MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

Dear shareholder,

In the six months to December, the market value of Suncorp climbed by more than $1.7 billion. The Company created wealth for shareholders while also delivering benefits for staff, customers, and the wider community.

For **Customers**, we have made great strides in ensuring that being a Suncorp customer is a pleasant experience.

Our starting point is developing a thorough understanding of customer needs, then designing products and services that clearly meet those needs. A raft of new programs has been established to drive a better customer experience. For example, in General Insurance, we have announced a detailed customer charter, setting out the high standards of service our customers can expect from us. We have also made improvements in call centre processes, which have meant that an estimated 90 percent of general insurance call centre inquiries are being dealt with immediately, at the first point of contact.

Problem resolution also was identified as an important factor in delivering a favourable customer experience. While we are clearly striving to stop problems arising at all, inevitably they do, and when that happens, we want to be sure they are fixed promptly and fairly. A new process for dealing with problems has been developed in retail banking and early results from pilot programs indicated that more than 96 percent of problems are now being resolved inside 24 hours. These programs are leading to further improvements in customer satisfaction, with our retail banking business now ranking above all of the major banks.

For **Staff**, we have developed a better working environment. The new leadership framework has been embedded in the organisation providing clear lines of accountability and responsibility. At the same time, our people are getting excellent training support to help them in their jobs. For example, during the December half, 95 percent of Suncorp's retail banking customer facing staff went through extensive sales and service training, resulting in significant improvements in sales productivity and service standards. Branch product sales increased by 45 percent over the past 12 months.

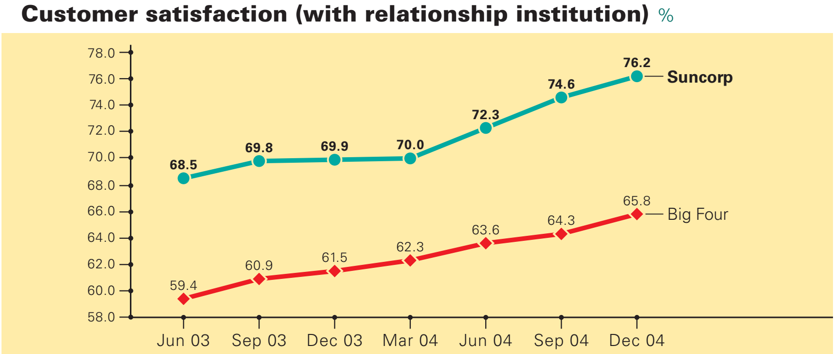
A new certified agreement also was put in place in October which provided pay increases for staff and additional benefits such as additional parental leave and more flexible work arrangements. Staff surveys confirm that employee engagement levels are continuing to increase.

As one of Australia's largest companies, we recognise the obligations we have to the broader **Community**, particularly in our home state of Queensland. We therefore provide financial support to a range of sporting events and community activities. For example, we sponsor the Australian Rugby Union's Wallabies, and the Bridge to Brisbane fun run. We provide financial assistance for the Youth Enterprise Trust and the Hear and Say Centre, as well as the Queensland Cancer Fund.

We recently started a new program called 'Volunteer Day' which entitles each staff member to spend one day a year working for a charity of their choice. And most recently, the Company made an initial contribution of $100,000 to the Tsunami appeal, as part of a total $600,000 initial contribution from our customers and staff. Suncorp is working with World Vision to identify school rebuilding projects for further contributions.

By appropriately satisfying the requirements of Customers, Staff and the Community, the outcome for **Shareholders** was a healthy profit result, and increased shareholder returns.

Customer satisfaction (with relationship institution) %



Source: Roy Morgan Research Pty Ltd., Melbourne, Australia.
Base: Australians aged 14+ with at least a transaction account at that institution. Overall satisfaction is measured ('very' or 'fairly satisfied'). Time period: 6-months moving averages to December 2004.

Financial Performance Summary

Net profit for the six months to December increased by 47 percent to $413 million.

Stripping out the investment returns to get a better picture of underlying performance, the profit result increased 29 percent to $468 million – still a very good improvement.

Profits increased substantially across all divisions, reflecting the favourable business environment, operational improvements across the group, and significant progress in implementation of the Company's diversified financial services strategy.

The **Banking** division reported a 24 percent increase in profit before tax to $220 million. Despite a slowing home lending market, the Company has managed to consolidate the strong improvement in home loan sales achieved in the June half, and is now outperforming the market. Home loan receivables at December were at $18.5 billion, up 18.8 percent from the prior December, compared with 14.9 percent growth for the home lending market as a whole.

These results show the successful implementation of a series of improvements put in place in 2004. In particular, simplified lending processes and increased service standards have improved customer experience leading to a significant lift in customer retention. In addition, broker distribution networks were strengthened and expanded, leading to significant inflows of new business via this channel.

In Business Banking, the relationship banking model has delivered growth of 19.7 percent in assets, which was more than double market growth of 8.7 percent in the 12 months to December. Commercial lending grew

Taking a closer look at the research facililties at QIMR.

by 23 percent, with good growth in interstate markets due to a more sophisticated broker distribution model, and by successfully developing specialist status in key market segments.

A major highlight of the Banking division during the period was the on-going success of the Company's new initiatives to grow retail deposits. The high interest bearing Everyday Options (EDO) Account has attracted approximately $1.5 billion since its launch in March last year. The number of new deposit accounts being opened each month has grown by more than 20 percent since last January, while account closures have reduced by 25 percent.

A feature of the result was our strong margin performance. Compared with the prior December half, our net interest margin increased by seven basis points to 2.31 percent, demonstrating our disciplined pricing. We have also effectively managed the mix of our business towards higher margin lending, reduced discounted introductory product sales and increased our retail funding base.

In **General Insurance**, pre-tax profits grew by 59 percent to $341 million. The Insurance Trading Result (ITR), which is the basic insurance profit, increased by 47 percent to $213 million, equal to an insurance margin of 17.8 percent of net earned premium.

There were a couple of important reasons for the strength of the General Insurance result.

Firstly, we achieved good growth in premium revenues. Prices generally were fairly stable during the period, so the increase was mainly due to growth in the insurance business, and price increases from earlier periods taking effect as policies were renewed.

The six months to December was a period of important cultural transition, as a new sales and growth emphasis was embedded in the business after an extended focus on business integration and cost reduction following the GIO acquisition in 2001.

End-to-end marketing processes have been reviewed, with improvements in how we develop offers, devise sale processes, implement targeted marketing campaigns and track outcomes.

A new 'risk engine' was successfully put in place in the Motor segment during the half year and is currently being extended to Home, and later Commercial insurance.
The risk engine allows for much more sophisticated pricing techniques, leading to improved risk selection by segment and higher insurance profitability.

A second important factor in the results was the excellent claims outcomes in the period. A series of legislative changes in recent years has substantially reduced the costs of personal injury claims. Because we have seen claims being settled for lesser amounts than we had provided for, it has meant that we have been able to release to profit funds that had been held in reserve to pay claims. In addition, we have put away some additional funds in risk margins, because insurance is an uncertain business. Suncorp always seeks to adopt a conservative approach and maintain a very strong prudential position.

This reduction in claims costs has led to improved profitability, but it also has led to reductions in prices for consumers. For example in Queensland Compulsory Third Party insurance, prices have fallen by 9 percent over the 12 months to December and are expected to fall further in the current year.

Wealth Management profits before tax increased 17 percent to $42 million, driven by the strong investment climate and improved sales. A highlight was the strength of investment returns achieved by the investment team. Strong active returns were recorded in the Australian equity and fixed interest portfolios for the half year. The Suncorp Balanced Fund, our flagship diversified portfolio, has achieved 1st quartile returns over one, three and five years as measured by Intech in their January Growth Funds survey.

Strong new business sales (up 21.5 percent on previous corresponding period) continued the trend experienced in the last quarter of FY04. The value of sales increased by 32 percent in comparison with the corresponding period, mainly due to the higher volume of gross sales, but also contributing was a sharp increase in Financial Planners' productivity. The Easy Invest product (a new 'wrap' platform service introduced in FY04) led to higher margins on sales of Suncorp products.

Funds under management grew 17.5 percent to reach $12 billion at December 2004, benefiting from net inflows of $246 million for the period.

Strategy Progress

In addition to the individual business line successes, we also have made good progress in delivering the revenue and cost advantages of our business model. Cross-sell targets have been embedded in the business, cross-group forums have been established to enable opportunities to be identified, and new products are being designed and put into production.

For example, a new package for customers buying a car, which combines a personal loan, car insurance, CTP and consumer credit insurance is now on the market. A similar home loan package for first home buyers is planned for release next month, along with a Small Business package later in the year.

We are already seeing evidence of success. Over the past six months, the proportion of new direct personal loan customers who take out Personal Loan Consumer Credit insurance has been lifted from 40 percent to 68 percent. And sales of home insurance to Queensland direct home loan customers has grown by 12 percent since June, to 68 percent, which is amongst the highest in the financial services industry.

Outlook

The first half profit was clearly a very strong result, and while we will be working hard to maintain the profit growth momentum in the current half, as John Story said, there were some factors in the first half, such as the strong investment returns, that may not be repeatable.

In **Banking**, while we anticipate the economy will continue to perform well, we expect credit growth to slow in some of the key sectors in which we operate, particularly the Property Development and

Sunlovers on Noosa Beach were keen to take advantage of the free sunscreen being offered.

Volunteer Day – staff work one day a year for a charity of their choice.

Investment segments. In addition, margin pressure will persist as a result of the highly competitive environment. However, we remain confident that we will outperform the market in the current period. For the full year, we would expect profit before tax to increase by a percentage in the high teens, up from our previous expectations of an increase greater than single digits.

In **General Insurance**, the results for the first half were excellent, with the Insurance Trading margin at 17.8 percent, well above our long term expected range of 11 percent – 14 percent. While we see no signs of deterioration in industry fundamentals, we would not expect to see the strong claims experience of the first half continue indefinitely. Investment market returns also are expected to moderate in the current period.

Nevertheless, we remain confident that the improvements that are being made to the business will help us to grow net earned premium by 6 percent – 9 percent for the full year, despite rate reductions in some classes, particularly Queensland CTP.

We continue to expect that over the longer term, the sustainable insurance trading result for the Company would be between 11 percent – 14 percent. However, given the strength of the first half result, we would expect the full year profit this year to be above the 11 percent – 14 percent range, subject to there being no unusual claims events or incidence of severe storms.

In **Wealth Management**, equity market returns are unlikely to match the strong first half performance. Underlying earnings, however, should show an improvement in the order of 10 percent for the full year.

At a group level, we would expect that, given the many improvements that have been made to the business and the strong first half performance, we should be able to show a substantial increase in underlying earnings.

Conclusion

Finally then, I would like to take this opportunity to thank all of the Suncorp team for their efforts. The great results are a tribute to them. Thanks also to my fellow directors for their input and guidance, and of course to the shareholders.

John Mulcahy
Managing Director and CEO