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Managing Director's Address to the AGM

27 October 2004

Thank you John, and good afternoon ladies and gentlemen.

It is certainly a pleasure to be able to stand before you today and report on the progress the company has made during the past 12 months.

This time last year, I think it is true to say that, while Suncorp was a fundamentally strong company, with great potential, it faced some formidable challenges. We were underperforming in retail banking, our general insurance business was losing market share in important segments, and the Wealth Management division was confronted with a generally unfavourable investment climate.

Twelve months down the track we have clearly made significant advances. That is not to say that we don't face further challenges today. We do. But I think we are now much better positioned to meet those challenges head on and compete from a position of strength in the market place.

Much of the improvement of the past year is due to the effect of changes we made in the prior year, and I would like to take a moment to recap on those changes, because they were the fundamental drivers of our success in 2004.

- Firstly, we clarified our strategic direction, with the development of our diversified financial services strategy in June last year. That removed considerable uncertainty and eliminated distractions, which had retarded our performance.

- Secondly, we introduced a new organisational structure based on each of our four business lines, which eliminated unnecessary complexity from the group, and clarified responsibilities and accountabilities. Our people now know what they have to do, and the part they are required to play in reaching our vision. That has been very empowering for staff over the past 12 months.

- Thirdly, we reviewed all of our staff and leadership roles and improved the quality of our people. I genuinely believe we now have the best workforce in the Australian financial services industry.

The impact of these initiatives has been profound. The group is now focused, engaged and disciplined, and our results are testimony to the benefits that can be achieved when people pull together in a team.

Benefits for all our stakeholders

The benefits of these changes have been evident for each of our main stakeholder groups – Staff, Customers, Community and Shareholders.

At last year's AGM I outlined the way I approach the management of the company, which in summary is to balance the sometimes competing interests of each of our stakeholders, to produce the best result for the group over the longer term.

We now have approximately 8,000 staff spread across Australia, and we are one of Queensland's largest employers. For those staff, 2004 saw the consolidation of the leadership review I referred to earlier. We have created an environment where staff can reach their full potential and develop their careers. We implemented extensive training in key areas such as sales, leadership and people management during the year, to equip them with the skills required to grow. All of the available research confirms that staff who are engaged with the group's vision and targets produce better results. Our latest internal surveys confirm that we are making good progress in that respect.

For customers, during the year we drove a relentless focus on improving customer experience through improvements to our range of products and our service standards. We are very committed to meeting our customers' needs, and we launched new initiatives such as our customer charters, which stipulate a range of commitments that we have made to our customers in terms of the high service standards they can expect. We recognize that we have more work to do to ensure our performance lives up to expectations, but on the whole, we continue to achieve levels of customer satisfaction that rate well in comparison to most of our competitors.

Our contribution to the community was demonstrated in a number of ways during the year. In addition to our sponsorship of programs such as the Youth Enterprise Trust, the Hear and Say Centre, the Queensland Institute of Medical Research and Queensland Cancer Fund, we also introduced an innovative program which entitles each Suncorp employee to take one day a year of paid leave to undertake some form of voluntary work within the community. So we are taking an active involvement, not just donating money.

We also continue to sponsor major community events such as the Bridge to Brisbane Fun Run and the Brisbane Riverfire celebration. On the sporting front, we sponsored the Wallabies Rugby Union team, as well as the Queensland Bulls cricket side, and of course, don't forget Suncorp Stadium. While these initiatives are beneficial in terms of promoting the Suncorp brand in the market place, they also reflect our genuine belief that major companies need to be engaged in the community and making a worthwhile contribution.

Finally, for shareholders, all of the initiatives I have spoken about contributed to our excellent financial performance and the good increase in dividends that John spoke of earlier. I would now like to take a moment to summarise our financial performance.

Profit after tax increased by 61 percent to $618 million in the 12 months to June 2004. The increase was a result of many operational improvements across the organisation, assisted by a solid recovery in investment markets and favourable economic conditions.

At an underlying level, after setting to one side impacts such as increased investment returns, which are not really the result of our efforts, the profit rose by 30.4 percent to $754 million. This shows that the real operating performance of the company is improving.

Banking

The Banking profit of $371 million, before tax, was up 16.7 percent on the prior year.

There were a number of important highlights in the Banking performance:

Our total lending performance was strong and we were able to increase our overall market share. Total receivables grew by 20.2 percent for the year, compared with 15.5 percent growth for the banking industry. Importantly, we saw a recovery in home lending which had been underperforming for some time. Business lending also continued to grow strongly, buoyed by the strong economy and our niche expertise in areas such as property development and lending to small business.

We achieved very good growth in retail deposits through improvements in business deposits, and through the launch of new products such as our Every Day Options Account.

Credit quality remains excellent, with bad debts at very low levels and no signs of any deterioration. But we remain very vigilant, and we will ensure that our credit standards remain robust.

And we continue to be very efficient, with our cost ratios on par with our major bank competitors, and better than our regional peers.

General Insurance

Our general insurance division profit before tax doubled to a record $465 million for the full year, and is now four times what it was in 2002.

The improvement reflects the fact that we bought the GIO business and completed its integration at just the right time, ahead of a major shakeout in the insurance industry leading to an overdue recovery in profitability.

After many years of chronic underpricing of insurance products, the collapse of HIH in 2001 was the trigger for an industry overhaul. Insurers are now charging appropriate prices for insurance, and shareholders are receiving more respectable returns for the risks involved.

Suncorp was well positioned to benefit from the industry upswing. The core insurance profit increased by 50.7 percent to a record $315 million for the full year. This was equal to 14.4 percent of premium revenue, which is the strongest full year margin reported by the company since 1997, and the best of the listed insurers in Australia.

We implemented a number of operational improvements during the year, such as more refined marketing and pricing methodologies, and we brought in talented new executives to help drive growth in the business in the current year.

Overall, while the profitability of the general insurance division improved significantly, we know that there is still plenty of room for further improvement. The business has been fairly static in recent years in terms of market shares and the number of risks in force. During the second half of the year we saw encouraging signs of growth in the business, and in the current year we are working hard on improving our marketing, reviving the GIO brand, refining our pricing and improving our efficiencies.

Wealth Management

Profit before tax for the Wealth Management division increased 61 percent to $66 million for the year, driven by a combination of increased investment returns and operational improvements.

While sales performance was subdued, as investors remained shy of the share market, we were able to improve the value of new sales by focusing on higher margin products. A host of important new products were also introduced, such as our wrap platforms, and the group's investment management team was awarded prestigious ratings for the strong performance of our investment funds. Total funds under management increased 11 percent to $11 billion during the year.

Strategy Progress

That summarises the profit performance at a divisional level. From a group perspective, it is clear we are making headway in terms of our diversified financial services strategy. We now have our stand-alone business lines operating effectively, and we are seeing synergy benefits emerging in the form of increased sales and reduced operating costs.

But we are still only in the early stages of our strategic journey, and there is a lot more work to do.

In the current year, we have three priorities which I call "the three C's" – Customer Solutions, Customer Service and Culture.

In terms of Customer Solutions, we continue to have the highest rate of product penetration in the Australian financial services industry. For example, 63 percent of our home loan customers have home insurance with us, which is double the penetration rate of the nearest competitor. But there is still plenty of opportunity to lift sales to our 4 million customers. Not only do higher product penetration rates lead to higher sales revenues, they also indirectly lead to better customer retention rates and greater cost efficiencies. So we have a big focus on driving increased sales through identifying appropriate customer segments in each of our business lines, designing appealing products and packages, and establishing the detailed processes enabling our staff to provide solutions and help our customers.

Customer service remains one of our prime areas of differentiation in the market place. While we always try to ensure that our prices are competitive, we generally aim to win business based on excellent service. Our experience suggests that customers are happy to pay a reasonable price for consistently good service. But they detest poor service. By training our staff better, instilling a customer-focused mentality in the organisation, and by ensuring that we understand our customers well, we will continue to benefit from having happy, contented, loyal customers.

The culture of the organisation is crucial in creating an environment for success. At Suncorp, having restructured the reporting lines to give clarity to people's roles, we are working hard to ensure that while our culture is very performance driven, it also reflects the highest ethical standards. We are doing that by putting in place a code of conduct across the organisation, and by identifying and promoting what we call "Suncorp Values". Those are trust, honesty, courage, fairness, respect and caring. We want our people to live those values, and the leadership team takes very seriously its responsibility to lead by example in that respect.

Those three management priorities are the levers we will use to continue along our strategic path, outperform our competitors and satisfy the requirements of all our stakeholders in the current year.

Outlook

That then leads me to our performance so far this financial year and our outlook for the full year.

In Banking, the competitive environment has intensified over recent months, as housing lending has slowed and as the competition for retail deposits has become more aggressive.

The momentum we established at the end of the last financial year has carried through into the current year, and our total lending continues to exceed industry growth rates.

Retail funding growth also has been strong, assisted by sales of our new Everyday Options Account.

While we are focused on growing our lending and increasing our market shares, we are also determined to maintain healthy margins, so that we are growing profitably and in line with our targets.

Net interest margins have therefore remained relatively stable for the first quarter, which is a good outcome, and credit quality overall remains excellent.

Therefore, as we outlined at the time of our results in August, we continue to expect to deliver profit growth before tax, greater than single digits.

In General Insurance, premium growth in the first three months was in accordance with our expectations, and was on track to reach at least 6% for the year. While competition is strong, we are confident that the various initiatives being implemented in general insurance will enable us to take market share from our competitors.

Importantly, all market participants continue to behave responsibly, and we are not seeing any evidence of irrational price cutting in the markets in which we operate. The pace of increases in premium rates has slowed, following substantial adjustments in recent years. Premium rates generally are increasing in line with claims inflation, although we are seeing premiums reducing in compulsory third party insurance, in line with reductions in claims costs. This was expected and is appropriate.

Overall claims costs continue to demonstrate favourable trends, and there have been no major claims events to date, although we are only just entering the storm season.

So again, the earnings guidance we outlined in August has not changed, and we continue to expect to report an insurance trading margin of between 11 percent and 14 percent, and probably towards the top end of that range.

Wealth Management sales showed signs of improvement in the first quarter, buoyed by increased investor confidence and easing property markets. Healthy equity markets also contributed to increases in planned and experience profits. We remain confident of achieving a double digit increase in underlying profit in wealth management for the full year.

Conclusion

I would like to finish my address by thanking the Suncorp team members for their excellent work over the past year. They have responded to the challenges with enthusiasm and good spirit, and I am grateful for their ongoing support. I also would like to thank shareholders for their attendance today, and look forward to meeting with you next year to report another good year for your company.