

MEDIA RELEASE

Insurance Australia Group increases profit due to improving business fundamentals and despite losses on equity investment portfolios

Insurance Australia Group Limited today announced a 27% increase in net profit after tax and outside equity interests to \$62 million for the six months to 31 December 2002 as a result of improvements made to the underlying performance of the business and reduced exposure to equity markets.*

The Group's underwriting profit increased from \$37 million to \$71 million and the insurance profit rose from \$125 million to \$290 million compared to the previous corresponding period. The insurance margin rose from 8.0% to 16.1%.

The combined operating ratio for the Group was 96.0%, down from 97.6% in the previous corresponding period. This is the Group's fourth consecutive half year with a combined ratio under the target 100%.

Insurance Australia Group's Chief Executive Officer, Mr Michael Hawker said the results were particularly pleasing as they showed that steps taken to improve the fundamental drivers of the business were producing higher quality, sustainable earnings for shareholders.

"During this six-month period we experienced no major insured catastrophes and had no material one-off items, so it's easier to track the strong performance of our underlying businesses," Mr Hawker said.

"Over the past three years the Group has spent considerable time enhancing customer service, improving underwriting disciplines, refining claims management practices and reducing expenses. These efforts have enabled us to deliver underwriting profits consistently for four consecutive half year reporting periods.

"While the continued decline in equity markets is having an ongoing impact on our bottom-line performance, the actions we've taken to reduce our exposure to these markets saw us increase reported profits.

"A significant factor in the \$131 million increase in investment income on technical reserves for the first half to \$219 million was eliminating our exposure to equity markets in that portfolio.

* This results period doesn't include the financial performance of the CGU and NZI businesses, as the acquisition was completed on 2 January 2003.

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“We also reduced the volume of equities in our investment portfolio in the past six months and expanded our hedging program (of structured collar options) to cover approximately 90% of the equities of the shareholder funds held by the Group.

“Disappointingly, both the international and local equity markets continued to perform poorly, resulting in further capital losses on our shareholder funds. Shareholder funds reduced in value by 5.2% or \$129 million, reflecting the extent of the market falls – the Australian market fell by 6.5% (S&P/ASX 200 Accumulation Index) and the international markets by 13.6% (MSCI World Index ex Australia) – during the half year.”

Other elements of the half year results, compared with the previous corresponding period include:

- gross written premium up 13% percent from \$1,665 million to \$1,886 million;
- gross earned premium grew by 7.5% from \$1,696 million to \$1,868 million; and
- expense ratio reduced from 20.1% to 19.2%.

An interim dividend of 4.5 cents per share will be paid on 14 April 2003 to shareholders registered on 12 March 2003.

Mr Hawker said that, for the full year, the Group was on track to achieve its operating targets.

“For the half year we benefited from a reduced number of motor vehicle claims due to record low rainfall. However, the full year results will contain the \$42 million (after tax) loss from the devastating ACT bushfires.

“Delivering profits when events are in our favour is what provides us the financial strength to withstand the tougher times when major catastrophes occur. The performance of a general insurer needs to be looked at over time.”

Mr Hawker said, looking ahead, the Group had revised its post integration operating targets to reflect the continued improvement in Insurance Australia Group’s underlying business, including the newly acquired CGU and NZI businesses.

“We believe our business, post integration of CGU and NZI, will sustain improved operating targets. In 12 months’ time, our new combined ratio target range for the consolidated group will be 96-98% and this should enable us to deliver insurance margins in the range of 9-11%.

“This is a positive indication that we’re well positioned to succeed with the next stage of our transformation.

“Overall, we’ve been impressed by what we’ve found at CGU and NZI. The financial performance of these businesses has exceeded our expectations, generating \$2,270 million in gross written premium for the full year to 31 December 2002. That’s more than 5% higher than we anticipated in our acquisition business case and reflects the momentum in the underlying business.

“The integration process is under way and we’re confident of achieving the \$160 million (pre-tax) of expense synergies per annum. We are now very confident that the acquisition will be cash earnings per share positive by 30 June 2004.

“We are also focused on continuing to leverage growth opportunities, particularly in Queensland and SME commercial insurance. Our ability to deliver profitable growth in these areas has been enhanced significantly through CGU’s experience and infrastructure.

“The Group’s rated insurance companies hold a AA (stable outlook) rating from Standard & Poor’s and, at balance date, each licensed entity held well in excess of the minimum capital requirements set by APRA.”

Insurance Australia Group Limited is the holding company of Australasia's leading general insurance group which has some of Australia and New Zealand's most trusted brands - NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance, Circle, NZI and ClearView Retirement Solutions. Insurance Australia Group companies also manufacture motor, home and some other lines of insurance for RACV Insurance in Victoria.