Chairman's Letter to shareholders

March 2009

Dear Shareholder

The global economic crisis continues to have a major impact on the financial results and share prices of most Australian listed companies, particularly those engaged in financial services. While Suncorp first took action in anticipation of a likely deterioration in economic circumstances more than twelve months ago, the speed and depth of the recent downturn are unprecedented.

In addition, as Australia's largest domestic general insurer by written premium, we have absorbed claims from a succession of major weather events and natural hazards, substantially in excess of our normal allowances.

Together, the global economic crisis and the major weather events have contributed to a disappointing financial outcome for the half-year to December 2008. This has been followed by the Board's decision to reduce the dividend and to undertake a substantial capital raising. On behalf of the Board, may I say that we regret these outcomes, but I will endeavour in this letter to outline the underlying circumstances.

Let me start with the global economic crisis, which has had multiple effects on our businesses. Firstly, in our Bank it has significantly increased the cost of the funds we need to borrow in order to support our lending programs. While the borrowings of all Australian banks have recently been supported by the Federal Government's guarantee scheme, the cost of funds has increased dramatically over the past twelve months as global credit markets and traditional wholesale funding sources have contracted. In addition, the costs of using the government guarantee differ according to a bank's credit rating, with Suncorp and other regional banks such as the Bank of Queensland and Bendigo Bank being at a relative disadvantage compared to Australia's major banks.

Of course, over the past six months, the effects of what had originated as a global financial crisis have found their way into the real economy, with reduced economic output and increasing unemployment. This is forcing all banks to increase their levels of bad debt provisioning which, in turn, is reducing bank earnings and eroding capital buffers. Suncorp is not alone in experiencing the increased costs associated with bad and doubtful debts. We have taken the necessary actions to review our overall loan portfolio and to increase our provisioning levels accordingly.

The global economic crisis has also had an effect on our General Insurance division. Suncorp has an investment portfolio of approximately $8 billion, representing the provisions we set aside for future insurance claims. This portfolio is invested in high quality instruments that are secure and generate appropriate investment returns. However, with the increase in credit spreads and the requirement of Accounting Standards to periodically revalue investments to current market prices, there have been consequential accounting losses that will reverse in the future on the maturity of the instruments.

Finally, our Wealth Management division has also been affected as our customers reduce their exposure into superannuation and investment related products in these uncertain times.

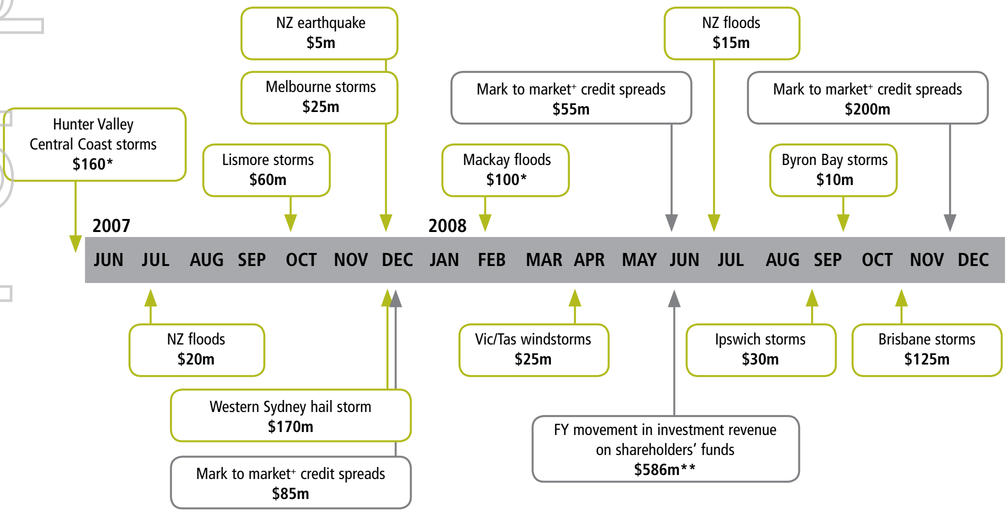
Weather events

Over the past eighteen months, there has been a significant increase in the incidence of weather and natural hazard related events. In the half-year to December 2008, the trend has continued with severe storms devastating areas of south east Queensland in November and a series of smaller hail and wind related events in Australia and New Zealand. Our decision to purchase additional reinsurance coverage has proven to have been prudent, and provides a limit to our exposure for events in the second half of this financial year. Nevertheless, there is no denying the cumulative effect of these events on our earnings and the level of capital available to the Group.

The financial impact on our Company of these external events over the past eighteen months is summarised in the diagram to the left.

It is in the context of all of these external factors that the Group's financial results to 31 December 2008 should be considered. The Group's Net Profit After Tax and Acquisition Items for the period was $258 million.

Impact of external events Jun 2007 – Dec 2008



* Net of reinsurance recoveries

** Reflects movement from $354m revenue for year to June 2007 to loss of $232m for year to June 2008

+ Mark to market refers to the accounting requirement to revalue assets in line with their valuation at balance date.

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Profit Overview

A$m	Dec-08
Banking	97
General Insurance	253
Wealth Management	115
LJ Hooker & Other	17
Profit before tax & Promina acquisition items	**482**
Amortisation of Promina acquisition items	(122)
Integration costs	(85)
Tax	(16)
Minority interests	(1)
Profit after tax & Promina acquisition items	**258**

Profit overview

The highlights of the result were:

- The Bank achieved very strong underlying profit growth of 38.7% with increased revenues and excellent control of costs. This strong performance helped offset increased bad debt charges and resulted in a profit contribution before tax of $97 million.
- In General Insurance, all the brands contributed strongly with overall gross written premium increasing by 5.9%. While major weather events and accounting adjustments have had an impact, the General Insurance profit contribution before tax was $253 million.
- In Wealth Management, profit before tax of $115 million was supported by strong life risk sales.
- The integration of the Suncorp and Promina businesses remains on track with synergy realisation ahead of schedule.

Capital raising and dividends

It is essential for the purposes of market confidence and stability that every company within the financial services industry has capital buffers that are demonstrably strong, and well in excess of regulatory requirements. At 31 December 2008, the impact of weather events and the global economic crisis had reduced our capital buffers to a level that, while in excess of our regulatory requirements, was below the level with which the Board was comfortable. A major capital raising was initiated in February 2009, involving an institutional placement and a 1 for 5 entitlement offer for both institutional and retail shareholders. As a consequence, our capital ratios are now in accordance with market expectations and are well ahead of our established targets and minimum regulatory requirements.

As we go forward, it is essential that we maintain our new capital ratios. We need to retain a higher proportion of the Company's ongoing earnings and have therefore reduced the interim ordinary dividend to 20 cents per share fully franked. We are also targeting a final dividend of 20 cents per share fully franked. Beyond the current financial year, the Board is currently targeting a dividend payout ratio of 50% - 60% of cash earnings.

I acknowledge that the new dividend target, applied against an increased capital base, will result in a dividend payment lower than shareholders have enjoyed in the past. Your Board regrets this outcome, but we believe that it is the responsible course of action to ensure the strength and stability of the Group. When the world economies emerge from the current crisis, we will explore the possibility of enhanced special dividend payments in recognition of an accumulating franking credit account.

Leadership transition

After six years leading the Company, John Mulcahy and the Board have agreed that it is an appropriate time for us to transition to new leadership. I want to take the opportunity to thank John for his contribution to the Company since 2003 and wish him well for the future. Our Chief Financial Officer, Chris Skilton, will be the acting CEO as we complete the recruitment of a new CEO. Chris is a very experienced executive who, along with a capable and committed management team, will serve the Company well during the transition.

Outlook

As you would expect, the Board and senior management have been working very closely to agree on the best strategic path to support the Company during these challenging times.

With our strong position in regional banking, particularly small business, agricultural and retail lending, there is a clear opportunity to reshape our banking business, thereby capitalising on a very clear customer demand for a strong competitive alternative to the major banks.

We remain very positive about the long-term capital generation capacity and competitive advantages of our General Insurance operations. Suncorp continues to achieve significant growth in premium income and the recent extraordinary weather events have increased the community's awareness of the need to carry adequate insurance cover.

Wealth Management's performance, although solid on an underlying basis, will continue to reflect the volatility in the fixed interest and equity markets.

In summary, the financial outcome for the half-year to 31 December 2008 has been deeply disappointing, and we are acutely aware of the share price performance during this period.

I wish to assure you that the Suncorp team, whether they be within the senior executive ranks, in support services or in the front line serving our customers, has worked tirelessly, with absolute commitment and dedication. I thank them for their contribution in what has been extraordinarily difficult times. Their continued commitment and dedication provide confidence for a vastly improved performance when external circumstances permit.

There is no doubt that the underlying economic conditions are difficult and will continue to be so for some time. Nevertheless, while we are cautious, we are confident that we continue to build resilience into each of our businesses and that they will be well placed to take advantage of the opportunities that will inevitably emerge as the global economies recover.

John Story
Chairman