



Financial results Half-year ended 31 December 2004

Michael Hawker, Chief Executive Officer
Media presentation

24 February 2005



Insurance Australia Group Limited
ABN 60 090 739 923

Agenda



- Operating conditions & results
- Dividends
- Reducing risk in the business
- ROE and operating outlook
- Conclusion & questions



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Momentum continues in 1H05



- Net profit increased to \$446m
- Strong underlying performance and robust trading conditions which underpinned
 - Revenue (NEP) growth of 6.8% since 1H04
 - Insurance margin increase to 16.7%, with increases in each business segment
- Insurance earnings grew faster than premiums
 - Lower claims frequency/costs
 - Continued high retention
 - Synergy benefits flowing to the bottom line
 - Absence of major losses and savings in operational costs
- Record earnings on shareholders' funds of \$287m (pre-tax)



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Sustained financial strength



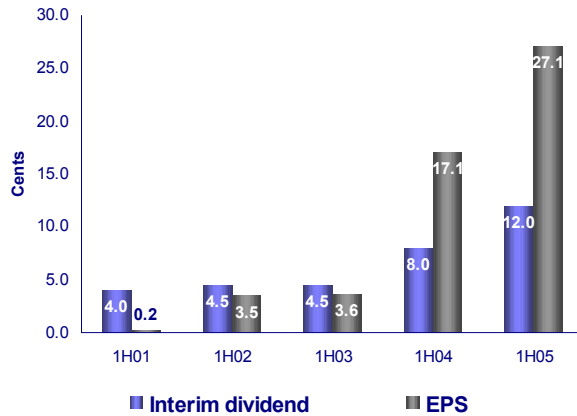
- Annualised ROE for ordinary shareholders increased
 - Reported 27.8% (1H04: 18.4%)
 - Normalised 19.5% (1H04: 14.5%)
 - Exceeds long-term target of 1.5x WACC
- Average ROE for the four and half years since listing
 - Reported 11.6%
 - Normalised 13.5%
- Very strong capital position
 - Healthy cash flows - net cash from operations of \$431m
 - Paid \$238m in dividends to shareholders in 1H05
 - Group MCR multiple of 1.85x at December 2004
- All key wholly-owned insurers have retained 'AA' (Outlook 'Stable') S&P ratings



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Interim dividend increased by 50%



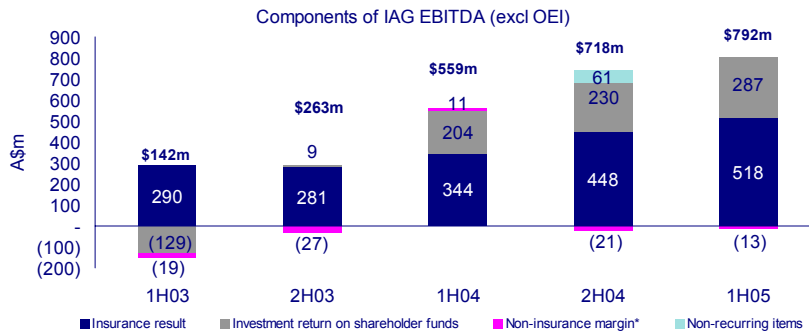
Continued improvement in interim dividends – supported by increased EPS



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Contributions to profit before tax



*Non-insurance margin includes net corporate expenses, NSW Insurance protection tax, Financial services result (discontinued 4/1/04), fee based businesses.

- Increased earnings driven by combination of
 - Sustained improvement in insurance operations
 - Realisation of synergies from CGU/NZI acquisitions
 - Increased investment returns on shareholders' funds



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Key insurance ratios



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Record equity market performance



Portfolio income (pre-tax) and incl. derivatives	1H04		2H04		1H05	
	A\$m	Return (%) *	A\$m	Return (%) *	A\$m	Return* (%)
Technical reserves	67	2.0%	177	5.5%	263	8.1%
Shareholders' funds	204	16.8%	230	19.8%	287	23.4%
Total investment income	271	6.4%	407	9.4%	550	12.4%

*Returns are annualised

- The 1H05 technical reserves return of 4.05% (8.1% annualised) includes active return of 26 basis points
- The 1H05 return on shareholders' funds of 11.7% (23.4% annualised) includes active return of 29 basis points
 - Return reflects mix of Australian equities (+17.9%), international equities (-1.8%), fixed interest (3.9%) and cash (3.5%)
- The overall return of 6.2% (12.4% annualised) includes active return of 27 basis points or approximately \$26m (pre-tax)



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Financial results overview



Financial results/ratios	Half-year ended Dec-03	Half-year ended Jun-04	Half-year ended Dec-04
Net earned premium (A\$m)	\$2,912	\$2,951	\$3,109
Insurance profit (A\$m)	\$344	\$448	\$518
Shareholders' funds investment income (A\$m)	\$204	\$230	\$287
Profit before income tax & OEI (A\$m)	\$484	\$668	\$723
Reported NPAT (A\$m)	\$302	\$363	\$446
Net cash flow from operations (A\$m)	\$694	\$475	\$431
Reported ROE % to ordinary shareholders	18.4	23.4	27.8
Normalised ROE % to ordinary shareholders	14.5	14.7	19.5
Basic EPS (cents)	17.07	20.80	27.06
Dividends per ordinary share	8.0	14.0	12.0
Group insurance ratios			
Loss ratio	65.6%	64.6%	66.5%
Expense ratio	24.9%	26.2%	25.3%
Administration expense ratio	17.1%	18.5%	17.2%
Commission ratio	7.8%	7.7%	8.1%
Combined ratio	90.5%	90.8%	91.8%
Insurance margin (before tax)	11.8%	15.2%	16.7%
Consolidated MCR multiple	1.90x	1.75x	1.85x
Australian insurance operations MCR multiple	2.21x	2.29x	2.12x
Minimum probability of sufficiency of claims reserves	90%	90%	90%



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Delivering organic growth



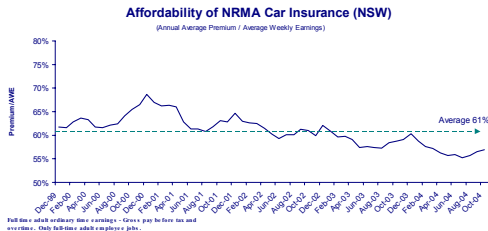
- Gross written premium increased by 1.3% on 2H04
 - Compares with 4.5% for the previous six months
- Net earned premium increased by 5.4% on 2H04
 - Compares with 1.4% for the previous six months
- Each segment delivered sales growth (ie volume), which remains key to sustained top line growth
 - Improved customer service promoting strong renewal rates
 - Portfolio mix improving
 - Focus on increased segmentation and marketing
- Achieved against a backdrop of moderate increases or decreases in premium rates



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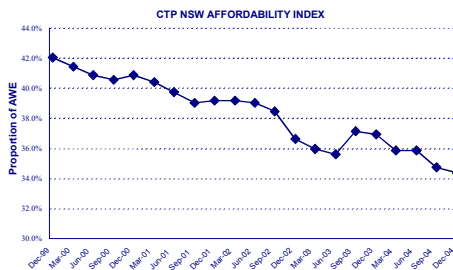
Premiums more affordable



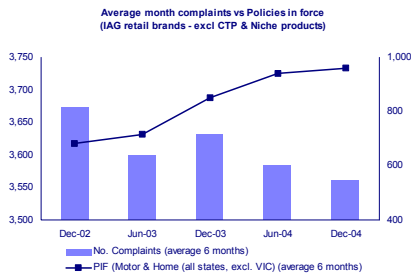
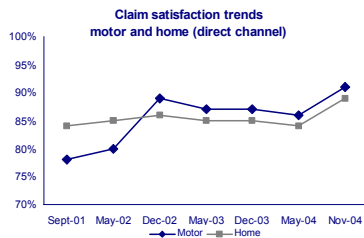
In late 2004, NSW motor premiums averaged 58% of AWE

In late 2004, NSW CTP benchmark premium was 34% of AWE

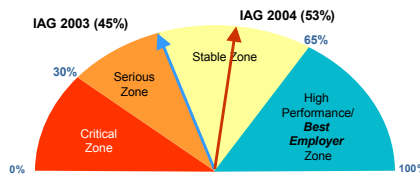
Combined, there has been a 12% drop relative to AWE



Customers and people positive



Engagement of our people

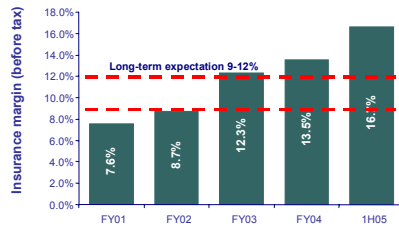


Claims satisfaction improvements, reduced complaint levels and increased engagement of our people are all positive indicators for sustained performance

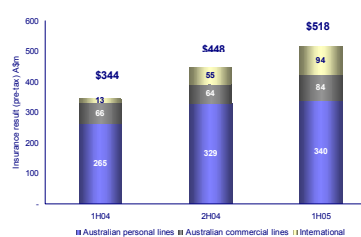
Ongoing focus delivering results



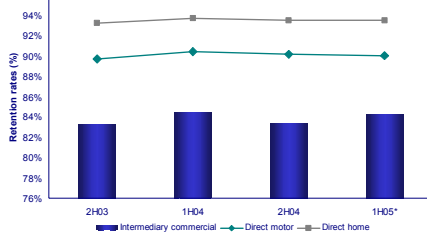
Sustained improvement in margins



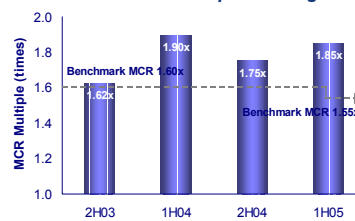
All business segments contributing



Strong retention rates in key portfolios



Sustained capital strength



*Intermediary commercial latest available data as at October 2004



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Reducing risk in the business



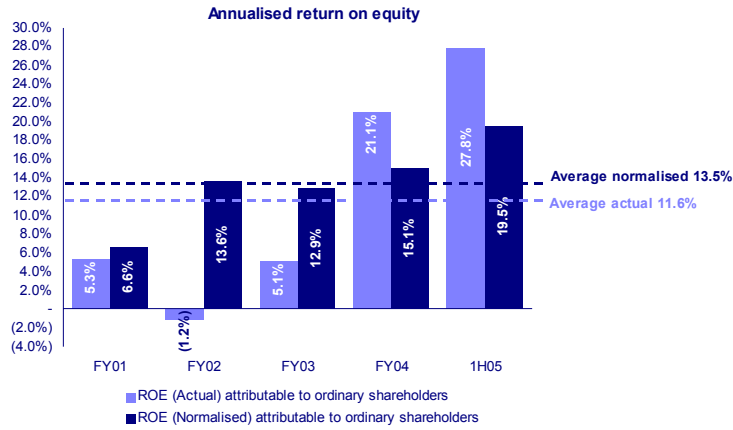
- Investment risk
 - Introduction of new classes, styles and managers
 - Surplus capital fund established
- Improved reinsurance protections
 - Increased top cover to \$3.5bn from \$3bn
 - \$100m maximum event retention maintained
 - Improved credit quality
- MCR and contingent capital
 - At 1.85x vs benchmark of 1.55x
 - Pro forma including contingent capital (RES) is 2.17x



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Return on equity improved



Note: Normalised calculation was based on two adjustments to actual NPAT to ordinary shareholders:

1. Exclusion of goodwill amortisation and non-recurring items
2. Shareholders' fund return adjusted to be equivalent to the daily average 10-year bond rate for the year, plus 4%



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Outlook



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Outlook - drivers

- Profitability outlook influenced by a number of interacting factors
- External
 - Good economic performance in Australia and New Zealand
 - Increasing competitive pressures
 - Reinsurance rates stable
 - Stable liability classes due to tort law reforms
 - Investment market performance unlikely to be sustained
- Internal
 - Improving customer satisfaction and employee engagement
 - Ongoing risk selection improving our mix
 - Further expense savings to be realised



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Outlook

- On balance
 - Now expect the FY05 insurance margin to be at least 15.0%, subject to no further major losses
 - NEP growth of 5-7% for FY05 is unchanged
- Strategy remains unchanged – focus on optimising our franchise in Australia and New Zealand and seeking overseas investment opportunities to supplement future earnings



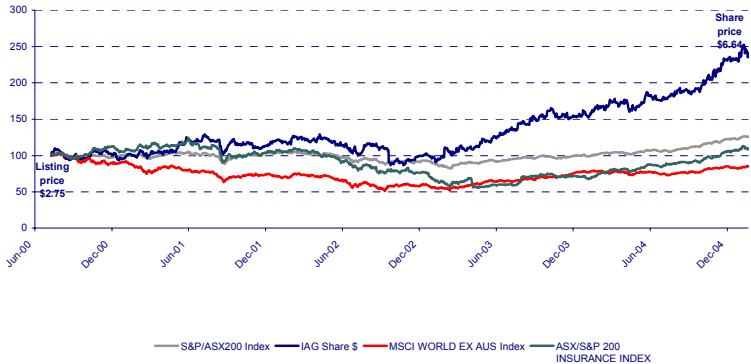
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Share price performance since listing



IAG Share Price Performance



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Questions



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