Insurance Australia Group
Interim Report 2012

MOVING AHEAD

OUR STORY

Insurance Australia Group Limited ABN 60 090 739 923

HOW WE'VE PERFORMED

FINANCIAL PERFORMANCE

	Six months ended 31 Dec 2010 $m	Six months ended 31 Dec 2011 $m
Gross written premium	3,936	4,318
Net earned premium	3,710	3,839
Net claims expense	(2,359)	(3,007)
Underwriting profit/(loss)	321	(204)
Investment income on technical reserves	149	475
Insurance profit	470	271
Profit from fee based business/share of associates	17	7
Investment income on shareholders' funds	147	(30)
Net profit attributable to holders of ordinary shares	**161**	**144**

FINANCIAL POSITION

	As at 30 Jun 2011 $m	As at 31 Dec 2011 $m
Cash and investments	12,686	13,443
Other assets	8,474	9,162
Goodwill and intangibles	1,869	1,887
Total assets	**23,029**	**24,492**
Claims provisions and unearned premium	15,244	16,303
Borrowings and other liabilities	3,205	3,676
Total liabilities	**18,449**	**19,979**
Net assets	**4,580**	**4,513**
Equity attributable to IAG shareholders	4,417	4,367
Non-controlling interests	163	146
Total equity	**4,580**	**4,513**

KEY FIGURES

1H12	4,318
2H11	4,114
1H11	3,936

$4,318M

GROSS WRITTEN PREMIUM ($M)
Increased by 9.7% compared to the previous first half, reflecting significant rate increases in Australia and New Zealand to recover higher reinsurance costs following the unprecedented number of major natural peril events experienced since the 2010 financial year. We also achieved volume growth from existing businesses and benefited from recent acquisitions, notably in CGU.

1H12	7.1
2H11	5.4
1H11	12.7

7.1%

INSURANCE MARGIN (%)
The Group's reported insurance margin was 7.1% after a negative impact of more than 500 basis points from the combined effect of net natural peril claim costs in excess of related allowances and wider credit spreads. Excluding these costs, as well as reserve releases above a recurring level equivalent to 1% of net earned premium, the Group's underlying insurance margin was 10.7%.

1H12	144
2H11	89
1H11	161

$144M

NET PROFIT AFTER TAX ($M)
Declined from $161 million in the first half of last year, affected by a loss from investment income on shareholders' funds, directly reflecting the fall in equity markets, but aided by a lower effective tax rate.

1H12	5.0
2H11	7.0
1H11	9.0

5.0CPS

DIVIDEND (CPS)
A decrease on the last interim dividend of 9.0cps and equates to a cash payout ratio of 67%. The Group's policy is to pay out 50–70% of cash earnings in any given full year. The fully franked dividend will be paid on 4 April 2012, to shareholders registered on 7 March 2012. The Dividend Reinvestment Plan will operate for the interim dividend.

More detail about our results is contained in our 1H12 Investor Report and financial statements, which are available in the Results and Reports area of our website at www.iag.com.au

Australia | New Zealand | United Kingdom | Asia

USEFUL INFORMATION

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Online Information
To view other information about IAG and to manage your shareholding online, visit www.iag.com.au.
You can also register to receive email news alerts when IAG makes important announcements.

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 the State Bank of India.

MOVING AHEAD

We have achieved a good half year result in challenging conditions. Our improved underlying performance is in line with the expectations we held at the beginning of the year, and was driven by a strong performance by Australia Direct, further improvement by CGU, a solid result in New Zealand, and significant strides towards profitability in the UK. We achieved this outcome despite further large natural peril events, this time in Thailand and in Victoria, higher reinsurance costs, and volatile investment markets. At the same time, we have continued to move ahead with our strategic priorities, generating strong growth in Australia and New Zealand as well as announcing acquisitions in New Zealand and Asia, adding to the Group's long term prospects.

For the six months to 31 December 2011, IAG reported an insurance profit of $271 million, compared with $470 million in the first half of last year. Our insurance profit was significantly affected by:

- Net natural peril claim costs that were $130 million above our allowance of $266 million, after events including floods in Thailand and storms in Victoria around Christmas Day; and
- An $80 million adverse impact from widening credit spreads.

Combined, these factors reduced our insurance margin by more than 500 basis points, to 7.1%. The insurance profit also absorbed a 56% increase in reinsurance costs to $356 million.

On an underlying basis, our insurance margin improved to 10.7%, up from 9.4% in the prior corresponding period, demonstrating momentum in our businesses.

Revenue – measured as gross written premium – increased by 9.7% to over $4.3 billion compared to the first half of last year. Growth was primarily driven by the rate increases we implemented across Australia and New Zealand to recover higher reinsurance costs and natural peril allowances. We also achieved volume growth from existing businesses and benefited from recent acquisitions, notably in CGU.

Our net profit after tax was $144 million, compared to $161 million in the first half of last year. The result was affected by a loss from investment income on our shareholders' funds, directly reflecting the fall in equity markets, but aided by a lower effective tax rate.

DIVISIONAL RESULTS

- Our largest business, Australia Direct, continued to perform well, growing revenue by 8.4%, with motor and home portfolios up by more than 5% and 16% respectively, on the back of a combination of rate and volume increases. An insurance margin of 12.3% was achieved after higher net natural peril costs, an over 80% increase in reinsurance expense and a significant credit spread effect;
- CGU recorded a pleasing improvement in its underlying performance. The business' reported insurance margin of 6.7% was affected by higher net natural peril claim costs, credit spreads and lower reserve releases. Gross written premium grew by 13%, through a combination of acquisitions and rate increases;
- In New Zealand, an insurance margin of 7.3% marks a return to profitability following the series of earthquakes that occurred last year. As at 31 December 2011, we had paid out more than NZ$940 million of gross claims in Christchurch;
- The UK operation reported a significantly reduced insurance loss of $5 million; and
- Our result from Asia was heavily affected by the Thai floods, which led to a net claim cost of $65 million for IAG. On an underlying basis, Thailand performed soundly, while our Malaysian joint venture reported an insurance margin of over 19% and our Indian joint venture, SBI General, experienced rapid growth.

CAPITAL AND DIVIDEND

The Board has declared an interim, fully franked dividend of 5.0 cents per share, equal to a cash payout ratio of 67% of cash earnings. The reduced dividend, compared to last year's interim dividend, reflects lower cash earnings for the half compared to the prior corresponding period. The dividend will be paid on 4 April 2012 to shareholders registered at 7 March 2012 and the Dividend Reinvestment Plan will operate.

We have a strong balance sheet and our regulatory capital position remains robust and above our benchmark.

OUTLOOK

We expect to report an improved performance for the 2012 financial year, with gross written premium growth of 8–10%, up from our original expectation of 6–9%, and an insurance margin towards the lower end of our guidance of 10–12%, reflecting the adverse credit spread impact in the first half. Our guidance assumes net losses from natural perils of $630 million; no material change in foreign exchange rates or investment markets in the second half; and reserve releases slightly above 2% of net earned premium.

Overall, we have produced a pleasing improvement in our underlying performance and, based on the progress we have made on our strategic priorities, we are confident this momentum will continue as we enter the second half.

BRIAN SCHWARTZ
CHAIRMAN

MICHAEL WILKINS
MANAGING DIRECTOR
AND CHIEF EXECUTIVE OFFICER

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WHAT WE'VE ACHIEVED

We have made significant progress towards achieving our reset strategic priorities in the first half of the financial year.

ACCELERATE GROWTH IN AUSTRALIA AND NEW ZEALAND

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Australia Direct achieved revenue growth, increasing both motor and home volumes, assisted by a range of marketing and product initiatives.

CGU continued to improve its underlying performance and is on track to deliver a double-digit margin in the 2013 financial year. To accelerate this improvement, the business is moving to a revised operating model that further simplifies its structure and provides more efficient and consistent service. The new model is estimated to deliver annual pre-tax benefits of $65 million by the end of the 2015 financial year.

In December, we announced our plans to acquire the AMI insurance business in New Zealand. If approved, this will enhance our position as New Zealand's leading insurer, particularly in direct motor.

BOOST OUR ASIAN FOOTPRINT – 10% OF GROUP GWP BY 2016

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We have made good progress towards boosting our Asian footprint, with two further transactions:

- In China, we have announced a strategic investment in Bohai Property Insurance Company Ltd, a business with an established premium base in excess of $200 million; and
- In Malaysia, our joint venture, AmG, has made a proposal to acquire the insurance business of Kurnia which, if completed, will lead to the creation of the country's largest motor insurer.

RESTORE PROFITABILITY IN THE UNITED KINGDOM

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The remedial actions we have taken in the UK led to a further significant improvement in the business' reported performance this half, and it remains on track to report a result that is close to breakeven this financial year.