

21 August 2003

# MEDIA STATEMENT

**Insurance Australia  
Group Limited**  
ABN 60 090 739 923  
388 George Street  
Sydney NSW 2000  
iag.com.au

## **Insurance Australia Group increases profit on strength of CGU and NZI acquisition and underlying business**

Insurance Australia Group Limited today announced a net profit of \$153 million after tax for the year ended 30 June 2003, confirming the sound logic of the CGU and NZI acquisition and reflecting the ongoing success of initiatives to improve business fundamentals (June 2002: loss of \$25 million).

Insurance Australia Group Chief Executive Officer, Mr Michael Hawker said the inclusion of CGU and NZI since 2 January 2003, combined with the improved performance of the underlying business, had boosted the Group's overall results for the full year.

"The newly acquired CGU and NZI businesses have delivered exceptional results in the six months to 30 June 2003, exceeding management expectations," Mr Hawker said.

"Our existing business also performed strongly, underpinned by improved customer retention, continued stability in major personal injury classes, the realisation of business improvements in our New Zealand operations and largely benign weather conditions which sustained the reduced claims frequency.

"And our overall returns from investments increased, reflecting both the change to our asset mix and improved market performance.

"As a result, we've exceeded all operating targets for the year.

"The Group's combined operating ratio was 95.7%, consistent with 95.5% in the previous year. Our insurance margin rose to 12.3%, up from 8.7% in the previous corresponding period, exceeding our current target range of 9%-11%.

"Gross written premium increased 45% from \$3.6 billion to \$5.2 billion. Around 9% of this was organic, over half coming from strong growth in policies in force, with the remainder (36%) from our acquisition of CGU and NZI.

"These results demonstrate how our strategy of diversifying by product, geography and distribution channel is generating consistent and sustainable returns for shareholders.

"The most pleasing aspect of our results has been the ability of the company to simultaneously maintain the improvement in the underlying business whilst managing a major acquisition."



### **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



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

- The underwriting profit increased to \$199 million from \$142 million (including integration expenses of \$45 million in respect of the CGU and NZI acquisition)
- The insurance profit rose to \$571 million from \$278 million.

A fully franked dividend of 7 cents per share will be paid on 13 October 2003 to ordinary shareholders registered on 10 September 2003. This takes the total dividend for the year to 11.5 cents per share, fully franked, a 9.5% increase on last year's dividend.

Mr Hawker said the Group continued to actively manage its exposure to equities.

"Investment returns from technical reserves, which are now wholly invested in cash and fixed interest assets, increased to \$372 million from \$136 million," Mr Hawker said.

"However, shareholder funds, which are substantially invested in equities, returned a loss of \$120 million, including the cost of the tactical derivatives programme designed to protect the Group's capital while the fundraising for the acquisition of CGU and NZI was completed.

"Our insurance operations remains strongly capitalised, with a conservative claims reserving philosophy, a AA (stable) S&P rating and a minimum capital requirement multiple of 2.03 times for our Australian insurance operations."

Mr Hawker said the Group was on track to deliver on its strategic objectives set in May last year and had revised its operating targets for the 2003/04 financial year based on the proven strength of the combined business and expectation of continued low interest rates.

"We've completed our goal to generate domestic scale in Australia and New Zealand. Our focus for the coming year is to secure our home base and ensure it's operating very efficiently and providing excellent customer service before we commit to further acquisitive growth," Mr Hawker said.

"A key part of this focus is completing the integration of CGU and NZI this financial year. We've already locked in synergies of \$54 million against our first six-month target of \$21 million, and we are on track to deliver the anticipated \$160 million per annum in integration synergies by June 2004.

"Also, we have a number of operational process activities underway, working to improve the way we help our customers from quote to claim, and working with the community to prevent the risk of insured events occurring in the first place.

"Based on this momentum, and our expectation of a continued low interest rate environment, we've upgraded our target group combined operating ratio to 93%-96% for the coming 12 months.

"Operating within that range should enable us to maintain an insurance margin target of 9%-12%. Ultimately, our goal remains to provide our shareholders with a top quartile shareholder return throughout the cycle."

Insurance Australia Group Limited is the holding company of Australasia's leading general insurance group which has some of Australia and New Zealand's most trusted brands – NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance, NZI and ClearView Retirement Solutions. Insurance Australia Group companies also manufacture motor, home and some other lines of insurance for RACV in Victoria.