



# **Financial results Full year ended 30 June 2006**

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

25 August 2006

Insurance Australia Group Limited  
ABN 60 090 739 923

Good morning. Welcome to the Insurance Australia Group 2006 full year results briefing. Copies of all the materials we are using here this morning are already on our website and an archive of this presentation will be published later today. As usual, we'd like to complete the presentation before taking questions from those of you here with us in person this morning and from those on the phone lines.



## Overview

**Delivered second highest return on equity (ROE) and positioned the Group for growth**

Insurance Australia Group Limited  
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Now I'd like to handover to Mike Hawker.

## Delivered on ROE, dividends and positioned for growth



- Second highest annual ROE (normalised and reported) since listing
  - 22.1% actual (15.8% normalised)
  - Underwriting discipline maintained
  - Tight management of costs
  - Carried costs of Care & Repair and Cyclone Larry
- Final dividend of 16.0 cps
  - Annual dividend up 11% to 29.5 cps, plus special of 12.5cps
- Significant progress in building for future growth
  - Re-energised management team
  - Growth momentum restored in NSW personal lines
  - Addressing underperforming sub-portfolios
  - Asian platform established and progressing expansion in other regions
- Achieved in a more competitive operating environment

All amounts for 1H05 and subsequent periods restated under AIFRS  
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Good morning.

For FY06 we are pleased to report that our ROE is the second highest in our history at 22.1% - or, on our preferred basis of normalising for equity market returns, 15.8%.

This has been achieved by maintaining our underwriting disciplines and tightly managing our costs. At the same time we absorbed costs associated with Care & Repair and Cyclone Larry.

We increased our dividends and the final dividend declared today of 16.0cps (cents per share) is 10% up on last year's final dividend of 14.5cps.

We've made significant progress on building our future growth:

- My management team is re-energised with a good mix of 'old hands' and new people with a broad range of experience;
- We have restored the growth momentum in NSW personal lines;
- We have identified sub-portfolios of the business which should deliver better returns and the steps we have taken have improved the profitability. We see more scope for further improvement; and, finally
- We have established our Asian platform with two subsidiaries in Thailand and our associate, AmAssurance, in Malaysia. We've also built the infrastructure to support these businesses and the further growth we foresee in Asia, including completing our planned investment in China's second largest general insurer.

These achievements have been delivered in an increasingly competitive environment.

The Australian industry conditions are much as we anticipated. We have been saying for some time that the personal lines market was generating surplus returns and these couldn't be sustained. We expected that, as a rational market, the major players would move to gradually compete away surplus returns and that has started with an uplift in marketing expenditure and premiums in motor and CTP coming down, either in real or actual terms. We are part of that and could have performed better in 1H06. However, in 2H06 we got back on-track and the business is running well and is growing.

On the commercial side, the market continues to follow its normal cyclical behaviour. We had hoped that this cycle in Australia would be more moderate than in past periods due to the industry structure. While the long-tail classes have performed strongly, we are increasingly seeing short-tail pricing that we consider inadequate to service the risk and question how long the market can sustain cross-subsidising such pricing with long-tail releases. We now expect that pricing may not stabilise until the June 2007 renewal period.

The New Zealand market is following a similar, but milder trend, in commercial lines – it doesn't have privately underwritten personal injury so there is less scope for cross-subsidies. In New Zealand personal lines, pricing has risen, particularly in home insurance where pricing had not kept up with the increasing cost and frequency of major weather events. IAG NZ led the pricing increases in home insurance and has now been followed by the major competitors.

## Delivered second highest annual insurance margin in IAG's history



- Net profit for shareholders \$759m
  - Storm costs \$76m more than FY05, including Cyclone Larry
  - Earnings on shareholders' funds of \$539m
- GWP of \$6.4bn
- Insurance margin of 14.1%
  - Soft cycle putting downward pressure on margins
  - Underwriting discipline maintained
  - Expense efficiencies & control enabled inflation to be absorbed in non-claims payments
- Progressed our international expansion

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Our net profit for shareholders of \$759m compares with \$781m for FY05 and reflects a return to more sustainable levels of insurance margin and another year of very strong equity market performance.

The earnings from the shareholders' funds of \$539m, pre-tax, includes a gross yield of 20%, reflecting the very strong equity markets during the year.

Our GWP of \$6.4bn is down \$238m or 3.6% relative to FY05. 80% of this loss occurred through the combination of the soft cycle in the Australian Commercial business and the fall in the New Zealand dollar. George will speak to the components in his slides on the segment results.

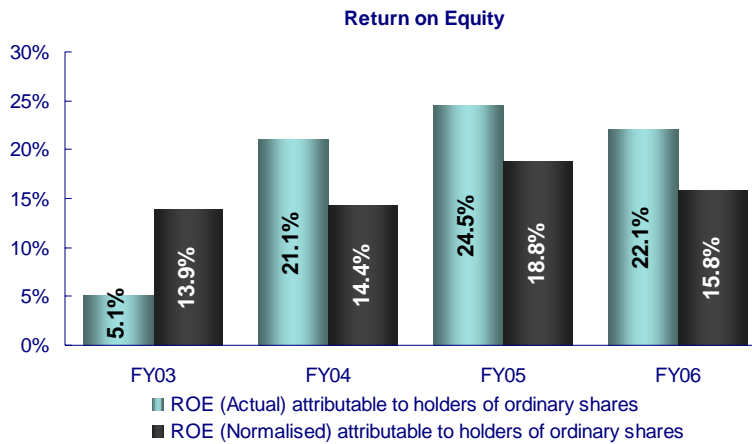
Our insurance margin of 14.1% is lower than the 15.5% delivered in FY05, but it is still the second highest annual margin we have generated and needs to be considered in the context of the market conditions.

The price reductions in the commercial market are now being reflected in earned premium and thus putting pressure on margins. This pressure has been alleviated by continued releases from reserves due to lower claims costs in commercial liability and workers' compensation. We remain committed to our underwriting discipline to ensure we can continue to meet our return on capital targets.

While we ceded market share, we have not cut the capacity in our network as we need it to grow back into the rising market in commercial and to service the positive momentum we are already seeing in personal lines. However, we have worked to contain expenses and have absorbed inflation in our costs, other than payments to claimants and government levies.

We've also progressed our international expansion and I'll talk more about that later.

## Continuing to deliver on ROE targets



- ROE for FY06 is second highest in IAG's history
- Average since listing is 12.8% actual and 14.1% normalised

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As usual, we present our ROE on two bases. The lighter bars represent our reported profit (for pre AIFRS periods this is pre goodwill amortisation) as a percentage of our average ordinary shareholders' equity.

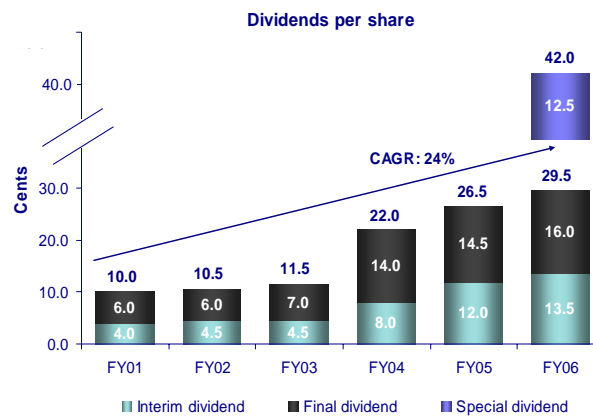
Our preferred basis for measuring our performance is the second set of (darker) bars. This is what we refer to as normalised ROE \*, which removes the volatility of equity returns on the core shareholders' funds portfolio.

The average ROE reported since listing in August 2000 is 12.8%. This rises to 14.1% on a normalised basis.

Our current WACC (weighted average cost of capital) is approximately 10%, having risen marginally because of higher interest rates. Our stated target is to deliver return on equity of at least 1.5 times WACC, measured on a normalised basis. You can see that we've continued to deliver on this target with a normalised ROE of 15.8% for the year.

\* The Group normalises the return on equity by replacing the actual yield on the core shareholders' funds portfolios with a rate determined by adding a 4% equity risk premium to the 10 year bond rate. The surplus capital fund portfolio yield is not normalised as it is not intended to be held for the long-term.

## Delivered double digit dividend growth



- Excluding the special dividend, dividends for FY06 represent:
  - 62% of reported earnings
  - 87% of normalised earnings
- Since listing, the cumulative dividend payout is 64% of cash earnings
  - 72% including special dividend

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We have continued to deliver double digit dividend growth, with the total dividend for FY06 being 11% higher than FY05.

The final dividend of 16.0cps, is an increase of 10% on FY05 and brings the total dividend for FY06 to 29.5cps – 11% up on FY05, excluding the special dividend.

The compound annual growth rate in the dividend since FY01 is 24% per annum.

In aggregate, these dividends represent 62% of the reported earnings for FY06. At 87% of normalised earnings, the dividends are above our policy of paying 50 – 70% of normalised earnings. However, as flagged earlier in the year, we did not need to retain 30 – 50% of normalised earnings for growth during FY06.

Since listing, the cumulative payout ratio is 64% of cash earnings. As a percentage of normalised earnings, it is 66%, within our target range of 50 – 70% of normalised earnings. It is 72% including the special dividend.

All dividends paid have been fully franked.

The final dividend is due to be paid on 9 October.

The Group's capacity to sustain at least 10% growth in total annual dividends over the cycle is dependant on its capacity to sustain growth of at least 10% per annum in normalised distributable earnings, allowing a minimum of 30% to be retained to fund growth.

## Financial results overview



Financial Results/Ratios	Full-year ended Jun 04	Full-year ended Jun 05	Full-year ended Jun 06
Profit attributable to holders of ordinary shares (A\$m)	\$636	\$781	\$759
Reported ROE % (Avg equity) to holders of ordinary equity pa	21.1%	24.5%	22.1%
Normalised ROE % (Avg equity) to holders of ordinary equity pa	14.4%	18.8%	15.8%
Insurance profit (A\$m)	\$792	\$946	\$843
Investment income on shareholders funds (A\$m)	\$434	\$455	\$539
Basic EPS (cents)	37.87	49.31	47.87
Diluted EPS (cents)	37.74	49.00	47.59
DPS (excluding special dividend)	22.00	26.50	29.50
<b>Group insurance ratios</b>			
Loss ratio	64.6%	66.5%	62.9%
Expense ratio	25.9%	26.3%	28.0%
Commission ratio	7.9%	8.2%	8.4%
Administration expense ratio	18.0%	18.1%	19.6%
Combined ratio	90.5%	92.8%	90.9%
Insurance margin (before tax)	13.8%	15.5%	14.1%
Probability of adequacy of general insurance claims reserves	90.0%	92.5%	90.0%
MCR multiple - Group	1.75x	2.00x	1.83x

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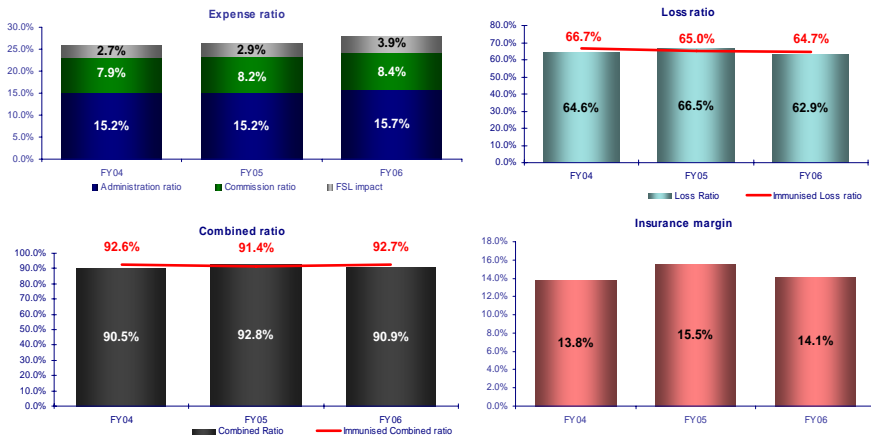
The three points I'd like to draw your attention to on this slide.

Firstly, investment income on shareholders funds. The return of \$539m, up from \$455m last year, includes the return from our surplus capital fund. This dampens the overall return as it is invested primarily in cash and bonds and masks the fact that our fund managers generated \$124m of active returns of which \$83m relates to the equities.

The expense ratio has risen to 28%. The primary reason is an increase in fire service levies and the reduced net earned premium. In dollar terms, controllable expenses have been tightly controlled and I'll speak more about that shortly.

Finally, the Group's PoA (probability of adequacy) has been realigned to 90%. Our risk margins are 22.2% at this level, which is higher than any we've seen to date in the Australian market. Consideration of the size of our risk margins, in the context of the relative risk in our portfolio, was a key factor in our decision to bring the PoA back to 90%.

# Underwriting disciplines maintained



**Notes:**

1. The immunised combined ratio is determined by assuming constant bond yields within each reporting period.
2. FY04 has not been restated for AIFRS.

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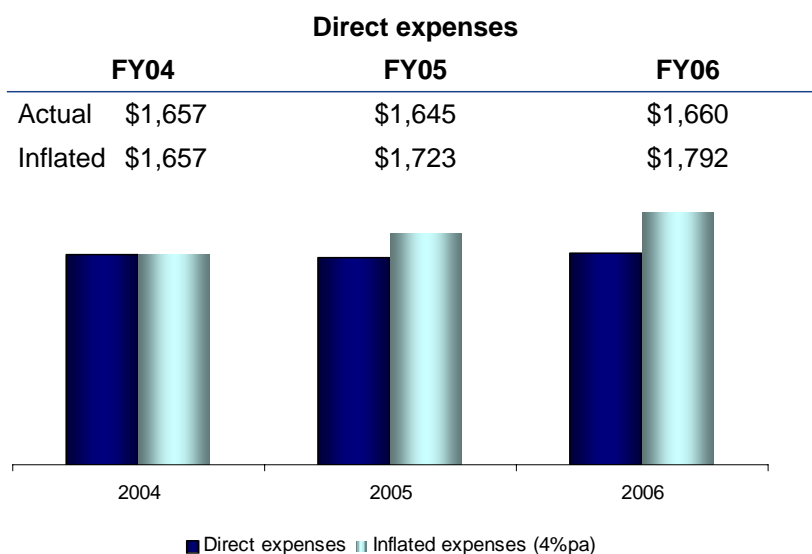
The insurance margin has, as anticipated, moderated from the 15.5% generated in FY05. Achieving a 14.1% margin with lower average premiums in direct motor, CTP and commercial insurance has been achieved through maintaining our underwriting discipline.

The expenses (commission and underwriting) underlying the expense ratio increased by \$68m in FY06. Of this, \$46m is attributable to fire service levies. The bulk of the balance is a \$15m increase in advertising expenditure.

As noted in our commentary on the 1H06 results (and that of some of our competitors), the collections being made for fire service levies proved inadequate to fund the demands made by the authorities up to 18 months after the relevant premiums had been issued. The back-payment, plus the need to increase the accrual rate to allow for higher ongoing expenses, led to the increase in the Group's fire service levies expense of \$46m. With a modified model at the industry level for estimating the amount to be levied in premium, we are more confident that the collections and levies will now be more closely aligned.

The loss ratio stated on an immunised basis (ie excluding the movements in discount rates from each period) has remained very stable. This reflects the diversity of the portfolio absorbing various factors such as reduced premium rates – in real and/or actual terms, fluctuations in storm costs and tail development and releases.

## Operating expenses kept flat



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One of the key cost measures we track is what we refer to as direct expenses. It is effectively all our 'internal' costs. It excludes third-party commissions, any payments to claimants, claims suppliers and for government levies and taxes. These numbers also exclude the CAA, NZI Thailand, Safety Insurance operations, integration costs and merger & acquisition costs.

By focusing on this, we don't get distracted by whether an expense will be classified within claims handling, underwriting, corporate or in our fee-based results nor whether it will be capitalised as systems development.

As you can see here, the absolute spend has been kept flat for three years. Using an inflation factor of 4% – as salaries and on-costs are close to 60% of the total – there has been a saving of over \$130m in real terms.

Key areas of savings have been in absolute terms:

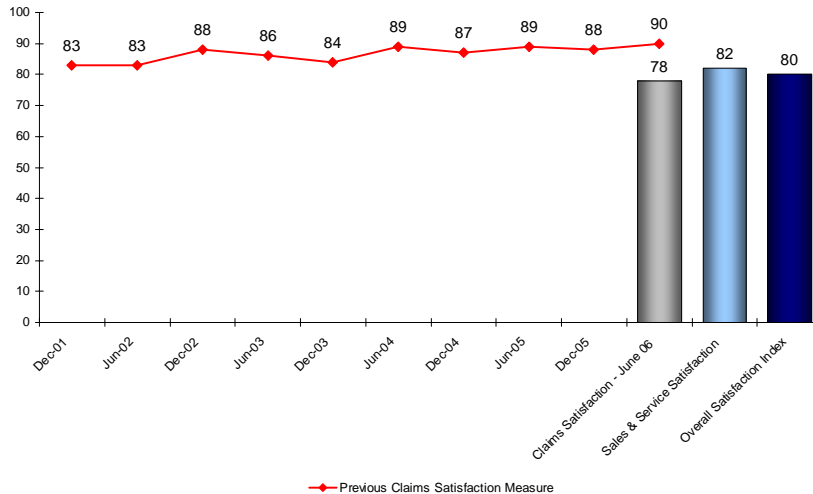
- Telephone and postage – reduced by \$12m in two years, largely on the back of introducing VOIP (voice over internet protocol) in our offices;
- Rent reduced by \$28m relative to FY04 as we rationalised our premises usage; and
- Consultants reduced by \$27m relative to FY04.

During this time, we have also reduced FTE (full-time equivalent) headcount by over 400.

These savings have supported our investment in improved systems and increased advertising – up \$13m and \$18m, respectively on FY04. We've also built the infrastructure to support our international expansion in Asia.

We remain committed to improving our efficiency and minimising increases in expenditure in our existing business. We believe that the business has the capacity to increase the volume of business sold from the existing infrastructure with minimal increase in these expenses.

## Customer satisfaction sustained



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These improvements in our results have not been achieved by sacrificing customer service.

These charts track our historic claims satisfaction for our direct personal lines business, which has remained in a high and tight range of 87% to 90% since June 2004.

The sales satisfaction measures that we reported in prior periods were complaints per policy in force and retention. These statistics have improved, for example, customer complaints were 3.8% lower than the previous year's average, with the ratio of complaints to policies in force at just 0.016%.

While these trends are useful, given that the percentage of complaints is so low, we have adopted more comprehensive lead indicator measures.

We have revamped our measures and this now produces comparable results for both claims and sales & service. It sets a higher hurdle – as can be seen from the comparison of the claims measures at June 2006 (the new measure is 79 while the score was 90 on the old basis).

The new surveys measure 11 attributes and involve over 32,000 calls per annum to people who've recently used our services. The results will be used internally for quality monitoring and form part of incentives.

In our Australian indirect portfolios, customers rated their service experience highly at 89% on the measurement basis used in that business.

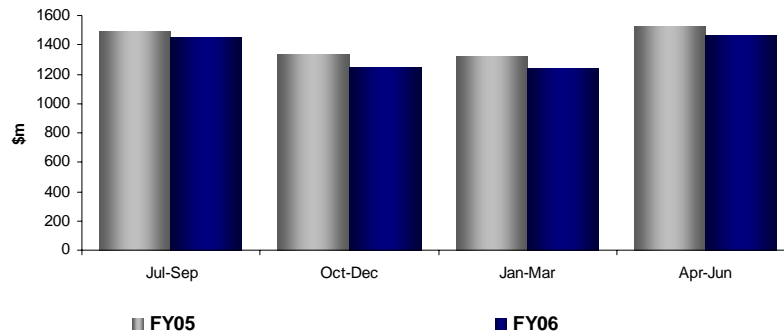
Our New Zealand business increased its customer satisfaction score to 86, on its basis, and NZI won Underwriter of the Year (awarded by the Insurance Brokers Association of New Zealand). Our CGU business continues to record good scores on service focus.

In our fee-based business, the Victorian workers' compensation team received the highest satisfaction scores of all the agents in an audit by the Victorian WorkCover Authority.

## Australian business regaining growth profile



Quarterly GWP trend - Australia only



- Seasonally, the first and final quarters of each year are our strongest – this is essentially driven by our commercial business
- Final quarter gaining on the FY05 comparatives – and this has continued

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Before handing over to George, I'd like to spend some time addressing our GWP trends during the year and show you the positive momentum that has developed in 2H06, particularly the last quarter.

This graph shows how our Australian GWP has trended on a quarterly basis over the past two financial years.

As you can see, the first and fourth quarters are usually our strongest. It also shows how our GWP performance in the second and third quarters of this year lagged behind the prior comparative periods. This was from a combination of:

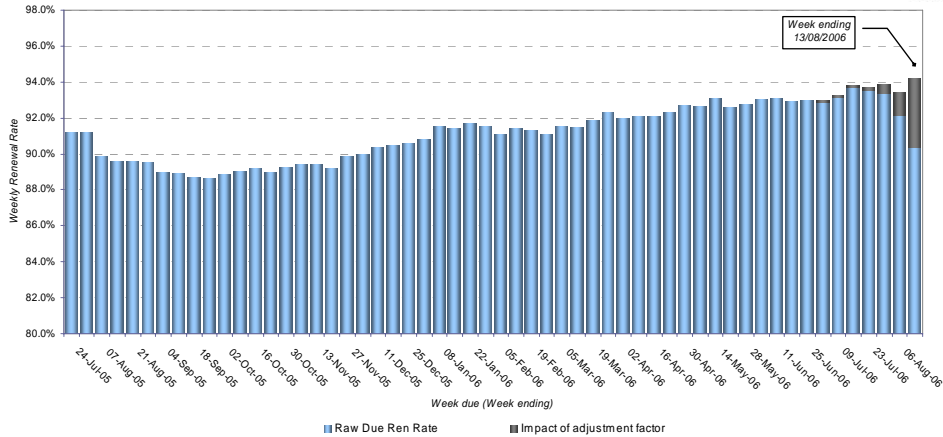
- Commercial prices reducing; and
- Lower overall average premiums and volumes in Australian Personal Lines.

The fourth quarter began to catch up on the FY05 comparative period – in fact the shortfall on FY05 narrowed to \$50m compared with up to \$100m in each of the prior two quarters. Given the price reductions being experienced in Commercial Lines, this can be attributed to the renewed positive momentum in Australian Personal Lines.

# Personal lines recovered & growing



**NSW Direct Car Comprehensive**  
Adjusted Weekly Due Renewal Rate



- Care & Repair perceptions and pricing position reduced renewals in 1H06
- Renewals have now rebounded – as has new business

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This graph shows the success on renewals issued for each week. Late payments are adjusted into the due week and estimates of late payments are added to paid renewals to determine a final estimated renewal rate for the most recent weeks based on payment patterns.

This graph provides a good basis for telling the story of our personal lines business during FY06. It shows the proportion of renewals due each week which do in fact renew for our flagship direct product, NRMA Insurance comprehensive car cover in NSW.

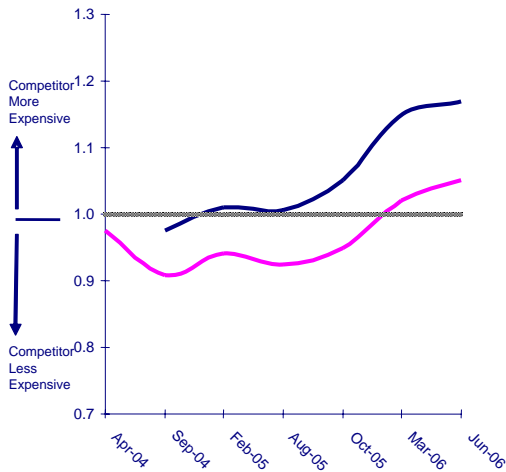
Renewal rates began to drop following the Care & Repair launch. While customers did not necessarily cite Care & Repair as the reason for their change, we believe the noise created around our brand led to more comparative price checking by our customers at a time when our prices were not as competitive as they are now. However, when rate increases implemented a few months earlier were reversed, renewal rates in our direct portfolio recovered to over 90%. They are now at highs we haven't seen in almost two years.

This positive momentum accelerated when our main competitors increased their prices. This was the price movement we had anticipated would follow our changes in mid-2005 as we could see from the industry data (ISA) that their margins were under pressure. We maintained our pricing and our competitive position improved ... (see next slide)

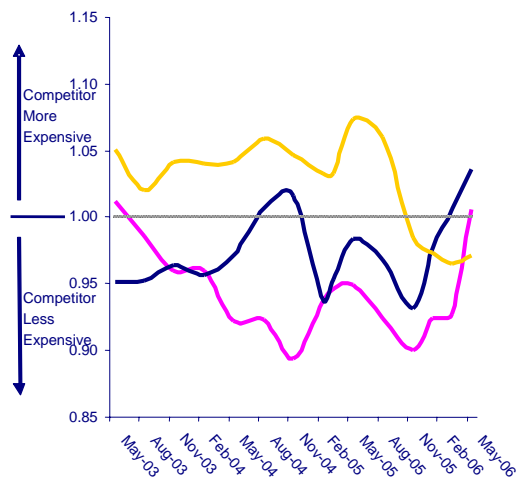
# Relative price position has improved as competitors have increased prices



**NSW Motor – Relative Price Position**



**NSW Home – Relative Price Position**



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These graphs are based on our own surveying of competitor pricing. We obtain over 1,000 quotes for each of motor and home on a regular basis and plot pricing on these charts relative to our pricing. Anywhere the competitor is below the line means we are more expensive and, conversely, where the competitors are above the line, we are less expensive. The comparisons shown here are relativities to our major competitors.

Our pricing is now below that of our main competitors in comprehensive motor and for two out of three in home in NSW.

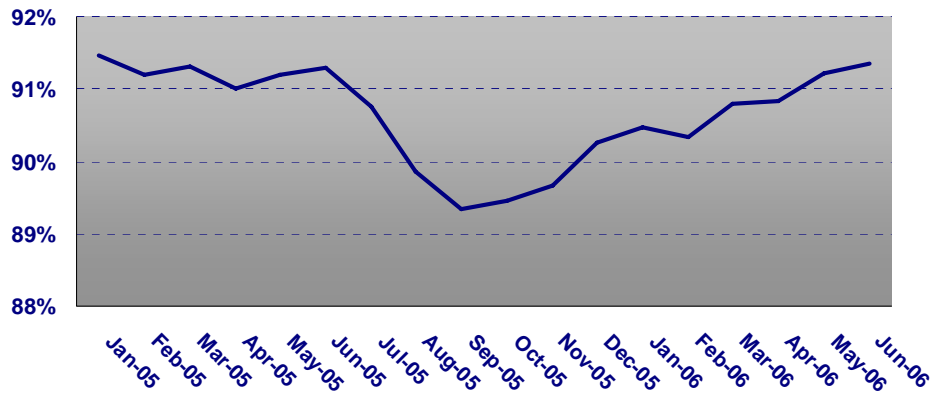
We also track this data for the other states and are happy with our relative overall positioning in these states and the most recent ISA data for the June 2006 quarter shows our market shares have stabilised.

We believe we can sustain this competitive pricing advantage for the foreseeable future as we are still pricing the book to deliver a minimum of our hurdle rates of return.

## Renewals for the whole direct portfolio have improved



National Direct (All Products) Due Renewal Rate (Monthly)



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Finally, before I hand over to George, I thought I'd show you this slide which confirms that the positive momentum is a national story.



## **Segment financial results and solvency**

**Strong results achieved and prudent capital position sustained**

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## APL – Renewed momentum in 2H06



Australian Personal Lines	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	2,002	1,976	1,936	1,924	3,978	3,860
Gross earned premium	1,986	1,950	1,973	1,917	3,936	3,890
Reinsurance expense	(83)	(127)	(93)	(126)	(210)	(219)
Net premium revenue	1,903	1,823	1,880	1,791	3,726	3,671
Net claims expense	(1,268)	(1,283)	(1,289)	(1,171)	(2,551)	(2,460)
Commission expense	(114)	(116)	(122)	(124)	(230)	(246)
Underwriting expense	(331)	(338)	(342)	(352)	(669)	(694)
Underwriting profit	190	86	127	144	276	271
Investment income on technical reserves	158	145	119	74	303	193
Insurance profit	348	231	246	218	579	464
<b>Insurance ratios</b>						
Loss ratio	66.6%	70.4%	68.6%	65.4%	68.5%	67.0%
Expense ratio	23.4%	24.9%	24.7%	26.6%	24.1%	25.6%
Commission ratio	6.0%	6.4%	6.5%	6.9%	6.2%	6.7%
Administration ratio	17.4%	18.5%	18.2%	19.7%	18.0%	18.9%
Combined ratio	90.0%	95.3%	93.3%	92.0%	92.6%	92.6%
Insurance margin (before tax)	18.3%	12.7%	13.1%	12.2%	15.5%	12.6%

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Our Personal Lines GWP fell by 3.0% or \$118m during FY06 with reduced volume across all major classes. We also experienced lower average premiums in our key CTP and motor portfolios in NSW. The CTP average premiums reduced due to the loss of around 2.5% market share and the impact that had on our mix. The motor portfolios were impacted by the falling second hand car market which reduced sums insured.

The improvement in the FY06 net claims expense includes a favourable adjustment of \$52m or 1.4% of NEP from an increase in discount rates applied to claims reserves. Of this, \$44m relates to the 2H06 – this adjustment is in contrast to the adverse adjustment of \$36m or 1% of NEP which hit the prior year. The offset to the reduction in the claims line was reduced investment return on the technical reserves. We incurred losses associated with the increase in interest rates on our fixed interest portfolio which returned \$110m less in 2006. On an immunised basis, which removes the impact of movements in interest rates, the FY06 loss ratio of 68.5% compares to the 67.5% in the prior year. The comparison is particularly pleasing against the backdrop of reduced reserve releases from NSW CTP and the cost of Cyclone Larry. We incurred the costs of Cyclone Larry in the second half of 2006. The allocation to Personal Lines was a gross cost of \$71m.

Our underwriting expenses increased by \$25m from \$669m to \$694m in 2006. That's an increase of 3.7% which is mainly attributable to additional fire services levies of \$22m incurred during 2006. The increase in FSL is directly related to under collection of levies in FY05, advised by the ICA, and anticipated increases for FY06. We also increased our advertising spend by \$15m and absorbed inflation of around 4% in our rent and salary costs during 2006. These increases were largely offset by the savings initiatives announced last year which delivered \$24m during the period in our underwriting and administration costs. The balance of the \$31m of initiatives targeted during the period were delivered in the claims line. As Mike outlined, we focus on keeping our direct expenses flat year on year and will be looking for savings to achieve that again for these major portfolios in 2007.

NSW CTP is the portfolio to watch in coming periods. We shed around 2.5% market share in NSW over the past year or so and whilst our share seems to have stabilised at present, our claims frequency continues to reduce. Our NSW CTP book experienced a 20% decrease in claims lodgements in 2H06 relative to 2H05. This decrease was not reflected in the industry wide data or in comprehensive motor collision claims, supporting the conclusion that the reduction in frequency is related to the skew in our portfolio rather than a trend in the broader scheme. This change in lodgement patterns has not yet matured to a point where it is reflected in actuarial assumptions. It could develop into a significant positive factor for liability development in 2007. We also adjusted for the impact of increasing wage inflation in our long term assumptions. The full year adjustment for increasing AWE added \$40m to the net central estimate down from \$68m at the half year.

The 2003 and earlier accident years are producing liability numbers lower than previously expected. The new Life Time Care Scheme will be introduced into NSW with revised pricing effective from 1 October 2006. Each participant's opening prices will be available next week and it will be very interesting to see how each of the insurers has positioned their pricing to take account of the levy to be collected for the NSW Government. We expect the reduction in premium will be in line with the levy charged. We expect a reduction in GWP of around \$35m for 2007 and up to \$100m in subsequent years. Capital will be released gradually as liabilities migrate to the NSW Government.

For short tail claims, increasing claims costs could drive premiums up during 2007. In the home portfolio, the average claims costs were higher than FY05, mainly due to the impact of Cyclone Larry and underlying inflation. Labour costs for motor repairs were up by 3.9%, building materials were up by 2%, the cost of car parts went up on average by 2.4% and construction industry wages were up by 5%. The pressure this creates for rates to rise will, I believe, be only partly ameliorated by improving frequency numbers in the motor books as the very high cost of fuel tends to reduce the level of discretionary motoring.

We also opened 10 Care & Repair centres in metropolitan NSW to deliver better claims service to city customers. In 2H06, when all were operational, 65% of repairs were processed through the centres. The proportion of repairs performed by PSRs in NSW during 2H06 was 76%. The NSW preferred smash repairer network had 417 participants at the end of June 2006. Of these, 415 were eligible for contract renewal at the end of the year and all but two, who had sold their businesses, are now signed up to three year contracts with us.

During FY06 we also rolled out our Single Customer View system which has delivered significant improvements in data integrity and functionality for viewing all customer product records in a single customer statement. Over time, we expect to see improvements in our underwriting and pricing based on the improved data capture through this system.

In summary, we have continued to invest in the efficiency of the business during 2006 and are well placed on pricing relativity. The business is generating returns on capital which exceed our hurdle rate and is very well positioned to grow from here and take advantage of the operational leverage created by this investment.

## ACL – 18% margin in a soft market



Australian Commercial Lines	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A\$m	A\$m	A\$m	A\$m		
Gross written premium	827	867	761	778	1,694	1,539
Gross earned premium	831	803	823	788	1,634	1,611
Reinsurance expense	(95)	(83)	(85)	(156)	(178)	(241)
Net premium revenue	736	720	738	632	1,456	1,370
Net claims expense	(524)	(405)	(409)	(309)	(929)	(718)
Commission expense	(90)	(88)	(86)	(83)	(178)	(169)
Underwriting expense	(147)	(148)	(165)	(152)	(295)	(317)
Underwriting profit	(25)	79	78	88	54	166
Investment income on technical reserves	93	87	59	22	180	81
Insurance profit	68	166	137	110	234	247
Profit from fee based business	11	(25)	1	7	(14)	8
Total commercial line result	79	141	138	117	220	255
<b>Insurance ratios</b>						
Loss ratio	71.2%	56.3%	55.4%	48.9%	63.8%	52.4%
Expense ratio	32.2%	32.8%	34.0%	37.2%	32.4%	35.5%
Commission ratio	12.2%	12.2%	11.7%	13.1%	12.2%	12.3%
Administration ratio	20.0%	20.6%	22.3%	24.1%	20.2%	23.2%
Combined ratio	103.4%	89.1%	89.4%	86.1%	96.2%	87.9%
Insurance margin (before tax)	9.2%	23.1%	18.6%	17.4%	16.1%	18.0%

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The Australian Commercial Lines business delivered another very strong margin with profit increasing from \$220m to \$255m in FY06. GWP reduced by 9.1% to \$1,539m for FY06. In the 2H06, GWP reduced by 10.3% to \$778m against the prior comparative period. The Group maintained policies in force at 98.8% of the FY05 level.

While short-tail commercial has started to endure tighter margins due to the soft cycle, the long-tail elements of the portfolio are continuing to out-perform with ongoing recognition of improvements in experience funding premium reductions.

Increased competition was an ongoing feature during 2006. We consider that many of the short-tail commercial risks we saw were inadequately priced, particularly in the June renewals. Also, as expected with a continuing soft cycle, pressure increased in the mid-commercial and SME segments of the market.

Rate decreases during FY06 on renewals averaged 4.5% in real terms, ie allowing for exposure and inflation, and retention rates remained above 80%, reflecting the continued focus on client relationship management by the team. New business volumes were down as business which did not meet our risk criteria, either on price or terms, was refused, but as I said above, policies in force remain at 98.8% of the FY05 level. The rate decreases were more pronounced in liability classes where tort reform is also reducing claims costs, providing more justification for these decreases.

To maintain pricing discipline, no underwriting staff had their incentives tied to growth and, as the year progressed, discounting authorities were tightened. We now expect that pricing in commercial may not stabilise until 2H07.

The commercial lines business was heavily impacted by Cyclone Larry in the second half. The gross loss of the business for this event is \$101m. The majority of our claims hit the rural and regional book where CGU has a dominant market share.

The increase of \$22m in the underwriting expenses from \$295m to \$317m includes additional fire services levy of \$24m in the year. Other costs reduced by \$2m reflecting delivery of the \$10m in cost savings committed to in 2005. The bulk of the expense reduction work undertaken in FY06 was targeted to realise efficiencies available from increased automation. This included back office work on broker related reconciliations and front-office work on broker interfaces such as 'CGU Connect'.

In summary, the business is well prepared to ride out the rest of the soft cycle in a disciplined fashion and grow into the anticipated change in the cycle in 2007.

## International – NZ performing well & infrastructure in place for Asia



International operations	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	499	502	509	526	1,001	1,036
Gross earned premium	494	496	524	512	990	1,036
Reinsurance expense	(49)	(34)	(57)	(50)	(83)	(107)
Net premium revenue	445	462	467	462	907	929
Net claims expense	(271)	(298)	(272)	(306)	(569)	(578)
Commission expense	(49)	(44)	(46)	(44)	(93)	(89)
Underwriting expense	(70)	(70)	(77)	(81)	(140)	(158)
Underwriting profit	55	50	72	31	105	104
Investment income on technical reserves	12	14	14	14	26	28
Insurance profit	67	64	86	45	131	132
Share of Profit from Associates	-	-	-	2	-	2
China Automobile Association	(2)	(2)	(3)	(4)	(4)	(7)
Total international result	65	62	83	43	127	127
<b>Insurance ratios</b>						
Loss ratio	60.9%	64.5%	58.2%	66.2%	62.7%	62.2%
Expense ratio	26.7%	24.7%	26.3%	27.0%	25.7%	26.6%
Commission ratio	11.0%	9.5%	9.8%	9.5%	10.3%	9.6%
Administration ratio	15.7%	15.2%	16.5%	17.5%	15.4%	17.0%
Combined ratio	87.6%	89.2%	84.5%	93.2%	88.4%	88.8%
Insurance margin (before tax)	15.1%	13.9%	18.4%	9.7%	14.4%	14.2%

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The New Zealand result still dominates this segment, although that may change in the not too distant future.

The results for 2006 include \$65m of GWP from our new Asian subsidiaries for the period from when we gained control. Without these the GWP in this segment would have fallen solely because of the 3% fall in the average value of the NZ\$ relative to the A\$ during the year.

During the year we established a regional management team in Singapore. This team is working closely with the businesses in Malaysia and Thailand to assist with improving products, customer access and risk frameworks while also seeking out further expansion opportunities. This team works alongside the newly formed specialist Asian Lloyds underwriting syndicate that operates as Alba Group Pte Limited. The costs of establishing the office, including relocating team members from Australia, has dampened the margin in this segment for 2006.

Alba, in Singapore, and our captive insurer in Labuan, were acquired or set up during the year as essential parts of the infrastructure required to leverage the reinsurance opportunities arising from the Group's operations across Asia.

The skills and frameworks which our people in Singapore bring to the business are a key part of managing our risks in the Asian region.

Our Malaysian investment, AmAssurance, has been equity accounted with effect from March 2006. We have recorded our share of the reported profit for shareholders, after tax, of \$2m for the quarter. This business is also experiencing continued double digit growth and the embedded value of the Life company is up by 3.8% year on year.

The investment in CAA to enable it to become a national provider of roadside assistance in China is now largely complete and the net result from this business should improve during 2007 as we leverage this investment.

We also completed the purchase of NZI Thailand and upped our holding in Safety from just over 20% to around 96% in 2H06.

The Thailand subsidiaries both delivered continued underwriting profits in the year with a combined ratio in the mid-90s for the period we consolidated. Both businesses are growing and industry estimates of growth for FY07 are 10%.

## New Zealand sustained record margin levels



New Zealand Operations	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	499	502	494	477	1,001	971
Gross earned premium	494	496	507	462	990	969
Reinsurance expense	(49)	(34)	(45)	(32)	(83)	(77)
Net premium revenue	445	462	462	429	907	892
Net claims expense	(271)	(298)	(269)	(287)	(569)	(556)
Commission expense	(49)	(44)	(46)	(39)	(93)	(85)
Underwriting expense	(70)	(70)	(75)	(74)	(140)	(149)
Underwriting profit	55	50	72	29	105	102
Investment income on technical reserves	12	14	14	13	26	27
Insurance profit	67	64	86	42	131	129
<b>Insurance ratios</b>						
Loss ratio	60.9%	64.5%	58.2%	66.9%	62.7%	62.3%
Expense ratio	26.7%	24.7%	26.2%	26.3%	25.7%	26.3%
<i>Commission ratio</i>	11.0%	9.5%	10.0%	9.1%	10.3%	9.5%
<i>Administration ratio</i>	15.7%	15.2%	16.2%	17.2%	15.4%	16.7%
Combined ratio	87.6%	89.2%	84.4%	93.2%	88.4%	88.6%
Insurance margin (before tax)	15.1%	13.9%	18.6%	9.8%	14.4%	14.5%

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The insurance margin for the New Zealand business of 14.5% just exceeded the record level of 14.4% delivered in FY05. The commercial cycle is in full swing in New Zealand, although it does not seem as extreme at this stage. Rate reductions in commercial lines were offset by additional premium in personal lines where we led the market in increasing home insurance rates. Home insurance rates had not been keeping up with the increased cost of more frequent severe weather events.

FY06 did look like being a relatively benign year until the business sustained a NZ\$20m (\$18m) loss from the snowstorm in the South Island in late June.

We have been leveraging our systems investments in New Zealand in recent years to improve efficiency. One example this year was a pilot enabling branch-based staff to log into the call centre via our VOIP (voice over internet protocol) network and take calls. This is a very effective way of managing load across the network and facilitating local representation and local jobs which has reduced turnover and training costs in the pilot group.

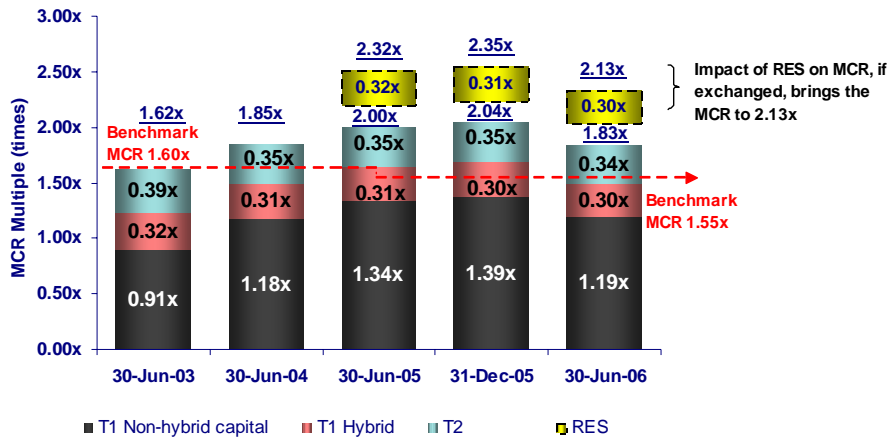
The New Zealand business also completed the acquisition of Mike Henry Travel which represents around 2% of the New Zealand portfolio at 30 June 2006.

The broker channel, which represents approximately 47% of our New Zealand portfolio continued to achieve volume growth in both personal and commercial lines during the year.

The administration ratio in New Zealand increased by around 1.3% on 2005 due to the combination of additional IT spend and restructuring costs, including redundancies.

The IAG NZ business is continuing its implementation of the Australian Personal Lines technology platform. Following an extension of scope, which includes enhancements which will assist the Group's entire portfolio for personal lines, we expect the project to be completed in 2H07.

## Sustained strong solvency position



- Group MCR coverage at 1.83x
  - RES add 0.3x capacity

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The Group continues to set its economic capital based on its internal modelling and then translates this into a multiple of MCR (minimum capital requirement) determined at the Group level.

As at 30 June 2006, the MCR multiple remained very strong at 1.83x MCR. The reduction from 2.04x at 31 December 2005 essentially represents the payment of the special dividend of \$201m in June and the intangibles relating to acquisitions in Asia during 2H06.

The MCR multiple of 1.83x does not include our innovative contingent capital which would add 30 basis points if exercised, lifting the multiple to 2.13x.

As Mike has already pointed out, we expect to continue to grow via acquisitions during 2007 and currently have sufficient capital to execute our transaction in China during the first half of 2007.

Obviously anything of reasonable size acquired in addition to our investment in China could involve some form of capital raising..

## Track record of prudent reserving – nine consecutive years of net releases



Claims development	Accident year				
	FY02	FY03	FY04	FY05	FY06
Net ultimate claims cost estimate (undiscounted)	A\$m	A\$m	A\$m	A\$m	A\$m
At end of accident year	2,313	3,677	3,881	4,024	4,105
One year later	2,215	3,360	3,521	3,743	
Two years later	2,137	3,249	3,493		
Three years later	2,087	3,163			
Current estimate of net ultimate claims cost	2,051	3,163	3,493	3,743	4,105
<b>Statistics</b>					
<b>Cumulative development: favourable / (unfavourable)</b>	<b>262</b>	<b>514</b>	<b>388</b>	<b>281</b>	
Development as % of original reserves	11.3%	14.0%	10.0%	7.0%	
PoA on net outstanding claims (min. level to FY03)	90%	90%	90%	92.5%	90%
S&P Insurer financial strength rating for key u/writers	AA+	AA	AA	AA	AA

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We have produced a claims development table as required under AIFRS. We've gone with the approach of showing it in terms of the total provisions as we believe this is ultimately what it is there for – to see the reporting entity's track record in providing for its claims.

The table is presented on a net undiscounted basis, i.e., the expected cash outflows including inflation, so that the ultimate claims cost can be directly compared year on year.

The acquisition of CGU and NZI during FY03 is the reason for the significant increase in the level of ultimate claims costs in that accident year. For acquired businesses, development relating to accident years prior to acquisition is all allocated to the period prior to the accident years shown on this table.

The Group's claims development table shows that there is a history of the claims reserves being conservatively stated. This is to be expected when we've had a philosophy of reserving the Group's net claims reserves to a minimum probability of adequacy of 90% throughout this period and the Group's major long-tail portfolios have either been quite stable – (eg CTP NSW and WA workers' compensation) – or developing favourably – (eg liability classes following tort reform).

The higher level of cumulative releases relating to the FY03 accident year relate to favourable development of assumptions, including risk margins, that we made in respect of the acquired CGU business as we took a very conservative stance at acquisition.

From the claims expense note in the accounts which splits the claims expense in the income statement between that incurred for the current accident year and the aggregate of adjustments to the prior periods, you can see that FY06 is the ninth consecutive year that we have had releases from prior years, both on this undiscounted basis and on a discounted basis.

This consistency and relative conservatism is one of the reasons that the Group has retained AA category insurer financial strength ratings for its key licensed insurers since listing.

## International expansion provides scope for further capital efficiency



- Domestically IAG has been innovative in realising capital efficiencies
- International expansion will provide further efficiencies
  - Provides access to additional investors, potential for local funding
  - Effective tax rate may reduce over time depending on rates in countries in which we operate
- Considering optimal investment portfolio mix:
  - Risk capital charges (S&P / APRA)
  - Foreign prudential capital and tax regimes
  - Larger Group to absorb volatility of individual businesses/different investment markets providing diversification

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Since we listed in 2000, we've been active managers of our capital – and we intend to continue to do so.

At listing we had surplus capital and were 100% equity funded. Over the six subsequent years, we:

- Returned over \$1bn of surplus equity in three off-market buy-backs and a special dividend;
- Introduced debt in 2001 to fund the State acquisition in New Zealand;
- Issued two tranches of reset preference shares;
- Funded the acquisitions of CGU and NZI in 2003 with a mix of funding designed to bring us into line with our target capital mix; and
- Issued an innovative contingent capital security – the reset exchangeable securities (RES)

Each of the capital returns and hybrid issues have monetised some of our surplus franking credits.

Looking forward, our international expansion plans provide us with further capital management potential. For example:

- The capacity to tap another pool of potential investors and other capital markets; and
- The potential to generate earnings with a lower tax rate than applies to our Australian operations.

As we continue to expand internationally we will continue to reconsider our optimal investment portfolio mix to take account of:

- Anticipated changes in how Standard & Poor's will assess capital adequacy;
- The varying prudential and tax regimes that apply, and we expect will apply, to our businesses. This can determine where and in what form it is necessary to hold some of the Group's capital and thus have an effect on how the total capital is invested. It also introduces new opportunities, such as using letters of credit to provide capital via our Lloyds vehicle.
- With a more diverse book, the diversification benefits – due to non-correlated insurance portfolios – may outweigh some of the diversification provided to date from the lower correlation between insurance operations and equity markets relative to the correlation with bond markets.

We are assessing all these issues as part of our approach to potential acquisitions and the capital required to fund them.



## **International expansion progressing**

**Foothold and infrastructure in place in Asia, further international expansion being actively pursued**

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## Asian strategy progressed – delivering shareholder value



✓ Build Asian platform	<b>Acquisitive:</b> <ul style="list-style-type: none"> <li>• AmAssurance</li> <li>• Safety Insurance</li> <li>• Alba</li> <li>• MOU with CPIC</li> </ul>	<b>Organic:</b> <ul style="list-style-type: none"> <li>• Regional Head Office</li> <li>• Labuan Re</li> </ul>
✓ Capture offshore growth	Pro-forma growth of 3.1% <sup>(1)</sup>	
✓ Earnings accretive	Positive contribution to FY06 profits Acquired businesses EPS accretive in FY 2007 or earlier	
✓ Leverage IAG capabilities	Renewed focus on combined Thai business AmAssurance capability transfer programme	
✓ Economics through reinsurance	Efficiency benefits of Labuan Re & Alba U/W commenced for AmAssurance and Thailand	
✓ Delivering shareholder value	Profits reported from Safety Insurance and AmAssurance 3.8% increase in AmAssurance Life EV	

(1) Reflects IAG's proportion of acquired GWP compared to IAG's June 2006 GWP as if owned for the full financial year. All amounts for 1H05 and subsequent periods restated under AIFRS Insurance Australia Group Limited - ABN 60 090 739 923 24

FY06 has been a very important year for our Asian expansion. The small core team that has been working on this led the completion of the acquisition of two subsidiaries, NZI Thailand and Safety Insurance, as well as our 30% in AmAssurance. We also made significant progress on the proposed 24.9% investment in China Pacific Property Insurance. We hope to that completion of this transaction will occur in October or November.

If we had controlled Safety for the whole year and could include our 30% stake in AmAssurance's general insurance premiums for a whole year in our GWP, the GWP from Asia in FY06 would have been \$204m or 3.1% of the Group's FY06 GWP.

CPPI is currently writing about \$2.3bn in annual GWP so would add around \$800m more in GWP, if it were to be proportionately consolidated (an option not available in Australia).

The Thai businesses and AmAssurance each made contributions to the Group's profits in FY06 and are expected to be earnings per share accretive in FY07.

As George mentioned, our Asian team is working closely with the Thai and Malaysian operations to leverage our skills. This is going well with the CEOs in each of the companies actively involved in the programmes.

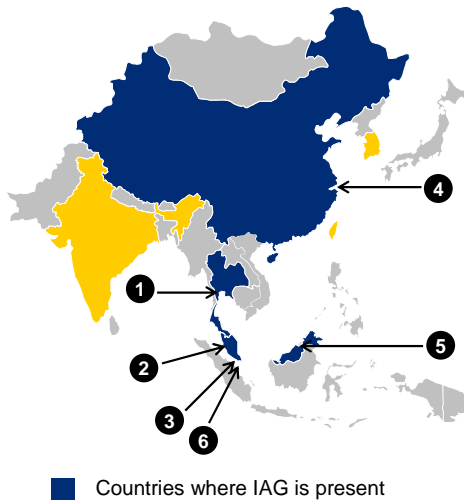
We mentioned in our announcement about AmAssurance that we aimed to increase our economic exposure through providing reinsurance to the business. After all, if we are involved in the setting of the risk framework and pricing in the underlying book, taking a share of the reinsurance placed is low risk, particularly on proportional covers. Our newly established and licensed Labuan insurer wrote 15% of AmAssurance's quota share and catastrophe covers effective from 1 July 2006. NZI Thailand also began ceding risks through the Labuan captive on this date.

# Building a platform in high growth SE Asian markets



## Regional focus

## IAG's relative scale



■ Countries where IAG is present  
 ■ Countries of interest

(1) Transaction not completed

<u>Acquisitive growth</u>		P&C market	Motor	Foreign investors
①	Safety / NZI Thailand	4	3	1
②	AmAssurance	5	2	2
③	Alba	NA	NA	NA
④	CPPI <sup>(1)</sup>	2	2	2
<u>Organic growth</u>				
⑤	Labuan			
⑥	Singapore			

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This slide shows our presence in Asia and where we fit in the respective markets.

In Thailand, our combined businesses are ranked fourth in size in the general insurance market and equal third in motor. The three larger insurers are local Thai operations so we are the largest foreign investor. This partly reflects the very fragmented nature of the market and we anticipate further consolidation in this market and would like to participate in that. We would also like to grow the Group's position in this motor market as part of that strategy.

In Malaysia, AmAssurance is the fifth largest general insurer with a bias towards motor – our preferred entry point – which makes it the second largest motor insurer. IAG is the second largest foreign investor there. There is also scope for more consolidation in this market and AmAssurance expects to participate.

The Alba purchase was not completed until after 30 June 2006 and, as it was a 'cleanskin' syndicate, there are no premium statistics.

The investment in China Pacific Property Insurance (CPPI) has not been finalised at this time. However, the equivalent information is provided here for reference. It is the number two player in total general insurance and in motor and our investment in the sector would be second only to AIG's investment in PICC.

Each of these general insurance markets is growing at a rate of at least 10% per annum.

## International expansion beyond Asia



- Asia was the first step in international expansion
  - Research into other markets has been ongoing
- Benefits of further international expansion include
  - Diversification of risk
  - Maintaining competitive scale position internationally
  - Taking technical capability to new markets – and leveraging theirs
- Actively pursuing opportunities in Europe. Attractions include
  - Still largely intermediated
  - Pricing of motor property damage not as developed
  - Supply chain management still evolving
  - More developed customer segmentation & marketing

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To be a competitive insurer for the long-term, we need to maintain our relative global positioning. To deliver the growth required to be a top quartile performing company, we believe further international expansion is necessary as the Australian and New Zealand markets cannot support the growth necessary to do this for the long-term.

Expansion provides us with the opportunity to increase our capital efficiency through risk diversification and tapping new sources of capital and to leverage our skills and learn from others.

For this reason we started our work to expand beyond Australia and New Zealand. We chose Asia as our first area of focus and, as we began to build our platform in Asia, we also began to investigate and select other markets. We do detailed work on each before considering specific opportunities and estimate it often takes approximately two years between initiation of our work and being ready to execute on specific opportunities.

We have identified parts of Europe as attractive markets and are actively pursuing opportunities. Some of the attractions include:

- They are still largely intermediated;
- Pricing of motor property damage is not as developed as it is in Australia;
- Supply chain management is still evolving; and
- Customer segmentation & marketing is more advanced, which could offer some learnings for the Australian and New Zealand markets.



## Strategic objectives and outlook

Insurance Australia Group Limited  
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## Five year strategic objectives (set in FY02, updated in FY04) largely met



**Top quartile shareholder return**

Delivered cumulative TSR of 104.4% since 1 January 2002. Ranked 25<sup>th</sup> in S&P/ASX100 during this period <sup>(1)</sup>

**Normalised ROE of at least 1.5x WACC**

Delivered. Average of 15.4% normalised ROE for FY02 to FY06

**Double GWP to \$7bn & maintain 80:20 mix between short & long-tail**

Largely delivered

**Establish an Asian foothold**

Delivered. Acquisitions in Thailand, Malaysia & Singapore completed. China in progress

**Maintain a AA rating**

Delivered

(1) For companies operating throughout the period.

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The Group's cumulative TSR since 1 January 2002 is 104.4% which ranks it 25<sup>th</sup> in the S&P/ASX100 over that period (adjusted to factor in only entities in the index throughout the period).

While the company has not delivered top quartile shareholder returns over this whole period, it performed very well for a significant proportion of the time and remains committed to this goal over full cycles.

The Group has delivered in excess of 1.5x WACC per annum for FY02 through to FY06. The average has been 15.4%.

The GWP growth target is still within our sights and the mix remains very close to the target at 81:19 short-tail to long-tail.

The goal of establishing a foothold in Asia has been delivered.

And we have maintained a AA category insurer financial strength rating for our major wholly-owned insurance subsidiaries.

## Clear about objectives to deliver top quartile shareholder returns



- Financial**
  - GWP of A\$13bn by 2012 <sup>(1)</sup>
  - 40% of earnings from international businesses by 2012
  - Maintain conservative risk appetite (eg 'AA' rating)
- Portfolio**
  - Balance of mature & emerging markets
  - Personal lines & commercial SME focused
  - Selective inwards reinsurance – principally from 'family'
  - Benchmark 80:20 short:long tail mix
- People**
  - Maintain high performance culture
  - Employer of choice
  - Embed values based leadership
- Customer**
  - Price risk fairly
  - Customer led proposition
  - Leverage own / partner brands

(1) Including proportionate interest in unconsolidated investments

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This slide shows how we are looking at our objectives at present in the context of our overall goal of delivering top quartile shareholder return on a sustainable basis over the cycles of our business.

We are still looking to double premium again by 2012, to sustain the goal of doubling the book – and earnings – every five years. Based on empirical evidence, this is what it takes to be in the top quartile performers and maintain relative scale in the international general insurance market. We acknowledge that not all this growth may be in consolidated entities but will include our proportionate shares of associates' GWP.

Factoring in longer-term average growth in the Australian and New Zealand markets of about 1.5x GDP, this means that about 40% of earnings would be sourced internationally.

We aim to get this growth by investing in a balance of mature and emerging markets and maintain a focus on personal lines and commercial SME businesses, being the segments where we have the most competitive advantages. We would also like to retain a mix of 80:20 short-tail: long-tail over time to manage the extent of our exposure to significant adverse development in long-tail classes.

To execute on this successfully, we will need to be an 'employer of choice' with a high performance culture and embed values-based leadership throughout our operations.

Fundamental to all this will be a continued adherence to our commitment to price risk fairly. To remain competitive we will also need to have customer-led propositions so that we remain in touch with, and focused on, our customers' needs and how they differ by area, channel and over time. We will leverage the value in our brands and those of our partners to deliver on our customer propositions.

## Management team focused on delivering profitable growth



	Aust Personal Insurance	CGU	Business Partnerships	New Zealand	Asia	Reinsurance & Asset Mgt
<b>CEO:</b>	<i>David Issa</i>	<i>Mario Pirone</i>	<i>Jacki Johnson</i>	<i>Nicholas Hawkins</i>	<i>Justin Breheny</i>	<i>Jan van der Schalk</i>
<b>GWP<sup>2</sup>:</b>	\$2,890m	\$1,836m	\$672m	\$971m	\$65m <sup>2</sup>	\$1m
<b>Brands:</b>	   	 	   	 	 	

(1) Shared brands

(2) Distribution of FY06 reported GWP – for Asia this is only NZI & Safety for the period since control acquired

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In summary, we believe we have made significant progress in building for future growth.

This slide shows the premium and brands managed by the CEOs of each of our businesses.

This re-energised team is totally focused on profitable growth.

- In Australian Personal Lines, David is working through the business to ensure it is fully focused on delivering great customer service, improved marketing and continuing to improve efficiency so that the current momentum in the business is sustained and profitable growth delivered.
- Mario and his team, whose premium on this slide includes CGU branded personal lines, are sticking to their strategy of using our understanding of customer profitability and the needs of customers, based on long-standing relationships, to continue to retain quality business at reasonable prices and, where necessary, take tough decisions on accounts that do not meet our return criteria.
- I created a new division called Business Partners. Jacki is responsible for non-risk workers' compensation as well as nearly \$700m of GWP. The business, which includes Swann and MCGI, is the third largest underwriter of personal insurance for financial institutions and affinity groups. The extra focus on this business is already leading to improvements in sustainable profit through more strategic relationship management.
- In New Zealand, Nick has inherited a business delivering very good margins but with more scope for improvement. For example, the home insurance market in New Zealand has been underpriced for some time and risk-based pricing is relatively undeveloped compared with Australia, which is why we are looking forward to the opportunities for further improvement when we implement our personal lines underwriting and rating systems from Australia.
- I've already discussed Asia and the role of reinsurance within that.

## FY07 Outlook



- Continue to grow and diversify our earnings
- Generate GWP growth of 5 – 10%
  - From organic business and acquisitions
  - Excludes non-consolidated GWP of associates
- Deliver normalised ROE of at least 1.5x WACC \*
  - Pricing discipline maintained – for GWP and acquisitions
  - Continued focus on cost containment
  - Active capital management
- Maintain strong balance sheet and prudent reserving

\* Subject to no large losses or catastrophes beyond our allowances and no major falls in bond values.

All amounts for 1H05 and subsequent periods restated under AIFRS  
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The Group expects to grow and diversify its earnings in FY07 and:

- Generate GWP growth of 5-10%, including acquisitions;
- Deliver ROE of at least 1.5x WACC on a normalised basis; and
- Maintain its strong balance sheet and prudent reserving philosophy.

The growth expectation only includes consolidated GWP.

The organic growth expectation takes account of:

- Leveraging the Group's current competitive position and positive momentum in direct motor and home insurance;
- Reduced premium in NSW CTP due to changes in the scheme structure which result in lower premiums;
- The soft cycle in commercial insurance in Australia and New Zealand; and
- Ongoing strong growth in the Group's Thai subsidiaries.

As I've discussed earlier, acquisitive growth is likely to be sourced in Asia and Europe.

Delivering on ROE at least 1.5x WACC is considered achievable based on:

- Continued focus on cost management including leveraging the capacity in the existing business to write additional business at marginal additional cost;
- Maintaining pricing discipline for premiums;
- Being disciplined in the price paid for acquisitions; and
- Continued active capital management.

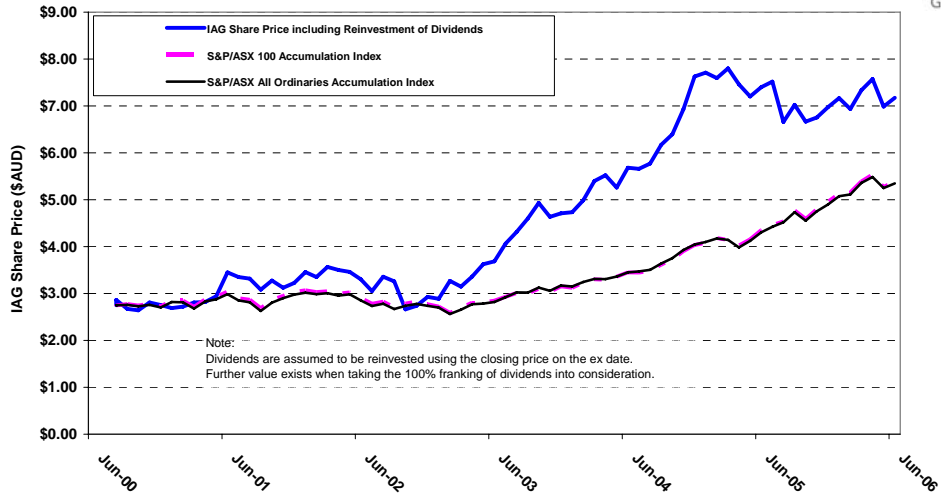
Delivery of these returns is also subject to not incurring any large losses or catastrophes beyond the Group's normal allowances and experiencing no major falls in bond values.

Now, we'll take some questions ...

# IAG share performance



IAG share performance - since listing



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