Financial results
Half-year ended 31 December 2003

Michael Hawker, Chief Executive Officer

George Venardos, Chief Financial Officer

26 February 2004

Insurance Australia Group Limited
ABN 60 090 739 923

Good morning. Welcome to the Insurance Australia Group 1H04 results briefing.

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

Agenda

1.	Operating environment	Michael Hawker
2.	Performance overview	Michael Hawker
3.	Capital & dividends	Michael Hawker
4.	Integration update	George Venardos
5.	Segmental analysis	George Venardos
6.	MCR multiple	George Venardos
7.	Conclusion & questions	Michael Hawker & George Venardos

Our operating environment

- Economic conditions sound
- Downward pressure on premiums
  - Competition intensifying
  - Tort law reform
  - Key statutory schemes stable
  - Claims inflation slowing
  - Property reinsurance rates softening
- 1 in 100 year storm in Victoria
  - Over 12,000 claims vs 1,800 for Canberra, ACT fires

- Economy sound:
  - Car registrations up
  - Building starts
  - Real improvements in disposable income
  - Low unemployment
- Downward pressure on premiums from a number of sources
  - Competition intensifying
  - Tort law reform
  - Key statutory schemes stable
  - Claims inflation slowing
  - Property reinsurance rates softening

•The December 2003 storm in Melbourne cost significantly less than the Canberra bush-fires of January 2003 but has created more than six times the volume of claims for the business to manage.

Period of consolidation

- Strategic focus on general insurance
  - CGU and NZI added $2.5bn to annual revenue; integration ahead of schedule and EPS positive six months early
  - Sale of health insurance operations and ClearView
- Solid organic growth in policies/risks in force while customer retention remains high
  - Motor up 9% annualised
  - Home up 6.5% annualised
  - Commercial up 4% annualised
  - Offset by reductions in workers' compensation & liability
- Contained expenses despite growth, showing efficient management of expanded business

The business has been a hive of activity for the six months to December 2003 in a period of significant consolidation for the business.

The focus has been on four key areas:

- Organic customer growth;
- Focus on general insurance;
- Integration; and
- Strengthening of the culture of the company.

The outcome has been solid results with good customer growth and retention. Customer retention is over 90%. We had good growth in motor, home and commercial policies.

The progress on integration remains ahead of schedule and the acquisition is now EPS positive six months earlier than targeted at the time of acquisition.

Performance overview

- Net profit after tax of $302m profit for shareholders
  - High equity market returns ($204m pre-tax)
  - Under-pinned by strong operating performance
- Net earned premium up 6% (net of health sale)
- Loss and Expense Ratios improved
- Very strong capital position
  - Off-market buy-back – aim for completion by 30 June 2004
- Improved sustainability of operating performance
  - Dividend policy revised – dividend increased

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This is the first time since listing in August 2000 that the 'stars have aligned' favourably for the major factors determining the Group's result. The most significant of these – in terms of quantum – has been the turnaround in equity markets. But the most important – in terms of quality – has been the continued improvement and stability in the operating results. The combined outcome has been a profit for shareholders of $302m for the six months to 31 December 2003.

Our transformational acquisition of a year ago – the CGU and NZI businesses – has continued to perform well and, combined with the efforts of all the team on integration, is now earnings per share ('EPS') positive. This is 6 months ahead of the 18 month target announced with the acquisition. George Venardos will provide more detail on integration progress later.

The Group announced the sale of its two non-general insurance operations in Australia during the period. The Health Insurance business was sold in July 2003 and the sale of the ClearView Retirement Solutions business was announced in December 2003. The sale was not completed until January 2004. This leaves the Group very much focused on general insurance.

The Group's capital – measured as a multiple of the Group's minimum capital requirement ('MCR') – was 1.62x at 30 June 2003. As at 31 December 2003 it had reached 1.90x. This has led the Board to announce our intention to undertake an off-market buy-back – expected to be in the order of $350m.

The Board's view of the stability that the Group now has as a result of its scale and diversity and the current environment has led to the decision to revise the dividend policy which will increase the expected annual dividends, starting with the interim dividend to be paid in April 2004.

Financial results overview

Financial results/ratios	Half year ended Dec-02	Half year ended Jun-03	Half year ended Dec-03
Net earned premium (A$m)	$1,799	$2,837	$2,912
Underwriting profit/(loss) (A$m)	$71	$128	$277
Total investment income (A$m)	$90	$162	$271
Reported NPAT (A$m)	$62	$92	$302
Net cash flow from operations (A$m)	$293	$532	$694
ROE % (Average Equity) to ordinary shareholders	4.0	5.4	18.4
Basic EPS (cents)	3.64	5.01	17.07
DPS	4.5	7.0	8.0
Group insurance ratios			
Loss ratio	76.8%	69.8%	65.6%
Expense ratio	19.2%	25.7%	24.9%
Administration expense	17.7%	19.0%	18.0%
Commission ratio	1.5%	6.7%	6.9%
Combined ratio	96.0%	95.5%	90.5%
Insurance margin (before tax)	16.1%	9.9%	11.8%
Consolidated MCR multiple	2.29	1.62	1.90
Australian insurance operations multiple	n/a	2.03	2.21
Minimum probability of sufficiency of general insurance claims reserves	>90%	>90%	>90%

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The acquisition of CGU and NZI has made comparisons with December 2002 (1H03) somewhat meaningless due to the increase of over 60% in the Group's business as a result of that acquisition. Accordingly, many of my comments will focus on comparisons with the six months to 30 June 2003.

Net earned premium ('NEP') of $2.9bn is up 2.6% since 30 June 2003 but adjusted for the sale of the health business it is up 6%.

$96m of the $149m increase in underwriting profit is attributable to the changes in discount rates over the six months to 31 December. A further $44m is due to the integration being a net contributor to profit rather than a drain on the results.

The increase in total investment income by $108m to $271m includes a reduction of $86m in the technical reserves component and an increase of $195m in the returns from shareholders funds –the latter being under-pinned by the turnaround in equity markets.

The insurance margin of 11.8% is at the top end of the FY04 target range of 9 – 12%.

The business continues to generate very strong net cash flows from operations – $694m for 1H04, up over $160m since 2H03.

The equity market returns are also key in the abnormally high annualised ROE for ordinary shareholders of 18.4% for the period.

The Group has continued its policy of applying a minimum level of reserving of 90% probability of sufficiency.

Operating performance on target

- Consistent delivery of underwriting profit targets
  - Six consecutive half years of underwriting profits
  - Reflects quality, scale and diversification of the business, including CGU and NZI
- Combined operating ratio ('COR') of 90.5%
  - Increased discount rates reduced COR and loss ratio 3.3%
  - Adjusted COR 93.8% well within FY04 target of 93 – 96%
- Administration ratio improved by 1%, down from 19.0% to 18.0%
- Achieved insurance margin of 11.8%, which is at high end of FY04 target of 9 – 12%

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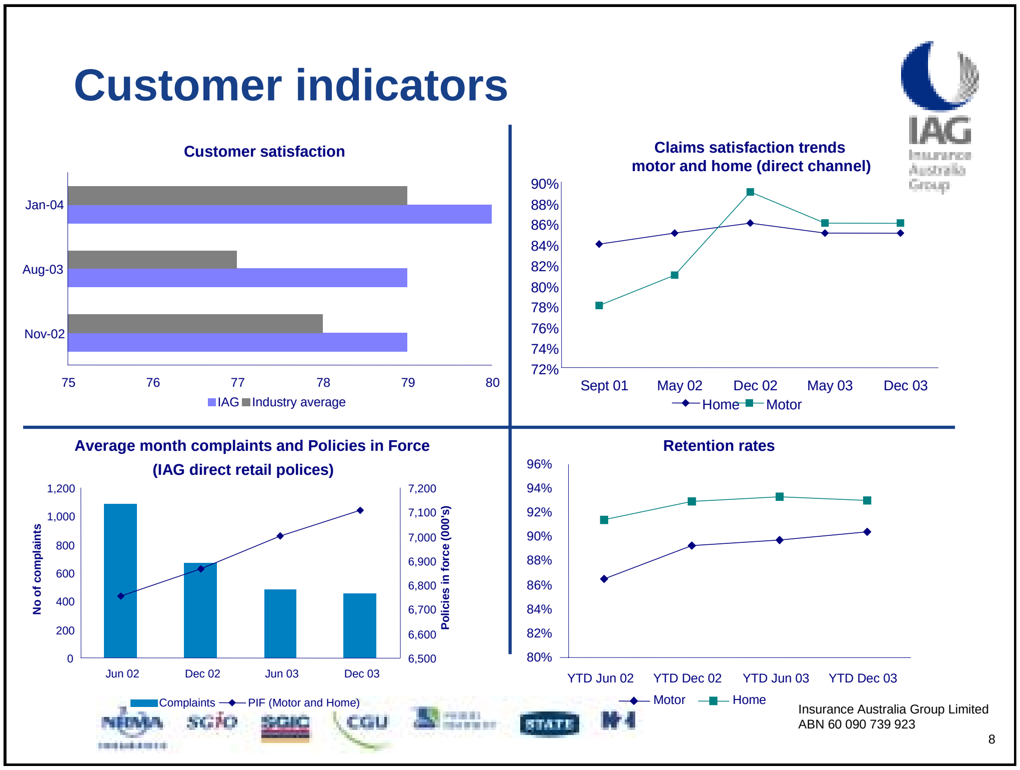
The underwriting profit of $277m represents the sixth consecutive half-year of underwriting profit for the Group. This period's figure is inflated by a $96m adjustment for discount rates on outstanding claims reserves. It reduced each of the Group loss ratio and combined ratio by 3.3%. The offset is a reduction in investment income on technical reserves due to bond values falling as interest rates rose – the net impact is a loss of $2m.

The COR – adjusted for the discount impact – is 93.8% and within the Group's target range of 93 – 96% for FY04. The result, as expected, also includes a 0.9% strain from ongoing integration costs. If these costs are excluded the adjusted COR drops to 92.9%.

The result also includes $105m in respect of major storms in Sydney, Melbourne and Queensland during the period.

The Group's ability to continue to deliver CORs at this level is a testament to the benefits of the scale and diversity added to the business in recent years.

Within the COR, the expense ratio reduced by 0.8% to 24.9%. The commission component increased marginally to 6.9% but the administration ratio, reflecting the costs expended by the Group on its internal selling, underwriting and administration costs, decreased by 1% to 18%. This reflects both the benefits of scale and the efforts being put into improving our efficiency.



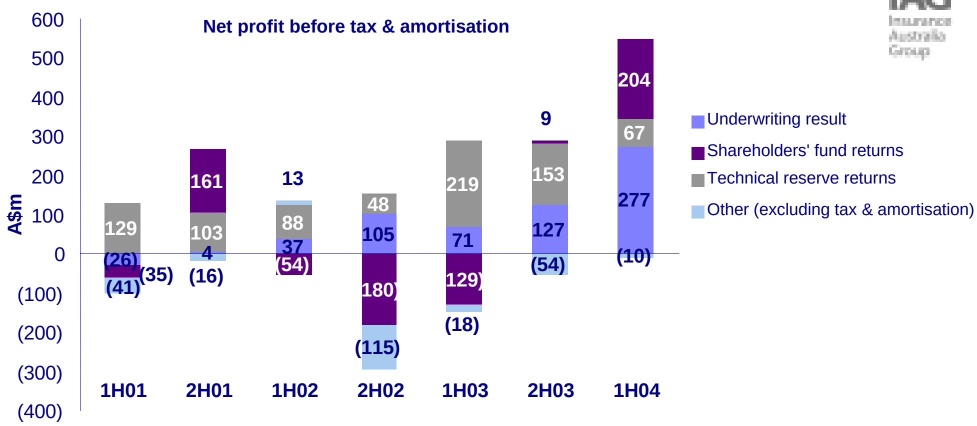
All major customer service indicators for the direct personal lines business demonstrate good progress:

•Customer satisfaction improving and above industry average;

•Customer complaints reducing in absolute terms while the number of policies is increasing. Complaints currently running at 0.05% per annum of policies in force;

• Claims satisfaction is improving and they are already at high levels – as are retention rates.

Contributions to profit before tax



- Equity markets delivered substantial positive performance for first time since 2H01.
- Core operating earnings increasing in scale and quality.

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The purpose of this chart is to show the different components of the Group's reported profits before tax and amortisation.

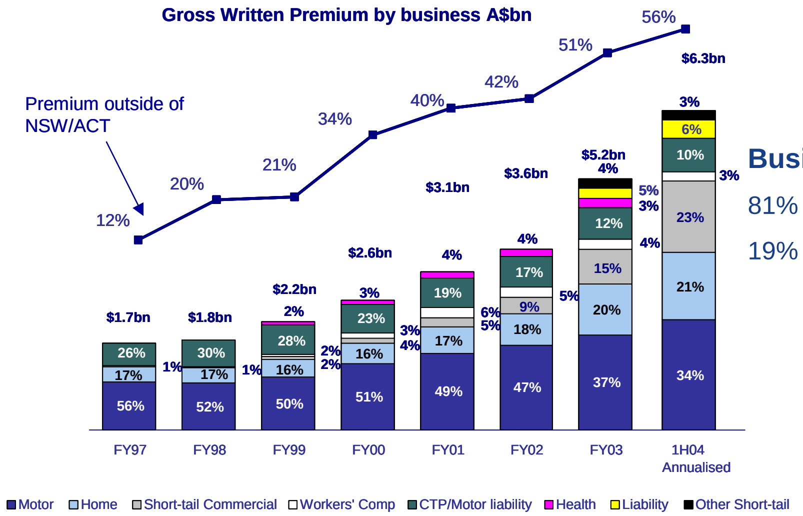
The contribution from shareholders funds – the purple segment – is clearly the greatest it has been in over three years.

The impact of interest rate movements can be seen in the grey segments of the bars which are smaller this period than in either of the last two half-years. Indeed, the reduction of $98m in the income this period contrasts with an increase of $96m in the half-year to 31 December 2002. These movements had offsetting impacts of similar quantum on the underwriting result in each period.

Core operating earnings are increasing in line with the growth in the business size and the commitment to improving operational efficiency.

The continued reduction in other costs excluded from the underwriting result can also be seen. The biggest items remaining in this category are the income stream from fee based businesses (eg management of workers' compensation portfolios on behalf of governments) and the expenses of servicing the Group's shareholder base of over 1 million shareholders.

Growth and diversification



Business mix:

81% short-tail

19% long-tail

1. *Includes GWP of all businesses except Inwards Reinsurance, which is in run-off.*
2. *The health business was sold in July 2003*
3. *Other short-tail primarily consist of other accident, extended warranty and consumer credit businesses.*

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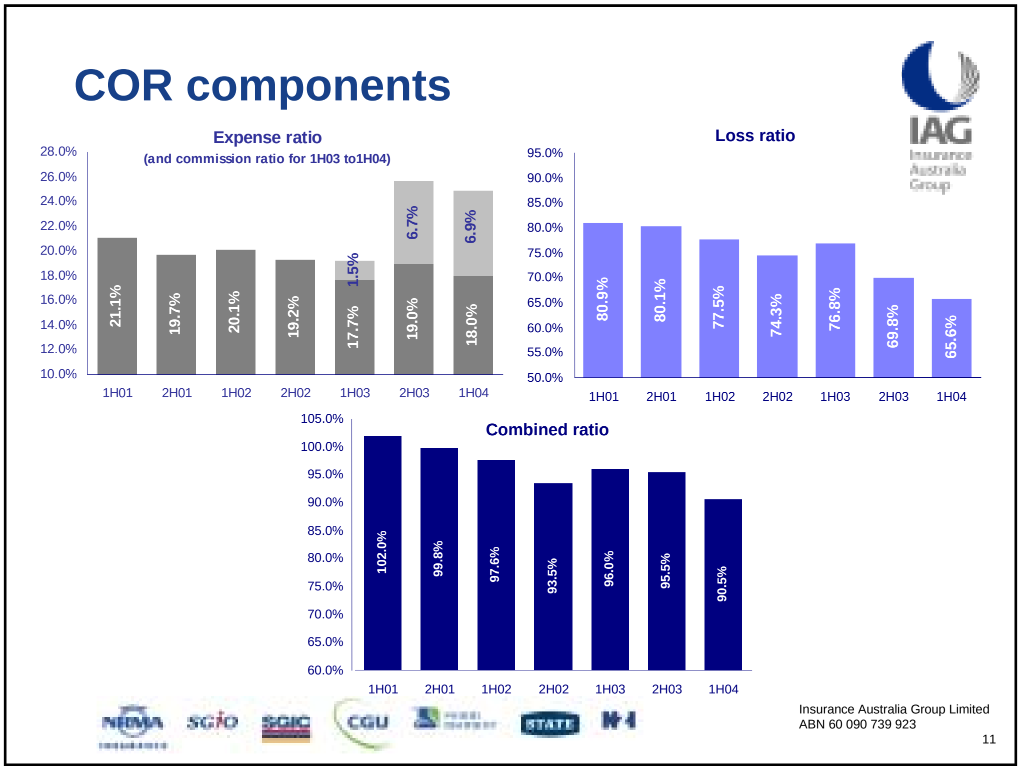
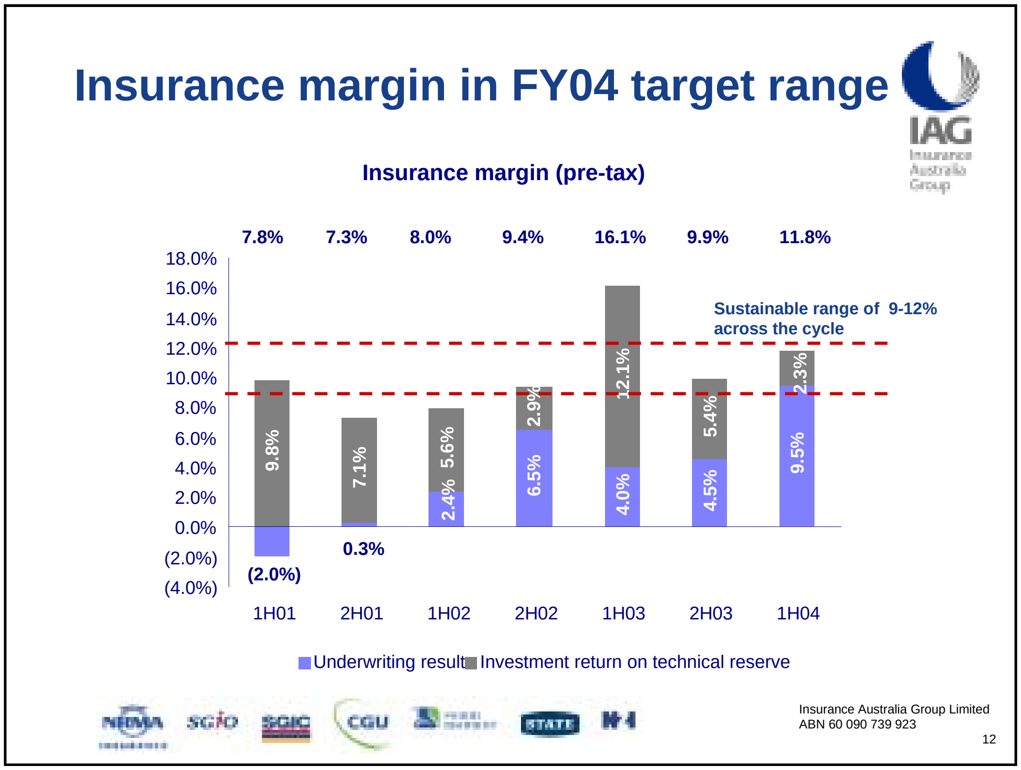
The growth in scale and diversity of premium can be seen in this chart.



This chart shows the ongoing improvements in the administration ratio and loss ratio which under-lie the improved combined ratio. However, because of the movements in discount rates on claims reserves to which I have already referred, the most appropriate way of looking at the outcome is in terms of the insurance margin.

The most significant interest rate adjustments during the periods shown on the charts are an increase in the COR of 4.4% in 1H03 and a decrease in the COR of 3.3% in 1H04.



The Group's insurance margin of 11.8% for the period is within the target range of 9 –12% announced last August for FY04.

It should be noted that the 1H03 margin of 16.1% was noted this time last year as unsustainable – it benefited from an unusually benign period for weather related claims and a net gain of nearly $14m on changes in interest rates.

The Group now considers that 9 – 12% is the sustainable range for the Group's current business mix. There may be short periods during which this range is exceeded, but these are not expected to be prolonged. The Group considers a period with a margin below 9% as very unlikely.

Market volatility of returns

Portfolio return (pre-tax) and incl. Derivatives	1H03	1H03	2H03	2H03	1H04	1H04
	A$m	Annualised return %	A$m	Annualised return %	A$m	Annualised return %
Technical reserves	219	10.6	153	5.2	67	2.0
Shareholders' funds	(129)	(10.4)	9	(2.8)	204	16.8
Total investment income	**90**	**3.2**	**162**	**3.0**	**271**	**6.4**

- Technical reserves returns impacted by bond market devaluation – income yield of 5.6% pa
- Shareholders' fund return of 16.8% annualised is unsustainable
- Continue to match the duration of technical reserve investments with the expected duration of the related liabilities
- Equity market hedging now negligible in the context of Group capital position and market sentiment

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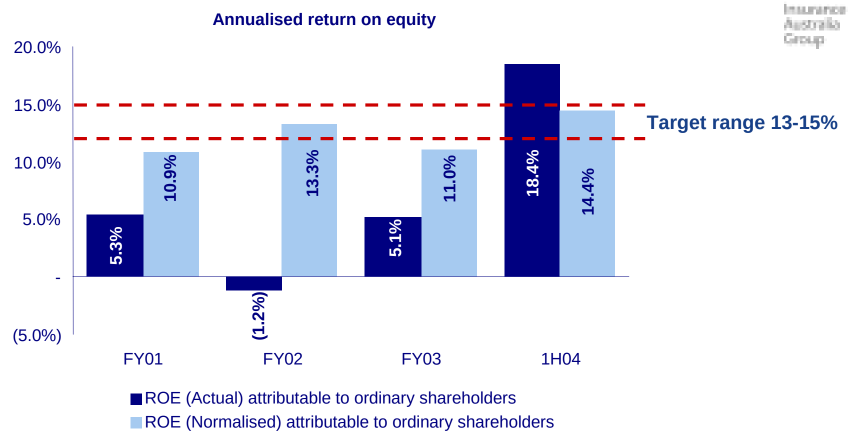
The return on technical reserves of $67m is stated net of $194m of interest income.

The return of $204m from shareholders' funds equates to 8.4% for the period or 16.8% annualised. This is not considered sustainable.

The combined return of $271m includes 58 basis points of active return from our fund managers.

The Group still holds some hedges against equity market movements but the value of these at 31 December 2003 was minimal. The Group is not actively seeking such protections at present given its strong capital position and market sentiment for equity markets.

Improvement in return on equity



Note:

1. *FY01-FY03 normalised ROE uses 6% return on technical reserves & 7.4% on shareholders' funds, both pre-tax.*
2. *1H04 normalised ROE uses 9.5% on shareholders' funds, pre-tax.*

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I alluded earlier to the 18.4% annualised return on equity and the impact of high equity market returns on this.

Normalising this by merely substituting the actual return on shareholders funds with 9.5% per annum and making the consequent adjustments to tax, produces a normalised return of 14.4%. This is towards the high end of the Group's target range of an average of 13 – 15% over the cycle which is to be expected when the insurance margin is towards the top end of the sustainable range.

Strategic asset allocation review

- Shareholders' funds
  - Philosophy of equities focus unchanged
  - Introducing more diversity of assets and managers
  - Aggregate of c20% allocated to private equity, absolute return funds, hedge funds and Australian 'small caps'
  - Reduces volatility of total portfolio with minimal impact on expected returns
- Technical reserves
  - No change in policy of 100% fixed interest/cash exposure and duration matching of liabilities
  - Physical holdings of up to 12.5% in Australian equities
  - Provides additional active return capacity & reduces the Group's average tax rate

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The Group has been reviewing its strategic asset allocation over a number of months. This was undertaken in the context of the Group's intent that shareholders' funds remain largely in equities and technical reserves should remain exposed to duration matched fixed interest/cash investments. The purpose of the review was to research opportunities to reduce volatility while minimising any reduction in expected returns.

The outcome of this review has been a decision to change the detailed application of these investment philosophies.

For shareholders' funds, this involves the introduction of a more diverse range of assets and managers. An aggregate of approximately 20% will be allocated to hedge funds, absolute return funds and Australian 'small caps'. Approximately 20% of the funds will remain in international equities. Modelling undertaken shows that this will reduce the volatility risk by 30% with only a $2m reduction in the expected returns.

For technical reserves, the Group plans to re-introduce physical holdings of Australian equities for up to 12.5% of the portfolio with an over-lay to swap the exposure back to bonds. This will retain the duration matched fixed interest/cash exposure but enable the Group to access active equity return and fully franked dividends.

Capital

- Group MCR multiple target updated to a benchmark of 1.60x
  - Updated for sale of ClearView and health insurance
  - Continue to target retention of 'AA' category rating
- Group multiple at 1.90x at 31 December 2003
- Reinsurance programme updated
  - Earthquake cover increased to $3bn and all perils to $2bn
  - Group maximum event retention (whole of account) increased to $100m – still under 2% of NEP
  - Costs up less than 5% – while property aggregates (net of commercial surplus) increased 22%

The Group has undertaken an extensive exercise during the period to revalidate its economic capital models incorporating more information, particularly on CGU and NZI. It has also been adjusted for the sale of ClearView and the health insurance underwriting business – both of which operated with lower MCR multiples than the general insurance business.

The outcome has been to increase the benchmark multiple for the Group to 1.60x MCR.

The Group multiple at 31 December 2003 – also adjusted for the sale of ClearView and the reinsurance programme effected for 1 January 2004 – was 1.90x. This level of capital adequacy, combined with the expected ability of the business to continue to generate surplus capital, underpins today's announcements of a buy-back and increased dividend.

However, before turning to those, I will update you on the Group's reinsurance programme changes. The Group currently renews all its programme – other than CTP – on a calendar year basis. For 2004, the cover limits have been increased by $0.5bn relative to a year ago. The Group has also increased its deductible for a first event to $100m – which is still under 2% of NEP. This level was considered a good balance between volatility and capital efficiency.

The costs of the programme increased by less than 5% while property aggregates (net of commercial surplus) exposed to the reinsurance covers increased by 22%. The Group benefited from reduced rates for property covers with ongoing increases experienced in casualty covers.

Buy-back of c$350m planned

- Intend to undertake an off-market buy-back in the order of $350m
  - Utilising surplus capital & franking credits
- Expect to use a tender process
- Terms and conditions to be announced on finalisation
- Aim to complete by 30 June 2004

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The Group intends to undertake an off-market buy-back in the order of $350m of ordinary shares. This will utilise surplus capital and franking credits and follows from the Group's commitment to efficient capital management and not holding onto under-utilised capital for any considerable length of time.

The terms and conditions are now being developed and will be announced on completion.

It is expected that a tender process will be utilised.

A timetable will be announced as soon as possible, with the aim of completing the buy-back by 30 June 2004.

Revised dividend policy

- Reflects
  - Increased stability of core insurance earnings
  - Decreased exposure to equity market volatility relative to size of business
  - Large bank of distributable earnings (c$800m) and franking credits (c$500m)
- Outcome
  - Will use actual insurance profit
  - Only shareholders' fund returns will be normalised
  - Payout range narrowed to 50 – 70% of normalised earnings
  - Earnings now calculated prior to amortisation expense (currently $108m per annum)

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As foreshadowed when we announced the FY03 results last August, the Group reviewed the dividend policy put in place prior to the Group's listing in 2000. The review factored in:

• Increased stability of core insurance earnings;

• Decreased exposure to equity market volatility – now a shareholders' funds portfolio of $2.5bn (compared with $3.5bn at listing) on a premium base of over $6bn (c$2.5bn at listing); and

• The growing bank of distributable earnings (in excess of $0.4bn in the parent entity and a further $0.4bn accessible in subsidiaries) and the current capacity to full frank all of these.

The outcome is a revised dividend policy which increases the expected level of dividends payable. The changes are as follows:

• Profits will still be normalised but only in respect of the shareholders' fund income. The rate used will be based on a risk-free rate plus an equity risk premium (c4%). This currently equates to 9.5% per annum pre-tax. The policy of duration matching the technical reserves means that fluctuations in interest rates are adequately addressed in the insurance margin;

• Earnings will be calculated prior to amortisation costs. This reflects the underlying capacity of the business and the anticipated changes to the treatment of goodwill on the introduction of international financial reporting standards;

• The payout range has been narrowed to 50 – 70% of earnings from 40 70%; and

• The interim:final split will be roughly 45:55 rather than 40:60.

1H04 dividend increased

- Applied new policy for current dividend
- Interim dividend of 8.0c per ordinary share
  - Up 78% from 4.5c at 1H03 (fully franked)
- Dividend reinvestment plan will continue to operate
  - Shares required will be sourced on market (no dilution)
  - No discount
  - Pricing period will be the 10 trading days from 22 March 2004
- Dividend to be paid on 19 April 2004
  - Record date of 17 March 2004

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Application of the new policy to the results for the six months ended 31 December 2003 has resulted in the Directors resolving to pay an interim dividend of 8.0 cents per ordinary share, fully franked.

This represents an increase of 3.5 cents – or 78% – on the last interim dividend.

The Group's successful dividend reinvestment plan ('DRP') will continue to operate. Over 200,000 of our shareholders – with participation continuing to grow – now utilise the plan.

In view of the Group's strong capital position, the plan is to continue the practice started last October of sourcing the shares required for DRP participants from on-market purchases.

There will be no discount for shares and the DRP pricing period will run for 10 trading days from 22 March.

The dividend is scheduled to be paid on 19 April 2004.

Conclusion

- Solid organic growth in policies in force and high retention rates
- Expenses tightly managed
- Strong cash flow
- Earnings more predictable and stable going forward
- Capital position exceeds target range
- Intend to undertake buy-back
- Raised dividend payout

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The six months to 31 December 2003 has been a period of consolidation for the Group. The businesses that now constitute Insurance Australia Group – and the people who work in them – provide an excellent platform for the delivery of predictable and stable earnings.

The Group is very strongly capitalised and expects to remain well capitalised as it undertakes a buy-back and increases its dividends to shareholders.

Now I will pass to George Venardos to provide some more details on segments of the business.

Areas to be covered in more detail

- Integration update
- Segment analysis
- MCR multiple

Synergy realisation remains on target

- Acquisition EPS positive at 31 December 2003

Synergy realisation schedule	2H03 Actual	1H04 Target	1H04 Actual	2H04 Estimated
All amounts are pre-tax	A$m	A$m	A$m	A$m
Cumulative run-rate per annum				
Personal lines	15	49	41	80
Commercial	14	20	27	27
IT, shared services & overheads	13	25	33	33
Australia sub-total	**42**	**94**	**101**	**140**
International - New Zealand	**12**	**17**	**16**	**20**
Total synergies in run-rate	**54**	**111**	**117**	**160**
Reported income statement				
Synergy benefits collected	9	38	33	76
Costs of implementation expensed	(45)	(40)	(25)	(25)
Net impact on profit for period	**(36)**	**(2)**	**8**	**51**

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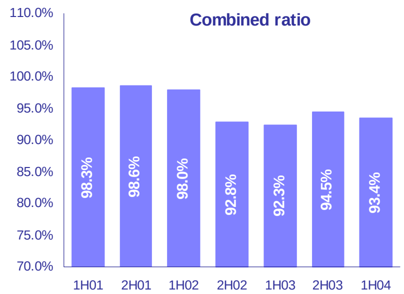
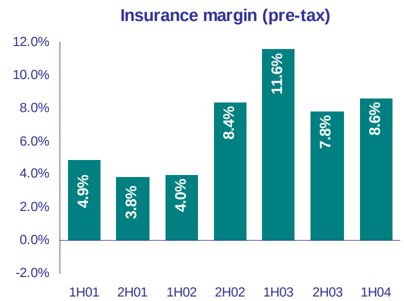
- Has been a key focus of the organisation for the last year.
- Incurred costs of $25m in 1H04 – $9m in claims and $16m in underwriting.
- Integration project to be completed in 2H04.
- IT Transformation – systems infrastructure replacement to be completed by 30 June 2004. No synergy benefits included in the $160m run-rate target for this roll-out.
- $117m captured in run-rate by 31 December 2003. Balance to be captured in the next three months.
- Earnings per share (EPS positive) six months ahead of schedule.
- Integration budget of $145m (of which c$50m was capitalised) is on track.
- We have had very high customer retention in the CGU and NZI businesses throughout integration.

Domestic short-tail ratios





- Step change from high 90s to 92 – 94% realised
- 1H04 includes 1% 'hit' from integration expenses

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•COR of 93.4% includes $20m (1%) of integration expenses and $80m for costs of major storms.

•Going forward, higher running yields on technical reserves will benefit the insurance margin.

• The short-tail business is well-positioned to produce similar results in the long term.

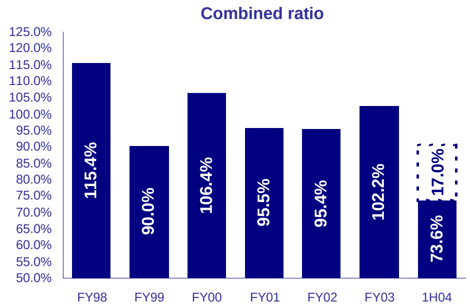
Domestic short-tail performance

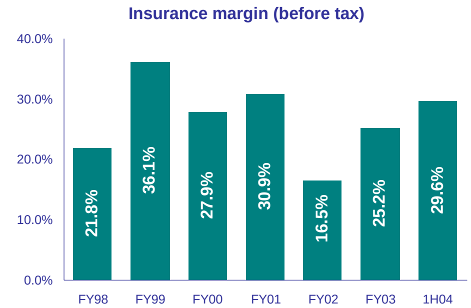
Domestic short-tail	Half year ended Dec-02	Half year ended June-03	Half year ended Dec-03
	A$m	A$m	A$m
Gross written premium	**1,252**	**2,163**	**2,084**
Gross earned premium	**1,216**	**2,006**	**2,067**
Net premium revenue	**1,163**	**1,868**	**1,907**
Underwriting profit	**89**	**103**	**126**
Investment income on technical reserves	46	42	38
Insurance profit	**135**	**145**	**164**
Insurance ratios			
Loss ratio	71.7%	66.8%	66.9%
Expense ratio (1)	20.6%	27.7%	26.5%
Administration ratio	*20.0%*	*21.4%*	*19.6%*
Commission ratio	*0.6%*	*6.3%*	*6.9%*
Combined ratio	92.3%	94.5%	93.4%
Insurance margin (before tax)	11.6%	7.8%	8.6%

Note: (1) Includes integration expenses of $20m in 1H04 and $37m in 2H03.

- GWP reduced by $79m – entirely due to the sale of the health insurance business in July 2003.
- Continue to experience high retention rates and lower complaint levels.
- Policies/risks in force grew by 2.8%.
- Best indication of growth is gross earned premium which is up 8% (adjusted to exclude health insurance from 2H03).
- Administration ratio improved by 1.8% to 19.6%.
- Excluding the fire brigades expense from both premiums and claims reduces the ratio to 16.7%.
- Not seeing reductions of note in car parts prices in spite of the A$ appreciation – parts prices up 1.5% in the past 18 months.
- Theft frequency down 19% during 2003.
- Average premiums rose by less than 3% across personal lines during 1H04.

Domestic long-tail ratios





- COR benefits by 17.0% from increased discount rate on claims reserves

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• COR of 73.6% is abnormally low.

• If the discount rates applied to claims reserves had not increased during 1H04, the COR would have been 17.0% higher or 90.6%.

• This reflects the Group's consistent, conservative provisioning policy and improving claims experience.

• The two major lines – NSW CTP and WA workers' compensation – have been improving since scheme amendments were implemented in 1999.

• An insurance margin in excess of 15% on average across the cycle is needed to properly reflect the risk.

• Will benefit from higher running yields on technical reserves investments going forward.

Domestic long-tail – performance

Domestic long-tail	Half year ended Dec-02	Half year ended June-03	Half year ended Dec-03	*Variance from Jun-03*
	A$m	A$m	A$m	*A$m*
Gross written premium	**410**	**639**	**604**	***(35)***
Gross earned premium	**439**	**580**	**599**	***18***
Net premium revenue	**423**	**559**	**565**	***5***
Underwriting profit	**(22)**	**-**	**149**	***149***
Investment income on technical reserves	169	100	18	*(82)*
Insurance profit	**147**	**100**	**167**	***68***
Profit from fee based businesses	3	2	17	*15*
Total long-tail result	**150**	**102**	**184**	***82***
Insurance ratios				
Loss ratio	93.9%	82.5%	56.2%	*(26.3%)*
Expense ratio (1)	11.3%	17.5%	17.4%	*(0.1%)*
Administration expense ratio	*10.2%*	*12.3%*	*12.6%*	*0.3%*
Commission ratio	*1.1%*	*5.2%*	*4.8%*	*(0.4%)*
Combined ratio	105.2%	100.0%	73.6%	*(26.3%)*
Insurance margin (before tax)	34.8%	17.8%	29.6%	*11.8%*

Note: (1) Includes integration expenses of $1m in 1H04 $3m in 2H03

• GWP reduced by $35m due to seasonality in the CGU renewals and rate reductions in some of the statutory schemes.

• Within total premium, rate reductions in the major schemes since 1999 have been offset to an extent by increased market share. However, the Group is not keen to increase market share much more in the NSW CTP and WA workers' compensation markets.

• Large increase in profit from fee based businesses. The Group received incentive payments which are not expected to recur in 2H04.

• Improving claims experience and tort reform in the personal injury and liability classes makes it unlikely premium growth will be more than 4% going forward.

International performance

International operations	Half Year ended Dec-02	Half Year ended June-03	Half Year ended Dec-03
	A$m	A$m	A$m
Gross written premium	**224**	**461**	**454**
Gross earned premium	**213**	**431**	**450**
Net premium revenue	**213**	**410**	**440**
Underwriting profit/(loss)	**4**	**25**	**2**
Investment income on technical reserves	4	11	11
Insurance profit/(loss)	**8**	**36**	**13**
Insurance ratios			
Loss ratio	70.9%	66.3%	71.6%
Expense ratio (1)	27.2%	27.6%	28.0%
Administration ratio	20.0%	17.6%	18.5%
Commission ratio	7.2%	10.0%	9.5%
Combined ratio	98.1%	93.9%	99.6%
Insurance margin (before tax)	4.0%	8.8%	3.0%

Note: (1) Includes integration expenses of $4m in 1H04 and$5m in 2H03

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- The segment comprises the Group's New Zealand operations and its captive insurer.
- GWP marginally reduced ($7m) due to to exchange rate movement.
- GEP rose 4.4%.
- Seasonality impact on claims which usually favours the second half of the financial year. The storms earlier this month are unusual and will make it more difficult for this business to achieve its targets for FY04.
- Expense ratio up slightly due to expenses of integration and IT Transformation.
- New system due for implementation mid-year will produce benefits in the NZ business going forward.
- The Group's captive insurer absorbed $25m of losses from the major storms in Australia during 1H04.
- Still targeting a COR of 91 – 93% for this segment for FY04.

MCR Multiple

Coverage of regulatory capital requirements	IAG Group 30-Jun-03	Insurance Australia Ltd Group 30-Jun-03	IAG Group 31-Dec-03	Insurance Australia Ltd Group 31-Dec-03
	A$m	A$m	A$m	A$m
Tier 1 capital				
Paid-up ordinary shares	3,434	885	3,434	1,286
Hybrid equity	539	-	539	-
Reserves	(2)	-	(2)	-
Retained earnings (2)	(396)	2,555	(183)	2,443
Excess technical provisions (net of tax)	353	327	371	336
Less: deductions	(1,838)	(1,456)	(1,745)	(1,403)
	2,090	2,311	2,414	2,662
Tier 2 capital				
Term subordinated notes	657	657	618	618
Capital base	2,747	2,968	3,032	3,280
Minimum capital requirements (MCR):				
Australian general insurance businesses	1,392	1,460	1,456	1,486
International insurance businesses (1)	136	-	142	-
Other businesses (2,3)	165	-	-	-
Minimum capital requirements	1,693	1,460	1,598	1,486
MCR multiple	1.62x	2.03x	1.90x	2.21x

Notes

1. *The MCR and Capital base for International insurance businesses is calculated on a similar basis to the Australian regulatory requirements and includes the Captive reinsurance business and the operations in New Zealand.*
2. *The 30 June 2003 position excludes the capital requirement of NRMA Health Pty Limited as the Group sold this business in July 2003. Similarly, the 31 December 2003 position excludes the capital requirement of the ClearView business as this business was sold in January 2004. The retained earnings position at 31 December 2003 has been stated assuming $43m of profit on sale of the ClearView business.*
3. *Other businesses include the minimum capital requirement of NRMA Life Limited, and an allocation of capital for the fee-based businesses. With the sale of the ClearView business and a review of the Group's capital, these have been excluded from the 31 December 2003 MCR calculation.*

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- The Group's capital mix is still at 68% equity, 12% hybrid and 20% debt – which is in line with S&P's requirements for an 'AA' rating.
- Group MCR requirement reduced by $95m relative to 30 June 2003.
- Effective 1 January 2004 – and included in these figures – is an increase in the maximum event retention ('MER') by $30m.
- Although the Group has hedged its currency and interest rate exposure on its US$ subordinated debt, the value of these hedges cannot be included in the capital base under APRA requirements. This reduces the contribution of this debt to available capital.
- The combination of these movements reduced the MCR multiple by 6 basis points at December 2003.

Outlook

- Short-term outlook – subject to major insured losses
  - Solid economic growth supporting growth in policies
  - Growth in average premiums may be lower
  - Insurance margin momentum strong & may exceed 12%
- Longer term essentially unchanged – expect
  - To sustain an insurance margin in the range of 9 – 12% on current business mix
  - Organic growth to be about two times nominal GDP growth in Australia & New Zealand
  - ROE for ordinary shareholders of 13 – 15% over any cycle

In the short term, insurance margin momentum is strong and may generate insurance margins in excess of the target range. This is not expected to be sustainable, eg commercial property rates have already begun to soften.

There are a number of moving parts in an insurance operation – only some of which one has control over. However, the Group's scale and diversity and its focus on risk management mean that it is well placed to continue to deliver quality returns.

The Group's longer term view is essentially unchanged. As noted earlier, we now consider that an insurance margin in the range of 9 – 12% is sustainable and that goal of 13 – 15% ROE for ordinary shareholders remains appropriate.

We believe the Group is well positioned to deliver organic growth from its own endeavours as well as from market growth continuing at about two times nominal GDP growth in Australia and New Zealand.

Top line growth may be lower than this in some areas as rate reductions take place – eg the Group recently announced a reduction in the premium rates for NSW CTP and rate reductions have already been instituted for some workers' compensation portfolios. However, while rate reductions reflect improved claims experience, insurance margins should be sustained.

Due to the acquisition of CGU and NZI combined with good core organic growth, we have effectively met our five year growth strategy.

We are also delivering on the other goals.

The Group is currently considering a new growth target as part of our annual review, however our current focus will remain on ensuring completion of the integration of CGU and NZI and improving the core businesses we now own.

We believe that improvements in our core businesses can deliver double digit earnings growth for the next couple of years.

Questions

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