

## Managing Director's Letter to Shareholders

Dear Shareholder,

Suncorp's vision is to be the most desirable financial services company in Australia:

- for our customers to do business with
- for our employees to work for
- for the community to be associated with
- and for our shareholders to invest in.

It is an ambitious vision, but I am happy to report that in the year to June 2004, we made good progress towards achieving that goal.

For each of those stakeholder groups, we made extensive improvements and changes in the way we do business to deliver better outcomes. While we still have more work to do, we are seeing tangible results.

I am pleased to say we have achieved this in a disciplined and deliberate way, through the implementation of our Diversified Financial Services strategy and by a very focused approach, working as a team and engaging with the community.

As John Story stated in his letter, 2004 has been a year of transition for Suncorp. We have consolidated following the major structural changes implemented in 2003; we have successfully confronted the challenges that we faced in areas such as home lending; and we are building growth momentum in each of our business lines: Banking, General Insurance and Wealth Management.

In this letter, I will outline some of the initiatives we have implemented during the year, and our plans and expectations for the future.

### Profit Overview

	Half-Year Ended				June 04 vs 03
	Jun-04 \$m	Dec-03 \$m	Jun-03 \$m	Dec-02 \$m	Change %
<b>Financial Performance</b>					
Banking	194	177	168	150	15
General Insurance	250	215	161	72	55
Wealth Management*	30	36	24	17	25
Other	37	6	5	4	640
<b>Profit before tax and goodwill</b>	<b>511</b>	<b>434</b>	<b>358</b>	<b>243</b>	<b>43</b>
Goodwill amortisation	(30)	(30)	(32)	(30)	(6)
Income Tax	(144)	(123)	(97)	(58)	(48)
<b>Net profit</b>	<b>337</b>	<b>281</b>	<b>229</b>	<b>155</b>	<b>47</b>

\* Excludes Life and Super policy owners' interests, and tax

For shareholders, it has been a rewarding 12 months. Our financial performance exceeded our initial expectations, with profit after tax increasing by 61 percent to \$618 million.

That performance was driven by many operational improvements across the organisation, underpinned by a solid recovery in investment markets and favourable economic conditions.

## Banking

	Year ended		Change %
	2004 \$m	2003 \$m	
<b>Banking profit</b>			
Net interest income	656	592	11
Other operating income	177	155	14
Operating expenses	(414)	(380)	9
Bad and doubtful debts expense	(48)	(49)	(2)
<b>Pre-tax profit</b>	<b>371</b>	<b>318</b>	<b>17</b>

The Banking profit of \$371 million, before tax, was up 16.7 percent on the prior year. The second half result was \$194 million, which was up 9.6 percent on the first half. So on both comparisons, the result is good, and above the market's expectations for the banking sector as a whole.

There were a number of important highlights in the Banking performance:

- Lending was strong. Total receivables, including securitised assets, increased by 20.2 percent for the year, compared with 15.5 percent growth for the banking industry, meaning we are lifting our market share.
- Home lending, which had been underperforming for some time, recovered lost ground. In the year to June 2004, the book grew by 18.5 percent, which was almost double the 9.4 percent growth recorded for the previous year and only slightly below industry growth of 20.5 percent. On a monthly basis, home lending has exceeded industry growth rates consistently since February.

That is a significant turnaround, achieved through a host of initiatives:

- Improved broker distribution. Previously the Company had been reluctant to use brokers, particularly in the Queensland market, preferring to rely on our branches and call centres. That meant we missed out on good business. Instead, we have now adopted brokers as an important distribution avenue, forming strong relationships with the leading networks which are now selling significant new business for us.
- Improved retention. We have reviewed our products and services, and the way we treat our customers, to improve the overall customer experience and make it easier for them to do business with us. For example, we used to make it unnecessarily hard for people to top up their loans, so instead, customers simply went elsewhere. Those processes have been fixed.
- Introduction of regional teams of dedicated home lending specialists with the skills and training required to identify and meet customer needs quickly and effectively.
- Business lending continued to grow at a faster rate than the market, increasing 23.5 percent to \$12.2 billion, led by property development and lending to small business.
- Retail deposits grew well in advance of the market, up 15.0 percent while total sector retail deposits rose 8.3 percent.
- Net interest margins held up well over the year, and increased 6 basis points to 2.30 percent in the second half. This was due to good growth in higher margin business such as property development, the restoration of deposit margins through increases in official interest rates, and by competing on service rather than price.
- Credit quality remains excellent, with impaired assets falling to all time lows and provisioning cover improving to more than 2.6 times gross impaired loans.
- Operating expenses were kept under tight control, with the cost to income ratio falling to 48.8 percent in the second half, which puts us on par with much bigger competitors and reflects the benefits of our Diversified Financial Services model.

So all in all, I am satisfied that our banking business is now back on track and poised to kick more goals in the current year.

## General Insurance

	Year ended		Change
	2004	2003	%
	\$m	\$m	
<b>General Insurance Profit</b>			
Net premium revenue	2,184	2,012	9
Net incurred claims	(1,537)	(1,651)	(7)
Operating expenses	(480)	(433)	11
Investment income, tech provisions	148	281	(47)
<b>Insurance Trading Result</b>	<b>315</b>	<b>209</b>	<b>51</b>
Other income	39	32	22
Investment income, shareholder funds	130	11	1,082
GIO acquisition funding costs	(19)	(19)	-
<b>Pre-tax profit</b>	<b>465</b>	<b>233</b>	<b>100</b>

Net of certain statutory fees and charges included in income and expenses in the consolidated financial report.

General Insurance was a real engine room for profit growth in 2004, producing a 100 percent increase in pre-tax profit to a record \$465 million for the full year.

Conditions in the general insurance industry have improved dramatically in the past few years as the industry has restructured and rationalised, and as the major players have adopted a more disciplined approach to pricing, focused on delivering appropriate returns for shareholders.

Changes to the laws surrounding negligence and personal injury, which have helped to restore some balance to damages awards, have also put the industry on a much more stable footing, at the same time ensuring that consumers have access to insurance at reasonable prices.

It's therefore been an opportune period to be in the insurance business, and that perhaps demonstrates conclusively the portfolio benefits of our Diversified Financial Services strategy. In contrast to some of our competitors, who are somewhat hostage to a single profit stream, we have the benefit of exposure to three complimentary cashflow streams.

Through the acquisition of GIO, Suncorp was established as a major player in general insurance across the country, with sufficient scale to be a serious competitor. Having completed the integration of GIO over the previous couple of years, 2004 was a year when we regrouped and started the drive for organic growth. Our results confirm the strong financial foundation we can use as a growth platform for the future.

The core insurance profit, excluding non-underwritten business and investment income on shareholders funds (which fluctuates with the share market), increased by 50.7 percent to a record \$315 million for the full year. This is equal to 14.4 percent of premium revenue, which is the strongest full year margin reported by the company since 1997. The Insurance Trading Result (ITR) for the June half was \$168 million, equal to a margin of 15.3 percent of net earned premium.

The strength of the profit performance can be attributed to a few factors:

- Claims experience has improved significantly in areas such as compulsory third party insurance, workers' compensation and commercial liability, due to the legislative changes I referred to earlier. However, it is still early days. It typically takes several years to know for certain the impact of such changes. While early indications are clearly favourable – favourable enough to make some conservative reductions to our expected claims costs – we have adopted a conservative approach and put away additional funds in reserve to ensure we have sufficient money to pay claims when they fall due.
- In home and motor insurance, claims experience during the year was affected by the incidence of a number of fairly serious storms up and down the east coast, which caused a lot of damage. Certainly, storm related claims costs were much higher in 2004 than they were in 2003.
- Gross premium revenue grew by 7.4 percent, or \$170 million, mainly because of increases in sums insured, inflation and some price adjustments. In some classes, prices have been reduced during the year as the benefits of legislative changes have been shared with consumers. For example, in Queensland CTP, prices were reduced by approximately 6 percent, or \$21 per ordinary policy, over the year.
- Investment returns on the funds we keep aside to pay claims increased from \$176 million to \$231 million during the year (adjusted for capital movements which do not affect the bottom line insurance trading result).
- The results also benefited from continued improvement in investment earnings on shareholder funds, which rose to \$130 million, from \$11 million the prior year. The strong improvement was mainly due to the strength of the domestic equities markets. The S&P/ASX 200 Accumulation Index rose by 21.6 percent during the financial year.

## Managing Director's Letter to Shareholders (continued)

So those are the main factors affecting the results for the period. Operationally, there were also a large number of initiatives. A few examples are:

- In September, the Company announced the acquisition of the insurance business operated by the Royal Automobile Club of Tasmania (RACTI). RACTI currently sells personal lines insurance (motor, home and boat products). The acquisition was settled in March. With the purchase of RACTI, the group's annual premium in Tasmania is now approximately \$40 million.
- Another important operational improvement was the successful marketing effort to build the Suncorp and GIO brands. This was achieved through carefully targeted advertising campaigns and also through the sponsorship of the Rugby World Cup and the Australian Rugby Union team.
- The strengthened marketing was supported by the implementation of new and improved techniques to accurately assess risks involved in the insurance business, so we can ensure that our pricing properly reflects those risks, and we are targeting the right business. These tools are being rolled out across the general insurance portfolio.

In summary, the general insurance business has had a good year. Our challenge is to grow the business off that strong platform, which is our focus for the current year.

## Wealth Management

	Year ended		Change %
	2004 \$m	2003 \$m	
<b>Wealth Management Profit</b>			
Life company	57	32	78
Funds management	9	9	-
<b>Pre-tax profit</b>	<b>66</b>	<b>41</b>	<b>61</b>

\* Excludes Life and Super policy owners' interests, and tax

Profit before tax for the Wealth Management division increased 61 percent to \$66 million for the year. Investment returns increased significantly, and we also were able to improve the value of new sales by focusing on sales of higher margin products. Funds under management also increased 11 percent to \$11 billion during the year.

At an operational level, a number of initiatives and alliances were completed during the year, which have significantly improved the range and flexibility of product offerings, and strengthened service and distribution capabilities.

- A highlight was the introduction of Easy Invest, a new 'wrap' platform service for investment customers which features access to over 40 wholesale investments, and single account reporting. Enhancements were also made to the existing Easy Super product, and a new risk protection package was developed for personal loan customers.
- Our investment management team also received accolades from two independent research agencies for the performance of our flagship Australian equities fund. ASSIRT awarded a '4-star rating' and Van Eyk awarded an 'A' rating.
- Investment returns exceeded industry benchmarks in all major investment classes for the year, with funds benefiting from the global strength of equity markets.

While Wealth Management is only a relatively small part of our business, it is very important to us in terms of being able to offer a comprehensive suite of products to our customers. We remain very committed to the Wealth Management and Funds Management businesses, and look forward to growing more strongly in the current year, as investor confidence increases.

An important aspect of that will be the introduction of investor choice to the superannuation landscape, and we are already well placed, with a wide offering of funds management products, including core Suncorp products.

## Strategy Progress

That summarises the profit performance at a divisional level. From a group perspective, it is clear we are making headway in terms of our Diversified Financial Services strategy that we outlined in June last year.

The core of that strategy is that we will operate our three business lines independently as part of an integrated financial services group. With that structure, we can drive important synergies that include significant cost savings and higher revenues by selling a wider range of products to our existing customers. That will enable us to deliver results that are better than our monoline competitors. The value of the group will then be higher than the value of the component parts, creating wealth for shareholders.

## Managing Director's Letter to Shareholders (continued)

The starting point for that strategy, of course, was to ensure that our individual business lines are performing well and are individually efficient. This result, and the half year results before it, show that we have fixed the problems that were hindering our performance, and our businesses are now operating well.

We also have made excellent progress in developing systems and processes to ensure that we maximise the benefits of our business model, extracting all of the cost savings and additional revenues available.

Clearly, our results show that we are a very cost efficient organisation, with a low cost to income ratio in the bank, and a low expense ratio in the general insurance company. That reflects the benefits of our structure, which allows us to make better use of our shared infrastructure and overheads across the Company.

On the revenue side, we continue to have the highest cross-sell rates in Australia, in terms of the number of products we sell per customer. We also have established a central team of people with a focus on ensuring that opportunities are being captured across the group, and progress is being measured effectively.

Cross sell targets and staff incentives have been set in each of the business lines. Employees have been equipped with better sales skills, and we are already seeing encouraging results.

For example, in Business Banking, the number of Commercial customers with home loans has grown by 80 percent.

In Retail Banking, our sales per sales session has grown by 30 percent, including substantial general insurance business.

These, and other improvements, mean that we are developing a better understanding of our customers' needs, leading to deeper business relationships with our customers, and, in turn higher returns per customer.

So, good progress is being achieved.

The next step in our strategic journey is to focus on further growth. We have identified six major strategic levers as being critical:

- To be customer focused, with a relentless desire to meet our customers' needs and desires.
- To have a distribution network including branches, intermediaries, call centres and internet facilities that gives customers what they want in a cost efficient way.
- To maintain our track record for getting the job done, implementing change on time and on target.
- To grow our market shares profitably, with attention to both revenue growth and cost containment.
- To take advantage of all of the cross-sale opportunities and potential cost savings available from our Diversified Financial Services model.
- To attract, retain and develop the best team of people in the industry.

All of these strategic levers are important to the success of the group, but I would like to focus briefly on the last one, which is the theme of this report.

## High Performing Team

The success of any business depends on the quality and commitment of its people, and that is particularly the case in financial services, where the interaction between customers and our people is so important.

So we pride ourselves on ensuring that we have people who are properly skilled at their jobs; who care for the customers, and are pleasant and friendly to deal with.

There is a host of things that go into delivering that outcome and during the past year, we have worked hard at creating the environment that attracts, develops and retains good people.

Late in 2003 we restructured the Company along business lines to make it less complicated, and so our people knew how they fitted into the organisation, and had clear lines of responsibility and accountability. We then looked at all the jobs in the Company and made sure we had the right people in the right jobs, with the appropriate job targets and proper financial incentives in place. We called that process the leadership framework, and it has had a marked effect in lifting morale and improving performance.

With that in place, we have undertaken extensive learning and development exercises throughout the organisation.

For example, more than 260 of our senior managers have completed or are undertaking a leadership training course called 'Flare' which equips them with comprehensive skills in motivating people and assisting them to perform well. The program is having significant impacts and developing consistent application of management techniques across the group. Another 1,200 team leaders are scheduled to complete the training over the next two years.

Another example is our 'inFocus' program to improve sales, service and leadership skills in our banking operations. More than 1,800 of our front-line people have now completed the course, and it has been established as an ongoing training program.

## Managing Director's Letter to Shareholders (continued)

In addition to providing our people with job skills, we are working to instil a culture within the Company which reflects the sorts of values that the community respects and demands.

We have defined a set of values that we expect all our people to live by.

They are honesty, trust, fairness, respect, caring and courage and I'm pleased to say that they are already well entrenched in the organisation. By identifying them explicitly, it helps to show people the sort of organisation we are, and aim to stay.

In addition to these, we have developed a Code of Conduct for all our people, which sets out the standards of behaviour we require within the Company. These initiatives ensure we are developing a strong, ethical and rewarding culture, essential for building our relationships and reputation with each other, our customers, our shareholders and the community.

We are demonstrating that through initiatives such as our Volunteer Day, which gives each employee one day's paid leave per year to devote to our community.

Volunteer Day is just one practical way we can demonstrate that we are an organisation that takes our community responsibilities seriously, and is genuine in its desire to make a contribution to the broader society. This is, of course, in addition to the many other community programs and sponsorships we have in place.

## Outlook

I will now turn to the outlook for the current year.

At a high level, the business environment looks conducive to growth. At the moment, the economy is forecast to expand by a healthy 3.5 percent per year for the next four years, with inflation, unemployment and interest rates all expected to remain relatively low and stable. So, while things look favourable, we are keeping a wary eye on the global economic outlook for signs of weakness and ensuring we are well positioned to withstand any unexpected deterioration.

In **Banking**, while there has clearly been a slowdown in housing lending, which is also reflected in property development lending, overall credit growth continues to be quite resilient. We would therefore expect to see total lending grow by around 10 percent in the current year.

Increased competition in banking may lead to some deterioration in margins in the industry in the current year, however, we will be focused on profitable growth.

So in this environment, we expect to deliver a percentage growth in profit before tax greater than single digits.

In **General Insurance**, premiums have increased significantly across the industry over the last couple of years as insurers have moved to charge prices which properly reflect the underlying risks of the business. However, that stepped adjustment in pricing, which has restored appropriate levels of profitability to the industry, has largely run its course. Further price rises are expected to be kept more in line with claims inflation, therefore the recent increases in profitability the industry has experienced are likely to moderate in the future. In some classes, we expect to reduce prices in line with improvements in claims experience.

We do not see any signs of irrational price competition re-emerging in the classes of insurance in which we operate, and we remain confident that the improvements we are making to our business will enable us to win market share from our competitors, increase efficiency and lift profitability.

We also remain cautiously confident that the improvement in claims experience will be sustained. While this will lead to benefits for consumers in the form of reduced prices in some classes, it also will lead to greater stability and improved profitability for insurers.

Therefore, we would expect that the profitability evident in the 2004 results will be largely sustainable in the future. While we previously had a stated insurance trading margin range of 10-13 percent, with this result we are increasing the expected margin to 11-14 percent. As always, this assumes no unusual events or wild swings in investment markets.

## Managing Director's Letter to Shareholders (continued)

In **Wealth Management**, the recovery in equity markets has led to a significant improvement in profitability. Assuming this equity market performance is sustained, we should see some recovery in sales in the current year. We therefore expect to see a double-digit improvement in Wealth Management profit before tax and investment income on capital and retained earnings in the statutory funds.

At a group level, this should translate to further good improvements in underlying profits in the current year.

## Conclusion

Finally then, I would like to take this opportunity to thank the Suncorp team for their hard work and support over the past 12 months. Together, we have made great improvements, and the current year should present many exciting opportunities for us. Thanks also to my fellow directors for their help and guidance, and of course to the shareholders for their ongoing support.

A handwritten signature in black ink, appearing to read 'John Mulcahy', written in a cursive style.

John Mulcahy  
Managing Director and CEO