



Financial results Half-year ended 31 December 2004

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

24 February 2005



Insurance Australia Group Limited
ABN 60 090 739 923

Good morning. Welcome to the Insurance Australia Group 1H05 results briefing. Copies of all the materials we are using here this morning are already on our website.

Agenda



- Operating conditions & results Michael Hawker
- Dividends

- Segmental analysis George Venardos
- Reducing risk in the business

- ROE and operating outlook Michael Hawker

- 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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- I'm pleased to be able to report a profit of \$446m for the half-year to December 2004. This is based on a strong performance by our operations and record earnings on shareholders' funds.
- Good economic conditions in both Australia and New Zealand certainly bolstered our result, but the key to delivering sustainable, quality returns has been our ability to leverage our scale and diversify our general insurance portfolio.
- Our revenue grew by close to 7% over the year – and 5.4% in the last six months.
- A pleasing aspect of our result is that we've improved our margin and grown earnings faster than premiums, which is positive for both shareholders and our customers.
- Following completion of the integration programme last year, the synergy benefits to which we committed are now flowing through to the bottom line and we're now focused on ensuring we continue to deliver improvements.
- This period's result was also assisted by no major losses (catastrophes).
- Margins improved across all operating areas, enabling us to achieve a record Group margin of 16.7%, up from 11.8% in the previous corresponding period. This is a strong improvement reflecting current conditions. However, it does not change our guidance of 9-12% for the longer term. This reflects our belief that an insurance company's performance needs to be viewed over the long term. In fact, if you look at the average of our half-yearly insurance margins since listing in 2000 (including this result), it is 11.4%, which is within our long term guidance range.
- We were also pleasantly surprised by the performance of the equity markets, which helped us generate a new record return on our shareholders' funds. The result includes \$287m in pre-tax returns on shareholders' funds, up from \$204m achieved in the same period last year.

Sustained financial strength



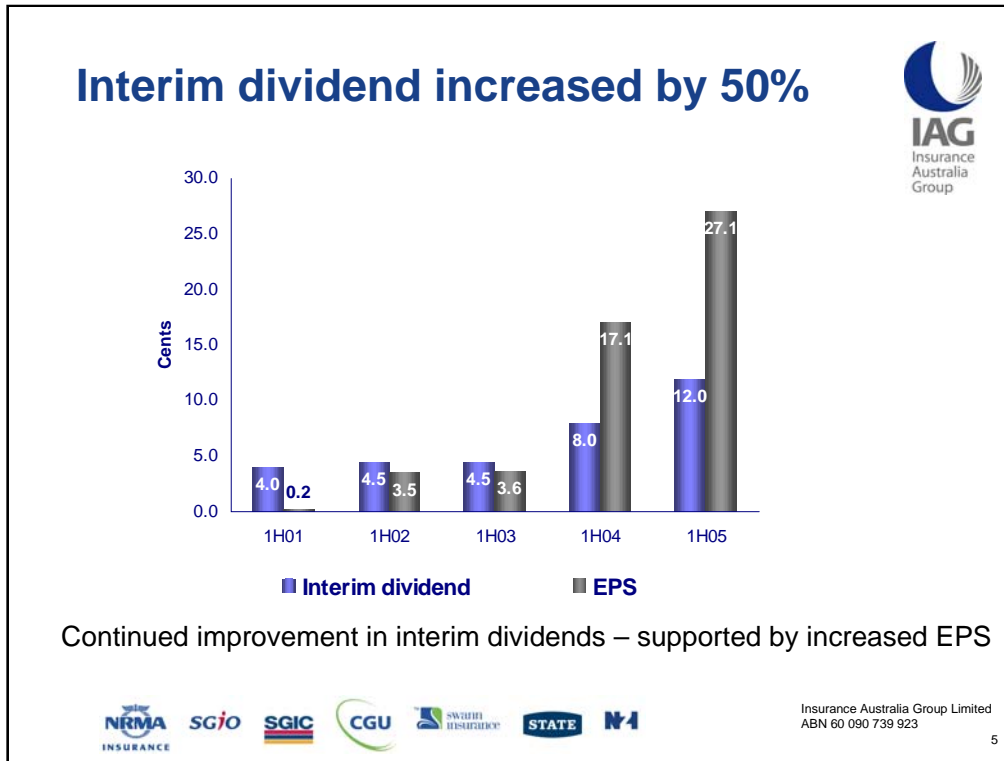
- Annualised ROE for ordinary shareholders increased
 - Reported 27.8% (1H04: 18.4%)
 - Normalised 19.5% (1H04: 14.5%)
 - Exceeds long-term target of 1.5x WACC
- Average ROE for the four and half years since listing
 - Reported 11.6%
 - Normalised 13.5%
- Very strong capital position
 - Healthy cash 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



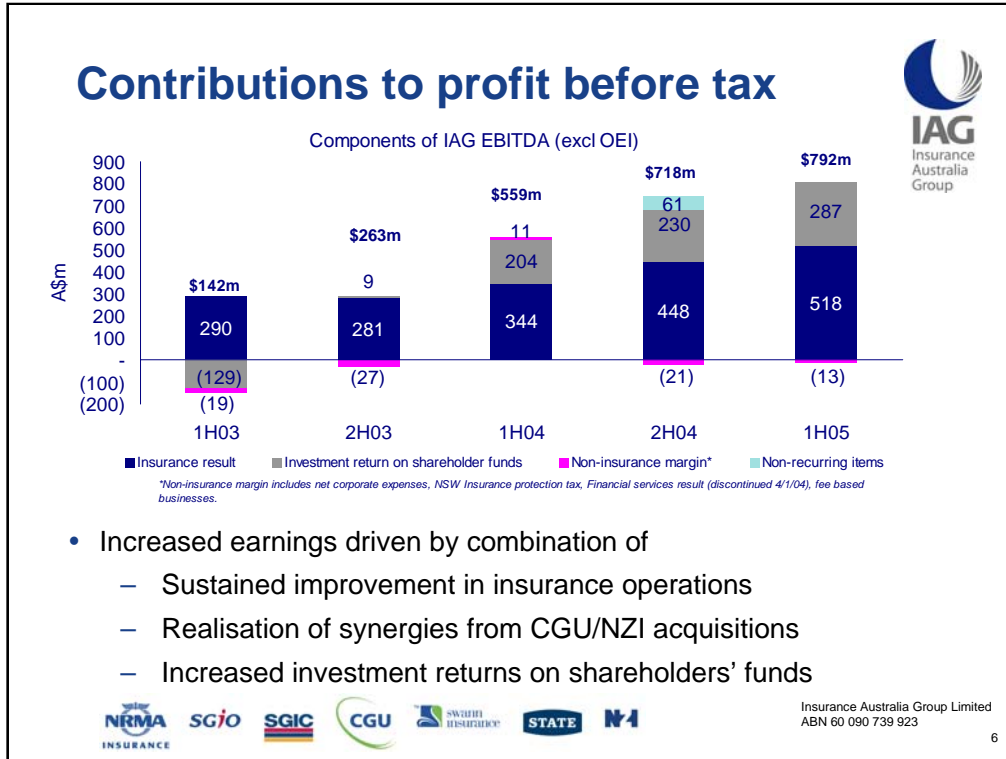
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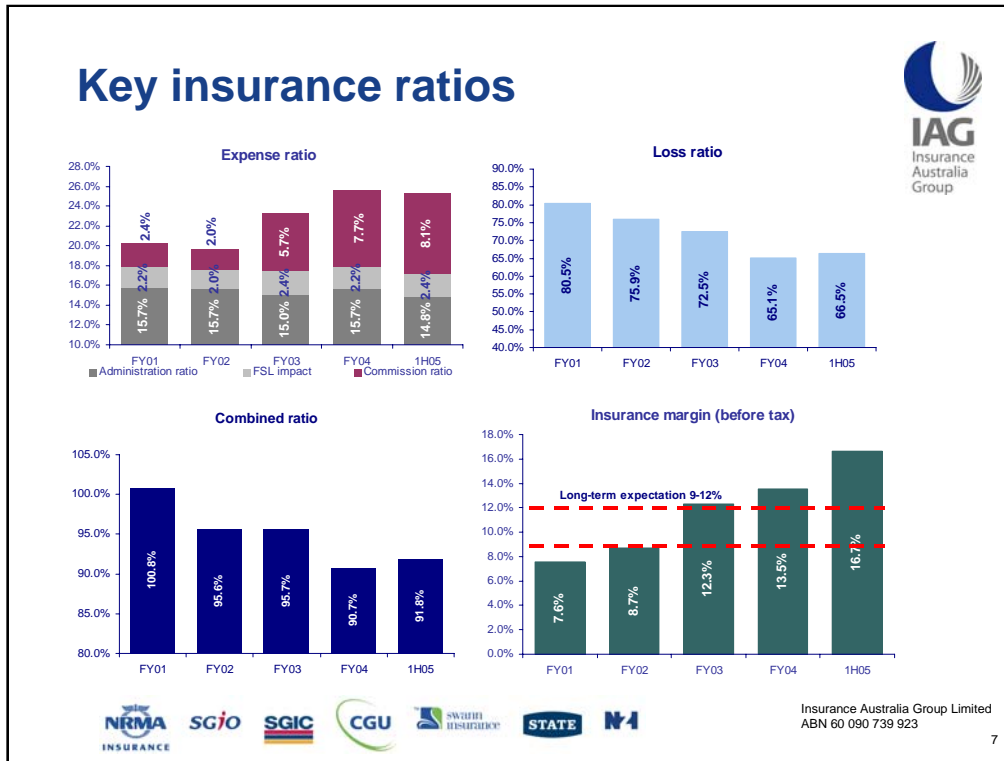
- The annualised return on equity (ROE) to ordinary shareholders of 27.8% for 1H05 represents the highest level achieved in the Group's listed history driven by the combination of strong margins delivered in the insurance business and solid investment returns on shareholders' funds benefiting from record-high performance in the equity market in 1H05.
- The Group's target return on equity to ordinary shareholders over the cycle is a minimum of 1.5 times WACC. The 1H05 annualised ROE, both actual and normalised, is above this target. However, it needs to be considered in terms of cycles and the general insurance industry has experienced very favourable cyclical conditions recently. Over the period since listing early in FY01, the Group's average reported ROE is 11.6% (normalised 13.5%). This is still below 1.5x WACC.
- However, the sustained improvement in ROE since listing is indicative of the consistent improvement in the underlying business, which is supporting the increasing return to shareholders necessary to cushion the impact of the volatility that occurs in the insurance and investment markets over cycles.
- The Group financial position continues to generate healthy cash flows of \$431m for the period.
- We paid \$238m in dividends during the period.
- The MCR of 1.85x is up from 1.75x at June 2004 and continues to exceed the group's current benchmark of 1.55x MCR.
- The Group's performance, franchise and risk appetite have continued to support the retention of 'AA' category insurer financial strength ratings for all the key wholly-owned insurers in the Group.



- The Group has increased dividends per share each year – more than doubling the payout since listing. As can be seen from this chart, the first three years’ interim dividends were supported by the accumulated wealth of the business with dividends exceeding earnings per share (‘EPS’). In the last two years, the situation has reversed and earnings have been rebuilt.
- Following another strong result and supported by the Group’s balance sheet strength, we have been able to increase the interim dividend by 50% to 12 cps (1H04: 8.0) for the period. This represents a payout ratio of 54% of normalised earnings.
- This is at the lower end of the Group’s policy range of 50 – 70% of normalised earnings.
- The Group’s dividend policy remains unchanged with a target of sustainable dividend growth using a payout ratio of 50-70% of normalised profits (before goodwill amortisation), with an interim : final split of approximately 45 : 55.
- The Group continues to target double digit growth in annual dividends going forward.



- Turning now to the sources of the Group's profit before interest, tax and amortisation.
- The dark blue bar is the profit from our core operations – the insurance profit. It includes the underwriting profit and the investment return on the funds we invest to back our insurance liabilities. The growth in this is attributable to a combination of the growth in the size of the business and improved margins.
- The grey bar is the return from shareholders' funds. This is the most volatile element of the results and the reason we focus on normalised earnings when assessing the longer term performance and dividends.
- The light blue bar is for non-recurring items and, in 2H04, represented the profit from the sale of our ClearView operations.
- The pink bar is for other operating items such as fee based businesses and corporate expenses. Previously this included the results of the ClearView business. This element is now at historically low levels.



- This slide shows the trend in the insurance margin and its components.
- The administration ratio is back close to 17% after the ‘blip’ in 2H04. Excluding the affect of fire services levies (ie deducting the expense from premiums and expenses), the 1H05 ratio drops to 14.8% compared to 15.7% in 2H04.
- The loss ratio increased slightly to 66.5%, although this comes back to 64.4% when the affect of reduced discount rates are excluded. This is an improvement on 65.4% in 2H04 stated on the same basis.
- The reported combined ratio is also impacted by the same 2.1% for discount rates. On an immunised basis, the combined ratio has improved for the third consecutive half-year.
- The contribution of the growth in the size of our operations can be seen by noting that the 16.1% insurance margin for 1H03 generated an insurance profit of \$290m while 16.7% in 1H05 has generated an insurance profit of \$518m.
- The average half-yearly margin since we listed is 11.4%, which is in line with our current expectation of operating within a 9 – 12% range over the long term for our current mix of business.

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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- The combination of the markets and our asset managers continued to deliver for us with active returns of approximately \$26m over the relevant indices.
- The technical reserves return of \$263m includes the gains on bonds as interest rates declined during the period and offsets the \$65m expense borne in the combined ratio for reduced discount rates.
- The shareholders' funds return includes a small loss on our international equities portfolio as the gains in the indices were more than offset by the loss in value in Australian dollar terms due to the increased exchange rate against the relevant international currencies. However, the overall return from shareholders' funds remained at record levels – 23.4% annualised – due to the rise in the local Australian equity market.

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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- This slide brings together much of the information I have been discussing on the previous slides so there are only a few figures here I would like to highlight:
 - Net cash flow from operations of \$431m is lower than the previous two periods. This is mainly due to paying tax of almost \$200m more than in the same period last year. A secondary factor is the loss of net cash flows from the ClearView operations following the sale of that business in January 2004;
 - The 50% growth in interim dividends per ordinary share – the 14 cents per share is a final dividend – our policy is that final dividends are normally larger than the interim dividend;
 - An increase in the commission ratio – to which George will refer later; and
 - The increase in our Group MCR multiple – which has been achieved while still maintaining our standard of a minimum probability of sufficiency on outstanding claims of 90%
- The final figure I'd like to highlight is the revenue growth – which for the three periods shown on this slide is wholly organic. See next slide

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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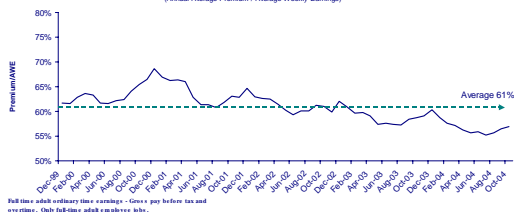
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- Growth in gross written premium (GWP) over the last year has been 5.9%. This includes 1.3% in the last six months and 5.4% in the six months to 30 June 2004.
- As noted earlier, revenue (NEP) grew by 6.8% compared with a year ago. Most of this occurred in the most recent six months which increased 5.4% compared with an increase of 1.3% in the previous six months.
- Each segment delivered sales (ie volume) growth and this growth in the value of risks we are insuring is driving the increase in premium.
- Sales growth remains key to sustaining top line growth. We continue to invest in opportunities to improve customer service to sustain the high retention rates we are achieving.
- We are also very pleased with the mix of business being written and are using our understanding of risk to further our product and marketing segmentation to entrench our current customers and attract others.
- This revenue growth has been achieved against a backdrop of moderate increases or decreases in premium rates. The rate climate is being driven by the savings made in claims costs, competitive dynamics and the international commercial cycles. Each part of our business is experiencing this to a greater or lesser extent. However, as noted, we are maintaining and improving margins so it is still a win:win for customers and shareholders.
- The following slide provides tangible evidence of the customer benefits.

Premiums more affordable



Affordability of NRMA Car Insurance (NSW)
(Annual Average Premium / Average Weekly Earnings)

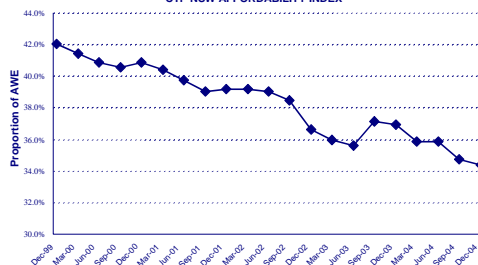


In late 2004, NSW motor premiums averaged 58% of AWE

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

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

CTP NSW AFFORDABILITY INDEX



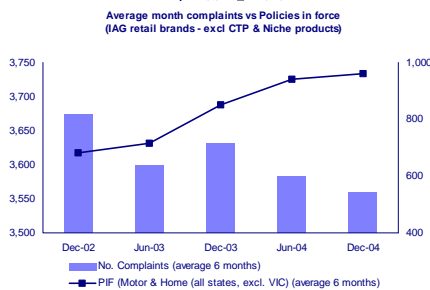
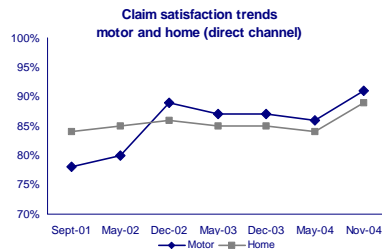
Quarter ending

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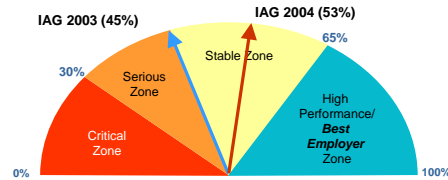
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- The detail on this slide isn't visible on the screen but the messages are – the two graphs show annual premiums in New South Wales as a percentage of average weekly earnings ('AWE') over close to five years from December 1999.
- The upper graph is average motor premiums in our portfolio.
- The lower graph is for the benchmark CTP premium – ie the Sydney Best Metro rate.
- The downward direction represents increasing affordability.
- By late 2004, it took only 92% of a week's earnings (as measured by AWE) to renew both motor and CTP. This compares with 104% five years earlier – so there has been a reduction of 12% in real terms.
- There have also been savings for customers buying liability insurance – the Australian Competition and Consumer Commission ('ACCC') announced last week that industry public liability premiums fell, on average, by 15% in the six months to June 2004 and noted that this reverses the pattern of premium increases since 2000. Professional indemnity industry premiums have fallen, on average, by 17% over the same period.

Customers and people positive



Engagement of our people



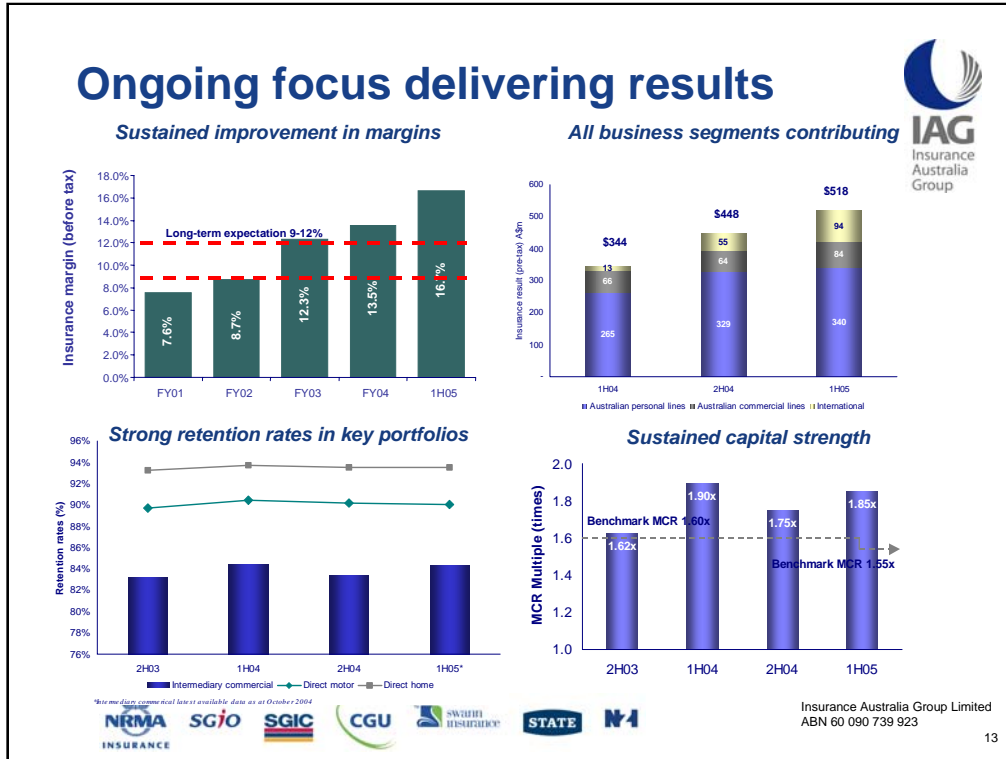
Claims satisfaction improvements, reduced complaint levels and increased engagement of our people are all positive indicators for sustained performance



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- As well as delivering in financial terms, improvements in key customer and people indicators are also being realised.
- Our customer satisfaction measures are improving. The charts on the left here are two measures of this. The top one shows the upward trend in the percentage of our claimants for directly distributed motor and home insurance are satisfied with their experience. The lower one shows, for the same business, the absolute numbers of complaints in the blue bars and line shows the growth in policies in force. The performance in December 2004 translates to about one complaint per 6,500 policies (0.015%).
- The chart on the right is employee engagement. Between 2003 and 2004, IAG has moved from the bottom of the stable zone (45%) to well into the stable zone (53%). Companies with highly engaged employees are strongly correlated with high performing companies. We have achieved a lot already and are working to achieve more.



- In summary, this period's results are a testament to our decisions to provide our Australia and New Zealand businesses with true scale in these markets through the acquisition of CGU and NZI and to then focus on ensuring we are positioned to deliver sustained quality results.
- The insurance margin is very strong at 16.7%.
- All segments of the business have improved their contribution to the insurance profit of \$518m for 1H05. George Venardos will provide more detail on the individual segments shortly.
- Customer retention remains very high reflecting the their understanding of the value, price and service which we provide.
- We have sustained capital strength comfortably above our benchmark multiple of MCR – which was reduced from 1.60x to 1.55x following our recent issue of contingent capital.
- We have maintained insurance at fair rates for customers, delivered over 50% in total shareholder returns ('TSR') to our shareholders and maintained our very strong financial strength to comfortably withstand major catastrophes.
- I will now hand over to George to take you through some more detail on the segment results and our capital position. When George is through I will provide a concluding slide and then we will both take questions.

Segment analysis

IAG
Insurance
Australia
Group

NRMA **SGIO** **SGIC** **CGU** **SWIRH** **STATE** **N1**
INSURANCE

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The slide features a large, stylized graphic of curved, overlapping bands in shades of grey and white, resembling a fan or a stylized 'S' shape. The text 'Segment analysis' is positioned in the upper left quadrant. The IAG logo is in the top right. A horizontal strip at the bottom contains logos for NRMA, SGIO, SGIC, CGU, SWIRH, STATE, and N1. The company name and ABN are in the bottom right corner.

Thanks Mike. Good morning.

Australian personal lines



Australian Personal Lines	Half-year ended Dec-03	Half-year ended June-04	Half-year ended Dec-04
	A\$m	A\$m	A\$m
Gross written premium	1,920	1,980	2,002
Net premium revenue	1,783	1,819	1,880
Underwriting profit	212	220	182
Insurance profit	265	329	340
Insurance ratios			
Loss ratio	65.8%	63.4%	67.1%
Expense ratio	22.3%	24.5%	23.2%
Administration ratio	16.4%	18.6%	17.1%
Commission ratio	5.9%	5.9%	6.1%
Combined ratio	88.1%	87.9%	90.3%
Insurance margin (before tax)	14.9%	18.1%	18.1%

- Sustained margins supported by strong retention rates and control of average claims costs
- Growth in volume driving growth as customer benefit from reducing premiums rates



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- The Australian Personal Lines portfolio comprises Motor, CTP, Home and lifestyle products such as boat and caravan. The division continues to deliver strong insurance margins, dominated by the performance of the Motoring (both property and liability) classes.
- The premium growth of 4.3% from the same period last year was due to, in equal proportion, premium rates and policies in force. Following the consolidation of the industry in the last few years we have seen a more stable, rationally priced market. We are well placed competitively due to our brand strength, customer service, operational efficiency and scale advantage.
- As the benefits of our claims initiatives, which we have previously communicated, flow through together with improved driving behaviour (better drivers, better cars, better roads and improved safety awareness and policing) are emerging, we haven't needed to increase premiums at the same rate of parts and labour inflation. In fact, in our largest portfolio of NSW Motor, average premiums have reduced since December 2003 and in NSW CTP, our market share has increased with average premiums also reducing.
- With regard to volumes on a national average, our renewal rates and new business volumes are very stable. We are seeing strong growth in policies in the markets where we are targeting growth, such as Queensland Motor and Home (over 6% growth in risks in-force in these classes). As the market leader in most regions, we are very conscious of holding market share at the same time as ensuring we keep the balance of risk in our portfolio.
- Despite the strong result, there are still a number of challenges and opportunities for the division. The CTP releases are slowing down. This is expected. The scheme reforms introduced in October 1999 have ensured stability, however the releases from reserves for the pre October 1999 claims are naturally abating as each year passes.
- We are still well placed in the Personal Lines Division as we still see opportunities in the Home portfolio to continue to roll out our supply management initiatives. We currently have a 72% penetration rate for the Home procurement model – some regions are above 90%.
- The CGU Personal Lines portfolios are fully integrated with IAG and we are seeing the benefits of risk selection, underwriting and supply chain management flowing through.
- We are fully committed to improve the customer experience by simplifying the processes in the telephone and branch networks; simplified national policy booklets and flexible policy options.
- The key competitive advantage of the division is scale benefits and we will use this advantage responsibly to maintain our margins. By improving processes and aligning our Personal Lines business units to the customer needs, the improved cost management will off-set any potential downwards pressure on premium rates.

Australian commercial lines



Australian Commercial Lines	Half-year ended Dec-03	Half-year ended June-04	Half-year ended Dec-04
	A\$m	A\$m	A\$m
Gross written premium	768	845	827
Net premium revenue	689	666	731
Underwriting profit	63	6	(9)
Insurance profit	66	64	84
Profit from fee based business	20	1	11
Total commercial line result	86	65	95
Insurance ratios			
Loss ratio	61.1%	65.6%	70.8%
Expense ratio	29.8%	33.6%	30.4%
Administration ratio	18.0%	21.7%	18.1%
Commission ratio	11.8%	11.9%	12.3%
Combined ratio	90.9%	99.2%	101.2%
Insurance margin (before tax)	9.6%	9.6%	11.5%



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- The Commercial Lines portfolio represents the commercial property rural and marine classes (65% of the portfolio) and the long tail classes of workers' compensation (10%), liability and professional indemnity (25%).
- The strong insurance margins (which includes the increasing of liability claims in respect of asbestos) were matched by the growth in revenue. The growth has been attributed to an increase in policies of over 5%, premium rates not softening in the SME market as early as may have been anticipated and higher than expected retention rates.
- Over the last year we have targeted selected growth in the public liability and professional indemnity portfolios in anticipation of the success of the tort reforms (including a 25% growth in professional indemnity risks). All indications are that these reforms have kicked in with claims cost, beginning to fall.
- The WA workers' compensation scheme has new legislation which increased benefits to claimants. We have already increased rates to pick up the shortfall as well as adjusting reserves for the affected claimants.
- The outlook on premium rates is not definitive, although we expect to see some pressure on rates and softening in the market more generally. Our philosophy remains unchanged and that is, we will walk away if we can't achieve our technical price.
- We will continue to focus on the SME market as well as appropriate growth opportunities in the long tail classes.
- Consistent with other areas of the business, we are developing a number of customer focused initiatives, such as relaunching our business package policy and enhancing our e-business platform. We are also moving towards rationalisation of our workers' compensation systems from 3 to 1. Simplifying these processes as well as improving our back-end receipting and recording processes should see cost savings which will help maintain our margins.

International performance



International operations	Half-year ended Dec-03	Half-year ended Jun-04	Half-year ended Dec-04
	A\$m	A\$m	A\$m
Gross written premium	454	460	499
Net premium revenue	440	466	498
Underwriting profit	2	45	82
Insurance profit	13	55	94
Insurance ratios			
Loss ratio	71.6%	68.0%	57.6%
Expense ratio	28.0%	22.4%	25.9%
<i>Administration ratio</i>	<i>18.5%</i>	<i>14.0%</i>	<i>16.1%</i>
<i>Commission ratio</i>	<i>9.5%</i>	<i>8.4%</i>	<i>9.8%</i>
Combined ratio	99.6%	90.4%	83.5%
Insurance margin (before tax)	3.0%	11.8%	18.9%

- Benefited from absence of catastrophes during the period
- Delivery of integration benefits assisted in reducing administration costs



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- The international segment consists of the New Zealand business and the Group's Captive reinsurer, IAG Re.
- The headline growth of nearly 10% from the same period last year is distorted by the strengthening of the New Zealand dollar over the year. On a local currency basis the growth was 4.2%.
- The policies in force have remained constant over the last year, although the mix of business within the major portfolios has improved having analysed the combined IAG and NZI risks following the portfolio's integration.
- Whilst IAG New Zealand is the leading insurer, we are actively pursuing acquisitions of smaller, specialist underwriters of products where we are under represented.
- The NZI integration has been completed and customer satisfaction levels are above our targets, reaching a new high of 83% in December 2004.
- In November we made the decision to move the New Zealand personal lines business onto the Australian systems in the next 12 to 18 months, which should improve all aspects of customer service, data quality, underwriting and segmentation. The basis for this decision was to leverage scale, manage costs and capture the significant synergies that should come from introducing the rich functionality in the proprietary personal lines systems whose sophistication has been significantly enhanced over the last five years.
- The administration ratio of 16% for 1H05 is in line with expectations for this business going forward.
- The commission ratio in New Zealand increased during 1H05. The extent of the profits on some business generated higher profit commissions and consolidation of brokers and consequent changes in servicing also led to increases. The business monitors these developments to ensure that higher commission is linked to greater value delivery to customers and the business.
- The Captive's result for the six month reflects the absence of any catastrophes in the period. Further, the storms on February 2nd and 3rd 2005, will have minimal impact to our overall result.



Reducing risk in the business



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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
- MCR and contingent capital



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- The process of introducing greater diversification into the strategic asset allocation for shareholders' funds continued during 1H05:
 - A second style was introduced for internally managed Australian equities. This 'research style' targets a higher active return and tracking error. At 31 December 2004, \$100m was invested in this fund; and
 - Two external Australian equities managers were appointed and funded. They currently manage about \$240m (c 8%) of the shareholder fund assets
- All international equity holdings continue to be managed externally.
- We have introduced a surplus capital fund within the shareholders' funds. This fund, which will have a minimum of 80% in cash and fixed interest investments, is intended for the funds above the Group's benchmark MCR multiple of 1.55x. This recognises that these funds are expected to be used to fund dividends, tax payments, acquisitions and buy-backs. This approach should reduce the disruption to the ongoing investment process which required continual rebalancing and adjustment to address funding required for corporate actions.
- Going forward, we intend to examine opportunities to further diversify our asset allocation and to add new external managers to diversify the 'alpha' in our portfolios.

Reinsurance protections increased



- Catastrophe event protection increased to \$3.5bn from \$3.0bn
- Maximum event retention remains at \$100m
 - Represents a reduction in volatility when measured against premium base
 - Retention for a second event is \$75m
- Reinsurer counterparty credit profile remains very strong
 - 70% of catastrophe programme provided by 'AAA'/'AA' rated reinsurers (previously 66%)
 - Some of the programme is 'collateralised' providing further comfort



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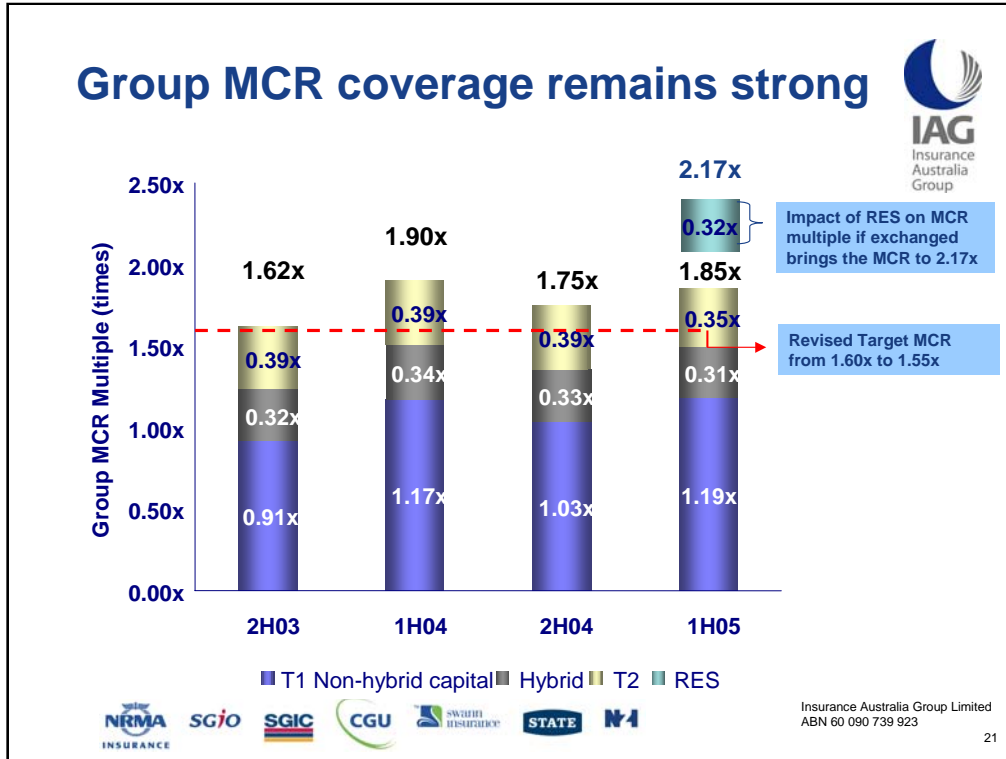
In the renewal of our catastrophe programme on 1 January 2005, we increased the per event limit to \$3.5b (previously \$3.0bn) reflecting growth in exposure during the last 12 months.

The retained loss (APRA Maximum Event Retention Concentration Risk Capital Charge) for a first event remains at \$100m, dropping to \$75m for a second event.

This amount, which equates to about 1.5% of net earned premium, is well within the Group's current tolerable limit for income statement volatility from a single event of 2% of net earned premium.

Reinsurer counterparty credit profile remains very strong with 70% of limit now provided by 'AAA'/'AA' rated reinsurers (previously 66%).

Some of the limit is now purchased on a 'collateralised' basis, where reinsurers have deposited funds equivalent to their participation in a trust fund.



This graph shows the composition of our capital base by reference to the minimum capital requirements ('MCR') of the Group. This MCR is calculated applying APRA principles to the consolidated balance sheet. There are, as yet, no APRA standards by which capital requirements are set for groups.

The core Tier 1 capital effectively covers the MCR. The surplus above that to meet our benchmark multiple of 1.55x MCR is provided by a mixture of Tier 1 hybrid capital and Tier 2 subordinated debt.

The two reset preference share issues qualify as Tier 1 because of the terms under which we can convert them to ordinary shares and the dividend payment conditions. This ensures that they are available to meet solvency capital if required.

For illustrative purposes only, we have included the RES on this chart to show the value of this contingent capital in terms of its capacity to supplement the Group's regulatory capital base if we were to call upon it, remembering that the company has an ongoing right to exchange this debt security into Tier 1 capital at any time.

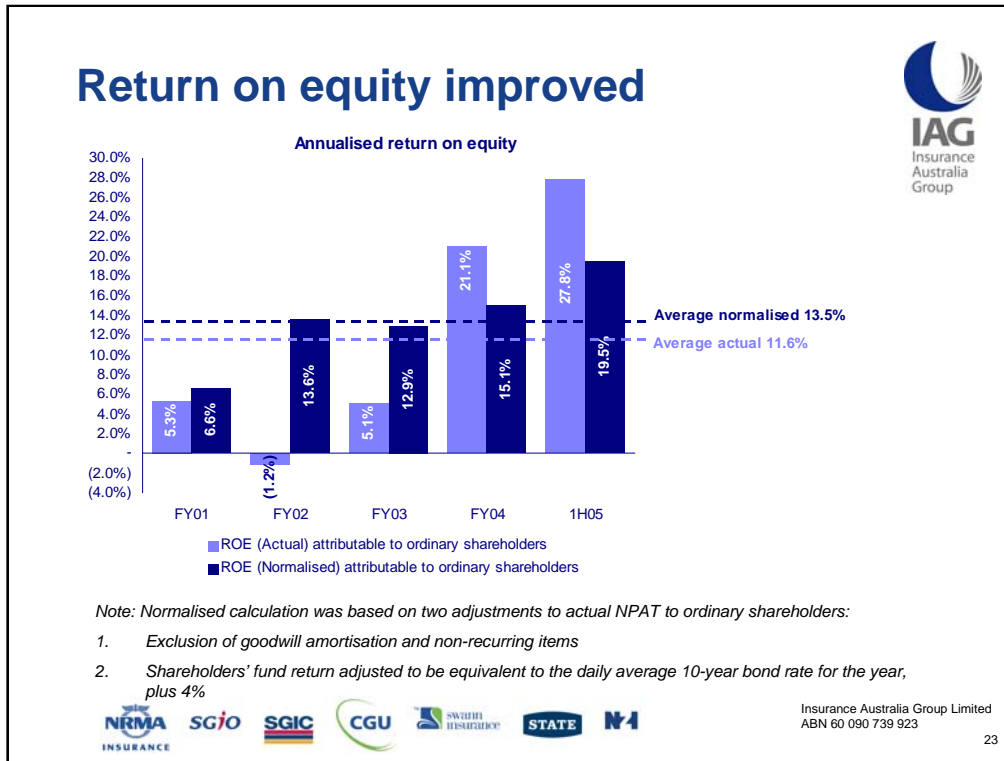
It is the access to this contingent capital which enabled the Group to reduce its benchmark multiple of MCR to 1.55x – the RES effectively replaces that element of our economic capital which represents the time it would take to raise capital if required.

It is also worth noting that these funds are not earmarked for use in acquisitions or buy-backs and while it's in place it is expected to contribute at least \$2m to profit before tax.

Return on equity



Insurance Australia Group Limited
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- The strong performance of equity markets in both 2H04 and 1H05 have driven the reported return on equity to ordinary shareholders to new heights for the Group, reaching 27.8% in this half-year.
- While this is very pleasing for shareholders, it is unsustainable into the long-term for a few reasons:
 - Firstly, it is based on unusually strong equity market returns. The darker bars on this chart are what we refer to as normalised returns. We substitute the actual equity market performance with a longer term yield – basically the 10 year bond rate plus an equity market premium of 4%. This removes a lot of the volatility;
 - Secondly, the last year or so has been a period when ‘the stars have aligned’ for insurers with all the cyclical elements being favourable. While we don’t see a reversion to very tough times in each cyclical factor in the foreseeable future, we do not expect recent favourable conditions to be sustained at these levels.
 - Finally, we don’t believe average returns much above 1.5 – 1.6 times WACC (weighted average cost of capital) over a whole insurance cycle provide a reasonable balance between the needs of customers and shareholders. BUT we haven’t reached that stage yet. Our average ROE since listing is only 11.6% and, even after normalising for investment market returns, it is 13.5% - which is less than 1.5 times WACC.
- So, while the underlying performance has improved substantially – as demonstrated by the dark blue bars – the performance needs to be considered over a complete cycle.

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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- There are many factors which affect our business and thus our outlook. In assessing the business prospects, we need to look at these and their inter-action with each other.
- Dealing first with the external factors:
 - Our business is influenced by the economies in which we operate – economic growth and inflation drive demand for insurance and the values of assets to be insured. The good economic performance and outlook for the Australian and New Zealand economies is therefore a positive for us.
 - Increasing competitive pressures are definitely a feature of the market at present. This is largely driven by the industry's good performance and the availability of capital. While we see isolated incidences of what we believe may be irrational behaviour, we do not see this as a major issue for the local market and we, as noted earlier by George, continue to adhere to the discipline of not writing business at prices that cannot service the capital we believe is needed to back it.
 - Reinsurance rates are stable.
 - The outlook for business affected by tort reforms, including the key statutory schemes, is quite stable. This is key to our ability to continue to pass on savings in premiums in the relevant products.
 - Most commentators don't believe the stellar performance of the investment markets will be sustained in the coming year. We agree with this.
- Turning to internal factors:
 - We have, as we noted earlier, improving customer satisfaction indicators and growing employee engagement. These support the positive momentum in our business;
 - The ongoing focus on, and improvements in, the data being applied in our risk selection is improving the portfolio mix; and
 - We have work in progress to deliver further expense savings.
- These factors have all been considered in how we view the prospects for our business.

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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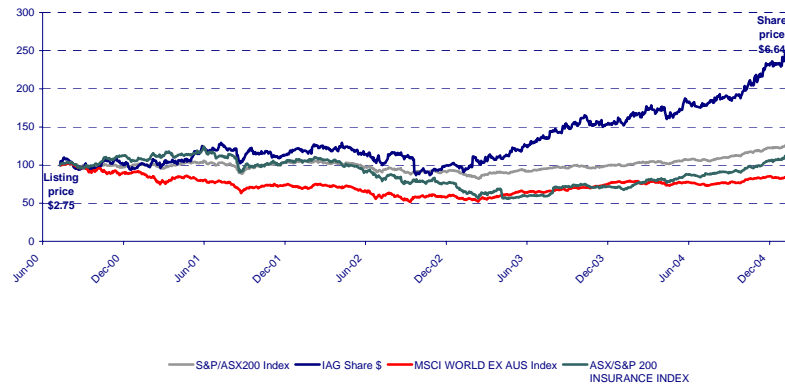
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- Having considered those factors, and the results we have announced today, we now expect that the FY05 insurance margin to be at least 15%, subject to no further major losses.
- Our expectations for NEP (net earned premium) growth of 5 – 7% for FY05 is unchanged.
- Our strategy also remains unchanged. We will continue down the dual track of optimising our franchise in Australia and New Zealand and seeking overseas investment opportunities, in the general insurance sector, to supplement the future earnings profile of the business.

Share price performance since listing



IAG Share Price Performance



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Questions



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