

# Financial Results - 31 December 2001



As presented on 1 March 2002



Insurance Australia Group Limited ABN 60 090 739 923

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Welcome everyone and thank you for taking the time to join us for today's presentation of our half year results.

Welcome also to those joining us by teleconference and on our webcast.

# Agenda



- **Overview of performance** M Hawker
- **Dividend** M Hawker
- **Capital management** M Hawker
- **Segment results** G Venardos
- **Questions** M Hawker & G Venardos

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Today's presentation will start with an overview of our results for the half year from our CEO, Michael Hawker.

Mike will then hand over to George Venardos, the Group's CFO, who will provide a more detailed analysis of the individual business segment results.

At the conclusion of the slide presentation, I will open the floor and telephone lines to questions.

# Overview of results & dividend



**Michael Hawker, CEO**



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# Agenda

- **Key points**
- **Operating environment**
- **Business results**
- **Normalised performance**
- **Dividend**
- **Capital management**



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## Key points



- **Net profit after tax of \$49m for shareholders**
- **Solid underlying business performance**
- **Dividend increased to 4.5 cents**

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Good morning ladies & gentlemen and welcome to IAG's half year profit announcement.

The net profit after tax for the half year was \$49m compared with \$3m for the corresponding period of the previous year.

This result, in my view, reflects a very solid underlying business performance offset by poor returns from our investments due to the downturn in local and international equity markets.

We are particularly pleased with this result in light of the operating environment during this period which included the negative impacts of September 11, unusual storm activity in Sydney, unprecedented bushfires in NSW and record rainfalls in parts of New Zealand.

Despite these factors, IAG recorded its second consecutive underwriting profit - with none reported for at least 10 years before that.

Our net earned premium has increased by 19% over the same period last year and insurance profit is up 21%.

This has been achieved whilst retaining a very sound reserving policy for claims with the overall probability of sufficiency remaining at or above 90% for the Group as a whole.

In these times of uncertainty, it is also worth noting that NRMA Insurance remains the most highly rated financial institution (non-government) in Australia at AA+ (S&P).

Other pleasing aspects of our results were a reduced expense ratio, reduced expenses in head office and the efforts of our team in New Zealand where the result is EPS positive well ahead of schedule.

In light of the strong underlying business performance, the directors have increased the dividend by 12.5% over the same period last year to 4.5 cents.

## The profit includes a number of significant items ....



	Pre-tax \$'m	Post tax \$'m
<b>Reinsurance recoveries (WAASL valuation)</b>	110	77
<b>Net claims from WTC, major storms &amp; bushfires</b>	(90)	(63)
<b>Net impact on underwriting profit</b>	20	14
<b>Profit on sale of building society</b>	45	38
<b>Costs re 1994 demutualisation proposal</b>	(12)	(12)
<b>NSW Insurance Protection Tax</b>	(10)	(7)
	<b>43</b>	<b>33</b>

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The Group's results include a number of significant items which are worth bringing to your attention - the net affect of these was to increase profits by \$43m before tax and \$33m after tax.

As announced in December, a \$110m pre-tax valuation - or \$77m after-tax - was brought to account from our WAASL (whole of account aggregate stop loss) reflecting the increased (and very high) probability that future recoveries under the contract will exceed future premium commitments by this amount.

The impacts of the adverse operating environment was a net loss of \$90m pre-tax (\$63m after tax).

It is worth noting, however, that with these items excluded, the Group would have still reported an underwriting profit.

Other one-off items include the sale of the Building Society at a \$45m profit before tax, other parties' legal costs for the failed 1994 demutualisation proposal and the NSW Insurance Protection Tax to recoup losses from the HIH failure.

# Improved operating performance & returns



	1H01	1H02
<b>Financial results/ratios</b>		
<b>Net earned premium</b>	\$1,315m	\$1,568m
<b>Underwriting profit/(loss)</b>	\$(26)m	\$37m
<b>Insurance profit</b>	\$103m	\$125m
<b>NPAT attributable to shareholders</b>	\$3m	\$49m
<b>ROE (Average equity)</b>	0.1%	1.9%
<b>ROE (Normalised)</b>	5.5%	8.2%
<b>Insurance ratios</b>		
<b>Combined ratio</b>	102.0%	97.6%
<b>Insurance margin</b>	7.8%	8.0%
<b>Insurance margin (Normalised)</b>	9.1%	11.1%

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This slide provides a bit more detail on the results.

As can be seen, the reduction in the combined ratio from 102% to 97.6% has improved the underwriting result by \$63m. Only \$20m or 1.3% of the combined ratio is attributable to the significant items I detailed earlier.

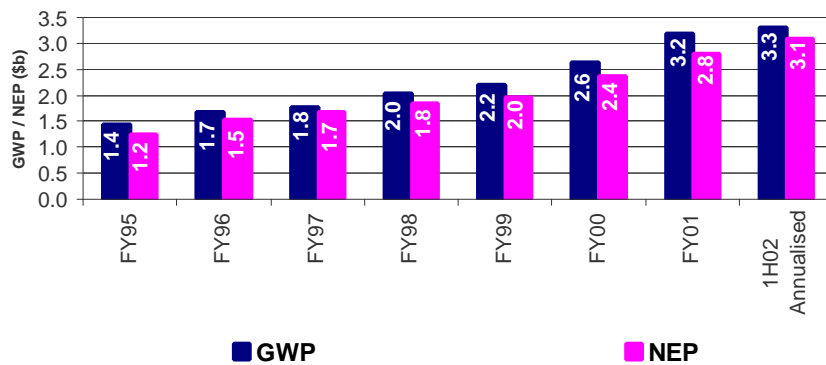
Similar to a year ago, the Group's result has been effected by a six month period of poor equity market performance. Whilst international equities fell in value, of most relevance to the Group was the fall in the ASX200 accumulation index. This index fell by 1.4% compared with a 0.3% fall for the prior comparative period. Consequently, only \$22m of the \$63m improvement in the underwriting result flowed through to the insurance margin. Despite this, there has been a 21% improvement in the insurance margin.

In the context of these investment market returns, the 8% insurance margin was very satisfactory.

Annualised ROE of 3.8% for the 6 months is, prima facie, low. However, in accordance the Group's established practice to immunise for short term market fluctuations, the 'normalised' ROE is 16.4%. This is substantially above the prior period result and means that, in this period, the Group has achieved its stated target of ROE being a minimum of 1.5 times WACC (weighted average cost of capital).

*All comparatives in this report for 1H01 are, consistent with previous investor reports and presentations, for a full six months to 31 December 2000 even though the parent company only legally acquired NRMA Insurance Limited and its controlled entities with effect from 22 July 2000.*

# Growth in premium has continued ....



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The improved underlying operational performance includes the benefits of growth and diversification.

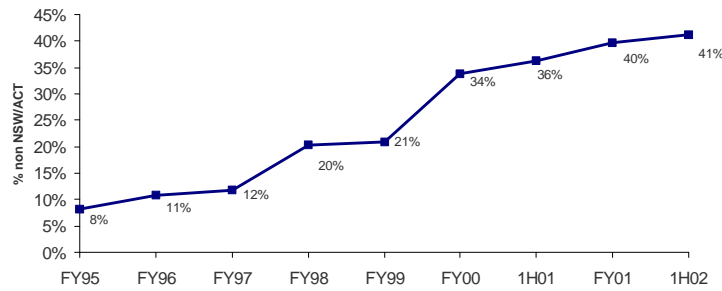
This slide shows the continued strong growth in our premium revenue over the past seven years.

Since 1995, GWP has more than doubled from \$1.4bn to \$3.3bn. The acquisitions made by the Group have contributed about \$1bn of this with the balance – almost 50% of the increase – coming from organic growth.

# ... providing improved diversification of premium ....



## GWP - Non ACT / NSW



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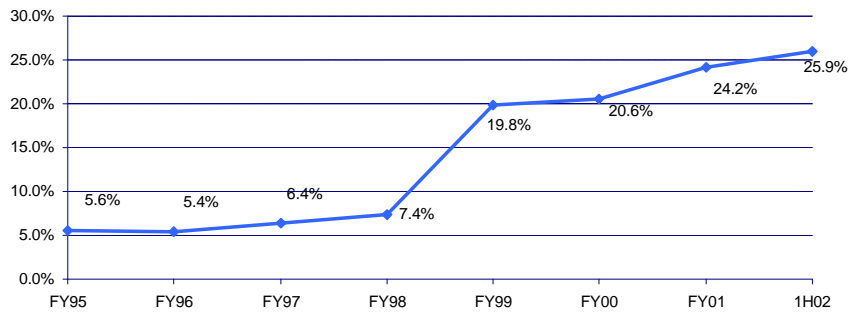
As noted in prior periods, the Group has a stated target of 50% of general insurance premium generated outside NSW/ ACT - its home base - to provide improved risk diversification.

Diversification has continued in this period, even though the successful growth of health insurance and SME commercial insurances in NSW actually grew our premiums in this state.

# ... and of outstanding claims liabilities



Outstanding Claims outside NSW / ACT



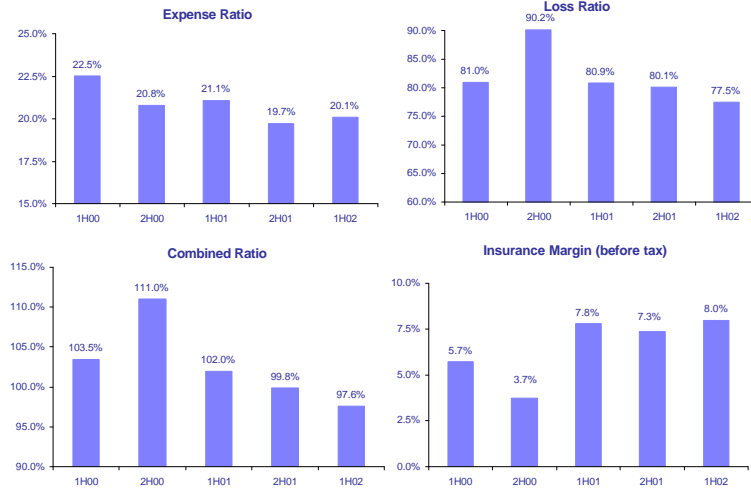
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The diversification of claims reserves in respect of business outside NSW also continues to gradually improve.

Further improvement in this measure will occur from the workers' compensation business acquired a year ago as this portfolio did not include any underwritten business in NSW. Because we did not assume any outstanding claims liabilities with this portfolio, this effect will be gradual over the next two or so years.

# Favourable trends in Group insurance ratios



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With an expectation that performance in investment markets will be subdued over the next couple of years it is paramount that we manage to a profitable insurance result.

The focus on our core operations has produced a steady improvement in our operating performance, as can be seen by the graphs on this slide.

Going forward, we expect to see the expense ratio resume its downward trend as this period's expenses included the burden of implementation costs for privacy legislation and some expenses attributable to the delays in implementing our distribution channel rationalisation due to issues - which have now been resolved.

We expect to be operating an expense ratio of 19% within one year.

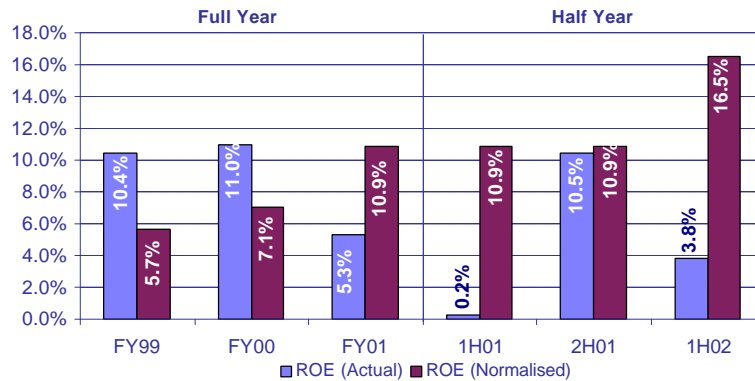
The loss ratio has been affected by the significant losses I noted earlier and the benefit of the WAASL valuation, which effected the loss ratio by 5.7% and 7.0%, respectively, yielding a net reduction in the loss ratio of 1.3%. This still leaves a very credible improvement in the loss ratio compared with the two prior periods which had no such major events.

We achieved an overall combined ratio of 97.6% and an insurance margin of 8.0%, respectively.

# Improving underlying performance for shareholders



## Annualised actual and normalised ROE



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Our underlying operations are delivering improved results but this has been masked in this period and the prior comparative period by downside investment market volatility.

For the purposes of demonstrating the underlying performance under the control of the Group and in attempting to deliver a steady growing dividend to our shareholders, the Group has a practice of showing an additional basis of earnings and returns.

This is done by replacing the actual investment income with the Group's view of the longer term investment returns it can achieve. All the 'normalised' comparatives on these graphs use annual investment returns of 8% for technical reserves and 11.5% for shareholders' funds.

The figures for the current period use rates 1.5% lower, ie 6.5% for technical reserves and 10% for shareholders' funds. This change in rates has just been approved by the Board to reflect the lower rates being experienced and expected in the market at present.

On this normalised basis, the half year ROE (return on equity) has increased to 16.5% from 10.9% and is now more comparable with our peers within two years of demutualisation and listing.

\*ROE is on NPAT after interest and amortisation.

## Interim dividend increased to 4.5 cents, fully franked



- **Half year normalised earnings up 44% to \$210m**
- **Interim dividend up 0.5 cents to 4.5 cents per share, fully franked**

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Using the basis of normalisation of investment income, earnings for 1H02 were \$210m, up \$64m or 44% on the prior corresponding period.

In the context of this strong underlying performance, but also bearing in mind the actual experience in investment markets which has led to IAG having a dividend payout ratio in excess of 100% since listing, the Board has resolved to pay a dividend of 4.5 cents per share, fully franked, compared with last year's maiden dividend of 4.0 cents per share.

Whilst payout ratios in excess of 100% are not sustainable on an ongoing basis, we expect that improvements in the investment markets will lead to the normalised and actual earnings being more closely aligned. In the meantime, we will seek to rely on further improvements in our operations and the considerable accumulated wealth of the Group, including over \$500m of franking credits, to continue to provide competitive returns to our shareholders.

# Capital efficiency improving



- **Steps taken to address volatility**
  - Tracking error on shareholders' funds reduced
  - Removing equities from technical reserves
  - Investigating further options
- **Regulatory capital efficiency being improved**
  - Undertaking internal restructuring to optimise for APRA
  - Will target 1.5 – 1.6 x MCR, once optimised
- **Capital mix under active review**
  - Taking steps to replace c\$300m of ordinary equity with hybrid
  - If implemented, will be close to target mix by June 2002

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Since I stood here a year ago committing to improve our capital efficiency we have moved quite a way along the road to improving this element of our performance:

We undertook two acquisitions for over \$400m, one of which remains fully debt funded;

- We completed a \$400m share buy-back;
- We sold the Building Society for a profit of \$45m before tax;
- We reduced the tracking error of our shareholders' funds; and
- Today we have commenced the process of removing equities from our technical reserves to ease the capital charges necessary to support our business.

An internal restructuring of the legal entities and a reduction in the number of general insurance licences held by the Group is under development. This is designed to optimise the Group's position under the new APRA regulations and is necessary due to the arrangements in place between various Group entities which generate considerable duplication of capital under the new requirements. Once optimised, we will target an MCR multiple of 1.5 to 1.6 x MCR.

Today we have also stated that we are investigating opportunities to change the mix of our capital by replacing approximately \$300m of ordinary shares with hybrid equity<sup>1</sup>. This would take us quite close to our targeted capital mix of 68% ordinary equity, 20% debt and 12% hybrid equity.

Whilst proceeding with these initiatives is subject to market conditions and regulatory approvals, we are looking to have this change in capital mix and the associated reduction in our WACC completed by 30 June 2002.

This initiative would allow us to deploy part of our large bank of franking credits to our shareholders and would again reduce the size of our share register.

*<sup>1</sup> A disclosure document, if required, for the offer of hybrid securities will be made available if the hybrid securities are offered. Any investor wanting to acquire those securities would need to complete the application form that would be in, or would accompany, the disclosure document.*

# Review of segment results and capital management



**George Venardos, CFO**



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## Improving mix of results



	1H01	1H02
Segment results before tax	\$'m	\$'m
<b>Short tail</b>	<b>48</b>	<b>43</b>
<b>Long tail</b>	<b>86</b>	<b>71</b>
<b>International</b>	<b>-</b>	<b>11</b>
<b>Financial services</b>	<b>3</b>	<b>8</b>
<b>Inwards reinsurance</b>	<b>(32)</b>	<b>#</b>
<b>Total</b>	<b>105</b>	<b>133</b>

### # Run-off included in long tail

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The segment insurance profits have improved by 21% over the same period last year.

Each segment is now contributing to the results at sustainable levels with the benefits of diversification and focus on our core business, showing through in our results.

In the coming slides I will deal with the results of each segment.

You will note that, as foreshadowed six months ago, we have reclassified the inwards reinsurance run-off into long tail which is more aligned with how this business is expected to develop during run-off.

The discussion on long tail includes some specific information on how the inwards reinsurance run-off has performed.

I will also cover our emerging business and the growth generated during the half.

Before we leave this slide, it is particularly pleasing to be able to show an increase in core operations when investment returns from technical reserves were down by a third or \$41m when compared to the same period last year.

## Combined ratio still <100% despite major storms & fires



	1H01	1H02
<b>Financial results/ratios</b>	<b>\$'m</b>	<b>\$'m</b>
<b>Gross written premium</b>	<b>1,044</b>	<b>1,131</b>
<b>Net premium revenue</b>	<b>982</b>	<b>1,060</b>
<b>Underwriting result</b>	<b>17</b>	<b>21</b>
<b>Investment income on technical reserves</b>	<b>31</b>	<b>22</b>
<b>Insurance result</b>	<b>48</b>	<b>43</b>
<b>Insurance ratios</b>		
<b>Loss ratio</b>	<b>76.5%</b>	<b>76.9%</b>
<b>Expense ratio</b>	<b>21.8%</b>	<b>21.1%</b>
<b>Combined ratio</b>	<b>98.3%</b>	<b>98.0%</b>
<b>Insurance margin</b>	<b>4.9%</b>	<b>4.0%</b>

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The short tail business produced its third consecutive combined ratio under 99% and is in line with prior periods despite \$50m in claims associated with bushfires and storms.

The expense ratio is up slightly due to the impact of the privacy legislation and IT development costs, which will not be repeated, in the second half.

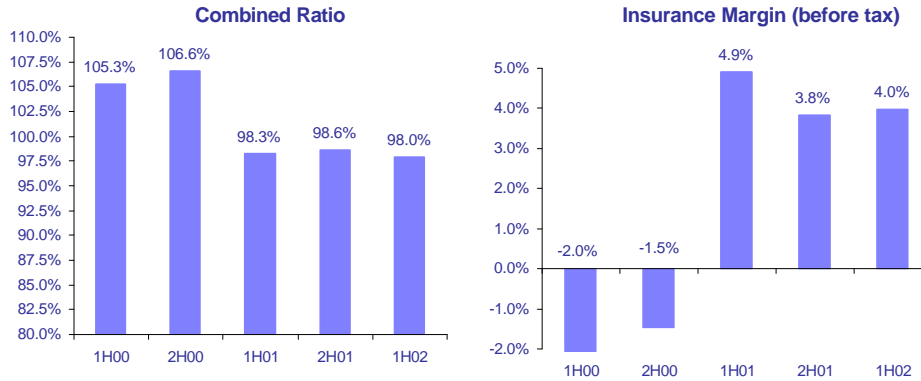
NSW car is performing predictably and is the main driver behind our short tail performance. In fact, all our core portfolios were under 100% COR except NSW home and contents.

In view of this performance and reduced expectations on investment income, the Group has reduced the target combined ratio on short tail insurance to 96-98%. This should result in an insurance profit of 5-8%.

Average premiums were up in line with our budgets in preparation for increased reinsurance expenses and to offset parts inflation, which is currently running at 9%.

We are continuing our focus on growing our home portfolios nationally.

# Short tail ratios delivering stable profitability



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The result for this period includes both the effect of 25% of the WAASL valuation and approximately \$50m in claims from the two major storms and the bushfires in December. The net effect of these items was an increase in net claims of over \$22m or 2% of net earned premium.

Whilst paying our customers' claims for storms and bushfires is core to our reason for being, there were no such major events in either of the two comparative periods, which has masked the improvement in the underlying business.

By 31 December, nearly 70% of all repair work was being completed by PSR's (preferred smash repairers) in NSW and Victoria. Our target is 75%.

Going forward, our focus will be on continuing to reduce claims leakage, fraud detection, automated claims processing, improved tracking of recoveries, systematic sourcing for contents claims, case management and tighter disciplined underwriting.

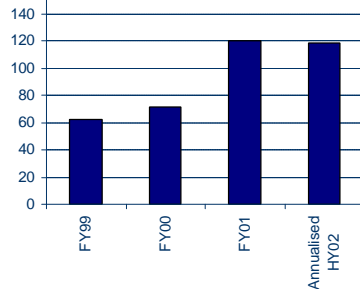
In view of the stabilised performance of the portfolio and the lower expectations of investment returns, we now believe that the short tail portfolio should deliver combined ratios of 96-98%.

# Continued growth for emerging businesses



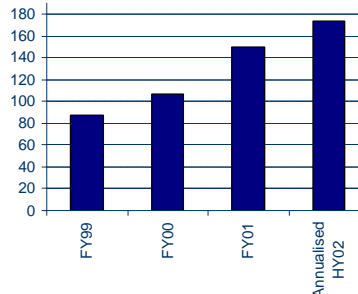
## Health insurance

### GWP



## SME commercial insurance

### GWP



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Gross written premium for the health insurance business was stable compared with the same period last year. This is less than the Group's target but not surprising as issues with disclosures in our advertising campaign hampered marketing for the bulk of this period.

A new campaign has been launched and stronger growth is targeted for the period to 30 June – both in retail and corporate sales.

Our SME commercial book continued its strong growth with an increase of 17% during the period. This level of GWP is 25% ahead of the same period last year.

These products have now been rolled out nationally with the recent launch of the products under the RACV brand in Victoria.

We also finalised our ecommerce offering during the period including our internet sales capability for all products in the range.

We will soon be launching our Easy farm product range and our quickquote system is being expanded to include Motor Trade policies. 40 brokers installed our automated quoting system during the period.

\* annualised premiums are simply 1H02 doubled, not forecast.

## Long tail performance continues to be strong



	1H01	1H02
<b>Financial results/ratios</b>	<b>\$'m</b>	<b>\$'m</b>
<b>Gross written premium</b>	<b>337</b>	<b>352</b>
<b>Net premium revenue</b>	<b>295</b>	<b>343</b>
<b>Underwriting result</b>	<b>(5)</b>	<b>10</b>
<b>Investment income on technical reserves</b>	<b>91</b>	<b>61</b>
<b>Insurance result</b>	<b>86</b>	<b>71</b>
<b>Insurance ratios</b>		
<b>Loss ratio</b>	<b>85.9%</b>	<b>82.5%</b>
<b>Expense ratio</b>	<b>15.6%</b>	<b>14.6%</b>
<b>Combined ratio</b>	<b>101.5%</b>	<b>97.1%</b>
<b>Insurance margin</b>	<b>29.3%</b>	<b>20.7%</b>

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The main feature of our long tail business, which includes the run off of our inwards reinsurance tail, is the stability of the privately underwritten statutory schemes.

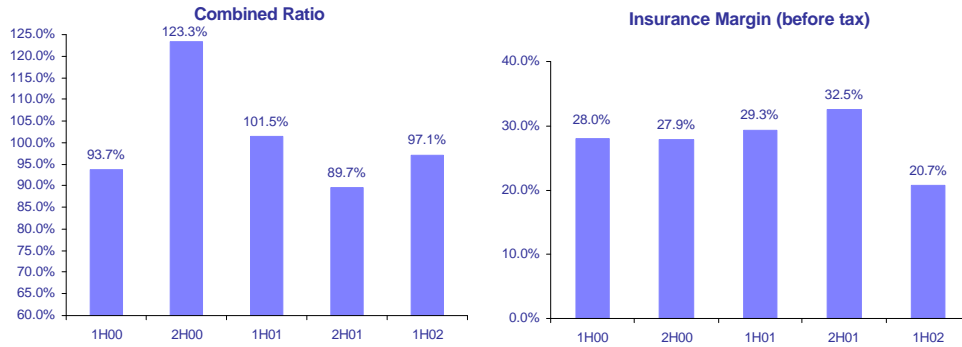
NSW CTP, WA Workers and ACT CTP continue to perform predictably and well ahead of our target operating zone of a COR of 110% to 120%.

We are revising our target operating zone to reflect this stability and performance by reducing it to a zone of 105% to 110%.

This would provide an insurance margin (before tax) in the range of 13% to 18%.

The revised range also reflects our new national management structure for statutory claims and our planned migration to a single national claims system.

# Long tail margins >20% in spite of September 11



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The are two notable items included in the long tail results for the period:-

- an \$82.5m reinsurance recovery from the valuation of the WAASL, which reduced the combined ratio by 24%;
- an allowance of \$40m, net of reinsurance recoveries, for the World Trade Center losses, which increased the loss ratio by 12%.

Although it is still early in the development of the losses from the World Trade Center and there may be some further fluctuation in the gross claims exposure, the Group believes that, taking into account its reinsurance arrangements, it is highly unlikely that the ultimate development will result in a higher net claims cost for the Group. However, I should point out that the usual “hygiene warning” applies given the uncertainty that surrounds this type of run off.

In conclusion, the acquired workers portfolio is on target to be EPS positive after amortisation and interest, within 18 months from the date of purchase.

## New Zealand operations in profit & EPS positive



	2H01*	1H02
Financial results/ratios	\$'m	\$'m
Gross written premium	139	182
Net premium revenue	110	161
Underwriting result	(7)	3
Investment income on technical reserves	1	5
Insurance result	(6)	8
<b>Insurance ratios</b>		
Loss ratio	65.9%	71.4%
Expense ratio	40.8%	26.7%
Combined ratio	106.7%	98.1%
Insurance margin	(5.4)%	5.0%

\* NZ operations acquired on 15 February 2001

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The comparative period in this slide is the period from 15 February, 2001, the date of acquisition, to 30 June 2001.

Despite the heavy frost in Wellington in July and record rain nationally in December, the New Zealand operations posted an underwriting profit of \$3m for the half year.

The business volumes and performance have improved whilst the operations have been migrated to a national operating model which consolidated operations in fewer call centres and branches and reduced staff numbers by 250. The costs of this restructure were provided in the June results and contributed to the 40% expense ratio which was reduced to 26.7% for the half.

When this insurance result is combined with the investment income on shareholders' funds, the total net profit after tax exceeded the interest and amortisation expense relating to the acquisition such that the acquisition is EPS positive within a year of purchase.

The next major phase of the business plan is to re-engineer processes and install a new policy administration system prior to the end of this calendar year.

## Captive makes profit for first reporting period



- **\$90m of written premium – before intercompany elimination**
- **IAG's general insurance business is sole source of premium**
  - More of the Group's business will be included on renewal
- **Insurance profit of \$3m for first six months of operation**

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The Group's captive only effectively commenced operations for the current financial year. It has been separately disclosed this period as it is the first reporting period and to provide a sense of its scale of operations.

The captive wrote \$90m in premium revenue, which on consolidation gets eliminated as all its premium income is sourced from IAG's general insurance operations.

The volume of premium is expected to be stable for the rest of the financial year but will grow in the next financial year as a number of reinsurance arrangements in place for recently acquired subsidiaries expire and are replaced with arrangements through the captive.

## Financial services re-focused & relaunched



	1H01	1H02
Financial results (pre income tax)	\$'m	\$'m
Managed investments	2	4
Risk products	3	8
Investment income	1	1
Retirement Services development	(1)	(7)
Retirement Services	5	6
NRMA Building Society	(2)	2
Financial Services	3	8

- Results stated before statutory funds tax
- All investment in retirement solutions development expensed as incurred
- Building Society operations until sale completed – early November

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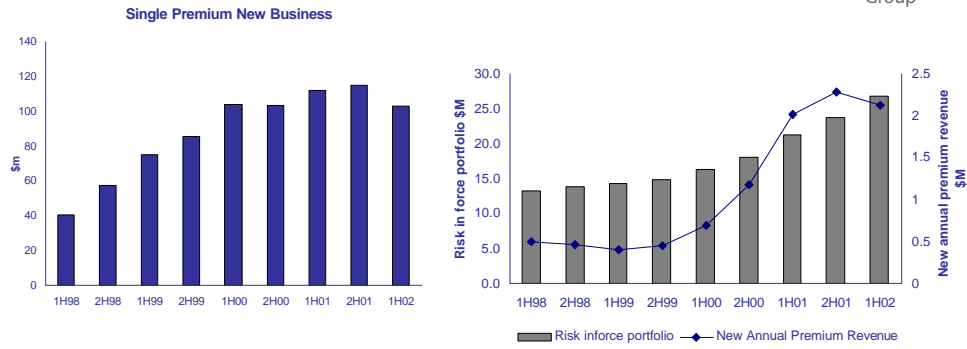
Since June 2001, the Financial Services team have been very focused on developing the products, people and processes for the launch of the new business. Just under a month ago, the new brand – ClearView Retirement Solutions – was launched with the related suite of products and services. All expenditure on the development has been expensed as incurred.

Managed investments generated a profit of \$4m, double that of the prior corresponding period. This reflects both expense control and reduced marketing pending the re-launch as part of ClearView.

The Group's term life business continues to generate profits on high persistency rates and relatively low mortality.

The Building Society was sold to HSBC Bank Australia Limited and the figures shown on the slide represent the trading results to the date of sale.

# Strong trends affected by September 11



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Single premium new business of the life company showed steady growth in recent periods. The slight fall in 1H02 is attributed to market sentiment, especially since the events of September 11.

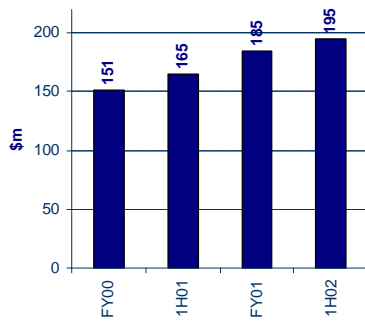
We expect growth in single premiums to accelerate following the launch of ClearView last month.

Total in force premium of the Group's term life business continues to grow. New annual premium is higher than the same period last year, but a little less than in the previous six months. Persistency rates have continued to track above 90%.

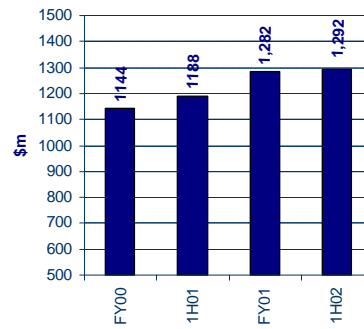
# Increases in both life embedded value & FUM



**Life Company Embedded Value**



**FUM\***



\*Excludes \$0.6b of external funds under advice at Dec 01

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The ongoing growth in the in-force book for the life company – in both risk and investment policies has meant further growth in the embedded value.

FUM grew marginally during this period of transition to the new business model.

The growth in FUM is expected to pick up again following the launch of ClearView Retirement Solutions in February 2002.

## Expenses charged to HO down & fee based profits up



	1H01	1H02
	\$'m	\$'m
<b>Head Office</b>	<b>59</b>	<b>24</b>
<b>Amortisation</b>	<b>9</b>	<b>21</b>
<b>Interest</b>	<b>6</b>	<b>15</b>
<b>Fee based businesses (profit)</b>	<b>(7)</b>	<b>(17)</b>

- Expenses in Head Office reduced by expense control & re-allocation to business (eg eCommerce)
- Amortisation & interest reflect acquisitions for full period
- Fee based profits increased, including workers' compensation management fees

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As foreshadowed six months ago, the Group has reduced expenses charged to Head Office by 60% by:

- Absorbing eCommerce expenses into the business on completion of the initial infrastructure development to the stage that all core personal lines and commercial products are now available over the internet.
- No repeat of significant items which amounted to \$22m as disclosed for the prior financial year.

Going forward we will expect some further savings as the steps taken to consolidate the share register begin to generate reduced registry costs.

Amortisation increased following the New Zealand and Australian workers' compensation acquisitions in February and March 2001.

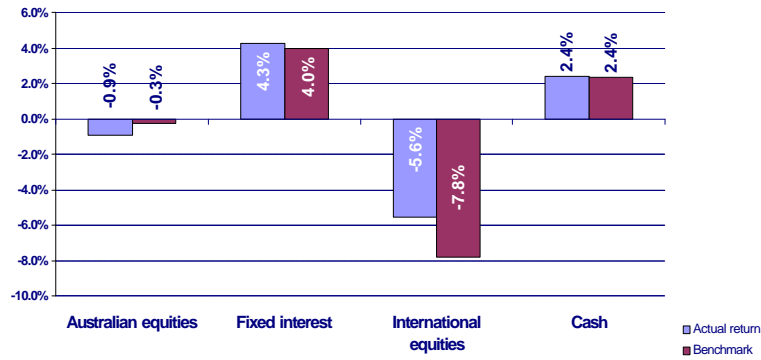
Interest expense relates mainly to the 100% debt funding of our New Zealand acquisition. Other residual corporate debt was repaid during the period, primarily from the proceeds on sale of NRMA Building Society.

The management contracts for State government underwritten workers' compensation schemes is the source of most of the increase in profits from fee based businesses.

# Performance overall in line with benchmarks



Excluding derivatives costing (0.2%) in performance



Invested: \$2,309m + \$2,591m + \$829m + \$462m = \$6,191m

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The overall performance of the Group's investment portfolio was in line with benchmarks.

Two initiatives to protect the Group's capital position are included in this total return. These were:

- a put option acquired shortly after September 11 to put a floor on the equities held in technical reserves in case of further extreme falls in the markets. This option, which cost 20 basis points in performance, expires at the end of the financial year.
- the tracking error of the shareholders' funds was halved to operate in a 2-3% range. This re-weighting of the portfolio removed a number of overweight positions and also removed volatility from the group result going forward. The transaction costs associated with the re-weighting are included in these results.

## Investment markets yield subdued returns



	1H01	1H02
<b>Investment returns</b>	\$m	\$m
<b>Technical provisions</b>	<b>129</b>	<b>88</b>
<b>Shareholder &amp; other funds <sup>1</sup></b>	<b>(21)</b>	<b>(50)</b>
<b>Total</b>	<b>108</b>	<b>38</b>
<b>Half year portfolio return (pre tax)</b>	%	%
<b>Technical provisions</b>	<b>3.6%</b>	<b>2.5%</b>
<b>Shareholder funds</b>	<b>(1.9)%</b>	<b>(2.2)%</b>

<sup>1</sup> \$ returns include OEI to match statutory reporting – which yielded \$14m and \$4m profit in the respective periods.

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The poor performance of the equity markets in the six months has contributed to lower than normal investment returns.

Although returns from the fixed interest portfolio were strong, they were insufficient to outweigh the underperformance of equities which impacted our insurance margin and overall profitability.

## In summary ....



- **Very strong underlying business performance**
- **Further initiatives on capital management**
- **Normalised ROE exceeds 1.5 x WACC**

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## Conclusions and outlook



- **The business operations, including acquisitions, are performing well**
- **Remain strongly capitalised with improved capital efficiency and ROE**
- **Will be invigorating focus on enhancing customer service and community involvement**
- **Well placed for further growth and improved returns**

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There can be no doubt that our core businesses – including our acquisitions – are performing well.

Considerable progress has been made on improving our ROE by improving the stability of our operating performance and reducing our weighted average cost of capital – and we intend to do more. But not at the expense of providing strong security for our stakeholders. We remain strongly capitalised and have maintained our AA+ insurer financial strength rating from Standard & Poor's – the strongest rating of any non-government Australian based financial institution.

This combination of improved stability in our operations and a strong capital base is key to us assuring our customers and shareholders that we will be here to pay their claims and their dividends for the long term.

Whilst I believe IAG's role of providing people with assurance of help in time of crisis – our core function as an insurer – is of great value to society, I think our role is broader than that.

I am particularly concerned that there is a perception that by moving from being a mutual to a listed company, that customer and community interests are sacrificed by having a shareholder focus. In my view, the only way to provide long term sustainable shareholder return is by having outstanding customer service and for the community to strongly endorse our presence.

This Group has a heritage of quality service to both its customers and the community. I intend to enhance this heritage.

Now, as for the short term financial outlook - I have learnt quickly that forecasting bottom line performance in a general insurance business is not for the fainthearted due to the vagaries of nature and investment markets but we are well placed to continue to grow and deliver improved underlying operating returns for our shareholders and greater contributions to the community in which we operate.

# Questions



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I would now like to move to questions.