SUNCORP

Managing Director's Letter to Shareholders

Dear Shareholder,

It is very satisfying to reflect on another good year for Suncorp and to know that the strategic direction we embarked on over two years ago has resulted in a strong performing organisation and that we are producing excellent outcomes for all of our stakeholders.

A record $821 million net profit is a great result, driven once again by many operational improvements across the group and underpinned by excellent investment returns and good economic conditions.

	Half-Year Ended				
	Jun-05	Dec-04	Jun-04	Dec-03	Jun-05 vs Jun-04
	$m	$m	$m	$m	%
Financial Performance					
Banking	238	220	194	177	22.7
General Insurance	310	341	250	215	24.0
Wealth Management*	49	42	30	36	63.3
Other	4	5	37	6	(89.2)
Profit before tax and good will	**601**	**608**	**511**	**434**	**17.6**
Goodwill amortisation	(30)	(31)	(30)	(30)	-
Income Tax	(163)	(164)	(144)	(123)	13.2
Net profit	**408**	**413**	**337**	**281**	**21.1**

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

Banking

The Banking Division delivered a 23.5 percent increase in pre tax profit to $458 million for the year. A highlight of the result was the strong lending performance right across the division, despite a softening in property markets. Total receivables, including securitised assets, reached $34.8 billion at June, up 15.6 percent for the period and outperforming the industry at 11.8 percent.

	Year Ended		
	2005 $m	2004 $m	Variance %
Banking Profit			
Net interest income	771	656	17.5
Other operating income	162	177	(8.5)
Operating expenses	(447)	(414)	8.0
Bad and doubtful debts expense	(28)	(48)	(41.7)
Pre-tax profit	**458**	**371**	**23.5**

In Business Banking, the relationship management model continues to support ongoing increased sustainable growth in a slowing market. Business lending increased 17.7 percent to $14.4 billion, compared to 11.5 percent for the industry. Strong growth was achieved in Commercial (SME), Corporate and Development Finance lending, with good growth in interstate markets, attributable to the value we place on our relationship with the brokers. Despite prolonged drought conditions along the eastern seaboard, Agribusiness receivables increased 15.2 percent in a strong turnaround for the year.

Overcoming a softening of the home lending market, particularly in the second half of the year, the Retail Banking Division grew mortgage receivables by 14.5 percent for the year to $19.7 billion. This was above the annual industry growth rate of 11.6 percent.

Growth in retail deposits continues to be a feature of the banking performance even though competition remains intense. The 13.4 percent increase, 4 percent higher that the annual industry growth rate, reflects the ongoing success of the award winning Everyday Options (EDO) transaction and savings account which has attracted more than $1.7 billion in retail funds since its launch in March 2004. The new similar Business investment account is also showing early signs of success.

Net interest margins for the year increased to 2.33 percent compared with 2.27 percent in the previous year. This was due to an ongoing focus on the mix of the lending book towards higher margin business, improved liability spreads following increases in official interest rates, and earnings on our strong capital position.

Credit quality remains sound with gross impaired assets of $69 million, equal to .22 percent of gross loans and provisioning cover improving to 248 percent of impaired assets.

General Insurance

General Insurance pre-tax profits grew by 40 percent to $651 million for the year, driven by solid growth in premium revenue, favourable claims experience in long tail business and improved investment income. However the claims experience in home and motor business was affected by an abnormally high number of storm related claims costs, particularly in the second half of the year.

	Year Ended Jun-05 $m	Jun-04 $m	Change %
General Insurance Profit			
Net premium revenue	2,412	2,184	10.4
Net incurred claims	(1,768)	(1,537)	15.0
Operating expenses	(513)	(480)	6.9
Investment income, technical provisions	296	148	100.0
Insurance Trading Result	**427**	**315**	**35.6**
Other income	51	39	30.8
Investment income, shareholder funds	199	130	53.1
GIO acquisition funding costs	(26)	(19)	36.8
Pre-tax profit	**651**	**465**	**40.0**

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

The Insurance Trading Results (ITR), which is made up of premium revenue, less claims costs and operating expenses, plus investment income earned on the funds held to pay claims, is the clearest indicator of the underwriting performance of the general insurance business, increased by 36 percent to $427 million. This equates to an insurance margin of 17.7 percent on net earned premium for the year. The full year margin outcome exceeded the previously stated long term ITR range of 11-14 percent largely due to releases from provisions held for long tail claims.

Gross written premium for the full year rose by 4.6 percent to $2.5 billion, driven by strong growth of risks in force. This highlights the positive momentum in the underlying business growth, despite a highly competitive operating environment, particularly in commercial lines, as well as the constraint to top-line growth from reducing prices across our compulsory third party portfolio.

The continued improvement in personal injury claims experience has brought stability and profitability to the compulsory third party schemes and public liability business. In particular, CTP premium rate reduction of up to 11 percent during the period continued to flow through to customers, but impacted gross written premium growth for the business. To illustrate, total gross written premium growth, excluding CTP, was solid at 8.2 percent for the full year, improving on the previous year's growth of 6.1 percent.

During the year a number of initiatives were implemented to grow the business and achieve cost savings.

We improved end-to-end marketing processes, undertook targetted marketing campaigns, expanded our distribution networks and optimised the performance of existing channels. We focused on customer service, honing in on high impact areas such as call response times as identified by our customers through feedback processes.

Our front line general insurance staff have been through an intensive sales and service training program called InFOCUS which has already produced outstanding results throughout Retail Banking.

And we successfully completed the rollout of our new 'risk engine' for the Motor business. Developed to provide much more sophisticated pricing techniques, it is now being extended to Home, and later Commercial insurance.

Wealth Management

Wealth Management profit before tax increased 38 percent to $91 million for the year. Once again the result benefited from strong investment earnings and a one-off non-recurring item of $17 million.

Funds under Administration increased from $4.3 billion as at June 2004 to $5.2 billion as at June 2005. This increase was driven by strong net flows of $322 million up from $39 million in 2004, as well as strong investment earnings. New business sales in Suncorp products increased from $404 million to $608 million, an increase of 51 percent.

Funds under management totalled $11.9 billion as at June 2005, up from $11.0 billion at June 2004.

	Year Ended Jun-05 $m	Jun-04 $m	Change %
Wealth Management Profit			
Life Company	64	57	12.3
Funds Management	27	9	200.0
Pre-tax profit	**91**	**66**	**37.9**

Excludes Life and Super policyowners' interests, and tax

Throughout the year, our investment products held consistent top quartile positions over both the short and long term. Independent research agency van Eyk again awarded our flagship Australian Equities Fund an 'A' rating.

Wealth Management has benefited from the introduction of a number of new product offerings, including an additional five managed funds, a new term allocated pension and a new trauma risk protection product which will further enhance the ability of Suncorp Financial Planners to provide quality financial advice.

We are already well placed with a wide offering of funds management products to capitalise on the introduction of Super Choice from 1 July 2005 which allows many super fund members to choose where their retirement funds are invested.

Our Strategic Journey

All our lines of business have performed well and are delivering the results expected of a successful, focused organisation.

Let me take you back to the start of our strategic journey, where we are today and the goals we are striving to achieve.

When we first outlined our strategy in 2003, we said that Suncorp was at the start of a journey, to go from an under-performing company to a strong powerful corporate. To do this we established a clear imperative for the group – deliver superior value to our customers and investors by achieving excellence in our lines of business and then maximising the synergies across the group.

In the two years since, we've developed and implemented specific strategies for each of our key stakeholders – customers, employees, community and shareholders. We've clarified our structure, put in place our leadership framework, introduced performance management systems and strengthened our strategic capability.

We've sought to improve the ways in which we understand our customers' needs and manage our relationships with them. We're focused on designing the best solutions for them, how to do more business with them and how we retain their business longer. And we have continuously sought to improve our operating efficiency across all aspects of the business.

The results of this strategy, and the extent to which the organisation has embraced and executed, it are clear. Our lines of business are now performing at least as well, and in a number of cases better than their competitors.

Our customer satisfaction ratings have always been better than the major banks, but, according to independent researcher Roy Morgan, we have started to widen the gap.

Our customer retention performance has also improved significantly. Customers are doing more business with us, which we know aids retention and value.

We know that every player in the financial services market is trying to do the same thing - grow their revenue base by doing more business with their existing customers and acquire new customers. We believe we have fundamental advantages over our peers in that we have full ownership across the value chain from product manufacture to distribution in banking, insurance and wealth management, all under one roof.

This gives us greater information about our customers' needs, the ability to take into account the full relationship value in making pricing and servicing decisions and the ability to consistently manage and motivate our people in a way that is aligned to our strategic goals.

One of the most important areas of focus for us strategically is to strengthen our approach to customised solutions across the group. We think about the whole customer experience – not just about the product but the whole process, including what is the right distribution channel, how can we simplify application forms, streamline fulfilment requirements, apply value based pricing.

We are starting to see the advantages of this approach in new solutions including the My Business, My Home, Equipment Importer Package and Car Loan initiatives which are being positively received by the market. And we are beginning to design solutions for high value opportunities within our existing customer base such as providing business banking solutions for commercial insurance customers.

Despite the progress we have made on our strategic journey, we recognise that we have only just started to deliver and optimise the advantages of our model. By leveraging and focusing on our advantages we can make the move to the next stage in our strategic journey, and that really is going from a performing to a successful conglomerate.

Our People, Our Culture

Our people, our teamwork and our culture were the reasons that we have executed and exceeded expectations to date. They are the reasons that we will achieve the next step in our journey even though we know it's much harder to go from a performing to a successful conglomerate than moving from an under-performing to a performing organisation.

Our first Culture Survey recently resulted in feedback from people in every line of business. The findings identified some of our key strengths in relation to our culture, as well as some of the challenges we face. We know that we have a 'can do' results-focused culture. Our people are prepared to take on challenges, deliver excellent service and positive outcomes. They believe we've got a great accountability structure, our roles are clear, they know what needs to be done for the success of the Company and want to be part of it.

Accountability includes being responsible for our own actions and accountable for the choices we make. We are serious about our values of honesty, trust, fairness, respect, caring and courage which are part of our everyday actions and behaviours. 'Walk the talk' is the way we describe living our values, and our Code of Conduct which sets out the standards of behaviour we require within the Company.

Outlook

So where are we today? We've definitely delivered and moved from being an under-performing to a performing organisation and we have implemented our strategy extremely well. The results we have delivered in the past five reporting halves are proof of our success to date.

At a macro level, the economy is still performing well, with GDP growth for the year forecast to be approximately 3 percent. And Queensland, where we have approximately 50 percent of our business, is expected to out-perform that average. Inflation is under control and unemployment at record lows. Interest rates are expected to remain stable with a relatively flat yield curve. Mortgage lending rates have now moderated from the historic highs of recent years to more normal levels of around 10 to 12 percent. Generally competition in all our markets is intensifying, particularly in the sectors where foreign interests are increasing their presence.

Banking

In Banking we would expect to continue to grow both our asset and retail deposit bases faster than the annual industry growth rates and consequently increase our market shares. Margins however, are expected to contract as a result of intensifying competition in both the mortgage lending and the retail deposits sectors, a slowing in growth in some of our higher margin segments such as development finance, a relatively flat yield curve and a reduction of excess capital.

With regard to credit, we see no indication of deterioration and credit conditions are likely to remain extremely strong. However, it would be unrealistic to expect loan losses to remain indefinitely at current historically low levels.

General Insurance

In General Insurance we would expect premium increases to moderate. Anticipated increases in personal lines will be partially offset by a continuing reduction in premiums in personal injury classes due to the benefits of Tort Law reform being passed onto customers, and increased competition in commercial lines. In terms of growth, we expect to grow market shares in most of our product lines.

With respect to claims, we anticipate the potential size of long tail releases to moderate as premium prices realign with underlying valuation parameters. Weather events are clearly unpredictable but it is hoped that the 2004/2005 experience, which was the worst storm period for the last nine years (excluding the 1999 Sydney hailstorms), will not be repeated. In addition, we are targeting significant claims cost efficiencies.

We continue to believe that the medium to long term sustainable Insurance Trading Result (ITR) is in the range of 11 percent to 14 percent which is below the 17.7 percent achieved this year. However in the absence of any major weather events, we would expect to achieve an ITR towards the upper end, or even exceed this range in the near term.

Wealth Management

In our Wealth Management business, we anticipate growing our Funds under Administration faster than the industry average through increased sales and continuing strong customer retention.

An important source of sales growth will be our ability to increasingly penetrate the group's large banking and insurance customer bases for Wealth Management solutions.

Increased competition and factors such as Super Choice are creating margin compression and we expect this to continue.

Overall we anticipate that equity markets will remain sound, though compared to the performance of the last two years, we expect that returns will moderate towards longer term norms.

Group

Therefore at group level, we expect a strong operating performance and increase in market shares from the majority of our business lines, however increases in underlying profit will be slower if the General Insurance trading margin reverts to its long term sustainable range and if loan losses increase from current historic lows. We would expect our ordinary dividend growth to be at least 10 percent for the full year.

The Journey Ahead

Where do we want to be? We want to be a successful conglomerate – to get there it's important to continue to operate our strong lines of business and then get all the synergies available. It means we have to leverage all of our assets better than anyone else and that means enhancing all of our customer base by actually providing more solutions and giving them better customer service than anyone else.

It means everyone in Suncorp is heading in the same direction, a really high performing team.

In conclusion, I would like to thank the Suncorp team, my fellow directors and our shareholders for their support over the last 12 months and look forward to their ongoing support on the journey ahead.

John Mulcahy
Managing Director and CEO