

Chairman's Letter to Shareholders

Dear Shareholder,

The results for the first half of the 2006 financial year confirm another strong performance for Suncorp.

Net profit after tax of \$454 million for the six months to December, up 2.9 percent, has been achieved in increasingly competitive market conditions. The underlying profit for the group, which is more reflective of the true performance of the Company, increased by 7.2 percent to \$491 million.

In keeping with our policy of consistently increasing cash dividends, the interim dividend has been increased 12 percent to 47 cents, fully franked. Earnings per share increased 3.0 percent to 82.9 cents for the period.

The increasingly competitive financial environment in which we find ourselves today is no surprise. Last year I indicated to you that there were signs of competition intensifying in a number of markets and this has proven to be correct, most particularly in the mortgage and deposit markets in retail banking and in the commercial sector in banking and general insurance. The Suncorp model has shown resilience in the face of such competition and it has equipped us well to meet the challenges of today and tomorrow.

Last year I also provided you with an update on the positive impacts legislative changes have had on the general insurance industry. The industry continues to enjoy a return to stability, with the benefits flowing to industry participants and consumers alike. Significant reductions in premiums for CTP are flowing through. In recent months we have heard from those who argue for these provisions to be wound back. Such a move would not be in the best interests of consumers, the industry or the nation and should continue to be resisted by Governments at state and federal levels.

The group financial results are summarised in the following table:

	Half-Year Ended		Dec-04 \$m	Dec-05 vs Dec-04 %
	Dec-05 \$m	Jun-05 \$m		
Profit Overview				
Banking	255	235	219	16.4
General Insurance	330	316	344	(4.1)
Wealth Management	42	52	41	2.4
LJ Hooker and other	6	4	5	20.0
Consolidation	(6)	(5)	(5)	20.0
Profit before tax	627	602	604	3.8
Tax	(173)	(162)	(163)	6.1
Net profit	454	440	441	2.9
Underlying profit	491	479	458	7.2

All business lines continue to perform well.

The **Banking Division** lifted profits before tax by 16.4 percent, an excellent result given the strength of competition during the period. Lending growth, while still strong at 11.9 percent, has slowed as we proactively managed the price/volume mix in order to maintain margins and optimise total income. Our exposure to the vibrant Queensland economy continues to support growth in retail and business lending, but also in retail deposits, which outperformed the industry during the period. Expense control remains tight while credit quality remains sound, with robust provisioning levels.

In **General Insurance**, growth in short tail personal lines was particularly pleasing, with improving GIO sales now supplementing the Suncorp brand strength. However, storm activity was higher than expected in these classes, as well as impacting the commercial segment. In the long tail classes, CTP premium growth was impacted by continued reduction in premium rates, in line with the improving claims experience emerging as a consequence of tort reform. The Insurance Trading Result (ITR), which is the clearest indicator of performance in the underwritten general insurance business, is a very solid 17 percent, well above our long-term range of 11–14 percent.

Chairman's Letter to Shareholders (continued)

In **Wealth Management**, sustained confidence in equity markets as well as the abolition of the superannuation surcharge supported growth in new business sales. Strong investment earnings and improved net inflows contributed to the 10.3 percent rise in funds under administration to \$5.7 billion while funds under management also benefited from the favourable investment climate reaching \$12.3 billion at December 2005. It is pleasing to note, with respect to our investment performance, that all asset classes recorded active returns in the half year and that the SUN Superannuation Balanced Fund, the flagship diversified portfolio, has achieved first quartile returns over three and five years.

The Board maintains confidence in the diversified financial services model and the capabilities of the management team. Suncorp has a unique culture, underpinned by teamwork, customer focus and accountability. With our three businesses in good shape and a continued focus on developing and executing initiatives in support of our strategy, we are now better placed to secure the synergies that our conglomerate model provides.

Outlook

The Board remains confident in the solid foundation that has been built and the position Suncorp is in to meet the challenges ahead.

The economy is still strong, unemployment remains low and any interest rate increases do not appear to be on the immediate horizon. Intense competition is likely to remain but we are confident of growing our banking revenue and risks in force, despite softening prices in some key insurance products. The sales growth in Wealth Management is also expected to continue.

We anticipate another good result for the group for the year and reconfirm our expectation of ordinary dividend growth of at least 10 percent.

And finally, I would like to thank my fellow directors for their support and the management team and staff for their hard work and dedicated contribution. Thank you also to our shareholders for their continued loyalty.



John Story
Chairman
24 February 2006