



IAG
Insurance
Australia
Group

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MEDIA RELEASE

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IAG delivers record half-year profit and interim dividend and announces \$200m capital return

Insurance Australia Group Limited (IAG) today announced a record half-year net profit after tax of \$461 million (31 December 2004: \$452 million*) for the six months ended 31 December 2005, and an insurance margin of 15.2%, in line with the previous four half-year periods and an updated full-year guidance of 14% – 16%.

The Group also announced it would return \$200 million in capital to shareholders as well as continue to diversify geographically with focused, international expansion.

IAG Chief Executive Officer, Mr Michael Hawker said the result reflected a disciplined approach to underwriting, a strong focus on customer service initiatives, and record investment income, in a challenging environment.

“What’s pleasing about this result is we’ve maintained our insurance margin, despite an increasingly competitive market. It shows our strategy of having a diversified, scale business is working, as it has allowed us to strike the right balance between risk-based pricing, maintaining our leading market position and keeping premiums affordable for customers,” Mr Hawker said.

“In our Australian personal lines business, overall customer retention remained high and customer claims satisfaction improved. In our commercial business, we focused on deepening relationships with existing customers and selectively pursuing new business. Meanwhile, improvements in our claims processes and the absence of major weather events contributed to our highest ever insurance result in New Zealand.”

On the back of this performance, the Board has declared a record interim dividend of 13.5 cents per share, fully franked, up 12.5% on the corresponding period and above the Group’s commitment to deliver 10% dividend growth for the year. The interim dividend will be paid on 10 April 2006 to shareholders registered on 8 March 2006.

“This means our shareholders, the majority of whom are small investors, are receiving consistently improving returns, while our customers are benefiting from stable premiums.”

Mr Hawker also announced a plan to return capital to shareholders based on the strength of the Group’s financial position. As at 31 December 2005, the Group held around \$870 million of capital surplus to that required to maintain its internal benchmark of 1.55x APRA’s minimum capital requirement.

“Last year we said we would either make further international acquisitions or return capital to shareholders. We’re pleased to be in the financial position to do both,” Mr Hawker said.

“The Board has decided to return \$200 million to shareholders by 30 June 2006, in line with our

* The Group is required to adopt Australian equivalents of International Financial Reporting Standards (AIFRS) for the first time when preparing its financial reports for the year ended 30 June 2006. For comparative purposes, results for the 2005 financial year have also been restated under AIFRS.

philosophy to actively manage the Group's capital. The form of the return will be determined in due course with a buy-back or special dividend being considered.

"We're also building an Asian platform for future growth, having recognised four years ago the opportunity to diversify our portfolio geographically, by leveraging our underwriting and claims management expertise in the fastest growing insurance markets in the world," Mr Hawker said.

"Earlier this month we signed a memorandum of understanding to invest in China's second largest general insurer, China Pacific Property Insurance Company, and we're in the process of increasing our investment in Thailand's Safety Insurance.

"We also acquired Royal & SunAlliance Thailand (now branded NZI), which is already contributing incremental earnings, and we're purchasing a 30% stake in Malaysia's AmAssurance.

"Successful completion of all of these investments would enable us to participate in companies with annual gross written premium of more than \$3 billion, of which the Group would have an interest in more than \$800 million. And we still have several other international investment opportunities in the pipeline."

Other elements of the six-month result compared with the previous corresponding period include:

- Net earned premium (revenue) was \$3,085 million compared with \$3,084 million;
- Insurance profit was \$469 million compared with \$482 million;
- Delivery of committed cost savings supported cost containment;
- Record pre-tax return on shareholders' funds, increasing 21% to \$345 million from \$285 million. Investment returns from claims reserves contributed an additional \$192 million to pre-tax performance;
- The Group's minimum capital requirement (MCR) multiple strengthened to 2.04 times; and
- The Group maintained its very strong 'AA' insurer financial strength rating for its key wholly-owned insurance operating entities, the highest of any Australian-based financial institution.

Looking to the future, Mr Hawker said the Group expected to deliver a full-year insurance margin of 14% – 16%, an update to the previous guidance for the year, and remained on track to achieve 10% growth in dividends.

"In a competitive environment, we'll maintain our margins by sticking to our plan of balancing risk-based pricing while retaining our leading market position, maintaining strong customer relationships, continuing to operate our business more efficiently, and seeking earnings off-shore," Mr Hawker said.

"Beyond the current financial year we believe the strength of our franchise, our mix of business and our scale in Australia and New Zealand, should enable us to deliver returns on equity that exceed the insurance market average by 2% – 3%, and that our Asian platform will generate value for our shareholders."

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Insurance Australia Group (IAG) is Australasia's leading general insurance group. The group includes some of Australia and New Zealand's most trusted brands – NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance and NZI.

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