entities amounting to $7 million (2001: $102 million).

Notes to the financial statements

for the year ended 30 June 2002

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
17. Payables				
Unpresented bank cheques	66	134	66	134
Accrued interest payable	163	166	163	165
Security deposit for repurchase agreement	285	-	-	-
Sundry creditors and accrued expenses	344	409	138	73
Total payables	858	709	367	372
18. Provisions				
Employee entitlements	70	34	-	-
Directors' retirement benefits	2	2	2	2
Dividends and distributions (note 25)	158	152	158	152
Restructure provision – GIO	65	-	-	-
Other	54	78	10	14
Total provisions	349	266	170	168

As explained in note 1(ae), the amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring present values:

	Consolidated	
	2002	2001
Weighted average interest rate of increases in annual employee entitlements to settlement of the liabilities	4%	5%
Weighted average discount rate	5.99%	7.00%
Weighted average term to settlement of liabilities	7 years	7 years

19. Outstanding claims and unearned premiums provisions

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Outstanding claims – life insurance	13	14	-	-
Outstanding claims – general insurance	3,457	1,915	-	-
Unearned premiums – general insurance	1,121	414	-	-
Total outstanding claims and unearned premiums provisions	4,591	2,343	-	-
Outstanding claims provision – general insurance				
Expected future claims (undiscounted)	4,241	2,263	-	-
Discount to present value	(784)	(348)	-	-
Liability for outstanding claims	3,457	1,915	-	-
Current	1,066	530	-	-
Non-current	2,391	1,385	-	-
	3,457	1,915	-	-

The following inflation rates (normal and superimposed) and discount rates were applied in respect of the actuarial measurements of outstanding general insurance claims:

	2002 %	2001 %
For the succeeding years:		
Inflation rate		
normal	0–4.0	0–4.0
superimposed	0–10.0	0–5.5
Discount rate	4.9–5.1	4.6–5.1
For the subsequent years:		
Inflation rate		
normal	0–4.0	0–4.0
superimposed	0–10.0	0–5.5
Discount rate	5.4–6.4	5.5–6.4

The general insurance portfolio is weighted towards long-tail business whereby claims are expected to be settled progressively over approximately 40 years. The weighted average expected term to settlement of the outstanding claims from the balance date for SMIL is estimated to be 2.8 years (2001: 3.0 years), and 3.5 years for the GIO group.

20. Life insurance gross policy liabilities

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Non-investment linked business	1,867	1,819	-	-
Investment linked business	913	832	-	-
Total life insurance gross policy liabilities	2,780	2,651	-	-

Policy liabilities are amounts which, when taken together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses and incorporate profit margins on existing business to be released when earned in future periods.

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2002. The actuarial report was prepared by Mr Rowan Ward, Appointed Actuary B Sc. FIAA, and indicates that the Appointed Actuary is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and with the standards of the Life Insurance Actuarial Standards Board (LIASB).

Policy liabilities have been calculated using the Margin on Services (MoS) method in accordance with Actuarial Standard 1.03 "Valuation Standard" issued by the LIASB under Section 114 of the Life Act. The Actuarial Standard requires the policy liabilities to be calculated in a way that allows for the systematic release of planned margins as services are provided to policy owners and premiums are received.

The methods and profit carriers for the major policy types are as follows:

Business type	Method	Profit carrier
Individual		
Conventional	Projection	Bonuses
Investment account	Projection	Interest credits
Investment linked	Projection	Assets under management
Allocated pension	Projection	Assets under management
Lump sum risk	Projection	Expected claim payments
Income stream risk	Projection	Expected claim payments
Annuity	Projection	Annuity payments
Group		
Investment account	Projection	Interest credits
Investment linked	Accumulation	-
Lump sum risk	Projection	Expected claim payments
Income stream risk	Projection	Expected claim payments

20. Life insurance gross policy liabilities (continued)

The following table sets out key assumptions used in the calculation of policy liabilities:

Assumption	Basis of assumption	Significant changes
Investment earnings	Assumed earning rates are determined having regard to the asset mix of the investment portfolio backing the product, the assumed earning rates for each sector, market conditions at the valuation date and tax on investment earnings appropriate to the class of business and asset sector. Rates varied from 5% (2001: 5%) for the cash sub funds to 9% (2001: 9%) for the balanced sub funds and 10% (2001: 10%) for the equity sub funds.	No changes in approach.
Maintenance expenses	Per policy expense rates are based upon expected maintenance expenses in the period following the reporting date. Expense rates vary by product line and class of business. Tax deductibility of expenses is allowed for at rates appropriate to the taxation basis of the business.	None.
Inflation	The inflation assumption is reviewed at each valuation. For this valuation 3% (2001: 3%) per annum was assumed.	None.
Voluntary discontinuance	Rates are based upon recent internal investigations and industry experience. Rates vary by product, class of business, policy value and duration in force. Allowance is also made for cash withdrawals. Future long term rates of discontinuance assumed vary between 5% and 25% (2001: 30%).	Assumed long term discontinuance rates for term life, TPD and trauma policies reduced to reflect continuing improvements in experience.
Surrender values	Surrender values are determined by applying the surrender bases current at the reporting date.	None.
Rates of taxation	The rates of taxation assumed are based on those applicable to the type of product.	None.
Mortality – risk products	Mortality rates for risk products have been determined using the standard mortality table IA95-97 with adjustments to allow for Suncorp Life and Superannuation Limited experience. Adjustments range from 75% (2001: 80%) to 155% (2001: 140%). Table IA95-97 was developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.	Base table changed from IA90-92 to IA95-97. Adjustments changed as a result, with an overall decrease in assumed mortality.
Mortality – annuitants	Mortality rates for annuitants have been determined using the standard table IM/IF80 with adjustments for expected mortality improvement. Tables IM/IF80 were developed by the Institute of Actuaries and Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.	Adjustments updated to reflect recent experience, with an overall decrease in assumed mortality.
Disability – lump sum	Disability rates on lump sum policies have been based on industry experience with adjustments to reflect Suncorp Life and Superannuation Limited experience.	Adjustments updated to reflect recent experience with an overall decrease in assumed disability insurance.

20. Life insurance gross policy liabilities (continued)

Assumption	Basis of assumption	Significant changes
Disability – income	Disability rates on income policies have been determined using the IAD89-93 table with adjustments to reflect Suncorp Life and Superannuation Limited experience. IAD89-93 was developed by the Institute of Actuaries of Australia based on Australian industry experience from 1989 to 1993.	Adjustments updated to reflect recent experience.
Future supportable bonuses and interest credits to participating policies	Future bonus rates and interest credits assumed are those supported by the policy liabilities and the assumed future experience, including allowance for the shareholder's right to participate in distributions. Using these rates the net present value of expected future cash flows equals the value of assets supporting the business. For traditional policies supportable bonus rates are set as a proportion of the latest declared rates – 75% (2001: 83%) for ordinary policies, 72% (2001: 86%) for superannuation policies. For investment account policies, supportable rates vary between 3.4% (2001: 3.8%) and 8.1% (2001: 8.7%) after tax and fees. For participating whole of life and endowment business, the consolidated entity's policy is to set bonus rates such that, over long periods, the returns to policy owners are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. For participating investment account business crediting rates are set such that over long periods policy owners receive full investment earnings on their accounts less a deduction of explicit fees and charges. Distributions are split between policy owners and shareholder with the valuation allowing for the shareholder to share in distributions at the maximum allowable rate of 20%. In determining policy owner distributions, consideration is given to equity between generations of policy owners and equity between the various classes and sizes of policies in force.	No changes in approach.
Unit price growth	Unit prices are assumed to grow at a rate consistent with assumed investment earnings, tax rates and fees.	None.

Other requirements

The Life Act requires companies to meet prudential standards of solvency and capital adequacy. The requirements are determined in accordance with the Actuarial Standard 2.03 "Solvency Standard" issued by the Life Insurance Actuarial Standards Board under the Life Act. For the purposes of note 30(f), minimum termination values have been determined in accordance with Actuarial Standard 4.02. Capital adequacy is determined in accordance with Actuarial Standard 3.03.

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
21. Bonds, notes and long term borrowings				
Unsecured				
Long term securities issued	1,081	1,085	1,081	1,085
Offshore borrowings	2,871	1,945	2,871	1,945
Total bonds, notes and long term borrowings	3,952	3,030	3,952	3,030
22. Subordinated notes				
Floating rate notes due October 2002	50	-	50	-
Fixed rate notes due October 2005	-	50	-	50
Fixed rate notes due August 2006	50	51	50	51
Fixed rate notes due September 2006	199	-	199	-
Floating rate notes due September 2006	75	-	75	-
Fixed rate notes due November 2006	258	264	258	264
Perpetual floating rate notes	170	170	170	170
Total subordinated notes	802	535	802	535

The notes are unsecured obligations of the consolidated entity subordinated as follows:

- Payments of principal and interest on the notes have priority over Company dividend payments only, and in the event of the winding-up of the Company, the rights of the note holders will rank in preference only to the rights of the preference and ordinary shareholders.
- In line with the APRA's capital adequacy measurement rules perpetual floating rate notes are included in upper Tier 2 capital. The term subordinated notes are included in lower Tier 2 capital and are reduced by 20 percent for each of their last five years to maturity.

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
23. Contributed equity				
Share capital				
525,320,549 ordinary shares each fully paid (2001: 369,665,671 each fully paid)	2,533	1,585	2,533	1,585
Nil converting capital notes of $4.50 each fully paid (2001: 124,000,000)	-	558	-	558
2,500,000 preference shares each fully paid (2001: nil)	244	-	244	-
5,900 ordinary shares each 45 cents partly paid (2001: 7,200 ordinary shares each 45 cents partly paid)	-	-	-	-
28,150 ordinary shares each 5 cents partly paid (2001: 33,550 ordinary shares each 5 cents partly paid)	-	-	-	-
2,000 non-participating shares each fully paid (2001: 2,000 each fully paid)	-	-	-	-
Balance at the end of the financial year	2,777	2,143	2,777	2,143
Movements in ordinary shares during the year				
Balance at the beginning of the financial year	1,585	958	1,585	958
Conversion of 124,000,000 converting capital notes to ordinary shares (2001: nil)	558	-	558	-
12,135,338 ordinary shares issued for cash to fund the GIO acquisition (2001: 48,015,037 ordinary shares issued)	162	639	162	639
Associated transaction costs	(3)	(14)	(3)	(14)
2,269,301 ordinary shares issued due to the exercise of options under the Executive Option Plan (2001: 230,000)	13	2	13	2
15,765,833 shares issued under Share Purchase Plan for cash (2001: nil)	201	-	201	-
Associated transaction costs	(1)	-	(1)	-
1,477,706 ordinary shares issued under the Dividend Reinvestment Plan (2001: nil)	18	-	18	-
Balance at the end of the financial year	2,533	1,585	2,533	1,585
Movements in converting capital notes during the year				
Balance at the beginning of the financial year	558	558	558	558
Conversion of 124,000,000 converting capital notes to ordinary shares (2001: nil)	(558)	-	(558)	-
Balance at the end of the financial year	-	558	-	558
Movements in preference shares during the year				
Balance at the beginning of the financial year	-	-	-	-
2,500,000 preference shares issued for cash to fund the GIO acquisition (2001: nil)	250	-	250	-
Associated transaction costs	(6)	-	(6)	-
Balance at the end of the financial year	244	-	244	-

Capital notes

In accordance with the undertaking given by the Queensland Government in respect of the Exchanging Instalment Notes (EINs) Series 2, where an exchange of one note for one ordinary share would occur by 31 October 2001, the remaining 124 million notes were converted to ordinary shares on 4 July 2001.

23. Contributed equity (continued)

Ordinary shares

On 7 September 2001, 12,135,338 ordinary shares were issued at $13.30 per share by way of placement with AMP Life. The placement was the final part of the funding package for the acquisition of the Australian general insurance operations of AMP and GIO. Transaction costs relating to this issue totalled $3 million.

During the year, 2,269,301 options were exercised as part of the Executive Option Plan as follows:

Month of exercise	Number of ordinary shares	Issue price $
November 2001	116,667	8.81
November 2001	1,005,000	5.61
December 2001	995,000	5.60
December 2001	109,000	6.79
December 2001	27,000	7.96
March 2002	13,334	8.81
May 2002	3,300	8.11
	2,269,301	

On 31 December 2001, 15,765,833 ordinary shares were issued at $12.81 under the Share Purchase Plan offer. This offer provided smaller shareholders with the opportunity to purchase up to $3,000 worth of new shares at a discount to the market price ($14.01 when applications closed on 19 December 2001). Transaction costs relating to this issue totalled $0.5 million.

On 2 April 2002, 1,477,706 ordinary shares were issued at $12.29 under the Dividend Reinvestment Plan in respect of the interim dividend paid on 2 April 2002.

During the year, 6,700 partly paid shares were converted to fully paid shares at an average price of $1.38. The calls on, and conversion of, partly paid shares were in accordance with the employee share acquisition scheme under which they were issued.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

Preference shares

The Company issued $250 million in preference share capital as part of the funding of the acquisition of the Australian general insurance operations of AMP and GIO. Transaction costs relating to this issue totalled $5.6 million.

24. Reserves

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Preconversion reserve	13	13	13	13
Asset revaluation reserve	9	9	8	8
	22	22	21	21

Preconversion reserve

Retained profits and reserves of Metropolitan Permanent Building Society, amounting to $13 million as at 1 July 1988, being the date of conversion of the Society to Suncorp-Metway Ltd (then known as Metway Bank Limited), have been placed in a preconversion reserve account. Under a trust arrangement the reserve will not be available for distribution to shareholders in the ordinary course of business.

Asset revaluation reserve

The asset revaluation reserve was used to record increments and decrements on the revaluation of non-current assets. The reserve is not available for future asset write-downs as a result of using the deemed cost election for land and buildings when adopting revised Accounting Standard AASB 1041 Revaluation of Non-Current Assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

25. Dividends

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Ordinary shares				
Interim dividend of 25 cents (2001: 24 cents) per fully paid share paid 2 April 2002 (2001: 30 March 2001)				
franked @ 30%	135	-	135	-
franked @ 34%	-	77	-	77
Final dividend of 29 cents (2001: 28 cents) per fully paid share recognised as a liability and expected to be paid 1 October 2002 (2001: 28 September 2001)				
franked @ 30%	153	103	153	103
Preference shares				
Interim dividend of $3.09 (2001: n/a) per share paid 14 March 2002				
franked @ 30%	7	-	7	-
Final dividend of $3.09 (2001: nil) per fully paid share recognised as a liability and expected to be paid 4 September 2002 (2001: n/a)				
franked @ 30%	5	-	5	-
Converting capital notes				
Distribution provided	-	49	-	49
	300	229	300	229

The converting capital note distribution is deductible for taxation purposes. It carries no imputation credits.

25. Dividends (continued)

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Franking credits				
Franking credits available for subsequent financial years based on a tax rate of 30% (2001: 34%)	251	100	3	(71)

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after-tax profits. As a result the "franking credits available" were converted from $251,341,544 (Company: $2,899,079) to $107,717,805 (Company: $1,242,463) as at 1 July 2002. This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

26. Reconciliation of profit from ordinary activities after income tax to net cash inflow (outflow) from operating activities

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Profit from ordinary activities after income tax	311	395	411	185
Classified as investing activities				
Income tax paid – investing activities	42	39	-	-
Non-cash items				
Amortisation of goodwill	60	10	-	-
Change in market value of trading securities	(21)	(40)	(5)	(6)
Change in market value of investments	181	(62)	-	-
Bad and doubtful debts expense	39	37	37	36
Depreciation of property, plant and equipment	50	41	2	4
Loss on disposal of property, plant and equipment	2	1	-	-
Share of net profits of associates	(5)	-	-	-
Change in assets and liabilities				
Gross up of GST on lease instalments included in operating payments	8	(27)	10	(27)
Net movement in tax balances	13	(33)	30	(10)
Increase in accrued interest receivable	(14)	(4)	(2)	(3)
(Increase)/decrease in prepayments and deferred expenses	(9)	(168)	59	(155)
Increase in excess of net market value of interests in subsidiaries	(3)	(13)	-	-
(Increase)/decrease in receivables and other financial assets	(362)	(215)	88	(88)
Decrease in accrued interest payable	(3)	(11)	(2)	(5)
Increase/(decrease) in sundry creditors and other liabilities	151	(177)	128	(15)
Increase in outstanding claims provisions	108	194	-	-
Increase in unearned premiums provisions	130	21	-	-
Increase in life insurance policy liabilities	129	288	-	-
Increase in policy owner retained benefits	24	14	-	-
Increase/(decrease) in other provisions	(116)	21	(4)	7
Net cash inflow (outflow) from operating activities	715	311	752	(77)

27. Segment information

Business segments

The consolidated entity comprises the following business segments:

Segment	Activities
Banking	Banking, finance and other services.
General insurance	General insurance services.
Wealth management	Life insurance, superannuation administration and funds management services.
Other	Financial planning, funds administration, and property management services.

Primary reporting – business segments

	Banking $m	General insurance $m	Wealth management $m	Other $m	Eliminations $m	Consolidated $m
2002						
Revenue outside the consolidated entity	1,701	2,618	163	21	-	4,503
Inter-segment revenue	17	-	-	-	(17)	-
Shares of net profits of associates	-	5	-	-	-	5
Total segment revenue	1,718	2,623	163	21	(17)	4,508
Segment result	293	110	54	8	(60)	405
Unallocated revenue less unallocated expenses						-
Profit from ordinary activities before income tax expense						405
Income tax expense						(94)
Profit from ordinary activities after income tax expense						311
Net profit						311
Segment assets	27,322	7,423	3,337	38	(2,639)	35,481
Unallocated assets						-
Total assets						35,481
Segment liabilities	24,324	5,355	3,124	15	(699)	32,119
Unallocated liabilities						-
Total liabilities						32,119
Investments in associates	-	86	-	-	-	86
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	87	1,040	1	-	-	1,128
Depreciation and amortisation expense	43	7	-	-	60	110
Other non-cash expenses	40	(1)	-	-	-	39

Notes to the financial statements

for the year ended 30 June 2002

27. Segment information (continued)

Primary reporting – business segments (continued)

	Banking $m	General insurance $m	Wealth management $m	Other $m	Eliminations $m	Consolidated $m
2001						
Revenue outside the consolidated entity	1,706	1,224	868	22	-	3,820
Inter-segment revenue	29	-	7	7	(43)	-
Shares of net profits of associates	-	-	-	-	-	-
Total segment revenue	1,735	1,224	875	29	(43)	3,820
Segment result	284	163	69	5	(10)	511
Unallocated revenue less unallocated expenses						-
Profit from ordinary activities before income tax expense						511
Income tax expense						(116)
Profit from ordinary activities after income tax expense						395
Net profit						395
Segment assets	23,886	3,593	3,169	16	(947)	29,717
Unallocated assets						-
Total assets						29,717
Segment liabilities	21,594	2,825	2,984	11	(414)	27,000
Unallocated liabilities						-
Total liabilities						27,000
Investments in associates	-	-	-	-	-	-
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	45	-	-	-	-	45
Depreciation and amortisation expense	41	-	-	-	10	51
Other non-cash expenses	36	1	-	-	-	37

Inter-segment pricing is determined on an arm's length basis.

Secondary reporting – geographical segments

The consolidated entity operates predominantly within Queensland, New South Wales and Victoria.

28. Segment information – banking

	Consolidated 2002 $m	Consolidated 2001 $m
28(a) Contribution to profit from ordinary banking activities		
Net interest income		
Interest revenue	1,531	1,587
Interest expense	(981)	(1,073)
	550	514
Net banking fee income		
Banking fee and commission revenue	155	123
Banking fee and commission expense	(44)	(31)
	111	92
Other operating revenue		
Net profits on trading and investment securities	1	8
Net profits on derivative and other financial instruments	5	5
Other income	9	12
	15	25
Total income from ordinary banking activities	676	631
Operating expenses		
Staff expenses	(200)	(184)
Occupancy expenses	(20)	(16)
Computer and depreciation expenses	(42)	(39)
Communication expenses	(29)	(26)
Advertising and promotion expenses	(18)	(15)
Agents' commission expenses	(12)	(5)
Other operating expenses	(22)	(26)
Total expenses of ordinary banking activities	(343)	(311)
Contribution to profit from ordinary banking activities before bad and doubtful debts, amortisation of goodwill and income tax	333	320
Bad and doubtful debts expense (note 5)	(40)	(36)
Contribution to profit from ordinary banking activities before amortisation of goodwill and income tax	293	284

Segment information set out above includes transactions that have been eliminated in the consolidated statement of financial performance.

28. Segment information – banking (continued)

28(b) Average banking statement of financial position and margin analysis

The following table sets out the major categories of interest earning assets and interest bearing liabilities of the banking activities of the consolidated entity together with the respective interest revenue or expense and the average interest rates.

Average balances used are predominantly daily averages for interest bearing items and monthly averages for non-interest bearing items.

	Consolidated					
	2002			2001		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Assets						
Interest earning assets						
Trading securities	1,689	77	4.56	1,262	75	5.94
Gross loans, advances and other receivables	21,201	1,432	6.75	19,032	1,491	7.83
Other interest earning financial assets	466	22	4.72	386	21	5.44
Total interest earning assets	23,356	1,531	6.56	20,680	1,587	7.67
Non-interest earning assets						
Provision for impairment	(119)			(119)		
Property, plant and equipment	167			137		
Other financial assets	2,004			1,125		
Total non-interest earning assets	2,052			1,143		
Total assets	25,408			21,823		
Liabilities						
Interest bearing liabilities						
Deposits and short term borrowings	18,333	783	4.27	15,453	811	5.24
Bonds, notes and long term borrowings	3,235	159	4.91	3,536	219	6.19
Subordinated notes	530	39	7.36	537	43	8.01
Total interest bearing liabilities	22,098	981	4.44	19,526	1,073	5.49
Non-interest bearing liabilities						
Other financial liabilities	546			566		
Total non-interest bearing liabilities	546			566		
Total liabilities	22,644			20,092		
Net assets	2,764			1,731		
Analysis of interest margin and spread						
Interest earning assets	23,356	1,531	6.56	20,680	1,587	7.67
Interest bearing liabilities	22,098	981	4.44	19,526	1,073	5.49
Net interest spread			2.12			2.18
Net interest margin	23,356	550	2.35	20,680	514	2.48

28. Segment information – banking (continued)

28(b) Average banking statement of financial position and margin analysis (continued)

	Consolidated 2002 %	Consolidated 2001 %
Interest spreads and net interest average margins may be analysed as follows:		
Gross interest spread	2.15	2.20
Interest foregone on impaired assets	(0.03)	(0.02)
Net interest spread	2.12	2.18
Interest attributable to net non-interest bearing assets	0.23	0.30
Net interest margin	2.35	2.48

The following table allocates changes in net interest income between changes in volume and changes in rate for the last two financial years. Volume and rate variances have been calculated on the movement in average balances and the changes in the interest rates on average interest earning assets and average interest bearing liabilities.

	Consolidated 2002 vs 2001 Changes due to:			Consolidated 2001 vs 2000 Changes due to:		
	Volume $m	Rate $m	Total $m	Volume $m	Rate $m	Total $m
Interest earning assets						
Trading securities	22	(20)	2	(4)	10	6
Gross loans, advances and other receivables	158	(217)	(59)	104	63	167
Other interest earning assets	4	(3)	1	11	8	19
Change in interest income	184	(240)	(56)	111	81	192
Interest bearing liabilities						
Deposits and short term borrowings	137	(165)	(28)	41	78	119
Bonds, notes and long term borrowings	(17)	(43)	(60)	42	(11)	31
Subordinated notes	(1)	(3)	(4)	(1)	4	3
Change in interest expense	119	(211)	(92)	82	71	153
Change in net interest income	65	(29)	36	29	10	39

28. Segment information – banking (continued)

28(c) Banking capital adequacy

APRA adopts a risk-based capital assessment framework for Australian banks based on internationally accepted capital measurement standards. This risk-based approach requires eligible capital to be divided by total risk weighted assets, with the resultant ratio being used as a measure of a bank's capital adequacy.

Capital is divided into Tier 1, or "core" capital, and Tier 2, or "supplementary" capital. For capital adequacy purposes, eligible Tier 2 capital cannot exceed the level of Tier 1 capital. The bank is required to deduct from total capital, investments in entities engaged in general insurance and life insurance. Under APRA guidelines, the bank must maintain a ratio of qualifying capital to risk weighted assets of at least 9.5%.

The measurement of risk weighted assets is based on:

a) a credit risk based approach wherein risk weightings are applied to on-balance sheet assets and to the credit equivalent of unrecognised financial instruments. Categories of risk weights are assigned based upon the nature of the counterparty and the relative liquidity of the assets concerned; and
b) the recognition of risk weighted assets attributable to market risk arising from trading and commodity positions. Trading and commodity balance sheet positions do not attract a risk weighting under the credit risk based approach.

Consolidated banking capital adequacy position is set out below:

	Consolidated	
	2002 $m	2001 $m
Tier 1		
Share capital	2,533	1,585
Preference shares/Converting capital notes	244	558
Preconversion reserve	13	13
Retained earnings	200	137
Less: Goodwill	(1,228)	(201)
Total Tier 1 capital	1,762	2,092
Tier 2		
Asset revaluation reserve	8	8
General provision for impairment, net of related future income tax benefit	84	80
Perpetual subordinated notes	170	170
Subordinated notes	622	365
Total Tier 2 capital	884	623
Deductions from capital		
Investments in subsidiaries	(867)	(511)
Guarantees and facilities to non-banking controlled entities	(10)	(10)
Total deductions	(877)	(521)
Total capital base	1,769	2,194

28. Segment information – banking (continued)

28(c) Banking capital adequacy (continued)

	Consolidated				
	Carrying value		Risk weights	Risk weighted balance	
	2002 $m	2001 $m	%	2002 $m	2001 $m
Assets					
Cash, claims on Reserve Bank of Australia, shorter term claims on Australian Commonwealth Government and other liquid assets	113	2,169	0	-	-
Claims on banks and local governments	591	126	20	118	25
Loans secured against residential housing	13,041	11,686	50	6,521	5,843
All other assets	9,211	8,468	100	9,211	8,468
Total banking assets	22,956	22,449		15,850	14,336

	Consolidated				
	Face value	Credit equivalent	Risk weights	Risk weighted balance	
	2002 $m	2002 $m	%	2002 $m	2001 $m
Unrecognised positions					
Guarantees entered into in the normal course of business	130	65	20–100	64	78
Commitments to provide loans and advances	3,392	923	0–100	638	976
Capital commitments	-	-	100	-	1
Foreign exchange contracts	7,421	485	20–50	98	163
Interest rate contracts	9,746	78	20–50	22	16
Total unrecognised positions	20,689	1,551		822	1,234
Assessed risk					
Total risk weighted assets				15,850	14,336
Total unrecognised position				822	1,234
Market risk capital charge				107	91
Total assessed risk				16,779	15,661
Risk weighted capital ratios				%	%
Tier 1				10.50	13.36
Tier 2				5.27	3.98
Deductions				(5.23)	(3.33)
				10.54	14.01

The capital adequacy ratio has fallen compared to 30 June 2001 due to the completion of the GIO acquisition.

28. Segment information – banking (continued)

28(d) Credit risk concentrations

Industry exposures associated with each asset class are detailed with respect to the banking assets of the consolidated entity excluding intergroup funding of $500 million (2001: $349 million). Details of credit risk amounts for contingent liabilities are set out in note 41 and for derivative financial instruments in note 33. Risk concentrations by asset class are as follows:

	Consolidated					
	Trading securities $m	Investment securities $m	Loans, advances and other receivables $m	Contingent liabilities $m	Derivative instruments $m	Total $m
2002 financial year						
Agribusiness	-	-	1,854	-	-	1,854
Construction and development	-	-	1,549	134	-	1,683
Financial services	1,358	3	148	-	541	2,050
Hospitality	-	-	559	-	-	559
Manufacturing	-	-	373	-	-	373
Professional services	-	-	543	-	-	543
Property investment	-	-	2,311	-	-	2,311
Real estate – Mortgage	-	-	13,210	575	-	13,785
Personal	-	-	301	6	-	307
Government and public authorities	140	-	2	-	-	142
Other commercial and industrial	-	-	1,191	160	17	1,368
	1,498	3	22,041	875	558	24,975
Receivables due from other financial institutions						57
Total gross credit risk						25,032

In addition to 'Real estate – Mortgage', loans included in other industry categories totalling $438 million (2001: $389 million) are secured by residential mortgages.

28. Segment information – banking (continued)

28(d) Credit risk concentrations (continued)

	Consolidated					
	Trading securities $m	Investment securities $m	Loans, advances and other receivables $m	Contingent liabilities $m	Derivative instruments $m	Total $m
2001 financial year						
Agribusiness	-	-	1,773	9	-	1,782
Construction and development	-	-	1,567	497	-	2,064
Financial services	1,413	4	-	9	835	2,261
Hospitality	-	-	502	-	-	502
Manufacturing	-	-	364	-	-	364
Professional services	-	-	666	-	-	666
Property investment	-	-	2,160	-	-	2,160
Real estate – Mortgage	-	-	11,268	689	-	11,957
Personal	-	-	519	-	-	519
Government and public authorities	236	-	-	-	-	236
Other commercial and industrial	-	-	1,119	154	19	1,292
	1,649	4	19,938	1,358	854	23,803
Receivables due from other financial institutions						12
Total gross credit risk						23,815

28(e) Credit risk concentrations – impaired assets

Industry breakdown of impaired assets, specific provisions and write-offs are as follows:

	Consolidated					
	Total risk $m	Impaired assets $m	Special provision $m	Write-offs $m	Recoveries $m	Net write-off $m
2002 financial year						
Agribusiness	1,854	47	2	1	-	1
Construction and development	1,683	7	1	2	-	2
Financial services	2,050	-	-	-	-	-
Hospitality	559	6	1	3	2	1
Manufacturing	373	35	16	4	-	4
Professional services	543	3	1	7	-	7
Property investment	2,311	17	2	3	-	3
Real estate – Mortgage	13,785	4	2	3	-	3
Personal	307	-	1	17	2	15
Government and public authorities	142	-	-	-	-	-
Other commercial and industrial	1,368	7	1	6	1	5
	24,975	126	27	46	5	41
Receivables due from other financial institutions	57					
Total gross credit risk	25,032					

28. Segment information – banking (continued)

28(e) Credit risk concentrations – impaired assets (continued)

	Consolidated					
	Total risk $m	Impaired assets $m	Special provision $m	Write-offs $m	Recoveries $m	Net write-off $m
2001 financial year						
Agribusiness	1,782	36	2	-	-	-
Construction and development	2,064	8	1	-	-	-
Financial services	2,261	-	-	-	-	-
Hospitality	502	8	2	-	-	-
Manufacturing	364	9	6	-	-	-
Professional services	666	7	4	-	-	-
Property investment	2,160	37	6	4	-	4
Real estate – Mortgage	11,957	2	2	2	-	2
Personal	519	-	3	7	-	7
Government and public authorities	236	-	-	-	-	-
Other commercial and industrial	1,292	22	7	19	1	18
	23,803	129	33	32	1	31
Receivables due from other financial institutions	12					
Total gross credit risk	23,815					

28. Segment information – banking (continued)

28(f) Impaired assets

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Non-accrual loans				
Gross balances				
with specific provisions set aside	76	80	72	80
without specific provisions set aside	50	49	50	46
Gross impaired assets	126	129	122	126
Interest reserved	(16)	(15)	(15)	(14)
Net balances	110	114	107	112
Specific provision for impairment (note 12)	(27)	(33)	(25)	(33)
Net non-accrual loans	83	81	82	79
Restructured loans	-	-	-	-
Net impaired assets	83	81	82	79
Details of size of gross non-accrual loans				
Less than one million	40	48	36	44
Greater than one million but less than ten million	58	70	58	71
Greater than ten million	28	11	28	11
	126	129	122	126
Past due loans not shown as impaired assets	104	99	101	95
Interest revenue forgone on impaired assets				
Net interest charged but not recognised as revenue in the statements of financial performance during the financial year	14	19	14	19
Interest revenue on impaired assets recognised in the statements of financial performance				
Net interest charged and recognised as revenue in the statements of financial performance during the financial year	8	14	8	14
Analysis of movements in impaired assets				
Balance at the beginning of the financial year	129	169	126	163
Recognition of new impaired assets and increases in previously recognised impaired assets	95	72	93	71
Impaired assets written off during the financial year	(46)	(32)	(46)	(29)
Impaired assets which have been restated as performing assets	(52)	(80)	(50)	(79)
Balance at the end of the financial year	126	129	123	126

28. Segment information – banking (continued)

28(g) Large exposures

Details of the aggregate number of the consolidated banking entity's corporate exposures (including direct and contingent exposures) which individually were greater than five percent of the consolidated entity's banking capital resources (Tier 1 and Tier 2 capital) are as follows:

	Consolidated	
	2002 Number	2001 Number
25 percent and greater	1	-
20 percent to less than 25 percent	1	2
15 percent to less than 20 percent	2	-
10 percent to less than 15 percent	2	1
5 percent to less than 10 percent	-	3

These exposures are in relation to holding of trading securities with the major Australian and overseas banks.

28(h) Interest rate risk

Net interest income

Interest rate risk arises from the potential for a change in interest rates to have an effect on the earnings in a current/future reporting period.

Interest rate risk arises from the structure and characteristics of the banking assets and liabilities and in the mismatch in repricing dates thereof. The objective of interest rate risk management is to minimise the fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term.

The risk to the net interest earnings over the next 12 months from a change in interest rates is measured on at least a monthly basis. In relation to the tables below, risk is measured assuming an immediate one percent parallel movement in interest rates across the full yield curve. Other interest rate scenarios with variations in the size and timing of interest rate movements are also measured as part of the ongoing risk management process. However, they are not presented here. Potential variations to net interest earnings are measured using a simulation model which takes into account the projected change in asset and liability levels and mix.

The potential adverse changes in net interest earnings, expressed as a percentage of expected net interest earnings over 12 months, based on a one percent parallel rate move, are as follows:

	Consolidated	
	2002 %	2001 %
Average monthly exposure	2.65	2.11
High month exposure	4.40	3.96
Low month exposure	0.63	0.04

28. Segment information – banking (continued)

28(h) Interest rate risk (continued)

Market value

As a measure of longer term interest rate sensitivity, the banking entity utilises market value at risk (VaR) analysis. This analysis measures the potential adverse change in the net present value of assets and liabilities where repricing dates do not match.

The total cash flows are revalued under a range of possible interest rate scenarios using a VaR methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over three month and two year historical observation periods. The measured VaR exposure is an estimate to a 97.5 percent confidence level of the potential loss that could occur if the balance sheet were to be held unchanged for a one month holding period. For example, VaR exposure of $1 million means that in 97.5 cases out of 100, the expected net present value will not decrease by more than $1 million given historical movements in interest rates.

The figures in the following table represent the net present value of any change in future earnings of existing assets and liabilities under the above probabilistic scenario. The calculation includes consideration for preference shares and capital notes distributions.

	Consolidated	
	2002 $m	2001 $m
Average monthly exposure	28	16
High month exposure	53	33
Low month exposure	12	7

Accounting Standard AASB 1033 Presentation and Disclosure of Financial Instruments requires disclosures in relation to the contractual interest rate risk sensitivity from repricing mismatches at balance date and the corresponding weighted average effective interest rate. All assets and liabilities in the following table are shown according to the contractual repricing dates. The net mismatch represents the net value of assets, liabilities and unrecognised financial instruments which may be repriced in the time periods shown.

It should be noted that the banking entity uses this contractual repricing information as one of the tools to manage interest rate risk. Interest rate risk is primarily managed from a net interest income and market value perspective in the manner outlined above.

Notes to the financial statements
for the year ended 30 June 2002

28. Segment information – banking (continued)

28(h) Interest rate risk (continued)

The repricing periods attributable to the banking activities of the consolidated entity are as follows:

	Consolidated							
	Balance sheet total $m	0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Non-interest bearing $m	Weighted average rate %
2002 Financial Year								
Financial assets								
Cash and liquid assets	664	664	-	-	-	-	-	4.32
Receivables due from other financial institutions	57	-	-	-	-	-	57	0.00
Trading securities	1,498	-	1,498	-	-	-	-	4.83
Investment securities	3	-	-	-	-	-	3	0.00
Loans, advances and other receivables	21,916	6,407	10,920	1,293	3,256	40	-	6.90
Other financial assets	155	-	-	-	-	-	155	0.00
Total financial assets	24,293	7,071	12,418	1,293	3,256	40	215	
Weighted average rate %		6.45	6.56	7.43	7.48	7.94	0.00	6.69
Financial liabilities								
Deposits and short term borrowings	18,231	5,594	10,954	1,465	218	-	-	4.29
Payables due to other financial institutions	38	-	-	-	-	-	38	0.00
Payables	361	-	-	-	-	-	361	0.00
Bonds, notes and long term borrowings	3,952	44	3,088	81	735	4	-	5.23
Subordinated notes	802	-	366	-	436	-	-	7.06
Total financial liabilities	23,384	5,638	14,408	1,546	1,389	4	399	
Weighted average rate %		2.92	5.01	5.11	5.88	9.75	0.00	4.56
Net assets	909	1,433	(1,990)	(253)	1,867	36	(184)	
Weighted average rate %		4.89	5.72	6.17	6.99	8.12	0.00	
Unrecognised financial instruments		-	(524)	(74)	639	(41)	-	
Weighted average rate %		-	5.32	5.95	6.03	6.41	-	
Net mismatch		1,433	(2,514)	(327)	2,506	(5)	(184)	
Cumulative mismatch		1,433	(1,081)	(1,408)	1,099	1,093	909	

28. Segment information – banking (continued)

28(h) Interest rate risk (continued)

	Consolidated							
	Balance sheet total $m	0 to 1 month $m	1 to 6 months $m	7 to 12 months $m	1 to 5 years $m	Over 5 years $m	Non-interest bearing $m	Weighted average rate %
2001 Financial Year								
Financial assets								
Cash and liquid assets	134	25	-	-	-	-	109	0.95
Receivables due from other financial institutions	12	-	-	-	-	-	12	0.00
Trading securities	1,649	-	1,649	-	-	-	-	5.00
Investment securities	3	-	-	-	-	-	3	0.00
Loans, advances and other receivables	19,813	7,693	6,649	1,320	4,101	50	-	7.27
Other financial assets	652	-	-	-	-	-	652	0.00
Total financial assets	22,263	7,718	8,298	1,320	4,101	50	776	
Weighted average rate %		6.8	6.9	7.5	7.8	8.0	0.0	7.05
Financial liabilities								
Deposits and short term borrowings	16,908	4,693	10,775	1,288	152	-	-	4.60
Payables due to other financial institutions	-	-	-	-	-	-	-	0.00
Payables	359	-	-	-	-	-	359	0.00
Bonds, notes and long term borrowings	3,030	8	2,354	83	581	4	-	5.41
Subordinated notes	535	-	220	-	315	-	-	7.69
Total financial liabilities	20,832	4,701	13,349	1,371	1,048	4	359	
Weighted average rate %		2.9	5.2	5.6	6.7	9.7	0.0	4.81
Net assets	1,431	3,017	(5,051)	(51)	3,053	46	417	
Weighted average rate %		5.4	5.9	6.5	7.6	8.2	0.0	
Unrecognised financial instruments		-	2,497	(220)	(2,235)	(42)	-	
Weighted average rate %		-	5.1	6.3	6.3	6.4	-	
Net mismatch		3,017	(2,554)	(271)	818	4	417	
Cumulative mismatch		3,017	463	192	1,010	1,014	1,431	

28. Segment information – banking (continued)

28(i) Maturity analysis of financial assets and liabilities

The following maturity distribution of financial assets and liabilities relating to banking activities of the consolidated entity is based on contractual terms. It should be noted that the banking entity does not use this contractual maturity information as presented in the management of the financial position. Additional factors are considered when managing the maturity profiles of the business.

	Consolidated							
	At call $m	Overdraft $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Un-specified $m	Total $m
2002 financial year								
Assets								
Receivables due from other financial institutions	57	-	-	-	-	-	-	57
Loans, advances and other receivables	484	2,371	716	1,869	4,688	11,788	-	21,916
	541	2,371	716	1,869	4,688	11,788	-	21,973
Liabilities								
Deposits and short term borrowings	5,408	8,478	4,176	169	-	-	-	18,231
Payables due to other financial institutions	38	-	-	-	-	-	-	38
Bonds, notes and long term borrowings	-	-	-	3,948	4	-	-	3,952
Subordinated notes	-	-	50	582	-	-	170	802
	5,446	8,478	4,226	4,699	4	-	170	23,023
2001 financial year								
Assets								
Receivables due from other financial institutions	12	-	-	-	-	-	-	12
Loans, advances and other receivables	198	1,817	944	1,880	4,394	10,580	-	19,813
	210	1,817	944	1,880	4,394	10,580	-	19,825
Liabilities								
Deposits and short term borrowings	4,824	-	7,420	4,511	153	-	-	16,908
Payables due to other financial institutions	-	-	-	-	-	-	-	-
Bonds, notes and long term borrowings	-	-	55	161	2,809	5	-	3,030
Subordinated notes	-	-	-	-	50	315	170	535
	4,824	-	7,475	4,672	3,012	320	170	20,473

28. Segment information – banking (continued)

28(j) Concentrations of deposits and borrowings

Details of the concentration of financial instruments used by the consolidated banking entity to raise funds are as follows:

	Consolidated 2002 $m	Consolidated 2001 $m
Australian funding sources		
Retail deposits	11,902	10,332
Wholesale funding	5,059	5,896
	16,961	16,228
Overseas funding sources		
Wholesale funding		
Asian debt instrument program	57	1,494
European commercial paper and medium term note market	5,967	2,751
	6,024	4,245
	22,985	20,473

29. Segment information – general insurance

	Consolidated 2002 $m	Consolidated 2001 $m
29(a) Contribution to profit from ordinary general insurance activities		
Net earned premium		
Direct premium revenue	2,018	824
Outwards reinsurance premium expense	(151)	(53)
	1,867	771
Net incurred claims		
Direct claims expense	(1,697)	(810)
Reinsurance and other recoveries revenue	288	145
	(1,409)	(665)
Operating expenses		
Acquisition costs	(250)	(81)
Other underwriting expenses	(291)	(110)
	(541)	(191)
Reinsurance commission income	23	5
Underwriting result	(60)	(80)
Investment revenue – insurance provisions		
Interest, dividends and rent	184	138
Realised gains on investments	(19)	17
Unrealised gains on investments	8	8
	173	163
Insurance trading result	113	83
Managed schemes income	116	-
Managed schemes expense	(110)	-
Joint venture income	5	-
Investment revenue – shareholder funds		
Interest, dividends and rent	55	45
Realised gains on investments	9	(16)
Unrealised gains on investments	(54)	52
Other revenue	6	6
Other expenses	(16)	(7)
	-	80
Contribution to profit from ordinary general insurance activities before income tax, management fee and amortisation of goodwill	124	163
Management fee expense – GIO acquisition	(14)	-
Contribution to profit from ordinary general insurance activities before income tax and amortisation of goodwill	110	163

Segment information set out above includes transactions that have been eliminated in the consolidated statement of financial performance.

Control of the AMP and GIO general insurance business was effective from 1 July 2001. The general insurance segment information includes the financial position, the results from operations and the cash flows of the AMP and GIO general insurance business from that date. Control of the 50 percent interest in the general insurance joint venture with The Royal Automobile Association in South Australia (RAA (SA)) was effective from 1 July 2001 whilst the effective date of recognising the 50 percent interest in the general insurance joint venture with The Royal Automobile Club of Queensland (RACQ) was 31 December 2001.

29. Segment information – general insurance (continued)

29(b) Net incurred claims

Details of net incurred claims for general insurance are as follows:

	Consolidated					
	2002			2001		
	Current year $m	Prior year $m	Total $m	Current year $m	Prior year $m	Total $m
Direct business						
Gross claims incurred and related expenses – undiscounted	2,019	(161)	1,858	917	(87)	830
Reinsurance and other recoveries – undiscounted	(324)	27	(297)	(141)	(13)	(154)
Net claims incurred – undiscounted	1,695	(134)	1,561	776	(100)	676
Discount and discount movement – gross claims incurred	(207)	63	(144)	(99)	76	(23)
Discount and discount movement – reinsurance and other recoveries	24	(15)	9	9	-	9
	1,512	(86)	1,426	686	(24)	662
Inwards reinsurance business						
Gross claims incurred and related expenses – undiscounted			(14)			3
Discount and discount movement – gross claims incurred			(1)			-
			(15)			3
Total net claims incurred			1,411			665

Exemption for inwards reinsurance business

Inwards reinsurance business is exempted from the disclosure requirement that net claims incurred be segregated between current and prior years.

Explanation of material variances

The major components of the prior year movements are:
- a release of prudential margin in respect of claim payments during the year;
- unwinding of the discount allowed for in the provision and a small change in discount rate; and
- reassessment of valuation assumptions (refer note 19).

29. Segment information – general insurance (continued)

29(c) Interest rate risk

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Consolidated							
			Fixed Interest maturing in:					
	Balance sheet total $m	Floating interest rate $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Weighted average interest rate %
2002 financial year								
Financial assets								
Cash assets	45	34	-	-	-	-	11	4.30
Receivables	1,044	-	-	-	-	-	1,044	0.00
Other current assets	34	-	-	-	-	-	34	0.00
Investments								
fixed interest securities	2,715	-	1,235	279	861	340	-	5.50
cash on deposit	978	978	-	-	-	-	-	4.61
margin deposits	17	17	-	-	-	-	-	3.65
	4,832	1,029	1,235	279	861	340	1,088	
Financial liabilities								
Payables	193	-	-	-	-	-	193	0.00
Interest bearing liabilities	37	37	-	-	-	-	-	8.50
Non-interest bearing liabilities	42	-	-	-	-	-	42	0.00
	272	37	-	-	-	-	235	
Net financial assets	4,560	992	1,235	279	861	340	853	
Interest rate swaps		50	-	-	-	(50)	-	

The consolidated entity entered an interest rate swap whereby the fixed interest income stream was swapped for a floating interest income stream. The maturity of the arrangement is five years and four months.

The arrangement involves quarterly receipt of interest income and semi-annual payment of interest expense. At 30 June 2002, the fixed rate was 7.5 percent and the floating rate was 5.0 percent. The weighted average effective interest rate at 30 June 2002 was 5.5 percent.

29. Segment information – general insurance (continued)

29(c) Interest rate risk (continued)

	Consolidated							
			Fixed Interest maturing in:					
	Balance sheet total $m	Floating interest rate $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Weighted average interest rate %
2001 financial year								
Financial assets								
Cash assets	9	1	-	-	-	-	8	0.00
Receivables	291	-	-	-	-	-	291	0.00
Other current assets	20	-	-	-	-	-	20	0.00
Investments								
fixed interest securities	1,600	-	768	212	560	60	-	5.12
cash on deposit	443	443	-	-	-	-	-	4.78
margin deposits	5	5	-	-	-	-	-	3.98
	2,368	449	768	212	560	60	319	
Financial liabilities								
Payables	343	-	-	-	-	-	343	0.00
Interest bearing liabilities	-	-	-	-	-	-	-	-
Non-interest bearing liabilities	55	-	-	-	-	-	55	0.00
	398	-	-	-	-	-	398	
Net financial assets (liabilities)	1,970	449	768	212	560	60	(79)	
Interest rate swaps		50	-	-	-	(50)	-	

29. Segment information – general insurance (continued)

29(d) Managed funds

The controlled entity, GIO General Limited, has a contractual agreement (the contract) with New South Wales Treasury to manage New South Wales Treasury Managed Fund. Similarly, GIO Workers Compensation (NSW) Limited is a licensed insurer under the New South Wales Workers' Compensation Act 1987 (the Act). In accordance with the terms and conditions of the contract and with the requirements of the Act, the controlled entities have established and maintain statutory funds in respect of the issue and administration of policies on behalf of New South Wales Treasury and WorkCover New South Wales. The controlled entities also manage the collection of premiums, remind employers of their responsibilities in this regard, and administer most claims processes.

The application of the statutory funds is restricted to the payment of claims, related expenses and other payments under the terms and conditions of the contract and authorised by the Act. New South Wales Treasury and WorkCover New South Wales advise that the licensed insurers have no liability under the Act or the contract in the event of a deficiency in statutory funds and the Australian Taxation Office confirmed the statutory funds are exempt from income tax as New South Wales Treasury and WorkCover New South Wales hold vested interests in the income of the statutory funds. For the reasons above, the directors are of the opinion that the controlled entities do not control nor have the capacity to control the statutory funds. Therefore in accordance with AASB1024 Consolidated Accounts, income, expenses, assets and liabilities of the statutory funds are not included in the consolidated statements of financial performance and statements of financial position.

Under the terms and conditions of the contract and the Act, the controlled entities are required to perform an actuarial valuation of the financial position of the statutory funds, including a valuation of liabilities, at least once in every three year period or such other period as may be prescribed by Regulation. Accordingly, a fund method of accounting is adopted whereby the balance of the statutory funds is carried forward until the financial positions of the statutory funds are determined after actuarial investigation. Following this determination, New South Wales Treasury and WorkCover New South Wales may direct the transfer of any surplus in accordance with the terms and conditions of the contract or in accordance with the Act, including transfers to other statutory funds of the controlled entity or to the statutory funds of another insurance fund manager.

The Australian Securities and Investments Commission has, by class order 00/321, exempted the controlled entities and the consolidated entity from compliance with the Corporations Act 2001 to the extent it is necessary to adopt the above method of fund accounting.

29. Segment information – general insurance (continued)

29(d) Managed funds (continued)

Consolidated statutory funds statements of financial position (which are not consolidated into the consolidated statement of financial position).

	Consolidated 2002 $m	Consolidated 2001 $m
Current assets		
Cash	122	-
Receivables	259	-
Investments at market value	934	-
Non-current assets		
Receivables	487	-
Investments at market value	2,667	-
Total Assets	4,469	-
Current liabilities		
Payables and other current liabilities	132	-
Interest bearing liabilities	37	-
Unearned premiums	96	-
Statutory funds to meet outstanding claims	1,621	-
Non-current liabilities		
Statutory funds to meet outstanding claims and statutory transfers	2,583	-
Total liabilities and statutory funds	4,469	-

30. Segment information – wealth management

30(a) Contribution to profit from ordinary wealth management activities

	Consolidated 2002 $m	Consolidated 2001 $m
Net premium revenue		
Premium revenue	76	610
Outwards reinsurance expense	(16)	(13)
	60	597
Investment revenue		
Equity securities	(120)	72
Debt securities	88	90
Property	61	59
Other	(2)	-
	27	221
Management fee revenue – fund management	19	11
Other revenue	30	15
Total revenue	136	844
Operating expenses		
Claim expenses	(58)	(396)
Reinsurance recoveries	11	11
(Increase)/decrease in net life insurance policy liabilities	90	(287)
Increase in policy owner retained profits	(24)	(14)
Other operating expenses	(101)	(89)
	(82)	(775)
Contribution to profit from ordinary wealth management activities before income tax	54	69

Segment information set out above includes transactions that have been eliminated in the consolidated statement of financial performance.

30. Segment information – wealth management (continued)

30(b) Sources of wealth management operating profit

	Consolidated 2002 $m	Consolidated 2001 $m
Shareholder's operating profit in the statutory funds		
The shareholder's operating profit from ordinary activities after income tax in the statutory funds is represented by:		
Investment earnings on shareholder's retained profits and capital	1	10
Emergence of shareholder's planned profits	31	28
Experience profit/(loss)	(4)	2
Reversal of capitalised loss	8	1
	36	41
Shareholder's operating profit in the shareholder's fund		
Revaluation of subsidiary	2	9
Other	1	(1)
	39	49
Life Insurance Act policy owners' operating profit in the statutory funds		
The Life Act policy owners' operating profit from ordinary activities after income tax in the Statutory Funds is represented by:		
Earnings of policy owner retained profits	4	14
Emergence of policy owner planned profits	105	100
Experience loss	(8)	(2)
	101	112

30. Segment information – wealth management (continued)

30(c) Net policy liabilities

	Consolidated Current Basis (4) 2002 $m	Consolidated Current Basis (4) 2001 $m	Consolidated Previous Basis (5) 2002 $m
Best estimate liability			
Non-investment linked business			
Value of future policy benefits (1)	1,560	1,285	1,522
Value of future expenses	102	87	95
Value of unrecouped acquisition expenses	(82)	(59)	(76)
Balance of future premiums	(722)	(631)	(676)
	858	682	865
Investment linked business			
Value of future policy benefits (1)	990	913	990
Value of future expenses	39	37	40
Value of unrecouped acquisition expenses	(20)	(22)	(29)
Balance of future premiums	(110)	(108)	(101)
	899	820	900
	1,757	1,502	1,765
Value of future profits			
Non-investment linked business			
Policyholder bonuses (2)	733	819	740
Shareholder profit margins	198	212	190
	931	1,031	930
Investment linked business			
Shareholder profit margins	14	11	14
	945	1,042	944
Total value of declared bonuses (3)	69	94	69
Total net policy liabilities	2,771	2,638	2,778

Explanatory notes

(1) Future policy benefits include bonuses credited to policy owners in prior periods but exclude current period bonuses (as set out in the statement of financial performance) and future bonuses (as set out in (2)). Where business is valued by other than projection techniques, future policy benefits includes the account balance.
(2) Future bonuses exclude current period bonuses.
(3) Current year declared bonuses valued in accordance with the Actuarial Standard.
(4) Using the actuarial methods and assumptions relevant at the current reporting date, on current in force business.
(5) Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in force business.

Restrictions on assets

Investments held in the Life Statutory Funds can only be used within the restrictions imposed under the Life Act and the constitution of Suncorp Life and Superannuation Limited. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or as distributions. Participating policy owners can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

30. Segment information – wealth management (continued)

30(d) Managed assets and trustee activities

Managed assets

Assets of the InvestorChoice master trust totalling $39 million (2001: $49 million) are managed by a number of investment managers under the administration of Asgard Capital Management Ltd. Arrangements are in place to ensure that the asset management activities are separate from the consolidated entity.

Trustee activities

Suncorp Superannuation Pty Ltd, a controlled entity of the Company, acts as trustee in relation to various superannuation policies issued by Suncorp Life and Superannuation Limited. Arrangements are in place to ensure that the activities of Suncorp Superannuation Pty Ltd are managed separately.

30(e) Disaggregated information by fund

Under the Life Act, wealth management business is conducted within separate statutory funds which are distinguished from one another and the shareholder's funds. The financial statements of Suncorp Life and Superannuation Limited are lodged with relevant Australian regulators and show all major components of the financial statements disaggregated between each wealth management statutory fund and the shareholder's funds. Extracts of the disaggregated financial statements of the consolidated entity's wealth management business are set out below.

	Non-investment linked Statutory Fund No. 1 $m	Investment linked Statutory Fund No. 2 $m	Total Statutory Funds $m	Shareholder Fund $m
2002 financial year				
Investment assets	2,237	947	3,184	46
Policy liabilities ceded to reinsurers	9	-	9	-
Other assets	53	18	71	28
Total assets	2,299	965	3,264	74
Gross policy liabilities	1,867	913	2,780	-
Liabilities other than policy liabilities	77	-	77	17
Policy owner retained profits	271	-	271	-
Total liabilities	2,215	913	3,128	17
Net assets	84	52	136	57
Share capital	-	-	-	39
Retained profits	79	27	106	48
Capital transfers	5	25	30	(30)
Total equity	84	52	136	57
Premium revenue	74	2	76	-
Investment revenue	49	(23)	26	3
Claims expense	(58)	-	(58)	-
Net operating expenses	(27)	14	(13)	-
Profit from ordinary activities before tax	38	(7)	31	3
Profit from ordinary activities after tax	36	-	36	3
Transfer of profits	(19)	-	(19)	19

30. Segment information – wealth management (continued)

30(e) Disaggregated information by fund (continued)

	Non-investment linked Statutory Fund No. 1 $m	Investment linked Statutory Fund No. 2 $m	Total Statutory Funds $m	Shareholder Fund $m
2001 financial year				
Investment assets	2,191	873	3,064	37
Policy liabilities ceded to reinsurers	13	-	13	-
Other assets	36	17	53	34
Total assets	2,240	890	3,130	71
Gross policy liabilities	1,819	832	2,651	-
Liabilities other than policy liabilities	106	6	112	17
Policy owner retained profits	247	-	247	-
Total liabilities	2,172	838	3,010	17
Net assets	68	52	120	54
Share capital	-	-	-	39
Retained profits	63	27	90	45
Capital transfers	5	25	30	(30)
Total equity	68	52	120	54
Premium revenue	384	226	610	-
Investment revenue	156	50	206	16
Claims expense	(293)	(103)	(396)	-
Net operating expenses	(201)	(166)	(367)	(4)
Profit from ordinary activities before tax	46	7	53	12
Profit from ordinary activities after tax	30	11	41	8
Transfer of profits	(24)	-	(24)	24

30. Segment information – wealth management (continued)

30(f) Solvency requirements of the wealth management statutory funds

Distribution of the retained profits is limited by the prudential capital requirements of Part 5 of the Life Act, the detailed provisions of which are specified by Actuarial Standards. The Solvency Standard prescribes a minimum level of assets, known as the solvency requirement, for each Statutory Fund in the life business.

The solvency requirements, and the ratios in respect of those requirements, are as follows:

	Consolidated					
	Statutory Fund No 1		Statutory Fund No 2		Total Statutory Funds	
	2002 $m	2001 $m	2002 $m	2001 $m	2002 $m	2001 $m
Minimum termination value	1,629	1,435	931	851	2,560	2,286
Other liabilities	77	107	-	6	77	113
Solvency reserve	229	371	8	6	237	377
Solvency requirement	1,935	1,913	939	863	2,874	2,776
Excess of net policy liabilities (includes policyholder bonuses) over minimum termination value	229	371	(18)	(19)	211	352
Net assets	84	68	52	52	136	120
Liability for policyholder retained profits at the end of the financial year	271	247	-	-	271	247
	584	686	34	33	618	719
Solvency reserve %	13.40	24.10	0.80	0.70	9.00	15.70
Coverage of solvency reserve	2.6	1.8	4.4	5.7	2.6	1.9

The minimum termination value is determined in accordance with the Solvency Standard and is the base figure upon which reserves against liability and asset risks are layered in determining the solvency requirement. The minimum termination value represents the minimum obligation of the consolidated entity to policy owners at reporting date.

31. Financing arrangements

	2002 available $m	2002 unused $m	2001 available $m	2001 unused $m
	Consolidated			
Financing arrangements which are available under normal financing arrangements				
Standby facility	225	225	225	225
Group overdraft limit	60	24	-	-
	Company			
Financing arrangements which are available under normal financing arrangements				
Standby facility	225	225	225	225
Group overdraft limit	-	-	-	-

32. Risk management

32(a) General framework

A structured risk management framework has been implemented throughout the group in respect of all risks including market, credit and operational risks. The framework comprises policies, organisational structure, a formal risk management methodology, processes, delegations of authorities to assume and approve risk, and monitoring and reporting requirements.

Line management has been given the responsibility of and accountability for embedding the framework within the business operations of the group and the continuing operation of the process is monitored by the Executive Risk Committee and the Audit, Business Risk and Compliance Committee.

The methodology comprises an ongoing process for recognising and evaluating risks, development and implementation of mitigation strategies, and implementation of monitoring tools. All risks and their mitigators are documented in Risk Registers which are maintained at a business unit level and consolidated on a group level for monitoring by the Executive. The Risk Registers are also reviewed annually as part of the group's Business Planning Process and each Register is signed-off by the head of the business unit and the relevant executive. Consolidated Risk Registers are endorsed by the Executive Risk Committee and submitted to the Audit, Business Risk and Compliance Committee for approval of the risk limits.

Management is required as part of the monthly Due Diligence process to identify and report any risk events which have occurred and any breaches in authorities, policies or legislative requirements. These reports are "rolled-up" through management and executives to the Chief Executive Officer's Due Diligence Report to the Audit, Business Risk and Compliance Committee.

The Group Internal Audit function is charged with the responsibility for reviewing and reporting on the risk management process as actually implemented within business units and the effectiveness of the strategies in place to mitigate the recognised risks. Summaries of all audit reports together with details of management's action plans to rectify any noted weaknesses are issued to the Chief Executive Officer and the Audit, Business Risk and Compliance Committee.

In addition to the Internal Audit unit there are a number of compliance and review units within the group who are responsible for monitoring, reviewing and reporting on specific areas of the group operations including credit and market risks. These units include Group Compliance, Credit Bureau, Investment Compliance and Risk Management and Financial Markets Risk Management. These units report to the Board Credit, Investment or Audit, Business Risk and Compliance Committees as appropriate.

General insurance activities

The Boards of each of the general insurance entities have approved and issued a Risk Management Strategy which sets out the group risk management framework for adoption within the entities. In addition the insurance entities have also adopted a Risk Management Statement setting out specific guidelines for the investment of the entities' funds including the use of derivative financial instruments. More detailed discussion on this is contained in note 33.

The consolidated entity has two distinct investment portfolios, each with their own investment mandate, to assist in the overall management of the business:

- The liabilities portfolio supports the insurance provisions of the consolidated entity. The investment mandate for this portfolio requires investments be held in short term securities and fixed interest securities. The portfolio is invested in a manner consistent with the expected duration of claims payments, ensuring any variation from a fully matched position is restrained. It includes assets (including foreign currency) to support the run-off of offshore liabilities in relation to the previous inwards reinsurance activities.
- The shareholder's portfolio is tracked in relation to the investment of additional funds in support of share capital and retained earnings. To provide higher returns on capital maintained, the investment mandate for this portfolio requires more diverse investment strategies, including interests in equities, property and cash.

32. Risk management (continued)

32(a) General framework (continued)

Life insurance activities

Suncorp Life and Superannuation Limited (SLSL) has an approved Risk Management Statement which has been accepted by APRA as appropriate guidelines for the use of derivatives. More detailed discussion on SLSL's Risk Management Statement and use of derivative financial instruments is contained in note 33.

SLSL has a shareholder and two statutory funds, being a Capital Guaranteed Fund and an Investment Linked Fund. Within the Capital Guaranteed Fund there are four sub-funds. Within the Investment Linked Fund there are 13 sub-funds. Each of these sub-funds has an investment mandate.

32(b) Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. Liquidity policy is set by the Board to ensure that the consolidated entity has sufficient funds available to meet all its known and potential commitments.

Banking activities

Liquidity risk arises from mismatches in the cash flows of financial transactions or the inability of financial markets to absorb the transactions of the consolidated entity.

Policy and procedures exist to monitor the liquidity of the financial markets within which the consolidated entity transacts business. The liquidity policy is managed within the Treasury department and is monitored independently by the risk management function on a continuous basis.

General insurance activities

The ability to make claims payments in a timely manner is critical to the business of insurance. The investment portfolio mandates ensure that sufficient cash deposits are available to meet day-to-day obligations. Investment funds are set aside within the investment portfolio in support of these reserves, thereby ensuring the adequacy of investment portfolios to accommodate significant claims payments obligations. In addition, under the terms of the consolidated entity's reinsurance arrangements, immediate access to cash is available in the event of a major catastrophe.

The consolidated entity maintains a level of solvency in excess of the statutory requirements imposed by APRA.

From 1 July 2002, the licensed general insurance entities must comply with the new Prudential Regulations issued by APRA including the capital adequacy standard that sets a Minimum Capital Requirement for general insurers. APRA have also prescribed a Minimum Capital Requirement of 125 percent of the statutory minimum for the consolidated general insurance activities of the consolidated entity. The Board has adopted a policy to maintain capital to at least 135 percent of the Minimum Capital Requirement set out in the capital adequacy standard.

Life insurance activities

The investment portfolio mandates ensure that sufficient cash deposits are available to meet day-to-day obligations. SLSL maintains a level of capital adequacy in accordance with Actuarial Standards issued by the LIASB.

32. Risk management (continued)

32(c) Credit risk

Credit risk is the likelihood of future financial loss resulting from the failure of clients or counterparties to meet contractual payment obligations to the consolidated entity as they fall due.

Banking activities

Credit risk is managed through a combination of an assessment of individual exposures which are transactionally managed using annual reviews (or more frequently if required) and current financial information to assess repayment capacity, risk grading which is kept current and other exposures which are managed statistically on a portfolio basis.

The Board Credit Committee is the highest credit authority below the Board of the Company. It concentrates on issues such as formulation of credit policy and the review of asset quality. It is also the approval authority for applications above the discretion of the Executive Credit Committee. Comprehensive Credit Policies and Standards have been formulated, approved by the Board Credit Committee and implemented, ensuring consistency in the identification of asset quality throughout the various banking activities of the consolidated entity.

Group Credit department manages the group credit risk accepted by the consolidated entity. Group Credit is responsible for managing the arrears on all loans and includes Secured Asset Management, a specialist unit which manages advanced problem loans. All Impaired Assets are managed within Group Credit.

Details of credit risk concentrations by industry for each of the major asset types are set out in note 28(d).

The nature of credit risk varies between Business Banking and Retail Banking activities and is therefore managed differently.

Business banking
The consolidated Credit Policies and Standards are the foundation of credit risk management within Business Banking operations. The credit policies codify the standards for acceptance of new and additional applications. A structure of industry concentration limits has been developed. These are tactical limits upon which business planning and developmental activity is based but also act as guidelines for portfolio concentration purposes. Each industry has been rated based on the economic and market outlook for the industry as well as the consolidated entity's actual exposure.

The Company has designed and implemented a loan grading system. The system produces an assessment of credit quality which measures the factors such as industry risk, financial strength and management ability of the client and a security ratio which estimates the deficiency in the security held in the event of default. For each client, the credit risk grading system uses a weighting of influential industry and business cycle factors, historical and prospective financial performance and level of security. These areas are fundamental components of credit risk and offer the greatest insight into the likelihood that a customer will default and create loss. The analysis also provides a strong basis of credit quality at the portfolio and consolidated entity level.

Retail banking
Separate credit policies for Retail Banking codify the standards for acceptance of new and additional applications. Credit scoring is used to approve many of the retail banking credit loans and the credit policies and lending policies are enforced by these systems.

General insurance activities

Credit risk occurs as a result of reinsurance arrangements and investment in financial instruments. The Board Credit Committee monitors the effectiveness of the credit function of the consolidated entity to control and manage the credit risks within the consolidated entity, including the investments and insurance portfolios.

32. Risk management (continued)

32(c) Credit risk (continued)

General insurance activities (continued)

The consolidated entity enters into reinsurance arrangements to reduce potential claims losses. The credit risk associated with these arrangements is monitored and managed by a specialised reinsurance broker operating within the international reinsurance markets. Over-concentration of credit risk is avoided by placement of cover with a substantial number of reinsurers. Over 80 percent of reinsurance is placed with companies with Standard and Poor's credit ratings of "A" or better. Exposures to reinsurers is reviewed by the Board Credit Committee.

Investments in financial instruments are held in accordance with the investment mandates and the operational guidelines on use of derivatives established in the Risk Management Statement. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.

The credit risk of financial assets that have been recognised on the statement of financial position is the carrying amount.

Life insurance activities

Credit risk occurs as a result of investments in financial instruments. The consolidated entity has no specific concentration of credit risk with a single counterparty arising from the use of financial instruments in managing the investment portfolio other than that normally arising through dealings on recognised exchanges and off exchange dealings (over the counter contracts). The counterparties to over the counter contracts are limited to companies with strong credit ratings from a recognised credit rating agency. These counterparties are normally banks operating in Australia.

Credit risk from the use of financial instruments in investment management is controlled both by credit management (credit rating and credit limit controls), and by counterparty diversification policies to limit exposure to any one counterparty as a proportion of the investment portfolio.

32(d) Interest rate risk

Banking activities

Details of interest rate risk in relation to banking activities are set out in note 28(h).

General insurance activities

Interest rate risk arises from the investments in interest bearing securities. Any change in market value of investments in interest bearing securities is immediately recognised in the statements of financial performance.

The investment portfolios hold significant interest bearing securities in support of corresponding insurance provisions, invested in a manner consistent with the expected duration of claims payments. The valuation of the insurance provisions includes the discounting to present value at balance date of expected future claim payments.

Any assessment of the impact of changes in interest rates on investment revenues must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims' valuations. The investment portfolio mandates have been established on the basis of the appropriate matching principles so as to ensure the impact on the operating result of changes in interest rates is minimised.

The discount rates being applied to future claims payments in determining the valuation of outstanding claims range from 5.4 percent to 6.4 percent (2001: 5.5 percent to 6.4 percent) as disclosed in note 19.

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out in note 29(c).

32. Risk management (continued)

32(d) Interest rate risk (continued)

Wealth management activities

Interest rate risk in the statements of financial position arises from the potential for a change in interest rates to have an adverse effect on the revenue earnings in the current reporting period and in future years. Any change in market value of investments in interest bearing securities are immediately reflected in the statements of financial position in accordance with the accounting policies discussed in note 1(c).

32(e) Foreign exchange risk

Foreign exchange risk arises from the effects of potential movements in exchange rates on open foreign currency positions. The objective of foreign currency exchange risk management within the consolidated entity is to minimise the impact on earnings of any such movements. Foreign exchange rate derivative products are used to assist in the management of foreign exchange risk.

Banking activities

The consolidated entity has arranged offshore borrowing facilities as part of the overall funding diversification process. These facilities have been hedged in respect of their potential foreign exchange risk, through the use of derivative financial instruments.

General insurance activities

The consolidated entity has ongoing obligations in relation to a number of outstanding claims which have arisen in relation to previously written offshore inwards reinsurance business. The provision for outstanding claims has been established on the basis of assessments in relation to potential exposure. The business has been assigned a specialist case manager based in the London insurance market with the aim of finalising all claims over the shortest period that is cost effective.

As this business is no longer being written, the consolidated entity established a special investment portfolio to ensure sufficient funds were set aside to accommodate all final settlements. The claim payments will be predominantly in United States dollars. The investment portfolio consists of cash and short term discount securities with a forward foreign exchange agreement. The details of the forward foreign exchange agreement are contained in note 33.

Life insurance activities

The statutory funds of the consolidated entity invest in overseas assets. These assets back the liabilities within the funds. In the Investment Linked Fund, any investment returns, whether positive or negative, are passed on to the policy owners. In the Capital Guaranteed Fund, capital and declared interest are guaranteed. The Fund maintains reserves in accordance with the standards of the LIASB to meet any risk in diminution of value associated with foreign exchange risk.

32(f) Discretionary market risk – banking activities

Discretionary market risk is the risk of loss on the banking entity's discretionary positions from adverse financial markets' price movements. The banking entity's major discretionary market risks arise from interest rate risk and exchange rate risk. The banking entity uses historical simulation Value-at-Risk (VaR) and parallel yield curve shift measures to manage discretionary market risk. These measures are independently calculated and monitored on a daily basis. VaR is a statistical estimate of the potential loss that could be incurred if the banking entity's discretionary positions were maintained for a pre-defined time period. A 99 percent confidence level and a one-day holding period are used for the simulation. VaR and other risk sensitivity measures are aggregated to provide a measure of total discretionary risk. Correlation between interest rate and foreign exchange portfolios is not taken into account.

32. Risk management (continued)

32(f) Discretionary market risk – banking activities (continued)

The uncorrelated VaR for the banking entity during the full year was as follows:

	Consolidated		
	Maximum VaR	Mimimum VaR	Average VaR
	$'000	$'000	$'000
2002 financial year			
Interest rate risk	560	19	132
Exchange rate risk	151	8	44
2001 financial year			
Interest rate risk	739	27	240
Exchange rate risk	187	10	35

32(g) Other financial instruments risk – insurance activities

In addition to cash and interest bearing securities, the insurance investment portfolios contain exposures to equity and property markets. These investments integral to insurance activities are measured at net market value and changes in market value are recognised in the statements of financial performance.

An overall downturn in the equities markets may impact on the future results of the consolidated entity. The impact of any significant movement is managed by ensuring that the investment portfolio consists of a diverse holding of leading Australian companies and through the limited use of derivative financial instruments, as discussed in note 33.

The property investments are subject to regular valuations. This portfolio is actively managed to ensure that any adverse financial impacts are appropriately monitored.

32(h) Operational risk

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the consolidated entity conducts it business and includes reputational and legal risks. Operational risk is managed through the adoption of the group risk management framework. Risks which cross all business units such as business continuity and regulatory compliance are co-ordinated centrally by the Group Operational Risk and Group Compliance units respectively. These risks are owned and managed by the Executive Risk Committee with monitoring by the Audit, Business Risk and Compliance Committee. The Group Internal Audit function also conducts regular reviews to monitor compliance with policy and regulatory requirements, and examines the general standard of control.

33. Derivative financial instruments

A derivative financial instrument is a financial instrument that provides the holder with the ability to participate in some or all of the price changes of a referenced financial instrument, commodity, index of prices, or the price of any specific item. It usually does not require the holder to own or deliver the referenced item. Derivatives enable holders to modify or eliminate risks by transferring them to other parties willing to assume those risks.

Derivative financial instruments are used by the consolidated entity to manage interest rate, foreign exchange and equity price risk arising from various banking and insurance activities. They are also used to a limited degree within the insurance investment portfolios where it is more efficient to use derivatives rather than physical securities in managing investment portfolios.

The 'face value' is the notional or contractual amount of the derivatives. This amount acts as reference value upon which interest payments and net settlements can be calculated and on which revaluation is based.

33. Derivative financial instruments (continued)

The 'credit equivalent' is a number calculated using a standard APRA formula and is disclosed for each product class. This amount is a measure of the on-balance sheet loan equivalent of the derivative contracts, which includes a specified percentage of the face value of each contract plus the market value of all contracts with an unrealised gain at balance date. The credit equivalent does not take into account any benefits of netting exposures to individual counterparties.

The 'fair value' of the derivative contract represents the net present value of the cash inflows and outflows required to extinguish the rights and obligations arising from the derivative in an orderly market as at reporting date. Fair value does not indicate future gains or losses, but rather the unrealised gains and losses from marking to market all derivatives at a particular point in time. The fair value of derivative contracts vary over time depending on movements in interest and exchange rates and hedging strategies used.

Banking activities

The banking entity utilises derivative financial instruments predominantly for hedging activities. Details of the outstanding hedging derivative contracts at the end of the financial year are as follows:

	Consolidated		
	Face value	Credit equivalent	Fair value
	$m	$m	$m
2002 financial year			
Exchange rate related contracts			
Forward exchange contracts	3,195	77	(51)
Cross currency swaps	4,211	409	96
Currency options	15	-	-
	7,421	486	45
Interest rate related contracts			
Interest rate swaps	9,331	65	(14)
Interest rate options	415	7	-
	9,746	72	(14)
Total derivative exposures	17,167	558	31
2001 financial year			
Exchange rate related contracts			
Forward exchange contracts	1,751	73	33
Cross currency swaps	2,813	710	593
Currency options	19	1	-
	4,583	784	626
Interest rate related contracts			
Interest rate swaps	6,105	66	(18)
Interest rate options	306	4	-
Interest rate futures	100	-	-
	6,511	70	(18)
Total derivative exposures	11,094	854	608

33. Derivative financial instruments (continued)

Insurance activities

The consolidated entity sees the use of derivatives as consistent with the objectives of the overall investment strategies of the investment portfolios, and one of the means by which these strategies are implemented. Derivatives will only be used for the reasons of efficiency, arbitrage and risk reduction.

The Risk Management Statements, approved by the Board and issued pursuant to the requirements of APRA, establish the basis on which derivative financial instruments may be used within the investment portfolios. The preparation and enforcement of the statement is a critical requirement for licensed insurers. The Risk Management Statements form the basis of the discussion in this note on derivative financial instruments.

The Risk Management Statements and investment mandates strictly prohibit the use of derivatives for speculative purposes or for leveraged trading. Leverage here is defined as creating a portfolio which would have sensitivity to an underlying economic or financial variable which is greater than could be achieved using only physical securities. Exposure limits have been established with respect to the various asset classes for each client portfolio. Within each asset class, derivative exposure limits are identified in the Risk Management Statements and limits have been established on daily transaction levels. For over the counter (OTC) derivatives authorised counterparties must have a minimum Standard and Poor's rating of "A" or the equivalent credit rating by another recognised credit rating agency.

The investment manager has an independent Risk Manager responsible for monitoring these positions to ensure they do not exceed the authorities established in the investment mandate. Regular monitoring of these activities is the responsibility of the Board Investments sub-committee and the Group Internal Audit unit.

The general insurance business has forward foreign exchange contracts in relation to the overseas liabilities portfolio. Under the contracts, the consolidated entity agrees to exchange specified amounts of United States dollars at an agreed future date, at a specified exchange rate.

The use of derivative financial instruments to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded bill and bond futures, equity index futures, OTC forward exchange contracts and interest rate and equity options.

The details of notional principal amounts and remaining duration of these derivative financial instruments at balance date are as follows:

	Consolidated			
	2002 Average interest rate %	2002 Notional principal amount $m	2001 Average interest rate %	2001 Notional principal amount $m
General insurance				
Less than one year	5.6	1,415	5.5	637
Life insurance				
Less than one year	4.7	758	5.3	742

33. Derivative financial instruments (continued)

Insurance activities (continued)

Derivative financial instruments are investments integral to insurance activities and are measured at net market value. Changes in net market value are reflected daily in the statement of financial performance. The net fair values of the derivative financial instruments at balance date are as follows:

	Consolidated			
	2002 Face value $m	2002 Fair value $m	2001 Face value $m	2001 Fair value $m
General insurance				
Forward exchange contracts	38	-	26	-
Interest rate swaps	50	-	50	(1)
Interest rate futures	864	-	466	(1)
Equity futures	463	5	95	-
	1,415	5	637	(2)
Life insurance				
Forward exchange contracts	219	1	350	-
Interest rate futures	181	(1)	268	1
Equity futures	358	(3)	124	(1)
	758	(3)	742	-

Where the probability of exercising an option is less than one, a difference arises between notional principal and face value. In the current year, notional principal amounts are equal to face value due to the absence of options in the investment portfolio. However, in future periods options may form part of the investment portfolio resulting in a difference between notional principal and face value amounts.

34. Disclosures about fair value of financial instruments

These amounts represent estimates of net fair values at a point in time and require assumptions and matters of judgement regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors. Therefore, they cannot be determined with precision and changes in the assumptions could have a material impact on the amount estimated. Fair values of financial instruments at balance date are as follows:

	Consolidated			
	2002 Carrying value $m	2002 Net Fair value $m	2001 Carrying value $m	2001 Net Fair value $m
Financial assets				
Cash and liquid assets	1,194	1,194	288	288
Receivables due from other financial institutions	57	57	68	68
Trading securities	1,498	1,498	1,649	1,649
Investment securities	7,544	7,544	6,095	6,095
Loans, advances and other receivables	22,955	22,992	20,146	20,196
Other financial assets	633	633	673	673
Financial liabilities				
Deposits and short term borrowings	18,176	18,243	16,908	16,991
Payables due to other financial institutions	70	70	56	56
Payables	858	858	709	709
Bonds, notes and long term borrowings	3,952	3,971	3,030	3,045
Subordinated notes	802	807	535	548
Asset and liability hedges – unrealised losses	-	12	-	23

The face value of derivative financial instruments can be found in note 33.

34. Disclosures about fair value of financial instruments (continued)

The estimated net fair values disclosed do not include the value of assets and liabilities that are not considered financial instruments. In addition, the value of long-term relationships with depositors and other customers are not reflected. The value of these items is significant, and the aggregate net fair value amount should in no way be construed as representative of the underlying value of the consolidated entity.

The following methodologies and assumptions were used to determine the net fair value estimates:

Financial assets

As cash and liquid assets and receivables due from other financial institutions are short term in nature or are receivable on demand, their carrying value approximates their net fair value. Trading and investment securities are carried at net market value which equates to net fair value.

The carrying value of loans, advances and other receivables is net of general and specific provisions for impairment and interest reserved. For variable rate loans, excluding impaired loans, the carrying amount is considered a reasonable estimate of net fair value. The net fair value for fixed rate loans was calculated by utilising discounted cash flow models to determine the net present value of the portfolio future principal and interest cash flows, based on the interest rate repricing of the loans. The discount rates applied were based on the rates offered by the banking entities on current products with similar maturity dates.

For all other financial assets, the carrying value is considered to be a reasonable estimate of net fair value.

Financial liabilities

The carrying value at balance date of non-interest bearing, call and variable rate deposits, and fixed rate deposits repricing within six months, is the net fair value. Discounted cash flow models are used to calculate the net fair value of other term deposits based upon deposit type and related maturities. As the payables due to other financial institutions are short term in nature, their carrying value approximates their net fair value.

The net fair value of bonds, long term borrowings and subordinated notes, are calculated based on either the quoted market prices at balance date or, where quoted market prices were not available, a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instrument.

For all other financial liabilities which are short term in nature, the carrying value is considered to be a reasonable estimate of net fair value. For longer term liabilities, net fair values have been estimated using the rates currently offered by the banking entity for similar liabilities with similar remaining maturities.

Contingent financial liabilities

The net fair value of commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risk and attract fees in line with market prices for similar arrangements. They are not sold or traded by the consolidated entity. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. The net fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

Other unrecognised financial instruments

Net fair value of asset and liability hedges is based on quoted market prices, or broker and dealer price quotations. The net fair value of trading and investment derivative contracts was obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

35. Investments in controlled entities

Suncorp-Metway Ltd
Controlled entities of Suncorp-Metway Ltd

Metway Credit Corporation Limited
Suncorp Metway Staff Pty Ltd
Metway Leasing Limited
Metway Star Limited
Abbott & Williams Pty Ltd (deregistered on 1 July 2002)
Derringhurst Pty Ltd (1)
Excelle Pty Ltd
SIS Super Pty Ltd (1)
SME Management Pty Ltd
QIDC Limited
Suncorp Metway Equipment Leasing Pty Ltd
Suncorp Metway Advances Corporation Pty Ltd

Suncorp Finance Limited
Controlled entities of Suncorp Finance Limited

Permanent Holdings Pty Ltd
Permanent Finance Corporation (Aust) Pty Ltd
PFC Finance Pty Ltd
Medical and Commercial Finance Corporation Limited

Graham & Company Limited
Controlled entities of Graham & Company Limited

Graham & Company Securities Limited

Hooker Corporation Limited
Controlled entities of Hooker Corporation Limited

L J Hooker Limited
Hooker Corporate (ACT) Pty Ltd (1)
Hooker Corporate (QLD) Pty Ltd (1)
Hooker Corporate (SA) Pty Ltd (1)
Hooker Corporate (TAS) Pty Ltd (1)
Hooker Corporate (VIC) Pty Ltd (1)
Hooker Corporate (WA) Pty Ltd (1)
Hooker (Superannuation) Pty Ltd (1)
LJ Hooker Limited (incorporated in United Kingdom) (2)
LJ Hooker Limited (incorporated in Hong Kong) (2)
LJ Hooker (Singapore) Pte Ltd (incorporated in Singapore) (2)
LJ Hooker (NZ) Limited (2)
Controlled entities of L J Hooker (NZ) Limited
L J Hooker Group Ltd (incorporated in New Zealand) (2)
Challenge Realty Group Ltd (incorporated in New Zealand) (2)
LJ Hooker Limited (incorporated in New Zealand) (2)

Metfin Capital Pty Ltd
Controlled entities of Metfin Capital Pty Ltd

Metway Nominees Pty Ltd (deregistered on 1 July 2002) (1)
Shelbourne Investments Pty Ltd (1)

Suncorp Metway Insurance Ltd
Controlled entities of Suncorp Metway Insurance Ltd

LJ Hooker Financial Services Limited
The Park Road Property Trust (65% interest)
Suncorp Metway Risk Management Pte Limited
(Incorporated in Singapore) (2)
GIO Insurance Investment Holdings A Pty Ltd (3)
Controlled entities of GIO Insurance Investment Holdings A Pty Ltd
GIO Australia Limited (3)
Controlled entities of GIO Australia Limited
GIO Technical Services Pty Ltd (1) (3)
GIO General Limited (3)
Controlled entities of GIO General Limited
GIO Workers Compensation (VIC) Limited (3)
GIO Workers Compensation (NSW) Limited (3)

Suncorp Metway Investment Management Limited
Controlled entities of Suncorp Metway Investment Management Limited

SUNCORP Custodian Services Pty Ltd
Hedge Funds Limited (57.1% interest)
SUNCORP Property Management Limited
Controlled entities of SUNCORP Property Management Limited
Carindale Management Limited (3)

Suncorp Life and Superannuation Limited
Controlled entities of Suncorp Life and Superannuation Limited

SIP Super Pty Ltd
SUNCORP Superannuation Pty Ltd
SUNCORP Financial Planning Pty Ltd

Except as otherwise noted, the Company's beneficial interest in all controlled entities is 100% and they are incorporated in Australia.

(1) A number of controlled entities are small proprietary companies. Accordingly, they are not required to produce, and have not produced, audited financial statements.
(2) Audited by another member firm of KPMG International.
(3) Audited by Ernst & Young.

36. Acquisition and disposal of controlled entities

(a) Acquisition

During the period the consolidated entity completed the acquisition of 100% of GIO Insurance Investment Holdings A Pty Limited (GIOIIHA) and its wholly-owned controlled entities. The business acquired includes the Australian general insurance business of AMP and GIO, but excludes the GIO inwards reinsurance business, GIO Australia Holdings Limited (the former listed company) and GIO's run-off-book of its former large scale Commercial and Special Risks Insurance Business.

For the purposes of preparing the financial report of the consolidated entity, control of the AMP and GIO general insurance business was effective from 1 July 2001. The financial report includes the financial position, the results from operations and cash flows from that date.The assets, liabilities, rights and licences necessary to undertake the business acquired are held in GIOIIHA and its wholly-owned controlled entities. GIOIIHA was aquired by Suncorp Metway Insurance Ltd.

The principal costs associated with the restructuring provision of $112 million include staff redundancy payments, termination of lease or service contracts, information systems integration, and costs involved in centralising processing activities.

	$m
Consideration	
paid on 28 September 2001	1,263
paid on 11 January 2002	135
Transaction costs	13
Cost of acquisition	1,411
Fair value of net assets of GIOIIHA and its wholly-owned controlled entities acquired:	
Assets	
Cash and liquid assets	47
Investment securities	1,793
Receivables	335
Reinsurance and other recoveries receivable	228
Property, plant and equipment	25
Deferred tax assets	79
Investments in associates	80
Other financial assets	143
Total assets	2,730
Liabilities	
Deposits and short term borrowings	26
Payables	93
Provisions	82
Restructuring provision	112
Outstanding claims and unearned premiums provisions	2,010
Total liabilities	2,323
Fair value of net assets of entities acquired	407
Goodwill on acquisition	1,004
Cash consideration	1,411

36. Acquisition and disposal of controlled entities (continued)

(a) Acquisition (continued)

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Outflow of cash to acquire controlled entity, net of cash acquired				
Cash consideration	1,411	-	1,411	-
Less: Balances acquired				
Cash	47	-	47	-
Outflow of cash	1,364	-	1,364	-

The Company provided the funding for SMIL to complete the acquisition.

On 21 December 2001, Suncorp Metway Investment Management Limited acquired 50.1 percent of the Class A (voting) shares and 48.3 percent of the Class B (economic) shares of Hedge Funds Limited and this has increased to 57.1 percent of the economic shares during the year. The operating results of this newly controlled entity have been included in the consolidated group results since 21 December 2001, being the date of acquisition. The entity acts as responsible entity for the Hedge Funds of Australia Unit Trusts. Details of the acquisition are as follows:

	$m
Cost of acquisition	2
Fair value of identifiable net assets of controlled entity acquired	3
Outside equity interests	(2)
Goodwill on acquisition	1
Cash consideration	2
Outflow of cash to acquire controlled entity, net of cash acquired	
Cash consideration	2
Less: Balances acquired	
Cash	1
Outflow of cash	1

On 20 December 2001, the Company reacquired 100 percent of the contributed equity of Metway Nominees Pty Limited. The aggregate cash consideration paid to acquire this controlled entity was $1 and the fair value of the net assets acquired was $1.

On 7 June 2002, the Company acquired 100 percent of the contributed equity of Suncorp Metway Advances Corporation Pty Ltd. The aggregate cash consideration paid to acquire this company was $2 and the fair value of the net assets acquired was $2.

On 7 June 2002, the Company acquired 100 percent of the contributed equity of Suncorp Metway Equipment Leasing Pty Ltd. The aggregate cash consideration paid to acquire this company was $2 and the fair value of the net assets acquired was $2.

(b) Disposal

During the financial year, the Company disposed of its investment in Metway Nominees Pty Limited. The aggregate cash consideration received (net of stamp duty and legal fees payable) was $11,020,201 and the aggregate net assets disposed of was $7,232,095. The aggregate gain on disposal of Metway Nominees Pty Limited was $3,788,106.

37. Fiduciary activities

The consolidated entity conducts investment management and other fiduciary activities as trustee, custodian or manager for various investment funds and trusts, Suncorp approved deposit funds, superannuation funds, and wholesale and retail unit trusts. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the consolidated entity and are not included in the consolidated financial statements.

Where controlled entities, as single responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against these assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements. At 30 June 2002 the value of assets under management was $1,172 million (2001: $779 million).

38. Related party information

Directors and director related entities

The names of persons who were directors of the Company at any time during the financial year were as follows:

R John Lamble AO
John D Story
W Steven Jones
Dr Ian D Blackburne
Rodney F Cormie
Frank C B Haly AO
R Patrick Handley
Dr Cherrell Hirst AO
James J Kennedy AO, CBE
Martin D E Kriewaldt

Mr R Patrick Handley was appointed a director on 23 July 2001, Dr Cherrell Hirst AO was appointed a director on 8 February 2002, and Frank C B Haly AO held office as a director until his retirement on 31 January 2002.

Details of directors' remuneration and retirement benefits are set out in note 40.

The Australian Securities and Investments Commission issued class order 98/0110 on 10 July 1998 which relieves Australian banks from disclosure of bank loans and other financial instrument transactions made to related parties in the ordinary course of business, other than loans and financial instrument transactions to a director of the Company. This relief does not extend to shares and share options.

The Company is required under the terms of the class order to lodge a statutory declaration, signed by two Directors, with the Australian Securities and Investments Commission. The declaration must provide confirmation that the Company has instigated systems of internal control and procedures, which provide assurance that any loans or other financial instrument transactions of a bank which are not entered into on normal terms and conditions are drawn to the attention of the Directors, so that they may be disclosed in the financial statements. The Company will lodge such a declaration with its annual return to the Australian Securities and Investments Commission.

Loans to directors and director related entities

Loan facilities to directors of the Company, from the Company and its controlled entities, are extended under the normal terms and conditions applicable to customers, or in respect of loans to executive directors, on the same terms and conditions as apply to other employees of the consolidated entity in accordance with established policy.

38. Related party information (continued)

Loans to directors and director related entities (continued)

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
Secured loans:				
Loans to directors				
W S Jones	400	400	400	400
J D Story	89	-	89	-
	489	400	489	400

Loan to W S Jones: The principal amount is repayable at any time before 17 November 2017. Interest received on the loan during the year was $11,595 (2001: $27,626). The loan is on normal terms and conditions. No repayments or advances were made during the financial year.

Loan to J D Story: The principal amount is repayable at any time before 14 June 2007. Interest received on the loan was $nil (2001: n/a). The loan was advanced on 14 June 2002 and is on normal terms and conditions. Repayments of $1,293 were made during the financial year.

Shareholdings

The number of shares and exchanging instalment notes held by directors of the Company and director related entities in the Company are set out below:

	Ordinary Shares 2002	Ordinary Shares 2001
Balance at the beginning of the financial year	325,248	270,748
Directors no longer in office	(154,673)	-
Directors appointed during the year	3,383	-
Series 2 EINs converted to shares	114,000	-
Net purchases on market	318,063	54,500
Shares issued under Share Purchase Plan	1,645	-
Balance at the end of the financial year	607,666	325,248

Directors of the Company and director related entities received normal distributions on these shares. Details of the directors' shareholdings in the Company at the date of signing these financial statements are set out in the Directors' Report.

38. Related party information (continued)

Share options
On 16 October 2001, two million options to subscribe for two million fully paid ordinary shares in the Company were granted under the Company's Executive Option Plan to Mr W S Jones (Managing Director). The price of the options was $12.61 each, being the weighted average market price of the Company's ordinary shares on the Australian Stock Exchange on the five consecutive trading days preceding the date the options were granted.

The options are exercisable in three tranches:
- tranche 1 – maximum 700,000 shares on or after 30 June 2002 provided the weighted average share price of the Company on each of five consecutive days has exceeded $13.34 during the period between the date of grant and the date of exercise;
- tranche 2 – maximum 700,000 shares on or after 30 June 2003 provided the weighted average share price of the Company on each of five consecutive days has exceeded $14.25 during the period between the date of grant and the date of exercise; and
- tranche 3 – maximum 600,000 shares on or after 30 June 2004 provided the weighted average share price of the Company on each of five consecutive days has exceeded $15.13 during the period between the date of grant and the date of exercise.

The conditions attached to the exercise of the options have been satisfied in respect of the first tranche.

The options expire on the earlier of:
- 12 months after the date Mr Jones ceases to be employed by the company; or
- five years after the date the options were granted.

During the year two million options to subscribe for two million fully paid ordinary shares in the Company, granted on 26 March 1997 to Budmore Investments Pty Ltd, the trustee of the W S Jones Family Trust, of which Mr W Steven Jones (Managing Director) is a beneficiary were sold to an unrelated third party. These same two million options were subsequently exercised resulting in the issue of two million fully paid ordinary shares.

Other transactions with directors and director related entities

Financial instrument transactions
Financial instrument transactions between the Company and directors and director related entities during the financial year were in the nature of normal personal banking, investment and deposit transactions. These transactions were on commercial terms and conditions no more favourable than those given to other employees or customers.

Transactions other than financial instrument transactions
The Company has agreements with non-executive directors providing for benefits to be paid on their retirement or death. The maximum benefit payable to a director is the total of annual fees paid by the Company to the director in respect of the last three years of service.

Mr J D Story is a partner in the firm of Corrs Chambers Westgarth, Solicitors, which from time to time rendered legal services to the Company in the ordinary course of business. Fees paid to the firm during the financial year amounted to $2,243,229 (2001: $1,290,813).

Mr R P Handley is a consultant to PricewaterhouseCoopers. PricewaterhouseCoopers provides actuarial, taxation and other consulting services to the consolidated entity. These services are provided under normal terms and conditions.

Mr M D E Kriewaldt is a consultant at Aon Corporation. Aon Corporation provides management services to a controlled entity. These services are provided under normal terms and conditions.

38. Related party information (continued)

Other transactions with directors and director related entities (continued)

Transactions other than financial instrument transactions (continued)
Other transactions with directors and director related entities are conducted on arm's length terms and conditions, and are deemed trivial or domestic in nature. These transactions are in the nature of personal investment, general insurance and life insurance policies.

Apart from the details disclosed in this note, no director or director related entity has entered into a material contract with the consolidated entity during the reporting period, and there were no material contracts involving directors or a director related entity existing at the end of the reporting period.

Transactions with entities in the wholly owned group and other related parties

The wholly owned group consists of Suncorp-Metway Ltd and its wholly owned and controlled entities disclosed in note 35.

Transactions between the Company and related parties in the wholly owned group consisted of advances made and repaid, dividends received and paid, insurance premiums received and paid, fees received and paid for administrative, property and portfolio management services, and interest received and paid. All these transactions were on a normal commercial basis.

Aggregate amounts resulting from transactions with members of the wholly owned group that have been included in the profit from ordinary activities before tax are disclosed in notes 3 and 4.

	Company	
	2002 $m	2001 $m
Current amounts receivable		
Controlled entities	1,255	553
Current amounts payable		
Controlled entities	227	164

Ultimate parent entity

The ultimate parent entity in the wholly owned group is Suncorp-Metway Ltd.

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:
(a) controlled entities – note 35
(b) associates – note 39

39. Investments in associates

As part of the agreement to purchase GIOIIHA and its wholly-owned controlled entities, the consolidated entity completed the acquisition of AMP Ltd's 50 percent shareholding in the general insurance joint ventures on 11 January 2002. RACQ General Insurance Limited is operated by The Royal Automobile Club of Queensland (RACQ) and RAA-GIO Insurance Holdings Limited is operated by The Royal Automobile Association in South Australia (RAA (SA)). For the purposes of preparing the financial report of the consolidated entity, the effective date of recognising the 50 percent interest in joint ventures with RAA (SA) is 1 July 2001 and RACQ is 31 December 2001. The financial report includes the financial position, the results from operations and cash flows from those dates. The investments are held by GIOIIHA. Information relating to the associates is set out below:

Name of company	Principal activity	Ownership interest		Consolidated carrying amount	
		2002 %	2001 %	2002 $m	2001 $m
Other (non-traded)					
RACQ General Insurance Ltd	Insurance	50	n/a	71	-
RAA – GIO Insurance Holdings Limited	Insurance	50	n/a	14	-
Workplace Injury Management Services Pty Ltd (1)	Injury management	50	n/a	1	-

(1) Held by GIO General Limited at date of GIO transaction

	Consolidated 2002 $m	Consolidated 2001 $m
Movements in carrying amounts of investments in associates		
Investment through acquisition of entity	1	-
Acquisition of investments in associates	80	-
Share of profits from ordinary activities after income tax	6	-
Notional goodwill amortisation	(1)	-
Carrying amount at the end of the financial year	86	-
Results attributable to associates		
Profits from ordinary activities before income tax	8	-
Income tax expense	(2)	-
Profits from ordinary activities after income tax	6	-
Retained profits attributable to associates at the beginning of the financial year	-	-
Retained profits attributable to associates at the end of the financial year	6	-
Summary of the performance and financial position of associates		
The aggregate profits, assets and liabilities of associates are:		
Profits from ordinary activities after income tax expense	6	-
Assets	236	-
Liabilities	180	-

40 Remuneration of directors and executive officers

40(a) Directors' remuneration

Total amount received or due and receivable by directors of the Company for the year ended 30 June 2002 was:

	Base emolument[1] $	Bonus[2] $	Shares issued $	Other compensation[5] $	Total Compensation $	Retirement benefits[6] $	Total $
Executive Director							
W S Jones	991,196	760,000	684,912 [3]	8,803	2,444,911	-	2,444,911
Non-Executive Directors							
R J Lamble	142,884	-	95,256 [4]	-	238,140	154,180	392,320
M D E Kriewaldt	127,500	-	-	10,200	137,700	16,958	154,658
I D Blackburne	88,000	-	-	7,040	95,040	47,490	142,530
R F Cormie	91,000	-	-	7,280	98,280	8,042	106,322
F C B Haly	52,695	-	-	-	52,695	-	52,695
R P Handley	83,523	-	-	6,682	90,205	15,730	105,935
C Hirst	34,240	-	-	2,739	36,979	2,665	39,644
J J Kennedy	83,750	-	-	6,700	90,450	1,667	92,117
J D Story	93,000	-	-	7,440	100,440	-	100,440

[1] Executive Director's remuneration consists of both basic and packaged benefit components. Non-executive Directors' remuneration represents fees in connection with attending main Board, Board committee and subsidiary companies' Board meetings.

[2] Reflects amounts accrued but not yet paid in respect of the year ended 30 June 2002.

[3] On 29 October 2001, 200,000 shares were acquired at a cost of $2,739,650 and held in trust under the Suncorp-Metway Deferred Employee Share Plan. The shares will vest to Mr Jones in four tranches subject to certain criteria:
- Tranche 1 - 50,000 shares on 31 December 2001
- Tranche 2 - 50,000 shares on 31 December 2002
- Tranche 3 - 50,000 shares on 31 December 2003
- Tranche 4 - 50,000 shares on 1 November 2004

The conditions attached to Tranche 1 have been satisfied and the value of the shares recognised within directors' remuneration above. Mr Jones is entitled to dividends on the 200,000 shares. In the event that services of Mr Jones are terminated, any shares that have not vested will be retained by the Suncorp-Metway Deferred Employee Share Plan.

[4] The $95,256 represents shares to be issued under the Non-Executive Directors' Share Plan.

[5] Reflects non-salary package remuneration and includes company contributions to superannuation.

[6] Represents the increase in the Provision for Retirement Benefits.

Directors' remuneration excludes insurance premiums paid by the Company in respect of the Directors' and Officers' Liability insurance contract as such disclosure is prohibited under the terms of the contract.

Notes to the financial statements

for the year ended 30 June 2002

40 Remuneration of directors and executive officers (continued)

40(a) Directors' remuneration (continued)

The numbers of directors of the Company whose income from the Company or any related party falls within the following bands are:

	Company	
	2002 Number	2001 Number
Amount		
$30,000 to $39,999	1	-
$50,000 to $59,999	1	-
$70,000 to $79,999	-	1
$80,000 to $89,999	-	3
$90,000 to $99,999	4	1
$100,000 to $109,999	1	-
$120,000 to $129,999	-	1
$130,000 to $139,999	1	-
$200,000 to $209,999	-	1
$230,000 to $239,999	1	-
$1,790,000 to $1,799,999	-	1
$2,440,000 to $2,449,999	1	-

The remuneration bands are based on the total compensation amount above as required by the Accounting Standards.

	Directors of entities in the Consolidated Entity		Directors of Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Income paid or payable, or otherwise made available, to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities	3,656	2,640	3,385	2,554

Income received by non-executive directors of the Company and its controlled entities during the financial year amounted to $1,211,430 (2001: $893,000). At the Extraordinary General Meeting of Suncorp-Metway Ltd held on 14 March 1997, shareholders approved a maximum amount of income payable to such directors of $1,500,000.

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
40(b) Directors' retirement benefits				
Amounts provided during the current financial year in respect of non-executive directors of the Company and controlled entities in connection with retirement from office, being amounts previously approved by shareholders in a general meeting	247	47	247	47
Amounts paid or payable during the current financial year in respect of non-executive directors of the Company and controlled entities in connection with their retirement from office, being amounts previously approved by shareholders in a general meeting	398	-	398	-

40. Remuneration of directors and executive officers (continued)

40(c) Executive officers' remuneration

	Consolidated 2002 $'000	Consolidated 2001 $'000	Company 2002 $'000	Company 2001 $'000
Total remuneration in respect of the financial year received or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers (including the Managing Director) of the Company and of controlled entities whose income is $100,000 or more	6,793	5,337	6,793	5,337

The following table shows the remuneration of the five most highly remunerated officers of the Company and the consolidated entity who were officers at 30 June 2002.

Name(1)	Base emolument(2) $	Bonus(3) $	Shares issued(4) $	Other compen-sation(5) $	Total compen-sation $	Options granted during the year(6)	Exercise price $	Strike price $	Date first exercisable	Fair value of each option granted during the year(7) $
M W Blucher (Group	431,018	375,000	250	31,481	837,749	33,333	11.62	12.20	31 March 2004	1.83
Executive Retail						33,333	11.62	13.13	31 March 2005	1.83
Distribution & HR)						33,334	11.62	13.94	31 March 2006	1.83
C Skilton (Chief	461,209	300,000	250	36,896	798,355	116,667	11.62	12.20	31 March 2004	1.83
Financial Officer)						116,667	11.62	13.13	31 March 2005	1.83
						116,666	11.62	13.94	31 March 2006	1.83
G J Moynihan (Group	462,231	250,000	250	26,214	738,695	25,000	11.62	12.20	31 March 2004	1.83
Executive Banking &						25,000	11.62	13.13	31 March 2005	1.83
Wealth Management)						25,000	11.62	13.94	31 March 2006	1.83
C Gray (Group	361,747	225,000	250	34,798	621,795	61,666	11.62	12.20	31 March 2004	1.83
Executive Information						61,666	11.62	13.13	31 March 2005	1.83
Technology)						61,668	11.62	13.94	31 March 2006	1.83
P S Johnstone (Group	386,696	115,000	250	8,803	510,749	41,666	11.62	12.20	31 March 2004	1.83
Executive Operations						41,666	11.62	13.13	31 March 2005	1.83
and Integration)						41,667	11.62	13.94	31 March 2006	1.83

(1) The senior executives are those executives responsible for strategic direction and management during the year.
(2) Reflects the total remuneration package consisting of both basic salary and packaged benefit components.
(3) Reflects amounts accrued but not yet paid in respect of the year ended 30 June 2002.
(4) Reflects shares to be issued to employees to the value of $250 in respect of the year ended 30 June 2002.
(5) Reflects non-salary package remuneration and includes company contributions to superannuation.
(6) The options are exercisable only if the weighted average price of the Company's shares as quoted on the Australian Stock Exchange exceeds the prices specified on each of five consecutive trading days between the issue date of the option and the respective exercise dates.
(7) The fair value of options granted during the year has been determined using the industry standard Black-Scholes option-pricing model. This is not a market price but an estimate of the fair value as these options are not traded. This valuation takes into account the price at grant date, the exercise price, the expected life of the option, the volatility in price of the underlying stock and expected dividends.

Note: Individuals other than executives who are rewarded under incentive-based systems according to results, consistent with market practice within the industry, may within any given year receive remuneration at a level in excess of that received by some executives shown above.

40. Remuneration of directors and executive officers (continued)

40(c) Executive officers' remuneration (continued)

The numbers of executive officers (including the Managing Director included in note 40(a) above) whose income from the Company or controlled entities falls within the following bands are:

	Consolidated		Company	
	2002 Number	2001 Number	2002 Number	2001 Number
Amount				
$190,000 to $199,999	-	1	-	1
$350,000 to $359,999	1	-	1	-
$480,000 to $489,999	1	-	1	-
$510,000 to $519,999	1	-	1	-
$530,000 to $539,999	-	1	-	1
$610,000 to $619,999	-	1	-	1
$620,000 to $629,999	1	-	1	-
$690,000 to $699,999	-	1	-	1
$730,000 to $739,999	1	1	1	1
$760,000 to $769,999	-	1	-	1
$790,000 to $799,999	1	-	1	-
$830,000 to $839,999	1	-	1	-
$1,790,000 to $1,799,999	-	1	-	1
$2,440,000 to $2,449,999	1	-	1	-

The remuneration bands are based on the total compensation amount above as required by the Accounting Standards.

	Consolidated		Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
41. Auditors' remuneration				
During the year the auditor of the Company and its related practices earned the following remuneration:				
Audit services:				
Auditors of the Company – KPMG				
Audit and review of the financial reports	1,489	1,165	960	660
Other regulatory audit services	431	384	118	100
	1,920	1,549	1,078	760
Other auditors – Ernst & Young				
Audit and review of the financial reports	1,402	-	-	-
	3,322	1,549	1,078	760
Other services:				
Auditors of the Company – KPMG				
Other assurance services (1)	644	194	557	165
Other auditors – Ernst & Young				
Other assurance services (2)	941	-	-	-
	1,585	194	557	165

(1) Other assurance services provided by KPMG primarily relate to credit and other benchmarking services, agreed upon due diligence prodedures, agreed upon procedures engagements and accounting related services.
(2) Other assurance services provided by Ernst & Young primarily relate to accounting related services, advisory and compliance taxation services, corporate finance advisory services, risk review services and legislative advice.

42. Contingent liabilities and credit commitments

There are outstanding court proceedings, claims and possible claims against the consolidated entity, the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained and provisions have been made as deemed necessary. The consolidated entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position.

Details of contingent liabilities and commitments for which no provisions are included in these financial statements are as follows:

- In the ordinary course of business, various types of contracts are entered into relating to the financing needs of customers, including commitments to extend credit, letters of credit and financial guarantees. The consolidated entity uses the same credit policies and assessment criteria in making these commitments and conditional obligations as it does for on-balance sheet instruments.
- The consolidated entity has given guarantees and undertakings in the ordinary course of business in respect to credit facilities and rental obligations.
- Certain controlled entities act as trustee for various trusts. In this capacity, the controlled entities are liable for the debts of the trusts and are entitled to be indemnified out of the trust assets for all liabilities incurred on behalf of the trusts.
- In the ordinary course of business the consolidated entity enters into various types of investment contracts, including derivative positions, that can give rise to contingent liabilities. It is not expected that any significant liability will arise from these types of transactions as any losses or gains are offset by corresponding gains or losses on the underlying exposures.
- A controlled entity has entered into a selective share buy-back agreement (Agreement) whereby the consolidated entity has agreed to indemnify the purchaser up to a maximum liability, in respect of all claims, of the amounts actually received by the consolidated entity under the Agreement. The indemnity applies only to certain liabilities and requires notification within a certain time period from 30 June 2000, being two years for an indemnified liability and four years and six months for a tax liability.
- A controlled entity, Suncorp Metway Insurance Ltd, entered into lease securitisation and defeasance transactions in May 1993 under which Suncorp Metway Insurance Ltd is required to reassume the liability for instalment payments due under certain circumstances, such as default under its obligations as lessor or an unremedied breach of warranty, representation or covenant in relation to the original documents. The net present value of the total amount of principal and interest instalments outstanding as at 30 June 2002 is approximately $65 million (2001: $66 million). In the event of crystallisation of this liability, that entity would reassume the interest in the leasehold over the two properties.
  Suncorp Metway Insurance Ltd deposited funds into certain reserve fund accounts to cover its future lessor obligations and contributions arising from failure of rental income increases to meet movements in the Consumer Price Index. Suncorp Metway Insurance Ltd retains beneficial ownership of these accounts which are operated by the manager under the supervision of the trustee. At 30 June 2002 the balance of the reserve fund accounts was $5 million (2001: $6 million) and the balance of the rent accounts was $1 million (2001: $1 million). The prospect of a resumption of liability has been reviewed and is assessed as highly improbable.

42. Contingent liabilities and credit commitments (continued)

Detailed below are the notional amounts of contingent liabilities and credit commitments together with their credit equivalent amounts determined in accordance with the capital adequacy guidelines set out by APRA:

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Notional amounts				
Guarantees entered into in the normal course of business	131	142	131	142
Commitments to provide loans and advances	3,390	1,995	3,390	1,995
	3,521	2,137	3,521	2,137
Credit equivalent amounts				
Guarantees entered into in the normal course of business	66	80	66	80
Commitments to provide loans and advances	810	1,278	810	1,278
	876	1,358	876	1,358

43. Operating lease commitments

	Consolidated 2002 $m	Consolidated 2001 $m	Company 2002 $m	Company 2001 $m
Aggregate future non-cancelable operating lease rentals contracted for but not provided in the financial statements are payable as follows:				
Within one year	51	28	28	28
Later than one year but not later than five years	102	62	49	62
Later than five years	12	-	10	-
	165	90	87	90

The consolidated entity leases property under operating leases expiring from 3-10 years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

44. Expenditure commitments

	Consolidated		Company	
	2002 $m	2001 $m	2002 $m	2001 $m
Expenditure for the acquisition of plant and equipment and controlled entities contracted for but not provided in the financial statements is payable as follows:				
Not later than one year	21	1,239	1	1,239

45. Superannuation commitments

On 1 October 1998 the then SUNCORP Staff (Closed) Superannuation Plan was re-named the Suncorp Metway Staff Superannuation Plan and contributions from that date no longer purchased defined benefits, but accumulation benefits. Both the former Suncorp Metway QIDC Staff Superannuation Fund and the QIDC Superannuation Scheme transferred into the Suncorp Metway Staff Superannuation Plan at that same date. Some members of the former SUNCORP Staff (Closed) Superannuation Plan and the QIDC Superannuation Scheme elected to retain their benefits accrued to 30 September 1998 in defined benefit form. Further, some members of the AMP Officers' Provident Fund have transferred into the Staff Plan, following the GIO acquisition, with a defined benefit attaching. Accordingly, the Suncorp Metway Staff Superannuation Plan is still technically a defined benefit plan, although no contributions since October 1998 other than the transfer from the AMP Officers' Provident Fund have actually purchased defined benefits.

In the case of defined benefit funds, an actuarial assessment of the fund is made not less than every three years. At the date of the last review of the Suncorp Metway Staff Superannuation Plan (effective 30 June 1999), the actuary (Mr N G Spencer, BSc., FIAA), in his report dated 18 January 2000, concluded that the assets of the funds are sufficient to meet all the benefits payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each employee.

Employer contributions to the Suncorp Metway Staff Superannuation Plan during the year ended 30 June 2002 were $36 million (2001: $11 million). This includes contributions for GIO employees from October 2001.

Defined benefit assets at net market value and vested defined benefits of the Plan based on the most recent actuarial review are as follows:

	Consolidated	
	2002 $m	2001 $m
Suncorp Metway Staff Superannuation Plan		
(formerly SUNCORP Staff (Closed) Superannuation Plan)		
Details of last review as at 30 June 1999:		
Plan defined assets at net market value	16	16
Total accrued defined benefits	(12)	(12)
Excess of the present value of employees' accrued benefits over assets held to meet future benefit payments	4	4
Total vested benefits	13	13

The amounts relate to the actuarial report for the period ended 30 June 1999. The next review is due for completion in January 2003 and will relate to the period ended 30 June 2002.

46. Ownership based remuneration plans

At an Extraordinary General Meeting of the Company held on 14 March 1997, shareholders approved:
- an Exempt Employee Share Plan (EESP);
- a Deferred Employee Share Plan (DESP);
- an Executive Option Plan (EOP); and

at the Annual General Meeting on 1 November 2000, shareholders approved the establishment of the Non-Executive Directors' Share Plan (NEDSP). Under the EESP and DESP an unrelated special purpose trustee plan company and for the NEDSP an unrelated special purpose custodial plan company may acquire ordinary shares in the Company either in ordinary trading on the Australian Stock Exchange or from a new issue of ordinary shares by the Company.

46. Ownership based remuneration plans (continued)

Features of the Plans are as follows:

Feature	EESP	DESP	EOP	NEDSP
Eligibility	Employees having completed 12 months' service (or less at discretion of Board).	Employees having completed 12 months' service (or less at discretion of Board).	Executive officers or their associates as approved by Board.	Non-Executive directors or their associates as approved by Board.
Share/option allocation	Equal value per eligible employee on conditions as determined by Board.	On conditions as determined by Board.	At discretion of Board.	Participation at the discretion of Board members.
Price	Nil or as part of remuneration. Number of shares issued based on market value at date of issue.	Shares funded from or as part of remuneration or terms of employment Number of shares issued based on market value at date of issue.	Option price: market value of underlying share at date of grant. Exercise price: as determined by Board.	Part of gross remuneration. Number of shares based on market value at date of issue.
Fully vested, not subject to forfeiture.	If provided as part of remuneration: fully vested. If subject to performance: will vest when criteria satisfied.	Exercise period: as determined by Board. Lapse date: subject to certain conditions, the earlier of 5 years from date of grant and a date determined by Board at time of invitation to participate.	Price and performance hurdles as determined by Board.	Fully vested.
Minimum holding period	3 years from date of allocation, or upon cessation of employment.	None.	As determined by Board.	None.
Plan maximum limit	5% of total shares on issue.	5% of total shares on issue.	Underlying shares of unexercised options: 5% of total shares on issue.	5% of total shares on issue.

Notes to the financial statements
for the year ended 30 June 2002

46. Ownership based remuneration plans (continued)

At 30 June 2002 unissued fully paid ordinary shares of the Company under the Executive Option Plan are:

Issue date of options	Start date	Expiry date	Exercise price of option (1) $	Strike price $	No. of options held at 30 June 2002 (2)	No. of options held at 30 June 2001	Fair value of each option granted during the year (3) $
26 Mar 1997	6 Jul 1999	26 Mar 2002	5.51	6.00	-	650,000	
26 Mar 1997	6 Jul 2000	26 Mar 2002	5.51	6.50	-	700,000	
26 Mar 1997	6 Jul 2001	26 Mar 2002	5.51	7.00	-	650,000	
10 Sept 1997	31 Mar 2000	10 Sept 2002	6.79	7.00	102,000	156,000	
10 Sept 1997	31 Mar 2001	10 Sept 2002	6.79	7.50	102,000	157,000	
10 Sept 1997	31 Mar 2002	10 Sept 2002	6.79	8.00	157,000	157,000	
17 Dec 1997	31 Mar 2001	17 Dec 2002	7.19	7.50	40,000	40,000	
17 Dec 1997	31 Mar 2002	17 Dec 2002	7.19	8.00	40,000	40,000	
15 Jan 1998	15 Jul 2000	15 Jan 2003	7.56	7.56	100,000	100,000	
16 Dec 1998	16 Jun 2001	16 Dec 2003	7.96	9.00	92,500	119,500	
16 Dec 1998	16 Jun 2002	16 Dec 2003	7.96	9.50	121,000	121,000	
16 Dec 1998	16 Jun 2003	16 Dec 2003	7.96	10.00	122,000	122,000	
3 Jun 1999	3 Nov 2001	3 Jun 2004	8.81	9.75	-	116,667	
3 Jun 1999	3 Nov 2002	3 Jun 2004	8.81	10.25	116,667	116,667	
3 Jun 1999	3 Nov 2003	3 Jun 2004	8.81	10.75	116,666	116,666	
3 Jun 1999	17 Nov 2001	3 Jun 2004	8.81	9.75	-	13,334	
3 Jun 1999	17 Nov 2002	3 Jun 2004	8.81	10.25	13,333	13,333	
3 Jun 1999	17 Nov 2003	3 Jun 2004	8.81	10.75	13,333	13,333	
6 Oct 1999	31 Mar 2002	6 Oct 2004	8.11	9.12	116,250	116,250	
6 Oct 1999	31 Mar 2003	6 Oct 2004	8.11	9.56	116,750	116,750	
6 Oct 1999	31 Mar 2004	6 Oct 2004	8.11	10.05	115,750	115,750	
6 Oct 1999	31 Mar 2002	6 Oct 2004	8.11	9.12	134,100	149,000	
6 Oct 1999	31 Mar 2003	6 Oct 2004	8.11	9.56	137,400	149,000	
6 Oct 1999	31 Mar 2004	6 Oct 2004	8.11	10.05	140,200	152,000	
1 Oct 2000	31 Mar 2003	1 Oct 2005	8.89	9.78	199,000	199,000	
1 Oct 2000	31 Mar 2004	1 Oct 2005	8.89	10.31	203,000	203,000	
1 Oct 2000	31 Mar 2005	1 Oct 2005	8.89	10.85	203,000	203,000	
1 Oct 2000	31 Mar 2003	1 Oct 2005	8.89	10.00	150,000	168,100	
1 Oct 2000	31 Mar 2004	1 Oct 2005	8.89	10.49	151,200	169,400	
1 Oct 2000	31 Mar 2005	1 Oct 2005	8.89	11.02	153,800	172,500	
20 Sept 2001	31 Mar 2004	20 Sept 2006	11.62	12.20	303,333	-	1.83
20 Sept 2001	31 Mar 2005	20 Sept 2006	11.62	13.13	303,333	-	1.83
20 Sept 2001	31 Mar 2006	20 Sept 2006	11.62	13.94	303,334	-	1.83
16 Oct 2001	30 Jun 2002	16 Oct 2006	12.61	13.24	700,000	-	2.34
16 Oct 2001	30 Jun 2003	16 Oct 2006	12.61	14.25	700,000	-	2.34
16 Oct 2001	30 Jun 2004	16 Oct 2006	12.61	15.13	600,000	-	2.34
22 April 2002	31 Oct 2004	22 April 2007	12.30	(4)	116,667	-	2.38
22 April 2002	31 Oct 2005	22 April 2007	12.30	(4)	116,667	-	2.38
22 April 2002	31 Oct 2006	22 April 2007	12.30	(4)	116,666	-	2.38
					6,216,949	5,316,250	

Options may only be exercised within the limitations imposed by the Corporations Act 2001 and the Australian Stock Exchange Listing Rules. Under the Australian Stock Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval. Shareholders approved the issue of options (and shares resulting from exercise of those options) to the Managing Director at the Annual General Meeting on 16 October 2001.

46. Ownership based remuneration plans (continued)

(1) The exercise price of options granted is the weighted average market price of the Company's shares in the week preceding the issue date of the option.
(2) During the year 2,269,301 options (2001: 230,000) were exercised under the Executive Option Plan. No options have been exercised or granted since the end of the financial year.
(3) The fair value of options granted during the year has been determined using the industry standard Black-Scholes option-pricing model. This is not a market price, but an estimate of the fair value as these options are not traded. This valuation takes into account the price at grant date, the exercise price, the expected life of the option, the volatility in price of the underlying stock and expected dividends. However, the valuation does not take into account any performance hurdles attaching to the options.
(4) The Company has adopted Total Shareholder Return (TSR) as the performance measure on which option vesting is based and the Top 50 Companies in the ASX All Industrials Index has been adopted as the comparator group. Currently the following vesting schedule applies;
- If the Company's TSR growth over a relevant evaluation period is equal to the median TSR performance for the comparator group, then 50% of those options available to be exercised at that time will vest.
- For each additional percentile increase in the Company's ranking above the median, a further 2% of the relevant tranche of options will vest.
- If the Company's TSR growth over the relevant evaluation period reaches the 75th percentile, 100% of the options will vest.

(5) Options granted under the Executive Option Plan carry no dividend or voting rights.

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition to those options shown above, 65,000 (2001: 80,000) options expired in respect of employees who resigned and 25,000 (2001: nil) previously granted were cancelled.

The market price of the Company's shares at 30 June 2002 was $12.31 (2001: $15.00).

At the date of this report unissued fully paid ordinary shares of the Company under the Executive Option Plan decreased to 6,178,549 from 30 June 2002 as a result of the following options expiring due to the resignation of employees since the end of the financial year:

Issue date of option	Start date	Expiry date	Exercise price of option $	Strike price $	No of options expired
6 Oct 1999	31 Mar 2003	6 Oct 2004	8.11	9.56	6,600
6 Oct 1999	31 Mar 2004	6 Oct 2004	8.11	10.05	6,800
1 Oct 2000	31 Mar 2003	1 Oct 2005	8.89	10.00	8,200
1 Oct 2000	31 Mar 2004	1 Oct 2005	8.89	10.49	8,300
1 Oct 2000	31 Mar 2005	1 Oct 2005	8.89	11.02	8,500

Details of the shares issued under the EESP, DESP and NEDSP are as follows:

	Dates on which shares were issued	Total number of shares issued	Issue prices	Total market value at dates of issue	Amounts received from employees
2002 financial year	Various dates	946,042	Various, based on market value at date of issue	$11,864,818	$7,951,680
2001 financial year	Various dates	757,513	$8.89, $11.72 & $11.35	$6,821,983	$3,506,679

The amounts recognised in the statement of financial performance of the Company and the consolidated entity during the year in relation to the issue of shares under the EESP, DESP and NEDSP was $3,913,138 (2001: $3,315,304).

During the financial year $1,589,250 (2001: $3,388,500) was provided to acquire shares to the value of $250 (2001: $1000) for each employee eligible under the EESP. These shares will be issued in October 2002.

In addition, the Company provided shares to the value of $684,912 (2001: $743,462) to eligible employees.

47. Matters subsequent to the end of the financial year

No matters or circumstances have arisen since the end of the financial year 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 financial years.

Directors' Declaration

for the year ended 30 June 2002

The directors declare that the financial statements and notes set out on pages 37 to 133:

a) comply with Accounting Standards in Australia, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

a) the financial statements and notes are in accordance with the Corporations Act 2001; and
b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

R John Lamble AO
Chairman

W Steven Jones
Managing Director

Brisbane
29 August 2002

Independent Audit Report
for the year ended 30 June 2002

Scope

We have audited the financial report of Suncorp-Metway Ltd (the Company) for the financial year ended 30 June 2002, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes (1 to 47) and the directors' declaration set out on pages 37 to 134. 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 year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards 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 Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Suncorp-Metway Ltd is in accordance with:

(a) the Corporations Act 2001, including:
- (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

Ian H Fraser
Partner

Brisbane
29 August 2002

Ratio definitions

Item	Definition
Diluted shares	Comprises ordinary shares, partly paid shares, subordinated dividend ordinary shares, converting capital notes and outstanding options. Preference shares are not dilutive for the purpose of the Earnings per Share ratios as they cannot convert to ordinary shares in the first five years.
Earnings per share	Basic earnings per share is calculated by dividing the earnings of the company for the financial year less dividends on preference shares and converting capital notes by the weighted average number of ordinary shares of the company outstanding during the financial year. Diluted earnings per share is based on diluted shares. Calculated in accordance with Accounting Standard AASB 1027 'Earnings per Share'.
Group efficiency ratio	Operating expenses as a percentage of total operating income excluding general insurance shareholder funds' investment income and excluding the impact of Accounting Standard AASB 1038 'Life Insurance Business'.
Net interest margin	Net interest income divided by average interest earning assets.
Net interest spread	The difference between the average interest rate on average interest earning assets and the average interest rate on average interest bearing liabilities.
Net tangible asset backing (basic)	Shareholders' equity attributable to members of the Company less preference shares, converting capital notes, and intangibles, divided by ordinary shares at the end of the period adjusted for partly paid shares.
Payout ratio (basic)	Total dividends and distributions paid or provided divided by operating profit after tax.
Return on average shareholders' equity (basic)	Operating profit after tax less preference dividends and capital note distributions divided by adjusted average ordinary shareholders equity. The ordinary shareholders' equity excludes preference shares and converting capital notes. Averages are based on beginning and end of period balances.
Return on average total assets	Operating profit after tax divided by average total assets excluding the impact of AASB 1038. Averages are based on beginning and end of period balances.

Shareholder information

Major Shareholders

At 16 August 2002, the 20 largest holders of fully paid Ordinary Shares held 161,656,592 shares, equal to 30.77 percent of the total fully paid shares on issue.

	Number of Shares	%
J P Morgan Nominees Australia Limited	33,889,568	6.45
Westpac Custodian Nominees Limited	19,994,256	3.80
National Nominees Limited	19,810,290	3.77
AMP Life Limited	17,109,600	3.26
Citicorp Nominees Pty Limited (CFS Wholesale Imputation Fund A/C)	9,442,344	1.80
Citicorp Nominees Pty Limited	6,630,981	1.26
ING Life Limited	6,627,487	1.26
RBC Global Services Australian Nominees Pty Limited	6,436,353	1.23
Commonwealth Custodial Services Limited	5,688,885	1.08
Queensland Investment Corporation	5,159,538	0.98
Citicorp Nominees Pty Limited (CFS Imputation Fund A/C)	4,992,886	0.95
Citicorp Nominees Pty Limited (CFS Wholesale Geared Share Fund A/C)	4,704,569	0.90
Citicorp Nominees Pty Limited (CFS Wholesale Australian Share Fund A/C)	4,158,269	0.79
ANZ Nominees Limited	3,455,291	0.66
Citicorp Nominees Pty Limited (CFS Wholesale Industrial Share A/C)	3,167,858	0.60
HSBC Custody Nominees (Australia) Limited	3,126,935	0.59
Australian Foundation Investment Company Limited	2,356,462	0.45
Citicorp Nominees Pty Limited (CFS Wholesale Leaders Fund A/C)	2,050,974	0.39
Clem Jones Pty Ltd	1,500,000	0.29
ANZ Managed Investments Ltd	1,354,046	0.26
	161,656,592	30.77

Substantial Shareholders

At 16 August 2002, the following entry was contained in the register of substantial shareholdings, based on Substantial Holding Notices received:

	Number of Shares
Commonwealth Bank of Australia Group Companies	40,862,326

Shareholder information

Distribution of shareholdings

Fully paid Ordinary Shares at 16 August 2002:

	Number of holders	% of holders	Number of shares	% of shares
Range				
1–1,000 shares	136,964	69.47	66,271,911	12.62
1,001–5,000 shares	48,018	24.35	106,069,593	20.19
5,001–10,000 shares	7,675	3.89	53,325,687	10.15
10,001–100,000 shares	4,328	2.20	88,629,339	16.87
100,001–shares and over	177	0.09	211,024,019	40.17
	197,162	100.00	525,320,549	100.00
Location				
Australia				
– Queensland	120,377	59.89	233,506,813	44.45
– New South Wales	34,132	16.99	148,478,160	28.27
– Victoria	28,879	14.37	113,054,506	21.52
– South Australia	5,418	2.70	11,512,845	2.19
– Western Australia	5,286	2.63	7,505,154	1.43
– Tasmania	1,615	.80	2,582,214	.49
– ACT	3,502	1.74	4,382,389	.83
– Northern Territory	412	.20	1,234,152	.24
New Zealand	327	.16	777,860	.15
Hong Kong	142	.07	322,866	.06
United Kingdom	254	.13	566,134	.11
United States	169	.08	285,972	.05
Other overseas	498	.24	1,111,484	.21
	201,011 (1)	100.00	525,320,549	100.00

(1) Some registered holders own more than one class of security.

Shareholder information

Distribution of shareholdings (continued)

Non-participating shares

All shares of this class are fully paid shares and are held by the Trustee of the Metropolitan Permanent Building Society Trust, Permanent Trustee Australia Limited.

Partly paid Ordinary Shares at 16 August 2002:

	Number of holders	% of holders	Number of shares	% of shares
1–1,000 shares	4	28.57	3,100	9.10
1,001–5,000 shares	9	64.29	25,150	73.86
5,001–10,000 shares	1	7.14	5,800	17.04
10,001–100,000 shares	-	-	-	-
100,001–shares and over	-	-	-	-
	14	100.00	34,050	100.00

Voting Rights of Shareholders

Ordinary shares

The fully paid ordinary shareholders are entitled to vote at any meeting of the members of the Company and their voting rights are on:

- Show of hands – one vote per shareholder; and
- Poll – one vote per fully paid ordinary share

Non-participating shares

The non-participating shareholder has an entitlement to vote only in certain circumstances.

Holders of Non-marketable Parcels

At 16 August 2002 the number of shareholders with less than a marketable parcel for fully paid Ordinary Shares (1–39 shares) was 821 (0.41 percent of shareholders) representing 11,958 shares.

Shareholder information

Registered Office

Level 18
36 Wickham Terrace
Brisbane Qld 4000
GPO Box 1453
Brisbane Qld 4001
Telephone: (07) 3835 5355
Facsimile: (07) 3836 1190

Company Secretary

Clifford R Chuter

Annual General Meeting

The Annual General Meeting will be held in Great Halls 1 & 2, Brisbane Convention and Exhibition Centre, cnr Merivale and Glenelg Streets, South Brisbane, on Monday 21 October 2002 at 2.30pm.

Share Registry

Shareholders can obtain information about their shareholdings by contacting the Company's share registry:
Douglas Heck & Burrell Registries
Level 22
300 Queen Street
Brisbane Qld 4000
Mailing address: Locked Bag 568, Brisbane, Qld 4001
Telephone: 1300 882 012
Facsimile: (07) 3221 3149
Email: registries@dhb.com.au
Website: www.dhb.com.au

When seeking information shareholders must provide their Security Reference Number (SRN) or their Holder Identification Number (HIN) which are recorded on their shareholder statements.

Change of Address

Shareholders sponsored by Suncorp (issuer sponsored) must advise Douglas Heck & Burrell Registries in writing, appropriately signed, of the amended details. Change of address forms can be obtained via the Suncorp or share registry websites or by contacting the share registry.

Shareholders sponsored by a broker (broker sponsored) should advise their broker in writing of the amended details.

Payment of Dividends

Shareholders who wish to have their dividends paid directly into their bank, building society or credit union account should obtain a direct credit application form from the share registry or via the Suncorp or share registry websites.

Dividend Reinvestment Plan

Shareholders can elect to take their cash dividends by way of shares in full or in part at a 2.5 percent discount on the average market price calculated over the five trading days immediately following the Record Date for payment of the relevant dividend. An election/variation form is available on the Suncorp and share registry websites.

Removal from Annual Report mailing list

Shareholders no longer wishing to receive a Concise Report or a full Annual Report should advise the share registry in writing, by fax, telephone or by email, quoting their SRN/HIN. A form is available via the Suncorp or share registry websites.

Stock Exchange Listed Securities

Suncorp Metway's securities listed on the Australian Stock Exchange are:
Ordinary Shares (code SUN)
Floating Rate Capital Notes (SUNHB)

Register your email address

Now you can register your email address for notices of meeting, notification of availability of annual reports and other shareholder communications. To register your details, go to Share Registry Services on the Suncorp website www.suncorp.com.au which provides a link to the share registry, or directly to the share registry website www.dhb.com.au where, by using your SRN/HIN and other requested details, you will be able to view details of your shareholding, obtain registry forms and record your own email address.

Key dates

Ordinary Shares (SUN)

2002	
Final Dividend	
Ex dividend date	9 September
Record date	13 September
Dividend paid	1 October
2003	
Interim Dividend	
Ex dividend date	5 March
Record date	11 March
Dividend paid	4 April
Final Dividend	
Ex dividend date	2 September
Record date	8 September
Dividend paid	3 October

Floating Rate Capital Notes (SUNHB)

2002	
Ex interest date	11 November
Record date	15 November
Interest paid	2 December
2003	
Ex interest date	11 February
Record date	17 February
Interest paid	4 March
Ex interest date	9 May
Record date	15 May
Interest paid	30 May
Ex interest date	11 August
Record date	15 August
Interest paid	1 September
Ex interest date	11 November
Record date	17 November
Interest paid	2 December

Reset Preference Shares

2003	
Ex dividend date	5 March
Record date	11 March
Dividend paid	14 March
Ex dividend date	2 September
Record date	8 September
Dividend paid	15 September

Dates may be subject to change

Metropolitan Permanent Building Society Trust

Financial Statements for the year ended 30 June 2002

Statement of financial position
As at 30 June 2002

	2002 $	2001 $
Assets		
Investments at cost (unquoted)		
2,000 non-participating shares each fully paid in Suncorp-Metway Ltd	1,000	1,000
Equity		
Initial sum	1,000	1,000

Notes to the financial statements
For the year ended 30 June 2002

1. Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

Basis of Preparation

The financial report of the Trust is a general purpose financial report which has been drawn up in accordance with the requirements of Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, the provisions of the Trust Deed dated 23 March 1988 and the Corporations Act 2001. It is prepared in accordance with the historical cost convention and does not take into account changing money values. These accounting policies have been consistently applied.

The carrying amounts of all non-current assets are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present values.

2. Statement of financial performance and statement of cash flows

The Trust did not undertake any financial transactions during the year and as a result, no statement of financial performance or statement of cash flows has been prepared.

Trustee's report
For the year ended 30 June 2002

As Trustee of the above Trust we report for the year ended 30 June 2002 that:

- we hold in trust on behalf of the pre-incorporation members, 2,000 non-participating shares each fully paid in Suncorp-Metway Ltd;
- no dividends were received in relation to the 2,000 non-participating shares; and
- the Trust Property was held and administered in accordance with the Trust Deed dated 23 March 1988.

D Moldrich
General Manager
Corporate Clients
Permanent Trustee Australia Limited

Sydney
29 August 2002

Independent Audit Report to the Beneficiaries of Metropolitan Permanent Building Society Trust

Scope

We have audited the financial report of the Metropolitan Permanent Building Society Trust for the financial year ended 30 June 2002, consisting of the statement of financial position, accompanying notes, and the Trustee's report attached. The Trustee is responsible for the financial report. We have conducted an independent audit of the financial report in accordance with Australian Auditing Standards in order to express an opinion on it to the beneficiaries of the Trust.

Audit Opinion

In our opinion, the financial report of the Metropolitan Permanent Building Society Trust is properly drawn up:

(a) so as to give a true and fair view of the state of affairs of the Trust at 30 June 2002, and the results and cash flows of the Trust for the financial year ended on that date;

(b) in accordance with the provisions of the Trust Deed dated 23 March 1988; and

(c) in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia.

KPMG

Ian H Fraser
Partner

Brisbane
29 August 2002

Contact Us

SUNCORP

General enquiries	**13 11 55**
Quickcall phone banking	**13 11 25**
Insurance sales and enquiries	**13 11 55**
Insurance claims	**13 25 24**
Loan hotline	**13 11 34**
Lost or stolen cards and passbooks	**1800 775 020**
Life insurance, superannuation, financial planning	**1800 451 223**
Investment funds enquiries centre	**1800 067 732**
Business banking service centre	**1300 651 125**
Small Business Banking	**1300 651 125**
Share Trade	**1300 135 190**
Internet Site	**www.suncorp.com.au**

GIO

Personal and Business Insurance	**13 10 10**
Personal Insurance Claims	**13 14 46**
Workers' Compensation	**13 10 10**
Internet Site	**www.gio.com.au**

INTERNET SITES

Suncorp's internet site, www.suncorp.com.au provides information on banking, insurance and investment products and services, sponsorships, financial results, company and shareholder information. Applications can be made online for a transaction account, credit card, home or investment property loan, small business loan, or personal finance loan, or customers can get a quote and purchase home or car insurance.

The site also offers internet banking, Share Trade to buy and sell shares, the ability to manage a margin lending facility and view superannuation balances.

GIO's internet site, www.gio.com.au provides a direct link to the Suncorp internet site as well as providing customers with the ability to get quotes for home insurance and CTP insurance online and to make payments and submit home and motor insurance claims.

ANNUAL REPORT

Copies of this Annual Report, and the Concise Report, are available from Investor Relations (07) 3835 5797 or on the Suncorp internet site.

SUNCORP

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03965 Annual 09/02