

MEDIA RELEASE

19 August 2005



IAG

Insurance
Australia
Group

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IAG increases profit and delivers double-digit dividend growth following a quality operating result and record investment returns

Insurance Australia Group Limited (IAG) today announced a net profit after tax of \$760 million for the 12 months ended 30 June 2005 (30 June 2004: \$665 million), reflecting strong operating and underwriting disciplines, integration synergies and a \$479 million pre-tax contribution from shareholders' investment income.

IAG Chief Executive Officer, Mr Michael Hawker, said a continued focus on long-term disciplines such as underwriting controls, risk selection and customer relationships, and a record 44% increase in investment income, had enabled the Group to produce another solid performance despite a more difficult operating environment.

“Our ability to consistently generate quality returns in an increasingly competitive environment, where premiums are stable or reducing for customers, reflects our commitment to manage for the long-term.

“We've done this by adhering to tight underwriting disciplines and building stronger customer relationships through initiatives to better align our products, service and distribution networks with our customers' needs. At the same time, we continue to manage our costs to ensure premiums remain affordable for customers into the future.

“Our result also benefited from the first full year of integration synergies from our CGU and NZI acquisition and from a 44% increase in investment income, including a \$479 million pre-tax return on shareholders' funds and a \$516 million pre-tax return on claims reserves.

“As a result, we achieved a Group insurance margin of 16.3%, up from 13.5% in the previous corresponding period,” Mr Hawker said.

In light of the Group's strong performance, the Board has declared a final dividend of 14.5 cents per share bringing the total dividend for the year to 26.5 cents per share. This represents an increase of 20.5% on the previous year's total dividend of 22 cents per share and is in line with the Board's aim to deliver double-digit dividend growth.

The dividend will be paid on 17 October 2005 to shareholders registered on 14 September 2005.

“I am pleased that our one million shareholders, about 70% of them being smaller shareholders with less than 1,000 shares, have received quality returns, while customers have benefited from stable or declining insurance premiums.

“In NSW, CTP insurance premiums fell on average by 3.4% and are now cheaper than they were 10 years ago, and comprehensive motor vehicle insurance is more affordable when compared to average weekly earnings over the past five years. Liability rates have also fallen by more than 10% as the benefits of tort reform are passed on to customers.”

Mr Hawker said all of the Group's businesses performed strongly during the period.

"In our largest portfolio, Australian Personal Insurance, we achieved an insurance margin of 16% despite intense competition for volume. Customer retention in the key direct motor and home books has been sustained above 90% for the past three years, customer satisfaction continues to improve, and we've strengthened the depth of our customer relationships.

"More than 68% of our direct home insurance customers now hold more than one policy with us, there's been a 12% increase in the take-up of optional covers, and new products have been well received by the market. Sales of our new direct landlords insurance product already exceed 3,000 monthly and home@50 sales are strong.

"Tight disciplines were also applied in our Australian Commercial Insurance portfolio, where we grew the number of risks in force by 7% without compromising our commitment to risk-based pricing, and improved our insurance margin by 7.6% to 17.2%. We were able to achieve this by focusing on our strong customer relationships, particularly in the SME and rural markets where we have the largest distribution network, and significantly enhancing our service through initiatives such as online sales and claims processing."

Mr Hawker said total investment income was the highest ever due to a strong performance from investment markets and significant value added by IAG's in-house asset management team.

"Investment return on shareholders' funds contributed \$479 million to the Group's pre-tax result, setting a record return for the Group since listing. Investment returns from claims reserves also performed well, contributing \$516 million to the Group's pre-tax insurance result.

"Our asset management team outperformed benchmarks, with active return contributing an additional \$100 million to our result. We also introduced several initiatives to reduce the risk and diversify our investment approach by introducing new investment classes and manager styles in our shareholders' funds portfolio."

The Group's gross written premium growth exceeded industry-wide growth of only 1.7% and, consequently, the Group's market share increased marginally. Revenue (net earned premium) increased by 4.8% from \$5,863 million to \$6,144 million compared to the previous corresponding period. This is marginally below the guidance given at the half year of 5-7% revenue growth, reflecting lower premiums for customers and adherence to underwriting disciplines.

Mr Hawker said IAG had remained focused on its strategy to optimise its home markets in Australia and New Zealand during the year, while looking to expand internationally.

"We've generated a scale business with leading positions in Australia and New Zealand. To maintain our desired growth over the medium to long term, we plan to expand internationally to generate incremental revenue streams and further diversify our risks.

"We've made progress against our goal to build a portfolio of assets in Asia, with the acquisition of a small general insurer in Thailand in July 2005, and we're actively looking at other opportunities for international expansion."

Mr Hawker said the Group continued to have a very strong capital position, with a minimum capital requirement (MCR) multiple of 2.0 times. The Group's probability of adequacy of all insurance liabilities was 90.2%, including 92.5% in respect of claims liabilities. In January 2005, the Group raised \$550 million of contingent capital through the issue of Reset Exchangeable Securities, which has enhanced the Group's capital structure and provided an additional layer of protection for customers and shareholders.

“We maintained our very strong ‘AA’ Standard & Poor’s insurer financial strength ratings for our key wholly-owned insurers, the highest rating of any Australian-based financial services company. That’s a compelling signal to our customers that we have the financial strength to pay claims.”

Mr Hawker said he expects the Group’s insurance margin for the current year to revert to the more sustainable levels experienced in the 2004 financial year barring, as usual, any major insured catastrophes beyond the allowances in the Group’s budgets.

“Looking ahead, we’ll continue to manage our business for the long-term by increasing value and service for our customers, and operating our business more efficiently.

“We expect our business volumes will continue to grow, and our insurance margin will be above 13.5% for the 2006 financial year.

“Our capital position is very strong and we continue to generate surplus capital from our operations. We are confident we will make further acquisitions, but if we don’t find the right expansion opportunity at an appropriate price by the end of the calendar year, we will return surplus capital to shareholders. We expect to deliver dividend growth of around 10% for the current year,” Mr Hawker said.

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Insurance Australia Group (IAG) is Australasia’s leading general insurance group. The group includes some of Australia and New Zealand’s most trusted brands – NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance and NZI.

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