



MEDIA RELEASE

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IAG lifts profit and dividend on back of organic growth and buoyant equity markets

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Insurance Australia Group Limited (IAG) today announced a net profit after tax of \$446 million for the six months ended 31 December 2004 (31 December 2003: \$302 million), reflecting a continued strong performance in all business areas, ongoing synergy benefits and record levels of investment income.

IAG Chief Executive Officer, Mr Michael Hawker said the Group's momentum across all business areas, coupled with robust trading conditions, had contributed to its continued solid performance.

"Our underlying business continued to perform strongly with risks in force (or sales) increasing on the back of high renewal rates and new policies. As a result, revenue increased by 6.8% compared to the previous corresponding period," Mr Hawker said.

"At the same time, we continue to be more efficient. CGU and NZI are now fully integrated into the Group and the synergies promised at the time of the acquisition are flowing through to the bottom line. This is the first period where we've had a full contribution from these synergies without incurring any integration costs, which added 2.6% to the insurance margin.

"Customer satisfaction and retention in our core business are at all time highs as the measures we've introduced to enhance customer service, improve underwriting disciplines and refine claims management practices take effect.

"This has enabled us to improve margins across all our businesses, and achieve a Group insurance margin of 16.7%, up from 11.8% in the previous corresponding period.

"Our result was also boosted by revenue generated from investment income including a pre-tax return on shareholders' funds of \$287 million. That's a record return since listing, and a 41% increase from the \$204 million recorded on this portfolio in the previous corresponding period.

"These factors combined to bring our net profit after tax to \$446 million, up from \$302 million in the previous corresponding period."

Mr Hawker said he was pleased the Group was able to improve margins and grow earnings in an environment where premium movements were moderate, and premiums decreased in some classes.

"By leveraging our scale and diversifying our general insurance portfolio, we've been able to produce solid returns for shareholders while keeping premiums affordable for customers," Mr Hawker said.

"NSW CTP prices are now as low as they were 10 years ago, comprehensive motor insurance premiums are reducing relative to average weekly earnings and we introduced a 10% cut in commercial public and product liability rates."



In light of the Group's strong performance, the Board has declared an interim dividend of 12 cents per share, fully franked, representing a 50% increase from last year's interim dividend of 8 cents per share.

Mr Hawker said the Group's largest business, Australian personal insurance, achieved 5.4% revenue growth, boosted by integration synergy benefits, favourable claims frequency trends and continued stability in the CTP portfolio.

"Our personal lines business has real momentum, with customer retention and satisfaction levels over 90% and risks in force (sales) increasing," Mr Hawker said.

"The Group's Australian commercial business also performed strongly, recording 6.1% revenue growth from the previous corresponding period, while the international business benefited from favourable underwriting conditions in New Zealand, an appreciation of the New Zealand dollar and the absence of major catastrophes."

Other elements of the interim result compared with the previous corresponding period include:

- Revenue increased 6.8% from \$2,912 million to \$3,109 million;
- Underwriting profit of \$255 million compared with \$277 million which, despite the apparent decline, is actually an underlying improvement when the impact of discount rate changes on outstanding claims is taken into consideration. Discount rate changes reduced the current period's underwriting result by \$65 million but added \$98 million in the previous corresponding period;
- Combined operating ratio of 91.8% compared with 90.5%. When taking into consideration the effects of discount rate changes, the immunised combined ratio improved from 93.8% to 89.7%; and
- Insurance profit increased 51% from \$344 million to \$518 million.

The Group continues to maintain a very strong financial position with a minimum capital requirement (MCR) multiple of 1.85 times as at 31 December 2004, above the Group's current benchmark multiple of 1.55 times. The Group's very strong 'AA' insurer financial strength ratings for all of its key wholly-owned operating insurance entities remains unchanged, currently the highest of any Australian-based financial institution.

Mr Hawker said he expected the Group's solid performance to continue in the second half, barring any further major losses beyond the allowances in the Group's budgets.

"The momentum in the business, and robust economic conditions, are expected to continue during the remainder of the financial year. As a result, the Group expects to deliver an insurance margin of at least 15%, and revenue growth of 5-7%, for the full year.

"For the longer term, our guidance for an insurance margin of 9-12% remains unchanged, reflecting our belief that an insurance company's performance needs to be viewed over the long term, given the influence of cyclical factors, such as underwriting conditions, weather patterns and investment returns.

"Our strategy to build a foothold in Asia remains unchanged. However, in keeping with our preference for active capital management, if available investment opportunities do not meet our criteria, we may return surplus capital to shareholders.

"Looking ahead, our aim remains to deliver a normalised return on equity at a minimum of 1.5 times our weighted average cost of capital, without increasing the Group's risk profile," Mr Hawker said.

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