

# MEDIA RELEASE

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## **IAG delivers \$759 million profit and record dividend for shareholders, and targets GWP growth of 5-10% in FY07**

**Insurance Australia Group Limited (IAG) today announced a net profit after tax of \$759 million for the 12 months ended 30 June 2006 (30 June 2005: \$781 million\*), and an insurance margin of 14.1% (30 June 2005: 15.5%). The Group also declared its highest ever final dividend of 16 cents per share and, following renewed momentum in the second half, expects gross written premium (GWP) to increase 5-10% in the full year ended 30 June 2007.**

IAG Chief Executive Officer, Mr Michael Hawker, said he was pleased the Group comfortably exceeded its return on equity target, while making significant progress in building for future growth.

“We delivered our second-highest full-year return on equity and insurance margin since listing by maintaining our underwriting discipline and containing our operating costs,” Mr Hawker said.

“In our largest portfolio, NSW comprehensive motor insurance, retention reached its highest levels in almost two years during the second half. This trend has continued in the new financial year, aided by programmes to further enhance end-to-end customer service, including improved staff training, technology platforms and claims management processes.

“While the soft cycle in commercial lines continued, we increased our insurance margin for the year, and retained policies in force at 98.8% of the previous year by focusing on relationship management, while being willing to sacrifice business where the price didn’t match the risk.

“At the same time, we made significant progress towards our goal to expand internationally. Our Asian insurance operations contributed to our profit for the first time, and we have a number of potential acquisitions in Asia and Europe in the pipeline which meet our strict criteria.

“That makes us confident we’ll be able to grow GWP by 5-10% in the current financial year, from both our existing business and international acquisitions.”

Mr Hawker said the strong performance was achieved, despite experiencing increased industry-wide competition and lower average premiums in most major classes, while storms, including Cyclone Larry, cost the Group \$76 million more than last year on a net basis.

Investment returns on shareholders’ funds set a new record since listing, contributing \$539 million to the pre-tax result. Investment returns from claims reserves also contributed \$302 million to the Group’s pre-tax result.

The Group generated a return on equity (ROE) of 22.1%. Normalised to exclude the very high investment returns, the ROE was 15.8%. This exceeds the Group’s target of achieving ROE of at least 1.5 times its weighted average cost of capital.

\* The Group is required to adopt Australian equivalents of International Financial Reporting Standards (AIFRS) when preparing its financial reports for the year ended 30 June 2006. For comparative purposes, results for the 2005 financial year have also been restated under AIFRS.

In light of the Group's performance, the Board has declared a final fully franked dividend of 16 cents per share to be paid on 9 October 2006 to shareholders registered on 6 September 2006. This brings annual dividends for the year to a record 29.5 cents per ordinary share, an 11.3% increase on the previous year.

IAG also paid a special dividend of 12.5 cents per share fully franked in June 2006, in line with the Group's commitment to return \$200 million in surplus capital to shareholders in an efficient manner.

Mr Hawker said the Group's response to market dynamics differed across its businesses, but all delivered healthy margins.

"In our largest portfolio, Australian Personal Insurance, we achieved an insurance margin of 12.6%, and a very sound return on capital. This performance was below last year's record levels due to reduced business volumes compounded by lower average premiums in CTP and direct motor insurance. However, in the second half, renewal rates reached their highest level in almost two years in our largest portfolio, NSW comprehensive motor.

"We expect this positive momentum will continue in the current year as we leverage the competitive pricing position of the business and continue to implement our customer service and claims improvement programmes.

"While our Australian Commercial Insurance business was affected by the 'soft cycle' with rates falling on average (in real terms) by 4.5% during the year, our insurance margin increased from 16.1% to 18% on the back of a strong performance in the long tail classes of liability and workers' compensation.

"Our New Zealand business faced similar conditions to those in Australia. However, it delivered an insurance margin of 14.5% in line with the record performance achieved in the previous year."

Mr Hawker said the Group was starting to see the benefits of its strategy to diversify its business internationally, and frameworks were now in place to continue to expand the Group's global portfolio.

"Our Asian portfolio grew during the year, with our acquisition of interests in Thailand, Malaysia and Lloyd's (Singapore), and we are in final negotiations to purchase a stake in China's second largest general insurer, China Pacific Property Insurance (CPPI).

"This portfolio contributed to the Group's results for the first time, adding \$65 million to GWP. On a full year basis, GWP would have been an estimated \$150 million (excluding China).

"We have the governance and management structures in place to continue expanding globally and have been pursuing acquisitions in general insurance markets in Europe to supplement our Asian business."

The Group maintained the highest Standard & Poor's rating of any Australian-based financial institution for its key wholly-owned insurers. Its very strong capital position was also retained, with a multiple of 1.83 times its minimum capital requirement (MCR) as at 30 June 2006.

Mr Hawker said he was confident the Group would continue to grow and diversify its earnings during the year and deliver a normalised ROE of at least 1.5 times the weighted average cost of capital.

"We aim to generate GWP growth of 5-10% in the coming year by maintaining our pricing discipline, continuing our focus on cost management and actively managing our capital," Mr Hawker said.

“We expect our Australian Personal Insurance business will grow in line with the market during the 2007 financial year, growing moderately above market thereafter, and we expect the ‘soft cycle’ in the commercial market to improve by the June 2007 renewals.

“In New Zealand we expect to generate similar results to those in Australia, and our Asian insurance operations should grow at least in line with the higher growth rates in those markets.

“The acquisition of a 24.9% stake in China’s CPPI should be completed around November 2006, and we’re continuing to investigate potential acquisitions and investments in general insurance markets in Asia and Europe.”

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**Insurance Australia Group (IAG) is Australasia’s leading general insurance group, with annual gross written premium of more than AUD\$6.0 billion. The Group includes some of Australia and New Zealand’s most trusted brands – NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance and NZI. It also has interests in China, Thailand, Singapore and Malaysia. For further information please visit [www.iag.com.au](http://www.iag.com.au).**

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