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## IAG EXPANDS MALAYSIAN OPERATIONS



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**Insurance Australia Group Limited (IAG) today announced its Malaysian joint venture business, AmG Insurance Berhad (AmG), has entered into a conditional agreement to acquire Kurnia Insurans (Malaysia) Berhad (Kurnia). The purchase price is RM1.55 billion (approximately A\$480 million), of which IAG will contribute 49% (approximately A\$235 million), in line with its ownership of AmG.**

IAG's share of the purchase price will be funded from internal resources. The acquisition is expected to be earnings per share accretive within 12 months of completion.

IAG Managing Director and CEO, Mr Mike Wilkins, said that the acquisition will make AmG the largest general insurer in Malaysia, with 13% of Malaysia's general insurance market and a clear number one position in motor insurance.

"Since IAG entered Malaysia's insurance market in 2006, we've forged a successful partnership with AmBank Group, narrowed our focus to general insurance and increased our joint venture ownership from 30% to 49%. AmG has performed consistently well, and achieved a strong insurance margin of 19.4% in the first half of IAG's 2012 financial year.

"This is another important step in IAG's strategy to boost its Asian footprint, contributing to the Asia division's target of representing 10% of IAG's gross written premium by 2016, on a proportional basis," he said.

CEO of IAG's Asia division, Mr Justin Breheny, said the acquisition of Kurnia was consistent with the division's strategy of pursuing consolidation opportunities in its established markets, where good long term growth prospects exist.

"Kurnia is a top four general insurer in Malaysia, and the largest motor insurer. It has a well recognised brand for general insurance, around three million customers and a nationwide network of branches and agents," Mr Breheny said.

"AmG and Kurnia are highly complementary businesses. The addition of Kurnia will more than double AmG's annual gross written premium to over RM1.7 billion (around A\$530 million), broaden its distribution base and expand its product service offering.

"It will create an organisation with a strong competitive position in Malaysia's large, stable and growing general insurance market and a leading market share of 22% in the key motor segment. We expect significant synergies from the combination of the two businesses in the first two years," said Mr Breheny.

Malaysia's general insurance market grew by 7.8% in calendar 2011 in local currency terms and is expected to grow around 6% per annum over the next three years. Market growth is supported by a strong economy, which is projected to grow around 4-5% in calendar 2012, in a positive regulatory environment.

The Malaysian Minister of Finance has granted approval for AmG to enter into a purchase agreement to acquire Kurnia. The acquisition remains subject to approval by the shareholders of Kurnia's parent company, Kurnia Asia Berhad, with completion expected in the second half of calendar 2012.

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### **ABOUT KURNIA INSURANS (MALAYSIA) BERHAD (KURNIA)**

Kurnia was established in 1991, and has grown to become a leading non-life insurer in Malaysia. In the 2011 calendar year, Kurnia recorded gross written premium of RM1.07 billion (around A\$335 million) and a net profit after tax of RM87 million (around A\$27 million). It has an 8% share of the Malaysian general insurance market, and is the largest motor insurer with a 14% market share by gross written premium. It has nearly 1,300 employees, an extensive network of 30 branches and 5,500 agents, serving approximately three million policyholders.

### **ABOUT AMBANK GROUP**

AMMB Holdings Berhad is the holding company for AmBank Group and is listed on the Malaysian stock exchange. With a history of some 37 years stretching back to 1975, AmBank Group provides a wide range of financial products and services through various subsidiaries. Today, its business divisions cover activities across retail banking, business banking, transaction banking, corporate and institutional banking, investment banking including funds management and stockbroking, markets, Islamic banking, general insurance, life assurance and family takaful. Its major shareholders are Tan Sri Azman Hashim, a prominent Malaysian entrepreneur who has been instrumental in AmBank Group's growth over the past 30 years, Australia and New Zealand Banking Group Limited, and Employees Provident Fund. AmBank Group's medium term aspiration is to become Malaysia's preferred banking group with international connectivity. For further information, please visit our corporate website at [www.ambankgroup.com](http://www.ambankgroup.com)

### **ABOUT AMG INSURANCE BERHAD (AMG)**

AmG is a general insurance business which trades under the AmAssurance brand, and is 51% owned by AmBank Group and 49% by IAG. It was formerly part of the composite insurance (life and general) operation of AmBank Group which was separated in December 2008, with AmG assuming the general insurance business. For calendar 2011, AmG generated gross written premium of RM637 million (A\$199 million). It is Malaysia's 4th largest motor insurer and the 8th largest general insurer by gross written premium. It has an extensive distribution network made up of AmBank Group's 190 bank branches and its own 19 branches and 2,900 insurance agents, and serves approximately one million policyholders.

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### **MARKET AND MEDIA BRIEFING**

Please find attached a presentation with further details on the transaction. IAG management will discuss this presentation via a teleconference at 10:30am (Sydney time) today.

To participate from within Australia, dial 1800 558 698

To participate from within Malaysia, dial 1800 816 294

To participate from outside Australia, dial +61 2 9007 3187

Please quote conference ID: 726259

### **About Insurance Australia Group**

Insurance Australia Group Limited (IAG) is the parent company of an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over \$8 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann and Buzz Insurance (Australia); NZI and State (NZ); Equity Red Star (UK); and Safety and NZI (Thailand). For further information please visit [www.iag.com.au](http://www.iag.com.au).

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13 April 2012

ABN 60 090 739 923

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**Mike Wilkins**  
**Managing Director &**  
**Chief Executive Officer**

**Justin Breheny**  
**Chief Executive Officer,**  
**Asia**



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All amounts are presented in Malaysian ringgit unless otherwise stated. **The exchange rate used is 3.2 ringgit to one Australian dollar.**

# AGENDA

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## 1. Transaction summary

Mike Wilkins

## 2. Strategic rationale

Justin Breheny

- Malaysia – IAG’s successful track record
- Malaysia – attractive market dynamics
- Kurnia – highly complementary business

## 3. Integrating AmG and Kurnia

Justin Breheny

- Good strategic and cultural fit
- Provides significant competitive advantage
- Supports AmG to meet future industry challenges

## 4. Capital position, summary and questions

Mike Wilkins

# ACQUISITION TO SECURE MARKET-LEADING POSITION IN MALAYSIA

## EARNINGS ACCRETIVE IN YEAR ONE

### BUSINESS TO BE ACQUIRED

#### Acquisition of Kurnia Insurans (Malaysia) by 49%-owned AmG

- Fourth largest general insurer in Malaysia (c.RM1.1bn in GWP)
- Largest motor insurer in Malaysia
- Well recognised insurance brand in Malaysia
- Three million customers, net assets of RM757m
- IAG share of consideration RM760m (A\$235m)

### STRONG STRATEGIC FIT

#### Creates largest general insurer in Malaysia with leadership in motor segment

- Combined GWP over RM1.7bn (A\$530m)
- In line with strategic priority to boost Asian footprint
- Delivers number one position in general insurance and motor segment
- Consistent with strategy of pursuing consolidation opportunities in established markets
- Strategically and culturally complementary
- Delivers significant competitive advantage

### EARNINGS ACCRETIVE

#### Earnings accretive within 12 months of completion

- EPS accretive for IAG shareholders within 12 months of completion
- Significant synergies of approximately RM50m expected within two years
- Funded internally – pro forma MCR remains above long term benchmark
- Subject to Kurnia shareholder approval – completion expected by second half calendar 2012

# TRANSACTION STRUCTURE

## AMG ACQUIRING KURNIA'S MALAYSIAN INSURANCE ARM

### KURNIA ASIA BERHAD (KAB)

#### ACQUIRED BY AmG

- Kurnia Insurans (Malaysia) Berhad
- Malaysian insurance operations and distribution network
- Kurnia brand and customer base
- Agreed net assets of RM757m

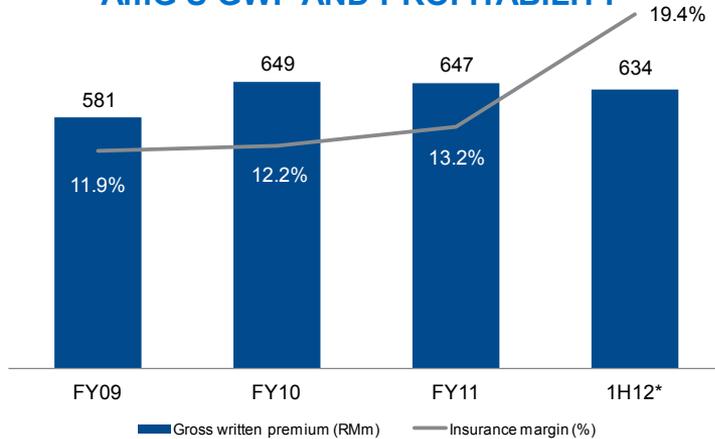
#### RETAINED BY KAB

- Thailand (Kurnia Insurance (Thailand) Co Ltd)
- Indonesia (PT Kurnia Insurance Indonesia)
- Kurnia Asia Bhd will cease to use the Kurnia brand / name in these markets

# PROFITABLE PRESENCE IN MALAYSIA SINCE 2006

## STRONG PARTNERSHIP WITH AMBANK GROUP

### AmG'S GWP AND PROFITABILITY<sup>1</sup>



<sup>1</sup>Based on IAG's financial year ended 30 June  
\*1H12 GWP annualised

- Close, collaborative relationship with joint venture partner, AmBank Group, harnessing:
  - AmBank Group's strong distribution
  - IAG's insurance capability transfer
- Resulting in AmG's strong underwriting performance

### MARCH 2006

- IAG acquired 30% interest in AmAssurance, a composite (life and general) insurer owned by AmBank Group

### DECEMBER 2008

- Licence split – separate AmG (general) and AmLife (life) businesses formed
- IAG divests life insurance interest; dials up general insurance interest to 49%

### DECEMBER 2011

- AmG's proposal to acquire Kurnia announced

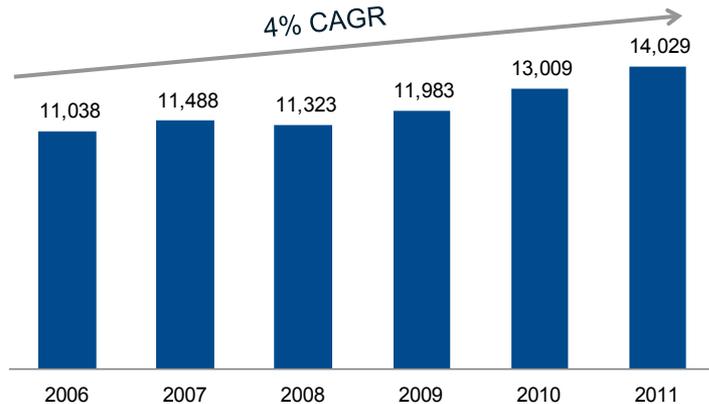
### APRIL 2012

- Regulatory approval obtained for AmG to acquire Kurnia
- AmG signs agreement with KAB to acquire Kurnia

# MALAYSIA – ATTRACTIVE MARKET DYNAMICS

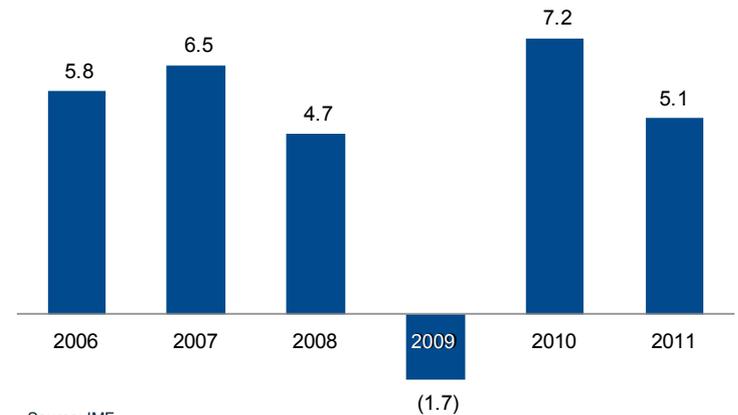
## STRONG ECONOMY, CONTINUED GENERAL INSURANCE GROWTH

### MALAYSIA GENERAL INSURANCE GWP (RMm)



Source: PIAM

### MALAYSIA REAL GDP GROWTH (%)



Source: IMF

- Malaysia's general insurance market grew 7.8% in calendar 2011
  - Expected to grow around 6% per annum over the next three years
- General insurance market growth supported by strong economy, with GDP projected to grow around 4-5% in calendar 2012
- Positive regulatory reform, creating opportunities

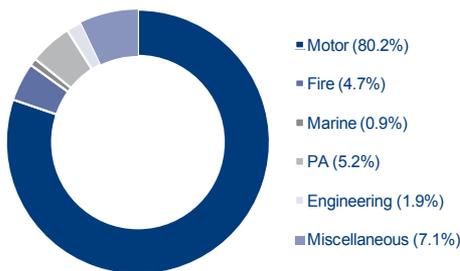
# KURNIA – HIGHLY COMPLEMENTARY BUSINESS LARGEST MOTOR INSURER IN MALAYSIA

## MALAYSIA'S #1 MOTOR INSURER

- #4 general insurer in Malaysia with 8% market share
- Largest motor insurer with 14% market share
- Extensive network of 30 branches and 5,500 agents
- Approximately 3 million policyholders
- Around 1,300 employees
- High brand awareness
- Net assets acquired of RM757 million

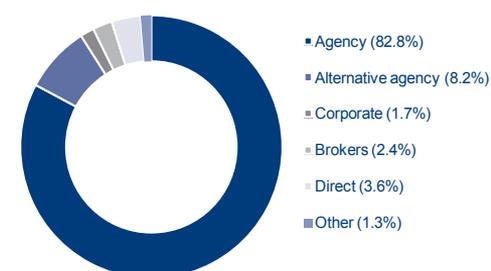


## PRODUCT MIX (% GWP)



Source: PIAM (as at 31 December 2011)

## CHANNEL MIX (% GWP)

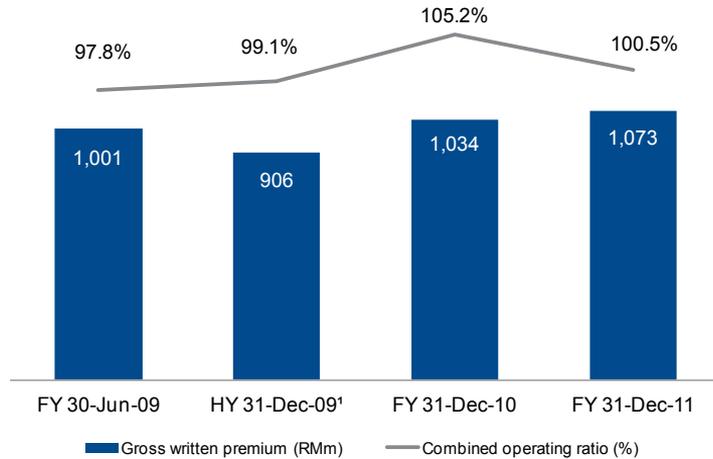


Source: Kurnia financial statements, year ended 31 December 2010

# IMPROVED PERFORMANCE FROM KURNIA

## SIGNIFICANT TRANSFORMATION PROGRAMME AND RESTORED GROWTH

### KURNIA'S GWP AND PROFITABILITY



\* Annualised

- In the financial year ended 31 December 2011\*:
  - GWP of RM1.07 billion (c.A\$335m)
  - Net profit after tax of RM87 million (c.A\$27m)

\*Source: Kurnia Insurans (Malaysia) Berhad, financial statements, year ended 31 December 2011

### 1978

- Business incorporated, trading as Industrial and Commercial Insurance

### 1991

- KAB acquired business, commenced trading under Kurnia name

### 2008

- Significant transformation programme commences

### 2011

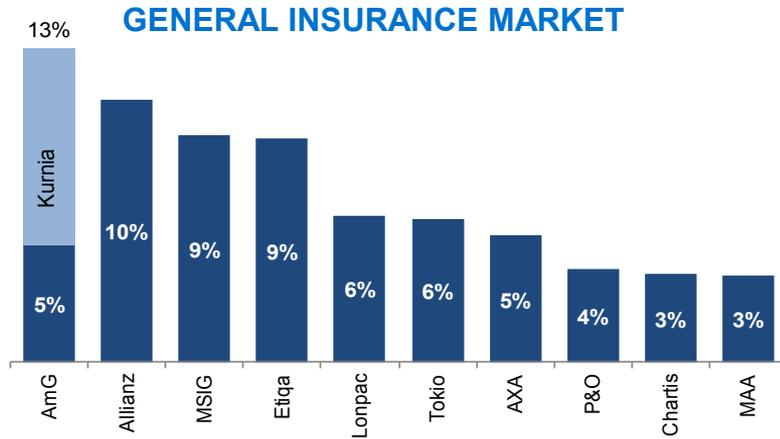
- AmG seeks regulatory approval to enter into an agreement to acquire Kurnia

### 2012

- AmG reaches conditional agreement to acquire Kurnia

# COMBINED BUSINESS SECURES LEADING MARKET POSITIONS IN MALAYSIA

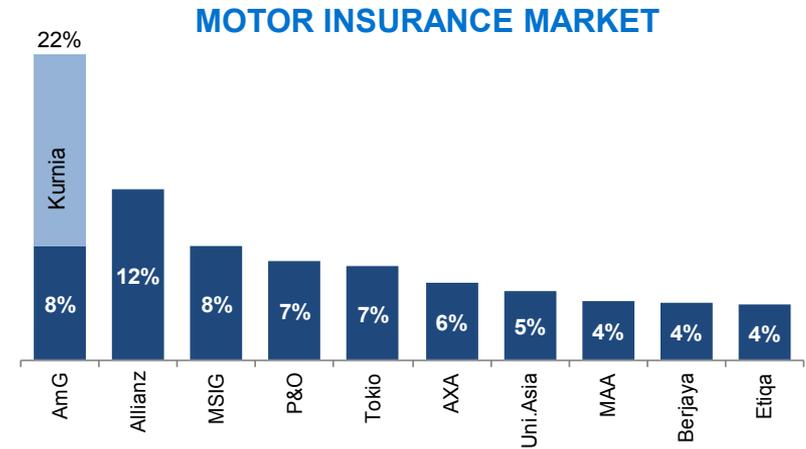
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Source: PIAM (as at 31 December 2011)

## Addition of Kurnia creates market-leading position in Malaysia for AmG

- Market share of 13% (up from 5%)
- Combined GWP of over RM1.7 billion (A\$530m)



Source: PIAM (as at 31 December 2011)

## Clear number one position in motor, delivering significant competitive advantage

- Market share of 22% (up from 8%)
- AmG has strong track record of profitability in motor segment

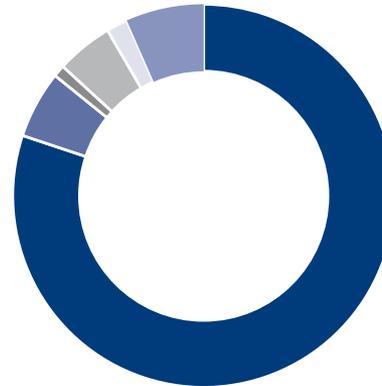
# INTEGRATING AMG & KURNIA – GOOD STRATEGIC/CULTURAL FIT CREATING MALAYSIA’S LARGEST GENERAL INSURER

## MALAYSIA’S #1 GENERAL INSURER

- Approximately 4 million policyholders
- Two strong brands
- Leading market shares in motor (22%) and general insurance (13%)
- Largest agency network in Malaysia



## COMBINED AMG / KURNIA PRODUCT MIX (% GWP)



- Motor (80.1%)
- Fire (5.7%)
- Marine (1.0%)
- PA (4.8%)
- Engineering (1.8%)
- Miscellaneous (6.6%)

Source: PIAM (as at 31 December 2011)

# ENLARGED AMG WELL PLACED TO MEET INDUSTRY CHALLENGES PROVIDES SIGNIFICANT COMPETITIVE ADVANTAGE

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## BUILDS SCALE

- Creates largest business in Malaysia's general insurance industry

## PRODUCT

- Strong focus on motor insurance
- Capitalise on large agency base to distribute other retail and SME commercial products

## DISTRIBUTION

- Expands AmG's distribution network
- Largest number of general insurance agents in Malaysia

## BRAND

- Kurnia has well recognised general insurance brand in Malaysia – will be retained alongside AmG's AmAssurance brand

## MANAGEMENT TALENT

- Increases AmG's management and talent pool

## SCOPE TO ADD VALUE

- Complementary strengths

## STRATEGIC ALIGNMENT

- Shared vision and commitment

# MALAYSIA: FOCUS FOR THE FUTURE

## OBTAINING A MARKET LEADERSHIP POSITION

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### NO. 1 IN MOTOR

- By organic growth (strategic initiatives focused on improved penetration and renewal retention) and through acquisition

### LEAD IN NICHE COMMERCIAL

- Strategic initiatives targeting specific industries with specialist product and innovative distribution solutions

### LEAD IN NON-MOTOR PERSONAL LINES

- By leveraging motor scale and customer base, and optimising use of the AmBank Group network

### INDUSTRY M&A CONSOLIDATION

- Continue to focus on building scale via in-country bolt-on acquisitions to the AmG business

# CAPITAL POSITION REMAINS ABOVE BENCHMARK

## ACQUISITION FUNDED INTERNALLY

	31 DEC 2011	BOHAI	AMI	KURNIA	PRO FORMA 31 DEC 2011
MCR (A\$m)	2,481	18	26	41	2,566
Capital base (A\$m)	4,191	-	(209)	-	3,982
Ratio (x)	1.69	(0.01)	(0.10)	(0.03)	1.55

### PRO FORMA CAPITAL POSITION ABOVE BENCHMARK

- Proposed acquisition funded internally
- Modest increase in required regulatory capital
- Pro forma 31 December 2011 MCR of 1.55, post Kurnia, AMI and Bohai investment

# EXPANDING IAG'S MALAYSIAN INTERESTS SUPPORTS TARGET OF 10% OF GROUP GWP FROM ASIA BY 2016

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### THAILAND



Voting rights: 98.6%  
GWP: A\$188m

### INDIA



Ownership: 26%<sup>2</sup>  
GWP: A\$48m

<sup>2</sup> Option to increase to 49%, subject to foreign ownership law.

### MALAYSIA



Ownership: 49%  
GWP: A\$530m<sup>1</sup>

<sup>1</sup> Kurnia subject to Kurnia Asia Berhad shareholder approval – completion expected second half calendar 2012.

### CHINA



Ownership: 20%<sup>3</sup>  
GWP: A\$228m

<sup>3</sup> Acquisition completed April 2012.

Note: GWP presented on 100% ownership basis and derived from most recently reported / available information. Thailand and India based on annualised 1H12 GWP.

# APPENDIX 1

## KURNIA FINANCIALS: FY09-FY11

	Year Ended 30 June 2009	Six Months Ended 31 December 2009	Year Ended 31 December 2010	Year Ended 31 December 2011
	Audited	Audited	Audited	Audited
	<i>RMm</i>	<i>RMm</i>	<i>RMm</i>	<i>RMm</i>
<b>Gross written premium</b>	<b>1,001</b>	<b>453</b>	<b>1,034</b>	<b>1,073</b>
Net earned premium	967	429	842	764
Net claims expense	(637)	(304)	(640)	(540)
Net commission expense	(102)	(43)	(79)	(69)
Underwriting expense	(207)	(78)	(167)	(159)
<b>Underwriting profit/(loss)</b>	<b>21</b>	<b>4</b>	<b>(44)</b>	<b>(4)</b>
Investment income	47	62	115	105
<b>Profit before taxation</b>	<b>68</b>	<b>66</b>	<b>71</b>	<b>101</b>
Taxation income/(expense)	16	(5)	(12)	(14)
<b>Net profit for the period/year</b>	<b>84</b>	<b>61</b>	<b>59</b>	<b>87</b>
Loss ratio	65.9%	70.9%	76.0%	70.7%
Commission ratio	10.5%	10.0%	9.4%	9.0%
Expense ratio	21.4%	18.2%	19.8%	20.8%
Combined ratio	97.8%	99.1%	105.2%	100.5%

Note: Kurnia changed its financial year end from 30 June to 31 December in 2009.

# APPENDIX 2

## KURNIA BALANCE SHEET

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31 December 2011  
Audited

	RMm	A\$m
<b>Assets</b>		
Property and equipment	229	72
Investments	1,635	511
Reinsurance assets and insurance receivables	580	181
Cash and bank balances	116	36
Other assets	119	37
Deferred acquisition costs	26	8
<b>Total Assets</b>	<b>2,705</b>	<b>845</b>
<b>Liabilities</b>		
Premium liabilities	533	167
Claims liabilities	1,132	354
Insurance payables	79	25
Other liabilities	182	56
<b>Total Liabilities</b>	<b>1,926</b>	<b>602</b>
<b>Net Assets</b>	<b>779*</b>	<b>243</b>

\*Pricing mechanism at agreed net assets of RM757m