

Shareholder Update

March 2011



Dear Shareholder,

During the past five months, the resolve of all too many in Australia and New Zealand has been truly challenged. We accept periodic extreme weather events as a part of our lives but, commencing with a devastating earthquake in Christchurch in September, the scale and frequency of these events have been extraordinary.

While damage to public infrastructure and private property will ultimately be repaired, the loss of life means this summer will be etched in our memories forever.

For any insurer, it is these circumstances, and the quality of the customer service in response, that provide its moment of truth. I'm pleased to report that, as in the past, our people have risen to the challenge.

At Suncorp, we believe the breadth of the insurance coverage we offer, and our ability to take advantage of the Group's scale and access to national networks of assessors, claims staff and tradespeople, set us apart from our competitors.

The events have provided a platform to demonstrate again what a great company Suncorp is, as we use our 'One Team. Many Brands' approach to help our customers overcome the difficulties they currently face.

Three years ago, Suncorp was one of the first insurers in Australia to provide automatic cover for all types of flooding as a standard feature in most of its personal insurance policies.

This was not a decision your Board took lightly. It required significant investments of time and resources over many years, to ensure we had the flood mapping information and internal pricing systems to enable us to assess risk and price it appropriately. We also needed to ensure we had appropriate protections around our business through adequate reinsurance arrangements.

But we believed at the time, and still believe, the ability to offer automatic flood cover was the right decision for our customers and shareholders, many of whom have been personally affected, or have friends and family who have been affected, by recent weather events.

Following any natural disaster, there is understandably much debate around insurance issues. However, the importance of insurance and its contribution to the community should never be underestimated.

Insurance protects consumers from a wide variety of risks. It is important for governments because insurers take on risks they would otherwise have to underwrite – diverting funds from their core responsibilities. And it is important to the broader community, given the insurance industry directly injects billions of dollars into local economies following natural disasters.

Notwithstanding the extraordinary demands placed upon our people in serving the needs of our customers during this period, the Group is simultaneously implementing fundamental operational improvements.

The Building Blocks program put in place by our Group Chief Executive Patrick Snowball is progressing ahead of schedule with a single enterprise employee agreement approved, and single systems for managing the Group's finances and customer base already in place. In general insurance, we are at an advanced stage of transitioning all of our brands to single pricing and claims systems.

Simplification has also been achieved through the successful implementation of the non-operating holding company structure approved by shareholders in December and the sale of the non-core Tyndall Investments and New Zealand Guardian Trust businesses.

Improvement in our core banking business and the continued run-off of the non-core portfolio resulted in Standard and Poor's credit rating for Suncorp Bank being upgraded to 'A+' with a stable outlook, the only regional bank to be rated at this level.

The Group's capital levels remain strong despite the financial impact of natural disasters, due to the strength of the reinsurance program protecting our business. While global and domestic regulatory uncertainty remains for the sector, however, it is prudent to retain capital beyond our stated internal targets.

Assuming that many of these uncertainties will be resolved over the course of the coming year, our priority will be to specify capital targets that reflect the new regulatory environment and the needs of our businesses. This will allow us to lay out a capital management program that appropriately balances business needs with the expectations of our shareholders.

I again reiterate the Board's strong view that capital, surplus to the needs of the business, should be returned to shareholders.

Financial Results Summary

Group net profit after tax for the half year to 31 December 2010 was \$223 million, including a \$77 million after tax write-down to reflect the divestment of Tyndall Investments and New Zealand Guardian Trust. Given the impact of the weather events, this was a creditable result, and demonstrates the underlying strength of the Group.

The **General Insurance** business achieved an after tax net profit of \$292 million. Improvements in claims management contributed to an improvement in reported and underlying ITR. Underlying ITR grew from 9% in the year to June 2010 to 10.5% for the half to 31 December 2010.

Core Bank net profit after tax for the half was \$110 million. Operating performance for the half was strong with a return to system growth levels in home lending, stable net interest margins and a deposit to core loan ratio at the top end of the target range.



The **Non-core Bank** made an after tax loss of \$107 million, in line with expectations. Run-off of this portfolio continued ahead of schedule, providing further support to the Group's future capital outlook.

Suncorp Life's after tax net profit was \$61 million. Underlying profit after tax of \$71 million was impacted by higher than expected claims incidences and lapse rates. The embedded value of Suncorp Life was stable at \$2,410 million.

Cash earnings per share, excluding divestment, which forms the basis of the Group's dividend payout was 27.7 cents. The interim dividend of 15 cents represents a payout ratio of 54%, towards the midpoint of the stated 50% to 60% target range.

To provide further protection against extreme weather events, we enter into reinsurance arrangements that incorporate cover in respect of major events, as well as the aggregated impact of continuing events. In normal circumstances, it would not be expected that the reinsurance arrangements would be activated.

In the financial year to date, the number and scale of natural weather events have been unprecedented with the Group currently managing more than 100,000 natural hazards claims.

The total amount of reinsurance protection under our arrangements which we estimate will be received is approximately \$1.5 billion.

We have, however, incurred a further cost of \$173 million to reinstate our reinsurance coverage in respect of major events so that we are fully protected against major events for the balance of the year.

As a consequence of the events that have occurred, our reinsurance cover in respect of aggregated claims has been fully utilised. Further exposure in respect of aggregated claims during the balance of the year will be accommodated within our profit and loss account and strong capital reserves.

Board Renewal

Renewal of the Board continued over the half and we were delighted to welcome Ilana Atlas as a non-executive director as part of this process. Ilana's extensive financial services and legal experience will enable her to provide a significant contribution to the Board. I would also like to again thank long-serving director Ian Blackburne who retired after ten years service.

As indicated at the 2010 Annual General Meeting, I intend to retire at this year's AGM. I am pleased to confirm that Dr Ziggy Switkowski has been endorsed by the Board as Suncorp's next Chairman.

Ziggy is a distinguished Australian business leader and, having served on the Board for over five years, will ensure continuity as we focus on executing the plans that have been outlined. It is anticipated that a further director, based in Queensland, will be appointed in conjunction with my retirement.

Finally, I would like to thank my fellow Board members, Patrick Snowball and his executive team, and our employees throughout Australia and New Zealand for their tireless contributions on behalf of this company, its shareholders and customers in the financial year to date. I would also like to thank shareholders for their ongoing support.

John Story
Chairman



Key Dates 2011

Half Year Results Announcement	23 Feb 2011
Ex dividend rate	28 Feb 2011
Record date	4 Mar 2011
Dividend payment	1 Apr 2011
Group Investor Day (tbc)	30 May 2011
Full Year Results Announcement	24 Aug 2011
Ex dividend rate	29 Aug 2011
Record date	2 Sep 2011
Dividend payment	3 Oct 2011
Annual General Meeting	27 Oct 2011

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