SUNCORP~METWAY LTD

BANKING

annual report

INSURANCE

1998

INVESTMENT

SUNCORP~METWAY LTD

ACN 010 831 722

SHAREHOLDER INFORMATION

Registered Office

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Information about SUNCORP~METWAY is also available on the Internet at http://www.suncorp-metway.com.au

Company Secretary

Clifford R Chuter

Share Registry

Douglas Heck & Burrell
5th Floor
370 Queen Street Brisbane Qld 4000
Telephone: (07) 3228 4244

Stock Exchange Listings

The Group's ordinary shares are listed on the Australian Stock Exchange (code SME), as are the Converting Preference Shares Series 2 (code SMEPB), the Capital Notes (code SMEHA) and the Exchanging Instalment Notes issued by the Queensland Government (code SMQG).

Annual General Meeting

The Annual General Meeting will be held in the Grand Ballroom, Sheraton Hotel, 249 Turbot Street, Brisbane, on Wednesday 28 October 1998 at 2.30 pm.

Financial Calendar

Dividend payment ordinary shares	16 October 1998
Annual General Meeting	28 October 1998
Dividend payments ordinary shares	23 March 1999
	15 October 1999
Converting preference shares series 2	15 March 1999
	15 September 1999
Interest payments to noteholders	31 March 1999
	30 September 1999
Annual General Meeting	27 October 1999

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Who We Are

SUNCORP~METWAY LTD is a publicly listed company formed on 1 December 1996 from the merger of three of Queensland's largest and long established financial institutions – SUNCORP, Metway Bank and QIDC.

By merging our three operations we created an Allfinanz group offering general insurance, retail banking, business banking, agribusiness, life insurance, superannuation and investments to over 2.4 million customers.

We are market leaders in home insurance, motor insurance, Compulsory Third Party (CTP) and retail deposits in our home state of Queensland. Our business is growing in New South Wales and Victoria. We are firmly established as a specialist agribusiness financier.

SUNCORP~METWAY is owned by approximately 36,000 shareholders of which the Queensland Government is the largest. Effectively the State's shareholding of 68 percent of the company's total issued capital on a fully diluted basis reduces to approximately 46 percent when the 100 million exchanging instalment notes currently represented as subordinated ordinary shares, convert to ordinary shares on 1 November 1999. The Government's shareholding will reduce over time to less than 15 percent. There are 75,500 exchanging instalment noteholders.

Our Vision

- To become Australia's leading Allfinanz retailer

  To have six or more of our products used by each household

- To become Australia's preferred lender to 'owner managed' businesses

  To be lender of first choice to small and medium sized businesses

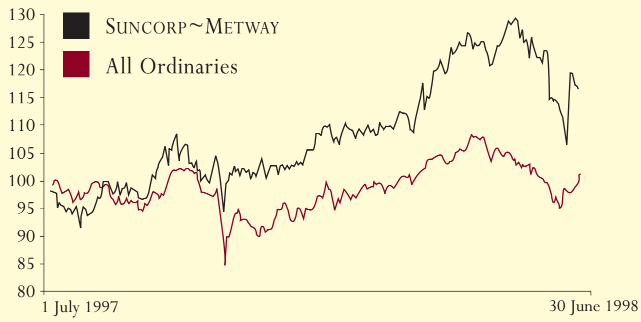
Credit Ratings

	Short Term	Long Term	Claims paying General Ins.	Claims paying Life and Super
Standard & Poor's	A-2	A-	A-	A-
Moodys				
Bank Deposits	P-2	Baa 1	n/a	n/a
Senior Debt	P-2	Baa 2	n/a	n/a
Fitch IBCA	F 1	A	A+	A

1997/98 Financial Highlights

Group operating profit after tax	$233m
Return on ordinary shareholders' equity (undiluted):	16.61%
Return on total shareholders' equity (diluted):	11.83%
Basic earnings per ordinary share	56.66c
Diluted earnings per ordinary share	45.83c
Ordinary dividend per ordinary share	44.0c
Assets	$21.4b
Shareholders' equity	$1.8b
Employees	4762

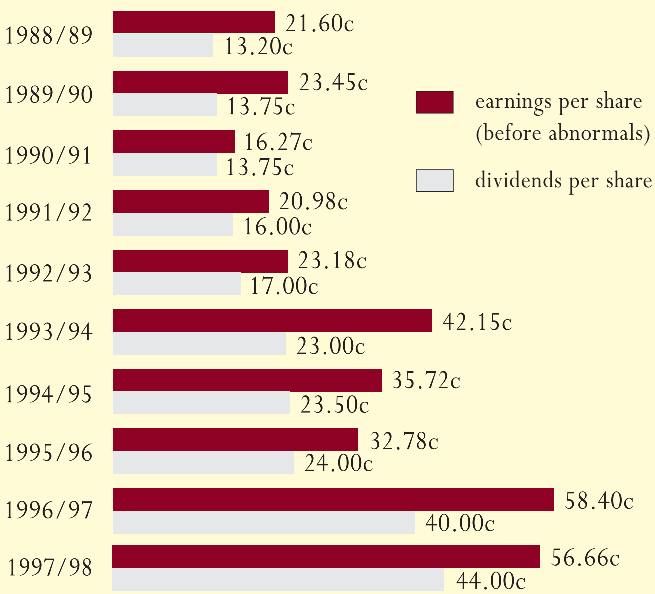
Share price indices



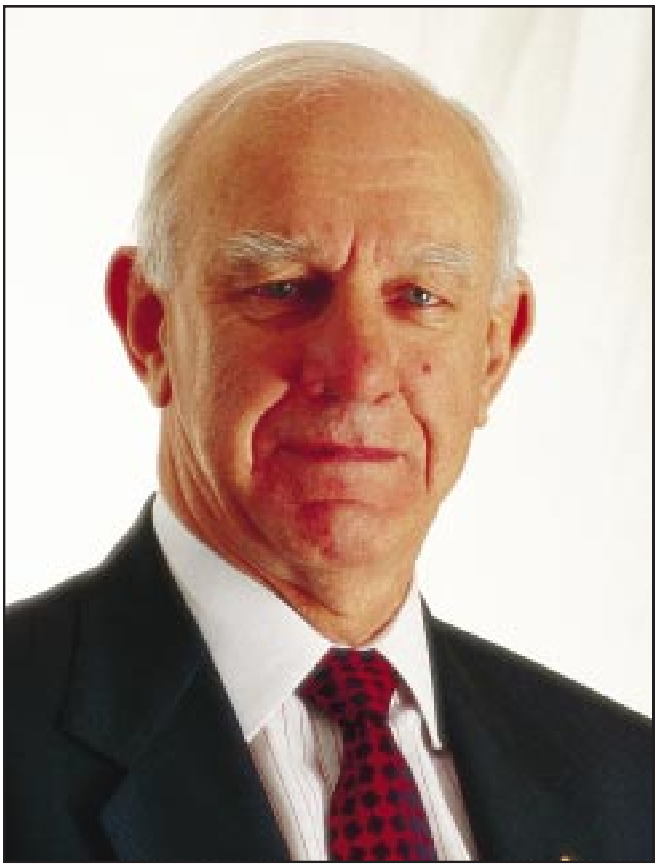
Share price movement since merger

1 December 1996	$5.47
30 June 1997	$6.94
31 December 1997	$7.60
30 June 1998	$8.16

Earnings per share and dividends per share



Chairman's Report



"Once again good results and a satisfying outcome in an increasingly difficult and competitive environment"

R JOHN LAMBLE AO
Chairman

I am pleased to report, on behalf of the Board, the Group's profit result as well as aspects, such as the Queensland Government's one for two offer, that are particularly pertinent to you as shareholders. Key operational matters that have impacted on our business throughout the year and some comments about the outlook for the coming year will be covered by our Managing Director in his report that follows.

Profit

Our first full financial year as a merged entity has been a very successful one. I am pleased to report that your company has made a net profit after tax and goodwill of $233 million. This compared very favourably with $150 million for the year ended 30 June 1997 (which represented 12 months of the operations of Metway and only seven months' trading of SUNCORP and QIDC). Return on shareholders' equity was 16.61 percent on an undiluted basis (15.67 percent last year). Earnings per share are 56.66 cents (47.07 cents last year), based on the average number of ordinary shares on issue. We call that basic earnings per share but more about that later.

Dividends/interest

Your directors have declared a fully franked dividend of 22 cents to ordinary shareholders, payable on 16 October 1998. Added to the interim dividend of 22 cents, this makes a total of 44 cents paid to ordinary shareholders for the year. Fully franked dividends of 110.5 cents per share were paid to preference shareholders during the year. Holders of Capital Notes issued by the company in 1993 received interest payments in June and December. Holders of Exchanging Instalment Notes (EINs) issued by the Queensland Government will receive their second interest payment of 24.5 cents per note from the Government on 30 September 1998. This brings their interest payment for the year to eight percent, the rate calculated on $6.10, being the full face value of the EINs, although the $3.10 has yet to be paid.

Profitability

The profit result is made up of contributions from our divisions as follows:

	June 1998 $m	June 1997 $m*
Banking	157	117
General insurance	120	109
Life insurance	23	13
Other activities	4	4
Operating profit before tax, goodwill and abnormals	304	243
Less goodwill amortisation	(10)	(6)
Operating profit before tax and abnormals	294	237
Less tax on operating profit	(61)	(61)
Profit after tax and goodwill and before abnormals	233	176
Less abnormal items after tax	–	(26)
Profit after tax, goodwill and abnormals	233	150

*12 months Metway, 7 months SUNCORP, QIDC

These are once again good results and a satisfying outcome in an increasingly difficult and competitive environment.

More information about these results can be found in the Managing Director's report.

Capital structure

It would be appropriate for me to discuss our capital structure and the effects on future earnings per share. The table below highlights our current structure and the approximate expected structure in 2001 when the capital notes, preference shares and share options are converted to ordinary shares. This assumes that there is no capital restructure, although management is working to develop a capital restructure programme.

Millions of shares

	June 1998	July 2001
Ordinary shares on issue	192.3	461.1
Subordinated ordinary shares on issue	100.0	
Capital notes	155.0	
Converting preference shares	10.1	
Employee shares, options and non-participating shares	3.7	
Total	**461.1**	**461.1**

The Queensland Government is currently the major shareholder with a holding made up of approximately 56 million fully participating ordinary shares, 100 million subordinated ordinary shares and 155 million capital notes (which are convertible into ordinary shares over time). Effectively, the State's shareholding reduced from 68 percent to approximately 46 percent when the 100 million exchanging instalment notes (EINs), currently represented as subordinated ordinary shares, were offered by the State to the public in September 1997.

In the Explanatory Memorandum to the merger, the Queensland Government outlined its intention to offer ordinary shareholders one share for every two shares held on 1 December 1998 at $5 per share.

We have been advised that the new government will honour this undertaking and is currently working on arrangements to effect this offer. Shareholders would be wise to organise their finances so they do not miss out on this opportunity.

Should you need to finance this offer, SUNCORP~METWAY has available a range of finance options including home equity, personal loans and our Share Gear product which may be able to help you.

I would also like to remind exchanging instalment noteholders that the final instalment of $3.10 per note must be made by 30 September 1998. This payment cannot be deferred. Interest will be payable if the payment is not made and the Trustee will then cancel the note, expenses will be deducted and the balance paid to you.
It would be disappointing to miss this opportunity of becoming a shareholder when the notes convert to ordinary shares on 1 November 1999.

When the one for two offer is completed and the EINs convert to ordinary shares next year, the Government's holding will reduce to approximately 31 percent. The Government is committed to selling down their shareholding to below 15 percent by 2001.

Since the merger, the company has only had to pay dividends on part of the Government's shareholding. However, this arrangement will change as more of the government's holding is either converted to ordinary shares or sold, therefore requiring more of the company's profit to be paid as dividend as the number of shares increases. As mentioned earlier in my report, basic earnings per share was 56.66 cents but after adjusting for the interest on the capital notes and assuming everything had been converted to ordinary shares, our diluted earnings per share would have been 45.83 cents.

The Board is mindful of the implications of this structure – that a dividend of, say, 50 cents per share on 461.1 million shares would amount to $230.6 million. Again if one assumes something be set aside for retained earnings and tax at 36 percent our target profit needs to be $500 million before tax in the 2001/02 year. This will be a big task when one considers the fierce competition in the banking and insurance industry and an economy that seems to have an uncertain future. Therefore the capital restructuring of the company is a major topic under consideration by the Board and the Transformation Programme is a significant step toward that target.

Group overview

Our year has been a demanding but satisfactory one, dominated by our Transformation Programme which has had management and staff right across the Group reassessing everything the organisation does and how we can do it better- improving services or re-engineering out-dated processes. The programme is now in full swing and our Managing Director comments on progress in his report.

We have begun to do things differently and what you will witness next year is the emergence of a true Allfinanz retailer. We will continue to focus on selling, distributing and targeting a very competitive range of insurance, banking and investment products that will enable us to meet the challenges that will face our organisation in the future.

The year ahead will be an exciting one as we move to one brand and one trading name, SUNCORP~METWAY. This can only further enhance the Group's cross-selling opportunities in line with our Allfinanz strategy of having six or more products in every household.

It is pleasing to report that the Group is currently satisfying more of our customers core financial needs – 33 percent of customers now holding three or more products – so that our goal for the number of products per household is both credible and achievable.

Rural community

While many of our competitors have withdrawn their services from the rural community, we have maintained a strong presence, and remain 100 percent committed to agribusiness. We have highly professional and qualified staff who have specific rural knowledge and experience to deliver the level of service and products our customers have come to expect. Our customers' confidence in us has been demonstrated through the strong market share we continue to hold. But our support of the rural community goes beyond our business relationships. We are very aware of our community responsibilities. Throughout the year we sponsored a number of major agricultural events such as the QIDC Ag-Show in Toowoomba, the RNA beef and dairy judging and the Australian Cotton Outlook (Cotton Achiever of the Year).

Other community support

Of course, our support is not just limited to the rural community. There are many other cultural, business and charitable events that we play a major part in as well, such as our support of the Endeavour Foundation in 1997 and the Diana, Princess of Wales Research Centre in 1998, through the Bridge to Bay Fun Run, the biennial SUNCORP North Queensland Games, Young Queenslander of the Year and the Urban Development Industry Awards.

Year 2000

We are aware of the challenges being faced by organisations and individuals worldwide as the Year 2000 approaches. We established a programme to address the Year 2000 or 'Millennium Bug' issue in 1997. We have partnered with DMR Consulting Group (Australia) Pty Ltd, a major Information Technology Consulting organisation, and PricewaterhouseCoopers, Management Consultants, quality assures the programme.

Our Year 2000 Programme includes participation in various industry Year 2000 Strategy Groups and will participate in the Testing Sub-Committee of the Interbank Working Group.

The Executive has given the programme high priority and commitment that is reflected by joint executive sponsorship and substantial executive representation on the programme's Steering Committee.

SUNCORP~METWAY is helping its customers to reduce Year 2000 exposure by the distribution of general awareness brochures through our branch network and call centres, as well as upgrading this information on our corporate internet site.

Business Banking clients have been surveyed to assess their risk of non-compliance. New business applications will require completion and satisfactory risk assessment of our Year 2000 survey form as part of the credit risk approval process.

We have identified all business critical suppliers and have requested written compliance statements. These responses are being assessed and follow-up undertaken based on the criticality of the supplier. This includes direct contact to review the suppliers' progress with Year 2000 compliance.

Our Year 2000 Programme includes a project to ensure systems that control air-conditioning, lighting, security systems and fire alarms on Group-owned and occupied properties will continue functioning over the century date change.

Our programme at this time is well advanced with implementing and testing solutions with our major business critical systems Year 2000 compliant by the end of 1998, with remaining business critical systems compliant by June 1999.

All aspects of Year 2000 are not under our control and every effort is being directed toward contingency planning to reduce the risk of external sources affecting our operations. However, we are confident we will be ready for the change of the century and believe the customers will not be at risk as a result of the Year 2000 issue.

Acknowledgements

The Board has worked well together over the last year and with considerable work delegated to committees. I thank my fellow directors for their support and contribution.

The Group's result has again been a successful one even though the organisation has been undergoing great change as a result of the merger. This has only been possible through the unstinting team efforts of all of our staff. On behalf of the Board, I thank our Managing Director Steve Jones for his astute leadership and the efforts of all our hardworking staff and management. The Board also thanks shareholders and noteholders for their continuing support.

Conclusion

I reported last year that an optimistic factor in our achievements for the year ahead was that much of our business comes from Queensland and I predicted that it should grow at a better rate than the Australian average. It did, and we reaped the benefits with a strong profit result, maintained a strong, loyal customer base and demonstrated that we are a company moving positively forward in a very planned way.

The full impact of the continued uncertainty in currency and interest rates and the Asian financial crisis are as yet unknown factors on the Australian economy and we can only hope that the local market can continue to withstand the pressures. Unlike many of our competitors, our direct exposure to the Asian economy is negligible and this should stand us in good stead.

On a positive note for our shareholders, we expect that in the coming year we will continue to pay fully franked dividends, subject to the conversion of any notes by the Queensland Government.

John Lamble

R JOHN LAMBLE AO
Chairman

26 August 1998

Managing Director's Report

"The customer franchise is the company's greatest asset. Protecting it ...is a top priority"

Overview

In August of last year we set our strategic direction for the Group – to be Australia's leading Allfinanz retailer and the preferred lender to small and medium-sized businesses. This strategy capitalises on the strong customer franchises, wide product range and skilled staff which SUNCORP, Metway and QIDC brought to the new Group through their merger in December 1996.

The company got off to a very good start in its first (partial) year of operation, which ended June 1997. I am pleased to report the trend has continued and is evident in the results for the full year ended June 1998.

The highlights are:

- A strong profit result of $233 million after tax and goodwill. This met our 'stretch' target for the year and reflects very good performance in every line of business.
- Maintaining our number one or number two market share positions in Queensland in our main lines of business. The customer franchise is the company's greatest asset and protecting it while re-engineering our operations, distribution and products is a top priority.
- Launching the Transformation Programme to reduce costs and improve efficiency and service. We have now made $75 million of these improvements and are targeting a further $105 million, raising the total goal to $180 million.

These achievements are due to the tremendous effort and professionalism of the staff of SUNCORP~METWAY. Last year the directors set up the Employee Share Plan to recognise such effort and allow employees to share in the company's success. I am delighted that a further grant of 100 shares will be made to each employee to recognise their achievements in 1997/98. Shareholders' interests are not diluted by these grants, as the shares are purchased on market from existing stock.

Profit and market momentum continued

The Group profit of $233 million equates to a 16.6 percent return on shareholders' funds, which is a good return in a low inflation economy. Initial merger savings and process improvements are reflected in the Group's efficiency ratio (costs as a percent of income), which improved to 40.8 percent compared to last year's 48.0 percent.

Banking profit before tax was $157 million and gross loan assets grew quite satisfactorily by 8.5 percent to $15.8 billion. As expected, there was continued downward movement on margins due to strong competition and the overall margin reduced from 3.0 percent to 2.8 percent. This was most pronounced in the second half of the year.

Bad debts of $61 million for the year were higher than expected due to a $32 million provision for losses on four loans from the (now discontinued) investment banking arm of QIDC.

Underlying operating costs were reduced, but costs for the Year 2000 and One Brand projects, which will not continue beyond December 1999, offset the reduction such that overall costs were on par with previous levels. Expense levels for the Banking operations for the coming year are expected to improve as more savings ideas are implemented.

The General Insurance profit before tax was $120 million. Profit in 1997/98 was lower than 1996/97 because of the lower investment returns on the shareholders' equity funds. On a year by year basis, net premiums grew by 9.8 percent, reflecting good growth in home and contents, motor and compulsory third party. Competitive pressure constrained commercial insurance growth.

Comparing the underwriting result on a full year basis shows a loss of $90 million compared to a loss of $133.1 million last year. The improved result is both a sign of improved performance over a number of products and the interest rate used to discount outstanding claims reducing by a lesser amount than that applied last year. Consequently, the loss ratio improved from 97.8 percent to 91.3 percent. The expense ratio also improved by 8.0 percent, to 22.3 percent.

There was a significant 32 percent improvement in general insurance underwriting results, compared to 1996/97.

While underwriting performance improved in the year, investment returns – both ours and the market's generally – were below those of 1996/97. The difference was substantial and is the main reason the overall insurance profit for the full 1997/98 year is less than the annualised result for the initial partial year of 1996/97.

Life and Superannuation achieved substantial sales increase over the year. Risk product sales increased 11 percent, superannuation by 42 percent and investment products by 97 percent, including unit trusts. While sales grew significantly, costs were maintained at prior year levels. This enabled the contribution to profit from life insurance activities to increase by 7.6 percent on an annualised basis to $23 million.

Transformation Programme targets further improvements

In early 1997 we set a target of $115 million in performance improvements and by 30 June 1997 had made changes worth $43 million. These were relatively straightforward improvements like eliminating duplicated functions and using the purchasing power of the larger company.

In October we launched the Transformation Programme, inviting staff from all parts of the company to nominate ideas for further improvements. The aim was to be as efficient as we could possibly be while delivering competitive products and quality service. Over 16,000 ideas were suggested and then evaluated for business risk, customer impact and practicality. A total of 1450 ideas were ultimately selected and their potential to improve earnings exceeded our expectations.

As a result, the original target of $115 million in improvements by December 1999 has now been raised to $180 million. Of the $180 million, cost savings will account for approximately 75 percent, reduced claims expense for 15 percent and revenue improvements for the balance.

Implementation of the Transformation ideas began in April and will continue on a quarter-by-quarter schedule through 1998 and 1999. Non-recurring implementation costs are expected to be $60 million.

In the April quarter ideas worth $32 million annually were implemented, raising the total value of improvements made since the merger to $75 million as of 30 June 1998.

It is important for shareholders to understand how the Transformation improvements will improve the company's profits, and how they will not. It would be erroneous to assume that improvements worth $180 million will improve our pre-tax profit by $180 million. As competition squeezes profit margins, some of the improvement is required just to offset the squeeze and maintain current profitability. In addition, we will re-invest some of the savings in growth opportunities where the earnings improvement may take a year or two to exceed the original investment. That said, a significant portion of the $180 million will flow through to profit after this year, making Transformation a major plank in the strategy to grow earnings. Our aim as an Executive and Board is to strike the right balance between re-investing savings or taking them directly to profit that will give the highest value to your shareholding over the long term.

Another point about Transformation is that its focus has been on how to do things more efficiently and better, not a target reduction in jobs per se. While the improvements will reduce the size of our work force, natural attrition, re-investment projects and natural growth are helping us keep redundancies to a minimum. Our full-time equivalent work force reduced from 5341 to 4762 during the year. Natural attrition accounted for a large portion of the reduction and during the year we also hired 648 people to fill jobs that became vacant and could not be filled internally.

During the year, a Certified Agreement was put in place giving staff and the company greater flexibility in the work environment. New remuneration schemes for all staff have been introduced, rewarding individuals for the combination of their individual performance and the performance of the company.

Outlook

The 1998/99 year will bring the greatest degree of progress, challenge and excitement yet for both customers and staff.

We expect the company's financial performance for 1998/99 will be influenced by three key factors:

- The Australian economy will grow more slowly due to dramatic slowdown in Asia and a modest slowing in the U.S. economy. Consequently, we expect slower growth in banking and insurance. Slower industry growth means competitive pricing pressure will continue.
- Under that economic outlook, investment markets are generally not expected to perform as well in 1998/99. If that proves true, our investment income may be less than last year.
- Internally, we will incur significant one-time costs for the One Brand and Year 2000 projects and to implement the Transformation ideas. These costs will total approximately $75 million and they will largely offset the merger and Transformation benefits being realised in the year.

If these assumptions about the economy hold true then we expect the 1998/99 profit will be similar to the 1997/98 result.

Although the expense of the major change programmes will constrain our earnings in this financial year, the programmes will improve core profitability on an ongoing basis. They are key parts of our 1998/99 strategy for growing shareholder value which is to:

- make our operations as efficient as they can be through Transformation and One Brand.
- improve service to customers and carefully manage changes that effect them, so that – unlike most mergers – the customer franchise is maintained and grows.
- restructure our capital mix to make it more efficient and minimise dilution to shareholder earnings.
- begin to vigorously and systematically pursue, in the second half of the year, the Allfinanz and business lending opportunities in the 2.4 million customers we serve.

The One Brand project is well under way and will take us from separate brands, products, branches and computer systems to one common SUNCORP~METWAY approach. For example, the banking product range will be simplified from 680 to 140. By April all customers will be converted to the new product set and from May we will trade as SUNCORP~METWAY, with new signs, logo and colour scheme.

While this visible 'one brand' activity is occurring, the pace of behind the scenes activity will accelerate as well. Three-fourths of the Transformation ideas will be implemented by year end. The Year 2000 Compliance will be complete and in monitoring mode.

This is an exciting agenda of progress and change for which our managers and staff have planned carefully. Our primary goals for the year are to make these changes in a manner that makes the company far more efficient – in a sustainable way – while keeping the loyalty of our customers. Our managers and staff have performed superbly through the merger thus far and I am confident they will accomplish both objectives.

These opportunities have us very excited about the year ahead. The Transformation improvements will provide a major step toward our longer-term earnings targets. One Brand will clear the way to bring the benefits of Allfinanz to our customers. And by year end our focus and energies will be on growing the company and achieving our aim of being Australia's top performing Allfinanz company. I look forward to reporting progress to you.

STEVE JONES
Managing Director

Steve Jones

26 August 1998

Consumer Allfinanz Services

Consumer Allfinanz services provides and distributes retail banking, general insurance, life insurance, superannuation and investment products to 1.7 million households predominantly in Queensland but with a growing presence in New South Wales and Victoria.

Strong revenue performance in our core retail banking products, improving life insurance, superannuation and unit trusts sales and an outstanding insurance trading result contributed to the Group's strong performance over the year.

In the home lending market, which has seen the fiercest competition, we have enjoyed an excellent result, which has increased our lending receivables by 11 percent compared with a national market increase of 8.6 percent. Consumer finance also performed strongly, with approvals increasing by 17 percent over last year and loan receivables finishing the year at $256 million, up 18 percent on 1996/97.

Competition for funds has followed the same pattern as housing with deposit margins being driven down. Despite new products being offered by competitors, we have continued to meet customers' traditional banking deposit needs. This has enabled us to maintain our national market share and grow retail deposits by 6.3 percent.

Overall sales for life and superannuation products and unit trusts continued to improve with total sales increasing by 56 percent from $126 million to $196.4 million for this year. The low-inflation, low-interest environment was beneficial for our unit trusts and resulted in funds under management growing from $34.5 million to $86.1 million over the year.

Profit for shareholders from the life and superannuation business in 1997/98 increased to $23 million. Net earned general insurance premium reserve for 1997/98 was $664 million, up 9.8 percent on the previous 12 months, a satisfactory outcome in the current soft market conditions. Our portfolio has remained at strong levels of profitability due to targeting and developing profitable business segments, pricing strategies, continuing low levels of claims for home and motor insurances, successful initiatives reducing average claims costs and administrative expense reductions.

During the year, we focused strongly on the retention of customers through better servicing, such as providing all hours telephone support, and promoting the benefits of having multiple products with the Group. The benefits of these activities in supporting the Group's Allfinanz strategy have been well demonstrated with 56 percent of new home loan customers owning at least one insurance product (other than CTP). More than one third of our customers now hold three or more products.

We have moved to standardise our common products, aligning features, benefits and pricing. SUNCORP life insurance, superannuation and general insurance products are now being sold by METWAY branches. METWAY Asset Line and Ready Access loan products will be part of the SUNCORP product offering from August 1998.

Please meet our customers Shane and Janene Daley, and their dog Ralph, from Paddington. Shane's parents Graham and Elizabeth Daley dropped by to visit the expectant parents. SUNCORP~METWAY is pleased to be able to provide all the financial products and services to meet this growing family's needs, from their baby's first savings account right through to their retirement planning.

Distribution

The way we distribute our products and services to our customers changed over the year. We are now offering customers a greater range of alternatives to supplement traditional branch services.

Despite reducing retail branch outlets by 10 percent during the year, market shares in all major business lines have been maintained or improved.

We have created a single financial advisory channel operating as part of the branch network and a corporate agent/insurance consultant channel, which will be focusing on the rural and small business/key employee markets.

Mobile lenders are now well accepted by home loan borrowers. We expanded our mobile sales force during the year and this channel now accounts for 12.9 percent of home loans written.

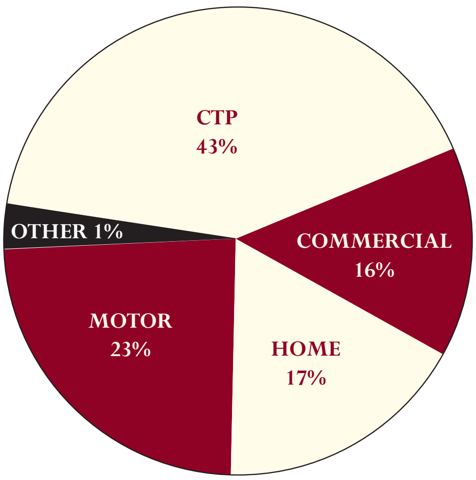
Our internet sites are currently receiving increasing volumes of home loan and personal loan applications and we expect these volumes to grow further when we integrate our three sites in the coming year.

Our customers are taking advantage of our telephone services for loans, deposits, and insurances and the after hours convenience. We plan to extend the range of telephone services offered as the business grows.

We also introduced EFTPOS during the year to 1600 merchants, lifting our service levels to small business customers.

We have been piloting sales centres based on retailing concepts, focusing more on sales rather than processing transactions. In New South Wales and Victoria we have moved away from the traditional branches to this sales centre approach.

General Insurance Gross Written Premium



General Insurance Results

	June 1998 $m	June 1997* $m*
Net premium revenue	664	364
Claims	(606)	(341)
Acquisition cost	(62)	(33)
Underwriting expenses	(86)	(56)
Underwriting results	(90)	(66)
Investment income	210	175
Operating profit before tax	120	109

* Post aquisition 7 months

Claims

During the year we paid over 180,000 general insurance claims.

Two major storms during the year impacted our business – Townsville in January, which resulted in 3000 claims exceeding $13 million, and Ipswich, which occurred on Easter Monday and resulted in 1300 claims. Within 24 hours of the storms we had a team of assessors in Townsville to avoid any undue delays or unnecessary anxiety to our customers. They appreciated our quick response. The cost to the Group of these two events was capped at $6.7 million by reinsurance arrangements.

The growing number of burglary and theft claims is a concern and they now account for over 18 percent of our total claims costs.

Cost savings

Operating expenses across a number of key business areas have fallen as a result of a strong focus on process improvements to gain improved efficiency. Expense performance for general insurance continues to improve – 22.3 percent compared with 24.4 percent in 1997. The outlook for reducing insurance expenses remains positive with the implementation of a new quoting and sales system, the integration and automation of some areas of back-office processing, including life and superannuation operations, and the implementation of an automated workflow and imaging system for claims processing which will provide enormous benefits including quicker settlements and no paperwork for customers.

In the banking businesses, significant gains have been made in integrating and standardising loans processing and management. Major productivity gains will also be made when we move to a single operating system early next year.

Distribution related expenses will also benefit from the move to one brand with many branches in close proximity or side by side combined into one new branch.

Products offered include:

- Home loans, personal loans
- Personal insurance products:
  home and contents, motor, boat, motorcycle
- Personal effects insurance
- Pension savings account
- Unit trusts
- Compulsory Third Party insurance
- Personal financial planning advice
- Credit/debit cards
- Retirement and wealth creation planning
- Term deposits
- Life insurance, income protection and trauma insurances
- Share Gear – margin lending product
- Personal superannuation
- Savings accounts
- Rollovers, allocated pensions and annuities

Awards

Voted Best Regional Bank –
Australian Banking and Finance Awards

Won seven awards, including gold, in the 1998 Personal Investment Magazine Bank of the Year Awards

Business Lending Services

We provide an extensive range of products and services catering for small to medium sized commercial businesses. To enhance service to our customers, Business Banking has been structured into three key units – a specialist Property Finance unit which combines development finance and property investment finance; Commercial Banking, which comprises the Business Banking and QIDC networks as well as Corporate Finance and International Trade Finance; and Leasing.

The formation of the Property Finance unit will better serve the needs of real estate developers and investor customers while continuing to give SUNCORP~METWAY a competitive advantage through specialisation and local real estate knowledge.

Property Finance

The portfolio has an asset base of $2.5 billion, and forward commitments of some $900 million, with 55 percent of the business in Queensland, 32 percent in New South Wales and 13 percent in Victoria.

Development Finance comprises $942 million of the portfolio, with 75 percent in residential projects and the balance in industrial, commercial and retail properties. Our large share of the rural market and our particular expertise in development finance are both continuing to give us a competitive advantage in the current economic environment. Property investment covers completed and tenanted commercial, industrial, retail and residential investment properties.

Aggressive competition has continued to put strong pressure on margins for property investment business but we have maintained our position of not lowering our credit standards to meet this pressure. Our customers have supported our consistent approach to lending.

Please meet our business customers, the Pirie family (left) and the Apps family (right)

Mick and Daphne Pirie, and their sons Rob and David, of Pirie Enterprises, on the Gold Coast, run a successful business manufacturing garage doors and gates and aluminium fabrication. The business was started by Mick in 1952 and now employs 25 staff.

Commercial Banking

Commercial Banking had another good year with better than expected new business lending of $950 million, thereby pushing receivables to a new high of $3 billion. While competitive pressure continues to be felt in this market, Commercial Banking is still growing its lending base.

QIDC continues to perform well for the Group with strong growth in receivables of 11 percent from $1.9 billion to $2.1 billion and the QIDC network writing over $670 million in new business lending across 31 branches.

Business Banking also performed strongly with new business lending of over $200 million.

Ossie and Lurline Apps, their son Rodney and grandsons Troy and Shane, with a little help from great grandchildren Kory and Ebony, run a very different kind of business. Ossie has been growing cane all his life on 300 hectares at Maroochy River, Moreton.

Both families have different business needs. SUNCORP~METWAY *is pleased to be able to provide finance, banking, and insurance products and services that meet both their business and personal needs.*

Leasing

Despite a difficult environment, Leasing performed well throughout the year. Receivables grew 26 percent to $1.5 billion. These were well spread across the three eastern states. New business activity has been buoyed by the strong demand for new motor vehicles which have seen record sales levels.

Asset quality continues to be a major feature of the portfolio with a relatively low level of arrears. Bad debts write-off and specific provisioning for the year was higher than expected. The quality of the portfolio remains high, with non-performing accounts less than 1.25 per cent of the portfolio. Margins remain under pressure.

Products offered include:

- Leasing
- Property and development finance
- Agribusiness
- Business banking
- Export finance
- Risk management

We also provide:

A range of general insurance commercial products – property, motor, rural, liability

Compulsory third party insurance

Life insurance, income protection insurance, trauma insurance, superannuation

Investment and financial planning advice

Other Services

INVESTMENT MANAGEMENT

Investment markets

Slowing world economic growth contributed to the comparatively poor returns of the investment markets over the past 12 months compared with returns over the previous financial year.

World equity markets were not affected and still recorded a strong return of 41.6 percent. Our world equity portfolio underperformed the benchmark for the period mainly due to stock selection and our underweight exposure to the U.S. sharemarket.

In Australia, lower commodity prices and a falling exchange rate negatively affected local share prices, the All Ordinaries Accumulation Index measuring only 1.6 percent growth for the 12 months to 30 June 1998. Our underweight allocation to this asset class assisted the overall return but stock selection detracted from performance.

There has been a good improvement in fixed interest markets locally and abroad because of lower world growth and low inflation. Our overall short term strategy is to overweight all interest rate sectors and underweight equities markets.

Direct property had a good year but falling business confidence has led to reduced demand for office space. Retail turnover projections have also been revised down.

General insurance

A return of $209.2 million was achieved on the general insurance funds over the year. As forecast in the 1996/97 annual report, exceptional returns were seen in the general insurance direct property portfolios. The total return for property for the year to 30 June 1998 was 14.9 percent, which compared well with the Property Council of Australia's performance indices.

Life and superannuation

The overall performance of the life and superannuation funds was impacted by the subdued nature of the Australian equities market over the 12 months to 30 June 1998 and the impact of the Asian currency crisis. Portfolio returns were also affected by stock selection decisions.

L.J. Hooker/Knight Frank

SUNCORP~METWAY wholly owns the real estate franchise network L.J. Hooker and owns 40 percent of the Australian operations of Knight Frank. L.J. Hooker is represented in more than 480 locations in Australia. Its successful expansion last year to New Zealand, and the rebadging this year from Challenge, added 115 locations there. This is the premier real estate franchise in Australia and aims to be that in New Zealand within three years. It yields good returns for franchisees, an ethical and professional service to customers, and is a sound investment for the Group.

Knight Frank Australia, which operates as number one or two in its various markets and geographic sectors, is fast developing into a modern property services business. It has significantly expanded its property management activities by outsourcing, either solely or in joint venture, for major corporates and government. This growth has been sufficiently strong that 70 percent of business is now within a recurring income stream versus 60 per cent transactional based (non-recurring) only 18 months ago. This strategic focus has well served the Group.

Executive Committee

STEVE JONES Managing Director
MBA(Hons), BEcon

Mr Jones was appointed Managing Director of the merged Group in December 1996. He was previously Managing Director of the ANZ Banking Group (New Zealand) Limited. Prior to his New Zealand appointment he was Senior General Manager Retail Financial Services with the ANZ in Melbourne, responsible for the Australian Retail Bank, ANZ Funds Management and Town and Country in Western Australia.

MARK BLUCHER General Manager ~
Human Resources *ABINZ*

Mr Blucher spent 19 years with the ANZ Bank's operation in New Zealand before his present appointment with the Group in September 1997. He was General Manager Human Resources with the bank and held a number of senior positions in retail banking, marketing and strategy. Mr Blucher was also involved in implementing ANZ's Hogan computer system and the integration of New Zealand's PostBank with ANZ.

ANDY J HOGENDIJK Chief Financial Officer
AAUQ, FCPA

Mr Hogendijk joined the Group in November 1997 as Chief Financial Officer. He had previously been with the Commonwealth Bank as CFO since 1991. He has experience in senior financial roles in other industries including media, mining and building materials.

PETER JOHNSTONE Group General Manager ~ Operations *LLB*

Mr Johnstone was Integration Project Manager for the merger. Before joining the group, he was previously General Manager Operational Support and General Counsel for the Bank of South Australia and headed the corporatisation of the State Bank of South Australia. He has 27 years experience in finance, business and law.

GREG MOYNIHAN Group General Manager ~ Retail Financial Services *BCom, ASA, ASIA*

Mr Moynihan was appointed to his current role following the merger. He had previously been CEO of Metway Bank after having held the role of General Manager Personal Banking as well as a number of senior positions in the bank.

RAY REIMER (acting) Group General Manager ~ Business Banking

Mr Reimer has been with the Group for over 20 years having commenced his banking career with the Agricultural Bank. After 14 years in a number of positions in Metway's retail banking, he held the roles of Queensland Manager and National Manager in Commercial Banking, and General Manager Commercial Banking.

TERRY TOWELL Group General Manager ~ Insurance & IT

Mr Towell was appointed to the role of Group General Manager General Insurance of the merged Group prior to his current appointment. He had previously been General Manager SUNCORP General Insurance Limited since 1995. Mr Towell has had more than 30 years experience in the insurance industry.

Board of Directors

R JOHN LAMBLE AO Chairman
BSc(Hons), Hon D Univ(UNSW), FAII

Mr Lamble's principal career was as Chief Executive Officer of NRMA Insurance Limited (1968-1992). He is Chairman of Perpetual Trustees Australia Limited and a director of RGC Limited and Email Limited.

MARTIN D E KRIEWALDT Deputy Chairman
BA, LLB(Hons), FAICD

Mr Kriewaldt is a partner in the law firm Allen Allen & Hemsley. He is Chairman of Infratil Australia Limited, a director of GWA International Limited and St Peters Lutheran College Foundation Limited.

W S (STEVE) JONES Managing Director
MBA(Hons), BEcon

Mr Jones was previously Managing Director of the ANZ Banking Group (New Zealand) Limited and Senior General Manager, Retail Financial Services with the ANZ in Melbourne. He was formerly with management consultants McKinsey and Co.

RODNEY F CORMIE *BCom, AAUQ, ASA, FSIA, FAICD*

Mr Cormie is Chairman of Techniche Limited and director of Bligh Oil and Minerals NL, Bligh Ventures Limited, Buderim Ginger Limited and Magellan Petroleum Australia Limited.

PATRICIA A CROSS *BSc(Hons), FAICD*

Until retirement in June 1996, Mrs Cross was General Manager, Wholesale Banking and Finance for National Australia Bank Limited. She is a director of Collins Street Retailing Limited, Georges Melbourne Pty Ltd, the Transport Accident Commission of Victoria, the Financial Sector Advisory Council and a member of the Companies and Securities Advisory Committee.

FRANK C B HALY AO *FCA, AAUQ*

Mr Haly is a company director and a Chartered Accountant. He is a consultant to the Queensland office of Deloitte Touche Tohmatsu.

JAMES J KENNEDY AO, CBE *(appointed to the Board 1 August 1997)* *FCA, D Univ(QUT)*

Mr Kennedy is a Chartered Accountant and Chairman of the Queensland Investment Corporation, Deputy Chairman of GWA International Limited and a director of Qantas Airways Limited, Australian Stock Exchange Ltd and Industrial Property Management Ltd.

JOHN D STORY *BA, LLB*

Mr Story is the Queensland Chairman of Partners of the law firm Corrs Chambers Westgarth. He is a director of Grow Force Australia Limited, Jupiters Limited, Breakwater Island Limited and a member of the Companies and Securities Advisory Committee.

BARRY THORNTON KSJ *FCA*

Mr Thornton is Chairman of GWA International Limited, the Ports Corporation of Queensland, Brisbane Airport Corporation Limited and South Pacific Equities Ltd. He is a director of Stockland Corporation Limited. He is also Chairman of the Salvation Army Brisbane Advisory Board and a Trustee of the Leukaemia Foundation.

Corporate Governance Statement

Summarised in this statement are the main Corporate Governance practices established by the Board to ensure the interests of shareholders, customers and staff are protected.

The key responsibilities of the Board include:

- Determining 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 and senior executives.
- Overseeing the establishment 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 of Directors

The Board of Directors has overall responsibility for the operations of SUNCORP~METWAY LTD and its controlled entities. 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 Regulatory Authority (previously administered by the Reserve Bank and the Insurance and Superannuation Commission). To this end the Board members of SUNCORP~METWAY LTD are also required to undertake roles as directors of QIDC Limited, SUNCORP General Insurance Limited and SUNCORP Life & Superannuation Limited.

Board composition

At the date of this statement, the Board comprises eight non-executive directors and the Managing Director. 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. (Two directors, Messrs Kriewaldt and Story are members of legal firms which may provide services to the Group from time to time.) Directors' details are contained in the Directors' Report.

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

- The Company's Articles of Association provide 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. The Articles also provide that 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 by the Chairman's Committee, 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 commences. Nominations are received by the Chairman's Committee and full details of final candidates are submitted to the full Board for consideration.

The Queensland Government is currently a major shareholder of the Company and has the right to appoint a maximum of four directors out of a nine director Board. Pursuant to a Deed of Covenant between the Company, the State of Queensland and the Commonwealth, the State has agreed that it will not, whether through its representatives on the Board or in any other way, conduct or attempt to conduct the operations of the SUNCORP~METWAY Group.

In early 1998, after the Board had completed its first 12 months of operation, a survey of directors was coordinated by the Chairman to review the role of the Board, to assess the performance of the Board over that initial period and to examine ways of assisting the Board collectively and directors individually in performing their duties more effectively. The issues examined included 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 Chairman's 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 available for distribution to directors is of course determined by shareholders at the Annual General Meeting. Also, in accordance with approvals granted by shareholders, retirement benefits are paid to non-executive directors.

Committees

So as 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.

Chairman's Committee

This committee makes recommendations to the Board on:

- Board appointments.
- Operation and performance of the Board.
- Remuneration of directors, including the Managing Director.
- Setting performance targets for the Managing Director and reviewing recommended performance targets for senior executives.

(The Managing Director is not present during discussion of his own remuneration or the setting of his performance targets.)

Membership: R J Lamble (Chairman), M D E Kriewaldt (Deputy Chairman), F C B Haly, W S Jones (Managing Director)

Audit, Business Risk and Compliance Committee

The primary role of this committee is to monitor and review, on behalf of the Board, the effectiveness of the Group's control environment in the areas of operational risk ("business risk"), legal/regulatory compliance and financial reporting, including reviewing the annual and semi-annual financial statements of the Group.

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.

To enhance the independence of the audit functions (both internal and external) there are no management representatives on the committee and the committee holds discussions with the auditors in the absence of management on a regular basis.

Membership: F C B Haly (Chairman), J D Story, B Thornton.

Board Credit Committee

The primary role of this committee is to monitor, on behalf of the Board, 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.

Membership: R F Cormie (Chairman), P A Cross, J J Kennedy, J D Story, B Thornton, W S Jones (Managing Director).

Investment Committee

The primary role of the committee is to monitor, on behalf of the Board, the effectiveness of the investment processes of the Group in achieving optimum return relative to risk and to identify and monitor the Group balance sheet risk (interest rate risk and liquidity risk) within limits set by the board.

Membership: M D E Kriewaldt (Chairman), P A Cross, R J Lamble, R F Cormie, W S Jones (Managing Director).

Ethical standards

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.

The standards adopted by the Group include a policy regarding directors and senior officers buying and selling shares, that takes into account the responsibility not to trade when in possession of information which, if disclosed publicly, would be likely to materially affect the market price of SUNCORP~METWAY shares.

SUNCORP~METWAY LTD

and controlled entities

ACN 010 831 722

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 JUNE 1998

The directors present their report together with the financial statements of SUNCORP~METWAY LTD ('the Company') and the consolidated financial statements of the economic entity, being the Company and its controlled entities, for the year ended 30 June 1998 and the auditors' report thereon.

DIRECTORS

The names, particulars of qualifications and experience of each director in office at the date of this report are as follows:

R John Lamble AO (Chairman)
BSc (Hons), Hon D Univ (UNSW), FAII

Mr Lamble's principal career was as Chief Executive Officer of NRMA Insurance Limited from 1968 to 1992. He is Chairman of Perpetual Trustees Australia Limited and a director of RGC Limited and Email Limited. Age 67 resides Sydney.

Martin D E Kriewaldt (Deputy Chairman)
BA, LLB (Hons), FAICD

Mr Kriewaldt is a partner in the law firm Allen Allen & Hemsley. He is Chairman of Infratil Australia Limited and a director of GWA International Limited and St Peters Lutheran College Foundation Limited. Age 48 resides Brisbane.

W Steven Jones (Managing Director)
MBA (Hons), BEcon

Mr Jones was Managing Director of the ANZ Banking Group (New Zealand) Limited from April 1995 to November 1996 and Senior General Manager, Retail Financial Services, ANZ Melbourne from 1993 to 1995. Previously with McKinsey and Co. he had significant experience consulting on strategy and merger management to large organisations. Age 46 resides Brisbane.

Rodney F Cormie
BCom, AAUQ, ASA, FSIA, FAICD

Mr Cormie is a director of Bligh Oil and Minerals NL, Bligh Ventures Limited, Buderim Ginger Limited, Magellan Petroleum Australia Limited and Techniche Limited. Age 65 resides Brisbane.

Patricia A Cross
BSc (Hons), FAICD

Mrs Cross was General Manager, Wholesale Banking and Finance for National Australia Bank Limited until her retirement in June 1996. She is a director of Collins Street Retailing Limited, Georges Melbourne Pty Ltd, the Transport Accident Commission of Victoria, and the Financial Sector Advisory Council and a member of the Companies and Securities Advisory Committee. Age 39 resides Melbourne.

Frank C B Haly AO
FCA, AAUQ

Mr Haly is a company director and a Chartered Accountant. He has practised in Townsville and Brisbane and is now a consultant to the Queensland office of Deloitte Touche Tohmatsu. Age 65 resides Brisbane.

James J Kennedy AO CBE
FCA, DUniv (QUT)

Mr Kennedy is a Chartered Accountant and is Chairman of Queensland Investment Corporation, Deputy Chairman of GWA International Limited and a director of Qantas Airways Limited, Australian Stock Exchange Ltd and Industrial Property Management Ltd. Age 64 resides Brisbane.

DIRECTORS (Continued)

John D Story
BA, LLB

Mr Story is the Queensland Chairman of Partners of the law firm Corrs Chambers Westgarth. He is a director of Grow Force Australia Limited, Jupiters Limited and Breakwater Island Limited and a member of the Companies and Securities Advisory Committee. Age 52 resides Brisbane.

Barry Thornton KSJ
FCA

Mr Thornton is Chairman of GWA International Limited, the Ports Corporation of Queensland, Brisbane Airport Corporation Limited and South Pacific Equities Ltd and a director of Stockland Corporation Limited. He is also Chairman of the Salvation Army Brisbane Advisory Board and a Trustee of the Leukemia Foundation. Age 58 resides Brisbane.

Board Changes

Mr James J Kennedy was appointed to the Board on 1 August 1997.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the course of the financial year were the provision of banking, insurance, superannuation and funds management products and services to the retail, corporate and commercial sectors. Many of the activities previously carried out through controlled entities are now carried out directly by the Company. There were no significant changes in the nature of the activities carried out by the economic entity during the year.

CONSOLIDATED RESULT

Consolidated operating profit before abnormal items and goodwill and after income tax for the year ended 30 June 1998 was $243 million (1997: $182 million). Consolidated operating profit after abnormal items, goodwill and income tax was $233 million (1997: $150 million).

	Consolidated 1998 $m	1997 $m
Operating profit before income tax, amortisation of goodwill and abnormal items	304	243
Income tax thereon	(61)	(61)
	243	182
Goodwill amortisation	(10)	(6)
	233	176
Abnormal items and tax thereon	-	(26)
Profit after tax, abnormal items and goodwill	233	150

The economic entity acquired the SUNCORP Insurance and Finance and QIDC Limited entities on 1 December 1996. Accordingly, the comparative consolidated profit and loss account for the year ended 30 June 1997 reflect one year's result for the parent entity and the former Metway Bank Limited entities and seven months for the SUNCORP Insurance and Finance and QIDC Limited entities.

REVIEW OF OPERATIONS

A review of the operations of the economic entity and the results of those operations are contained in pages 14 to 21 of the Annual Report and in the financial statements.

DIVIDENDS

Dividends paid and declared by the Company since the end of the previous financial year were:

Ordinary shares
As noted in last year's report, a fully franked 1997 final dividend of 22 cents per share, amounting to $42 million, was paid on 17 October 1997.

A fully franked 1998 interim dividend of 22 cents per share, amounting to $42 million, was paid on 6 April 1998.

Directors have declared a fully franked 1998 final dividend of 22 cents per share, amounting to $43 million, which will be paid on 16 October 1998.

The 100 million subordinated dividend shares issued to the State of Queensland on 1 December 1996 do not participate in any of the above dividends.

Converting preference shares Series 2
As noted in last year's report, a fully franked base dividend of 55.25 cents per share, amounting to $3 million, was paid on 15 September 1997 for the period 16 March 1997 to 15 September 1997.

A fully franked dividend of 55.25 cents per share, amounting to $3 million, for the period 16 September 1997 to 15 March 1998 was paid on 13 March 1998.

A fully franked dividend of 55.25 cents per share, amounting to $3 million, for the period 16 March 1998 to 15 September 1998 is payable on 15 September 1998.

Converting capital notes
As noted in last year's report, a distribution of 22.74 cents per note, amounting to $35 million, was paid on 30 September 1997 for the period 1 December 1996 to 30 June 1997.

A distribution of 39.15 cents per note, amounting to $61 million, for the period 1 July 1997 to 30 June 1998 is payable on 30 September 1998.

STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the economic entity that occurred during the financial year under review.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

Since the end of the financial year, the Company has entered into a Scheme of Arrangement with QIDC Limited, a wholly owned controlled entity, to facilitate the transfer of all the assets and liabilities of QIDC Limited to the Company from 1 July 1998. There has been no material effect on the affairs of the economic entity as a result of the completion of the Scheme. Details of the Scheme are set out in note 51.

Other than the above, 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 economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

LIKELY DEVELOPMENTS

Information as to the likely developments in the operations of the economic entity is set out in the Chairman's message on pages 4 to 9 of the Annual Report. Further information as to the likely developments in the operations of the economic entity and the expected results of those operations in subsequent financial years could, in the opinion of the directors, unreasonably prejudice the interests of the economic entity and has therefore not been included in this report.

INDEMNIFICATION

Under the Company's Articles of Association, 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 Articles stipulate 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 Law.

INSURANCE OF OFFICERS

Since the end of the previous financial year the Company has 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 Law) 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.

DIRECTORS' INTERESTS IN CONTRACTS

A number of directors have given written notice in accordance with Section 231(1) of the Corporations Law, stating that they hold office in specified entities and accordingly are to be regarded as having an interest in any contract or proposed contract that may be made between the Company and any of those entities.

DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the Company (including interests in Exchange Instalment Notes) as notified by the directors to the Securities Exchange in accordance with Section 235(1)(a) of the Corporations Law, at the date of this report is as follows:

	Fully Paid Ordinary Shares	Series 2 Preference Shares	Exchange Instalment Notes	Options over Ordinary Shares
R J Lamble	16,000	Nil	6,000	Nil
M D E Kriewaldt	11,900	Nil	Nil	Nil
W S Jones	100	Nil	25,000	2,000,000
R F Cormie	5,000	Nil	Nil	Nil
P A Cross	14,000	Nil	Nil	Nil
F C B Haly	173,116	Nil	20,000	Nil
J J Kennedy	1,000	Nil	115,000	Nil
J D Story	13,626	376	20,000	Nil
B Thornton	Nil	Nil	Nil	Nil

Exchange Instalment Notes are securities issued by the State of Queensland which will convert on 1 November 1999, entitling the holder of the notes to an equivalent number of ordinary shares in the Company.

DIRECTORS' BENEFITS

In accordance with Australian Securities Commission class order 97/2348, directors' benefits are set out in notes 43 and 44.

SHARE OPTIONS

During the financial year the Company granted options in respect of 1,369,000 ordinary shares for the benefit of executives under an Executive Option Plan. Details of the Executive Option Plan are set out in note 50. Total options unexercised at balance date are 3,369,000 (1997: 2,000,000).

The names of persons who currently hold options in the above scheme are entered in the register of options kept by the Company pursuant to Section 216C of the Corporations Law. The register may be inspected free of charge. Pursuant to Australian Securities Commission Class Order 97/1011, issued on 9 July 1997, the directors have taken advantage of relief available from the requirement to disclose the names of persons, not being directors, to whom options are issued and the number of options issued to each person.

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 and Compliance Committee		Investment Committee		Credit Committee		Chairman's Committee	
	A	B	A	B	A	B	A	B	A	B
R J Lamble	14	14			10	10			4	4
M D E Kriewaldt	14	14			10	10			4	4
W S Jones	14	13			10	7	13	10	4	4
R F Cormie	14	14			10	10	13	13		
P A Cross	14	12			10	9	13	11		
F C B Haly	14	14	24	23					4	4
J J Kennedy	13	13					11	8		
J D Story	14	13	24	23			13	11		
B Thornton	14	13	24	20			13	11		

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

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the Australian Securities Commission Class Order 97/1005. Consequently, amounts in this report and the accompanying consolidated financial statements have been rounded off to the nearest one million dollars unless otherwise indicated.

Signed on 26 August 1998 in accordance with a resolution of the directors.

R John Lamble AO
Chairman

W Steven Jones
Managing Director

		Consolidated		Company	
		1998	1997	1998	1997
	Note	$m	$m	$m	$m
Interest income	2	1,449	1,124	1,034	851
Interest expense	3	(854)	(710)	(687)	(595)
		595	414	347	256
General insurance premium revenue	2	703	387	-	-
Reinsurance and other recoveries revenue	2	68	66	-	-
Other operating income	2	263	247	373	115
Total operating income		1,629	1,114	720	371
Claims expense	5	(674)	(407)	-	-
Outwards reinsurance expense	6D	(39)	(23)	-	-
Other operating expenses		(551)	(419)	(488)	(246)
Total operating expenses		(1,264)	(849)	(488)	(246)
Operating profit before bad and doubtful debts expense, amortisation of goodwill, abnormal items and income tax		365	265	232	125
Bad and doubtful debts expense	4	(61)	(22)	(28)	(11)
Operating profit before amortisation of goodwill, abnormal items and income tax		304	243	204	114
Amortisation of goodwill	3	(10)	(6)	-	-
Operating profit before abnormal items and income tax		294	237	204	114
Abnormal items	9	-	(38)	-	(38)
Operating profit before income tax		294	199	204	76
Income tax (expense) benefit associated with Operating profit before abnormal items	10	(61)	(61)	(24)	(8)
Abnormal items	9	-	12	-	12
Income tax attributable to operating profit		(61)	(49)	(24)	4
Operating profit after income tax attributable to the members of the Company		233	150	180	80
Retained profits at the beginning of the financial year		90	57	25	62
Total available for appropriation		323	207	205	142
Dividends paid or provided	11	(152)	(117)	(152)	(117)
Retained profits at the end of the financial year		171	90	53	25
		Cents	**Cents**		
Basic earnings per share after abnormal items		56.66	47.07		
		Percent	**Percent**		
Payout ratio after abnormal items		65.24	78.00		

The Profit and Loss Accounts should be read in conjunction with the accompanying notes to and forming part of the financial statements set out on pages 40 to 98.

The economic entity acquired the SUNCORP Insurance and Finance and QIDC Limited entities on 1 December 1996. Accordingly, the comparative consolidated profit and loss account for the year ended 30 June 1997 reflects one year's result for the parent entity and the former Metway Bank Limited entities and seven months for the SUNCORP Insurance and Finance and QIDC Limited entities.

		Consolidated		Company	
		1998	1997	1998	1997
	Note	$m	$m	$m	$m
ASSETS					
Cash and short term liquid assets		424	701	201	447
Receivables due from other financial institutions		53	25	53	21
Trading securities	**13**	1,810	-	1,541	-
Investment securities	**14**	2,183	3,618	946	1,975
Loans, advances and other receivables	**15**	15,812	14,644	14,678	11,552
Statutory deposit with Reserve Bank of Australia		163	153	137	125
Property, plant and equipment	**18**	134	152	58	71
Unlisted investment in life insurance statutory funds	**19**	90	111	-	-
Intangible assets	**20**	184	194	-	-
Other assets	**21**	571	310	370	150
TOTAL ASSETS		21,424	19,908	17,984	14,341
LIABILITIES					
Deposits and short term borrowings	**22**	11,846	11,734	11,351	9,415
Payables due to other financial institutions		56	198	3	196
Accounts payable and other liabilities	**23**	449	431	319	201
Provisions	**24**	308	346	182	266
Outstanding claims and unearned premiums provisions	**25**	2,038	1,902	-	-
Bonds, notes and long term borrowings	**26**	4,449	3,098	4,085	2,247
Subordinated notes	**27**	463	463	354	354
TOTAL LIABILITIES		19,609	18,172	16,294	12,679
NET ASSETS		1,815	1,736	1,690	1,662
SHAREHOLDERS' EQUITY					
Share capital	**28**	149	149	149	149
Converting capital notes	**29**	697	697	697	697
Reserves	**30**	791	791	791	791
Retained profits		171	90	53	25
Shareholders' equity attributable to members of the Company		1,808	1,727	1,690	1,662
Outside equity interests in controlled entities		7	9	-	-
TOTAL SHAREHOLDERS' EQUITY		1,815	1,736	1,690	1,662
		$	**$**		
Net tangible asset backing per share		2.93	2.62		
Derivative financial instruments	**38**				
Contingent liabilities and credit commitments	**46**				

The Balance Sheets should be read in conjunction with the accompanying notes to and forming part of the financial statements set out on pages 40 to 98.

		Consolidated		Company	
		1998	1997	1998	1997
	Note	$m	$m	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		1,456	1,088	1,044	815
Dividends received		18	13	25	48
Premiums received		710	372	-	-
Reinsurance and other recoveries received		72	14	-	-
Other operating income received		285	136	267	55
Interest paid		(831)	(648)	(674)	(529)
Outwards reinsurance premiums paid		(39)	(23)	-	-
Claims paid		(538)	(297)	-	-
Operating expenses paid		(675)	(476)	(573)	(177)
Income taxes paid – operating activities		(43)	(23)	(4)	(17)
Net cash inflow (outflow) from operating activities	**31A**	415	156	85	195
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of controlled entities		-	(701)	-	(594)
Proceeds from disposal of controlled entity		-	32	5	-
Capital redemption from life insurance statutory funds		28	-	-	-
Pre-acquisition dividends from controlled entities		-	-	125	-
Proceeds from (payments for) plant and equipment		(24)	23	-	(3)
Net (purchase) disposal of banking securities		(696)	(520)	(577)	288
Net increase in loans, advances and other receivables		(1,229)	(1,595)	(3,138)	(2,412)
Lodgement of deposits with Reserve Bank of Australia		(10)	(59)	(12)	(31)
Purchase of investments integral to insurance activities		(4,187)	(3,729)	-	-
Proceeds from disposal of insurance investments		4,443	4,384	-	-
Net movement in other assets and liabilities		-	(88)	-	(92)
Income taxes paid – investing activities		(14)	-	-	-
Net cash (outflow) from investing activities		(1,689)	(2,253)	(3,597)	(2,844)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of converting capital notes	**29**	-	697	-	697
Proceeds from issues of share capital		-	2	-	2
Proceeds from subordinated notes		-	284	-	284
Repayment of subordinated notes		-	(17)	-	(17)
Net increase in deposits and other borrowings		1,292	1,109	3,616	1,672
Dividends paid		(125)	(59)	(125)	(59)
Net cash inflow from financing activities		1,167	2,016	3,491	2,579
NET INCREASE IN CASH AND CASH EQUIVALENTS		(107)	(81)	(21)	(70)
Cash at the beginning of the financial year		528	319	272	317
Cash balances acquired during the period		-	290	-	25
CASH AT THE END OF THE FINANCIAL YEAR	**31B**	421	528	251	272

The Statements of Cash Flows should be read in conjunction with the accompanying notes to and forming part of the financial statements set out on pages 40 to 98.

The economic entity acquired the SUNCORP Insurance and Finance and QIDC Limited entities on 1 December 1996. Accordingly, the comparative consolidated statement of cash flows for the year ended 30 June 1997 reflects one year's result for the parent entity and the former Metway Bank Limited entities and seven months for the SUNCORP Insurance and Finance and QIDC Limited entities.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies adopted in the preparation of these financial statements are:

(a) Basis of Preparation

SUNCORP~METWAY LTD ('the Company') is a prescribed corporation being a banking corporation in terms of the Banking Act, 1959 (as amended) and Section 408A of the Corporations Law. Financial statements prepared in compliance with the Banking Act are deemed to comply with the provisions of the Corporations Law relating to the preparation of financial statements.

The financial statements of the Company and the consolidated financial statements of the economic entity are general purpose financial reports which have been drawn up in accordance with the requirements of the Banking Act, Accounting Standards, the Corporations Law and other mandatory requirements. Except where otherwise stated, the consolidated financial statements have been prepared on the basis of historical costs and do not take into account changing money values.

The accounting policies adopted have been consistently applied by the entities in the economic entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

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.

(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the economic entity, being the Company and its controlled entities. The balances and effects of transactions between entities in the economic entity have been eliminated. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Where an entity either began or ceased to be controlled during the financial year its results are included in consolidated profit only from the date control commenced or up to the date control ceased.

The value of the economic entity's shareholder interest in life insurance statutory funds has been consolidated. Policy owners' interests in the assets of these funds do not form part of the assets to which the economic entity is entitled and are therefore excluded from consolidation.

Associates are entities over which the Company exerts significant influence but does not exercise control. Associates are accounted for using the cost method with only dividends received recognised in the profit and loss account. Equity accounting for associates is not adopted, as its impact on the economic entity is not considered material.

(c) Revenue Recognition – Banking activities

Interest income
Interest income is recognised as it accrues.

Non-interest income
Non-interest income comprises fees, commissions, profits on sale of assets and dividends.

Fees and commissions are generally taken to income in the financial year in which they are received. Material non-refundable front-end fees that are yield related and do not represent cost recovery are taken to profit and loss over the period of the loan.

Advisory fee income is assessed for each separate transaction and, pursuant to that assessment, is brought to account for that portion of the fee considered to be earned within the financial year.

Dividends from controlled entities are brought to account as they are provided for in the financial statements of the controlled entities. All other dividends are recognised as income when they are declared.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue Recognition – Insurance activities

General Insurance premium revenue

Direct premiums and inwards reinsurance premiums comprise amounts, including applicable levies and charges, charged to policyholders or other insurers. 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.

Economic entity's interest in earnings from life insurance statutory funds

Operating revenue includes the economic entity's interest in the earnings of life insurance statutory funds, calculated in accordance with Actuarial Standards and the Life Insurance Act 1995.

(e) Outwards reinsurance - General 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.

(f) Claims - General Insurance activities

Claims expenses and a liability for outstanding claims are recognised in respect of direct and inwards reinsurance business. The liability for outstanding claims includes claims reported but not yet paid, claims incurred but not yet reported (IBNR) and 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 relating to all classes are subject to internal and external actuarial assessment.

The liability for outstanding claims for long-tail classes 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. The liability for outstanding claims for short-tail business is not discounted as these claims are settled within a twelve month period after balance date.

The details of rates applied are included in note 25. These liabilities include appropriate prudential margins.

Claims expense includes claims discount expense, being the portion of the increase in liability for outstanding claims arising from the passage of time as the claim payments discounted in the prior year come closer to settlement.

(g) Reinsurance and other recoveries receivable - General Insurance activities

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, and IBNRs are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. 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 - General Insurance activities

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. A write-down to the recoverable amount is made when the present value of expected future claims in relation to business written to the reporting date exceeds related unearned premiums. Deferred acquisition costs are amortised over the periods expected to benefit from the expenditure, which is generally a 12 month period.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Foreign Currency

Transactions denominated in foreign currencies are translated to Australian dollars and brought to account at the exchange rates ruling at the dates of the transactions. All foreign currency assets and liabilities at balance date are translated at the rates of exchange current on that date. The resulting differences are recognised in the profit and loss account as exchange gains and losses.

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 profit and loss account. Costs or gains arising from hedges are deferred and amortised over the lives of the hedged positions. Where a foreign exchange hedge is terminated early and the anticipated transaction is still expected to occur, recognition of any gain or loss is deferred and included in the measurement of the final purchase or sale. Where the anticipated transaction is no longer expected to occur, any gain or loss on the terminated hedge transaction is included in the profit or loss for the period.

Gains and losses on translation of general insurance investments denominated in foreign currencies are recorded as a component of changes in the net market value of investments.

(j) Taxation

The economic entity adopts the liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. No future income tax benefit is brought to account in respect of the general provision for impairment.

Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(k) Interest bearing securities

Integral to banking activities

Trading securities are government and other debt securities which are purchased for sale in the day-to-day trading operations of the banking business. They are recorded at net market value by reference to market quotations. Realised profits and losses and unrealised profits and losses in respect of net market value adjustments are recognised immediately in the profit and loss account.

Investment securities are government and other debt securities which are purchased primarily with the intention and ability to hold until maturity. These securities are recorded at original cost adjusted for premium or discount amortisation and interest accrual. Premiums and discounts are amortised from the date of purchase so that the securities will be recorded at face value on maturity. The appropriate proportion of premiums and discounts is accounted for in the profit and loss account. Changes in the net market value of investment securities are not taken into account unless there is considered to be a permanent diminution in value.

From time to time, investment securities may be sold prior to maturity. In such circumstances profits and losses on sale are taken to the profit and loss account when realised.

Integral to insurance activities

Investment securities include government and other debt securities. These investments are stated at net market value at each balance date. Changes in net market values are recognised in the profit and loss account. Net market values are determined by reference to market quotations.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Other investment securities

Integral to general insurance activities

Investments include listed equities, units in property trusts and freehold land and buildings, whether wholly or partly owner occupied or fully leased. These investments are stated at net market value at each balance date. Changes in net market values are recognised in the profit and loss account.

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

Investment revenue is brought to account on an accruals basis.

Investment in life insurance statutory funds

The investment in the life insurance statutory funds represents the economic entity's capital and attributable retained earnings within the life insurance statutory funds. This is derived after calculating policy liabilities of the statutory funds using the Margin on Services method in accordance with Actuarial Standard AS1.01, issued by the Life Insurance Actuarial Standards Board.

(m) 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. Securities purchased under agreements to resell are recorded as receivables. Interest on amounts outstanding is accounted for on an accruals basis.

(n) Lease Receivables

Finance leases

Finance leases, in which the economic entity is the lessor, are included in loans, advances and other receivables in the balance sheet 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 profit and loss account 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 economic entity in leveraged leases are recorded at amounts equal to the equity participation, and included in loans, advances and other receivables in the balance sheet. Debt participants have no recourse to the economic entity in the event of default by the lessee.

(o) Impaired Assets

All loans and advances receivable are subject to continuous management review. The economic entity has adopted definitions of non-accrual and past due loans consistent with Prudential Statement No. L1 "Asset Quality" issued by the Australian Prudential Regulation Authority (formerly by the Reserve Bank of Australia).

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.

Interest ceases to be taken to profit when a loan is classified as non-accrual but is recorded in an interest reserved account in the balance sheet and offset against the gross loan balance.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Impaired Assets (Continued)

Cash inflows on non-accrual loans on which interest and/or principal payments are contractually past due are treated as a reduction of the carrying value of the loan which, net of specific provisions, represents the recoverable amount based on the anticipated future cash payments from the borrower.

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.

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.

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 profit and loss account.

(p) Property, Plant and Equipment

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

Revaluations
Land and buildings are independently valued at least every three years on an existing use basis and, at the discretion of the directors, included in the financial statements at no more than the revalued amounts. This is in addition to the annual review by directors to assess recoverable amounts referred to in note 1(a). Revaluation increments are credited directly to the asset revaluation reserve. Potential capital gains tax is not taken into account in determining revaluation amounts unless there is an intention to sell the assets concerned.

All other items of property, plant and equipment are carried at the lower of cost less accumulated depreciation and recoverable amount.

Depreciation and amortisation
The net cost or revalued amount of each item of property, plant and equipment, including buildings but excluding freehold land, is depreciated or amortised over its estimated useful life to the economic 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 works in progress, from the time an asset is completed and held ready for use.

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 %
Motor vehicles	15.0 %
Computer equipment	33.3 %
Other plant and office equipment	20.0 %

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Property, Plant and Equipment (Continued)

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 profit and loss account in the periods in which they are incurred.

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

Leasehold improvements

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

(q) Goodwill

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired 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. Where the balance exceeds the value of expected future benefits, the difference is charged to the profit and loss account.

(r) Other Assets

Deferred expenditure

Material 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 economic entity.

Franchise agreements

Franchise agreements are brought to account at the lower of cost or independent valuation. The value of agreements is reviewed annually in light of income generated and with knowledge of new and terminated agreements. Any amount representing benefits unlikely to be realised is charged to the profit and loss account.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Deposits and Borrowings

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

Deposits are carried at the principal amount outstanding. Interest expense on amounts outstanding is charged to the profit and loss account 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 profit and loss account.

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.

(t) Employee Entitlements

Wages, salaries and annual leave

Entitlements to wages, salaries and annual leave have been calculated at the nominal amounts based on current wage and salary rates and include related on-costs.

Long service leave

Entitlements to long service leave represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to balance date. That portion which is not expected to be settled within 12 months is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities. In determining the liability for long service leave entitlements, consideration has been given to future increases in wage and salary rates, and past experience with staff departures. Related on-costs are also included in the liability.

Sick leave

Sick leave entitlements are non-vesting and are only paid 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.

Superannuation

The economic entity contributes to both defined contribution and defined benefit superannuation schemes. Contributions are charged to the profit and loss account as the obligation to pay is incurred.

(u) Provision for Restructuring

A liability for restructuring costs is recognised at the date of acquisition of an entity or part thereof, to the extent that the costs arise as a consequence of restructuring the acquired activities, the economic entity is demonstrably committed to the restructuring, and a reliable estimate of the liability can be made.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Derivative Financial Instruments

Derivative financial instruments used by the economic entity are swaps, forwards, futures and options in the foreign exchange, interest rate and equity markets.

Banking activities

Instruments entered into for trading purposes are valued at prevailing market rates. Realised and unrealised profits and losses in respect of market value adjustments are recognised immediately in the profit and loss account.

Derivative financial instruments that are used to hedge underlying exposures are accounted for in a manner consistent with the accounting treatment of the respective exposures.

Gains and losses from the termination of derivative instruments designated as hedges of non-trading exposures, are deferred and amortised over the remaining life of the exposures. Where the underlying exposure is closed out, the derivatives are transferred to the trading book and gains and losses are recognised immediately in the profit and loss account.

Foreign exchange derivatives are entered into in order to hedge exchange rate risks arising from offshore borrowing. Interest rate derivatives are used either to hedge interest rate risks inherent in the business or as part of its trading activities within limits set by the Board of Directors.

Insurance activities

Derivative financial instruments integral to general insurance activities are stated at net market value and changes in net market values are recognised in the profit and loss account.

(w) Commitments to extend credit, letters of credit, guarantees, warranties and indemnities issued

These financial instruments 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 recorded as contingent liabilities at their face value.

(x) Comparative Figures

The economic entity acquired the SUNCORP Insurance and Finance and QIDC Limited entities on 1 December 1996. Accordingly, the comparative figures for the year ended 30 June 1997 reflect one year's result for the parent entity and the former Metway Bank Limited entities and seven months for the SUNCORP Insurance and Finance and QIDC Limited entities.

Disclosure of comparative information is not required in the first year of adoption of Australian Accounting Standards AASB1032 "Specific Disclosures by Financial Institutions" and AASB1033 "Presentation and Disclosure of Financial Instruments".

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 OPERATING REVENUE

	Consolidated		Company	
	1998	**1997**	**1998**	**1997**
	$m	**$m**	**$m**	**$m**
Interest received or due and receivable				
controlled entities	-	-	19	22
other persons	1,449	1,124	1,015	829
Dividends received or due and receivable				
controlled entities	-	-	104	48
other persons	18	13	2	-
Property income received or due and receivable	4	5	-	-
General insurance premium revenue				
direct	700	385	-	-
inwards reinsurance	3	2	-	-
Reinsurance and other recoveries revenue	68	66	-	-
Economic entity's interest in earnings of life insurance statutory funds	25	14	-	-
Changes in net market value of investments integral to insurance activities				
realised	24	27	-	-
unrealised	38	70	-	-
Trust distributions received or due and receivable	11	3	-	-
Net profits on trading securities	5	-	2	-
Net profits (losses) on derivative and other financial instruments				
realised	5	(1)	4	1
unrealised	(2)	2	(2)	-
Fees and commissions received or due and receivable				
controlled entities	-	-	174	12
other persons	127	102	85	50
Other income	8	12	4	4
Total operating revenue	2,483	1,824	1,407	966
Disclosed in the profit and loss account as:				
Interest income	1,449	1,124	1,034	851
General insurance premium revenue	703	387	-	-
Reinsurance and other recoveries revenue	68	66	-	-
Other operating income	263	247	373	115
Total operating income	2,483	1,824	1,407	966

3 OPERATING EXPENSES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Operating profit before abnormals and income tax for the year has been determined after charging the following items:				
Interest paid or due and payable				
controlled entities	-	-	25	-
other persons	854	710	662	595
Amounts set aside to provisions				
employee entitlements	10	15	-	15
directors' retirement benefits	1	1	1	1
outstanding claims	136	94	-	-
Operating lease rentals	42	17	34	11
Depreciation of property, plant and equipment	41	31	13	17
Loss on disposal of property, plant and equipment	1	1	-	1
Write-down in value of investment	-	-	1	1
Amortisation of goodwill	10	6	-	-

4 BAD AND DOUBTFUL DEBTS EXPENSE

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Banking activities				
Charge for bad and doubtful debts (note 17)				
general provision for impairment	13	11	15	8
specific provision for impairment	47	10	13	3
	60	21	28	11
Insurance activities				
Charge for bad and doubtful debts (note 17)				
specific provision for impairment	1	1	-	-
Total bad and doubtful debts expense	61	22	28	11

5 CLAIMS EXPENSE

	Consolidated 1998 $m	Consolidated 1997 $m
Direct	652	400
Inwards reinsurance	22	7
	674	407

Details of net incurred claims are as follows:

	1998 Current Year $m	1998 Prior Years $m	1998 Total $m	1997 Current Year $m	1997 Prior Years $m	1997 Total $m
Direct business						
Gross claims incurred and related expenses - undiscounted	794	(182)	612	412	(24)	388
Reinsurance and other recoveries - undiscounted	(59)	(5)	(64)	(52)	(17)	(69)
	735	(187)	548	360	(41)	319
Discount and discount movements - gross claims incurred	(111)	151	40	(57)	69	12
Discount and discount movements - reinsurance and other recoveries	4	(7)	(3)	5	(2)	3
	628	(43)	585	308	26	334
Inwards reinsurance business						
Gross claims incurred and related expenses - undiscounted			15			5
Reinsurance and other recoveries - undiscounted			5			(4)
			20			1
Discount and discount movements - gross claims incurred			7			2
Discount and discount movements - reinsurance and other recoveries			(6)			4
			21			7
Total net claims incurred			**606**			**341**

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 net claims incurred from prior years for direct business is primarily a result of the discount movement on prior year claims. In 1998 the impact of the discount expense caused by the passage of time has been compounded by a decrease of one percentage point in discount rates (1997 decrease of half a percentage point). The discount rate adjustment represents the decrease in the discount caused by the passage of time as the claims move one year closer to settlement.

6 SEGMENT INFORMATION

(A) INDUSTRY SEGMENTS

	Banking $m	General Insurance $m	Life Insurance $m	Other $m	Eliminations $m	Consolidated Total $m
1998 Financial Year						
Revenue outside the economic entity	1,450	976	34	23	-	2,483
Inter-segment revenue	29	12	11	12	(64)	-
Total revenue	1,479	988	45	35	(64)	2,483
Segment operating result before income tax, amortisation of goodwill and abnormal items	157	120	23	4	-	304
Segment assets	19,284	2,793	133	28	(814)	21,424
1997 Financial Year						
Revenue outside the economic entity	1,129	635	40	20	-	1,824
Inter-segment revenue	12	-	-	3	(15)	-
Total revenue	1,141	635	40	23	(15)	1,824
Segment operating result before income tax, amortisation of goodwill and abnormal items	117	109	13	4	-	243
Segment assets	18,041	2,713	180	25	(1,051)	19,908

The economic entity acquired the SUNCORP Insurance and Finance and QIDC Limited entities on 1 December 1996. Accordingly, the comparative segment results for the year ended 30 June 1997 reflect one year's result for the parent entity and the former Metway Bank Limited entities and seven months for the SUNCORP Insurance and Finance and QIDC Limited entities.

The above industry segments derive revenue from the following activities:

Banking	Banking, finance, merchant banking and other services.
General insurance	General insurance.
Life insurance	Economic entity's interest in life insurance statutory funds, investment of shareholder's funds and superannuation administration services.
Other	Funds management, financial planning, funds administration, and property management services.

(B) GEOGRAPHIC SEGMENTS

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

6 SEGMENT INFORMATION (Continued)

(C) CONTRIBUTION TO OPERATING PROFIT FROM BANKING ACTIVITIES

	Consolidated 1998 $m	Consolidated 1997 $m
Net interest income		
Interest income	1,338	1,065
Interest expense	(866)	(710)
	472	355
Other operating income		
Dividends received or due and receivable		
other persons	2	-
Net profits (losses) on trading and investment securities	5	1
Net profits (losses) on derivative and other financial instruments		
realised	5	(2)
unrealised	(2)	5
Fees and commissions received or due and receivable		
controlled entities	29	12
other persons	94	59
Other income	8	1
	141	76
Total operating income	613	431
Operating expenses		
Staff expenses	(212)	(138)
Occupancy expenses	(38)	(25)
Computer expenses	(51)	(32)
Fees and commissions expenses	(8)	(9)
Other operating expenses	(87)	(89)
	(396)	(293)
Net operating profit before bad and doubtful debts	217	138
Bad and doubtful debts expense (note 4)	(60)	(21)
Contribution to operating profit from banking activities	157	117

6 SEGMENT INFORMATION (Continued)

(D) CONTRIBUTION TO OPERATING PROFIT FROM GENERAL INSURANCE ACTIVITIES

	Consolidated 1998 $m	Consolidated 1997 $m
Net premium revenue		
Premium revenue	703	387
Outwards reinsurance expense	(39)	(23)
	664	364
Net incurred claims (note 5)		
Claims expense	(674)	(407)
Reinsurance and other recoveries revenue	68	66
	(606)	(341)
Operating expenses		
Acquisition costs	(62)	(33)
Other underwriting expenses	(86)	(56)
	(148)	(89)
Underwriting result	(90)	(66)
Investment revenue - Technical Reserves	165	108
Insurance trading result	75	42
Investment revenue - Shareholder Reserves		
Interest, dividends, rent, etc	25	20
Realised gains on investments	(3)	10
Unrealised gains on investments	26	42
Other revenue	4	2
Other expenses	(7)	(7)
	45	67
Contribution to operating profit from general insurance activities	120	109

6 SEGMENT INFORMATION (Continued)

(E) CONTRIBUTION TO OPERATING PROFIT FROM LIFE INSURANCE ACTIVITIES

	Consolidated 1998 $m	Consolidated 1997 $m
Economic entity's interest in earnings of life insurance statutory funds	25	14
Net investment revenue - realised	-	1
Other revenue	20	25
Other expenses	(22)	(27)
Contribution to operating profit from life insurance activities	23	13

(F) CONTRIBUTION TO OPERATING PROFIT FROM OTHER ACTIVITIES

	Consolidated 1998 $m	Consolidated 1997 $m
Other operating income	35	23
Other operating expenses	(31)	(19)
Contribution to operating profit from funds management activities	4	4

7 ASSETS AND LIABILITIES OF CONTROLLED NON-BANKING ENTITIES

The consolidated balance sheet of the economic entity has been prepared in accordance with AASB1032 "Specific Disclosures by Financial Institutions". In accordance with this standard, additional disclosures have been included in the notes to and forming part of the financial statements. These disclosures apply only in relation to the banking activities of the economic entity. The balance sheet can be dissected as follows:

	Consolidated 1998 $m	Consolidated 1997 $m
ASSETS		
Banking financial assets	18,235	16,500
Banking non-financial assets	439	490
Elimination of controlled entity's investment in banking products	(200)	-
Non-banking controlled entities' assets	2,950	2,918
	21,424	19,908
LIABILITIES		
Banking financial liabilities	17,338	15,728
Banking non-financial liabilities	248	224
Elimination of controlled entity's investment in banking products	(200)	-
Non-banking controlled entities' liabilities	2,223	2,220
	19,609	18,172
NET ASSETS	1,815	1,736

8 AVERAGE BALANCE SHEET AND MARGIN ANALYSIS

The table sets out the major categories of interest earning assets and interest bearing liabilities of the banking activities of the economic entity together with the respective interest earned or paid and the average interest rates. Interest earning assets in relation to non-banking activities have been excluded.

Average balances used are predominantly monthly averages. Non-accrual loans are included in interest earning assets under 'gross loans, advances and other receivables'.

	1998			1997		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
ASSETS						
Interest earning assets						
Trading securities	411	23	5.6	-	-	-
Investment securities	1,236	77	6.2	244	19	7.8
Gross loans, advances and other receivables	15,088	1,233	8.2	10,566	981	9.3
Statutory deposit with Reserve Bank of Australia	153	-	0.1	107	1	0.9
Other interest earning assets	132	5	3.8	954	64	6.7
Total interest earning assets	17,020	1,338	7.9	11,871	1,065	9.0
Non-interest earning assets						
Provision for impairment	(115)			(62)		
Property, plant and equipment	131			90		
Other assets	1,152			1,139		
Total non-interest earning assets	1,168			1,167		
TOTAL ASSETS	18,188			13,038		
LIABILITIES						
Interest bearing liabilities						
Deposits and short term borrowings	11,502	650	5.7	9,773	621	6.4
Bonds, notes and long term borrowings	3,764	181	4.8	1,181	72	6.1
Subordinated notes	465	35	7.5	218	17	7.8
Total interest bearing liabilities	15,731	866	5.5	11,172	710	6.4
Non-interest bearing liabilities						
Deposits and short term borrowings	246			112		
Other liabilities	461			280		
Total non-interest bearing liabilities	707			392		
TOTAL LIABILITIES	16,438			11,564		
NET ASSETS	1,750			1,474		
Analysis of interest margin and spread						
Interest earning assets	17,020	1,338	7.9	11,871	1,065	9.0
Interest bearing liabilities	15,731	866	5.5	11,172	710	6.4
Net interest spread			2.4			2.6
Net interest margin	17,020	472	2.8	11,871	355	3.0

	Consolidated		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m

9 ABNORMAL ITEMS

Restructuring costs - banking activities	-	38	-	38
Income tax effect	-	(12)	-	(12)
	-	26	-	26

The costs charged to the profit and loss account consisted of write-down of banking systems and other restructuring costs.

10 TAXATION

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Income tax expense				
Prima facie income tax expense calculated at 36% (1997: 36%) on operating profit before income tax	106	72	73	27
Increase in income tax expense due to				
Non-deductible expenditure	12	7	11	5
Non-deductible write-down	2	15	-	12
Pre-acquisition dividend income	-	-	44	-
Goodwill amortisation	4	2	-	-
Decrease in income tax expense due to				
Payments from restructuring provision	-	-	-	(4)
Non-assessable income	(12)	(6)	(19)	(9)
Distribution on converting capital notes (note 29)	(22)	(13)	(22)	(13)
Transition to Commonwealth tax regime	-	(12)	-	-
Dividend rebates	(6)	(1)	(63)	(8)
Future income tax benefits not previously brought to account	(16)	-	-	-
Other	-	(4)	-	(3)
Income tax expense on operating profit	68	60	24	7
Under (over) provision in prior year	(7)	1	-	1
Income tax expense attributable to operating profit before abnormal items	61	61	24	8
Income tax benefit attributable to abnormal items (note 9)	-	(12)	-	(12)
Income tax expense (benefit) attributable to operating profit	61	49	24	(4)
Total income tax expense is made up of				
Current income tax provision	64	34	2	8
Deferred income tax provision	4	55	11	-
Future income tax benefit	(7)	(40)	26	(12)
Transfer of future income tax benefit to controlled entity	-	-	(15)	-
	61	49	24	(4)

The future income tax benefits not previously brought to account are in relation to movements in market values of investments integral to insurance activities and other merger related items associated with the transition to Commonwealth tax regime.

10 TAXATION (Continued)

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Provision for current income tax (note 24)				
Balance at the beginning of the financial year	21	10	-	9
Income tax paid	(57)	(23)	(4)	(17)
Under provision in prior year	5	1	-	1
Current year's income tax expense on operating profit	59	33	2	7
	28	21	(2)	-
Provision for deferred income tax (note 24)				
Provision for deferred income tax comprises:				
Difference in depreciation for accounting and income tax purposes	4	-	-	-
Leveraged leases	15	15	15	15
Lease finance	12	7	11	7
Research and development	1	-	-	-
Expenditure currently deductible but deferred and amortised for accounting purposes	13	32	5	4
Income not currently assessable for tax purposes	38	50	11	5
	83	104	42	31
Future income tax benefit (note 21)				
Future income tax benefit comprises:				
Income currently assessable but deferred for accounting purposes	20	10	6	-
Difference in depreciation for accounting and income tax purposes	-	-	3	-
Provision for specific impairment	8	9	1	1
Other provisions and accrued expenses	68	54	15	28
Lease finance	4	6	-	-
Merger restructure provision	9	31	9	31
Tax losses	15	20	-	-
	124	130	34	60

The potential future income tax benefit in relation to tax losses will only be obtained if:

(i) the relevant company or economic entity derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the economic entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant company or economic entity continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the relevant company or economic entity in realising the benefit.

11 DIVIDENDS

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Ordinary shares				
Fully franked interim dividend paid	42	32	42	32
Fully franked final dividend provided (note 24)	43	42	43	42
Preference shares Series 1				
Current year charge in respect of fully franked base dividend paid	-	1	-	1
Fully franked supplementary dividend paid	-	1	-	1
Preference shares Series 2				
Current year charge in respect of fully franked base dividend paid	2	2	2	2
Fully franked base dividend paid	3	3	3	3
Current year charge in respect of fully franked base dividend provided (note 24)	1	1	1	1
Converting capital notes				
Distribution provided (note 24)	61	35	61	35
	152	117	152	117

The converting capital note distribution is deductible for taxation purposes. It carries no imputation credits. Preference shares Series 1 were converted to ordinary shares on 25 November 1996.

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Franking credits				
The amount of dividends that would be fully franked at the 36% corporate tax rate after allowing for all tax payable in respect of the current year's profits and the payment of the proposed dividends	56	2	(49)	(41)
Franking credits in respect of dividends receivable from controlled entities	-	-	55	26
	56	2	6	(15)

At balance date neither the Company nor any of its controlled entities had a franking account deficit as defined in the Income Tax Assessment Act 1997. There are franking credits available for the subsequent financial year in the Company's controlled entities. These credits are available to frank dividends which upon receipt by the Company will increase its franking account balance to equal the amount shown above as the consolidated balance.

Based on current estimates and assumptions, the Company expects to pay fully franked dividends at current levels for the next 12 months. This is subject to the subordinated dividend shares not ranking for dividend payments and no unenvisaged conversion of capital notes to ordinary shares.

12 EARNINGS PER SHARE

	Consolidated	
	1998	**1997**
	Cents	**Cents**
Basic earnings per share before abnormal items	56.66	58.40
Diluted earnings per share before abnormal items	45.83	49.01
Basic earnings per share after abnormal items	56.66	47.07
Diluted earnings per share after abnormal items	45.83	41.23

	Number of shares	
	1998	**1997**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	292,356,991	229,461,982
Weighted average number of potential ordinary shares relating to:		
Options on ordinary shares	2,979,745	500,000
Partly paid ordinary shares	166,150	575,427
Preference shares	10,130,974	14,303,409
Converting capital notes	155,000,000	89,602,740
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	460,633,860	334,443,558

As required by Accounting Standard AASB1027: "Earnings per Share", the weighted average number of shares used to calculate basic and diluted earnings per share have been adjusted for subsequent issues of ordinary shares.

Conversion, call, subscription or issue after 30 June 1998

From 1 July 1998 to the date of signing these financial statements, 356,830 partly paid ordinary shares have been converted to fully paid.

13 TRADING SECURITIES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Integral to banking activities				
Interest bearing securities at net market value				
Government and semi-government securities	622	-	518	-
Bank bills and certificates of deposits	1,050	-	902	-
Other interest bearing securities	138	-	121	-
Total trading securities	1,810	-	1,541	-

14 INVESTMENT SECURITIES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Integral to banking activities				
Interest bearing securities at amortised cost				
Government and semi-government securities	-	20	-	20
Bank bills and certificates of deposits	-	1,031	-	879
Other interest bearing securities	2	65	2	57
	2	1,116	2	956
Other investments at cost				
Controlled entities (note 40)	-	-	943	1,009
Listed shares (market value $Nil, 1997 $10m)	-	10	-	10
Other companies	1	1	1	-
	1	11	944	1,019
Integral to insurance activities				
Interest bearing securities at net market value				
Government and semi-government securities	1,189	1,000	-	-
Bank bills, certificates of deposit and other short term negotiable securities	230	557	-	-
Other interest bearing securities	71	165	-	-
	1,490	1,722	-	-
Other investments at net market value				
Listed shares	464	551	-	-
Freehold land and buildings	114	95	-	-
Property trusts	112	123	-	-
	690	769	-	-
Total investment securities	2,183	3,618	946	1,975
Market value of interest bearing investment securities integral to banking activities	2	1,116	2	956

On 1 April 1998 the interest bearing securities integral to banking activities were reclassified from investment securities to trading securities which did not result in any material adjustment to the profit and loss account.

15 LOANS, ADVANCES AND OTHER RECEIVABLES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Integral to banking activities				
Housing loans	8,287	7,572	8,172	7,469
Commercial loans	5,261	4,827	2,277	1,447
Lease finance	1,532	1,218	1,090	785
Structured finance	67	19	21	15
Consumer receivables	645	438	491	302
Securities under sellback arrangements	-	439	-	439
Other receivables				
controlled entities	-	-	2,676	983
other persons	20	59	20	158
	15,812	14,572	14,747	11,598
Provision for impairment (note 17)	(133)	(98)	(69)	(46)
	15,679	14,474	14,678	11,552
Integral to insurance activities				
Premiums outstanding	51	56	-	-
Provision for lapses	(8)	(7)	-	-
Provision for impairment (note 17)	(1)	(1)	-	-
	42	48	-	-
Investment revenue receivable	11	8	-	-
Insurance recoveries and other receivables	92	125	-	-
Provision for impairment (note 17)	(12)	(11)	-	-
	133	170	-	-
Total loans, advances and other receivables	15,812	14,644	14,678	11,552

16 IMPAIRED ASSETS

	Consolidated 1998 $m	Company 1998 $m
Integral to banking activities		
Non-accrual loans		
Gross balances		
with specific provisions set aside	113	19
without specific provisions set aside	56	23
	169	42
Interest reserved	(13)	(2)
Net balances	156	40
Specific provision for impairment (note 17)	(57)	(12)
Net non-accrual loans	99	28
Details of size of gross non-accrual loans		
Less than one million	52	23
Greater than one million but less than ten million	86	19
Greater than ten million	31	-
	169	42
Past due loans not shown as impaired assets		
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognised in the profit and loss account. The value of past due loans is	97	32
Interest income forgone on impaired assets		
Net interest charged but not recognised as revenue in the profit and loss account during the financial year was	3	3
Interest income on impaired assets recognised in the profit and loss account		
Net interest charged and recognised as revenue in the profit and loss account during the financial year was	12	5
Analysis of movements in impaired assets		
Balance at the beginning of the financial year	158	24
Recognition of new impaired assets and increases in previously recognised impaired assets	130	48
Impaired assets written off during the financial year	(26)	(5)
Impaired assets which have been restated as performing assets	(93)	(25)
Balance at the end of the financial year	169	42

Disclosure of comparative information is not required in the first year of adoption of Australian Accounting Standards AASB1032 “Specific Disclosures by Financial Institutions” and AASB1033 “Presentation and Disclosure of Financial Instruments”.

17 PROVISIONS FOR IMPAIRMENT

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Integral to banking activities				
General provision				
Balance at the beginning of the financial year	63	26	42	26
Acquired during the financial year	-	26	-	8
Charge against the profit and loss account	13	11	15	8
Balance at the end of the financial year	76	63	57	42
Specific provision				
Balance at the beginning of the financial year	35	2	4	2
Acquired during the financial year	-	31	-	2
Charge against the profit and loss account				
New and increased provisions	64	10	15	3
Write-back of provisions no longer required	(17)	-	(2)	-
Bad debts recovered	2	1	1	-
Bad debts written-off	(27)	(9)	(6)	(3)
Balance at the end of the financial year	57	35	12	4
Total provision for impairment - banking activities	133	98	69	46

	Consolidated 1998 %	Company 1998 %
The provisions for impairment expressed as a percentage of gross impaired assets less interest reserved are as follows:		
Specific provision	36.5%	30.0%
Total provision	85.3%	172.5%
General provision expressed as a percentage of risk weighted assets	0.5%	0.5%

	1998 $m	1997 $m
Integral to insurance activities		
General provision		
Balance at the beginning of the financial year	3	-
Acquired during the financial year	-	3
Balance at the end of the financial year	3	3
Specific provision		
Balance at the beginning of the financial year	9	-
Acquired during the financial year	-	8
Charge against the profit and loss account	1	1
Balance at the end of the financial year	10	9
Total provision for impairment - insurance activities	13	12

18 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Property				
Land				
Freehold land at cost	-	9	-	-
Directors' valuation (1998)	17	-	4	-
Directors' valuation (1995)	-	4	-	4
	17	13	4	4
Buildings				
At cost	-	17	-	-
Directors' valuation (1998)	54	-	38	-
Directors' valuation (1995)	-	55	-	54
Independent valuation (1995)	-	2	-	1
	54	74	38	55
Accumulated depreciation	-	(12)	-	(12)
	54	62	38	43
Leasehold improvements at cost	21	18	11	11
Accumulated amortisation	(14)	(7)	(8)	(7)
	7	11	3	4
Total property	78	86	45	51
Plant and equipment				
Computer and office equipment, furniture and fittings and motor vehicles at cost	149	138	64	70
Accumulated depreciation	(93)	(72)	(51)	(50)
Total plant and equipment	56	66	13	20
Total property, plant and equipment	134	152	58	71

The directors' valuation was carried out as at 30 June 1998 and was on the basis of the open market value of the properties concerned in their existing use. The valuation established by the directors does not exceed independent valuations of freehold land and buildings obtained at that date. No material adjustments have been taken to the asset revaluation reserve.

19 UNLISTED INVESTMENT IN LIFE INSURANCE STATUTORY FUNDS

	Consolidated 1998 $m	Consolidated 1997 $m
Economic entity's interest in capital and retained earnings of life insurance statutory funds (note 42)	90	111

The retained earnings of the life insurance statutory funds are calculated and allocated between policy owners and the shareholder in accordance with the requirements of the Life Insurance Act 1995, Australian Prudential Regulation Authority's Rules and applicable Actuarial Standards (refer note 1(l)).

The economic entity's interest in the capital and retained earnings of the life insurance statutory funds is based on an actuarial valuation of policy owners' liabilities performed by Rowan Ward, B.Sc. FIAA, Appointed Actuary. Distributions are subject to the restrictions imposed by the Life Insurance Act 1995.

20 INTANGIBLE ASSETS

	Consolidated 1998 $m	Consolidated 1997 $m
Goodwill	200	200
Accumulated amortisation	(16)	(6)
Total intangible assets	184	194

21 OTHER ASSETS

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Accrued interest receivable	67	74	32	42
Prepayments	16	14	9	6
Deferred expenditure	17	19	11	6
Deferred acquisition costs on general insurance policies	22	22	-	-
Franchise agreements - at cost	4	4	-	-
Franchise agreements - at independent valuation 1996	10	10	-	-
Future income tax benefit (note 10)	124	130	34	60
Unrealised gains on derivative hedging positions (note 38)	269	30	269	30
Sundry assets	42	7	15	6
Total other assets	571	310	370	150

The independent valuation of franchise agreements was carried out as at 1 December 1996 by Deloitte & Associates. Directors are of the opinion that this valuation provides a reasonable estimate of recoverable amounts.

22 DEPOSITS AND SHORT TERM BORROWINGS

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Unsecured				
Call deposits	3,455	3,445	3,599	3,367
Term deposits	4,674	4,295	4,385	3,977
Short term securities issued	3,581	3,675	3,332	1,897
Offshore borrowings	35	174	35	174
	11,745	11,589	11,351	9,415
Secured				
Call deposits	-	35	-	-
Short term securities issued	101	110	-	-
	101	145	-	-
Total deposits and short term borrowings	11,846	11,734	11,351	9,415

The deposits and short term securities are secured by charges over various assets of certain controlled entities.

23 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Unpresented bank cheques	138	68	138	57
Accrued interest payable	129	106	108	95
Sundry creditors and accrued expenses	182	257	68	49
Amounts due to controlled entities	-	-	5	-
Total accounts payable and other liabilities	449	431	319	201

24 PROVISIONS

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Employee entitlements	37	48	-	47
Directors' retirement benefits	2	1	2	1
Restructuring	30	88	30	88
Current income tax (note 10)	28	21	(2)	-
Deferred income tax (note 10)	83	104	42	31
Dividends and distributions (note 11)	105	78	105	78
Other	23	6	5	21
Total provisions	308	346	182	266

The restructuring provision consists of costs to be incurred in restructuring the former SUNCORP Insurance and Finance and QIDC Limited entities acquired, including systems amalgamation, termination of surplus leased premises, staff redundancies and consultancy.

25 OUTSTANDING CLAIMS AND UNEARNED PREMIUMS PROVISIONS

	Consolidated 1998 $m	Consolidated 1997 $m
Outstanding claims	1,678	1,542
Unearned premiums	360	360
Total outstanding claims and unearned premiums provisions	2,038	1,902
Outstanding claims provision		
Expected future claims (undiscounted)	2,071	1,982
Discount to present value	(393)	(440)
Liability for outstanding claims	1,678	1,542
Current	395	328
Non-current	1,283	1,214
	1,678	1,542

Inflation and Discount Rates

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

	1998 %	1997 %
For the succeeding and subsequent years		
Inflation rate	4.5 - 9.7	4.5 - 9.5
Discount rate	5.1 - 5.9	5.5 - 8.1

Term to Settlement

The portfolio is weighted towards long-tail business whereby claims are expected to be settled progressively over approximately 20 years. The weighted average expected term to settlement of the outstanding claims from the balance date is estimated to be 3.7 years (1997: 3.7 years).

26 BONDS, NOTES AND LONG TERM BORROWINGS

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Secured				
Long term securities issued	276	518	-	-
Unsecured				
Long term securities issued	2,090	1,386	2,002	1,323
Other long term borrowings	-	270	-	-
Offshore	2,083	924	2,083	924
	4,173	2,580	4,085	2,247
Total bonds, notes and long term borrowings	4,449	3,098	4,085	2,247

The long term securities issued are secured by charges over various assets of certain controlled entities.

27 SUBORDINATED NOTES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Floating rate notes due December 1998	5	5	5	5
Fixed rate notes due December 2003	55	55	55	55
Floating rate notes due December 2004	10	10	10	10
Fixed rate notes due October 2005	53	53	-	-
Fixed rate notes due August 2006	56	56	-	-
Fixed rate notes due November 2006	284	284	284	284
Total subordinated notes	463	463	354	354

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

In respect of notes issued by the Company, 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 respect of notes issued by a controlled entity, payments of principal and interest on the notes will only be payable to the extent that, after such payment, the controlled entity remains solvent.

In line with the Australian Prudential Regulation Authority's capital adequacy measurement rules, amounts of subordinated notes included in tier two capital have been reduced by 20 percent for each of their last five years to maturity.

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
The subordinated notes are represented as:				
Qualifying tier two capital	459	460	350	351
Non-qualifying	4	3	4	3
	463	463	354	354

28 SHARE CAPITAL

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Issued and Paid-up				
192,280,137 ordinary shares of 50 cents each fully paid (1997: 191,923,307)	96	96	96	96
Nil ordinary shares of 50 cents each 47 cents partly paid (1997: 198,230)	-	-	-	-
36,600 ordinary shares of 50 cents each 45 cents partly paid (1997: 82,650)	-	-	-	-
169,950 ordinary shares of 50 cents each 44 cents partly paid (1997: Nil)	-	-	-	-
Nil ordinary shares of 50 cents each 40 cents partly paid (1997: 246,900)	-	-	-	-
124,050 ordinary shares of 50 cents each 5 cents partly paid (1997: 159,650)	-	-	-	-
100,000,000 subordinated dividend ordinary shares of 50 cents each fully paid (1997: 100,000,000)	50	50	50	50
5,455,140 non-redeemable non-cumulative converting preference shares (Series 2) of 50 cents fully paid (1997: 5,455,140)	3	3	3	3
2,000 non-participating shares of 50 cents each fully paid (1997: 2,000)	-	-	-	-
	149	149	149	149
Movements During the Year				
Balance at the beginning of the financial year	149	73	149	73
Issues to the State of Queensland				
Fully paid ordinary shares	-	21	-	21
Fully paid subordinated dividend ordinary shares	-	50	-	50
Conversion of Series 1 preference shares	-	4	-	4
Employee share acquisition scheme				
Conversion of partly paid ordinary shares to fully paid ordinary shares	-	1	-	1
Balance at the end of the financial year	149	149	149	149

Details concerning the above movements are as follows:

Description	Share Type	No. of Shares	Paid up Capital
Partly paid shares converted to fully paid	Ordinary	356,830	0.05 (Average)
Calls on partly paid shares	Ordinary	388,010	0.05 (Average)

28 SHARE CAPITAL (Continued)

Preference Shares Series 2 are convertible at the discretion of the directors of the Company to fully paid ordinary shares in the Company at the lesser of $7.00 or a discount of 7.5 percent to the then market price of ordinary shares, at any time between 17 October 1999 and 17 October 2000.

The issue of shares to the State of Queensland occurred pursuant to the State Financial Institutions and Metway Merger Facilitation Act 1996 and merger agreements between the Company and the State in relation to the merger of the Company and its former Metway entities with the SUNCORP Insurance and Finance and QIDC Limited entities.

The subordinated dividend ordinary shares rank behind other ordinary shares in respect of dividends declared by the Board for the financial years ending 30 June 1998 and 1999. Any dividends declared by the Board will first be applied to ordinary shares to the extent of 44 cents. Any dividends declared above these levels will be applied firstly to the subordinated dividend shares, to the extent of 44 cents, and then equally to all ordinary shares. After declaration of the final dividend for the 1999 financial year, the subordinated dividend ordinary shares will rank equally for dividends with all other ordinary shares on issue.

The calls on, and conversion of, partly paid shares were in accordance with the employee share acquisition scheme under which they were issued.

29 CONVERTING CAPITAL NOTES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
155,000,000 converting capital notes of $4.50 each fully paid (1997: 155,000,000)	697	697	697	697

On 1 December 1996, the Company issued converting capital notes to Queensland Treasury Holdings Pty Ltd on behalf of the State of Queensland. The notes mature on 30 November 2006. Subject to certain conditions, the notes can be converted into fully paid ordinary shares, on the basis of one ordinary share for each note, at any point in time until maturity. The State has agreed to convert all outstanding notes should its shareholding of the Company's ordinary share capital fall below 15 percent, or in any event, according to the following schedule:

- by 1 December 1999 - to have converted at least 20 percent of notes issued.
- by 1 December 2000 - to have converted at least 60 percent of notes issued.
- by 29 November 2006 - to have converted all remaining notes.

Distributions are payable on the notes at a fixed rate of 8.7 percent per annum and are brought to account on an accruals basis. A binding private ruling has been received from the Australian Taxation Office confirming that the distributions are deductible for taxation purposes. The effective after tax funding cost of the distributions for the year is represented as follows:

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Distributions (note 11)	61	35	61	35
Income tax benefit (note 10)	22	13	22	13
	39	22	39	22

30 RESERVES

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Share premium reserve	770	770	770	770
Preconversion reserve	13	13	13	13
Asset revaluation reserve	8	8	8	8
	791	791	791	791
Share premium reserve				
Balance at the beginning of the financial year	770	252	770	252
Conversion of converting preference shares Series 1 to ordinary shares	-	(4)	-	(4)
Fully paid ordinary shares and subordinated dividend shares issued	-	521	-	521
Partly paid ordinary shares paid up	-	1	-	1
Balance at the end of the financial year	770	770	770	770

Preconversion reserve

Metropolitan Permanent Building Society
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.

SUNCORP Building Society
On 30 September 1993, SUNCORP Building Society established a scheme for the conversion of withdrawable shares to deposits. An amount equal to half the sum shown as retained profits and reserves in the Building Society's balance sheet as at that date was determined as being payable to the then members of the Building Society under specified conditions. The amount specifically determined was $48 million and reduced by 20 percent at 30 June each year reducing to $Nil on 30 June 1998. The balance at 30 June 1997 was $10 million. Due to its nature no amount was specifically set aside to the preconversion reserve.

31 CASH FLOW INFORMATION

(A) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Operating profit after income tax	233	150	180	80
Classified as investing activities				
Income tax paid - investing activities	14	-	-	-
Non-cash items				
Amortisation				
Goodwill	10	6	-	-
Other	-	1	-	-
Write-down in value of non-current assets to recoverable amount	-	23	-	-
Change in market value of trading securities	3	-	-	-
Change in market value of investments	62	(97)	-	-
Economic entity's interest in earnings of life insurance statutory funds	(25)	(14)	-	-
Bad and doubtful debts expense	61	22	28	11
Depreciation and loss on disposal of property, plant and equipment	42	32	13	18
Change in assets and liabilities				
Net movement in tax balances	(8)	26	36	(20)
(Increase) decrease in accrued interest receivable	7	(37)	10	(36)
(Increase) in prepayments and deferred expenses	-	(26)	(8)	-
(Increase) in receivables and other assets	(17)	(65)	(90)	-
Increase in accrued interest payable	23	62	13	66
Increase (decrease) in sundry creditors and other liabilities	(75)	(44)	24	17
Increase in outstanding claims provisions	136	94	-	-
Increase in unearned premiums provisions	-	28	-	-
Increase (decrease) in other provisions	(51)	(5)	(121)	59
Net cash inflow (outflow) from operating activities	415	156	85	195

(B) RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to the related items in the balance sheets as follows:

	Consolidated 1998 $m	Consolidated 1997 $m	Company 1998 $m	Company 1997 $m
Cash and short term liquid assets	424	701	201	447
Receivables due from other financial institutions	53	25	53	21
Payables due to other financial institutions	(56)	(198)	(3)	(196)
	421	528	251	272

32 FINANCING ARRANGEMENTS

	1998 Available $m	1998 Unused $m	1997 Available $m	1997 Unused $m
Financing arrangements which are available to the economic entity (under normal financing arrangements)				
Standby facility	250	250	800	800
Securities purchase line facility	1,804	139	3,000	958
Bank overdraft	1	-	2	2
	2,055	389	3,802	1,760
Financing arrangements which have been made available by controlled entities registered under the Financial Corporations Act (Australia) 1974 (contractually arranged for each client)				
Loan and lease facilities	943		1,230	

The standby facility is only available to the Company. The securities purchase line facility is available to the Company, QIDC Limited and Suncorp Finance Limited.

33 RISK MANAGEMENT

GENERAL FRAMEWORK

Management of risk throughout the economic entity is through a system of delegated limits. These limits govern the maximum amount and type of risk that can be assumed, severally by units within the economic entity and by the economic entity as a whole. The limits are delegated from the Board of Directors to executive management and then to relationship, investment and risk managers.

The risk management framework includes policies and procedures which detail a formal feedback process to the Audit, Business Risk and Compliance sub-committee of the Board, the Credit sub-committee of the Board and the Investment sub-committee of the Board. These sub-committees are responsible for ensuring the economic entity has appropriate systems and policies and procedures to measure, monitor and report on risk management.

Feedback to Board sub-committees and Executive Committees is supported by regular reporting and compliance monitoring from the independent compliance and risk management areas of the economic entity such as Credit Bureau, Investment Compliance and Risk Management, Financial Markets Risk Management, Operational Risk Management and Internal Audit.

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 economic entity has sufficient funds available to meet all its known and potential commitments.

Banking activities
Liquidity risk arises from mismatches in the cash flows from financial transactions
or the inability of financial markets to absorb the transactions of the economic entity. The banking entities meet the Prime Assets Ratio requirements for liquidity established by the Australian Prudential Regulation Authority (formerly by the Reserve Bank of Australia) and are in the process of conforming with the new liquidity requirements which will be introduced during the 1999 financial year.

33 RISK MANAGEMENT (Continued)

LIQUIDITY RISK (Continued)

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

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. The technical reserves include prudential margins on outstanding claims. Investment funds are set aside within the investment portfolios in support of these reserves, thereby ensuring the adequacy of investment portfolios to accommodate significant claim payment obligations. In addition, under the terms of the economic entity's reinsurance arrangements, immediate access to cash is available in the event of a major catastrophe.

The economic entity maintains a level of solvency in excess of the statutory requirements imposed by the Australian Prudential Regulation Authority (formerly by the Insurance and Superannuation Commission). The level of solvency adopted reflects the significant long-tail liabilities on the economic entity's balance sheet in relation to the Queensland Compulsory Third Party business.

CREDIT RISK

Credit Risk is the likelihood of future financial loss resulting from the failure of clients or counter-parties to meet contractual payment obligations to the economic entity as they fall due.

Banking activities
Credit risk is measured through a combination of an assessment of individual exposures which have been identified through repayment performance, reviews or market intelligence and the application of statistical techniques.

Comprehensive credit standards have been formulated, approved by the Credit sub-committee of the Board and implemented, ensuring consistency in the identification of asset quality throughout the various banking activities of the economic entity. The nature of credit risk varies between Business Banking and Retail Banking activities and is therefore managed differently.

Business Banking
The consolidated Credit Standards and Lending Policies are the foundation of credit risk management within Business Banking operations. The credit policies codify the standards for acceptance of new and additional applications. They are consistent with the strategic and performance objectives of Business Banking.

Retail Banking
The separate credit policies for Retail Banking in place for SUNCORP and Metway brands are being brought into line and progressively refined by Group Credit in conjunction with Retail Lending operational management.

Credit Management Structure
Group Credit department manages the group credit risk accepted by the economic entity. The department comprises Credit Bureau, Credit Management, Credit Policy, Credit Review, Portfolio Strategy and Retail Lending Services.

The Credit Bureau, Credit Review and Credit Management teams comprise the Watch Loans Committee. This committee oversees those exposures which, although still managed within the business units, have the potential to migrate to the status of delinquent.

Credit Management area is responsible for Business Banking and Retail Banking collections. This includes Secured Asset Management which manages advanced problem loans, workouts, receiverships and enforcements. All Impaired Assets are managed within the Credit Management area.

33 RISK MANAGEMENT (Continued)

CREDIT RISK (Continued)

Credit Approval Authority
Each operational unit has discretion to approve proposals as prescribed in the Credit Policy. All staff involved with lending discretion are required to obtain appropriate accreditation, which requires them to have demonstrated a thorough knowledge and understanding of the Credit Standards through formal assessments.

Credit Bureau manages the approval of all Business Banking exposure up to delegated limits. This includes approvals for new applications and any material post-settlement conditions. In addition, Credit Review conducts periodic reviews according to the provisions of the Credit Policy. The Executive Credit Committee handles approval of exposures for the next level of limits.

The Credit Board sub-committee is the highest credit authority below the full 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.

Loan Grading System
The Company has designed and implemented a loan grading system for the Business Banking portfolios. The system produces an assessment of asset quality which measures the probability of default and a security ratio which estimates the severity of loss 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 economic entity level.

Details of credit risk concentrations by industry for each of the major asset types are set out in note 34.

Insurance activities
Credit risk occurs as a result of reinsurance arrangements and investment in financial instruments.

The economic 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.

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 counter-parties have appropriate credit ratings and exposures to individual companies are limited. In addition, any exposures to a single company or group which exceed five percent of total funds under management are subject to specific approval of or notification to the Australian Prudential Regulation Authority (formerly to the Insurance and Superannuation Commission).

INTEREST RATE RISK

Interest rate risk in the balance sheet 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.

Banking activities
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.

Details of interest rate risk in relation to banking activities are set out in note 35.

33 RISK MANAGEMENT (Continued)

INTEREST RATE RISK (Continued)

Insurance activities

Interest rate risk arises from the investments in interest bearing securities. Any change in market value of investments as a result of changes in market interest rates is immediately recognised in the profit and loss account in accordance with the accounting policies set out in note 1(k).

The investment portfolios hold significant interest bearing securities in support of corresponding technical reserves, invested in a manner consistent with the expected duration of claims payments. The valuation of the technical reserves includes the discounting to present value at balance date of expected future claim payments, in accordance with the accounting policies set out in note 1(f).

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.

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 exchange risk management within the economic 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 economic entity has arranged offshore borrowing facilities as part of the overall funding diversification process. This facility has been fully hedged through the use of derivative financial instruments.

Insurance activities

The economic entity has ongoing obligations in relation to a number of outstanding claims which have arisen in relation to overseas business. The economic entity has ceased to accept new business from overseas and a specific investment portfolio has been established to ensure sufficient funds are set aside to accommodate all final settlements. The claims payments will be predominantly United States dollar based. The investment portfolio consists of cash and short term discount securities with a forward foreign exchange agreement.

PRICE RISK

The banking entities' major price risks are interest rate risk and exchange rate risk. These risks are measured within the banking industry by the use of a Value at Risk (VaR) methodology. The banking entities measure VaR in dollar terms which are calculated for each type of risk within their trading activities.

The uncorrelated VaR for the banking entities during the financial year was as follows:

	Maximum VaR $000	Minimum VaR $000	Average VaR $000
Interest rate risk	-	-	-
Exchange rate risk	68	1	14

33 RISK MANAGEMENT (Continued)

OTHER FINANCIAL INSTRUMENTS RISK

Insurance activities
In addition to cash and interest bearing securities, the investment portfolios contain exposures to equity and property markets. In accordance with the accounting policy set out in note 1(l), these investments integral to insurance activities are measured at net market value and changes in market value are recognised in the profit and loss account.

An overall downturn in the equities markets will impact on the future results of the economic 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 set out in note 38. Property investments are subject to regular valuations. This portfolio is actively managed to ensure that any adverse financial impacts are appropriately managed.

OPERATIONAL RISK

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the economic entity conducts its business. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring. An independent internal audit function also conducts regular reviews to monitor compliance with policy and regulatory requirements, and examines the general standard of control.

34 CREDIT RISK CONCENTRATIONS

(A) Credit risk concentrations - banking assets

Industry exposures associated with each asset class are detailed with respect to the banking assets of the economic entity. Details of credit risk amounts for contingent liabilities are set out in note 46 and for derivative financial instruments in note 38. Risk concentrations by asset class as at 30 June 1998 are as follows:

	Trading Securities	Investment Securities	Loans, advances and other receivables	Contingent Liabilities	Derivative Instruments	Total
	$m	$m	$m	$m	$m	$m
Government and public authorities	622	-	5	-	-	627
Agriculture, forestry and fishing	-	-	1,366	36	-	1,402
Financial services	1,188	2	2,301	-	368	3,859
Real estate mortgage	-	-	8,563	373	-	8,936
Real estate construction	-	-	429	745	-	1,174
Personal	-	-	645	44	-	689
Lease financing	-	-	1,532	68	-	1,600
Other commercial and industrial	-	1	971	38	24	1,034
	1,810	3	15,812	1,304	392	19,321
Receivables due from other financial institutions						53
Statutory deposit with Reserve Bank of Australia						163
Total Gross Credit Risk						19,537

34 CREDIT RISK CONCENTRATIONS (Continued)

(B) Credit risk concentrations - impaired assets

Risk concentrations by asset class as at 30 June 1998 are as follows:

	Total Risk	Impaired Assets	Specific Provision	Write-offs	Recoveries	Net write-off
	$m	$m	$m	$m	$m	$m
Government and public authorities	627	-	-	-	-	-
Agriculture, forestry and fishing	1,402	21	9	-	-	-
Financial services	3,859	-	-	-	-	-
Real estate mortgage	8,936	4	2	1	-	1
Real estate construction	1,174	39	20	3	-	3
Personal	689	3	3	1	-	1
Lease financing	1,600	3	-	-	-	-
Other commercial and industrial	1,034	99	23	22	2	20
	19,321	169	57	27	2	25
Receivables due from other financial institutions	53					
Statutory deposit with Reserve Bank of Australia	163					
Total Gross Credit Risk	19,537					

(C) Large exposures

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

	Number
20 percent to less than 25 percent	1
15 percent to less than 20 percent	2

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

35 INTEREST RATE RISK

The purpose of this note is to provide additional information as to the interest rate risk management practices with respect to the banking activities of the economic entity. In relation to the general insurance activities, matching principles between interest rates achieved on investment assets and discount rates adopted in determining the outstanding claims liabilities apply. The information contained in this note should be read in conjunction with the overall interest rate risk management principles detailed in note 33.

Interest rate risk in the balance sheet arises from the potential for a change in interest rates to have an adverse effect on the net interest earnings in the current reporting period, and in subsequent financial years. Interest rate risk arises from the structure and characteristics of the economic entity's assets and liabilities and in the mismatch of repricing dates. The objective is to manage the interest rate risk to secure stable and sustainable earnings in the long term. Balance sheet interest rate risk is managed using both net interest income and market value measures.

35 INTEREST RATE RISK (Continued)

Net interest income

The risk to the net interest earnings over the next twelve months from a change in interest rates is measured on at least a monthly basis. 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. Potential variations to net interest earnings are measured using a simulation model which takes into account the projected change in balance sheet level and mix.

The figures in the table represent the potential negative change in net interest earnings (expressed as a percentage of expected net interest earnings in the next twelve months) based on one percent parallel rate shock.

	%
Average monthly exposure	0.60
High month exposure	1.58
Low month exposure	0.02

Market value

As a measure of the longer term sensitivity, the banking entities utilise a market value at risk analysis. This analysis measures the potential change in the net present value of cash flows of assets and liabilities where repricing dates do not match and is calculated using a one percent parallel movement in interest rates across the full yield curve. Assets and liabilities are priced at a variable rate and at the discretion of the economic entity are not included in this measure. The calculation includes consideration for preference shares and capital notes distributions.

The market value at risk exposures at balance date are as follows:

	$m
Average monthly exposure	7
High month exposure	11
Low month exposure	2

In each case, all market sensitive transactions, including physical assets and liabilities and derivative instruments, are included in the risk measures.

Accounting Standard AASB1033 “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 are shown according to the contractual repricing dates and options are shown in the gap using the delta equivalents of the option face values. The net mismatch represents the net value of assets, liabilities and off-balance sheet financial instruments which may be repriced in the time periods shown.

35 INTEREST RATE RISK (Continued)

The repricing periods attributable to the banking activities of the economic entity at 30 June 1998 are as follows:

	Balance Sheet Total	0 to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	$m	$m	$m	$m	$m	$m	$m
Financial Assets							
Cash and short term liquid assets	216	170	-	-	-	-	46
Receivables due from other financial institutions	53	-	-	-	-	-	53
Trading securities	1,810	-	1,810	-	-	-	-
Investment securities	3	-	-	1	1	-	1
Loans, advances and other receivables	15,679	4,509	4,067	1,519	5,512	72	-
Statutory deposit with Reserve Bank of Australia	163	163	-	-	-	-	-
Other financial assets	311	-	-	-	-	-	311
Total Financial Assets	18,235	4,842	5,877	1,520	5,513	72	411
Weighted average rate %		*7.2*	*6.1*	*8.0*	*8.2*	*8.2*	-
Financial Liabilities							
Deposits and short term borrowings	12,046	4,197	6,985	404	460	-	-
Payables due to other financial institutions	56	-	-	-	-	-	56
Accounts payable and other liabilities	324	-	-	-	-	-	324
Bonds, notes and long term borrowings	4,449	-	3,021	240	1,181	7	-
Subordinated notes	463	-	60	-	393	10	-
Total Financial Liabilities	17,338	4,197	10,066	644	2,034	17	380
Weighted average rate %		*2.9*	*5.2*	*5.8*	*5.3*	*4.3*	-
Net assets	897	645	(4,189)	876	3,479	55	31
Weighted average rate %		*5.2*	*5.5*	*7.3*	*7.4*	*7.5*	-
Off-balance sheet instruments		-	2,052	(509)	(1,473)	(70)	-
Weighted average rate %		-	*5.3*	*6.5*	*6.2*	*6.3*	-
Net mismatch		645	(2,137)	367	2,006	(15)	31
Cumulative mismatch		645	(1,492)	(1,125)	881	866	897

It should be noted that the banking entities of the economic entity do not use this contractual repricing information to manage the interest rate risk. Interest rate risk is managed from a net interest income and market value perspective in the manner outlined above.

36 MATURITY ANALYSIS OF MONETARY ASSETS AND LIABILITIES

The maturity distribution of monetary assets and liabilities relating to banking activities of the economic entity is based on contractual terms. The maturity analysis as at 30 June 1998 is as follows:

	At call	Overdraft	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	$m	$m	$m	$m	$m	$m	$m
Assets							
Receivables due from other financial institutions	53	-	-	-	-	-	53
Investment securities	1	-	-	-	2	-	3
Loans, advances and other receivables	8	553	566	1,150	3,709	9,693	15,679
Liabilities							
Deposits and short term borrowings	4,259	38	5,132	1,901	634	82	12,046
Payables due to other financial institutions	56	-	-	-	-	-	56
Bonds, notes and long term borrowings	-	-	742	2,252	1,421	34	4,449
Subordinated notes	-	-	-	5	-	458	463

It should be noted that the banking entities do not use this contractual maturity information as presented in the balance sheet management process. Additional factors are considered when managing the maturity profiles of the business.

37 CONCENTRATION OF DEPOSITS AND BORROWINGS

Details of the range of financial instruments used by the banking entities within the economic entity to raise funds are as follows:

	$m
Australian funding sources	
Retail deposits (predominantly Queensland based)	10,287
Commercial deposits	38
Wholesale funding	
Queensland Treasury Corporation	1,668
Other domestic funding	2,847
	14,840
Overseas funding sources	
Wholesale funding	
Asian TLC market	679
European MTN market	1,439
	2,118
	16,958

Funding from the Queensland Treasury Corporation facilities has reduced by $381 million during the financial year.

Exchange rates utilised:

AUD 1.00 = USD 0.6413
DEM 1.1110
NLG 1.2500

38 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 economic 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.

The accounting policies adopted by the economic entity in respect of derivatives are outlined in note 1(v).

Banking activities
The banking entities predominantly engage in hedging activities with respect to derivative financial instruments. Details of the outstanding hedging derivative contracts at the end of the financial year are as follows:

	Face Value	Credit Equivalent	Fair Value
	$m	$m	$m
Exchange rate related contracts			
Forward exchange contracts	408	31	26
Cross currency swaps	2,016	328	243
Currency options	15	-	-
	2,439	359	269
Interest rate related contracts			
Forward rate agreements	100	-	-
Interest rate swaps	3,791	26	(49)
Interest rate options	1,274	7	(1)
	5,165	33	(50)
Total derivative exposures	7,604	392	219

During the financial year the banking entities entered into trading foreign exchange contracts with an open position of less than $100,000 at balance date.

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.

The 'Credit Equivalent' is a number calculated using a standard Australian Prudential Regulation Authority 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.

38 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Insurance activities

The general insurance business has a forward foreign exchange contract in relation to the overseas investment portfolio. Under the contract, the economic entity agrees to exchange specified amounts of United States dollars at an agreed future date, at a specified exchange rate. Details of the hedging undertaken through the operation of this derivative contract are set out in note 33.

The use of derivative financial instruments to mitigate adverse movements in interest rate and equity markets include the use of interest rate futures contracts and exchange traded interest rate and equity options. The details of notional principal amounts and remaining terms of these derivative financial instruments at balance date are as follows:

	Average Interest Rate %	Notional Principal Amount $m
Less than one year	6.0	(96)

Derivative financial instruments are investments integral to insurance activities and are measured at net market value. Changes in market value are recognised in the profit and loss account. The net fair values of the derivative financial instruments at balance date are as follows:

	Carrying Value $m	Face Value $m
Total interest rate futures contracts	-	(59)
Total forward foreign exchange contracts	91	92
Equity futures	-	(9)
	91	24

The futures contracts have no carrying value as the margin deposits are classified as cash in the balance sheet.

39 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:

	Carrying Value $m	Net Fair Value $m
Financial Assets		
Cash and short term liquid assets	424	424
Receivables due from other financial institutions	53	53
Trading securities	1,810	1,810
Investment securities	2,183	2,183
Loans, advances and other receivables	15,812	15,936
Statutory deposit with Reserve Bank of Australia	163	163
Other financial assets	337	337
Financial Liabilities		
Deposits and short term borrowings	11,846	11,910
Payables due to other financial institutions	56	56
Accounts payable and other liabilities	449	449
Bonds, notes and long term borrowings	4,449	4,502
Subordinated notes	463	499
Asset and liability hedges - unrealised losses		(33)

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 economic 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 securities and investment securities integral to insurance activities are carried at net market value which equates to net fair value. Net fair value for investment securities integral to banking activities has been determined on a similar basis.

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 current rate offered by the banking entities on the interest rate repricing of the loans.

39 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial Assets (continued)
The Banking Act requires that the economic entity lodge regulatory deposits with the Reserve Bank of Australia at a rate of interest below that generally prevailing in the market. The net fair value is assumed to be equal to the carrying value as the economic entity is only able to continue as a going concern with the maintenance of these deposits.

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 and long term borrowings, including 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 entities 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 economic 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 Off-Balance Sheet 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. The net fair values of these instruments are set out in note 38.

40 DETAILS OF CONTROLLED ENTITIES

SUNCORP~METWAY LTD
Controlled entities of SUNCORP~METWAY LTD
- Metway Credit Corporation Limited
- Austman Pty Ltd (1)
- SUNCORP-Metway-QIDC Staff Pty Ltd
- Metway Leasing Limited
- Gammaton Pty Ltd (1)
- Metway Star Limited
- Abbott & Williams Pty Ltd (1)
- Anchorfield Trading Pty Ltd (1)
- Derringhurst Pty Ltd (1)
- Dundrum Pty Ltd (1)
- Excelle Pty Ltd
- Pine Trees Resort Pty Ltd (1)
- SFS Super Pty Ltd (1)
- SFSP Super Pty Ltd (1)
- SIS Super Pty Ltd (1)
- SUNCORP Staff Super Pty Ltd (1)
- SPM Nominees Pty Ltd (1)
- SBS Services Pty Ltd (1)
- SBS Superannuation Pty Ltd (1)
- SBS Occupational Superannuation Pty Ltd (1)
- SUNCORP Retail Customer Services Pty Ltd (1)
- Turbot Street Investments Pty Ltd (1)
- Wirrawood Pty Ltd (1)

Weipa Development Pty Ltd (1)
Controlled entity of Weipa Development Pty Ltd
- Evans Landing Canteen Pty Ltd (1)

Graham & Company Limited
Controlled entities of Graham & Company Limited
- Graham & Company Mortgages Limited
- Graham & Company Securities Limited
- L J Hooker Home Loans Limited
- Grahco Investments Pty Limited (1)
- *Controlled entities of Grahco Investments Pty Limited*
  - Plant Location International (Australia) Pty Ltd (1)

Hooker Corporation Limited
Controlled entities of Hooker Corporation Limited
- Hooker Corporate (ACT) Pty Ltd (1)
- Hooker Corporate (QLD) Pty Ltd (1)
- L J Hooker Limited
- 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)
- L J Hooker Limited (incorporated in the United Kingdom) (2)
- L J Hooker Limited (incorporated in Hong Kong) (2)
- L J Hooker (Singapore) Pte Ltd (incorporated in Singapore) (2)
- L J Hooker (NZ) Limited (2)
- *Controlled entities of L J Hooker (NZ) Limited*
  - L J Hooker Group Ltd (previously Challenge Realty Services Limited (incorporated in New Zealand)) (2)
  - **Challenge Realty Group Limited (incorporated in New Zealand)** (2)
  - L J Hooker Limited (incorporated in New Zealand) (2)

40 DETAILS OF CONTROLLED ENTITIES (Continued)

Metfin Capital Pty Ltd
Controlled entities of Metfin Capital Pty Ltd
- Malk Investments Pty Ltd
- Metway Nominees Pty Ltd
- Eddsvoid Pty Ltd
- Shelbourne Investments Pty Ltd
- Lizars Investments Pty Ltd

QIDC Limited
Controlled entities of QIDC Limited
- QIDC Superannuation Nominees Pty Ltd (1)
- Venture Fund Pty Ltd (1)

Suncorp Finance Limited
Controlled entities of Suncorp Finance Limited
- Permanent Holdings Pty Ltd
- Permanent Finance Corporation (Aust) Pty Ltd
- PFC Finance Pty Ltd
- PFC Finance Pty Ltd/Kenlynn Pty Ltd Partnership (50% interest)
- Medical and Commercial Finance Corporation Limited (50% interest)
- *Controlled entities of Medical and Commercial Finance Corporation Limited*
  - Medical and Commercial Finance Limited (50% interest)
  - Queensland Medical Finance Pty Limited (1) (50% interest)
- SUNCORP Finance Staff Superannuation Pty Ltd (1)

SUNCORP General Insurance Limited
Controlled entities of SUNCORP General Insurance Limited
- SUNCORP General Investments Limited
- L J Hooker Financial Services Limited
- SGIL Cairns Trust
- The Park Road Property Trust (51% interest)

SUNCORP Investment Management Limited
Controlled entities of SUNCORP Investment Management Limited
- SUNCORP Custodian Services Pty Ltd
- SUNCORP Property Management Limited
- *Controlled entities of SUNCORP Property Management Limited*
  - SUNCORP Property Funds Management Limited

SUNCORP Life and Superannuation Limited
Controlled entities of SUNCORP Life and Superannuation Limited
- Metway Corporation Limited
- SIP Super Pty Ltd
- SUNCORP Asset Management Limited
- 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 all 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.

41 ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

(A) ACQUISITION

There were no acquisitions of controlled entities during the financial year by the economic entity.

During the financial year ended 30 June 1997 the Company acquired 100% interests in the SUNCORP Insurance and Finance and QIDC Limited entities. In addition, the economic entity acquired 100% interest in Challenge Realty Services Limited. Details of these acquisitions, including the method of consideration and determination of goodwill are detailed in the 1997 annual report and consolidated financial statements of the Company.

(B) DISPOSALS

During the financial year the economic entity deregistered small proprietary companies which have ceased to trade. The economic entity has ceased to control various investment trusts established by SUNCORP Investment Management Limited. No material adjustments were recognised as a result of these events.

The economic entity disposed of all the ordinary shares of Graham & Company Financial Services Limited. Cash consideration received was $500,000 and the fair value of net assets of the entity disposed was $530,000.

During the financial year ended 30 June 1997 the economic entity disposed of its interest in Nexis Proprietary Limited. Details of the disposal, including consideration and fair value of net assets disposed are detailed in the 1997 annual report and consolidated financial statements of the Company.

42 FIDUCIARY ACTIVITIES

The economic entity conducts investment management and other fiduciary activities as trustee, custodian or manager for various investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail unit trusts. Details of the funds concerned, which are not included in the economic entity's balance sheet, are as follows:

Life Insurance Statutory Funds

The life insurance business of SUNCORP Life and Superannuation Limited is carried out within life insurance statutory funds. The policy owners' interests in these statutory funds do not form part of the assets to which the economic entity is entitled and therefore are not consolidated. Details of the assets and liabilities of the statutory funds at balance date are:

	1998 $m	1997 $m
Assets		
Investment assets	2,399	2,479
Other assets	88	50
	2,487	2,529
Liabilities		
Gross policy liabilities	1,989	2,012
Provisions	61	90
Other liabilities	118	95
	2,168	2,197
Net assets of policy owners and economic entity	319	332
Retained profits attributable to policy owners	(229)	(221)
Economic entity's interest in statutory funds	90	111

Other funds managed

The economic entity manages funds on behalf of third parties. At 30 June 1998 the value of these assets under management was $894 million (1997: $793 million). These assets are not controlled by the economic entity and, therefore, are not consolidated.

43 RELATED PARTY INFORMATION

DIRECTORS AND DIRECTOR RELATED ENTITIES

The names of each person who held the position of director of the Company during the financial year were:

R John Lamble AO
W Steven Jones
Patricia A Cross
James J Kennedy AO, CBE (appointed 1 August 1997)
John D Story
Martin D E Kriewaldt
Rodney F Cormie
Frank C B Haly AO
Barry Thornton KSJ

Details of directors' remuneration and retirement benefits are set out in note 44.

The Australian Securities Commission issued class order 97/1016 on 9 July 1997 which relieves directors of Australian banks and companies controlled by Australian banks from disclosure of bank loans and other financial instrument transactions made 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.

Loans to Directors
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 economic entity in accordance with established policy.

	1998 $000	1997 $000
Balance at the beginning of the financial year	-	168
Balance acquired on acquisition of controlled entity	-	100
Repayments made	-	(268)
Balance at the end of the financial year	-	-

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

	Ordinary Shares		Series 1 Preference Shares		Series 2 Preference Shares		Exchange Instalment Notes	
	1998	1997	1998	1997	1998	1997	1998	1997
Balance at the beginning of the financial year	385,028	1,683,051	-	381	376	30,951	-	-
Directors appointed during the year	-	25,900	-	450	-	-	-	-
Directors no longer in office	-	(1,327,107)	-	(240)	-	(30,575)	-	-
Series 1 Preference Shares converted to ordinary shares	-	13,134	-	(591)	-	-	-	-
Net purchases (sales) on market	(93,650)	(9,950)	-	-	-	-	186,000	-
Balance at the end of the financial year	291,378	385,028	-	-	376	376	186,000	-

43 RELATED PARTY INFORMATION (Continued)

DIRECTORS AND DIRECTOR RELATED ENTITIES (CONTINUED)

Directors of the Company and director related entities received normal dividends 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.

Share options
The Extraordinary General Meeting of Shareholders held on 14 March 1997 approved, pursuant to the Company's Executive Option Plan, the issue of up to two million options to subscribe for two million fully paid ordinary shares in the Company 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.

On 26 March 1997, two million options were granted under the Plan at a price of $5.51 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 granted to Budmore Investments Pty Ltd for the benefit of Mr Jones are exercisable in three tranches:

- tranche 1 - maximum 650,000 shares on or after 6 July 1999 based on a market share price of not less than $6.00
- tranche 2 - maximum 700,000 shares on or after 6 July 2000 based on a market share price of not less than $6.50
- tranche 3 - maximum 650,000 shares on or after 6 July 2001 based on a market share price of not less than $7.00.

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 26 March 1997 and the respective exercise dates. This condition has already been satisfied in respect to all tranches.

The total option price has been satisfied by Mr Jones executing a legally binding interest free Promise to Pay. Under the terms of the Promise to Pay, Mr Jones will be required to pay to the Company the total option price in respect of those options to be exercised at the time they are exercised.

The options expire on the termination of services provided by Mr Jones or five years after the date the options were granted.

Other transactions of 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 M D E Kriewaldt is a partner in the firm of Allen Allen and Hemsley, Solicitors, which from time to time renders legal services to the Company in the ordinary course of business. Fees paid to the firm during the financial year amounted to $371,615 (1997: $356,667).

Mr J D Story is a partner in the firm of Corrs Chambers Westgarth, Solicitors, which from time to time renders legal services to the Company in the ordinary course of business. Fees paid to the firm during the financial year amounted to $1,141,851 (1997: $722,967).

Mr Ian Douglas, a director of SUNCORP-Metway-QIDC Staff Pty Ltd (a wholly owned controlled entity), from time to time renders legal advice to that entity in the ordinary course of business. Fees paid to Mr Douglas during the financial year amounted to $302,899 (1997: $62,950).

43 RELATED PARTY INFORMATION (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 economic 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 40.

Transactions between the Company and related parties in the wholly owned group during the years ended 30 June 1998 and 30 June 1997 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 operating result before tax are disclosed in notes 2 and 3.

	Company	
	1998	**1997**
	$m	**$m**
Current amounts receivable		
Controlled entities	2,676	983
Current amounts payable		
Controlled entities	5	-

Other related party information is disclosed in notes 14, 19, 32, 41, 42 and 46.

44 REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

(A) DIRECTORS' REMUNERATION

The numbers of directors of the Company whose income from the Company or controlled entities falls within the following bands are:

	Company	
	1998 Number	1997 Number
Amount		
$ 40,000 to $ 49,999	-	7
$ 50,000 to $ 59,999	-	1
$ 60,000 to $ 69,999	1	1
$ 70,000 to $ 79,999	2	-
$ 80,000 to $ 89,999	3	-
$ 90,000 to $ 99,999	1	1
$140,000 to $149,999	-	1
$160,000 to $169,999	1	-
$220,000 to $229,999	-	1
$500,000 to $509,999	-	1
$860,000 to $869,999 *	-	1
$1,180,000 to $1,189,999	1	-

* Includes a retirement benefit

	Consolidated		Company	
	1998 $000	1997 $000	1998 $000	1997 $000
Total income paid or payable, or otherwise made available to directors of the Company, from the Company or any related entity			1,901	2,258
Total income paid or payable to all directors of each entity in the economic entity, from the Company or any related entity	2,025	2,347		

Income received by non-executive directors of the Company and its controlled entities during the financial year amounted to $716,000 (1997: $984,000). 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 $1,100,000.

(B) DIRECTORS' RETIREMENT BENEFITS

	Consolidated 1998	Consolidated 1997	Company 1998	Company 1997
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	1,458	773	1,458	773

The amount is disclosed in aggregate only as the directors believe, having regard to the details involved, the provision of full particulars would be unreasonable.

44 REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS (Continued)

(B) DIRECTORS' RETIREMENT BENEFITS (Continued)

	Consolidated 1998 $000	Consolidated 1997 $000	Company 1998 $000	Company 1997 $000
Retirement benefits paid by the Company to former non-executive directors of the Company in connection with their retirement from the office of director, being amounts previously approved by shareholders in a general meeting	-	904	-	904

(C) EXECUTIVE OFFICERS' REMUNERATION

The numbers of executive officers (including the Managing Director included in note 44(A) above) whose income from the Company or controlled entities falls within the following bands are:

Amount	Consolidated 1998 Number	Consolidated 1997 Number	Company 1998 Number	Company 1997 Number
$120,000 to $129,999	-	4	-	4
$220,000 to $229,999	1	2	1	2
$230,000 to $239,999	1	-	1	-
$240,000 to $249,999	1	-	1	-
$250,000 to $259,999	1	-	1	-
$290,000 to $299,999	-	1	-	1
$330,000 to $339,999	1	-	1	-
$360,000 to $369,999	-	2	-	2
$390,000 to $399,999	1	-	1	-
$400,000 to $409,999 (1)	-	1	-	1
$470,000 to $479,999	-	1	-	1
$500,000 to $509,999	2	1	2	1
$760,000 to $769,999 (1)	-	1	-	1
$770,000 to $779,999 (2)	-	1	-	1
$1,120,000 to $1,129,999 (1)	1	-	1	-
$1,180,000 to $1,189,999	1	-	1	-
$2,410,000 to $2,419,999 (1)	1	-	1	-

(1) Includes a redundancy payment
(2) Includes a retirement benefit payment

	Consolidated 1998 $000	Consolidated 1997 $000	Company 1998 $000	Company 1997 $000
Total income paid or payable (including superannuation contributions) from the Company and controlled entities to executive officers (including the Managing Director included in note 44(A) above) whose income exceeds $100,000	7,439	4,890	7,439	4,890

The above table discloses data in respect of only those officers who are responsible for the strategic direction and operational management of the Company and its controlled entities and includes redundancy and retirement benefit payments of $3,178,393 (1997: $705,506).

45 REMUNERATION OF AUDITORS

	Consolidated 1998 $000	Consolidated 1997 $000	Company 1998 $000	Company 1997 $000
Auditors of the Company				
Audit services - statutory audit	1,067	1,253	535	530
- half year review (1997 audit)	175	203	89	200
Other services	588	409	299	407
	1,830	1,865	923	1,137

46 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

There are claims and possible claims against companies in the economic 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 economic 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, are likely to have a material effect on its operations or financial position.

Details of contingent liabilities for which no provisions are included in these accounts 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 economic 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 economic 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 economic 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.
- The economic entity has rediscounted commercial bills previously accepted or endorsed by a bank. In the event that a liability was to arise in respect to a commercial bill rediscounted, the economic entity would have a legal claim of an equal amount against other parties to the bill. The total face value of commercial bills rediscounted is $91 million (1997: $80 million).
- The economic entity has various repurchase obligations in favour of parties holding units in The Park Road Property Trust. The maximum liability is $6 million (1997: $8 million).
- A controlled entity, SUNCORP General Insurance Limited, entered into lease securitisation and defeasance transactions in May 1993 under which the entity is required to reassume the liability for instalment payments due under certain conditions, 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 1998 is approximately $69 million (1997: $65 million). In the event of crystalisation of this liability, that entity would assume the interest in the leasehold over two properties. SUNCORP General Insurance Limited 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 General Insurance Limited retains beneficial ownership of these accounts which are operated by *the* manager under the supervision of the trustee. At 30 June 1998 the balance of the reserve accounts was $6 million (1997: $5 million) and the balance of the rent accounts was $1 million (1997: $1million). The prospect of a resumption of liability has been reviewed and is assessed as highly improbable.

46 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (Continued)

Details of contingent liabilities for which no provisions are included in these accounts (continued):

- The economic entity has an effective interest in 50 percent of the capital units of the CMS Property Trust. A deed of guarantee has been provided by a controlled entity to holders of income units in the trust. The controlled entity guarantees payments of distributions to income unit holders required to be made pursuant to the trust deed of the CMS Property Trust.

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 the Australian Prudential Regulation Authority (formerly by the Reserve Bank of Australia):

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Notional amounts				
Guarantees entered into in the normal course of business	181	108	125	50
Commitments to provide loans and advances	1,552	1,541	1,308	1,136
	1,733	1,649	1,433	1,186
Credit equivalent amounts				
Guarantees entered into in the normal course of business	89	88	61	38
Commitments to provide loans and advances	1,215	1,224	1,063	969
	1,304	1,312	1,124	1,007

47 LEASE COMMITMENTS

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Operating leases				
Aggregate future operating lease rentals contracted for but not provided in the financial statements are payable as follows:				
Not later than one year	26	34	26	31
Later than one year but not later than two years	20	24	20	22
Later than two years but not later than five years	20	25	20	23
Later than five years	2	4	2	4
	68	87	68	80

48 CAPITAL EXPENDITURE COMMITMENTS

	Consolidated		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
Expenditure contracted for but not provided in the financial statements is payable as follows:				
Not later than one year	1	63	-	-

49 SUPERANNUATION COMMITMENTS

The economic entity contributes to various employee superannuation funds covering eligible employees. These funds comprise defined benefit funds and defined contribution funds (accumulation funds). In the case of defined benefit funds, an actuarial assessment of each fund is made not less than every three years. At the date of the last review of each fund, the actuary (Mr N G Spencer, B.Sc., F.I.A.A.) concluded that the assets of the funds are sufficient to meet all the benefits payable in the event of the funds' termination, or the voluntary or compulsory termination of employment of each employee.

Contributions to the defined benefit plans during the financial year ended 30 June 1998 were $5 million (1997: $4 million).

Defined benefit fund assets at net market value and vested benefits of the funds based on the most recent actuarial reviews are as follows:

	Consolidated
	$m
SUNCORP Staff (Closed) Superannuation Plan	
Details as at last review 30 June 1996:	
Plan assets at net market value	87
Total accrued benefits	(70)
Excess	17
Total vested benefits	71
Queensland Industry Development Corporation Superannuation Scheme	
Details as at last review 30 June 1995:	
Plan assets at net market value	16
Total accrued benefits	(12)
Excess	4
Total vested benefits	13

The actuarial assessment of Queensland Industry Development Corporation Superannuation Scheme is due as at 30 June 1998. The actuary has 12 months from 30 June 1998 to complete the review, which will be commenced in November 1998.

50 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) and
- an Executive Option Plan (EOP)

for the purpose of promoting participation of employees in the ownership of the Company. Under both the EESP and DESP, an unrelated special purpose custodial plan company will 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. Features of the Plans are as follows:

Feature	EESP	DESP	EOP
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
Share / option allocation	Equal value per eligible employee on conditions as determined by Board	On conditions as determined by Board	At discretion of Board
Price to employee	Nil or as part of remuneration	Nil, shares will be funded from or as part of remuneration	Option price: greater of market value and par value of underlying share at date of grant Exercise price: as determined by Board
Vesting	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
Minimum holding period	3 years from date of allocation, or upon cessation of employment	None	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

An amount of $4,026,000 was paid during the financial year in respect of shares (100 per employee) purchased on the Australian Stock Exchange and allocated to eligible employees under the EESP on 1 October 1997. Amounts were set aside in the previous financial year in relation to these purchases.

During the financial year 49,750 ordinary shares were transferred to eligible employees under DESP. These shares have been provided to employees subject to certain conditions and if those conditions are not met, the shares will be forfeited by the employees.

Details of options issued under the EOP to the Managing Director are set out in note 43. During the financial year the Company issued options under the EOP to members of the executive in respect of 1,369,000 ordinary shares. Total options unexercised at balance date of 3,369,000 (1997: 2,000,000).

51 EVENTS SUBSEQUENT TO BALANCE DATE

The Company has entered into a Scheme of Arrangement with QIDC Limited, a wholly owned controlled entity, to facilitate the transfer of all the assets and liabilities of QIDC Limited to the Company.

The Scheme has the approval of the Supreme Court of Queensland and the necessary transfers were concluded on 1 July 1998. As a result of completion of the Scheme, QIDC Limited will be in a position to surrender its banking authority to the Australian Prudential Regulation Authority, once the necessary review process is completed. The requirement for the economic entity to maintain one banking authority was a condition imposed by the Reserve Bank of Australia for its approval of the merger of the Company with QIDC Limited on 1 December 1996.

A further element of the Scheme was that QIDC Limited cancelled all but two $1 ordinary shares of its issued capital on 1 August 1998.

There has been no material effect on the affairs of the economic entity as a result of the completion of the Scheme. However, the Company balance sheet as at 30 June 1998, restated to include the assets and liabilities subject to the arrangement, would appear as follows:

	Company
	$m
Assets	
Cash and short term liquid assets	201
Receivables due from other financial institutions	505
Trading securities	1,809
Investment securities	754
Loans, advances and other receivables	15,063
Statutory deposit with Reserve Bank of Australia	164
Property, plant and equipment	59
Other assets	401
Total assets	18,956
Liabilities	
Deposits and short term borrowings	11,849
Payables due to other financial institutions	37
Accounts payable and other liabilities	360
Provisions	189
Bonds, notes and long term borrowings	4,370
Subordinated notes	461
Total liabilities	17,266
Net Assets	1,690
Shareholders' equity	1,690

1. In the opinion of the directors of SUNCORP~METWAY LTD:

   (a) the financial statements set out on pages 37 to 98 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 30 June 1998, and the states of affairs at 30 June 1998, of the Company and the economic entity;

   (b) the consolidated financial statements have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and

   (c) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. The financial statements have been made out in accordance with applicable Accounting Standards and Urgent Issues Group Consensus Views.

Dated at Brisbane this 26th day of August 1998

Signed in accordance with a resolution of the directors:

R JOHN LAMBLE AO
Chairman

W STEVEN JONES
Managing Director

Scope

We have audited the financial statements of SUNCORP~METWAY LTD for the financial year ended 30 June 1998, consisting of the profit and loss accounts, balance sheets, statements of cash flows, accompanying notes, and the statement by directors set out on pages 37 to 99. The financial statements comprise the financial statements of the Company and the consolidated financial statements of the economic entity, being the Company and its controlled entities. The Company's directors are responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, 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 statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the economic entity's financial position, the results of their operations and their cash flows.

The names of the controlled entities of which we have not acted as auditors are set out in note 40. We have received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated financial statements.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial statements of SUNCORP~METWAY LTD are properly drawn up:

(a) so as to give a true and fair view of:

  (i) the states of affairs of the Company and the economic entity at 30 June 1998, and the results and cash flows of the Company and the economic entity for the financial year ended on that date; and
  (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law in the manner authorised for a prescribed corporation being a banking corporation; and

(c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

KPMG

KPMG
Chartered Accountants

I. H. Fraser

Brisbane 26 August 1998

Ian H Fraser
Partner

	1998 $m	1997 $m
TIER 1		
Share capital	149	149
Converting capital notes	697	697
Share premium reserve	770	770
Preconversion reserve	13	13
Retained earnings	171	90
Less intangible assets	(184)	(194)
Less net future income tax benefits	(22)	(40)
TOTAL TIER 1 CAPITAL	1,594	1,485
TIER 2		
Asset revaluation reserve	8	8
General provision for impairment	76	64
Subordinated notes	459	460
TOTAL TIER 2 CAPITAL	543	532
DEDUCTIONS FROM CAPITAL		
Investments in subsidiaries	(603)	(642)
Guarantees and facilities to non-banking controlled entities	(27)	(27)
TOTAL DEDUCTIONS	(630)	(669)
TOTAL CAPITAL BASE	1,507	1,348

	Carrying Value		Risk Weights	Risk Weighted Balance [1]	
	1998 $m	1997 $m	%	1998 $m	1997 $m
ASSETS					
Cash, claims on Reserve Bank of Australia, shorter term claims on Australian Commonwealth Government and other liquid assets [2] [4]	2,252	1,270	0%	-	-
Longer term claims on Australian Commonwealth Government, and claims on State governments [4]	12	43	10%	1	4
Claims on banks and local governments	68	1,090	20%	14	218
Qualifying housing loans	6,164	5,927	50%	3,082	2,964
All other assets	9,903	8,452	100%	9,903	8,452
TOTAL BANKING ASSETS [3]	18,399	16,782		13,000	11,638

	Face Value 1998 $m	Credit Equivalent 1998 $m	Risk Weights %	Risk Weighted Balance 1998 $m	Risk Weighted Balance 1997 $m
OFF BALANCE SHEET POSITIONS					
Guarantees entered into in the normal course of business	166	81	100%	81	88
Commitments to provide loans and advances	1,553	1,213	0-100%	1,120	1,139
Capital commitments	2	2	100%	2	2
Foreign exchange contracts	2,432	359	20-50%	78	17
Interest rate contracts	4,671	33	20-50%	7	8
TOTAL OFF BALANCE SHEET POSITIONS	8,824	1,688		1,288	1,254
ASSESSED RISK					
Total risk weighted assets				13,000	11,638
Total off balance sheet position				1,288	1,254
Market risk capital charge (4)				122	-
TOTAL ASSESSED RISK				14,410	12,892
RISK WEIGHTED CAPITAL RATIOS				%	%
TIER 1				11.06%	11.52%
TIER 2				3.77%	4.13%
DEDUCTIONS				-4.37%	-5.19%
				10.46%	10.46%

Notes:

(1) Claims secured by cash, government securities or guarantees from banks and governments reflect the risk weight attaching to the collateral security or a direct claim on the guarantor.

(2) Shorter term claims on the Australian Commonwealth Government are those with a residual term to maturity of less than 12 months, longer term claims are those with residual term to maturity greater than 12 months.

(3) Total banking assets differ from banking segment assets in note 6A due to the adoption of Australian Prudential Regulation Authority's classification of intangible assets, deferred taxation, non-qualifying shareholdings in other entities and general provision for impairment for capital adequacy purposes.

(4) As at 1 April 1998, the Australian Prudential Regulation Authority introduced Prudential Statement No. C3 "Capital Adequacy of Banks – Market Risk" which requires banks to hold capital against exposures to market risks. The charge for the banking entities relates to foreign exchange and interest rate risk. Prior to the introduction of this requirement, the economic entity assigned a risk weighting to holdings of PAR and liquid assets of between zero and 20 percent. Since the introduction of this requirement, the economic entity has assigned zero risk weighting to these assets and recorded a charge for the market risk.

MAJOR SHAREHOLDERS

(i) Ordinary Shares

At 10 August 1998, the 20 largest holders of fully paid ordinary shares held 184,512,641 shares, equal to 63.13 per cent of the total.

	Number of Shares	%
Queensland Treasury Holdings Pty Ltd	156,453,056	53.53
SAS Trustee Corporation	5,961,342	2.04
Permanent Trustee Australia Limited	2,423,777	0.83
AMP Life Limited	2,316,273	0.79
National Australia Financial Management Limited	2,221,622	0.76
Permanent Trustee Australia Limited	2,117,394	0.72
Australian Foundation Investment Company Limited	1,830,798	0.63
National Nominees Limited	1,744,913	0.60
Chase Manhattan Nominees Limited	1,639,436	0.56
Westpac Custodian Nominees Limited	1,101,716	0.38
Sandhurst Trustees Limited	1,098,750	0.38
LGSS Pty Limited	1,066,607	0.36
FAI Workers' Compensation NSW Limited	800,000	0.27
Labor Holdings Pty Ltd	759,000	0.26
Permanent Trustee Company Limited	615,973	0.21
Commonwealth Life Limited	506,331	0.17
MLC Limited	481,548	0.16
BT Custodial Services Pty Limited	460,784	0.16
CSS Board	458,321	0.16
FSS Trustee Corporation	455,000	0.16
	184,512,641	63.13

(ii) Preferences Shares Series 2

At 10 August 1998, the 20 largest holders of Preference Shares Series 2 held 1,141,748 shares, equal to 20.93 per cent of the total.

	Number of Shares	%
PTA Nominees Limited	233,908	4.29
Buttonwood Nominees Pty Ltd	182,652	3.35
Permanent Nominees (Aust) Limited	126,453	2.32
Perpetual Trustees Nominees Limited	107,900	1.98
Austrust Limited	61,610	1.13
Brencorp Securities Pty Limited	61,314	1.12
Mariposa Management Pty Limited	40,000	0.73
FAI Life Insurance Society Limited	38,344	0.70
Pan Australian Nominees Pty Limited	34,000	0.62
National Australia Trustees Limited	33,186	0.61
Chase Manhattan Nominees Limited	30,936	0.57
Perpetual Trustees Victoria Limited	27,287	0.50
Labor Holdings Pty Ltd	25,000	0.46
Perpetual Trustees SA Limited	24,000	0.44
Clem Jones Pty Ltd	23,000	0.42
Capital Property Corporation Pty Ltd	20,698	0.38
Kingsley Developments Pty Ltd	20,000	0.37
HCF Life Insurance Company	20,000	0.37
Pontama Pty Ltd	16,000	0.29
Mr Lawrence James Rose & Mrs Althea Helen Rose	15,460	0.28
	1,141,748	20.93

SUBSTANTIAL SHAREHOLDERS

At 10 August 1998, the following entries were contained in the register of substantial shareholdings:

		Number of Shares
(i)	**Ordinary Shares**	
	Queensland Treasury Holdings Pty Ltd	156,453,056

(ii) Preference Shares Series 2
Nil

DISTRIBUTION OF SHAREHOLDINGS

(i) Ordinary Shares
At 10 August 1998:

Range	Number of Holders	% of Holders	Number of Shares	% of Shares
1 - 1,000 shares	14,392	44.01	6,522,670	2.23
1,001 - 5,000 shares	13,955	42.67	34,633,184	11.84
5,001 - 10,000 shares	2,660	8.13	19,206,437	6.57
10,001 - 100,000 shares	1,611	4.92	36,146,048	12.36
100,001 - shares and over	81	0.27	195,771,798	67.00
	32,699	100	292,280,137	100

(ii) Non-participating Shares
All shares of this class are fully paid 50 cent shares and are held by the Trustee of the Metropolitan Permanent Building Society Trust, Permanent Trustee Australia Limited.

(iii) Preference Shares Series 2
At 10 August 1998:

Range	Number of Holders	% of Holders	Number of Shares	% of Shares
1 - 1,000 shares	10,596	92.09	2,034,962	37.30
1,001 - 5,000 shares	818	7.10	1,654,207	30.32
5,001 - 10,000 shares	53	0.46	390,787	7.16
10,001 - 100,000 shares	34	0.29	724,271	13.27
100,001 - shares and over	4	0.06	650,913	11.95
	11,505	100	5,455,140	100

(iv) Partly Paid Shares
At 10 August 1998:

Range	Number of Holders	% of Holders	Number of Shares	% of Shares
1 - 1,000 shares	32	27.58	24,350	7.36
1,001 - 5,000 shares	69	59.48	159,150	48.13
5,001 - 10,000 shares	12	10.34	89,300	27.01
10,001 - 100,000 shares	3	2.60	57,800	17.50
100,001 - shares and over	-	-	-	-
	116	100	330,600	100

VOTING RIGHTS OF SHAREHOLDERS

(i) 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 held.

(ii) Non-participating Shares

The non-participating shareholder has an entitlement to vote only in certain circumstances.

(iii) Preference Shares Series 2

The holders of Converting Preference Shares Series 2 shall have one vote for each converting preference share but shall not be entitled to vote except:

- at any meeting convened for the purpose of reducing the capital of the Company;
- at any meeting convened for the purpose of winding up the Company or for sanctioning a sale of the main undertaking of the Company;
- on any resolution to be submitted to a general meeting that directly affects the rights and privileges of the holders of Converting Preference Shares Series 2; or
- at any meeting when the dividend to be paid on the converting preference shares is in arrears more than 6 months.

HOLDERS OF NON-MARKETABLE PARCELS

(i) Ordinary Shares

At 10 August 1998 the number of holders with less than a marketable parcel (1 to 59 shares) was 278 (0.85% of holders) representing 7,862 shares.

(ii) Preference Shares Series 2

At 10 August 1998 the number of holders with less than a marketable parcel (1 to 29 shares) was 370 (3.22% of holders) representing 5,749 shares.

MAJOR NOTEHOLDERS

Exchanging Instalment Notes

At 10 August 1998, the twenty largest holders of Exchanging Instalment Notes held 18,216,464 notes, equal to 18.21 per cent of the total.

	Number of Notes	%
Permanent Trustee Australia Limited	3,066,366	3.06
Chase Manhattan Nominees	2,002,972	2.00
National Nominees Limited	1,667,391	1.66
Perpetual Trustee Company Limited	1,640,329	1.64
MLC Limited	1,517,820	1.51
Westpac Custodian Nominees Limited	1,127,584	1.12
Queensland Investment Corporation	950,000	0.95
Permanent Trustee Australia Limited	863,568	0.86
Austrust Limited	663,270	0.66
PTA Nominees Limited	649,034	0.64
SAS Trustee Corporation	639,750	0.63
Permanent Trustee Australia Limited	525,425	0.52
BT Custodial Services Pty Ltd	500,000	0.50
Mercantile Mutual Life Insurance Company Limited	432,000	0.43
Permanent Trustee Australia Limited	409,243	0.40
AMP Life Limited	381,922	0.38
MLC Lifetime Company Limited	364,593	0.36
The University of Melbourne	290,000	0.29
MMI Workers Compensation (NSW) Limited	263,000	0.26
BT (Queensland) Pty Ltd	262,197	0.26
	18,216,464	18.21

SUBSTANTIAL NOTEHOLDERS

At 10 August 1998, the following entries were contained in the register of substantial unitholdings:

Exchanging Instalment Notes
Nil

DISTRIBUTION OF NOTEHOLDINGS

Exchanging Instalment Notes
At 10 August 1998:

Range	Number of Holders	% of Holders	Number of Notes	% of Notes
1 - 1,000 notes	64,824	86.05	34,619,964	34.61
1,001 - 5,000 notes	8,737	11.59	22,876,081	22.87
5,001 - 10,000 notes	1,167	1.54	8,836,565	8.83
10,001 - 100,000 notes	565	0.75	12,653,290	12.65
100,001 - notes and over	37	0.04	21,014,100	21.01
	75,330	100	100,000,000	100

VOTING RIGHTS OF NOTEHOLDERS

The legal interest in the Subordinated Dividend Ordinary Shares to which each note corresponds is held by Queensland Treasury Holdings Pty Ltd as trustee under the EIN Trust Deed. As a term of the EIN Trust Deed, each noteholder is entitled to provide voting instructions to the Trustee in respect of each Subordinated Dividend Ordinary Share to which each note of that holder corresponds, except in relation to dividend rights.

HOLDERS OF NON-MARKETABLE PARCELS

At 10 August 1998 the number of holders with less than a marketable parcel (1 to 131 notes) was 61 (0.08% of holders) representing 5,308 notes.

BALANCE SHEET
As at 30 June 1998

	1998 $	1997 $
ASSETS		
Investments at cost (unquoted)		
2,000 non-participating shares of 50 cents each fully		
paid in SUNCORP~METWAY LTD	1,000	1,000
CAPITAL		
Initial sum	1,000	1,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 1998

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of these accounts are:

Basis of Preparation

The accounts of the Trust are a general purpose financial report which has been drawn up in accordance with the accounting standards and disclosure requirements of the Australian accounting bodies, the provisions of the Trust Deed dated 23 March 1988 and the requirements of law. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The 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. PROFIT AND LOSS ACCOUNT AND STATEMENT OF CASH FLOWS

The Trust did not undertake any financial transactions during the year and as a result, no profit and loss account or statement of cash flows has been prepared.

TRUSTEE'S REPORT

For the year ended 30 June 1998

As Trustee of the above Trust we report for the year ended 30 June 1998 that:

- we hold in trust on behalf of the pre-incorporation members, 2,000 non-participating shares of 50 cents in SUNCORP~METWAY LTD;
- no dividends were received in relation to the 2,000 non-participating shares;
- the Trust Property was held and administered in accordance with the Trust Deed dated 23 March 1988.

K R Prentis
Manager – Corporate Services & Administration (QLD)
Permanent Trustee Australia Limited

Brisbane 26 August 1998

INDEPENDENT AUDITORS' REPORT TO THE BENEFICIARIES OF METROPOLITAN PERMANENT BUILDING SOCIETY TRUST

Scope

We have audited the financial statements of the Metropolitan Permanent Building Society Trust for the financial year ended 30 June 1998, consisting of the balance sheet, accompanying notes, and the Trustee's report attached. The Trustees are responsible for the financial statements. We have conducted an independent audit of the financial statements in accordance with Australian Auditing Standards in order to express an opinion on them to the beneficiaries of the Trust.

Audit Opinion

In our opinion, the accounts of the Metropolitan Permanent Building Society Trust are properly drawn up:

- so as to give a true and fair view of the state of affairs of the Trust at 30 June 1998, and the results and cash flows of the Trust for the financial year ended on that date;
- in accordance with the provisions of the Trust Deed dated 23 March 1988; and
- in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

K P m G

KPMG
Chartered Accountants

Brisbane 26 August 1998

Ian H Fraser
Partner

Where To Find Us

CUSTOMER TELEPHONE SERVICES

SUNCORP

(24 hours)

General inquiries, new business	13 11 55
Phone access account details	13 11 25
Insurance claims inquiries	13 25 24

Metway Express

(24 hour telephone banking service)

Existing loans and account information	13 25 15
New loans, new accounts and other product inquiries	13 16 42

Lost or stolen cards & passbooks

(24 hours)

SUNCORP	1800 775 020
METWAY	1800 077 030

SUNCORP Life & Superannuation

	1800 810 012
After sales service	13 11 55

QIDC

Deposit inquiries/investments	1800 805 767
Lending/leasing	1800 809 773

Branches:

184 SUNCORP and Metway branches in Queensland, 9 in NSW, 5 in Victoria

QIDC Network and Metway Business Banking has 31 regional Queensland locations.
Also in Moree, NSW.

ATMs

Throughout Queensland and in New South Wales and Victoria plus Australia wide access through Cashcard and ANZ ATMs.

EFTPOS

Throughout Australia

Internet

www.suncorp.com.au
(SUNCORP products and services)

www.metway.com.au
(Metway products and services)

www.suncorp-metway.com.au
(information about the SUNCORP~METWAY Group)

Consultants

Mobile consultants, insurance consultants, financial advisers

BANKING

INSURANCE

INVESTMENT

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