

MEDIA RELEASE

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Insurance Australia Group Limited

ABN 60 090 739 923

388 George Street

Sydney NSW 2000 Australia

iag.com.au

IAG increases profit and dividend due to acquisition of CGU/NZI and upturn in equity markets and announces buy-back

Insurance Australia Group Limited today announced a net profit after tax of \$302 million for the six months to 31 December 2003 (31 December 2002: \$62 million), reflecting the increased scale of the business following the acquisition of CGU and NZI, and the considerable improvement in equity markets.

Chief Executive Officer, Mr Michael Hawker said the inclusion of CGU and NZI had diversified the Group's mix of business and added approximately \$2.5 billion in annual revenue, making it easier to produce stable, sustainable returns.

"We now have a wider range of products and a greater presence in all our markets following our acquisition of CGU and NZI. This diversification improves our ability to produce stable returns despite fluctuations in individual portfolios or regions," Mr Hawker said.

"We've also continued to improve our underlying business, which has seen us sustain high levels of customer retention and satisfaction.

"During the period we've delivered on a core plank of our strategy – focusing on general insurance – with the sale of our health insurance underwriting operations and the agreement to sell ClearView Retirement Solutions. The integration of CGU and NZI is almost complete and the acquisition is now earnings per share (EPS) positive six months ahead of schedule.

"At the same time, we've benefited from the best equity market returns in three years. Australian equities were up 11.3% (ASX 200 Accumulation Index) and international equities rose by 6.6% (MSCI World Index ex Australia) compared with falls of 4.5% and 12.5% respectively in the previous corresponding period.

"As a result, our return on shareholders' funds increased by \$333 million, from a pre-tax loss of \$129 million in the previous corresponding period to a pre-tax profit of \$204 million. This is our highest half year return since listing."

Mr Hawker said all major business segments had performed strongly, producing a Group result within the stated target operating ranges for the full year.

"Our insurance margin is 11.8%, at the upper end of our 9%-12% target range. It's a decrease from 16.1% in the previous corresponding period, which we indicated at the time was unsustainable due to the benefit from the bond rally and unusually dry weather contributing to a benign claims environment.

“The Group combined operating ratio is 90.5%, ahead of 96.0% in the previous corresponding period. The immunised combined operating ratio (which takes into consideration the effect of discount rate changes to the outstanding claims reserves) is 93.8% in line with the FY04 target of 93%-96%.

“Our six month result also includes implementation synergies of \$33 million and costs of \$25 million. As at 31 December 2003, we’ve completed the work required to ensure \$117 million of the \$160 million in synergies promised at the time of the CGU and NZI acquisition are delivered.”

Other elements of the half year result, compared with the previous corresponding period and bearing in mind the impact of the CGU and NZI acquisition on trend comparisons, include:

- Net earned premium increased to \$2.9 billion from \$1.8 billion. The 62% increase is primarily due to the acquisition of CGU and NZI;
- The underwriting profit increased to \$277 million from \$71 million;
- The insurance profit rose to \$344 million from \$290 million; and
- Cashflow generated from operations increased to \$694 million from \$293 million.

Despite the growth of the business, Group corporate expenses remained at a similar level compared with the previous corresponding period. This confirms the Group’s ability to manage its expanded business more efficiently.

Mr Hawker said the Board had reviewed the Group’s dividend policy and capital structure in light of the Group’s improved ability to generate stable, sustainable returns for shareholders.

“The enhanced diversity and scale of the business has created a less volatile profit stream, and at the same time, the size of our shareholder funds relative to the core business operations has decreased,” Mr Hawker said.

“As a result, and in line with its commitment to pass on value to shareholders, the Board has decided to increase the target dividend payout ratio from 40%-70% (after goodwill amortisation – currently over \$100 million per annum) to 50%-70% of normalised profits before goodwill amortisation.

“It’s expected the total annual dividend will now be paid in a 45:55 proportion between the interim and final dividends, compared with the previous 40:60 split.

“Applying the new policy, the Board has declared a fully franked interim dividend of 8 cents per ordinary share, up from 4.5 cents in the previous corresponding period. The dividend is to be paid on 19 April 2004 to ordinary shareholders registered on 17 March 2004.”

Mr Hawker said that as at 31 December 2003 the Group’s Minimum Capital Requirement (MCR) multiple was 1.90x, well ahead of the previously published target range of 1.35x-1.65x and the updated target of 1.60x.

“In view of our strong capital position, and bearing in mind our principle of managing our capital actively and efficiently, we intend to undertake an off-market buy-back in the order of \$350 million of ordinary shares by 30 June this year,” Mr Hawker said.

“The Board is currently assessing the details and timing of the proposed buy-back and will make an announcement once the details are finalised.”

Mr Hawker said the Group was on track to deliver on operating targets for the full year, based on continuing good economic conditions, and barring no major insured catastrophes beyond the allowances in the Group’s budgets.

“Operating within our target ranges should enable us to maintain an insurance margin of 9%-12% over the long term, however in the short term we may exceed 12%. Our target range benchmarks well against international performance,” Mr Hawker said.

“Ultimately, our goal remains to deliver a return on equity of 13%-15% throughout any cycle. Achieving this goal means we can deliver top quartile returns to our shareholders, maintain insurance at fair rates for customers, and sustain the financial strength to withstand major catastrophes,” Mr Hawker said.

In a separate announcement, Mr Hawker said Group Executive, Mr Mario Pirone would add the Intermediary Business division to his portfolio following the planned retirement of Mr Bob Wagstaffe on 25 August this year, after 38 years in the industry.

Mr Pirone has more than 20 years experience in insurance and financial services, and joined Insurance Australia Group in 1999 through the acquisition of SGIO. Mr Pirone is also responsible for Insurance Australia Group’s Asset Management area.

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Media Relations

Name Carolyn McCann
Telephone 02 9292 9557
Mobile 0411 014 126

Investor Relations

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

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