NEWS RELEASE 21 February 2013

IAG DELIVERS INCREASED PROFIT AND DIVIDEND, AND RAISES FY13 GUIDANCE



Insurance Australia Group Limited (IAG) today announced an insurance profit of \$815 million for the half-year ended 31 December 2012 (1H12: \$276 million). This equates to an insurance margin of 19.9% (1H12: 7.7%). The result was achieved on the back of a 13.5% increase in gross written premium (GWP) to \$4,593 million.

Net profit after tax increased to \$461 million, up from \$144 million in the previous corresponding period.

Managing Director and Chief Executive Officer, Mr Mike Wilkins, said the result reflected a strong business performance supplemented by the benefits of a benign weather period and favourable investment market impacts.

"Our strategy of accelerating profitable growth in Australia and New Zealand, and building on our Asian footprint is continuing to deliver results. All our businesses reported higher revenue and earnings for the period," Mr Wilkins said.

"Group revenue increased 13.5% to nearly \$4.6 billion reflecting strong growth in our home markets of Australia and New Zealand, as well as Asia.

"Our underlying margin is 12.1% which satisfies our long-term return on equity target. Our reported insurance margin of 19.9% reflects a period of low natural peril activity, as well as a favourable movement in credit spreads. Our net natural peril claim costs were less than half the allowance for the period, something we haven't experienced in many periods."

In addition to strong business performance, the reported result includes:

- Net natural peril claim costs of \$133 million (c.\$180 million below allowance);
- A \$90 million benefit from credit spreads (1H12: \$80 million loss);
- Reserve releases of \$90 million; and
- Significantly higher investment income on shareholders' funds of \$201 million (1H12: a loss of \$30 million).

DIVIDEND AND CAPITAL POSITION

Cash earnings increased to \$684 million (1H12:\$155 million). The Board has determined to pay a fully franked interim dividend of 11 cents per share (cps) (1H12: 5 cps). The interim dividend will be paid on 3 April 2013 to shareholders registered on 6 March 2013.

IAG's capital position is strong with a minimum capital requirement (MCR) multiple of 1.80 at 31 December 2012. This equates to a prescribed capital amount (PCA) of 1.69, under the new regulatory capital regime which commenced on 1 January 2013, and compares to the Group's benchmark of 1.4 to 1.6 times.

DIVISIONAL RESULTS

"Our largest business, Australia Direct, reported an 8.8% increase in revenue with growth achieved across most product classes. The underlying margin remained strong at 13.1% despite pressure from increased claim frequency and lower investment yields on the NSW CTP portfolio," Mr Wilkins said.

"Our intermediated business, CGU, is on track to achieve its targeted underlying double digit margin in FY13, as past initiatives and benefits from its new OneCGU operating model drive further improvement in performance.

"In New Zealand the underlying performance of the business has remained strong with an improved reported insurance margin of 8.3%. The acquisition of AMI has cemented our market-leading position in the country and its integration is tracking to plan.

"In Asia, our established businesses in Thailand and Malaysia performed strongly, and our newer joint ventures in developing markets are meeting expectations. Following the completion of the Kurnia acquisition in Malaysia, Asia contributes nearly 6% of the Group's revenue and is expected to deliver a small profit in FY13.

"Following the conclusion of a strategic review in December 2012, we announced the sale of our UK business. The sale is expected to complete in the second half of the financial year."

For reporting purposes, as previously disclosed, the UK business has been treated as a discontinued operation.

OUTLOOK

Mr Wilkins said the Group continues to expect strong GWP growth and a higher insurance margin in FY13, compared to FY12.

"This is a strong half year result and, based on the momentum in the business, we're confident about our outlook," Mr Wilkins said.

"Our forecast for GWP growth is 9.5-11.5%, reflecting continued growth in Australia and New Zealand. This is consistent with our previous guidance of 9-11%, adjusted for the UK.

"We now expect to report a full year insurance margin in the range of 12.5-14.5%. This is consistent with our previous guidance of 11-13%, which included our UK business, and now allows for the significant credit spread benefit identified at 31 December 2012.

"Despite the benign first half natural peril experience, we believe it is prudent to retain a net natural peril claim cost assumption for the full year in line with our allowance, of \$620 million ex-UK. This follows the significant natural peril activity in the opening weeks of calendar 2013."

On 11 February 2013, IAG advised an estimated cost to the Group of \$120-140 million from January's severe weather event that impacted Queensland and New South Wales as a result of ex-Tropical Cyclone Oswald. In addition, the Group provided an estimated cost of \$35 million in respect of the bushfires in New South Wales, Tasmania and Victoria in that same month.

FY13 insurance margin guidance also assumes no material movement in foreign exchange rates or investment markets during 2H13 and prior period reserve releases of 1-2% of net earned premium.

About Insurance Australia Group

Insurance Australia Group (IAG) is the parent company of an international general insurance group, with operations in Australia, New Zealand and Asia. Its current businesses underwrite over \$9 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC and Swann (Australia); NZI, State and AMI (New Zealand); and Safety and NZI (Thailand). For further information please visit www.iag.com.au.

Corporate Affairs

Andrew Tubb T 02 9292 3134 M 0411 014 771 E andrew.tubb@iag.com.au

Investor Relations

Simon Phibbs T 02 9292 8796 M 0411 011 899 E simon.phibbs@iag.com.au

Insurance Australia Group Limited

ABN 60 090 739 923 388 George Street Sydney NSW 2000 Australia T 02 9292 9222 www.iag.com.au