



Financial results **Half year ended 31 December 2002**

Michael Hawker, Chief Executive Officer
George Venardos, Chief Financial Officer

27 February 2003




AO'D

Good morning. Welcome to the Insurance Australia Group 1H03 results briefing. We would like to proceed through the presentations by Mike and George and take questions at the end.

As usual, we have people joining us by phone and listening over the web, as well as here in person. Questions will be taken from the phone lines as well as from the audience here with us.


Copies of all the materials we are using here this morning are already on our website.



Agenda

1. Overview of performance	Michael Hawker
2. IAG results analysis	George Venardos
3. CGU/NZI acquisition update	Michael Hawker
4. Questions	Michael Hawker & George Venardos

2 Insurance Australia Group Limited
ABN 60 090 739 923



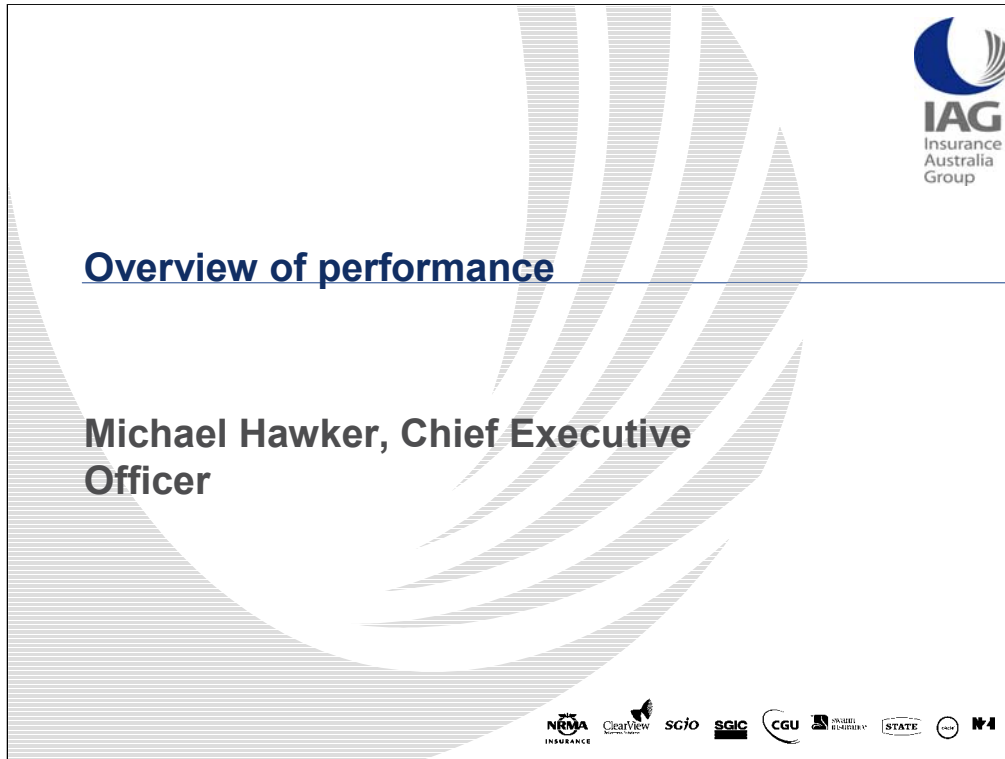
AO'D

Mike Hawker will lead off this morning providing us with an overview of the results. George Venardos will then provide some more detailed commentary on the results.

Mike will then provide an update on the CGU/NZI acquisition which was completed in January 2003.

Unless specifically mentioned, none of the slides and comments in the first two sections of the presentation include any CGU or NZI business or balances.

Now, over to Mike



MH:

Good morning.

The six month period to December 2002 was a defining one for the Group. We agreed to acquire the CGU and NZI businesses and undertook a major capital raising programme. However, we never let this get in the way of the ongoing work to improve our operational performance. This is evidenced today by our announcement of an insurance profit of \$290m and upgrades to our operational target ratios.

Sustained improvement and growth in underlying operations



Financial results/ratios	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
Net earned premium (\$m)	1,568	1,627	1,799
Total investment income (\$m)	34	(132)	90
Underwriting profit (\$m)	37	105	71
Reported result (\$m)	49	(74)	62
Annualised ROE % (Actual)	3.8%	(5.8%)	4.2%
Annualised ROE % (Normalised)	13.5%	13.0%	14.2%
Insurance ratios			
Combined ratio - Group	97.6%	93.5%	96.0%
Insurance margin (before tax)	8.0%	9.4%	16.1%
Insurance margin (before tax) normalised	11.1%	12.7%	15.2%
Consolidated MCR multiple	n/a	1.56x	2.29x

4 Insurance Australia Group Limited
ABN 60 090 739 923



We have delivered ongoing growth in net earned premium – nearly 15% up on the prior comparative period and a 10% increase on 2H02. Of this, about 3% is due to a reduction in reinsurance expense following the previously announced restructure of our programme effective 1 July 2002. The remaining 7% of growth in the six months is purely organic.

Investment income of \$90m is an improvement on the prior periods. Once again equity market performance trawled new lows and resulted in a loss on shareholders' funds of \$129m, but the removal of equity market exposure from our technical reserves enabled us to fully participate in the bond rally during the period with a total yield on technical reserves of 5.3% (10.6% annualised).

The underwriting result of \$71m is free of any significant or non-recurring items – unlike the prior two periods which had net benefits from such items.

These strong results have provided an insurance margin of 16.1% for the period.


On an annualised basis, the ROE is within our target range of 13-15% normalised return on ordinary equity.

The Group was very strongly capitalised as at 31 December with an MCR multiple of 2.29x, assisted by the funds held pending settlement of the CGU/NZI acquisition. When I update you on the acquisition later, I'll provide you with the pro-forma capital position, which is still very still very robust.


Continued delivery of improving results

Relative to 1H02:

- **NPAT increased to \$62m from \$49m**
- **Expense ratio improved to 19.2% from 20.1%**
 - Flat from 2H02 – investment in systems and process improvements
- **Combined ratio of 96.0%, down from 97.6%**
 - 2H02 included one-off benefits to report 93.5%
- **Insurance margin doubled from 8.0% to 16.1%**
- **Insurance profit up to \$290m from \$125m**



5 Insurance Australia Group Limited
ABN 60 090 739 923



The increase in NPAT (net profit after tax) despite a \$129m loss on shareholders' funds is a testament to the underlying strength of the business.

Relative to the prior comparative periods, each line of the insurance results shows improvement.

The improvement is even greater when one considers that the 1H02 NPAT excluding net benefits from unusual/non-recurring items was only \$2m.


For reference only:

1H02 unusual/non-recurring items:

	Pre-tax	Post-tax
Storms & September 11	-\$90m	-\$63m
WAASL* valuation	+\$110m	+\$77m
Building Society Sale	+\$45m	+\$45m
Litigation expense	-\$12m	-\$12m
Totals	+\$53m	+\$47m


*Whole of account aggregate stop loss

No significant one-off items in 1H03 result



Impact of unusual/non-recurring items on insurance result	Half-year ended Jun-01	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
	A\$m	A\$m	A\$m	A\$m
Net premium revenue	1,460	1,568	1,627	1,799
Underwriting profit/(loss)	4	37	105	71
One-off items:				
<i>WAASL valuation adjustment</i>	-	(110)	(75)	-
<i>Net loss S11, storms & bushfires</i>	-	90	10	-
<i>Net one-off items</i>	-	(20)	(65)	-
Adjusted underwriting profit	4	17	40	71
Investment income on technical reserves	103	88	48	219
Insurance profit/(loss)	107	105	88	290
Adjusted insurance ratios				
Loss ratio	80.1%	78.8%	78.3%	76.8%
Expense ratio	19.7%	20.1%	19.2%	19.2%
Combined ratio	99.8%	98.9%	97.5%	96.0%
Insurance margin (before tax)	7.3%	6.7%	5.4%	16.1%

6 Insurance Australia Group Limited
ABN 60 090 739 923

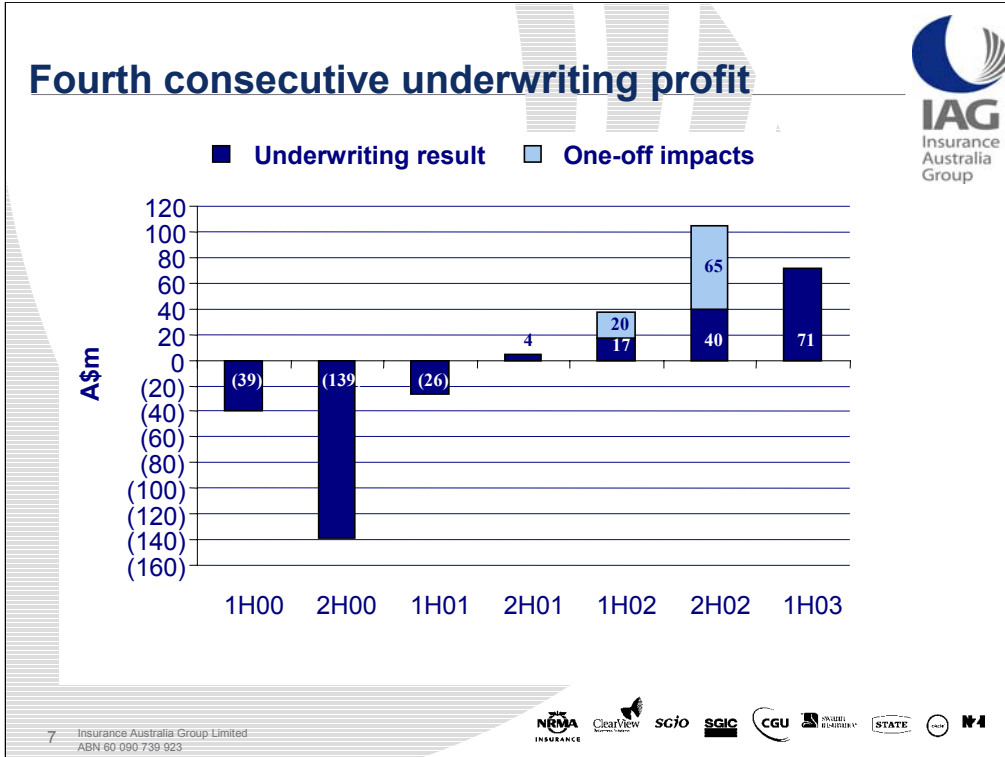


To assess the underlying level of improvement in the operations, on this slide we have excluded the unusual/non-recurring items reported for the previous two periods.

Here one can see that there has been significant improvement in the loss ratios. The cautionary word on the loss ratios is that we experienced very benign weather during the past six months. In particular, very low rainfall levels reduced collision claims in motor. We expect an upwards reversion of the loss ratio once the El Nino cycle finishes. Indeed, the portfolio has already suffered losses from the Canberra bushfires in January and an increase in frequency during the rainy days in the past week. This is why insurance results need to be viewed over time rather than focusing on individual periods.

The expense ratio improvement has been slower. In this period, it has been maintained at 19.2% for the Group. This includes over \$21m invested in two initiatives, being the customer oriented process review I have spoken of previously and the implementation of a new policy administration system for our New Zealand operations. While these added over 1% to the expense ratio for the period, I am confident that they will deliver value in the future.

This has all been achieved with a consistent approach to claims reserving, including our policy of maintaining the probability of sufficiency of those reserves at a minimum of 90% for the Group.



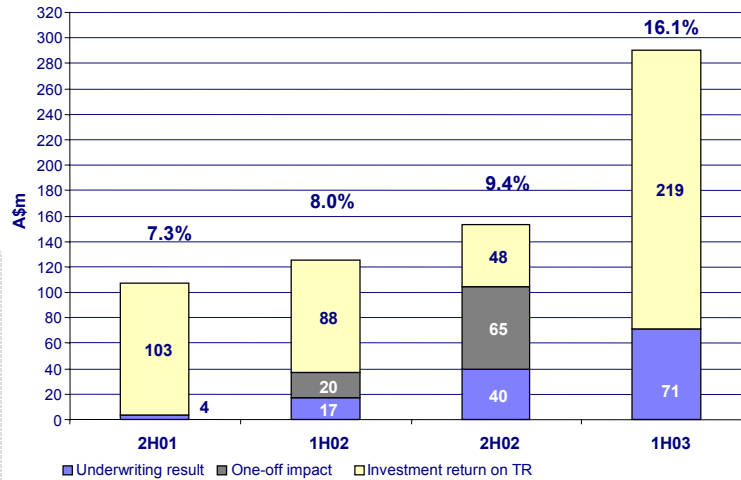
This chart provides a picture of the improvement in the underwriting results over the past three years excluding the unusual or non-recurring items.

Delivery of a combined ratio of under 100% for each of the past four consecutive periods and understanding the drivers of this has given us the confidence to target a combined ratio for the Group, post-integration of CGU and NZI, of 96 to 98%.

Insurance operations driving margin growth



Insurance result (pre-tax)

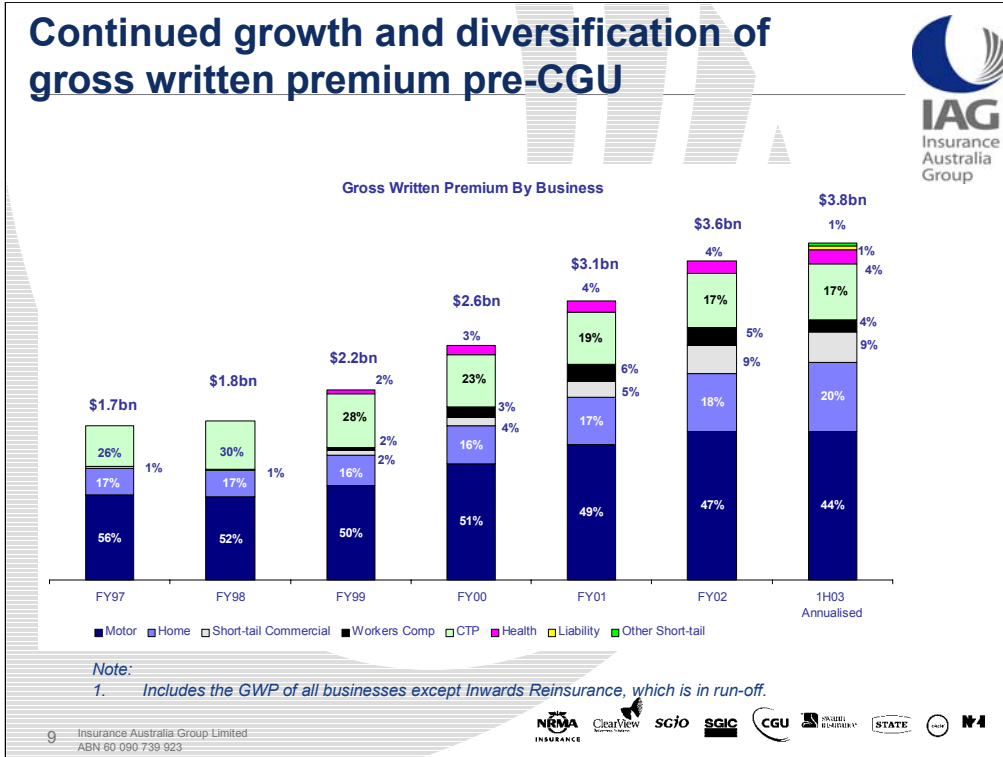


8 Insurance Australia Group Limited
ABN 60 090 739 923



The combination of the improved underwriting results and a focus on a largely matched fixed interest portfolio behind the technical reserves provides the Group with a strong insurance margin.

This is particularly strong for 1H03 as a result of the bond market rally.

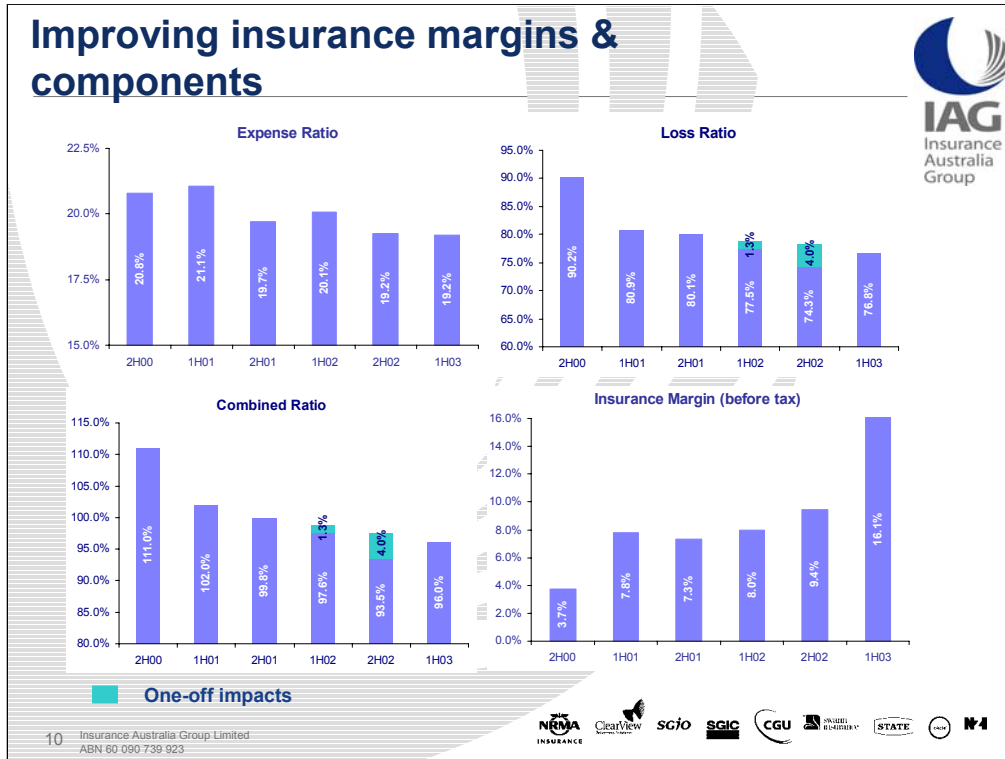


The sustainability of the improved insurance result is assisted by the continued growth and diversification of the Group’s business.

Since FY00, the total premium base has grown by over 45% and the concentration in motor significantly reduced.

Motor now constitutes 44% of total premium relative to 51% in FY00 and 56% just three years prior to that. CTP (compulsory third party or motor liability) has similarly been reduced from 23% in FY00 to 17% now. The increases have occurred in home and commercial insurances.

In the current rate environment for commercial and with the ongoing adjustments of premium in short-tail personal lines, ongoing organic GWP growth of 8 to 10% can be expected in the short-term.

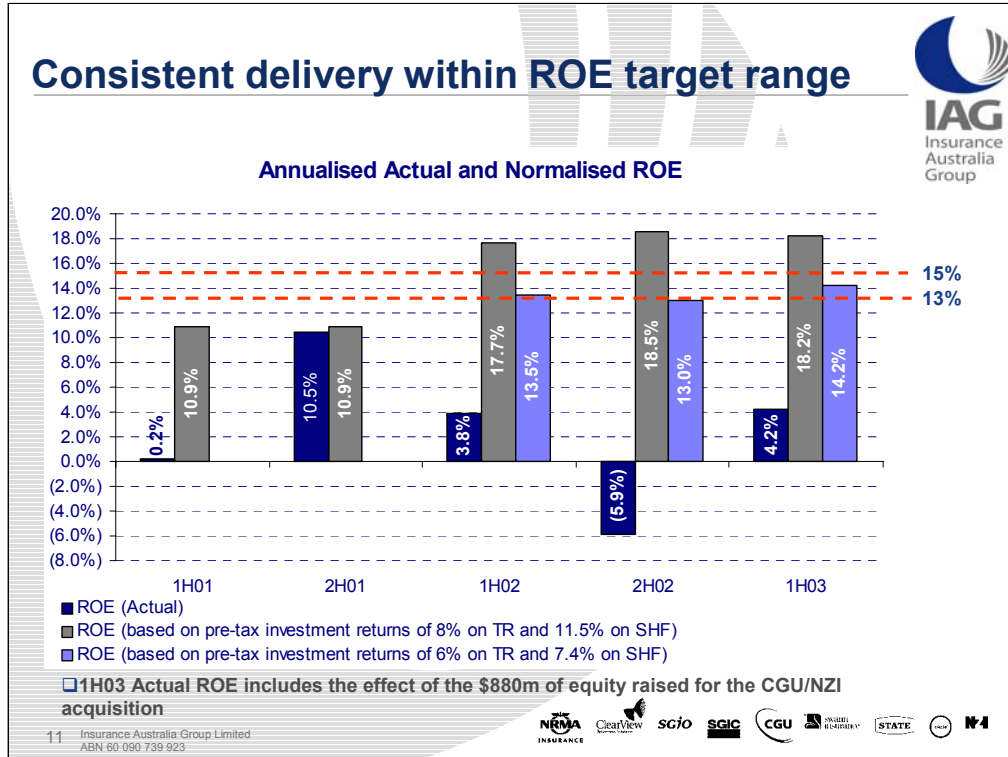


The Group's expense ratio of 19.2% includes nearly 2% in respect of fire service levies. If these are excluded from the premiums and expenses, the expense ratio for 1H03 would be 17.5%. This compares very favourably with international benchmarks.

The slight upward trend of 2.5% in the loss ratio for the period belies the underlying improvement as:

- It includes the reduced discount rate applicable to claims, which increased the reported claims expense by \$80m for the period – or 4.4%; and
- Unlike the two prior periods, there are no net benefits from unusual/non-recurring items.

The insurance margin better reflects the underlying improvement as the discount rate adjustment in the loss ratio is offset by the gains on the technical reserve investments.



The Group's reported ROE – as shown on the dark blue bars - is 4.2%, an improvement over the two prior periods.

However, as usual, the Group tracks performance against a set of normalised returns to measure the underlying performance.


The grey bars show the normalised returns using constant rates of investment yield for the most recent three periods. This demonstrates that the Group continues to deliver within its target range of 13 to 15% return on ordinary equity.

The middle set of bars is normalised ROE based on the higher rates of return used prior to FY02.


The 1H03 reported ROE includes the effect of the \$880m of equity raised raised in the period and held on deposit for the CGU/NZI acquisition. If this is excluded, the reported return would have been 5%

Interim year dividend maintained

- Interim dividend of 4.5 cents per share, fully franked**
 - Maintained from last year
 - Balance of strong business performance offset by poor equity markets
- Dividend payment details are:**
 - Ex-dividend date – 6 March 2003
 - Record date – 12 March 2003
 - Payment date – 14 April 2003
- Fully underwritten dividend reinvestment plan in place**
 - Launched 6 January 2003 with elections received from over 200,000 shareholders
 - 2.5% introductory discount applies to this dividend
 - Pricing of DRP shares will be based on the average market price over 10 trading days from 3 days after the record date



12 Insurance Australia Group Limited
ABN 60 090 739 923



The Directors have declared a dividend of 4.5 cents per ordinary share, fully franked, holding the dividend at the same level as the prior year interim. This decision took into account:

- The very strong performance of the business; and
- The continued poor equity market performance which has meant no positive yield contributing to shareholders funds for three consecutive half-years.

The dividend is payable on 14 April to shareholders registered on 12 March.

As part of the funding for the CGU/NZI acquisition, underwriting for \$160m of dividends was put in place. To the extent that shareholders do not participate in the Dividend Reinvestment Plan ('DRP'), shares will be issued to the underwriters funding the cash payment to shareholders.

To date, over 200,000 shareholders have elected to participate in the DRP. Shares issued under the DRP in lieu of the April dividend payment will be issued at a 2.5% discount to the average market price calculated in accordance with the DRP terms.

Hand over to GV

Results analysis

**George Venardos, Chief Financial
Officer**

Good morning.

The purpose of my slides is to provide you with a bit more detail on the components of the results about which Mike has spoken.

Record short-tail profitability



Domestic short-tail	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
	A\$m	A\$m	A\$m
Gross written premium	1,131	1,226	1,252
Gross earned premium	1,125	1,141	1,216
Reinsurance expense	(65)	(76)	(53)
Net premium revenue	1,060	1,065	1,163
Net claims expense	(815)	(759)	(834)
Underwriting expense	(224)	(230)	(240)
Underwriting profit	21	76	89
Investment income on technical reserves	22	12	46
Insurance profit	43	88	135
Insurance ratios			
Loss ratio	76.9%	71.3%	71.7%
Expense ratio	21.1%	21.5%	20.6%
Combined ratio	98.0%	92.8%	92.3%
Insurance margin (before tax)	4.0%	8.4%	11.6%

14 Insurance Australia Group Limited
ABN 60 090 739 923



The short tail portfolios performed exceptionally well for the half year ended December 2002.

The growth in GWP from the same period last year in excess of 10% represents organic growth in all portfolios, especially home.

Compared to the June half, it should be noted that:

- 2H02 includes the commercial portfolio renewals which have a weighting to June; and
- The loss ratio includes WAASL release of \$19m (or 1.8%).

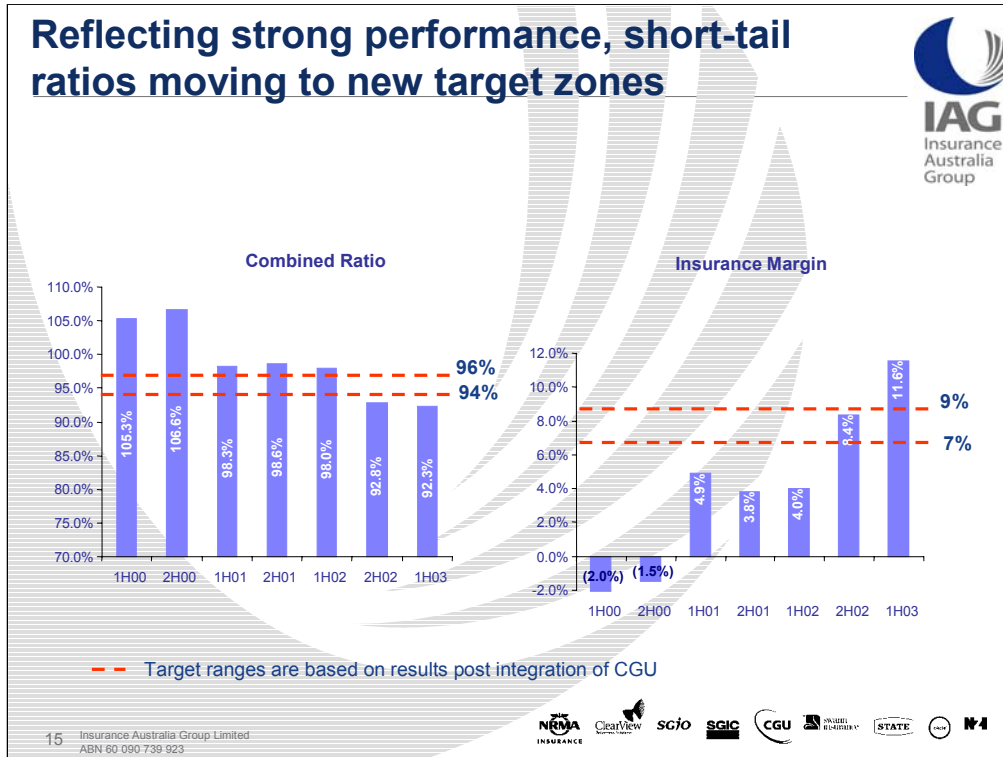
Unprecedented low claims frequency due to:

- Very favourable weather conditions
- Benefits from improved underwriting fundamentals/business mix
- Benefits from ongoing improvement in claims management

Whilst the dry weather is clearly unsustainable, benefits from underwriting and claims management designed to be sustainable

Continued strong market share position in all portfolios

Growth of home insurance from 16% to 20% of total GWP since FY00



These results reflect:

- Rational pricing across the industry with low churn – higher retention rates;
- Sustainable improvement in reinsurance expense following termination of WAASL; and
- Ongoing improvement in claims, including
 - Low frequency – weather related and related to risk selection
 - National roll out of PSR models (tailored to the relevant regions) and a similar model for towing
 - 85% of all PSRs are using digital technology, which enables us to better manage this key element of the supply chain
 - Average claims cost savings noted in prior periods maintained
 - Theft/fraud – reductions especially in motor. National motor vehicle register working well

And all delivered with increased customer satisfaction.

The Group has now reduced its view of the sustainable target operating ranges for short-tail – once the integration of CGU is complete – from 96 - 98% to 94 – 96%. This should provide ongoing insurance margins in the range of 7 – 9%.

Long-tail benefits from major scheme stability



Domestic long-tail	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
	A\$m	A\$m	A\$m
Gross written premium	352	459	410
Gross earned premium	392	425	439
Reinsurance expense	(49)	(39)	(16)
Net premium revenue	343	386	423
Net claims expense	(295)	(296)	(317)
<i>Impact of discount rate</i>	12	(30)	(80)
Net claims expense	(283)	(326)	(397)
Underwriting expense	(50)	(37)	(48)
Underwriting profit/(loss)	10	23	(22)
Investment income on technical reserves	61	26	169
Insurance profit	71	49	147
Profit from fee based businesses	6	5	3
Total long-tail result	77	54	150
Insurance ratios			
Loss ratio	82.5%	84.5%	93.9%
Expense ratio	14.6%	9.6%	11.3%
Combined ratio	97.1%	94.1%	105.2%
Insurance margin (before tax)	20.7%	12.7%	34.8%

16 Insurance Australia Group Limited
ABN 60 090 739 923



GWP growth was tempered in 1H03 by seasonality of workers' compensation and reduced NSW CTP premium rates.

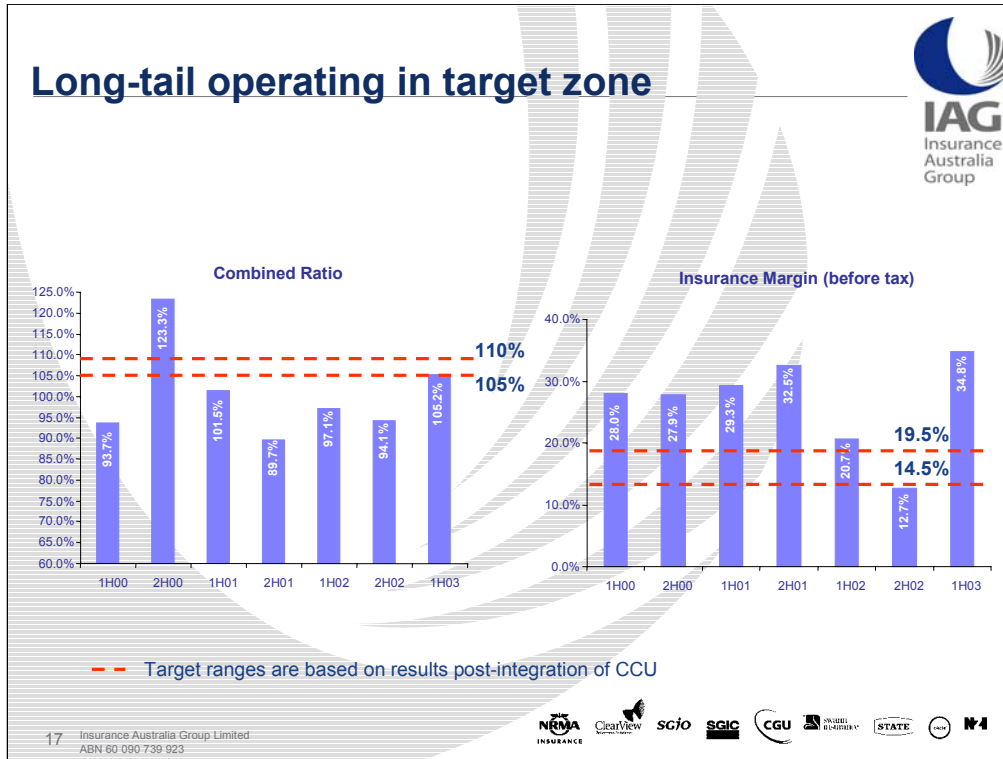
However, the insurance profit for long tail continues to be strong and the following points are worth noting:

- The long tail portfolio benefited from the reduced reinsurance expense generated from restructuring the reinsurance programme effective July 2002
- The move from equities to fixed interest has a significant impact to the long tail result given the level of technical reserves of the portfolio
- The capital gains provided by the bond rally in 1H03 more than offset the negative impact of the reduced discount rate applied to claims

The major schemes, being NSW CTP and WA workers' compensation are displaying continued stability, which is assisting the sustainable long term earnings of the portfolio.

Profit from managed schemes are now included in the this table to reflect their contribution to the result.

The recent loss of SA CTP claims management contract from 1 July 2003 is immaterial to business result.




The operating performance reflects the schemes' stability as well as:

- Mix of business and risk selection;
- Improved claims management processes; and
- The fact we run a matched investment portfolio.

Given the subdued interest rate environment, pricing submissions will be at the lower end of our target combined ratio range to ensure an ongoing adequate return on capital for the business being written.


The Group has retained its target operating ratio for this segment of the business, noting that at these levels it should deliver insurance margins in the range of 14.5 – 19.5%.

International business



International Operations	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
	A\$m	A\$m	A\$m
Gross written premium	272	215	379
Gross earned premium	221	241	356
Reinsurance expense	(56)	(65)	(143)
Net premium revenue	165	176	213
Net claims expense	(118)	(124)	(151)
Underwriting expense	(41)	(46)	(58)
Underwriting profit/(loss)	6	6	4
Investment income on technical reserves	5	10	4
Insurance profit	11	16	8
Insurance ratios			
Loss ratio	71.5%	70.5%	70.9%
Expense ratio	24.8%	26.1%	27.2%
Combined ratio	96.3%	96.6%	98.1%
Insurance margin (before tax)	6.7%	9.0%	4.0%

18 Insurance Australia Group Limited
ABN 60 090 739 923



•The international business represents the aggregation of IAG New Zealand (formerly State Insurance) and the Dublin based captive reinsurer, IAG Re.

The growth in GWP is attributable to:

- Premium of over \$150m in the captive since it took over all the Group's reinsurance protections. This is balanced by a higher reinsurance expense for this segment. The captive had no major claim until January 2003 bushfires
- An increase of 23% in the GWP of New Zealand operations
- The performance of the New Zealand personal lines book improved significantly.
- COR of New Zealand operations was impacted by systems development of \$5m, or 2.6% of COR.
- Post the integration of NZI, this business should deliver a combined ratio of 92 – 95%.

Retirement Services



ClearView Retirement Solutions	Half-Year	Half-Year	Half-Year
	ended	ended	ended
	Dec-01	June-02	Dec-02
	A\$m	A\$m	A\$m
Net profit/(loss) before corporate tax	5	(7)	2
Funds under management (\$m)	1,292	1,246	1,192
Life embedded value	195	215	225

- Life risk continues to generate profits
- ClearView operating model embedded, but poor sales environment
- FUM retention credible within market context
 - Net redemptions only \$11m

19 Insurance Australia Group Limited
ABN 60 090 739 923



•The operating environment for the FUM management industry continues to be adversely impacted by the poor equity market performance and difficult sales conditions. Net redemptions amounted to \$11m whilst the balance of the reduction in FUM arose from the reduced market values.

•The operating result of \$2 million for 1H03 is reflective of the difficult operating environment. Recurring profits of the life risk business offset the loss from the Retirement Solutions operations. Operating costs were contained in the difficult environment by tight cost control but this was not sufficient to overcome the shortfall generated by lower income.

•The life risk business has consistently generated profits for many years. Claims experience was favourable, there have been reductions in the underlying expenses and strong persistency levels of over 90% have been maintained. This experience has contributed to the total increase of \$10m in the embedded value of the life company.

Positive investment yield aided by increased fixed interest exposure



Portfolio return (Pre-tax) and incl hedge & put option	1H02	2H02	1H03
	%	%	%
Technical reserves	2.5	1.0	5.3
Shareholders' funds	(2.2)	(10.4)	(5.2)

Investment returns	1H02	2H02	1H03
	A\$m	A\$m	A\$m
Technical reserves	88	48	219
Shareholders' funds	(54)	(180)	(129)

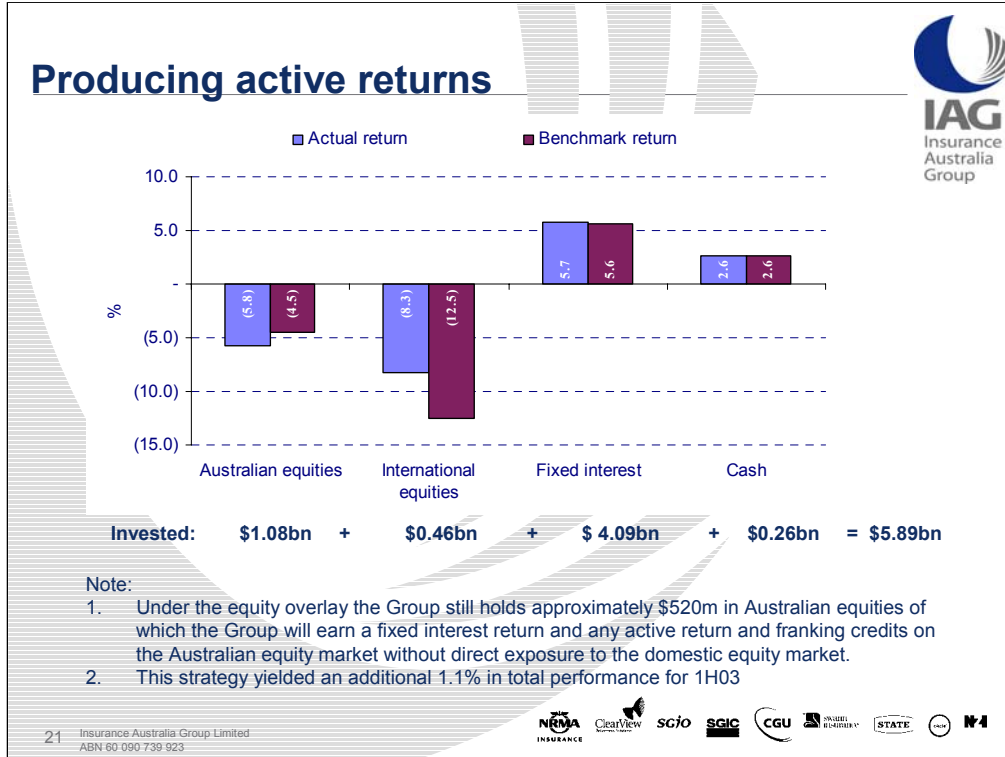
20 Insurance Australia Group Limited
ABN 60 090 739 923



The migration over the past year to exclude equity market exposure from the technical reserves portfolio enabled the Group to fully participate in the bond rally during the period, which contributed 2.3% of the total yield of 5.3% on technical reserves during the period.

Unfortunately, the shareholders' funds continued to suffer from the effects of poor equity market performance.

The returns shown above include the effect of the structured collars which the Group has in place for capital preservation purposes.



Overall the return generated on equities was very close to benchmark with the 428 basis points out-performance on international equities compensating for the 123 basis points underperformance of the Australian equity portfolio – exactly the reverse of the position as year ago and proving the benefits of diversification.

The fixed interest performance – out-performing the benchmark by 13 basis points – was also a very strong performance.

In summary..... Delivering stated targets



- Consistent delivery of improved performance in the past two years
- Margin growth driven by underwriting and claims initiatives ongoing
- Insurance operations continue to exceed target operating zones
- Revised post-integration targets are now in place
- Strength of underlying operations limiting effect of adverse equity market conditions
- Organic GWP growth expected to be 8 – 10% in the short-term

CGU/NZI acquisition update & pro-formas

**Michael Hawker, Chief Executive
Officer**




As you are aware we completed the acquisition of NZI and CGU on 2 January and, as the acquired businesses had a calendar based financial year, they have just been through their year end financial statements process.

The audited results provide us with added comfort about the businesses we have acquired.

In the next section of our presentation, I want to update you on the businesses' recent performance and the implications for us.


CGU/NZI FY02 financial results



CGU/NZI	Short-tail	Long-tail	Corp & Inv't	International	Year ended
	A\$m	A\$m	A\$m	A\$m	Dec - 02
Gross written premium	1,594	292	-	382	2,267
Net premium revenue	1,381	227	-	298	1,906
Net claims expense	(804)	(187)	-	(194)	(1,186)
Underwriting expense	(490)	(66)	-	(84)	(640)
Underwriting profit/(loss)	87	(27)	-	19	80
Investment income on technical reserves	38	52	-	5	95
Insurance profit	126	25	-	24	175
Discontinued operations	-	(94)	-	-	(94)
Other	-	8	(48)	15	(25)
Profit before income tax	126	(61)	(48)	39	55
Income tax (expense)/benefit	-	-	2	(9)	(7)
Profit after income tax	126	(61)	(47)	31	48
Profit/(loss) attributable to ordinary shareholders	126	(61)	(47)	31	48
Insurance ratios					
Loss ratio	58.2%	82.6%		65.3%	62.2%
Expense ratio	35.5%	29.1%		28.4%	33.6%
Combined ratio	93.7%	111.7%		93.7%	95.8%
Insurance margin (pre-tax)	9.1%	11.1%		8.0%	9.2%

These results have been subject to reclassification from the reported results to align with IAG reporting. Further reclassification may be required.

24 Insurance Australia Group Limited
ABN 60 090 739 923



In this slide we have attempted to extract the calendar 2002 information in the format that we intend reporting the business in for future periods to provide a basis for review and analysis.

The ongoing business has delivered an insurance margin of 9.2% for the year. This has obviously benefited from the hardening of rates in commercial lines.

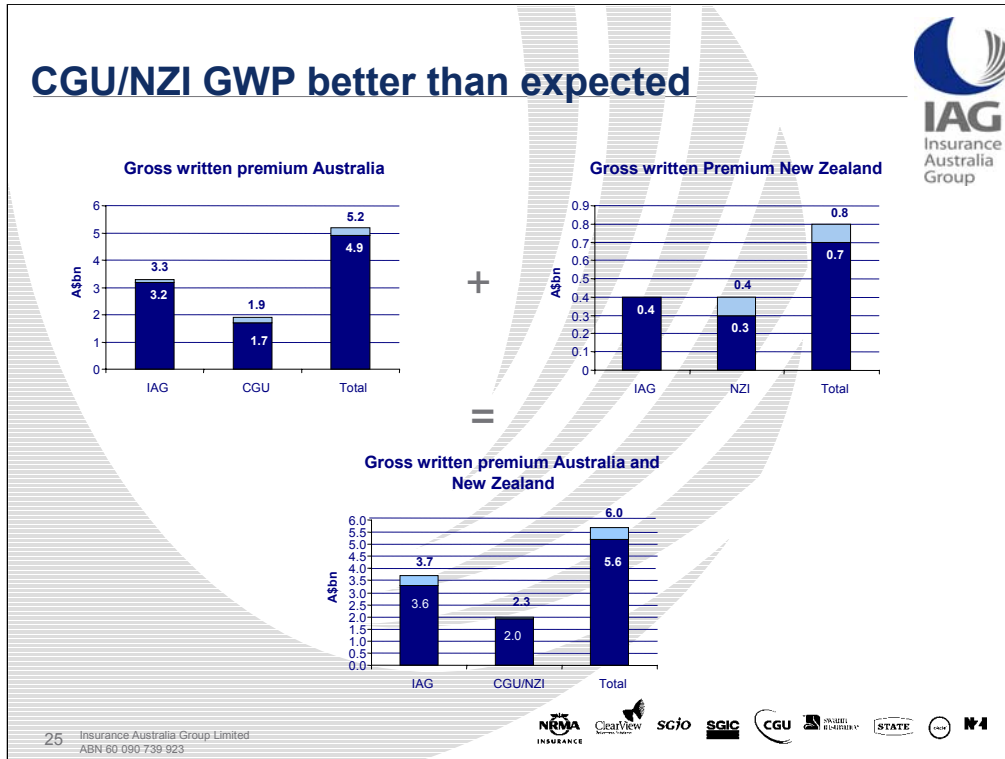
Discontinued operations reflects the inwards reinsurance business which Aviva plc has retained and the increases in asbestos provisioning – which we have further added to as part of the fair value adjustments on acquisition to provide to a probability of sufficiency of 99.5%.

The other expenses of \$25m includes

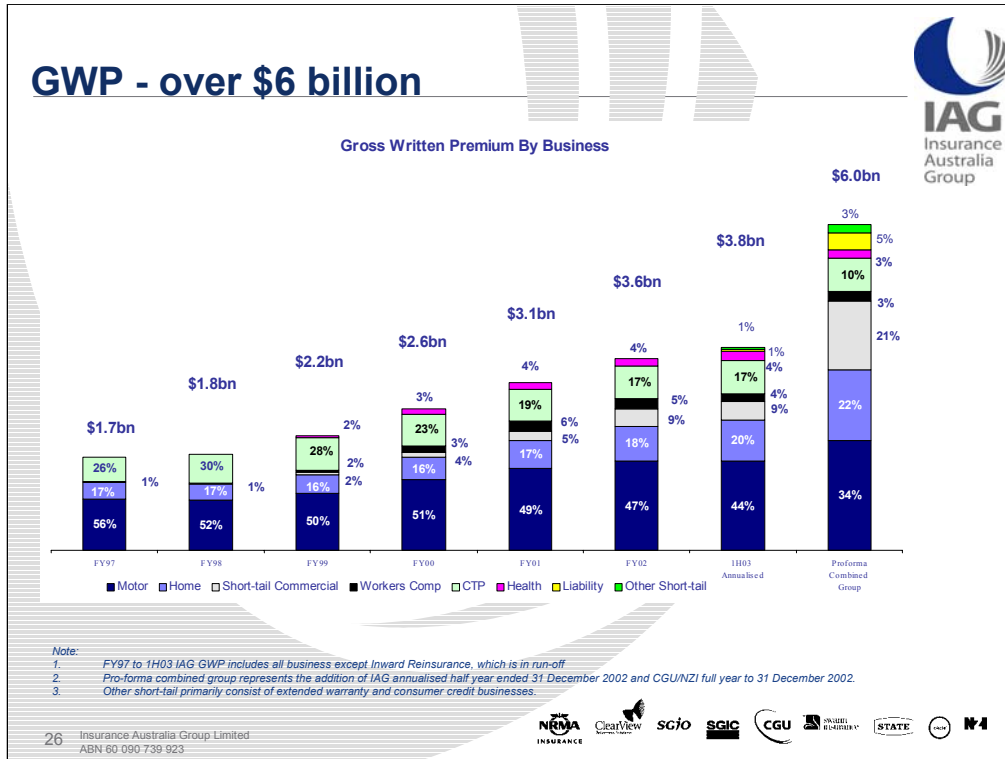
- Profits from fee based businesses and the premium funding business;
- Amortisation and interest;
- Investment income; and
- The NSW Insurance Protection Tax.

Details are in the Investor Report.

The strength of the result from the continuing businesses is very encouraging.



Firstly, the GWP of both CGU and NZI exceeded the base case position of annual premium of \$2.1bn per annum we spoke to the market about in October. The actual result for the year to December was \$2.26 bn giving a combined premium base for the Group of about \$6.0bn – up 7% from the \$5.6bn base referred to in October.

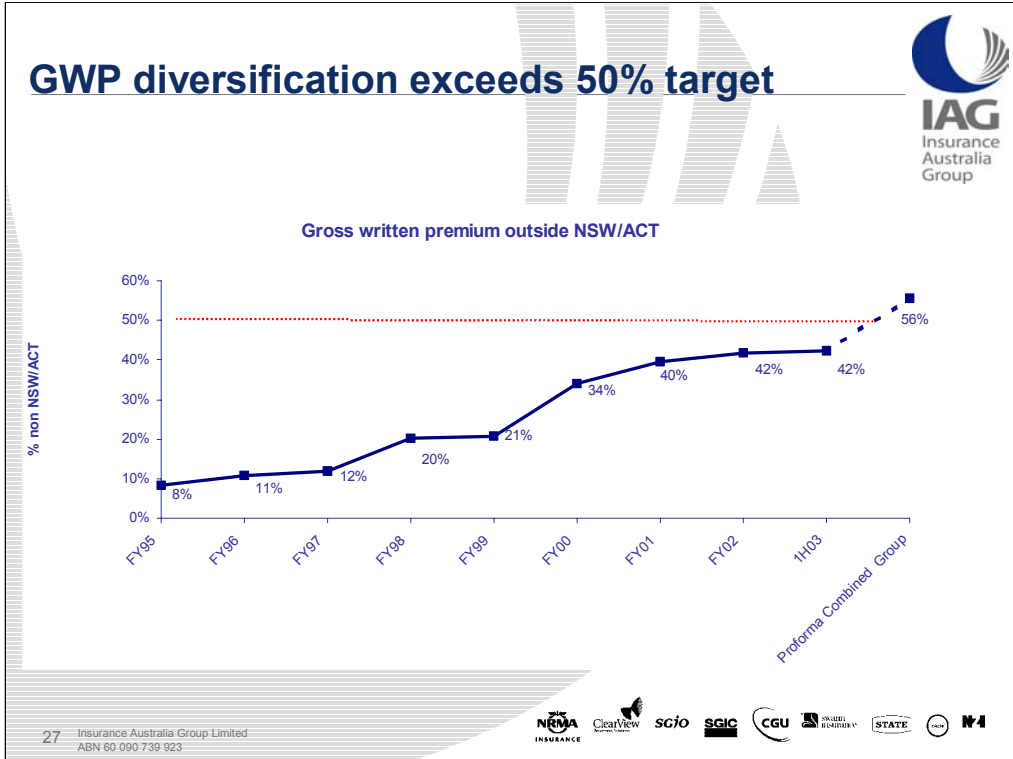


There have also been changes to the pro-forma mix reflecting the business written and the more detailed information now available to us.

The pro-forma columns reflect the 1H03 results for IAG annualised and the full calendar 2002 year for CGU and NZI.

The total motor book is now down to 34% of the pro-forma combined book relative to 37% noted in October. The offsetting increases are in home (up 2% to 22%) and short-tail commercial (up 3% to 21%) and some minor changes in the other classes.

Overall, the skew towards short-tail such that it now stands at 83:17 in these pro-forma figures.




The proportion of business written outside NSW/ACT (New South Wales and the Australian Capital Territory) has reached 56%.

The diversification of liabilities has also improved. This information is currently being extracted but it looks like the total will rise to over 35% compared with the 27% figure prior to the acquisition.

Continued diversification reduces our reliance or exposure to any one region.


Outcome of key metrics ahead of business case



Combined CGU/NZI	Business case	Actual result
GWP for 2002	A\$2.1bn	A\$2.3bn
Goodwill	A\$1.2bn	A\$1.1bn
Rate on \$ 250m of fixed rate subordinated debt	7.55%	6.41%

- Improved premium base and performance provided higher net asset base leading to lower goodwill
- The quality of the Group's rating enabled it to raise subordinated debt at 108 basis points above swap

28 Insurance Australia Group Limited
ABN 60 090 739 923




The good business results have led to an increase in the net assets acquired such that the goodwill arising on acquisition is now about \$100m less than originally anticipated.

Our subordinated debt raising at 108 basis points above swap represented the best issue for a non-bank corporate in the market for some time, reflecting our perceived quality as a counter-party.


As the ordinary equity was also issued at rates within the tolerance of our business case, we remain satisfied that this acquisition is accretive for shareholders.

Synergies – current expectations



Synergy realisation schedule	2H03	1H04	2H04
	A\$m	A\$m	A\$m
<i>Cumulative run-rate per annum</i>			
Personal lines	6	41	75
Commercial	4	14	30
IT, shared services & overheads	8	26	35
Australia sub-total	18	81	140
International - New Zealand	3	16	20
Total synergies in run-rate	21	97	160
<i>Reported income statement</i>			
Synergy benefits collected	7	31	68
Costs of implementation expensed	(49)	(28)	(8)
Net impact on profit for period	(43)	3	60

29 Insurance Australia Group Limited
ABN 60 090 739 923



Moving onto the synergies ...


We have established a template to provide you with our current best estimate of when we will collect the \$160m of committed synergies in our run rate – this is shown in the top table on a per annum basis.

In the lower part of the table, we have shown the expected impact on reported earnings in each half-year period as the expenditure is incurred up front to collect the synergies.

We remain committed to delivering a run rate of \$160m per annum of synergies by June 2004 and the work done to date by the integration teams has given us added confidence that this can be achieved.


We remain very hopeful that we will deliver more, but our first and foremost objective is to deliver on our commitment of \$160m.

Pro-forma capital position



Coverage of statutory capital requirements	IAG Group 30-Jun-02	IAG Group 31-Dec-02	Unaudited Proforma 31-Dec-02
	A\$m	A\$m	A\$m
Tier 1 capital			
Paid-up ordinary shares	2,509	3,364	3,506
Hybrid debt/equity	343	343	588
Retained earnings & reserves	(376)	(405)	(480)
Excess technical provisions (net of tax)	191	138	175
Less: deductions	(709)	(754)	(1,924)
	1,958	2,686	1,865
Tier 2 capital			
Term subordinated notes	-	300	735
Capital base	1,958	2,986	2,600
Minimum capital requirements (MCR):			
Australia licensed entities	1,040	1,109	1,653
Other minimum statutory requirements	142	122	122
Other businesses	75	75	75
Minimum capital requirements	1,257	1,306	1,850
MCR multiple	1.56	2.29	1.41

30 Insurance Australia Group Limited
ABN 60 090 739 923



This slide provides information on the compilation of our consolidated minimum capital requirements and position relative to those. The figures are provided for June and December 2002 and on a pro-forma basis as if the CGU/NZI acquisition and related funding had all been completed as at 31 December 2002.


It is important to note the following:

- APRA has not yet provided any rules or guidance on what capital a consolidated group should have and how this should be calculated;
- The general insurance entities in the Group generally operate with MCR multiples well above the statutory minimum. For example, the MCR of the two main operating entities – NRMA Insurance Limited and Insurance Manufacturers of Australia Pty Limited – were 4.2x and 2.4x at balance date; and
- The MCR includes the full capital charges on the derivatives for the structured collars and the overlay and no relief on the equities charges. Recognition by APRA in the MCR calculations of the capital protection provided by these programmes will increase the pro-forma capital multiple.


Based on these figures the Group is still positioned to have a robust capital position.

Remained strongly capitalised

- ❑ **Maintained S&P rating of AA (stable outlook) on rated operating entities**
- ❑ **Expanded strong reinsurance protections**
- ❑ **Minimum 90% probability of sufficiency reserving policy retained**
- ❑ **Structured collar programme to protect capital base from major falls**
- ❑ **Pro-forma capital mix at target**



31 Insurance Australia Group Limited
ABN 60 090 739 923



Viewing other aspects of the capital positioning of the Group, it can also be seen that the Group continues to be very conscious of retaining a robust capital position.

Post the acquisition, Standard & Poor's re-affirmed the insurer financial strength ratings held in the Group at AA Stable, equal to the best of any Australian non-government financial institution.

The Group's reinsurance protections have been expanded. The upper limits on the catastrophe programme are higher than the aggregate of the expiring covers for IAG and CGU/NZI whilst the new deductibles are lower than the aggregate of the expiring covers. The increase in the retention for the Canberra bush-fires in January to \$70m merely reflects the increased aggregate exposure on a far larger portfolio.

As I noted earlier, our claims reserving methodology has been consistently applied and our probability of sufficiency retained at a minimum of 90% for the Group.

The structured collar programme has been expanded to cover \$2bn of equities and acts to protect our capital base by providing additional assurance that extreme market falls will not increase the risk of ruin above the Group's tolerance levels.

And the pro-forma capital mix post completion of the acquisition funding will be in line with our target mix.

IAG & CGU/NZI pro-forma statement of financial performance



Pro-forma consolidated financial results			
Half-year ended 31 December 2002	IAG	CGU/NZI	Combined
	A\$m	A\$m	A\$m
Gross written premium	1,886	1,134	3,020
Net premium revenue	1,799	953	2,752
Underwriting profit/(loss)	71	40	111
Investment income on technical reserves	219	47	266
Insurance profit	290	87	377
Profit before income tax	115	75	190
Income tax (expense)/benefit	(18)	(18)	(36)
Profit after income tax	97	57	154
Outside equity interests	(35)	-	(35)
Profit/(loss) attributable to shareholders	62	57	119
Dividends paid on reset preference shares	(11)	0	(11)
Insurance ratios			
Loss ratio	76.8%	62.2%	71.8%
Expense ratio	19.2%	33.6%	24.2%
Combined ratio	96.0%	95.8%	96.0%
Insurance margin	16.1%	9.2%	13.7%

- ❑ Pro-forma profit and loss represents 1H03 IAG results and half of CGU/NZI full year results (excluding discontinued operations)
- ❑ Synergies of \$160m pa would reduce COR to 93.1%

32 Insurance Australia Group Limited
ABN 60 090 739 923



Finally, we have updated the pro-forma results slide we looked at in October. This merely adds one-half of the calendar 2002 results of CGU/NZI to our reported 1H03 result.

On a combined basis the combined ratio would have been 95.9% yielding an insurance margin of 11.3%.

With synergies of \$160m per annum, the combined ratio and insurance margin would each improve by 2.2%.

Conclusion



- The Group has delivered a very strong result for 1H03 and its fourth consecutive underwriting profit
- Quality result and financial strength enabled the dividend to be maintained this period despite continuing poor equity market performance
- The acquired CGU/NZI business is performing well
- The synergy benefits of \$160m are on-track
- Organic GWP growth of 8 – 10% short-term and 7 – 9% expected for medium-term and
- Improved sustainable COR target of 96 –98% for the Group post-integration

With that we'll move to take questions.

Questions



34 Insurance Australia Group Limited
ABN 60 090 739 923

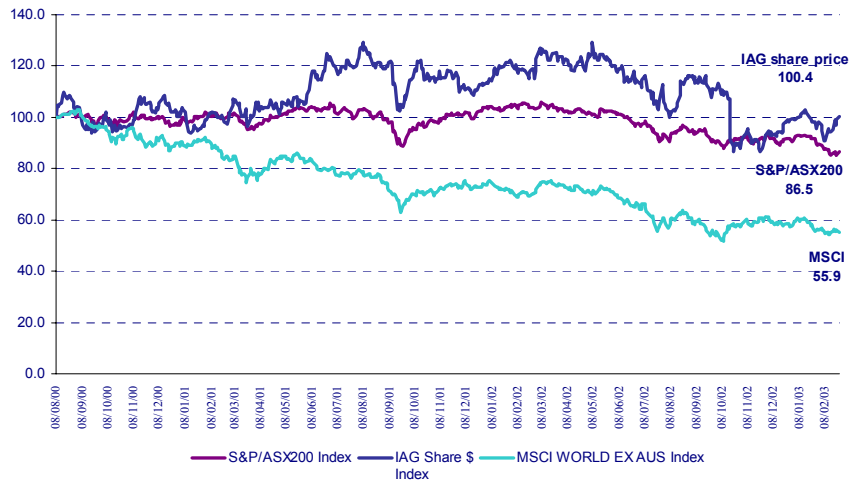


AO'D

As usual, in consideration of those people listening on the phones and the webcast, please use the microphones for all questions and identify yourself.

Thank you.

IAG share price performance against benchmarks



□ Share price from listing date 8 August 2000 to 24 February 2003

35 Insurance Australia Group Limited
 ABN 60 090 739 923

