21 August 2003

Insurance Australia Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
iag.com.au

FACT SHEET

Increased profit on strength of CGU/NZI acquisition and underlying business
Summary information

- As the acquisition of CGU/NZI was completed on 2 January 2003, Group performance in FY03 reflects the inclusion of CGU and NZI performance for the second six months.

- Key trends in the Group's business in FY03 will be different to those exhibited in prior years. This follows the Group's transition from a predominantly direct personal insurance group to a multi-channel distributor of both personal and commercial lines insurance, as a result of the CGU and NZI acquisition.

- Bearing in mind the varying trends on prior years, results for the full year ended 30 June 2003 compared with the previous year are:

    - The Group reported a net profit after tax of $153 million in FY03 compared with a loss of $25 million in FY02.

    - Gross written premium increased from $3.6 billion in FY02 to $5.2 billion in FY03. Excluding the CGU and NZI GWP, growth would have been 9%, of which over half was due to growth in policy numbers.

    - The underwriting profit increased from $142 million in FY02 to $199 million in FY03. This is the second-consecutive year and the fifth successive half-year of underwriting profit.

    - Insurance margin of 12.3%, reflecting improved underwriting performance and better returns from technical reserves, now fully invested in cash and fixed interest.

    - Group combined ratio (COR) of 95.7%, consistent with 95.5% in the previous year.

- The Group reported improved investment return on technical reserves, from $136 million to $372 million, reflecting the relatively higher return on fixed interest securities during the year as well as the elimination of equity exposure from this portfolio.

Media Relations

Name	Carolyn McCann
Telephone	02 9292 9557
Mobile	0411 014 126

Investor Relations

Name	Anne O'Driscoll
Telephone	02 9292 3169
Mobile	0411 012 675

- Equity returns were negative for the second consecutive year in Australia and for the third year internationally. International asset returns were adversely affected by the appreciation in the Australian dollar. Accordingly, the Group's shareholder funds that are substantially invested in equities returned a loss of $52 million for FY03. The reported loss of $120 million includes $68 million in tactical option positions. The derivatives programme provided security and certainty while the acquisition fundraising initiatives were completed.

- The FY03 results include the integration expenses of $45m for the six-months of FY03. These have been included in the underwriting result allocated between claims and underwriting expenses. This has increased the combined ratio for 2H03. The effect on the annual combined ratio was 1%.

- The results also include the $70 million (before tax) loss from the devastating ACT bushfires.

- The fully franked final dividend of 7 cents per share, takes the full year dividend to 11.5 cents per share, a 9.5% increase on the previous year.

Operational highlights

- All business segments are performing within stated target zones, with better than expected performances from the CGU and NZI businesses.

- The short-tail business continued to perform soundly.
  - The short-tail segment has delivered sustained underwriting profits over two consecutive years as a result of effective claims and expense management.
  - The combined operating ratio for the short-tail business was 93.7% for FY03, compared to 95.5% for the previous year. This reflects the influence of, on the one hand, largely benign weather conditions and, on the other, the impact of the ACT bushfires and the significant integration expenses borne by this segment.

- Similar trends were exhibited in the long-tail business. This was supported by:
  - the continued stability of the major personal injury schemes; and
  - a strong performance from the acquired CGU portfolio.

- The international segment, which includes IAG New Zealand (IAG NZ) and the captive, delivered a combined operating ratio of 95.3% for FY03, compared to 96.5% for the previous year. This reflects the:
  - benefits of operating improvements implemented in 2002 and 2003; and
  - $20 million of claims for the ACT bushfires borne by the captive.

- During FY03, the Group completed its $1.86 billion capital raising programme as part of the funding for the CGU/NZI acquisition by issuing:
  - $500 million Institutional placement - ordinary shares
  - $300 million Dated subordinated debt
  - $380 million Share Purchase Plan – ordinary shares
  - $200 million Reset preference shares
  - US$240 million Dated subordinated debt
  - $45.3 million Underwritten dividend reinvestment plan – ordinary shares.

Integration update

- The Group's CGU and NZI integration programme has been running since January 2003. To date, the integration process is progressing as planned with achievement of synergies and management of costs on track.
  - ❖ The Group has implemented its new operating model and all synergy costs and benefits have been included in the Group's operating plans and budgets by business unit.

- The progression of integration by business segments are:
  - ❖ Short-tail underwriting is now centralised under IAG short-tail operations to enhance CGU's risk rating and underwriting profitability.
  - ❖ The home insurance procurement model and motor insurance repair models are now national with claims processing and call centre consolidation on target.
  - ❖ For Business Partners, state structures within CGU have been realigned.
  - ❖ Within Personal Injury, migration to the CGU brand for all workers' compensation is underway and premises consolidation is complete.
  - ❖ The integration of CGU's Intermediary division and IAG's commercial business has been completed. IAG NZ's commercial business, which used the Circle brand, has also been integrated within the NZI business.
  - ❖ All head office functions have been consolidated.
  - ❖ Technology Services are now integrated. The focus is on realignment to improve the delivery of systems.

- Integration synergies of $54 million per annum had been locked in as at 30 June 2003, against targets announced in February 2003 of $21 million. The favourable variance is a consequence of key integration initiatives being achieved earlier than initially planned.

- The cumulative synergy target of $160 million per annum sustainable increase in pre-tax profits remains unchanged.

Synergy realisation schedule	2H03 Estimated	2H03 Actual	1H04 Estimated	2H04 Estimated
All amounts are pre-tax	A$m	A$m	A$m	A$m
Cumulative run-rate per annum				
Personal lines	6	15	49	70
Commercial	4	14	20	35
IT, shared services & overheads	8	13	25	35
Australia sub-total	**18**	**42**	**94**	**140**
International - New Zealand	**3**	**12**	**17**	**20**
Total synergies in run-rate	**21**	**54**	**111**	**160**
Reported income statement				
Synergy benefits collected	7	9	38	74
Costs of implementation expensed	(49)	(45)	(40)	(12)
Net impact on profit for period	**(42)**	**(36)**	**(2)**	**62**

Looking ahead

- One of the Group's five key financial goals is to provide shareholders with a top-quartile total shareholder return. To achieve this target in the current low interest rate environment, we have upgraded the operating targets we announced at 1H03, originally set to take effect from 1 July 2004.
- Our Group-wide combined operating ratio target is 93%-96% for the next 12 months. Operating within that range should enable us to maintain an insurance margin target of 9%-12%.
- The strength of the underlying business, evidenced in the quality results for FY03 and the early achievement of the operating targets announced in February 2003, provides the necessary confidence to deliver these targets and sustainable earnings for shareholders for the longer term.

	Post CGU/NZI Integration Targets	FY03 Results	Status	Revised Targets
	%	%		%
COR - Group	96 - 98	95.7	✓	93 – 96
COR - Short-tail	94 - 96	93.7	✓	92 – 94
COR - Long-tail	105 - 110	102.2	✓	100 – 105
COR – International	92 - 95	95.3	In line	91 – 93
Insurance margin (pre-tax)	9 - 11	12.3	✓	9 –12