



Financial results

Year ended 30 June 2003

Michael Hawker, Chief Executive Officer
George Venardos, Chief Financial Officer

21 August 2003



Insurance Australia Group Limited
ABN 60 090 739 923

Agenda



- | | |
|----------------------------------|----------------------------------|
| 1. Performance overview | Michael Hawker |
| 2. Capital protection & position | Michael Hawker |
| 3. Returns & dividend | Michael Hawker |
| 4. CGU/NZI performance | George Venardos |
| 5. Integration update | George Venardos |
| 6. Segment analysis | George Venardos |
| 7. MCR multiple | George Venardos |
| 8. Conclusion & questions | Michael Hawker & George Venardos |



Overview of performance

Michael Hawker, Chief Executive Officer



A watershed year



- Strengthened strategic position
- Diversified risk profile
- Improved levels of new business and customer retention
- Reduced operating costs
- Maintained a very strong balance sheet - rated AA



Insurance Australia Group Limited
ABN 60 090 739 923

Improved business performance



- Gross written premium up 45% to \$5.2bn
 - Includes \$1.3bn from CGU/NZI
 - 9% organic growth, including Australian policies in force growth of 5%
- Administration ratio decreased to 18.4% from 18.7%
- Combined ratio stable at 95.7% versus 95.6%
 - Integration expenses added 1%
- Improved return from investments – up \$350m
- Insurance margin increased
 - To 12.3% from 8.7%
 - To \$571m from \$278m



Overview of FY03 – a successful year



- Net profit after tax of \$153m (loss of \$25m in FY02) reflecting
 - Increase in the size of the business – 6 months of CGU/NZI results
 - Improved business performance
 - Reduced losses from equity markets
- Strong capital position restored on successful completion of the acquisition funding
 - Australian insurance operations MCR multiple of 2.0x
- Final dividend increased to 7.0 cents per ordinary share, fully franked



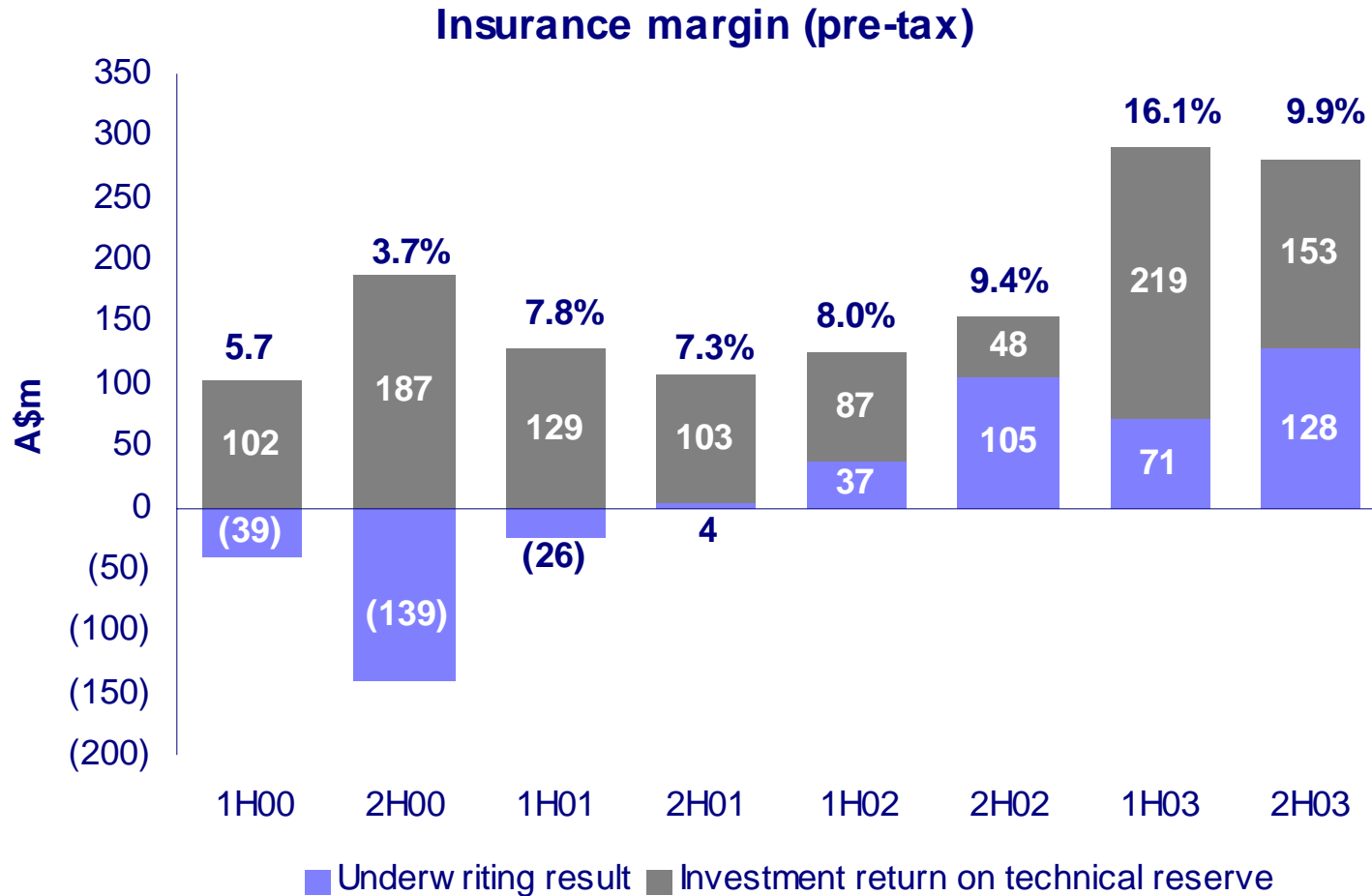
Financial results overview



Financial results/ratios	Full year ended June-01	Full year ended June-02	Full year ended June-03
Net earned premium (A\$m)	\$2,775	\$3,195	\$4,636
Underwriting profit/(loss) (A\$m)	(\$22)	\$142	\$199
Total investment income (A\$m)	\$358	(\$98)	\$252
Reported NPAT (A\$m)	\$143	(\$25)	\$153
ROE % (Average Equity) to ordinary shareholders	5.32	(1.00)	4.70
Basic EPS (cents)	9.40	(1.78)	8.65
DPS	10.0	10.5	11.5
Group insurance ratios			
Loss ratio	80.5%	75.9%	72.5%
Expense ratio	20.3%	19.7%	23.2%
Administration expense	19.0%	18.7%	18.4%
Commission ratio	1.3%	1.0%	4.8%
Combined ratio	100.8%	95.6%	95.7%
Insurance margin (before tax)	7.6%	8.7%	12.3%
Consolidated MCR multiple	n/a	1.56	1.62
Australian insurance operations multiple	n/a	n/a	2.03
Minimum probability of sufficiency of general insurance claims reserves	>90%	>90%	>90%



Fifth consecutive half-year of underwriting profit

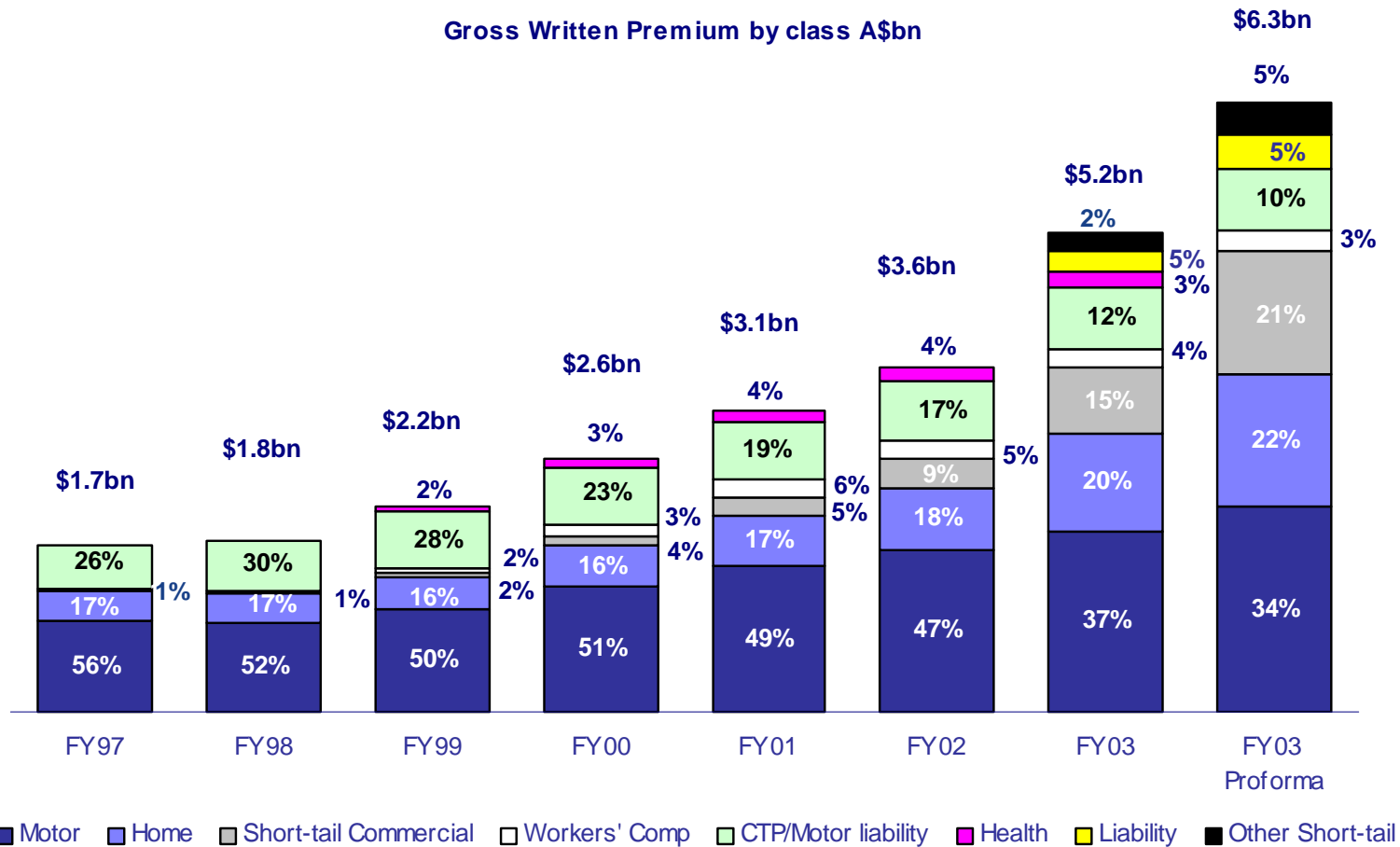


Insurance Australia Group Limited
ABN 60 090 739 923

Further GWP growth & diversification



Gross Written Premium by class A\$bn

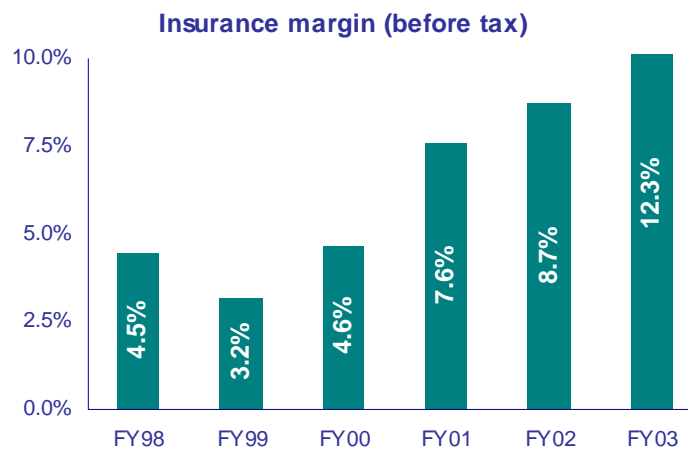
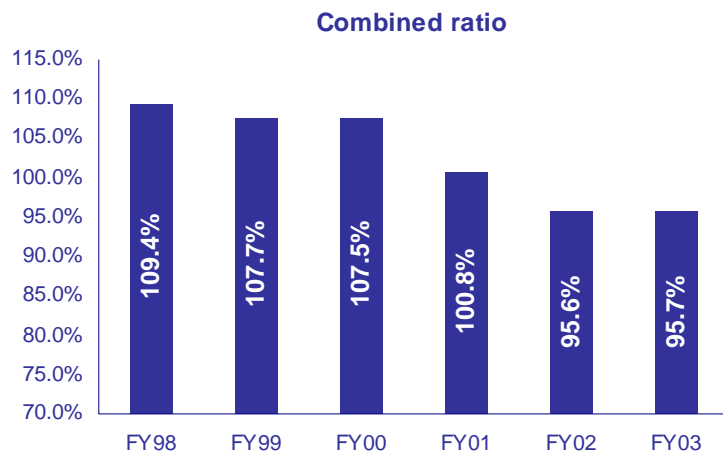
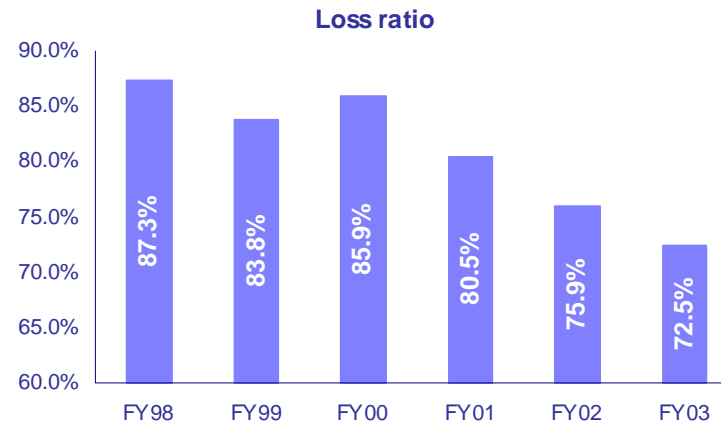
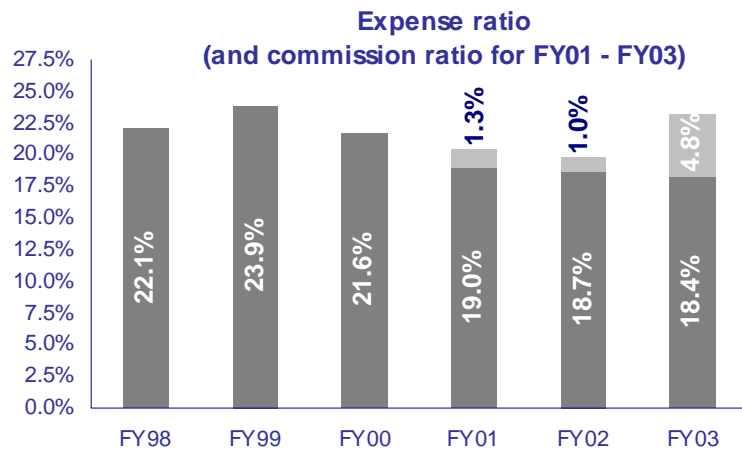


The main components of Other short-tail are: 2% other accident; 1% extended warranty; and 1% consumer credit business



Insurance Australia Group Limited
ABN 60 090 739 923

Key operating ratios – margins up



Updated operating targets



	Previous post-integration targets	FY03 results	Status	Revised FY04 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

- Achieved post integration targets in FY03
- Upgraded COR targets for the coming year to maintain insurance margins in context of low interest yields



Investment returns improved



Investment returns	Actual return FY02	Actual return FY03	Benchmark return FY03
	%	%	%
Australian equities	(4.5)	(2.6)	(2.1)
International equities	(24.5)	(14.5)	(18.5)
New Zealand equities	-	11.9	13.3
Fixed interest	6.7	8.7	8.4
Cash	4.8	5.1	5.1
Total	(1.4)	2.4	2.2
Asset overlay	0.3	1.5	1.4
Total with overlay	(1.1)	3.9	3.6
Tactical option programme	(0.2)	(0.8)	n/a
Total (including derivatives)	(1.3)	3.1	n/a
Total investment return A\$m	(98)	252	



Capital carefully protected during a difficult period



- Loss of \$120m on shareholders' funds includes the \$68m cost of the tactical protection programme
- Tactical protection programme undertaken to protect capital in the context of:
 - Being thinly capitalised during completion of the CGU/NZI acquisition funding
 - Protracted equity market weakness
 - \$70m net claims expense from the Canberra bushfires
 - Increased equity market volatility – Bali bombing, Iraq conflict, SARs
 - Bearing net integration expenses of over \$40m in 2H03
- Reducing level of protection as these issues recede



Updated investment sensitivities



Sensitivity on net profit before tax	Change in assumption	Combined Group	Combined Group
		30-Jun-03	mid-August 2003
	%	A\$m	A\$m
Equity market values:			
Australian equities	+1%	11.2	16.5
International equities	+1%	3.9	4.3
New Zealand equities	+1%	0.6	0.6
Interest rates			
Investment returns	-1% or 100 bpts change in interest rates	141.7	166.4
Outstanding claims	-1% change in net discount rate	(145.7)	(142.6)

- Equity market sensitivity moderated in FY03 by tactical option protections – now returning to being close to linear with market
- Exposure on bond values continues to be largely immunised by adjustments to outstanding claims reserves – although base now larger with CGU/NZI included



Strongly capitalised



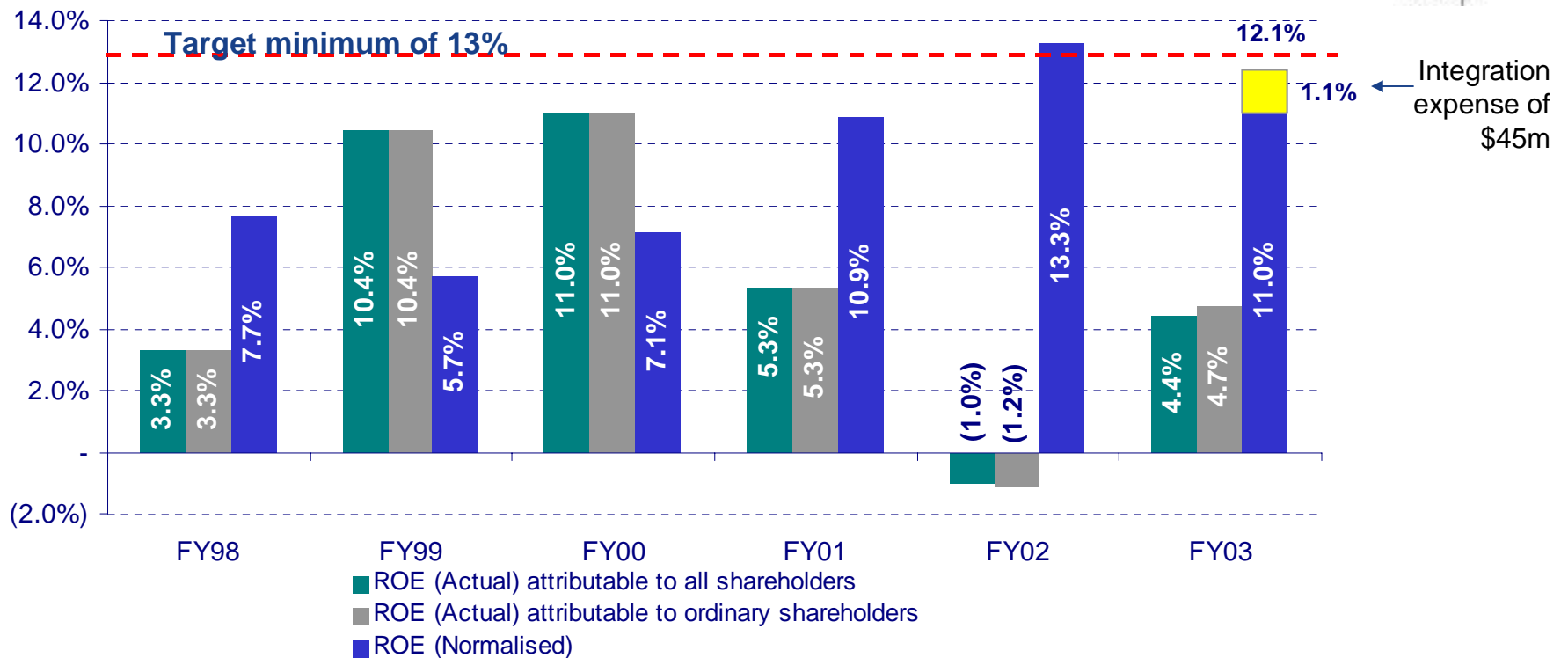
- Approach to capital unchanged
 - Risk of ruin of 1 in 750 years
 - An 'AA' category rating – currently AA (Outlook stable)
 - Group MCR multiple in 1.35x – 1.65x range, now at 1.62x
- Minimum probability of sufficiency of 90% retained for claims reserves
- Strengthened risk margins in claims reserves
- Maximum net event loss within reinsurance programme is \$70m as at 30 June 2003
- Mix of capital for rating agency purposes now at target
- High quality, liquid investment portfolio



Return on equity to improve



Actual and Normalised ROE



Note:

1. FY98-FY01 normalised ROE uses 8% return on technical reserves & 11.5% on shareholders' funds, both pre-tax.
2. FY02-FY03 normalised ROE uses 6% return on technical reserves & 7.4% on shareholders' funds, both pre-tax.



Insurance Australia Group Limited
 ABN 60 090 739 923

Dividend increased



- Normalised earnings up 8% to \$343m
- Final dividend of 7c per share, fully franked
 - Payable on 13 October 2003 (record date 10 September)
- Total dividend for FY03 of 11.5c per share
 - Up 9.5% from last year
- Dividend reinvestment plan ('DRP') will operate
 - Price will be based on a 10 day VWAP
 - Calculated as per the DRP terms, with no discount
 - Pricing period commences on 15 September 2003



Conclusion



- A watershed year for the Group
- Continued improvement in overall operating performance
- Good organic growth in policy numbers
- Newly acquired businesses performing very well
- Administration ratio continuing to trend down
- Strongly capitalised following completion of the acquisition funding
- Increased dividend



Areas to be covered in more detail



- CGU/NZI performance
- Integration update
- Segment analysis
- MCR multiple



CGU/NZI performing strongly



CGU/NZI insurance result	Actual	Business case
Gross written premium	A\$1,291m	A\$1,125m
Net earned premium	A\$1,023m	A\$972m
Combined ratio	91.5%	98.3%
Contribution to group NPBT ¹	A\$88m	n/a

¹ Stated after allowing for goodwill amortisation, integration expenses and borrowing costs associated with the acquisition

- The acquired CGU/NZI business out-performed the initial business case on all key measures for 2H03



Integration progressing well



- Integration programme in the synergy realisation phase
 - All synergies in business plans and budgets
- Synergies of \$54m per annum were in place by 30 June 2003
 - Ahead of target of \$21m for 2H03
- \$160m annual sustainable benefits to be delivered slightly ahead of schedule during 2H04



Updated synergy realisation timeframe

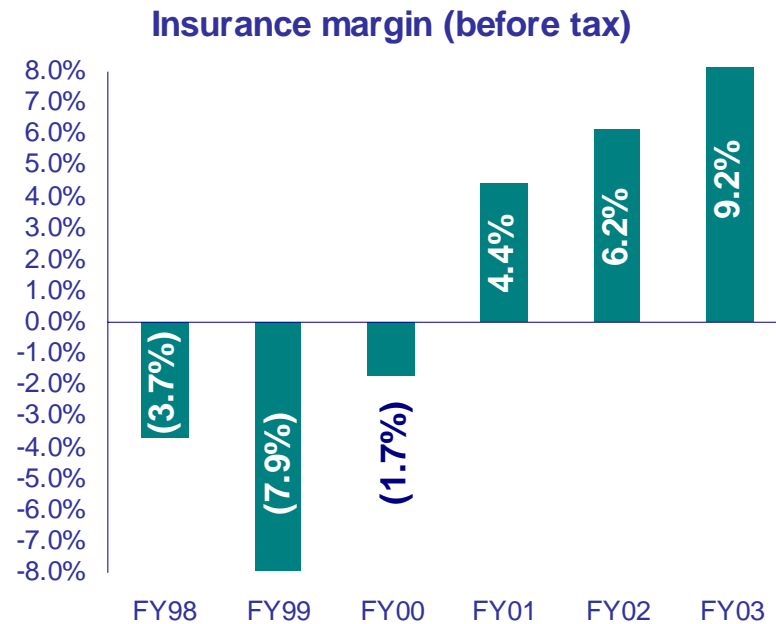
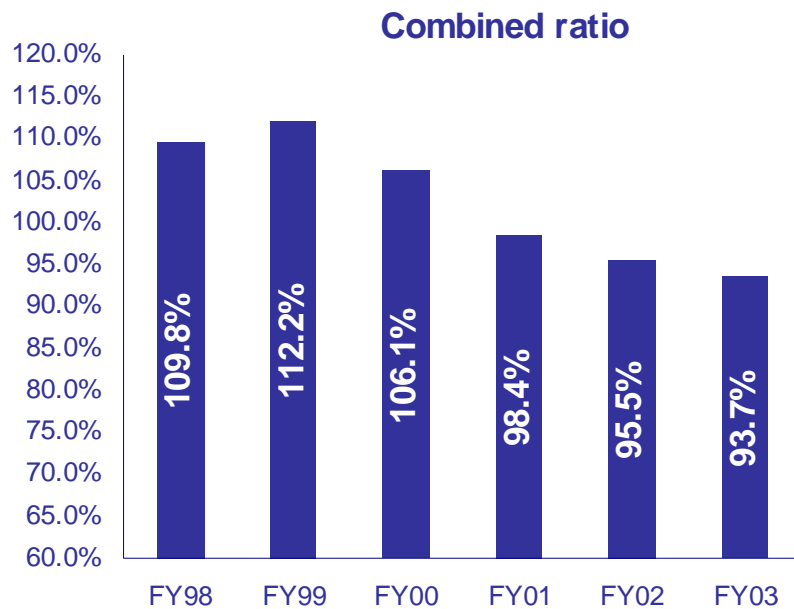


Synergy realisation schedule	2H03 Estimated	2H03 Actual	1H04 Estimated	2H04 Estimated
All amounts are pre-tax	A\$m	A\$m	A\$m	A\$m
Cumulative run-rate per annum				
Personal lines	6	15	49	70
Commercial	4	14	20	35
IT, shared services & overheads	8	13	25	35
Australia sub-total	18	42	94	140
International - 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 pre-tax profit for period	(42)	(36)	(2)	62

- Implementation cost unchanged at \$145m - \$12m less capitalised
- \$13m increase in benefits expected in FY04 profit



Domestic short-tail ratios



- New COR target of 92 – 94% for FY04



Domestic short-tail performance



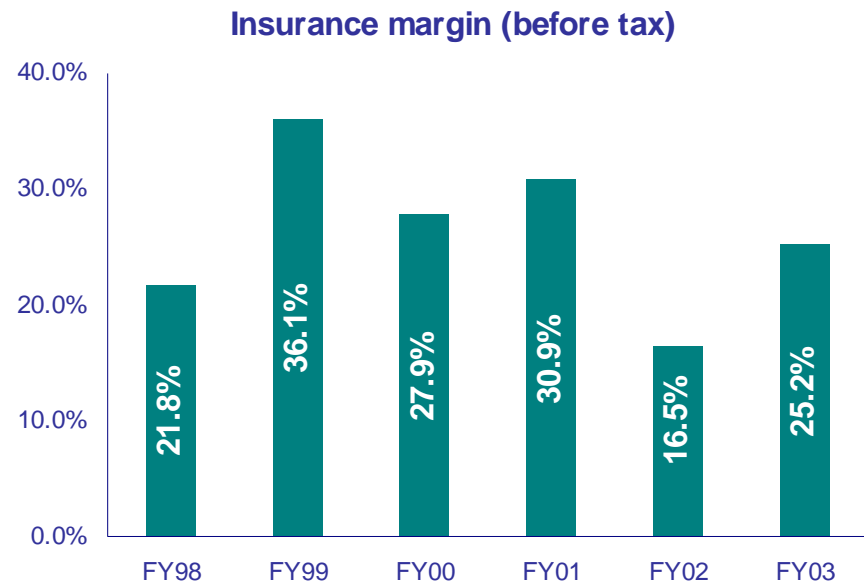
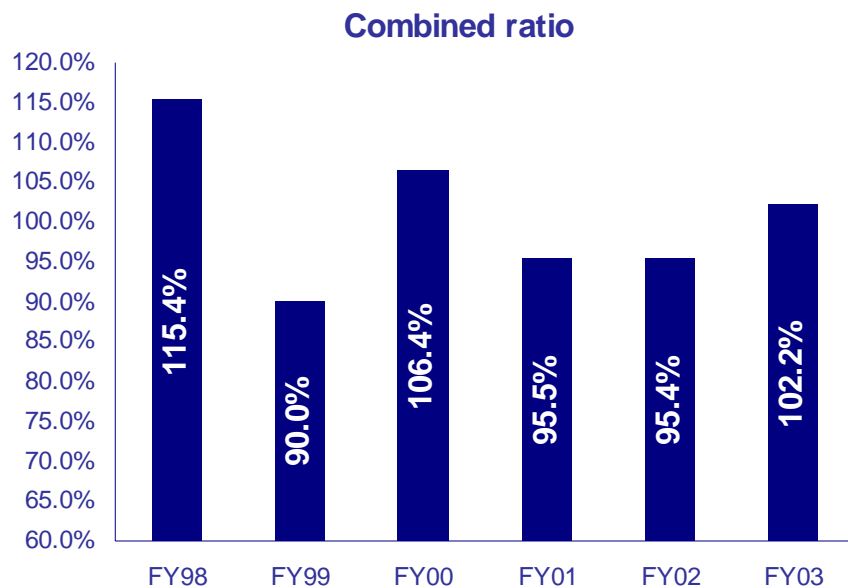
Domestic short-tail	Full year ended June-01	Full year ended June-02	Full year ended June-03
	A\$m	A\$m	A\$m
Gross written premium	2,183	2,357	3,415
Gross earned premium	2,097	2,266	3,222
Net premium revenue	1,988	2,125	3,031
Underwriting profit	31	97	192
Investment income on technical reserves ⁽²⁾	56	34	88
Insurance profit	87	131	280
Insurance ratios			
Loss ratio	77.6%	74.1%	68.7%
Expense ratio ⁽¹⁾	20.7%	21.4%	25.0%
Administration ratio	20.5%	21.1%	20.8%
Commission ratio	0.3%	0.3%	4.2%
Combined ratio	98.3%	95.5%	93.7%
Insurance margin (before tax)	4.4%	6.2%	9.2%

Note: (1) Includes integration expenses of \$37m.
 (2) Yield of 8% on technical reserves.



Insurance Australia Group Limited
 ABN 60 090 739 923

Domestic long-tail ratios



- New target COR of 100 – 105% for FY04



Domestic long-tail – performance



Domestic long-tail	Full year ended June-01	Full year ended June-02	Full year ended June-03
	A\$m	A\$m	A\$m
Gross written premium	788	811	1,049
Gross earned premium	718	817	1,019
Net premium revenue	618	729	982
Underwriting profit	28	33	(22)
Investment income on technical reserves ⁽²⁾	163	87	269
Insurance profit	191	120	247
Profit from fee based businesses	-	11	5
Total long-tail result	191	131	252
Insurance ratios			
Loss ratio	82.2%	83.5%	87.4%
Expense ratio ⁽¹⁾	13.3%	11.9%	14.8%
Administration expense ratio	12.4%	11.2%	11.4%
Commission ratio	0.9%	0.7%	3.4%
Combined ratio	95.5%	95.4%	102.2%
Insurance margin (before tax)	30.9%	16.5%	25.2%

Note: (1) Includes integration expenses of \$3m
 (2) Yield of 8% on Technical Reserves



Insurance Australia Group Limited
 ABN 60 090 739 923

International performance



International operations	Full year ended June-01	Full year ended June-02	Full year ended June-03
	A\$m	A\$m	A\$m
Gross written premium	139	390	685
Gross earned premium	122	365	644
Net premium revenue	110	341	623
Underwriting profit/(loss)	(7)	12	29
Investment income on technical reserves	1	15	15
Insurance profit/(loss)	(6)	27	44
Insurance ratios			
Loss ratio	65.9%	71.0%	67.9%
Expense ratio ⁽¹⁾	40.8%	25.5%	27.4%
Administration ratio	35.9%	20.0%	18.4%
Commission ratio	4.9%	5.5%	9.0%
Combined ratio	106.7%	96.5%	95.3%
Insurance margin (before tax)	(5.4%)	7.9%	7.1%

Note: (1) Includes integration expenses of \$5m



Insurance Australia Group Limited
ABN 60 090 739 923

Retirement Services



ClearView Retirement Solutions	Full year ended June-01	Full year ended June-02	Full year ended June-03	Variance
	A\$m	A\$m	A\$m	A\$m
Net profit before statutory fund and income tax	20	(6)	2	8
Funds under management	1,282	1,246	1,182	(64)
Life embedded value	185	215	200	(15)

Note: \$30m in dividends paid out of the Life company

- ClearView results impacted by investment market sentiment
- Achieved increased FUM in ClearView investment options during FY03 - from \$85m to \$212m
- Continued strong performance from the life risk portfolio
- Total FUM reduced by \$64m



MCR multiple



Coverage of regulatory capital requirements	IAG Group	Insurance
	30-Jun-03	Australia 30-Jun-03
	A\$m	A\$m
Tier 1 capital		
Paid-up ordinary shares	3,434	885
Hybrid equity	539	-
Reserve	(2)	-
Retained earnings	(396)	2,555
Excess technical provisions (net of tax)	352	327
Less: deductions	(1,838)	(1,456)
	2,089	2,311
Tier 2 capital		
Term subordinated notes	657	657
Capital base	2,746	2,968
Minimum capital requirements (MCR):		
Australian general insurance businesses	1,392	1,460
International insurance businesses	136	-
Other businesses	165	-
Minimum capital requirements	1,693	1,460
MCR multiple	1.62x	2.03x



FY04 outlook



- Consider organic growth of 7 – 9% achievable
 - Continued robust economy/GDP growth
 - Moderate premium rate increases reflecting claims inflation
- Focused on organic growth and improved efficiency
- Upgraded COR targets for FY04 to maintain insurance margins in 9 – 12% range
- Well positioned to deliver improved and more stable returns if equity markets no longer negative



Platform for ongoing value delivery



- Business now has scale and momentum
- Supported by robust capital and risk management
- Customer focus being enhanced to improve service and loyalty
- Technology transformation to deliver step change in value in 2 – 3 years
- Our people and culture being developed to provide long-term value for the Group
- Recognise the Group's role in the community & environment



Questions

