Chairman's Letter to Shareholders

Dear Shareholder,

The financial year ending 30 June 2004 has been an important year for Suncorp. It has been a successful year in financial terms, as evidenced by the bottom line profit and the substantial increase in dividend. More significantly, it has been a successful year in operational terms, and that success has not only led to this year's financial result but has provided a sound base for confidence for future years.

The 2004 year is significant in the history of Suncorp. It is the year in which we have clearly entered into the third phase of our development. In the first phase, following the merger in 1996, Suncorp was focused on the integration of the three merger parties. This was a formidable challenge, but was well executed. In the second phase, Suncorp acquired and integrated the businesses of GIO. The acquisition of GIO was of enormous strategic importance for Suncorp, but the integration was a further formidable challenge. This strained our resources, and had implications with respect to growth across the entire organisation. It has, however, proven to be a highly successful acquisition, and the operations of GIO are now integral to the business of the Company.

We entered into our third phase of development under the outstanding leadership of John Mulcahy, and the very effective management team that he has, in a short time, welded together. This phase represents the consolidation of what has gone before and the realisation of the potential and opportunities that had been created. This in no way implies that we have been standing still. The Diversified Financial Services strategy announced in June 2003 is in the course of being implemented and applied. The organisational structure and leadership roles and positions have been comprehensively reviewed, and detailed operational improvements have been introduced throughout the organisation. The change within Suncorp during 2004 has been profound.

The outcome is a company of which we may all be proud. In offering diversified financial services, with the strength of its operations in banking, general insurance and wealth management, and with the strength of those operations throughout Australia, Suncorp is unique. In its third phase, Suncorp is emerging as a great Australian company, with a strong focus on meeting customer needs. But we also recognise that we have our base and our roots in Queensland, and we will retain our market position and community role within Queensland.

2004 has been a great year for Suncorp, and as we enter the third phase of our development with sound, effective and professional management, we have realistic grounds for optimism.

Financial Results Overview

The Company has reported a full year profit of $618 million after tax, which was up 61 percent from $384 million in 2003. Profit for the last six months to June increased by 47 percent to a record $337 million.

Earnings per share for the full year increased 62 percent to $1.23 per share, and return on shareholders' equity, before goodwill, was a respectable 17.5 percent.

The financial results are summarised in the following table.

	Year ended Jun-04 $m	Year ended Jun-03 $m	Variance %
Profit Overview			
Banking	371	318	16.7
General Insurance	465	233	99.6
Wealth Management*	66	41	61.0
Other	42	9	364.1
Profit before tax and goodwill	**944**	**601**	**57.1**
Goodwill amortisation	(60)	(62)	(3.2)
Tax	(266)	(155)	(71.6)
Net profit	**618**	**384**	**60.9**

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

While it is clearly an excellent result, the headline numbers can be skewed by external factors such as the strength of the sharemarket, which affects our investment returns, and by one-off profits during the year, such as the sale of our investment in the Cashcard business for a $31 million pre-tax gain. If we exclude those items to get a better understanding of underlying performance, we see earnings still increased by 34.7 percent to $784 million, before tax. So the core profitability of the company has improved significantly over the year.

As indicated in the table, each of the operating divisions has produced a commendable increase in earnings.

The Banking division lifted profit by 16.7 percent to $371 million, with the highlights being a rapid recovery in home lending, the continued outperformance of our business banking operations, maintenance of margins and the very sound credit quality of the entire book.

In General Insurance, the result rose by almost 100 percent to $465 million. Operating conditions in the industry have recovered significantly over the past two years as insurers have adopted more disciplined pricing practices, and as legislative reforms have reined in escalating claims costs.

Consequently, the industry as a whole is now earning a level of profits which is more appropriate for the risks involved. The improvement simply reflects the fact that the industry in prior periods was recording very poor profitability, which ultimately led to the demise of some participants, or the withdrawal of some insurers from markets such as public liability. The improved profitability of the industry is a good thing for all consumers, because it means that they can be much more confident that their insurance provider is strong and secure, and will be there to pay claims when needed.

The Suncorp insurance business, fresh from the merger with GIO, has been well positioned to benefit from that structural upturn in the industry. Our results show the business has been operating efficiently, and generating satisfactory underwriting results. The profit has also been assisted by a substantial recovery in investment markets, particularly over the last six months.

Wealth Management similarly has enjoyed a strong improvement in investment earnings, contributing to a 61 percent increase in profit to $66 million for the year.

Dividend

The strength of these results, combined with the underlying performance of the Company, has given the Board the confidence to announce a significant increase in the final dividend to 40 cents per share, up from 30 cents for the June half of 2003. That takes the full year dividend to 70 cents per share, fully franked, which represents a 25 percent increase in the dividend for the full year.

The increase in dividends reflects the significant step-up in our earnings profile during the past year as we have reaped the full benefits of the GIO acquisition and implemented improvements to our business lines. We are confident that the higher dividend level is sustainable and in accordance with our longer term policy of delivering continued steady increases for shareholders.

Another factor in our decision to lift the dividend was the franking position of the Company. We have been gradually building up our franking account over time, and we recognise that these franking credits only have value in the hands of the shareholders. The increased dividend helps us to pass more of this value through to shareholders.

The payout ratio for the full year remains at 63 percent, and was 66 percent for the second half, which is a prudent position, having regard to our capital needs for future growth, and our goal of delivering good returns for shareholders.

Outlook

Your Board and Management are optimistic about the future.

In general terms, the business environment continues to be conducive to growth. The economy remains resilient, inflation remains well in check, unemployment is low and interest rates are not expected to increase sharply in the near term. So at a high level, things look favourable.

However, there are clearly some aspects of the business environment that we are watching closely. In the banking sector, leading indicators suggest further slowing in the home lending market, which may provoke increased competition for diminishing volumes. In General Insurance, we are monitoring the market carefully for signs of irrational pricing activity. And in Wealth Management, we are already seeing some price reductions in funds management fees. But these threats are not new. Competition is a constant and healthy feature of the market.

We have confidence in Suncorp's Diversified Financial Services model and in the strength of its resources. The management team has delivered a strong performance in 2004, and we look forward to further healthy improvement in underlying profit in the current year.

Corporate Governance

The level of performance by boards, and corporate governance generally, continue to be of concern to the investing community within Australia. In an address given on 12 May 2004, the chairman of APRA, Dr John Laker, identified the important attributes of a board, beyond a strong sense of accountability, as being:

- independence
- expertise
- diligence
- prudence, and
- transparency.

It goes without saying that integrity underlies each of those attributes. We would endorse that analysis. I would add that it is also essential that, in performing its functions, a board provides clear and effective direction and leadership to management. In order to do so, it must operate on a united and collegiate basis, but in such a manner that the independent views and opinions of the individual directors are respected and accommodated.

During the course of the year we, as a board, reviewed our performance with the assistance of external facilitation. I believe that, in the context of the above criteria, we are meeting the required standards. We cannot, however, become complacent, and we will continue to be vigilant in our examination of the ways in which we can improve on what we do in representing your interests.

At the half year, I advised that, following a review of our Board committee structures, we were to create a new risk committee focused exclusively on that subject. The committee structures constitute a vital cog in the system of checks and balances of our system of corporate governance. Before moving to a new structure, it is essential that we have in place the organisational infrastructure to support that new system. We have delayed the change until we are satisfied that the appropriate infrastructure is in place. It is anticipated that this will be finalised in the next few weeks. Whilst we are satisfied as to the effectiveness of our existing arrangements, which already incorporate a major focus on risk management, we are confident that the operations of the new risk committee will provide an even more rigorous level of internal scrutiny on this important matter.

The importance of the culture which prevails within an organisation with respect to its standards of corporate governance is now well recognised. It is essential that this culture be fair, open and accountable. This is a basis upon which the Suncorp Board itself operates, both internally and in its dealings with Management, and it is a culture which John Mulcahy is passionately driving throughout the organisation.

That leads me to the theme of this year's annual report, which is the importance we place on our people, and the way the Company and its employees are engaged in the broader community.

We have roughly 8,000 staff, and our performance is absolutely dependent on the quality and commitment of our people. Throughout this report you will see numerous references to the importance of our staff, the efforts that are being made to develop and foster talent and leadership within the organisation. On behalf of the Board, I want to thank the staff for their excellent efforts during 2004.

I also would like to thank my fellow directors, and you, the shareholders, for your ongoing support.

John Story

Chairman