
IAG ON TRACK FOR IMPROVED FULL YEAR RESULT



Insurance Australia Group Limited (IAG) today announced an insurance profit of \$271 million for the six months ended 31 December 2011 (1H11: \$470 million), representing an insurance margin of 7.1% (1H11: 12.7%). This was achieved on the back of a 9.7% increase in gross written premium (GWP), to \$4,318 million. Net profit after tax for the period was \$144 million (1H11: \$161 million).

Managing Director and Chief Executive Officer, Mr Mike Wilkins said the result was a good performance in a tough operating environment.

“The first six months of the 2012 financial year have again been challenging for the insurance industry, with high net natural peril claim costs, including floods in Thailand and the severe Christmas Day storm in Melbourne, significantly increased reinsurance costs and volatile investment markets,” Mr Wilkins said.

“We exceeded our natural perils allowance for the period by \$130 million and absorbed an adverse \$80 million impact from widening credit spreads. These two items alone reduced our reported insurance margin by more than 500 basis points.

“Against this backdrop, we’ve again been able to deliver an improved underlying result while making significant progress in executing our strategic priorities.

“On an underlying basis¹, our insurance margin improved to 10.7% (1H11: 9.4%). This reflects a strong performance from Australia Direct, continued improvement from CGU, a return to profitability in New Zealand and a significantly improved performance from our UK business.

“We’ve also delivered strong top line growth in our Australian and New Zealand businesses, driven by rate increases to address higher reinsurance costs and natural peril allowances, with assistance from volume gains and bolt-on acquisitions.

“As a result, we’re upgrading our revenue target and still expect to achieve a reported insurance margin within our original guidance of 10-12%, although at the lower end of that range.”

The result includes:

- Net natural peril claim costs of \$396 million (1H11: \$134 million), \$130 million higher than the allowance of \$266 million for the period;
- A 56% increase in reinsurance expense to \$356 million (1H11: \$228 million);
- Reserve releases of \$112 million (1H11: \$103 million);
- An adverse credit spread impact of \$80 million; and
- A loss of \$30 million from investment income on shareholders’ funds directly reflecting the fall in equity markets (1H11: a profit of \$147 million).

DIVIDEND AND CAPITAL POSITION

The Board has determined to pay a fully franked interim dividend of 5 cents per share (cps) (1H11: 9 cps). The dividend will be paid on 4 April 2012 to shareholders registered on 7 March 2012, and the Dividend Reinvestment Plan will operate.

IAG’s capital position is robust with a minimum capital requirement multiple of 1.69 at 31 December 2011, above the Group’s long term benchmark. Debt to total tangible capitalisation, at 38.3%, remains within the Group’s targeted range of 30-40%.

¹ Excludes natural peril claim costs above allowances, credit spread impacts and reserve releases above 1% of net earned premium.

DIVISIONAL RESULTS

“Our largest business, Australia Direct, grew revenue by 8.4% including strong increases in our motor and home portfolios, which were up more than 5% and 16% respectively. An insurance margin of 12.3% was reported despite significantly higher net natural peril claim costs, an 80% increase in reinsurance expense and a significant credit spread effect,” Mr Wilkins said.

“CGU increased its GWP by 13% while its reported insurance margin of 6.7% was also impacted by higher net natural peril claim costs and credit spreads, as well as lower reserve releases. On an underlying basis, the business made pleasing progress towards its goal of a double digit margin in the 2013 financial year, and is ready to accelerate that improvement with a new operating model expected to deliver annual pre-tax benefits of \$65 million by the end of financial year 2015.

“In New Zealand, an insurance margin of 7.3% marks a return to profitability following the series of earthquakes that occurred last year. We’ve now paid out close to NZ\$1 billion of gross claims in Christchurch and expect the rebuild will gain momentum as the New Zealand Government resolves important land decisions. In December, we announced our agreement to acquire AMI’s insurance business which, if approved, will enhance our position as New Zealand’s leading insurer.

“In the UK, we’re almost at breakeven as the actions we have taken to reshape our book and improve underwriting and claims disciplines deliver growing benefits. In Asia we’ve made good progress towards boosting our footprint with the announcement of an investment in a Chinese insurer, rapid growth of our Indian joint venture and a proposal to expand our highly profitable Malaysian joint venture, AmG.”

OUTLOOK

Mr Wilkins said the Group expects to deliver a full year insurance margin within its original guidance, despite the impact of net natural peril claim costs and credit spreads on its first half result.

“We expect to deliver an insurance margin at the lower end of our original guidance of 10-12% given credit spreads have taken 100 basis points off our margin on a full year basis. This guidance includes an increase in our forecast net natural peril claim costs for the year, offset by a slightly higher reserve release assumption,” he said.

“We have also increased our GWP growth guidance to 8-10%, up from our original expectation of 6-9%.

“Our outlook reflects the improved underlying performance we’ve delivered in the opening half of the year as well as the momentum we’re seeing in the business. Based on the progress we have made on our strategic priorities, we are confident in our longer term plans for profitable growth.”

Guidance assumes a net natural peril claim cost of \$630 million for the year, no further movement in investment markets and that reserve releases are slightly above 2% of net earned premium.

About Insurance Australia Group

Insurance Australia Group (IAG) is 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.

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IAG ON TRACK FOR IMPROVED FULL YEAR RESULT



GROUP PERFORMANCE

For the six months to 31 December 2011, Insurance Australia Group Limited (IAG) has announced:

- Gross written premium (GWP) growth of 9.7%, to over \$4.3bn
- An insurance margin of 7.1%
- An insurance profit of \$271m.

The Group has achieved an improved underlying margin of 10.7% (1H11: 9.4%), after adjusting for net natural peril claim costs above allowances, reserve releases in excess of 1% of net earned premium (NEP) and credit spread movements. This outcome was in line with expectations, and comprised:

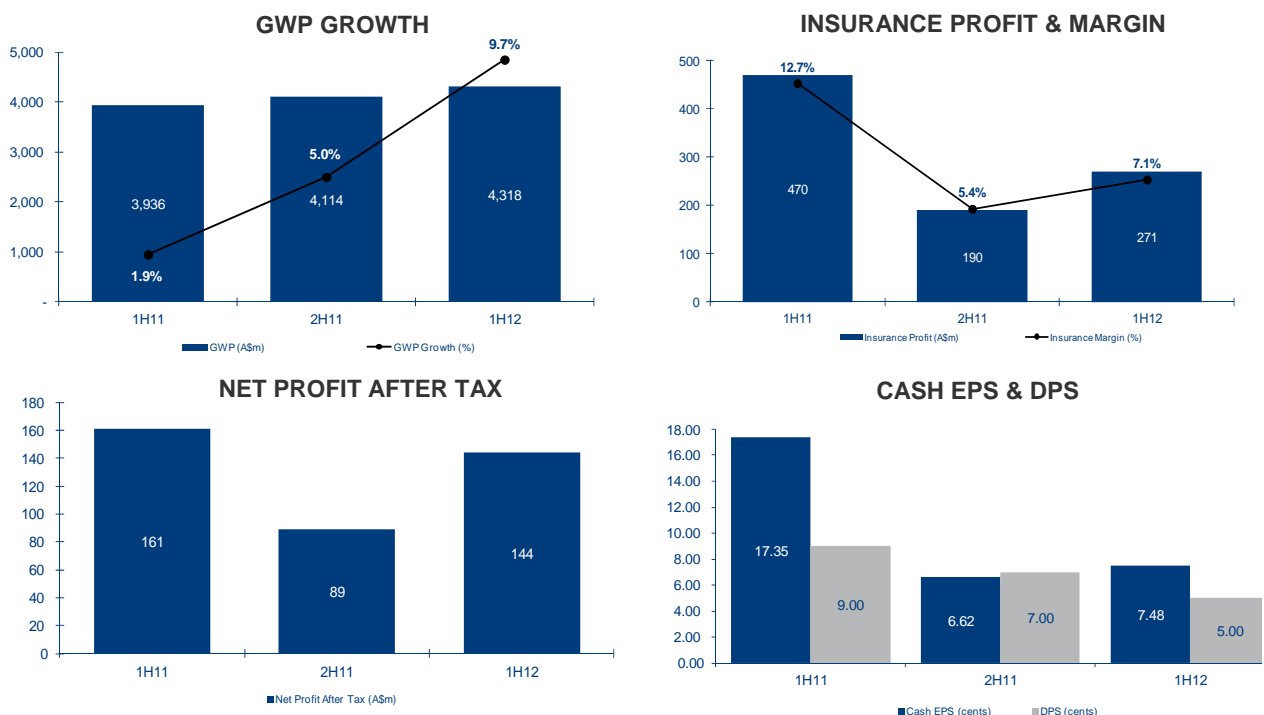
- A strong performance from Australia Direct
- Further improvement in Australia Intermediated (CGU)
- A return to reported profitability by New Zealand
- A significantly improved result in the UK, close to breakeven
- A sound underlying result from Asia.

The Group's reported insurance margin of 7.1% is after the absorption of a negative movement of more than 500 basis points (bps) from the combined effect of:

- Net natural peril claim costs which exceeded allowances by \$130m
- An \$80m impact from the widening of credit spreads.

The result also included a 56% increase in reinsurance expense to \$356m (1H11:\$228m) and \$112m of reserve releases (1H11:\$103m).

GROUP PERFORMANCE – KEY INDICATORS



1H12 NATURAL PERIL CLAIM COSTS (NET OF REINSURANCE RECOVERIES)

	A\$m
Severe frontal thunderstorms – Australia (July 2011)	10
Extreme floods - Thailand (August-December 2011)	65
East coast low - NSW (September 2011)	5
Frontal squalls and thunderstorms - Australia (November 2011)	16
Squalls and thunderstorms - Australia (November 2011)	6
Margaret River fires - Western Australia (November-December 2011)	7
Rain squalls and thunderstorms - Australia (November-December 2011)	8
Thunderstorms - Australia (December 2011)	9
Canterbury aftershocks – Victoria (December 2011)	8
Severe storms – Victoria (December 2011)	190
Other events	72
Total	396

FY12 GUIDANCE

For the 2012 financial year, the Group expects to produce:

- A reported insurance margin towards the lower end of its previously forecast 10-12% range
- GWP growth of 8-10% (previously 6-9%).

This guidance assumes:

- Net losses from natural perils of \$630m (previously \$580m)
- Net prior period reserve releases of slightly more than 2% of net earned premium (NEP)
- No material change in foreign exchange rates or investment markets in 2H12.

INTERNATIONAL PORTFOLIO



100% owned unless indicated. ¹ RACV is via a distribution relationship and underwriting joint venture with RACV Limited. ² RACV has a 30% interest in Buzz Insurance. ³ IAG holds 98.6% voting rights in Safety Insurance, based in Thailand. ⁴ IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group. AmG Insurance Berhad, which trades under the AmAssurance brand. ⁵ IAG has 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.

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