

21 August 2003

Ms Pam Ross
Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000



Dear Ms Ross

INSURANCE AUSTRALIA GROUP LIMITED


INVESTOR PRESENTATION—YEAR ENDED 30 JUNE 2003

Please find attached Investor Presentation Slides inclusive of speaking notes which were not included with the Investor Presentation Slides sent to you earlier this morning.

Yours sincerely

A handwritten signature in black ink that reads 'Anne O'Driscoll'. The signature is written in a cursive style with a large, looped 'A' and 'O'.


Anne O'Driscoll
**Group Company Secretary &
Head of Investor Relations**



Financial results
Year ended 30 June 2003

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

21 August 2003



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ABN 60 090 739 923

Good morning. Welcome to the Insurance Australia Group FY03 results briefing.

We would appreciate it if you could keep your questions until the end of the presentation. At that time both Mike and George will be prepared to take questions from those here in the room and listening on the phones.

Copies of all the materials we are using here this morning are already on our website.

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 |



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Our agenda this morning has our CEO providing the overall context of our results and some higher level analysis. Our CFO will then delve into more of the detail.



Overview of performance

Michael Hawker, Chief Executive Officer



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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



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This has been a watershed year for Insurance Australia Group.

In January 2003, we completed a transformational acquisition by buying the CGU and NZI businesses for \$1.86bn thereby:

- Increasing the gross written premium (GWP) base by over 60% and adding substantial scale and a wider range of products and expertise. The affect on the FY03 GWP is 36% as only 6 months business is included in the results;
- Changed the distribution mix from less than 15% sold through third parties or intermediaries to over 45%; and
- Increased the short-tail proportion of premium to 81%.

This acquisition cemented our market leading position in both the Australian & New Zealand general insurance markets. It provides access to the full market through transitioning to a full multi-line and channel distributor.

The increased range of products and geographic spread reduced the Group's proportionate exposure to any single event or region.

Our existing business also grew with increased levels of new business and customer retention.

Ongoing focus on cost management and the incremental scale provided by CGU and NZI enabled us to reduce the quantum of our operating costs as a proportion of our total costs.

This has all been achieved on the back of a prudently stated and strongly rated balance sheet. The key rated entities in the Group have retained their Standard & Poor's AA insurer financial strength ratings with a stable outlook throughout this period of change and against a background of insurer downgrades.

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



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Meaningful comparisons at the group level with the prior year are complicated by the inclusion of CGU/NZI from January 2003.

- Gross written premium increased by 45% to \$5.2bn. \$1.3bn of the \$1.6bn increase is from the inclusion of CGU/NZI.

The ongoing growth in policies in the market was key to policies in force growing by 5% in Australia contributing to the organic GWP growth of 9%.

- Our internal operating expenses as a percentage of net earned premium (NEP) decreased to 18.4%. Between our efforts to manage our own costs and the effect of the additional scale added by the CGU/NZI acquisition, we aim to maintain the downward trend in this ratio.
- The combined ratio (COR) increased marginally by 0.1%, but this masks a decrease in the underlying ratio as integration expenses of \$45m added 1% to the ratio. This is attributable in part to the very strong performance from the newly acquired businesses.
- COR also includes 1.8% due to lower interest rates, which is more than offset by the increased value of fixed interest securities reflected in the insurance margin.
- The insurance margin also benefited from the lack of exposure to equities during another poor year for equity markets.

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



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The Group returned to profit in the year in spite of bearing \$70m in net claims from Australia's seventh largest insured event – the Canberra bushfires - and \$45m in integration costs relating to the acquisition.

A reduction in the extent of the losses on equity markets helped but the strongest driver has been the operating performance of both the existing business and the acquired CGU and NZI businesses.

Meanwhile, the Group completed its \$1.9bn funding programme for the acquisition. This was completed on schedule and at a lower servicing cost than originally planned. Now that it is in place and the business is performing well, the Group is very comfortably capitalised with MCR multiples of 2.0x for the Australian general insurance operations and 1.62x on the Group's measures.

The strong performance and comfortable capital position supported the increase in the final dividend to 7.0 cents per share.

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%



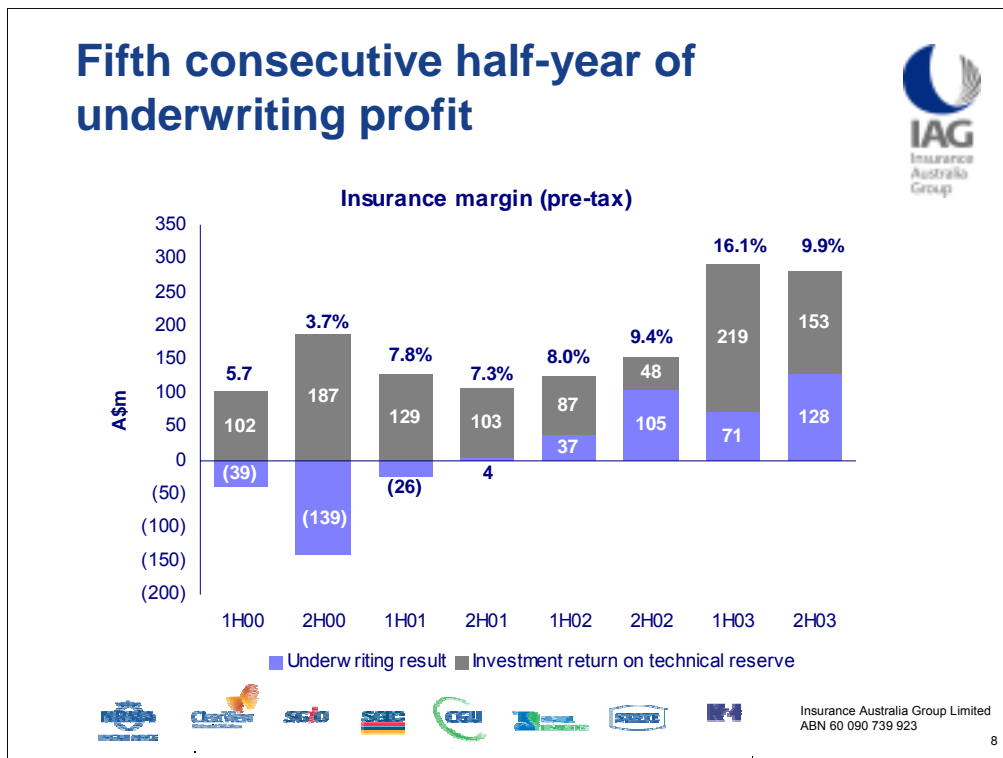
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Net earned premium increased by 45%, in line with the increase in GWP.

Equity markets did not perform as poorly in FY03, relative to FY02 and the Group's total pre-tax return from investments increased by \$350m to \$252m. The FY03 figure includes costs of \$68m in respect of the tactical option protection programme.

ROE for ordinary shareholders was only 4.7% as equity markets remained negative and the acquisition is still being integrated. The business has the momentum to improve this substantially as long as negative equity market returns do not negate those improvements.

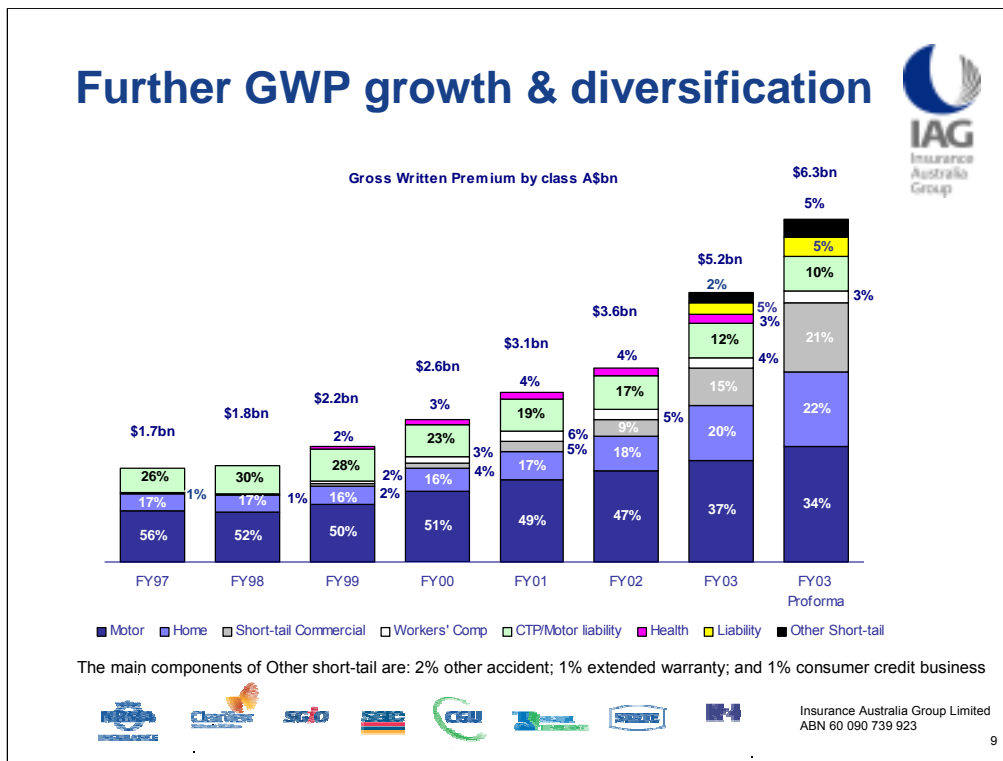


This chart provides a picture of the improvement in the underwriting results over the past three years, excluding the unusual or non-recurring items. There are no such adjustments to the FY03 figures.

An underwriting profit has now been delivered for five consecutive half-year periods.

The 1H03 margin of 16.1% was noted as unsustainable when we reported our results in February. Of particular relevance in comparing the two halves of FY03 is that the 1H03 underwriting profit included an expense of \$80m for reduced discount rates on claims, adding 4.4% to the COR – there was only a minimal change during 2H03. The investment returns for 1H03 included the benefit of \$96m from the related bond rally. The net effect on the insurance margin was about 1%. In addition, the 1H03 result was favourably affected by unprecedented dry weather conditions.

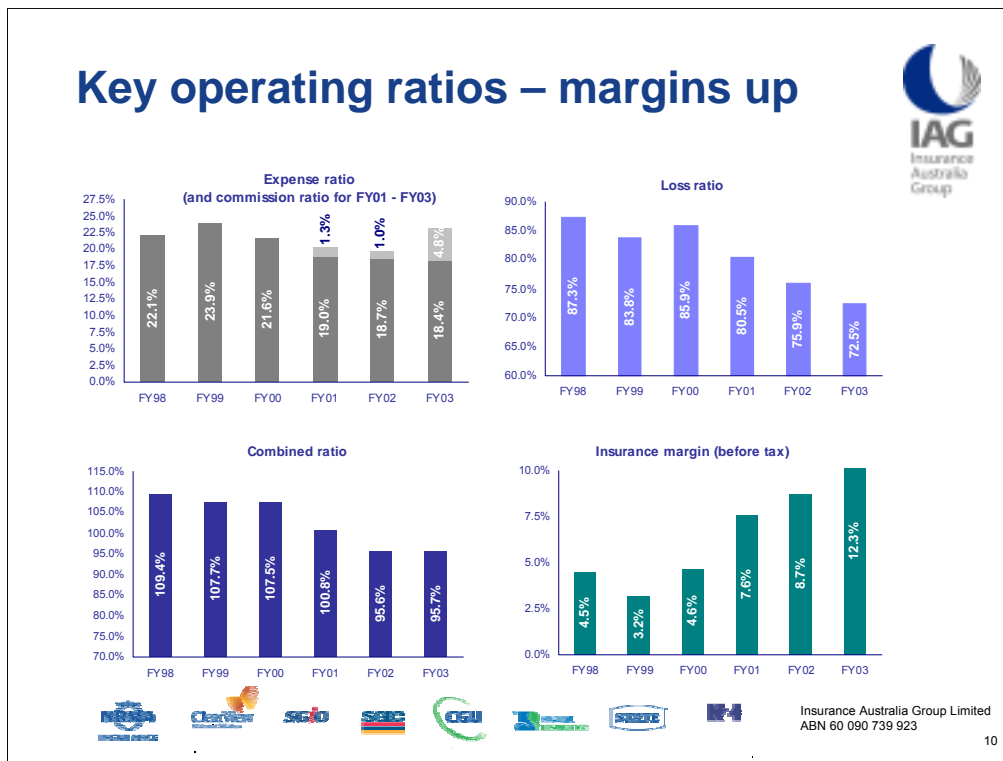
The 2H03 margin of 9.9% is within the target range of 9 – 11% announced in February, in spite of the integration expenses and the Canberra bushfires.



The key messages from this chart are:

- The gross written premium (GWP) run-rate for the Group is now \$6.3bn. This is based on annualising the CGU/NZI contribution to the FY03 reported GWP of \$5.2bn and excluding the health insurance business following its sale in July 2003;
- The pro-forma figure has increased from \$6.0bn based on the growth experienced in both the organic and acquired portfolios;
- Short-tail GWP accounts for 81% of the total – in line with the Group's benchmark mix of 80:20 for short:long-tail; and
- The Group now has a very diversified premium mix.

Promina has now decided not to exercise its option to buy out IAG from NTI following the change in ownership of CGU, the 50% joint venture partner in this entity which provides specialist insurance to the haulage industry. This generates about \$60m per annum in GWP for IAG.



In recent years we have simply noted that the trends on this slide are all as desired. This is still the case for FY03 but there is an added complexity due to the change in distribution mix such that over 45% of the business is now distributed through third party intermediaries.

The premiums for intermediated business include an allowance for the incremental cost of the tailored product or distribution, which in turn is reflected in a commission payable to the intermediary.

The CGU/NZI acquisition has led to a more than four-fold increase in the total commission ratio to 4.8% in the first half-year of ownership. In view of the significance of this, it has been separately identified. The remaining component of the expense ratio is referred to as the administration ratio.

While the intermediated business increases the total expense ratio, there is a largely corresponding decrease in the loss ratio as the claims are related to a higher premium base. This effect can be seen in the loss ratio trend on the chart.

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



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In February 2003 we provided COR and insurance margin targets. These were what the Group was prepared to commit to at that time for the post-integration operating levels.

In the context of:









- The momentum in organic business;
- The excellent performance of the acquired CGU/NZI business;
- The progress on integration; and last but not least
- The low interest rate environment reducing investment yields,

The COR targets for FY04 have been upgraded to support maintaining insurance margins of 9 – 12%. Returns of this order are needed to support the capital backing the business and provide a reasonable return on this to the Group's shareholders.

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	

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Turning now to investment returns ...

Our asset managers, both internally and externally, combined to deliver 20 basis points of active return – 2.4% versus benchmark of 2.2%. This included positive active returns on the externally managed international equities and some negative active return on externally managed Australian and New Zealand equities.

The return of 2.4% in FY03 is a much more favourable outcome than the loss of 1.4% in FY02, but disappointing in the context of reasonable returns from equities.

The asset overlay refers to the swap in place for part of the year whereby the index return on a physical exposure to equities was swapped with a bond index return pending the sell-down of the remaining equities within the technical reserves portfolio.

The tactical options programme cost us 80 basis points in total return. As previously announced to the market, this equates to approximately 2.5% of the shareholders' funds. This needs to be viewed in the context of this programme's role in the Group's capital protection.

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



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The total loss on shareholders' funds for the period was \$120m, including \$68m for the tactical protection programme.

As previously advised, the Group initiated a programme in June 2002 to protect its shareholders' funds from some extreme movements in equity markets – the collars programme. The programme was re-vamped in the quarter to March 2003 to include “in the money” puts and calls. This was considered appropriate by the company to ensure that the Group's capital did not fall below tolerable levels while the funding for the CGU/NZI acquisition was being completed and to try to minimise the risk of a reported loss for 2H03.

Factors considered included:

- The exposure to protracted equity market weakness;
- The Canberra bushfires so early in 2H03 and the exposure to further such events;
- The global uncertainty around terrorism, the Iraq conflict and SARs;
- The integration expenses to be borne in 2H03; and
- The cost of the programme versus the capital security it provided.

Whilst hindsight shows a net cost of \$68m for the programme, it was the right thing to do at the time.

Now that:

- The funding is complete and the capital position is strong; and
- The operations and integration are going well

The Group has begun to reduce the extent of the programme.

Updated investment sensitivities



Sensitivity on net profit before tax	Change in assumption	Combined	Combined
		Group	Group
		30-Jun-03	mid-August
	%	A\$m	2003
			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



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The Group did not renew some expiring tranches of options in June 2003 and announced updated sensitivities to the market in early July. Earlier this month, further derivative positions were liquidated. As this has changed the sensitivities, we have provided updated sensitivities for the current position. The equity market exposures are now largely linear with the market movements.

The Group holds a general philosophy of matching the expected cash flow pattern of its claims liabilities with the duration of its technical reserve investment portfolio. This has remained constant for some time. This approach is also applied to the ultimate expected development of unearned premium. However, for a period during 2003, the Group's reserves for unearned premium were invested in shorter duration investments. As this is the assumption implicit in the accounting treatment of unearned premium (ie no discounting of the liability) this had the effect of reducing the difference between the investment and claims sensitivities to interest rate movements.

Since balance date the Group has again invested the unearned premium reserves more in line with the expected claims development and thus the investment sensitivity has reverted to being notably larger than the claims sensitivity.

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



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The Group has continued to model its economic capital around three key measures:

- Risk of ruin of 1 in 750 years
- An 'AA' category rating
- Group MCR multiple in 1.35x – 1.65x range, now at 1.62x

The MCR multiple range was set by working back from our analysis of our appropriate economic capital. George will refer to this in more detail.

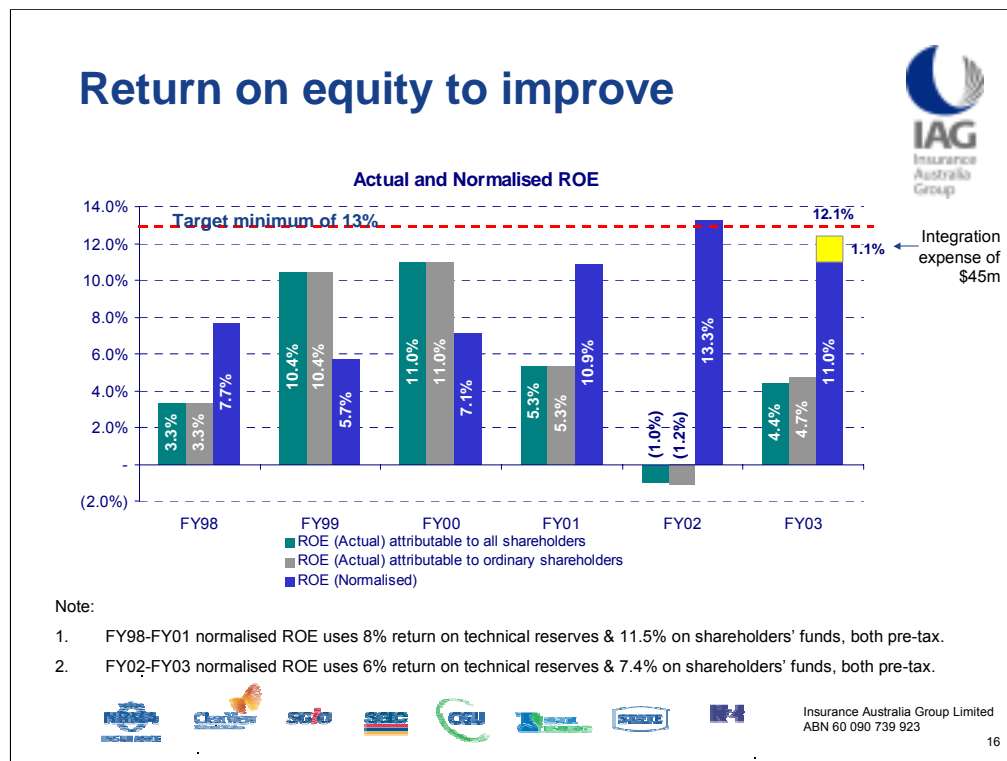
A minimum probability of sufficiency of 90% has been retained for claims reserves. The risk margins in the claims reserves, ie how we reach the probability of 90%, have also been increased.

We believe we are conservative in how we determine this. The most recent evidence of this was a comparison of our data with APRA published data on the risk margins inherent in reserves by line of business in the Australian industry.

The maximum net event loss within our reinsurance programme is currently \$70m, or less than 1.5% of net earned premium (NEP). We have also increased our cover for hail and wind in the light of modelling which indicated the market exposure in Sydney could quite easily be considerably larger than the damage caused by the April 1999 hailstorm.

The capital mix for rating agency purposes is now at target.

We hold a high quality, liquid investment portfolio. Over 82% of our fixed interest portfolio is graded AAA and only 2% at A, the minimum rating we accept. In terms of liquidity, over 99% of our total investments are classified as liquid.



The Group's reported ROE for all shareholders – as shown on the green bars - is 4.4%.

As the holders of the Group's reset preference shares (RPS) do not have access to the returns beyond their fixed dividend, an ROE for ordinary shareholders has been separately calculated and is shown in the grey bar. As the first RPS issue occurred in 2002, there is no difference between the first two bars for periods prior to FY02.

The final set of bars is how the Group measures its performance for dividend calculation purposes. It is also useful as a means to identify the underlying trends in operating performance.

The investment assumptions used for this purpose have not changed in FY03.

Not achieving the lower end of the target range of 13 – 15% for the year can be attributed to:

- yet another year of poor equity market returns; and
- the expanded capital base to support the CGU/NZI acquisition which is not yet servicing the capital during the integration process and yet another year of poor equity market returns. However, the Group remains confident that this acquisition will be substantially accretive for shareholders.

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



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The strong performance of the underlying operations, the Group's healthy capital position and the confidence in the benefits to be delivered from the CGU/NZI acquisition led to the Directors resolving to increase the final dividend per ordinary share to 7.0 cent per share, fully franked – up from 6.0 cents last year.

The dividend is to be paid on 13 October 2003

This brings the total ordinary dividend per share for 2003 to 11.5 cents, relative to 10.5 cents for 2002.

The company's dividend reinvestment plan (DRP), which was first implemented for the 2003 interim dividend, will be operational for the final dividend. DRP shares will be allocated based on a 10 day volume weighted average price (VWAP) calculated in accordance with the DRP terms. The pricing period will commence on 15 September.

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



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Before handing over to George to provide some more detailed analysis, I'd like to summarise as follows:

- 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



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Thank you.

I will now provide some information on the CGU/NZI standalone performance before providing some analysis on the performance of the business segments.

I will finish with some commentary on the MCR multiples.

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



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I would like to start by covering the consolidated results of CGU/NZI before reviewing our segments which include CGU/NZI from 2 January 2003.

The acquired businesses have outperformed every measure used to support the price in our business case prepared last October. For 2H03 the business has delivered the performance that we were hoping to see post the delivery of integration synergies in the year to 30 June 2005.

Domestic GWP for 2H03 was 57% of the 2002 calendar year figures and 10% higher than the prior year comparative.

The actuals for 2H03 are also 15% ahead of our business case, which factored in a slowing of growth and made a conservative assumption on the level of customers leaving the business due to the change of ownership.

Despite the Canberra bushfires during January, the domestic loss ratio 2H03 was 9% better than plan. The overall the COR is around 7% better than plan, predominantly due to benign weather conditions.

Since the date of acquisition, 18 new financial intermediaries have signed with the Group. Most of these new business partners are regional or industry based credit unions.

The NZI broker business in New Zealand achieved a level of growth that is 17.7% ahead of the prior comparative period. The transition to the NZI brand for broker business in New Zealand has been successful with no discernable leakage from the customer base.

Overall the result is well ahead of our expectations with a contribution of \$88m to NPBT for the half.

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



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The \$160m that we promised at the time of the acquisition and confirmed at the June strategy day has been factored into our budgets and plans for 2004 and 2005.

At 30 June 2003 we had \$54m of sustainable benefits realised and in our run rate. This result is \$33m ahead of our original plans.

We will continue to track the \$160m of sustainable run rate benefits promised at the time of the acquisition. Any benefits that are additional to this \$160m will be reported as business as usual.

Turning to the revised schedule for delivery of benefits in 2004 ...

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



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This slide sets out our performance against target for the period to June 2003 and restates our deliverables out to 30 June 2004.

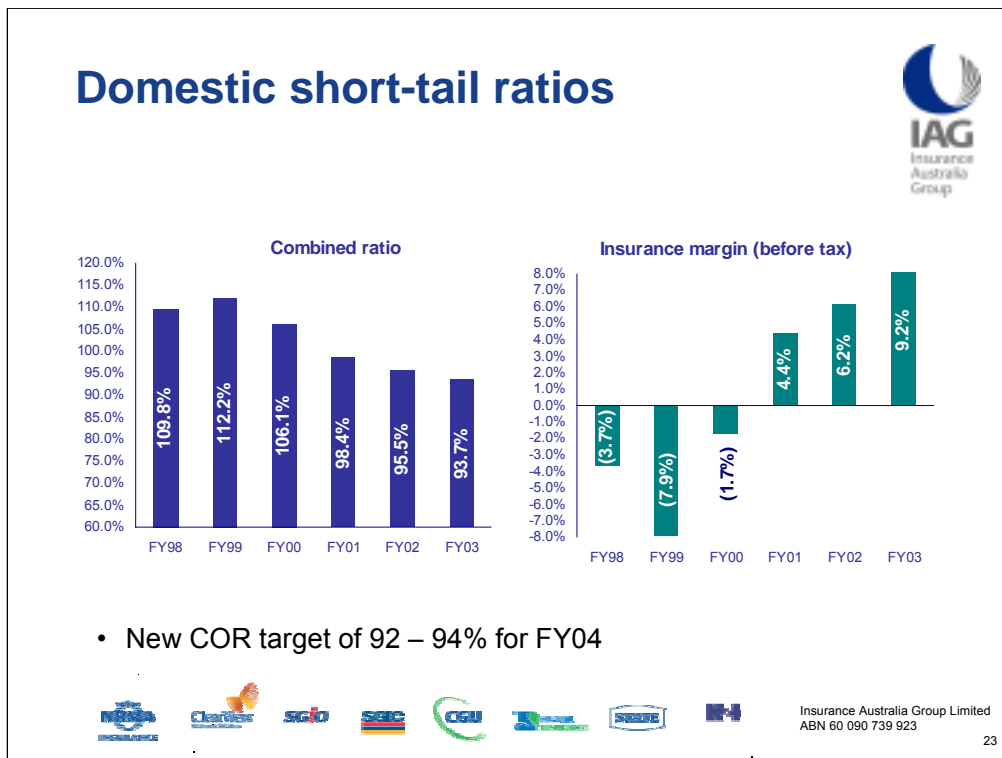
There are a number of important differences to note firstly we expected to capitalise \$60m of total integration costs of \$145m within the accounting standards. Only \$48m of the costs incurred actually qualify for that treatment.

We have not changed the total cost of the project of \$145m.

As a result, \$12m more than the \$85m we originally planned will be expensed over the life of the project.

The impact on reported profits in 2004 is immaterial because the extra expense will be offset by the acceleration of the realisation of benefits. We originally forecast \$63m of P&L benefit for FY04. We now expect \$60m – a difference of \$3m in pre tax profit for the year.

Synergy realisation schedule	2H03 A\$m	1H04 A\$m	2H04 A\$m
Cumulative run-rate per annum			
Personal lines	6	41	75
Commercial	4	14	30
IT, shared services & overheads	8	26	35
Australia sub-total	18	81	140
International - New Zealand	3	16	20
Total synergies in run-rate	21	97	160
Reported income statement			
Synergy benefits collected	7	31	68
Costs of implementation expensed	(49)	(28)	(8)
Net impact on profit for period	(43)	3	60




This is the fourth consecutive year of improvement in our short tail COR down from a high of 112.2% in 1999 to 93.7% for 2003.

A number of initiatives continued to improve our results in the 2H03. The national theft reduction programme, improved geographic diversification and benign weather were instrumental in enabling us to deliver a COR of 93.7% which is ahead of our target for the period.

The major contributors were the CGU commercial portfolio, the performance of the large motor books in NSW and Victoria and the Victorian home portfolio.


The improvement in our insurance margin has continued during a year of reducing interest rates. Whilst yields remain low it will be difficult for us to continue this rate of improvement. We are more likely to stabilise in the zone of 8% - 11% for our short tail business going forward.

Domestic short-tail performance



Domestic short-tail	Full year ended	Full year ended	Full year ended
	June-01	June-02	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.



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GWP growth for the year of 45% includes 7.5% organic growth with the balance reflecting the inclusion of the CGU businesses in 2H03.

This organic growth is primarily due to strong retention rates in the key books of NSW motor, Vic motor and NSW home and new business growth primarily in home and commercial.

The underlying COR for FY03 was 92.0%, excluding the integration expense of \$37m and the underwriting loss of \$16m from the (now sold) health business

Delivering the short-tail synergy benefits and continuing to improve the administration expense ratio will ensure delivery of the FY04 COR target when the El Niño affect recedes in FY04 .

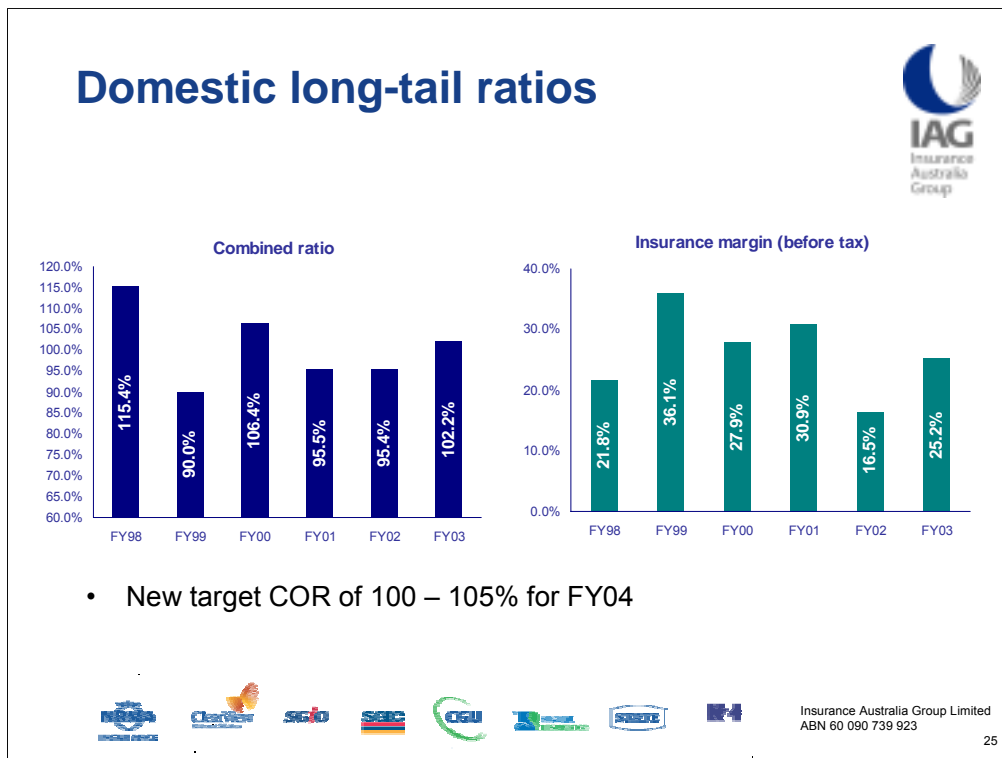
Substantial progress has been made on integration of the commercial short-tail business management and underwriting.

An important element of the sustainability of this result is the continued good performance of the CGU commercial book which performed well ahead of target in the 2H03. It also had a very solid June renewal period.

In summary we have seen progress across all areas of the business with initiatives around claims leakage, claims management, customer service, underwriting and procurement all delivering substantial improvement in the old IAG portfolio.

We are focused on the integration for the next 12 months, which will position the business to take advantage of its scale and strong distribution base to improve the level of sustainable results in the years ahead.

I was particularly pleased to see that we could absorb \$50m of claims for the Canberra bushfires, \$37m of integration costs and a \$16m underwriting loss from our health business and still produce a result ahead of our post integration target range.



The long tail COR is up on last year but well within our new target zone of a COR of 100 to 105%.


The important thing to note is that the loss ratio was increased by \$87m or 9% due to the reduction in market discount rates during the year.

Obviously we made up for this adjustment in the performance of our fixed interest portfolio which helped us deliver an insurance margin of 25.2% up from 16.5% last year. The absence of any equity exposure in the technical reserves also assisted the relative improvement in technical reserves performance.

The continued stability of NSW CTP, ACT CTP and workers' compensation in Western Australia has once again underpinned the sustainability of our long tail results.


With the addition of the CGU portfolio, the Group has diversified with an increased exposure to the liability classes, mainly professional risks and public liability, although the liability classes still only constitute 6% of total premiums.

Domestic long-tail – performance



Domestic long-tail	Full year	Full year	Full year
	ended June-01	ended June-02	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



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GWP grew by 29% relative to FY02 including organic growth of 7%, with the balance generated by the inclusion of the CGU business in 2H03.

NSW CTP is the largest product in this portfolio. Market share was up slightly to 40.9% at 30 June 2003. Policies in force were up by 5%, in line with market growth. Penetration of the NSW motor book to target the better risk segments continued.

Effective 1 July 2003, the Group increased its rates for NSW CTP for the first time since October 2001. The 5% rate increase is essentially to offset the reduction in interest rates and increased reinsurance costs.

Market shares in workers' compensation are up nationally with the inclusion of the CGU and Zurich portfolios. The WA workers' compensation scheme continues to perform well with claims frequency down by 28% since the introduction of the 1999 reforms.


Leveraging the CGU distribution network to cross sell more workers' compensation into the CGU commercial portfolio is seen as a profitable source of future growth. The liability classes were profitable in 2003, which reflects the capabilities acquired with the CGU business. The group is still a small participant in the total public liability market with a skew to the SME segment.

Market share in QLD CTP increased from 1.1% to 1.6%. The QLD scheme continues to deteriorate. In our view the scheme is not sustainable in its current form.

Commutation of the inwards reinsurance run-off continues. The net effect this year was to reduce the group's reserves on this portfolio by 50%.


The ongoing stability of the NSW and ACT CTP and WA workers' compensation and improved stability in the commercial market gives us confidence that we can sustainably produce results in the 100% to 105% COR target range for 2004.

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



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The international segment incorporates State Insurance, NZI and the Group's Captive operations in Ireland. GWP has grown by 76% of which 20% was organic (including the effect of currency movements) and the balance is the inclusion of the NZI business for 2H03. The organic growth is spread across all portfolios. This level of organic growth is unlikely to be achieved going forward. We still expect to exceed 10% in 2004.

The COR for the NZ business is solid at 94.3% for 2H03, reflecting the improvements in the State business, acquired in 2001, including enhanced management processes, digital remote assessing for motor claims and centralised call centres. The COR for the segment of 95.3% includes \$5m for integration expenses and \$20m of losses from the Canberra bushfires incurred by the captive.

The direct channel continues to produce strong profitable growth with improved underwriting results and increased market share.

Continued focus on expense management delivered a lower expense ratio and a COR of 90.6% for the direct business for 2003.

All indirect business is now sold via the NZI brand. This change has been very well accepted in the New Zealand market.

Arrangements with Corporate partners were successfully renegotiated during the year generating an improved contribution from this channel.

We expect the indirect business to continue to grow with NZI cementing a market leading position across the broker channel in the New Zealand market.

During 2004 we expect the roll out of the integration and the benefits of the improved systems and business model in New Zealand will enable the segment to operate in the range of a COR 91% to 93% with insurance margins in the range of 8% to 11%.

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



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The operating environment for the retirement incomes market has been extremely difficult in 2003.

In the year to March 2003 overall FUM for the industry had decreased by 2%. Improved share market conditions in the last quarter of 2003 saw a change to net inflows generating a 4% increase in the year to June 2003.

The poor equity market returns and low yields from superannuation investments had an adverse effect on the ClearView business during the year by delaying retirement for a large number of customers in our target segment in NSW.


Overall our ClearView investment products increased FUM during the year from \$85m to \$212m.

The life risk business continued to produce healthy profits, up 51% on 2002 with retention levels maintained at above 90%.









Overall FUM declined by \$64m or 5% during the year. Net redemptions accounted for \$33m and the balance is attributable to poor investment markets.

The Life company paid a dividend of \$30m during the year. After paying that dividend the embedded value of the Life company reduced by \$15m down from \$215m to \$200m. The value added from new business for the year was \$3m.

MCR multiple



Coverage of regulatory capital requirements	IAG Group	Insurance
	30-Jun-03	Australia
	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

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When APRA first published their MCR guidelines we took the view that the rules should be applied to our total business and the MCR multiple should be used to express our desired range of economic capital.

Our group consolidated MCR approach takes account of our stated objective to maintain an AA rating with allowances for our life business, operational risk and our overseas businesses.

We published this number as the best solvency guide for investors.

We also expected that APRA would introduce standards requiring all Australian regulated entities to publish something similar, which would allow investors to understand the relative strength of industry participants. Unfortunately APRA have not published their guidelines for groups and are not expected to do so in the near future.

Since then, we have reviewed the MCR multiples published by our competitors, which are regularly compared to our group consolidated MCR multiple.

For comparative purposes we have published our equivalent Australian insurance MCR and have only included eligible capital under the current APRA guidelines. As you can see the apples with apples comparison is 2.03 times.

I would also like to highlight the increase in our excess technical provisions, being reserves above the APRA requirement of a POS of 75%, in 2H03 from \$175m to \$352m at 30 June 2003.

This movement of \$177m, (or \$252m pre tax) is attributable to reserve strengthening during the last 6 months to move our correlations to the top end of international benchmarks, and a general strengthening of prudential margins.

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



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In terms of short-term outlook:

- The Group's view on organic growth for FY04 is unchanged since February when we said we expected 8 – 10% in the short-term, reducing to 7 – 9% after that. This is based on continued economic growth in Australia and New Zealand generating growth in the market and allowing for moderate premium increases to cover claims inflation now that market rates are now reaching appropriate levels to cover the risks in most classes. Indeed, within our core NSW motor portfolio, average premiums have risen by less than 2% over the last year.
- The Group is very focused on bedding down the acquisitions and improving its performance and service delivery. The Group's recent performance demonstrates that the Group has the capacity to do this.
- The Group COR target for FY04 has been reduced to 93 – 96%. Delivery to these targets in a low interest rate environment is necessary to achieve insurance margins in the 9 – 12% range.
- In turn, delivery of these margins, combined with reasonably equity market performance, should generate reasonable returns to shareholders and facilitate delivery of the Group's goal of providing top quartile shareholder return.

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



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Work is also proceeding on ensuring that the business is positioned for ongoing value delivery.

It has the scale and momentum and strong capital backing – all supported by robust risk management practices – but these must all be maintained and leveraged.

Insurance in many ways is a commodity – and it is also the sale of a promise – so service quality at every contact has the capacity to be a key differentiator. We have a history of performing strongly in this area but we want to ensure that we maintain an edge over our competition.

With over 10m policies and vast amounts of data on rating and claims, technology is a key enabler. Our technology platform is very complex, which is not surprising given the history of acquisitions. We have initiated a technology transformation programme aimed at better aligning the technology systems and services to support the business into the future. Some changes have already been delivered, but we expect a step-change in two to three years.

We have over 11,000 people who deliver for our customers every day. Supporting them is crucial to the success of the business, both today and in the future.

As Australia and New Zealand's largest general insurers, we have obligations to the community and have information that can assist the community in managing its insurable risks, both now and for the future. We recognise this and are committed to working with the relevant stakeholders to play our part in improving the future of the communities in which we operate.



Questions



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