

Managing Director's Letter to Shareholders

Dear Shareholder,

I'm very pleased to announce another good result for your Company.

Despite intensifying competition and a tougher operating environment, the group continues to perform and deliver benefits for all our stakeholders. Our strategic journey is on course as we deliver and optimise the advantages of our business model.

We continue to design solutions for our **customers** that are useful, useable and desirable to them, based on our insights into their needs. The fact that Suncorp provides "everything under the sun" makes it easier for us to bring together our various products into appropriate bundles.

We've also developed a number of new products designed to meet more of our customers' needs, including investor home and contents insurance, an online virtual safe, and a new comprehensive car insurance offer for the families of loyal customers.

In catering for our banking customers, we have opened a new branch in Helensvale on the Gold Coast and relocated branches in Smithfield in Queensland and Penrith, Liverpool, Port Macquarie and Castle Hill in NSW and equipped them with new facilities that will better meet our customers' requirements. We have also improved our Internet banking facilities to make it easier for people to do business with us.

In the last six months we have simplified our Personal Deposit Accounts, making it easier for our customers to choose the product that suits their lifestyle. Our CANNEX 5 star, award winning transaction and high interest savings account, the Every Day Options Account, continues to attract over 5,000 new accounts per month, with the portfolio in excess of \$2 billion.

Our **employees** are the backbone of our Company. They have a great 'can-do' attitude and are always prepared to take on new challenges and improve the way we deliver to our customers.

We continue to invest in training and development programs. We have almost completed the roll out of inFocus training to our customer-facing employees in Retail Banking and Insurance and have improved our "job readiness" programs and induction processes across the organisation. We also remain focused on developing outstanding leaders, to ensure we provide for Suncorp's long-term future.

In a tight labour market, our retention levels continue to improve. But more importantly, Suncorp has a culture of collaboration where people work together to achieve our common goals, where the best practices from one part of the Company are applied in other areas, and where we carefully prioritise our initiatives and investment to maximise returns.

Our employees have also been at the forefront of our commitment in giving something back to the **community**. Already in the first six months of this year, almost 20 percent of staff have participated in the Volunteer Day program, which gives each employee one day's paid leave a year to work with a range of community and charitable organisations.

This summer, in partnership with the Queensland Institute of Medical Research (QIMR) and Molescan, we launched a major skin cancer education program across Queensland, which has one of the highest skin cancer rates in the world. The program, which benefits all Australians, is focused on the prevention, treatment and cure of skin cancer.

We continue our close association with the Hear and Say Centre, providing funds, assistance and professional services.

Suncorp is also a major sponsor of the Australian Rugby Union, the Queensland Reds and Queensland Cricket, and has actively supported sporting programs particularly in regional and rural Australia. We were also very pleased to sponsor the Sydney Festival again in 2006, under our GIO brand.

The efforts and dedication of our people and the continued support of our 4.3 million customers, has enabled us to continue delivering improved returns to our **shareholders**. These factors produced a strong underlying profit result and enabled us to increase the interim dividend by 12 percent to 47 cents per share, fully franked.

Financial Performance Summary

In reporting these results, we've applied the new Australian equivalent to International Financial Reporting Standards (AIFRS) for the first time. Importantly, while this has meant significant changes to the way in which we calculate and report our financial information, our underlying profit has not been materially affected.

Net profit for the six months to December 2005 increased by 2.9 percent to \$454 million and our underlying profit (which excludes investment returns and non-recurring items) grew strongly, up 7.2 percent to \$491 million.

The strong underlying performance of each of our three businesses contributed to the overall result.

Banking

The Banking business delivered a 16.4 percent increase in profit before tax to \$255 million for the six months to December 2005. Total lending grew by 11.9 percent, despite a softening of the housing market and intense levels of competition across all our portfolios.

During the period we concentrated on driving profitable growth, and the Bank's margin performance reflects this. Our net interest margins declined by just one basis point since December 2004 (on a like-on-like basis, excluding the impact of AIFRS). Operating costs continued to be carefully managed and valuable efficiency gains were achieved.

Housing receivables grew by 11.2 percent to \$19.6 billion compared to the prior December, with continued growth supported by retention and sales initiatives. We also further rationalised our home loan product suite, increased marketing and continue to make improvements in providing better service for our existing customers.

In Business Banking, receivables were up 12.2 percent to \$16.1 billion. The Commercial (SME) and Corporate Lending portfolios performed well, growing by 14.2 percent and 49.9 percent respectively on a year on year basis, while Development Finance and Agribusiness also sustained favourable growth in a tightening market over the same period.

Suncorp continues to achieve above industry growth rates in retail deposits which increased by 12.6 percent to \$13.6 billion to December 2005. This is being driven both by the success of our Everyday Options transaction account, which has now attracted more than \$2 billion in deposits since its launch in March 2004, and also by investment deposit growth, which increased 21.7 percent to \$4.5 billion during the period.

General Insurance

Pre-tax profit in the General Insurance business of \$330 million for the period was underpinned by growth in personal lines and favourable claims outcomes during the period.

The Insurance Trading Result (ITR), which is the underwriting result plus investment income, fell marginally to \$209 million. However, this still equates to a substantial insurance margin of 17.0 percent on net earned premium, well above our long-term guidance range of 11–14 percent.

Gross Written Premium (GWP) of \$1.3 billion for the half-year was up 2.8 percent on the prior December. A 7.8 percent growth in short tail personal lines offset slower growth in Compulsory Third Party business, which resulted from reduced premium rates. This has passed on significant benefits to consumers.

Over the last six months, Suncorp invested heavily in advertising and marketing in developing our franchise and supporting future growth. We paid particular attention to our GIO brand, launching a new marketing campaign and introducing our GIO Rewards program aimed at improving retention.

We are also making good progress in our "claims cost reduction project" which is focused on improving efficiency in order to achieve reduced expenditure on claims.

In personal insurance, higher than expected storm activity impacted on our claims costs. However in long tail classes, we saw continued improvement in claims experience as a result of a series of legislative changes substantially reducing the costs of personal injury claims. These changes have also enabled benefits to be passed onto consumers with significant reductions in rates over the last 18 months.

Wealth Management

Our Wealth Management business continues to be a solid contributor to profit, delivering a pre-tax profit of \$42 million.

The business benefited from sustained confidence in equity markets and strong new business sales which increased by 10.8 percent to \$400 million for the half-year to December following a decline in the previous six months. The value of sales was up by 24 percent, largely as a result of a higher volume of sales and increased profitability on personal risk products.

Consumer Credit Insurance (CCI) sales increased by 88 percent during the 12 months to December. The strong growth benefited from the launch of our new CCI Home Loan Product and increased sales of CCI Personal Loans.

Funds under management grew to \$12.3 billion at December 2005. Funds under administration increased 10.3 percent to \$5.7 billion, the growth underpinned by strong investment earnings and strong net inflows.

Managing Director's Letter to Shareholders (continued)

Our strategy

Achieving our vision and delivering to each of our stakeholders requires continued focus on our six strategic levers – Customer Focus, Optimised Distribution, High Performing Team, Execution Excellence, Group Synergies and Profitable Market Growth. They have underpinned our strong performance over the last two and a half years and provide the platform for the future. While each of these is critical to delivering on our strategy, during 2006 we are increasing our focus on three in particular.

A **High Performing Team** is critical to our success and core to this, is our superior sales and service culture. We have developed and implemented a comprehensive cultural program in our Retail Bank which continues to deliver strong results. The program encompasses training and development, clearly defined service standards, increased leader accountability, improved reward and recognition, and a heightened focus on measurement – from individual KPIs and daily reporting, to mystery shoppers and customer research.

Given the ongoing success of the program in Retail Banking, we have introduced a similar program to General Insurance. We have already seen early signs of success, with sales strike rates and sales values lifting by around 10 percent.

The next strategic lever we are concentrating on is **Customer Focus**. This is all about understanding our customers' needs and providing solutions that meet those needs. We introduced several new customer focused initiatives in 2005 and these have delivered improved referral rates and improved customer retention. We have also introduced a number of new initiatives built on customer insight and design principles.

Following the success of packaging CCI with Personal Loans, we now provide CCI for direct home loan customers. We are focusing on providing better service to home loan customers who are introduced to us by intermediaries. This has seen an increase in the number of products being taken up by these customers, a decrease in error rates and improved relationships with brokers. We have also grown our home loan business through closer association with LJ Hooker, one of Australia's leading real estate companies and a 100 percent-owned Suncorp subsidiary.

Over the next six months, we expect to implement a number of other initiatives focusing on customer service and solutions.

The third priority strategic lever is **Group Synergies**. Our business model and the basis of our competitive advantage is our ability to meet more of our customers' financial needs across banking, insurance and investment. A number of recent pilots have leveraged our unique opportunity to deliver banking solutions to our General Insurance customers.

These pilots have focused on improving referral rates in our insurance call centres, and introducing business banking services to our GIO commercial insurance customers. Both of these pilots delivered very good results and important learnings which we are now planning to apply to other areas of the insurance business, including commercial and workers' compensation. We believe the opportunity is significant.

We are clearly seeing our business model deliver unique competitive advantages and we are well positioned to compete and succeed in an increasingly challenging market.

Outlook

In **Banking**, we will continue to grow revenue by balancing our price and volume mix. We do expect to see some margin contraction in the second half. We do not expect to see a material increase in bad debts and expect that Banking will continue to perform well.

For **General Insurance**, we are confident that we will continue to grow risks in force and deliver GWP growth for the year, despite increased pricing pressure in key product lines, particularly CTP and commercial insurance. We expect claims experience in long tail classes to remain favourable. In the absence of any major events, we expect that our ITR for the year will be above our long-term range of 11–14 percent.

We expect to see good sales growth in **Wealth Management** and an increase in underlying profits for the full year.

At a **Group** level, we expect another strong result for 2005/06, with an increase in underlying profit. We will continue to deliver benefits for each of our key stakeholders. We reconfirm our forecast of ordinary dividend growth of at least 10 percent for the full year.

Conclusion

In the face of intense competition in the Australian financial services industry, Suncorp continues to perform well and has delivered another strong result. I'd like to thank everyone at Suncorp for the hard work and dedication in helping us to achieve this. I'd also like to thank my fellow directors and our shareholders for your continued trust and support.



John Mulcahy
Managing Director and CEO
24 February 2006