

## Media briefing on financial results Half year ended 31 December 2005

Michael Hawker, Chief Executive Officer

23 February 2006



Insurance Australia Group Limited  
ABN 60 090 739 923

## Agenda

Results and operating conditions

Double-digit dividend growth

Capital position and return

International expansion

Outlook

Questions



All amounts for 1H05 & subsequent periods restated under AIFRS  
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## Record interim profit and dividend with capital return



- Net profit to holders of ordinary shares increased to \$461m
  - A record half-year result
  - Increased by 2% relative to 1H05 and 40.5% on 2H05
- Continuing to generate strong margins coupled with record returns from the equity markets
- Insurance margin of 15.2%, in line with guidance
  - Maintained underwriting discipline despite increased competition
  - Several factors influencing claims but relatively benign overall
  - Administration costs contained
- Increased earnings on shareholders' funds of \$345m (pre-tax)
- Interim dividend increased by 12.5% from 12.0cps to 13.5cps
- Surplus capital being utilised – dividends, Asian expansion and a \$200m capital return



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## Financial results overview



Financial Results/Ratios	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
<b>NEP (A\$m)</b>	<b>\$3,084</b>	<b>\$3,007</b>	<b>\$3,085</b>
Profit attributable to holders of ordinary shares (A\$m)	\$452	\$328	\$461
Reported ROE % (Average Equity) to holders on ordinary equity pa	29.2%	20.0%	26.4%
Normalised ROE % (Average Equity) to holders on ordinary equity pa	21.2%	16.5%	18.2%
Net cash flow from operations (A\$m)	\$431	\$466	\$164
Basic EPS (cents)	28.54	20.77	29.06
Diluted EPS (cents)	28.35	20.65	28.89
DPS	12.00	14.50	13.50
<b>Group insurance ratios</b>			
Loss ratio	66.9%	66.0%	63.9%
Expense ratio	26.0%	26.7%	27.1%
Commission ratio	8.2%	8.2%	8.2%
Fire services levy (FSL)	2.9%	3.1%	4.2%
Administration expense ratio (excl FSL)	14.9%	15.4%	14.7%
Combined ratio	92.9%	92.7%	91.0%
Insurance margin (before tax)	15.6%	15.5%	15.2%
Probability of adequacy of general insurance claims reserves	> 90%	92.5%	91.8%
MCR multiple - Group	1.85x	2.00x	2.04x



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# Leading market shares retained



Australian Premiums	Y/e Sept-04 \$'m	Y/e Sept-05 \$'m	Growth
Industry gross premium revenue	22,809	22,701	-0.5%
IAG gross written premium	5,594	5,637	0.8%
IAG share of the market	24.5%	24.8%	0.3%

Industry data per APRA Quarterly Statistics, excluding inwards reinsurance

New Zealand Premiums	Y/e Sept-04 A\$m	Y/e Sept-05 A\$m	Growth
Industry gross premium revenue	2,873	2,992	4.1%
IAG NZ gross written premium	1,049	1,091	4.0%
IAG share of the market	36.5%	36.5%	-

Industry data: Insurance Council of New Zealand

- IAG growth in Australia was 1.3% ahead of the market to September 2005
- IAG grew in line with the market in New Zealand
- Overall market share materially unchanged

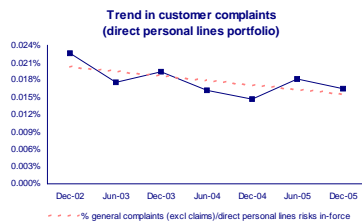


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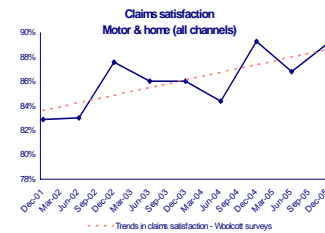
# Customer service levels maintained



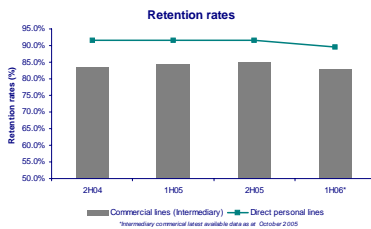
Customer complaints continue to trend below 0.02% in largest portfolio



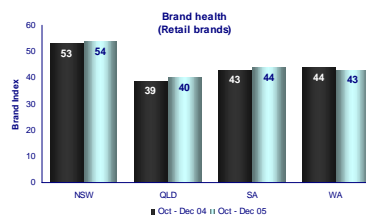
Continued improvement in delivering on claims and service



Sustaining high customer retention levels in key portfolios



Health of retail brands remains strong

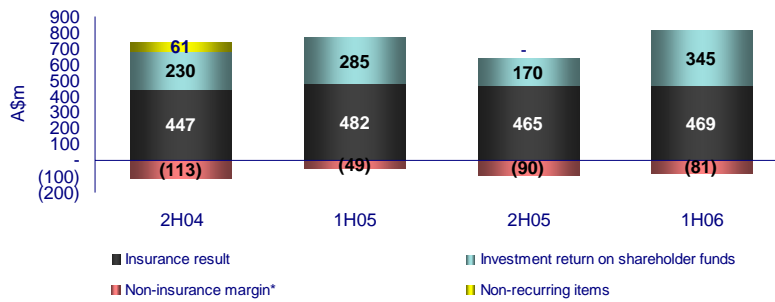


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## Consistent earnings contribution from insurance business



Components of pre-tax profit (excl minority interests)

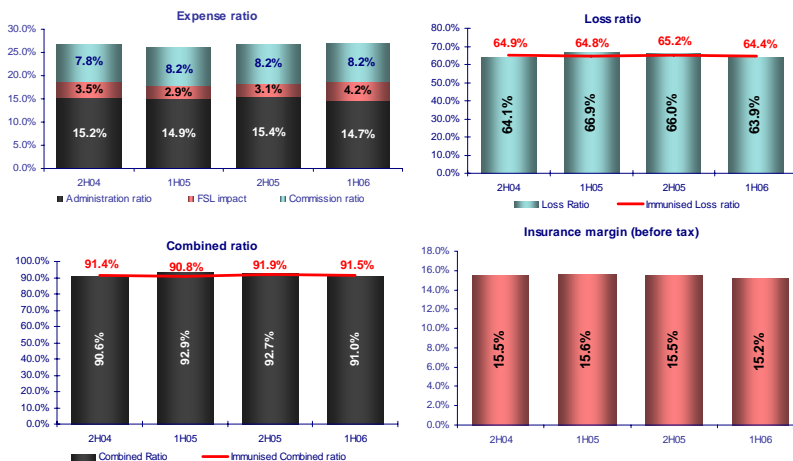


\* Non-insurance margin includes net corporate expenses, NSW insurance protection tax, fee based businesses.



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## Stability of key insurance ratios



**Notes:**

1. Only 1H05 and subsequent periods have been restated for AIFRS; and
2. The immunised combined ratio is determined by assuming constant bond yields within each reporting period.



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## Increased investment income



Portfolio income (pre-tax) and incl. derivatives	1H05		2H05		1H06	
	A\$m	Return (%)	A\$m	Return (%)	A\$m	Return (%)
Technical reserves	263	8.1%	246	6.8%	192	5.6%
Shareholders' funds	285	23.4%	170	14.6%	345	23.2%
<b>Total investment income</b>	<b>548</b>	<b>12.4%</b>	<b>416</b>	<b>9.0%</b>	<b>537</b>	<b>10.8%</b>

All yields are annualised

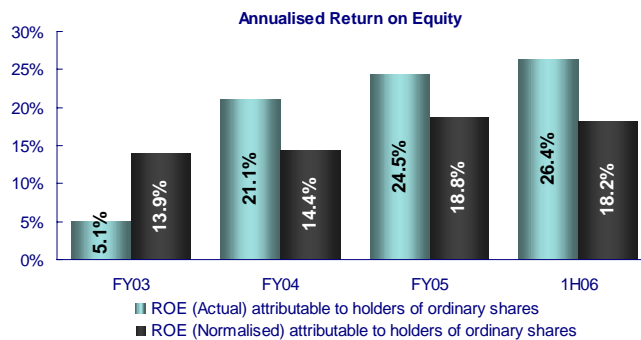
- Technical reserves return of 5.6%
  - Includes active return of 26 bpts, primarily from the equity overlay
- Yield of 23.2% on shareholders' funds includes active return of 124 bpts
  - Return reflects mix of Australian equities (+16.0%), international equities (+33.4%), fixed interest (+4.8%) and cash (+5.8%)
- The overall gross return of 10.8% includes active return of 55 bpts or approximately \$52m (pre-tax)
- Active returns delivered each year since listing in 2000

The returns shown excludes the investment income earned on the portfolio backing the RES in 1H05 (\$16m) and 2H05 (\$14m).



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## Reported ROE enhanced by equity markets – normalised ROE sustained

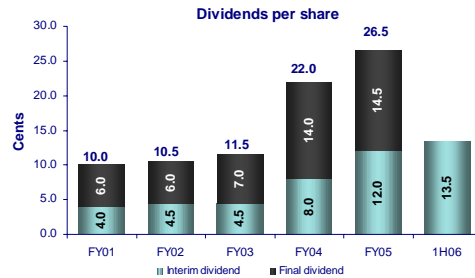


- Equity market returns delivered further growth in reported ROE in 1H06
- Surplus capital (invested in enhanced cash mandate) reduced normalised ROE relative to FY05
  - Now in process of being utilised or paid to shareholders



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## Double digit dividend growth – 12.5%



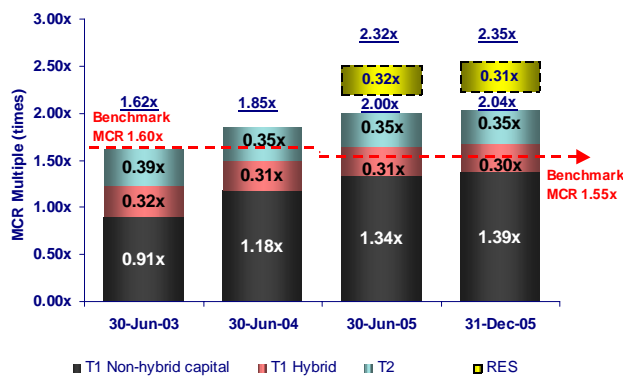
All earnings pre-goodwill amortisation and post RPS dividends

- Dividends for 1H06 represent:
  - 47% of reported earnings
  - 68% of normalised earnings
- Since listing, the cumulative dividend payout is 62% of cash earnings



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## Increased regulatory capital coverage



- The Group's capital, expressed as an MCR multiple, is 2.04 times
- The excess above 1.55x MCR is approximately \$870m
- A further 0.31x MCR is available to the Group from its contingent capital



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## Capital return







- Surplus capital of approximately \$870m at 1H06, before paying the interim dividend on ordinary shares of \$215m
- Continuing philosophy of returning surplus capital to shareholders
  - History of buy-backs (three in five years)
- Surplus capital being held for pending Asian investments, particularly China
  - Imminent completion of AmAssurance
  - Tender for further stake in Safety Insurance is open
  - Working to finalise agreement with China Pacific Property Insurance
- Core operations expected to continue to generate surplus capital
- Decision to return \$200m of capital to shareholders in 2H06
  - Form of return yet to be determined



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## Acquiring stakes in profitable Asian insurers with total GWP of over \$3bn



	Est. total GWP <sup>1</sup>	Insurance industry growth pa
	\$2,628m	14%
	\$35m	11%
	\$96m	11%
	\$275m	10%
	<b>\$3,034m</b>	

Notes:  
1) Estimated GWP based on local accounting policies



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## IAG's initial equity interest equates to over \$800m of GWP – 12.7% growth



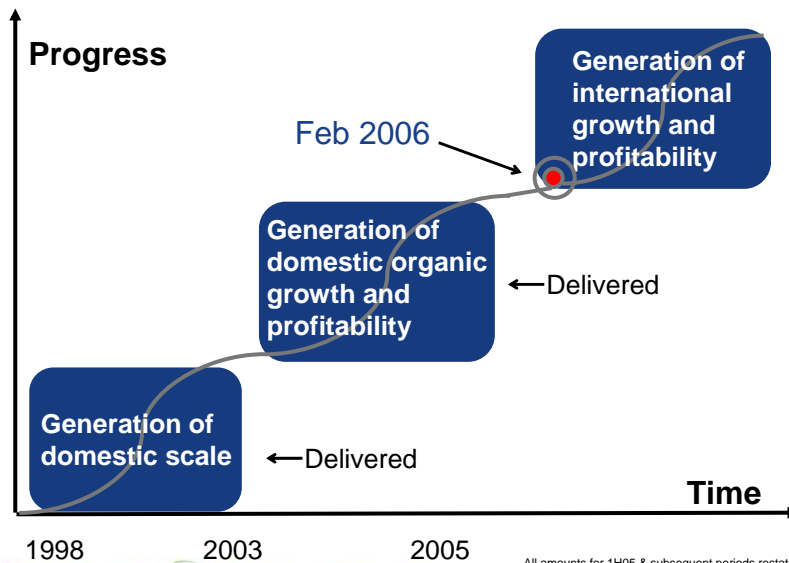
	Estimated annual GWP \$m	Current equity share %	IAG share of GWP \$m	Transactions as percentage of IAG GWP
<b>Finalised transactions</b>				
IAG Thailand (NZI)	35	100.0	35	
Safety Insurance	96	38.3	37	
AmAssurance	275	30.0	83	
	406		155	2.4%
<b>Transactions in progress</b>				
CPPIC	2,628	24.9	657	
Safety Insurance		>50.0	>11	
	2,628		657	10.2%
<b>Grand total</b>	<b>3,034</b>		<b>812</b>	<b>12.7%</b>

- Settlement of AmAssurance is imminent and the tender for remaining shares in Safety Insurance is open
- Each of these businesses is reporting underwriting profits in its local market
- IAG share expected to improve through organic growth in these businesses and IAG's options to increase its initial equity holdings



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## Strategy delivering results



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## Outlook

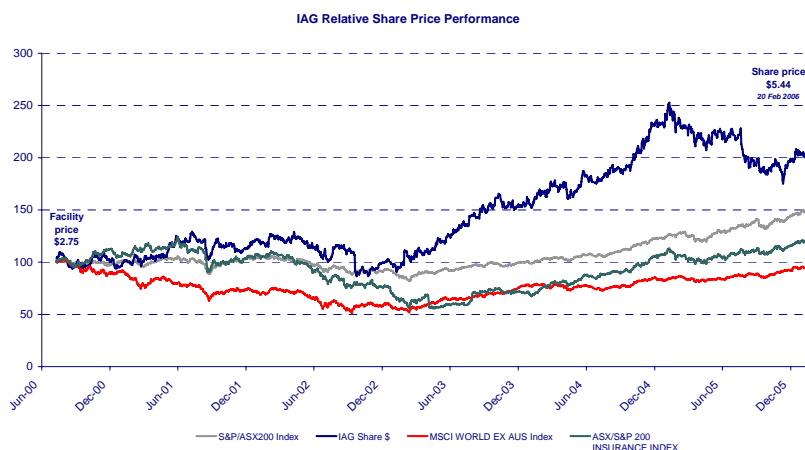


- During 2H06, the Group expects
  - To deliver an insurance margin in the range of 14 – 16% for FY06
  - Maintain A & NZ market shares, provided pricing is at sustainable levels
  - Progress completing the international investments already announced and pursue other opportunities in accordance with its stated strategy
  - Return \$200m of surplus capital to shareholders by 30 June 2006
- Beyond FY06, the Group expects to
  - Experience premium growth in Australia and New Zealand that is more in line with long-term experience of market growth in insurance
  - Deliver returns on equity from the A & NZ business that exceed the insurance market average by 2 – 3%
  - Generate value for shareholders from its Asian platform for growth



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## Share price performance since listing



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# Questions



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