Suncorp-Metway Limited
ABN 66 010 831 722

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

I am pleased to report that Suncorp made great progress in the first half of this financial year. Financially, operationally, strategically and culturally, the Company is now moving forward in leaps and bounds.

Since John Mulcahy's appointment as chief executive, in January last year, the Company has been through tremendous change. We have restructured the group, refined the corporate strategy, comprehensively reviewed our staff skills and leadership roles, and made a host of detailed operational improvements in each of our business lines. All of that in just 12 months.

Sometimes, rapid change can be damaging. But in this case, the results have been outstanding. Suncorp was ready for change. The staff has quickly embraced new ideas and a wave of energy and enthusiasm is welling in the Company.

Financial Results

Our success is most evident in the financial results. Net profit for the six months to December 2003 was up 81percent to a record $281 million. Earnings per share rose by 84 percent to a record 51 cents per share, and return on shareholders funds increased to 14.9 percent from 8.8 percent at December 2002. All great numbers.

Much of the groundwork for the improved December result was accomplished in the prior June half, when profits rose by 46percent to $229 million. The December performance built on that higher earnings base, delivering another 23 percent profit increase over the June result. The interim dividend has therefore been lifted by four cents, to 30 cents per share, fully franked.

John Mulcahy will provide a more detailed analysis of the profit in his letter, which follows. But the important point I would like to make about the results is that they demonstrate very clearly that the Company is progressing in accordance with our strategic plan, which was unveiled last June.

Following an extensive analysis, we said we would pursue a financial services conglomerate strategy, taking advantage of our unique business base and rare mix of skills. It means we will operate each of our three distinct financial services businesses as part of an integrated group, to extract significant cost savings and generate extra sales revenues.

As a consequence, we can produce results that, over the medium term, are better than our competitors which are purely banks, or purely insurance companies. But importantly, to achieve that outcome, a pre-requisite is that on a stand-alone basis our three business divisions must be running as well as their competitors, not underperforming, as has been the case at times in the past.

The results for the last three half year periods, presented in the table below, demonstrate the progress that has been made.

Profit Overview, $M	**Half-year to**			
	Dec 03	**Jun 03**	**Dec 02**	**Dec-03 vs Dec 02 Percent(%)**
Banking	177	168	150	18
General Insurance	215	161	72	199
Wealth Management	36	24	17	112
Other	6	5	4	50
Profit before tax and goodwill	**434**	**358**	**243**	**79**
Goodwill amortisation	(30)	(32)	(30)	0
Tax	(123)	(97)	(58)	112
Net profit	**281**	**229**	**155**	**81**

(Excluding Life Insurance Policyholders Funds)

As you can see, profits for each of our business lines improved impressively.

So we are well on the way towards achieving our strategic goals. But there is more to do. In the rapidly changing world of financial services, no-one can afford to rest on their laurels, and John will talk in his letter about the plans we have for the current period.

Outlook

The strength of the first half profit has put us on track for a good full year profit. The economy, both nationally and in our main markets of Queensland and NSW, continues to show consistent growth. Inflation remains in check, unemployment is at its lowest level in decades, and interest rates, while increasing, are still relatively low and unlikely to reach punitive levels.

There are some uncertainties, however. While recent quenching rains have eased the drought in many parts of rural Australia, the rise in the dollar has caused problems for some of our rural export industries. We maintain a close eye on what is happening.

Similarly, we are vigilantly monitoring the property sector. A significant part of our lending book is exposed to property, and while we remain very comfortable with our position, we are conscious that property prices and housing credit can not continue to grow as rapidly as they have in the past two years. So we are taking a cautious view, making sure we are well secured and prepared for any slow down.

In general insurance, operating conditions continue to be very favourable. While there has been a series of small, violent storms over the summer, leading to significant claims, that is the nature of the insurance business, and is not particularly unusual.

All things considered, the outlook for the Company remains very positive, so we have increased our forecasts for full year earnings. In summary, at the full year, we expect to be able to report that the underlying profit, before tax, goodwill and investment income on shareholders funds has increased by a percentage in the mid 20s. That prediction, as usual, assumes normal conditions in insurance and investment markets.

Risk Management

As you would be aware, risk management has become a topical subject in recent months.

As an insurance company and a bank, we understand risk very well. It's our business. But we manage it to make sure that, firstly, any risk we take is within agreed tolerances and, secondly, we have appropriate processes and structures in place to monitor and control our exposures.

We manage our risks in a variety of ways. For example, we use reinsurance to limit our exposures in general insurance. In banking, we have strict lending limits and demand appropriate levels of security.

In any business there are a variety of different forms of risk. For example, liquidity risk, credit risk, operational risk, foreign exchange risk and interest rate risk are all involved in our business. The recent publicity surrounding risk management has been focused on discretionary market risk. In our context, what that refers to is the risk involved in undertaking trading activities in financial markets, and the amount of discretion given to traders.

I am happy to tell you that at Suncorp, we do not take big bets on financial markets. We have very strict daily limits on trading exposures and the use of derivative instruments such as options. We also employ strict rules so that there is a clear separation between people in the so-called "front office" and "back office". What that means is that the trading function is separate to the settlement function. Therefore traders cannot operate except with independent oversight, and their positions are monitored on a daily basis. While it is impossible to absolutely eliminate any chance of fraud, our track record in this area has been exemplary, and we are very comfortable with our procedures and safeguards and with the honesty and integrity of our staff.

The Board takes very seriously its responsibilities for the oversight of the manner in which risk is managed within the group. Following a review of its committees, the Board proposes to form a new committee dedicated to the review of risk management. This will bring together the risk functions currently allocated amongst the Audit, Business Risk and Compliance, Credit and Investment Committees. We believe that a committee focused exclusively on this subject, and meeting on a regular basis, will be most effective in ensuring risk oversight of the highest quality. A full outline of the new structure following its implementation will be set out in the annual report.

Conclusion

Finally, as always, I would like to thank all our employees for their efforts during the half year. Their loyalty and dedication are the lifeblood of the Company, and are greatly appreciated. I also would like to thank my board colleagues for their diligence and counsel, and of course, I thank shareholders for their on-going support.

John Story
Chairman

27 February 2004

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MANAGING DIRECTOR & CEO'S LETTER TO SHAREHOLDERS

Dear Shareholder,

Introduction

In the financial services industry today, change is constant. New products, new processes, different customer demands emerge on a daily basis. The organisations that prosper are those that can build a strong financial base, develop and maintain a complement of core skills, and then adapt and evolve to meet the market's needs. Solid and secure, but fast to respond, innovative and relentlessly customer focused. That is the recipe for success.

In the period to December 2003, we worked hard at reshaping Suncorp to become that sort of company. It wasn't broken before, but it wasn't achieving its potential either. It had great staff, excellent products, a solid reputation and a loyal customer base, but was hamstrung by an outdated operating structure and some old-fashioned, inefficient business practices.

We have made a lot of changes in a short time. In fact, we have fundamentally reorganised the Company, streamlining reporting lines and creating a performance culture by making people accountable for outcomes.

There are more improvements to make, but as John Story pointed out in his letter, the results achieved so far have been very encouraging. Good progress has been made in implementing our strategy, and we are well on the way towards achieving our strategic goals.

In the past, the benefits derived from operating as an integrated financial services group were lost through mediocre performances from our underlying businesses. But in the profit result for the six months to December, you can see clearly that our three business lines have each achieved significant improvements in performance. So we can now start to lift our sights from fixing internal problems, looking instead at how we can build and grow the business.

In the remainder of this letter, I will explain the results for the group and each of our divisions, and then tell you about our priorities for the immediate future.

Profit Overview

Conditions in the financial services sector have been, and continue to be, very favourable. In banking, lending growth is robust and bad debts benign. In General Insurance, we have seen a positive realignment of prices across the industry. And in Wealth Management, we've seen investment markets turn around, and confidence improving. Our diverse business mix means we've been able to take advantage of these factors, and build on them to produce a good result for the six months to December. The $281 million net profit for the period increased by a healthy 23 percent compared with the prior June half, and was up 81percent from the prior December result.

One reason for the increase in bottom line profits was the recovery in investment markets during the period, which boosted our investment income. That is great to see. But more importantly, if you put investment income to one side, the underlying profit improved by 45 percent compared with the prior December half, to $375 million. Compared with June, the underlying profit rose by 16 percent, driven by sustained revenue growth and close attention to expenses. It is a very pleasing result.

Banking

The Banking profit of $177 million was up 18 percent on the prior December result. That is a good increase, and well above the market's expectations for profit growth in the banking sector as a whole.

A feature of the result was the improvement in lending performance in the period. Total lending, including securitised assets, was up 16 percent to $27.7 billion, which exceeded growth for the banking industry as a whole.

The strongest growth was in business banking, where assets grew by 24 percent to $11.3 billion. Growth was assisted by the purchase of a $234 million property finance portfolio of loans from AMP in July. Underlying growth was strongest in development finance and commercial banking, in accordance with our strategic plans.

The excellent growth in business lending offset more subdued growth in housing, where assets rose by 13.3 percent to $15.5 billion. A number of improvements have been made to our home lending processes to improve sales and service and lift retention rates. This is leading to good improvements in performance.

According to RBA figures, annual growth in home lending across the industry has reached levels not seen in more than a decade, and is clearly unsustainable. Increases in official interest rates are expected to lead to a slowdown in home lending, but a sharp downturn or slump in prices is unlikely as the economy remains strong and unemployment low.

Nevertheless, in both our home lending and our property finance activities, we are taking a cautious approach, ensuring that we limit our exposures to property hot spots, and hold appropriate security underpinning our loans.

Other features of the Banking results include:

- Margin pressure continued during the half year, affected by factors such as business mix, and increases in wholesale funding.

- Non-interest income increased during the half year because of increased borrowing activity, and because we have been more disciplined in collecting fee income. Securitisations have also lifted fee income.

- Expenses increased a little, mainly because of an extensive staffing review which led to approximately $4 million in redundancy costs. The Company also launched a new Clear Options Visa card, which increased costs by $3 million. The cost to income ratio, however, was fairly steady at 50.6 percent, which is very good for a bank of our size.

- Bad debts were also steady at $24 million for the half year, and overall credit quality remains very sound. Non-performing loans continue to decline, and are now equal to just 0.5 percent of our total loan book.

For the remainder of the current year, we have a number of important projects under way to drive profitable growth. A key one worth mentioning is the segmentation of the customer base. We are adopting a much more sophisticated approach to segmenting our customers and developing a deeper understanding of their needs and requirements. Then we are refining our value proposition for each customer segment.

We also are planning a comprehensive cost review, examining all of our processes and systems, checking their effectiveness and testing whether there are more efficient ways of completing tasks. Although we already operate a streamlined, efficient banking business, there is still room for improvement and we continue to review our processes.

These projects, and others like them, should help us to maintain our profit growth momentum.

General Insurance

The biggest increase in earnings was achieved in general insurance, where the profit before tax rose from $72 million at December 2002, to $215 million at December 2003.

The key number in general insurance is the insurance trading result (ITR), which is the profit derived from the underlying insurance business, and excludes the investment returns we get from investing our shareholders funds in the market. The ITR increased by 81percent to $145 million. That is equal to a 13.5 percent profit margin on our premium revenue, which is a very solid performance, and above our previous maximum 13 percent forecast for the full year.

In short, the ITR was up because:

- We saw steady growth in premium income
- Operating expenses remained under tight control
- Claims expenses were fairly flat. Although we had a couple of serious storms in the period, which led to claims being higher than has been the case for several years, this was offset by favourable claims experience in segments such as CTP, liability and workers compensation.

That was the ITR. But on top of that, the investment income we earned on our shareholders funds increased to $59 million, from a loss of $17 million in December 2002, so the bottom line improved 199 percent to $215 million.

A very positive feature of the results was the improvement in the Queensland Compulsory Third Party (CTP) insurance scheme. This is an important market for us, contributing approximately 25 percent of premium income. The Queensland scheme has been through difficult times over the past 18 months. This has been primarily due to increases in claims costs, which have eroded profit margins and put upward pressure on prices. At the full year results for 2003, we said we had increased our provisions in CTP because of the upward trends in claims costs. I'm happy to say that in the six months to December, claims experience was much improved. We are confident that the Civil Liabilities Act - new legislation and regulations introduced by the State Government - will lead to reductions in personal injury claims costs. We have been able to reduce our CTP prices in recognition of the impact of the Act, and as a contribution on our part to make sure that prices remain affordable for consumers.

Another point I would like to make about General Insurance is that during the six months to December, we invested in rejuvenating the GIO brand. It is the case that the brand had suffered under previous ownership. So, having improved service standards as a first priority following the acquisition of GIO in June 2001, we have now increased our marketing and advertising in support of the brand. Hence you would have seen that GIO was a major sponsor of the Rugby World Cup, which was a great success, and has helped to lift the image and awareness of the brand in the minds of consumers.

In the current half-year we have a number of new initiatives planned to lift performance further. Probably the most important is the introduction of a new "pricing engine". The pricing engine will allow us to use much finer risk assessment criteria in our pricing calculations than was possible in the past. The pricing engine is now in operation in some of our markets and will be rolled out to others over the next year. It will enable us to be more selective in the risks we underwrite, helping us to target better business and lift profitability.

Wealth Management

Wealth Management continues to make a meaningful contribution to earnings. In the half year to December, it lifted profits by 112 percent to $36 million, which represents 8 percent of the group's pre-tax earnings

The better investment climate, particularly the improved sharemarket, was a major contributor to the increased result, leading to a recovery in sales of investment products. After falling 18percent in the June half of 2003, due to sharemarket volatility, sales rebounded in the December half, rising 10 percent to $297 million.

A feature of the period for Wealth Management was the rating of Suncorp investment products by the ASSIRT funds management research firm. Suncorp's flagship Australian Equities Fund was granted a prestigious 4-star rating. Obtaining ASSIRT ratings reinforces Suncorp's position as one of the leading fund managers in Australia.

A number of new initiatives are planned for the remainder of the year, including the launch of new badged wrap products and a wholesale trust, as well as the introduction of powerful new sales tools for our financial planners.

Group-wide priorities for the current year

With our business lines in order, and producing competitive returns, we are now in a position to focus more of our attention on the second part of our strategic plan - that is delivery of cost and revenue synergies available within the group.

Our results show that we are already realising substantial cost synergies by sharing overhead and distribution costs between divisions. Our banking cost to income ratio, at 50.6 percent, is as good as some of the majors, and better than our regional peers. In general insurance, our expense ratio, at 21.9 percent, is low by industry comparisons. So the cost savings are being achieved, but we need to ensure that the savings disciplines are entrenched in the future.

On the revenue front, Suncorp already boasts the highest level of cross sales of any financial institution in Australia, and we have embedded the necessary processes to take advantage of opportunities to increase cross sales within and between divisions.

To achieve higher rates of growth, we have to focus the organisation on two closely linked, key operating themes: customer solutions and customer service.

Customer solutions

By customer solutions I mean the organisational capacity to identify what our customers want and give it to them at a fair price. It sounds simple, but very few organisations can do it well. At Suncorp, we have a head start on a number of fronts. Firstly, we have a much broader product range than our competitors, so we have greater ability to construct customer solutions across the whole range. Secondly, we know our customers well. We have deep information we can draw on to establish what they need. That helps us to provide innovative, competitive product solutions.

We have devised a number of different cross-sell packages and initiatives, set specific referral and cross sales targets at an organisational level and then driven that through the organisation to our front line staff. A schedule of activity has been mapped out for the remainder of this calendar year to implement a full programme of cross-sell initiatives, mainly within our Queensland market where we have a strong base of banking relationships to build on.

Customer Service

The second key operating theme is customer service, and it is really just common sense. If you give your customers good, efficient service, on time, at a reasonable price and without making mistakes, then they have no reason to leave, and every reason to buy additional products and services.

In our home state of Queensland, Suncorp continues to have significantly higher customer satisfaction ratings than the "Big Four" banks. This is pleasing. Especially so, because our staff are consistently rated very highly by our customers.

Of course, our competitors are not standing still in this regard. We recognise that – just like us – many of them are also working to improve their levels of service. That's why, over the last six months, we have renewed our efforts to improve customer service, while continuing to remain competitive in interest rates, premiums, fees and charges.

Our overall goal is to ensure that, in each of our chosen markets, we are unmistakably delivering the best value financial services and products available. As we keep growing into new territories and markets, that's indeed a tall order. Nevertheless, we are determined to avoid the trap of becoming too internally focused – and forgetting about our customers – as we deal with the myriad of other business imperatives that we also need to deal with as we continue to grow.

Spearheading this year's programme of work on customer service is the Customer Experience Programme being undertaken in our Retail Banking division. This initiative is specifically focused on lifting the quality of our customers' experience at specific key service encounters. Wherever applicable, we will also roll out the process improvements we first introduce as part of this programme to our insurance and wealth management businesses.

Outlook

As you have seen, our first half results were excellent. While we are a conservative organisation, we feel confident enough to increase our expectations for full year profit.

In Banking, we previously said we expected a "high single digit" increase in full year profit. While interest rates are rising, they remain relatively low in absolute terms. Lending continues to be robust, and bad debts are showing no signs of escalating. Margin pressures are also abating slightly in the current half due to movements in interest rates. So in this environment, we now expect to see the Banking profit before tax increase by a percentage in the mid-teens.

In General Insurance, we previously forecast a full year insurance trading margin of 10-13 percent. For the first half, the margin was 13.5 percent. However, that result was slightly better than normal because of unusually favourable claims experience in the half, particularly in long tail classes of insurance. Hence we have kept the ITR range for the full year at 10-13 percent. Given the strength of the first half result, we would expect to be towards the top of this range. Importantly, this assumes no unusual claims events or wild swings in investment markets.

In Wealth Management, the recovery in equity markets has led to a significant improvement in profitability. Assuming this equity market performance is sustained, we have increased our outlook for the full year, and are now expecting a profit increase of more than 30 percent.

Taken together, these increases should enable us to report at the full year that the underlying profit for the group has increased by a percentage in the mid 20s.

Conclusion

Finally then, I would like to take this opportunity to thank all the staff for their hard work and support over the past 12 months. They have been through considerable changes, and their enthusiastic response, and willingness to get on with the job, has been very encouraging. Thanks also to my fellow directors for their help and guidance, and of course to the shareholders for their ongoing support.

John Mulcahy
Managing Director & CEO

27 February 2004