

MEDIA RELEASE

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IAG delivers a solid result with a positive outlook: Revenue is up and on track to reach full year GWP target; NPAT is up 15.8% on the prior period

Insurance Australia Group Limited (IAG) today announced a net profit after tax of \$345 million for the six months ended December 2006 (December 2005: \$461 million) and an insurance margin of 13.3% (December 2005: 15.1%). The result is a 15.8% improvement on the previous period (June 2006: \$298 million). The Board also declared an interim dividend of 13.5 cents per share (December 2005: 13.5cps).

The overall result was affected by lower investment returns on shareholders' funds which decreased to \$166 million (December 2005: \$345 million; June 2006: \$194 million). The Group reduced its exposure to equities in the final quarter of 2006. Despite this, IAG was able to achieve an ROE of 19.5% (or 16.8% based on normalised equity market returns).

IAG Chief Executive Officer, Mr Michael Hawker said the Group's result showed it was back in growth mode, and well positioned for the future.

"We've got solid momentum back in our Australian business and we're starting to see the benefits of our strategy to be an international general insurance group. By diversifying our risk across different markets and insurance cycles, we expect to deliver consistent returns to our shareholders over the long-term," Mr Hawker said.

"Compared to the second half of last year, we've grown our revenue, margin and profit. We're particularly pleased we've been able to produce an insurance margin of 13.3%, ahead of 12.4% in the previous period, despite a soft cycle in commercial lines, a more competitive pricing strategy in Australian personal lines and the removal of some premium from the NSW CTP market following the introduction of the Lifetime Care & Support Scheme.

"In our largest business, Australian personal lines, we're in a far better position than we were 12 months ago with a sustainable business model based on reinvigorated customer service, product-focussed marketing and a more competitive price position. And the results are clear – renewal rates in the direct NSW car comprehensive and home portfolios are over 93%, we're winning new contracts from third party distributors in our indirect portfolio which increased its renewal rate to 85%, and our share of NSW CTP registrations in December was close to our June 2007 target of 38%.

"At the same time, our Australian commercial lines business delivered a strong margin benefiting from continued favourable developments in long-tail classes and a focus on managing our relationships well, adhering to underwriting disciplines rather than pursuing unprofitable marketshare.

"And we've made real progress on our strategy to diversify our risk by becoming an international insurance company with the acquisition of two UK-based motor insurance businesses, Hastings and Equity, which together make us the UK's 3rd largest personal lines broker and 4th largest motor insurer by premium. This result includes the first contribution from Hastings, as well as growing contributions from our Thailand and Malaysian businesses."

On the back of this performance, the Board has declared an interim dividend of 13.5 cents per share fully franked, in line with the previous corresponding period. The Board expects to return to growing its dividends when the acquired businesses make meaningful contributions to the Group's results.

The interim dividend will be paid on 16 April 2007 to shareholders registered on 14 March 2007 (ex-dividend date 8 March 2007). The Group has declared its intention to underwrite the April 2007 dividend as an efficient means of providing additional capital to fund potential bolt-on acquisitions.

The Group generated a return on equity (ROE) of 19.5%, or 16.8% when normalised for equity market returns, up from the previous period and ahead of its target of achieving an ROE of at least 1.5 times its weighted average cost of capital.

Mr Hawker said the performance of each business reflected different market dynamics and highlighted the importance of having a diversified business.

"The insurance margin of the combined Australian businesses was 14.8%, an improvement on the past two six month periods. While there was no catastrophe this period, a number of minor storms cost the business a total of \$125 million.

"The international business generated an insurance margin of 6.3%. This primarily reflects the short-tail nature of the risks underwritten in these markets and carrying the costs for the start-up stage of a number of our Asian activities. The anticipated profit from the UK businesses will add to these results in coming periods, particularly given the signs emerging of hardening premiums in the UK motor insurance market."

The Group continues to maintain a very strong capital position, with a multiple of 2.39 times its minimum capital requirement (MCR) as at December 2006. Adjusted to exclude the funding raised for Equity which was settled in January 2007, it was 1.86 times.

Mr Hawker said looking to the second half of the 2007 financial year, the Group's earnings base would continue to improve.

"We're confident we'll meet our guidance of 12-14% GWP growth for the full year and that return on equity will exceed our target of 1.5 times our weighted average cost of capital, subject to the usual caveat of no losses beyond our allowances," Mr Hawker said.

"The acquisition of the Hastings and Equity businesses, as well as growing contributions from our Thailand and Malaysian businesses, will add greater scope to our offshore revenue potential and we'll continue to pursue international expansion opportunities which meet our stringent investment criteria.

"While our plans to acquire 24.9% of China Pacific Property Insurance (CPPI) remain incomplete due to complexities associated with the IPO of its parent company, China Pacific Insurance Company (CPIC), the Group is continuing negotiations with CPIC and believes a transaction will be consummated."

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About Insurance Australia Group Limited

Insurance Australia Group Limited (IAG) is a leading general insurer in Australia and New Zealand. It also has general insurance operations in the United Kingdom and Asia. Its current businesses underwrite approximately \$7.5 billion of premium per annum (including acquisitions). It employs over 16,000 people of which over 11,000 are in Australia. Its insurance is sold through many leading brands including Equity Red Star and Hastings (UK), NRMA Insurance, CGU, SGIC and SGIO (Australia); NZI and State (NZ); and NZI and Safety (Thailand). For further information please visit www.iag.com.au.

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