SUNCORP

Chairman's Letter to Shareholders

Dear Shareholder,

The 2005 financial year has been another very rewarding period for our Company.

The strength of our operations in banking, insurance and wealth management throughout Australia, but particularly in our home base in Queensland, is well reflected in our financial performance and in the performance of Suncorp shares over the 12 months to 30 June 2005. It represents a very satisfying outcome for our loyal shareholders.

During the past two years, John Mulcahy, and his management team have streamlined the group strategy, restructured the organisation and improved operational performance. Today we are a strong, performing Company with a bright future.

The Board reiterates its confidence in the effectiveness of the group strategy and in the commitment of John and his team, indeed all Suncorp staff, to maximise the advantages of our unique financial services diversification to deliver the very best experience for our customers and to capitalise on the operating synergies that emerge right across the group.

Financial Performance Summary

I am very pleased to be reporting another set of excellent financial results.

Profit contributions from each of our three operating divisions lifted substantially during the year to 30 June 2005, leading to a 33 percent increase in group net profit after tax, to $821 million for the full year. This included a record half-year result of $408 million for the final six months of the year – up 21 percent on the prior corresponding period.

The results are summarised in the following table:

	Year Ended Jun-05 $m	Jun-04 $m	Variance %
Profit Overview			
Banking	458	371	23.5
General Insurance	651	465	40.0
Wealth Management*	91	66	37.9
Other	9	43	(79.1)
Profit before tax and goodwill	**1,209**	**945**	**27.9**
Goodwill amortisation	(61)	(60)	1.7
Tax	(327)	(267)	22.5
Net profit	**821**	**618**	**32.8**

* Excludes life and super policy owners' interests, and tax

The **Banking Division** lifted profit before tax by 24 percent to $458 million, a strong result achieved despite a slowdown in the home lending and property development markets, and fierce competition for customer deposits. Lending grew by 15.6 percent, including securitised loans, above the total industry growth rate of 11.8 percent, with a strong performance delivered in both retail and business lending. The credit quality of our book remains strong.

In **General Insurance**, the pre-tax contribution to group profits increased by 40 percent to $651 million. This was another good result for the division, driven by solid growth in premium revenue, and excellent returns on investment funds. Also strongly beneficial to the result was the positive claims experience in personal injury classes, though this was offset by well above average storm activity during the year in short tail personal lines.

In **Wealth Management**, the pre-tax profit grew 38 percent to $91 million, largely driven by strong investment earnings with conditions in investment markets remaining favourable, and increased planned profits.

On any view, these are outstanding results, which reflect the significant improvements that have been made to every aspect of our operations. Our businesses are, however, complex, and that complexity flows through to our financial reporting. In assessing the quality of the performance, there are a number of factors that we need to take into account, and I will endeavour, at a high level, to outline the more important of those.

- Investment returns on the shareholders' funds held in our general insurance business, funds under management in our wealth management business and shareholder funds in the joint venture general insurance businesses are dependent upon the performance of the external investment markets. The market results for 2005 have been very good, and our returns reflect those results. To better assess our operating performance from one year to the next, we calculate our underlying profit, which disregards the returns on our investment funds. For 2005, the underlying profit increased by 26.7 percent. This increase demonstrates the operating strength of the businesses.
- Our general insurance business is constituted by what are described as short tail and long tail businesses. The characteristic of the short tail business is that claims under the policies that we have issued will be substantially resolved during the year in which they were issued or shortly thereafter. The characteristic of the long tail business is that claims may not be made or resolved for a number of years following the year in which the policies were issued. This particularly includes claims in respect of personal injuries where the injuries must stabilise in order to assess the appropriate compensation.

  The reporting of our performance for short tail insurance is relatively straightforward. We are in a position to estimate with relative accuracy the amount of the claims that have been made or will be made in respect of the policies issued during the year. In the case of long tail insurance, it is considerably more complicated. We must estimate, in respect of both the claims that have been made and which it is expected will be made, the amounts which we will be called upon to pay over a period extending well into the future. The very nature of insurance is that we be in a position to meet those claims, and for that purpose, amounts are set aside or provided out of the premiums that we have received in each year. With actuarial assistance, we not only estimate the present value of those future claims, but we provide a risk margin on top of that estimate to cover the uncertainties that are involved in making the estimate. These provisions are set out in our accounts.

  The actuarial examination that is undertaken for each accounting period not only looks at the future claims that might arise in respect of policies issued during that period, but reassesses the estimates undertaken in respect of prior years that remain outstanding. With the benefit of developing experience, the provisions that have been made in respect of past periods may then be adjusted. If there is concern that those provisions may not be adequate, they will be increased, thereby reducing the profit which we would otherwise have made. If, however, the provisions are considered to be more than adequate, they will be reduced by the appropriate amount, and the amounts so released will increase the profit for the period.

  In recent years, there was a trend which saw the awards of compensation for personal injuries emerging out of our legal system increasing to an extent which was beyond the level considered reasonable by community standards. The consequence of this increase was instability within the insurance system, significant increases in premiums and areas where public indemnity insurance simply became unavailable. In recognition of this trend, the Commonwealth and State Governments moved to amend the laws relating to those legal processes.

  We are now seeing the benefit of those reforms. Firstly, there is now stability within the Australian insurance system, and Australian policy holders may be confident of the protection of the policies which they hold. Secondly, the increase in premiums has moderated and, in some instances, reduced. In particular, I refer to the premiums for compulsory third party insurance in Queensland which have reduced by 11 percent. Thirdly, these reforms have enabled us to make releases from the provisions that we made in prior years at a time when the reforms had not been introduced or where we were uncertain as to the outcome of those reforms. We estimate this year that, as a consequence, we have been able to release from our provisions an amount which is in excess of what we might otherwise have expected. This amount is in the order of $135 million. I emphasise that this release does not relate to the policies issued during the current year but is in respect of our prior years' provisioning.

  Because our provisioning for each year includes both our best estimate of future claims and a risk margin over and above that estimate, it is reasonable to expect that in each year there will be releases from provisions with respect to the prior years' provisioning. The amount of the releases will depend upon the way in which our claims experience during the year has developed in relation to our estimates made in prior years. The year under review has seen a favourable experience as a consequence of the impact of the reforms. This will not, however, always be the case.

- Another factor to be taken into account in assessing the year under review is the impact of the storms. In assessing our underwriting risk, and the pricing of that risk, we take into account the historic patterns of the storm seasons in the areas in respect of which we issue policies. The experience during the year saw storm activity that substantially exceeded those historical patterns by a factor approximately 1.9 times.
- The outcome for our general insurance businesses for the year, therefore, has seen a very good result for our long tail business but a result that we would regard as below our expectations for the short tail business. Combining the two businesses, we have a result which we regard as very satisfactory indeed. In particular, we have seen growth in the number of policies in force in all businesses, very encouraging premium growth in our short tail businesses and reductions in premiums in certain of our long tail businesses which reflects the more stable profile of the risks which we are assuming in those businesses. It is a diversified portfolio and we derive strength from that diversity.
- One of the factors contributing to our improved banking performance was a reduced charge for bad and doubtful debts. The amount was $28 million compared to $48 million in 2004. As a proportion of average loans, advances and other receivables, the bad debt charge amounts to just nine basis points for the year, which reflects the very high credit quality of the book. This outcome is attributable firstly to the prudent and well managed lending practices adopted within our retail and business banks. It is also a factor of the favourable economic conditions within Australia during 2004/05. The amount of the charge for bad and doubtful debts must inevitably be a factor of the overall economic circumstances. Whilst we can see no evidence of any deterioration in our credit quality, it would not be reasonable to expect the current historic low levels to be sustained indefinitely.

In summary, I re-iterate that it is an outstanding result based upon sustainable operating improvements built into our businesses during the past two years. It is, however, a result that should be seen in the context of the factors that I have outlined.

Dividend

The solid group profit result has enabled the Board to declare a final ordinary dividend of 45 cents per share, up five cents, taking the full year ordinary dividend to 87 cents per share, fully franked. This delivers on our commitment to provide consistently increasing dividends to shareholders.

The earnings per share, on a cash basis before goodwill, increased 29 percent to a record $1.60 For the year. The payout ratio for the full year was 59.9 percent.

Special Dividend

In my address to the AGM last year, I commented that the Company had accumulated a sizeable franking credit balance, which we clearly recognised as having value only in the hands of the shareholders. I would also note that the Company is in a strong capital position. Having examined ways to distribute surplus capital and franking credits, and in the context of the group's ongoing capital needs, we have announced a special dividend of 75 cents, fully franked, which will be paid in October 2005 at the same time as the final dividend.

This will be supported by a subordinated debt transaction of $200 million from the bank. The capital management initiative is aimed at adjusting our capital position closer to optimal levels.

Suncorp's share price continued to deliver strong capital appreciation for shareholders during the year. By year-end, the share price increased by 42 percent to $20.11 which, together with dividends paid, resulted in a 47 percent return for shareholders for the year ended 30 June 2005. Suncorp has remained in the top 25 of ASX listed companies based on market capitalisation, currently around $11 billion.

Regulatory Changes

In recent years we have seen some very significant regulatory changes. The impact of these will be reflected in our Annual Report from this year forward. It is not my intention to go into detail here but to summarise for you some of the key changes, which you can read about more fully in the Financial Notes.

From 1 July 2005 all Australian companies that prepare financial reports under the Corporations Act will need to comply with **IFRS** (International Financial Reporting Standards), an accounting language and framework for financial reporting that is being adopted by many countries. Conversion to IFRS has been a significant burden for all Australian companies and it is to be hoped that the move towards global consistency and increased financial visibility will provide benefits to substantiate that burden. You will see changes in the way we report such things as loan impairment provisions and fee income in our next set of results, but the significance of the changes will be fully explained.

Compliance with the **Basel II** framework has required the development of improved systems capability, and enhancements to data management abilities. In the bank, this has included implementing vastly improved risk management systems. The Company's Basel II program is well advanced, and there is every confidence that compliance will be achieved across our operations by the prescribed date of January 2008. It is a principle of Basel II that, beyond compliance, there is a focus on the operational and strategic benefits that will flow from the availability of enhanced risk information.

Chairman's Letter to Shareholders (continued)

The **CLERP 9** amendments to the Corporations Act took effect on 1 July 2004 with the great majority of changes affecting financial reporting from 1 July 2004 and hence are included in this year's financial statements. The amendments have ushered in a wave of new rules governing matters as diverse as auditor independence, executive and director remuneration disclosure, financial reporting, shareholder participation and information, and management of conflicts of interest for financial services licensees. Suncorp has reviewed its current processes in order to ensure compliance with the new requirements.

In May and June this year, **APRA** published a number of revised draft Prudential Standards affecting risk and financial management of general insurers, and corporate governance of banks, general insurers, life companies and superannuation funds, and fitness and propriety requirements for their respective directors, trustees and senior managers. The Company has already implemented corporate governance changes (for example, in the structure and responsibilities of our Board and its committees), so as to reflect industry best practice as exemplified in the ASX Corporate Governance. However, a number of other proposed changes are extensive and complex, and Suncorp maintains an open dialogue with the regulator with the hope of producing a workable standard that is beneficial to the interests of both shareholders and policy holders. APRA is targeting implementation of the revised Standards by July 2006, subject to industry feedback.

Outlook

Your Board and Management remain optimistic about the future.

In general terms macro economic fundamentals remain strong and conducive to growth. GDP growth at approximately 3 percent is still relatively robust, inflation is in check, unemployment is at record lows and interest rates appear to have stabilised.

There are, however, signs of competition intensifying in a number of markets, particularly in the mortgage and deposit markets in retail banking and in the commercial sector in general insurance. We believe that Suncorp is well equipped to meet the challenges effectively and can continue to gain market shares in most of its key segments whilst maintaining pricing discipline.

We continue to have confidence in the diversified financial services model and the capabilities of the management team, who have delivered another first class result in 2005.

We expect underlying operating performance to again be strong but the extent of profit increases will be dependent upon the impact of matters such as those that I outlined earlier in this letter, in particular, the performance of the investment markets, claims experience in both our long tail and short tail insurance businesses and the economic climate affecting credit quality.

Acknowledgments

This has been an exceptionally busy year for your Board. To better achieve our objectives of good corporate governance, we restructured our board committee system, with effect from October 2004. A new Risk Committee was constituted, which encompasses the responsibilities of risk and compliance. The Audit Committee now focuses on audit and assurance. All non-executive directors are members of both committees and it would be expected that our two executive directors would attend all meetings by invitation, except for those times when the committees meet in the absence of management. This structure is designed to ensure that we meet all regulatory obligations through the operation of the committees, leaving board meetings focused on the development of strategy and on review of the operational performance of the group.

This structure does constitute a significant burden for directors, and, either as a board or through the committee structure, we are meeting in excess of 20 times a year.

I thank each member of the Board for their unstinting commitment and support.

Rod Cormie will retire from the Board at the conclusion of this year's AGM. On behalf of the Board, management and shareholders, I thank Rod for the great contribution that he has made. Rod joined the Board in 1996, at the time of our merger, having previously served as a director of QIDC from 1990. He was chairman of our Credit Committee and a member of the Investment Committee, until the committee restructure in October 2004. During this period of service, we have valued his wisdom, his commercial acumen and his enthusiastic commitment to the best interests of the Company.

Thank you also to John Mulcahy, his management team and all the staff for their efforts and contribution during the year, and to you, our shareholders, for your continuing support.

John Story
Chairman