Financial results
Full-year ended 30 June 2004

Michael Hawker, Chief Executive Officer

Media Presentation
19 August 2004

Agenda

- Overview of results and financial position
- Dividends
- Integration update
- Capital and ROE
- Strategic targets & short-term outlook
- Conclusion & questions
Our operating environment

- Continuing regulatory change
  - FSR implementation
  - Potts and Davis reviews
  - Terrorism insurance pool implemented
  - 39 changes to legislation
  - Draft APRA Stage II reforms
- Outcomes versus business expectations
  - Motor accident frequency under long-term averages
  - Major storms – No 2 in NZ & No 14 in Australia
  - Buoyant equity markets
- Increased competition

Highlights of improved performance

- Group Gross Written Premium of $6.4bn
  - More than double $2.6bn at listing four years ago
- Insurance margin of 13.5%, up from 12.3% for FY03
  - Exceeding long-term target range of 9–12%
  - Includes 15.2% for 2H04 (11.8% for 1H04)
  - Reflects a confluence of favourable conditions and the Group’s underlying operational improvements
- Net profit after tax of $665m for shareholders
  - Includes a full 12 months of CGU/NZI results
  - Income of shareholders’ funds of $434m pre-tax (compared to a $120m loss in FY03)
  - Profit on disposal of ClearView - $61m pre-tax
Financial position strong

- Net cash generated from operations exceeded $1.1bn for FY04
- Reported ROE for ordinary shareholders of 21.1% for FY04
  - Normalised ROE of 15.1% for FY04 (12.9% for FY03)
- Average ROE for the four years since listing
  - Reported 7.6%
  - Normalised 12.1%
- Very strong capital position
  - Paid $696m to shareholders in FY04 (dividends and buy-back) and repaid all short-term debt ($136m)
  - Group MCR multiple of 1.75x at June 2004
- All key insurers have ‘AA’ (Outlook ‘Stable’) S&P ratings

Annual dividend increased by 91%

- Increased dividend payout – all fully franked
  - Final dividend 14 cents per share (Final ‘03: 7.0 cps)
  - Annual dividend per share up 91% to 22 cps
- Full year dividend payout represents 68% of normalised profits
  - At the upper end of policy range of 50 – 70%
- Dividend to be paid on 18 October 2004
  - Record date of 15 September (Ex 9 September)
  - DRP shares to be sourced by on-market purchase of shares (no discount)
  - Pricing period of 10 trading days from 20 September
Financial results overview

<table>
<thead>
<tr>
<th>Financial results/ratios</th>
<th>Full-year ended</th>
<th>Half-year ended</th>
<th>Half-year ended</th>
<th>Full-year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earned premium (A$m)</td>
<td>$4,636</td>
<td>$2,912</td>
<td>$2,951</td>
<td>$5,863</td>
</tr>
<tr>
<td>Insurance profit (A$m)</td>
<td>$571</td>
<td>$344</td>
<td>$448</td>
<td>$792</td>
</tr>
<tr>
<td>Shareholders’ funds investment income (A$m)</td>
<td>($120)</td>
<td>$204</td>
<td>$230</td>
<td>$434</td>
</tr>
<tr>
<td>Profit before income tax &amp; OEI (A$m)</td>
<td>$297</td>
<td>$484</td>
<td>$668</td>
<td>$1,152</td>
</tr>
<tr>
<td>Reported NPAT (A$m)</td>
<td>$153</td>
<td>$302</td>
<td>$363</td>
<td>$665</td>
</tr>
<tr>
<td>Net cash flow from operations (A$m)</td>
<td>$825</td>
<td>$694</td>
<td>$475</td>
<td>$1,169</td>
</tr>
<tr>
<td>Reported ROE % to ordinary shareholders</td>
<td>5.1</td>
<td>18.4</td>
<td>23.4</td>
<td>21.1</td>
</tr>
<tr>
<td>Normalised ROE % to ordinary shareholders</td>
<td>12.9</td>
<td>14.5</td>
<td>14.7</td>
<td>15.1</td>
</tr>
<tr>
<td>Basic EPS (cents)</td>
<td>8.65</td>
<td>17.07</td>
<td>20.80</td>
<td>37.87</td>
</tr>
<tr>
<td>Dividends per ordinary share</td>
<td>11.5</td>
<td>8.0</td>
<td>14.0</td>
<td>22.0</td>
</tr>
</tbody>
</table>

Group insurance ratios

| Loss ratio                      | 72.5% | 65.6% | 64.6% | 65.1% |
| Expens ratio                    | 23.2% | 24.9% | 26.2% | 25.6% |
| Administration expense          | 17.5% | 17.1% | 18.6% | 17.9% |
| Commission ratio                | 5.7%  | 7.8%  | 7.7%  | 7.7%  |
| Combined ratio                  | 95.7% | 90.5% | 90.8% | 90.7% |
| Insurance margin (before tax)   | 12.3% | 11.8% | 15.2% | 13.5% |
| Consolidated MCR multiple       | 1.62x | 1.90x | 1.75x | 1.75x |
| Minimum probability of sufficiency of claims reserves | 90% | 90% | 90% | 90% |

Growth in business versus premium

- Gross written premium increased 25% on FY03 to $6,427m
  - FY03 reported $5,150m
  - Add annualised CGU and NZI GWP ($1,291m for 2H03)
  - Exclude FY03 health insurance GWP of $173m
  - Re-based FY03 GWP of $6,268m
- Underlying growth in GWP is 2.5%
- Risks in force (excluding health) increased 5.2%
  - 2H04 increased 3.3% from December 2003
- Implies average GWP per risk in force has reduced by 2.5%
- Insurance margin increased and average premium reduced – sharing of improved outcomes with customers and shareholders
For the first financial year since listing, the Group’s sustained improvement in operating margins was boosted by positive returns on shareholders’ funds.
Combined ratio components

Expense ratio
- New business investments
- Data cleansing
- IT transformation
- Integration expenses

Insurance margin exceeding long-term target range

Insurance margin (pre-tax)

Half-years
- 2H02: 2.2%
- 2H03: 3.8%
- 1H04: 9.5%
- 2H04: 6.9%

Full years
- FY02: 8.0%
- FY03: 8.5%
- FY04: 8.4%

Long-term target range of 9 – 12%
Significant improvement in investment returns

<table>
<thead>
<tr>
<th>Portfolio income (pre-tax) and incl. derivatives</th>
<th>FY03</th>
<th>1H04</th>
<th>2H04</th>
<th>FY04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical reserves</td>
<td>372</td>
<td>8.0%</td>
<td>67</td>
<td>2.0%</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>(120)</td>
<td>(6.5%)</td>
<td>204</td>
<td>16.8%</td>
</tr>
<tr>
<td>Total investment income</td>
<td>252</td>
<td>3.1%</td>
<td>271</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

* Returns for 1H04 and 2H04 are annualised.

- The technical reserves return of 3.8% includes active return of 68 basis points for the year.
- Shareholders’ funds returns were boosted by returns of 21.3% and 19.4% from the Australian and international equity markets, respectively.
- The overall return of 8.1% includes active return of 96 basis points or approximately $86m (pre-tax).

CGU & NZI integration
The integrated Group

- Integration programme complete
- Annual pre-tax synergies of $156m now in run-rate – balance in 1H05
- Integrated operations re-organised to align on customer lines

General Insurance

Australia
- Personal Lines
- Commercial Lines

International
- New Zealand
- Captive
- Asian Operations

Short-tail
- Motor vehicle
  - Home and contents
  - Niche (e.g., boat, caravan, travel)
- Long-tail
  - Compulsory Third Party (CTP)

Long-tail
- Short-tail
  - Fire & ISR
  - Commercial property
  - Commercial motor
  - Rural & Horticultural
  - Marine
- Long-tail
  - Public liability
  - Professional indemnity
  - Home warranty
  - Workers’ compensation

Capital and ROE
## MCR multiple

Coverage of regulatory capital requirements

<table>
<thead>
<tr>
<th>Coverage of regulatory capital requirements</th>
<th>IAG Group</th>
<th>Insurance Australia Ltd Group</th>
<th>IAG Group</th>
<th>Insurance Australia Ltd Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31-Dec-03</td>
<td>31-Dec-03</td>
<td>30-Jun-04</td>
<td>30-Jun-04</td>
</tr>
<tr>
<td>Tier 1 capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid-up ordinary shares</td>
<td>3,434</td>
<td>1,286</td>
<td>3,263</td>
<td>1,286</td>
</tr>
<tr>
<td>Hybrid equity</td>
<td>539</td>
<td>-</td>
<td>539</td>
<td>-</td>
</tr>
<tr>
<td>Reserves</td>
<td>(2)</td>
<td>-</td>
<td>(5)</td>
<td>-</td>
</tr>
<tr>
<td>Retained earnings(^1)</td>
<td>(183)</td>
<td>2,443</td>
<td>(259)</td>
<td>2,308</td>
</tr>
<tr>
<td>Excess technical provisions (net of tax)</td>
<td>371</td>
<td>336</td>
<td>375</td>
<td>326</td>
</tr>
<tr>
<td>Less: deductions</td>
<td>(1,745)</td>
<td>(1,450)</td>
<td>(1,663)</td>
<td>(1,158)</td>
</tr>
<tr>
<td></td>
<td>2,414</td>
<td>2,662</td>
<td>2,250</td>
<td>2,702</td>
</tr>
<tr>
<td>Tier 2 capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term subordinated notes</td>
<td>618</td>
<td>618</td>
<td>644</td>
<td>644</td>
</tr>
<tr>
<td>Capital base</td>
<td>3,032</td>
<td>3,280</td>
<td>2,894</td>
<td>3,406</td>
</tr>
<tr>
<td>Minimum capital requirements (MCR)(^2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian general insurance businesses</td>
<td>1,456</td>
<td>1,486</td>
<td>1,475</td>
<td>1,485</td>
</tr>
<tr>
<td>International insurance businesses(^3)</td>
<td>142</td>
<td>-</td>
<td>179</td>
<td>-</td>
</tr>
<tr>
<td>Minimum capital requirements</td>
<td>1,598</td>
<td>1,486</td>
<td>1,654</td>
<td>1,485</td>
</tr>
<tr>
<td>MCR multiple</td>
<td>1.90x</td>
<td>2.21x</td>
<td>1.75x</td>
<td>2.29x</td>
</tr>
</tbody>
</table>

\(^1\) The 31 December 2003 position excludes the capital requirement of the ClearView business as this business was sold in January 2004.

\(^2\) 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.

## Improvement in return on equity

<table>
<thead>
<tr>
<th>FY01</th>
<th>FY02</th>
<th>FY03</th>
<th>FY04</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE (Actual) attributable to ordinary shareholders</td>
<td>6.5%</td>
<td>6.6%</td>
<td>13.6%</td>
</tr>
<tr>
<td>ROE (Normalised) attributable to ordinary shareholders</td>
<td>8.0%</td>
<td>8.0%</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

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%. This was 9.7% in FY04, the prior year results have been restated on this basis.
Updated strategic financial goals

- Top quartile total shareholder return
  - TSR goal remains unchanged
  - Subsequent goals should be looked as interdependent goals to deliver the TSR goal
- ROE of at least 1.5x WACC on normalised basis
  - Do not expect to sustain more than 1.6x WACC as a return on ordinary shares
- Establish an Asian foothold
  - Seen as necessary to sustain growth to maintain scale
- Maintain an 80:20 mix of short-tail:long-tail premium
  - Updates/replaces COR of <100% - now a given
- Maintain an ‘AA’ category rating
  - Continues to be a good measure of the Group’s risk appetite
Short-term outlook for FY05

- NEP growth expected to be in 5 –7% range
  - Focus on policy growth at prices that deliver target return on WACC
  - Overall rate increases expected to be lower than in recent years
- Organic business has considerable income generating opportunities
  - Policy growth remains strong & new businesses coming on-line
  - Opportunities to improve cost and efficiency performance
  - Ready to collect returns from investments of recent periods (Integration, IT Transformation, data cleansing/segmentation)
- Positioned to sustain margins above 12% for next year at least
  - If competitive action puts pressure on this, believe we are best placed in a relative sense
  - Ability to sustain margins in a more competitive environment is a testament to the strength of the core operations

To summarise …

- Broad based financial institution
- Many cultures
- Significant market concentration
- Shareholders’ funds income base larger than insurance operations
- Focused on general insurance
- Aligned & unified culture
- Diversified business
- Profitability based on risk selection, cost reductions and better balance between insurance earnings & investment earnings