

## **Managing Director's Letter to Shareholders**

Dear shareholder,

2007 was an eventful year for your Company, culminating in March's successful completion of the merger with Promina Group – a historic event for both companies.

Since then, we have been busy integrating the Promina businesses; we are helping our customers recover from the severe storms that hit the Hunter Valley and Gippsland regions in June; and, throughout all of this activity, we have maintained the day to day performance of our business lines to post another strong financial result.

This was all achieved against a backdrop of intensifying competition in financial services. By focusing on our fundamentals around credit and risk, we are in a strong competitive position across our banking, insurance and wealth management businesses.

### **2007 Annual Result**

Suncorp's net profit after tax for the 2007 financial year was a record \$1.064 billion, an increase of 16.2% year on year and the first time we have broken the \$1 billion mark.

We could not have achieved these results without the outstanding contribution of the senior leadership group, their teams and all of our employees throughout Australia and New Zealand. I would like to thank everyone at Suncorp for their outstanding contributions.

### **Lines of Business performance**

Suncorp's 2007 financial performance was strong, with each of our business lines demonstrating their ability to maintain momentum in an extremely competitive environment whilst also contributing towards integration progress.

The **Bank** delivered a solid result, lifting profit before tax by 12.5% to \$569 million for the year.

This headline result was very pleasing considering the challenges of intensifying competition and other external factors such as increased regulatory compliance costs. Our response was measured and disciplined, and involved a refresh of our retail banking strategy in response to the changing industry dynamic.

The product and pricing initiatives we put in place more than 12 months ago enabled us to perform well across our home, business and consumer lending portfolios.

With revenue growth exceeding expense growth, the Bank's cost to income ratio improved to a very competitive 44.6% for the year. Credit quality remained stable and losses low by historical standards.

**General Insurance** saw good performances across all the businesses in the merged Group. Despite the twin challenges of integration and the storms that affected New South Wales and Victoria, the business posted a full year profit before tax of \$976 million.

The standalone Suncorp general insurance business achieved a full year profit before tax of \$706 million. This was driven by efficiencies in claims management, improvements in risk selection and pricing and our continued policy of conservative provisioning. The Insurance Trading Ratio (ITR), which is the best measure of the underlying performance of a general insurer, was 19.6%. This was ahead of our 16 - 19% guidance for the year.

The former Promina general insurance business, which includes brands such as AAMI, APIA, Just Car, Shannons and Vero, maintained its enviable growth profile with overall gross written premium up by 4.3%. Growth was particularly strong in the highly competitive home and motor classes.

Together these results underscore the highly complementary nature of the two businesses and the enormous opportunities available to the combined group. Our “best of the best” approach will protect the inherent value of both businesses whilst enabling the combined business to be significantly better than the sum of its parts.

The **Wealth Management** business capitalised on changes to superannuation laws and favourable equity markets, contributing profit before tax of \$221 million.

Suncorp’s wealth management business increased its after tax profit by 28.2%, an outstanding result featuring increased new business flows and improved retention.

The Promina wealth management business also performed strongly, delivering a 19% increase in after tax profit. This was due to its focus on the delivery of superior customer experiences in the advisor network.

Again, bringing these strongly performing wealth management businesses together provides significant opportunities to the Group due to its increased scale, as well as its combined product suite, distribution avenues and customer base.

### **Promina Merger**

Suncorp first started planning for the Promina Group transaction in 2005 and everything we have learned since then, including the early stages of integration, has only served to underline the huge opportunities that are available to us.

Since the merger was completed in March 2007, much progress has been made on integration.

We have appointed the new executive team who have defined the purpose – **‘we help people build and protect their dreams’** – and vision – **‘to be the most admired financial services organisation in Australia and New Zealand’** – of our combined organisation. These two simple statements articulate clearly why we are in business, what we aspire to achieve and how we want to be viewed by all of our stakeholders.

Our business lines are well progressed in finalising their strategic models combining the best of both organisations and establishing the teams that will deliver these plans.

Integration milestones and deliverables have been set, the governance infrastructure for the integration is in place, we have already locked in \$55 million of annualised synergies and business lines are progressing numerous initiatives that will realise further synergy benefits.

Despite all of this activity, the strong performance of our business lines demonstrated that the challenges associated with completing the Promina transaction and the first steps of integration have not distracted us nor have there been any 'easy wins' for any of our competitors.

### **Delivering to our Stakeholders**

#### **- Customers**

If Suncorp is to take fullest advantage of the opportunities now available to us, it is essential that our customers remain at the centre of everything we do.

Our aim is to deliver legendary customer experience through targeted brands and tailored products at the front end whilst also being highly efficient, collaborative and synergy seeking where it makes sense to do so. We are harnessing best practice in this area from the former Suncorp and Promina businesses and using this to build a new Suncorp that is highly focussed and agile.

It is no secret that the financial services industry is as competitive as it has ever been, with competition to attract and retain customers remaining fierce across our business lines. As I mentioned earlier, this environment requires a measured and disciplined response that recognises customers' needs.

The core of our response has been to drive improvements in our market segmentation capability – in other words to have a deeper understanding of our customers and their needs; to be innovative around product development and packaging so that we can tailor solutions to customer needs; and to be able to capitalise on our competitive advantages and specialty focus across our business lines.

Suncorp's unique business model allows it to gain a high level of insight into customers' needs across the spectrum of financial services solutions. This enables the Group to capitalise on logical cross-sell opportunities – at the end of the financial year, Suncorp had maintained its lead against competitors in relation to this measure with 2.97 products per customer.

Our organisation's commitment to providing the highest standards of customer service was again seen following the severe storms which affected parts of the Hunter region in New South Wales and the Gippsland region in Victoria in June.

In responding to over 20,000 home, motor and commercial insurance claims that resulted from the storms, the Group's insurance businesses have drawn on the lessons learned from Cyclone Larry. We established a presence in the affected regions immediately and are already well into the recovery effort in partnership with international project management group Bovis Lend Lease.

#### - **Our People**

Suncorp's merger with Promina has seen the company's workforce almost double to 16,000 employees in 450 locations throughout Australia and New Zealand.

This has created increased career and development opportunities for all employees across different businesses, disciplines, specialities and geographies. It has also created an important point of difference for Suncorp in a market where talent and skills are in short supply.

We are focused on attracting, rewarding and retaining key talent through a combination of initiatives, including creating new and enhanced leadership programs, building environments where employees love to work, improving employee terms and conditions and supporting work life balance.

We continued to look to internal candidates to fill open roles in 2007. This was made possible through the implementation of accelerated development programs designed to fast-track skills levels in critical areas, as well as new and enhanced leadership programs such as Suncorp's *Active Leadership Series* and Promina's *Leadership Pathways Program*, which was developed in partnership with the Australian Graduate School of Management.

Suncorp aims to identify ways to provide terms and conditions of employment that reflect our high performance culture and ongoing commitment to making Suncorp a great place to work.

Our new Working Together Agreement covering 9,000 of our employees was developed by consulting widely across the business. This culminated in a great outcome for our people and organisation with resounding participation and yes votes.

This year, more than 2,800 Sydney and Brisbane employees were relocated to state of the art buildings in Suncorp Place in Sydney and Brisbane Square. These buildings were specifically designed to encourage collaboration between teams and enable flexible work practices.

#### - **Community**

Suncorp has a proud history of working closely with the communities in which we operate in an effort to ensure we support their economic and social prosperity.

Our program, combined with that of the former Promina Group which had similar aims, ensures the Group's community program benefits people from all walks of life across a broad range of medical, education, culture and the arts, community and sporting portfolios.

We feel that all of the Group's initiatives are noteworthy but, for the purposes of this report, I would like to make special mention of the following community projects, many of which Suncorp people also supported by volunteering their time.

### ***Sponsorship***

2007 marked the third year Suncorp has worked with the Queensland Institute of Medical Research, Greening Australia and the Sunshine Coast and Townsville City Councils to try to positively impact sun-safe behavioural change in the community. Suncorp continued to support the work of Queensland's Hear and Say Centre whilst the Promina Foundation donated \$100,000 each to the Children's Medical Research Institute and Barnardos Australia.

AAMI's support for the National Trauma Research Institute helps that organisation limit the disabling effects of traumatic injury via research and education whilst Suncorp's support of Youngcare helps young Australians with high-care needs. AAMI also provided invaluable support for the Australian Drug Foundation to help develop an education and information campaign designed to generate awareness about drug driving. APIA has formed partnerships with organisations such as Adult Learning Australia and Probus to help develop programs that provide an improved quality of life for older Australians.

The Group has a number of partnerships supporting culture and the arts. Vero New Zealand is a long-term sponsor of the Auckland Philharmonic Orchestra, AAMI was principal sponsor of the Australian National Library's *National Treasures* Exhibition which toured throughout Australia, and GIO has sponsored the Domain Concert Series as part of the Sydney Festival for the last three years.

Suncorp reaches many in the community through its links to sporting groups. This includes rugby union through sponsorship of the Wallabies, Queensland Reds and Air New Zealand Cup referees through to Vero Marine New Zealand's support for Team New Zealand's America Cup challenge and Shannons' major sponsorship of car clubs and enthusiast groups throughout Australia.

### ***Environment***

Suncorp is acutely aware that environmental issues are critical to our community and, ultimately, the success of our business given the potential impact of changing climate conditions on our customer base.

The Group looks for ways to make a positive contribution on this issue, whether it is through support for organisations such as Greening Australia, moving our people into "green" office buildings, or launching new home and motor insurance products that reward customers who make eco-friendly choices.

We will continue to look for ways to make a positive contribution towards the environment by improving the way we operate our businesses, by incentivising our customers, and by supporting third party organisations innovating in this area.

## *Volunteering*

Suncorp's Volunteer Day program allows each employee one day's paid leave per year to support a charity. Suncorp's participation in volunteer activities is over five times the Financial Services industry average, with more than half of our employees participating in the program in 2007.

### - **Shareholders**

Your Company has a strong track record of delivering benefits to shareholders. Our strong result in 2007 enabled us to declare a 55 cent, fully franked, final ordinary dividend, taking the full year ordinary dividend to \$1.07 per share.

Through the entitlement offer used to partially fund the merger with Promina, we were pleased to be able to give shareholders the choice to either share in the growth opportunities available to the merged group at an attractive discount to the market value of Suncorp shares or to cash out their entitlement.

Finally, I would like to take this opportunity to welcome those former Promina shareholders that joined the register following the merger as well as thank all shareholders for their ongoing support.

## **Outlook**

At a macroeconomic level, it is likely the Reserve Bank will continue to use monetary policy as a means of addressing inflationary pressures in the Australian economy. Accordingly, we would expect this to have a moderating impact on credit formation, particularly in the retail mortgage market. While Suncorp has no direct exposure to the sub-prime mortgage market in the United States, the secondary impact of tightening liquidity and widening credit spreads could impact credit markets in Australia.

Suncorp is well positioned to manage through these scenarios effectively and we continue to have confidence in the long term direction of the equity markets.

In **Banking**, we will continue to balance price and volume to grow the overall portfolio at, or slightly above, system rates. Assuming no major changes in underlying market conditions, we would expect to grow banking profit before tax and bad debts by approximately 10% for the year.

In the **General Insurance** business, we expect better than system growth across our full portfolio as we leverage the strong GWP growth profile of the former Promina brands and an improving GWP growth profile across the Suncorp and GIO brands.

Premium reductions in CTP and personal injury classes, continued pricing competition in commercial lines and moderating releases in long tail classes means that we expect to achieve the previously stated guidance for both the Suncorp GI business (ITR 16% to 19%) and Promina GI business (ITR 10+%). This will result in an ITR for the merged group in the range of 13% to 16%, excluding any major weather event.

We anticipate continued growth in funds under administration through increased sales and customer retention through our **Wealth Management** business. On an underlying basis, which excludes investment returns on shareholder funds, we expect to achieve profit growth greater than 10%.

A review of the Group's **capital** structure is being undertaken in order to optimise the Group's capital potential. This project, which needs to be undertaken in consultation with Rating Agencies, is expected to be completed during the June quarter of 2008. The Group's capital strategy will also take into account overall operating conditions (including any major weather events) and the long term impact of investment market volatility on the Group's shareholder fund portfolios. Accordingly, we expect the Group will be well placed to consider its capital management options by the end of June 2008.

At the **Group** level we anticipate providing sustainable growth in dividends, although growth may not necessarily be at the same rate as in recent years. It remains likely that the Merged Groups payout ratio will temporarily rise as a result of the timing of synergy realisation and integration expenses on consolidated earnings.

## **Conclusion**

In what was an exciting and challenging 2007, Suncorp maintained its focus on the task at hand and delivered another strong result.

Our strongly performing business lines and the range of opportunities provided by the merger with Promina means we are in a fantastic position to transform the company and achieve our purpose and vision.

It is testament to the ongoing efforts of our talented teams of people, and their ability to anticipate and meet the evolving needs of our customers, that we are in such an enviable position. I would like to thank them for all of their efforts over the past year and urge them to work collaboratively for the next twelve months to deliver on the huge opportunities now available to our company.

Suncorp prides itself on consistently providing excellent returns to our shareholders. I believe we managed to do so again in 2007, as well as executing the necessary strategic and organic plans to secure the company's long-term growth.

Thank you for your continued support.

Regards

John Mulcahy  
Managing Director and CEO