

IAG finalises 2012 catastrophe reinsurance cover

Insurance Australia Group Limited (IAG) today announced that it had finalised its catastrophe reinsurance programme for the period commencing 1 January 2012. The programme encompasses protection of up to \$4.7 billion, compared to \$4.1 billion in 2011.

“Our reinsurance programme is an important part of our overall approach to capital management,” said Mr Mike Wilkins, IAG’s Chief Executive Officer and Managing Director. “In challenging market conditions, we are pleased to have concluded a programme which provides us with increased coverage and the additional security of some multi-year protection. The Group has fixed its main programme retention at a maximum of \$250 million until the end of calendar 2014 at agreed prices. We also have the benefit of a buydown arrangement, which commenced in 2011, that reduces the maximum cost of our next event to \$150 million.”

“While the overall cost of the programme has risen, the outcome is consistent with the assumptions contained in the insurance margin guidance of 10 to 12% provided by the Group at the outset of the financial year,” he added.

The 2012 reinsurance programme includes cover for flood, which is being introduced across Australia by CGU, and extended into Queensland and Victoria by Australia Direct, in early calendar 2012.

IAG’s catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IAG operates. The integrated programme comprises the following key components:

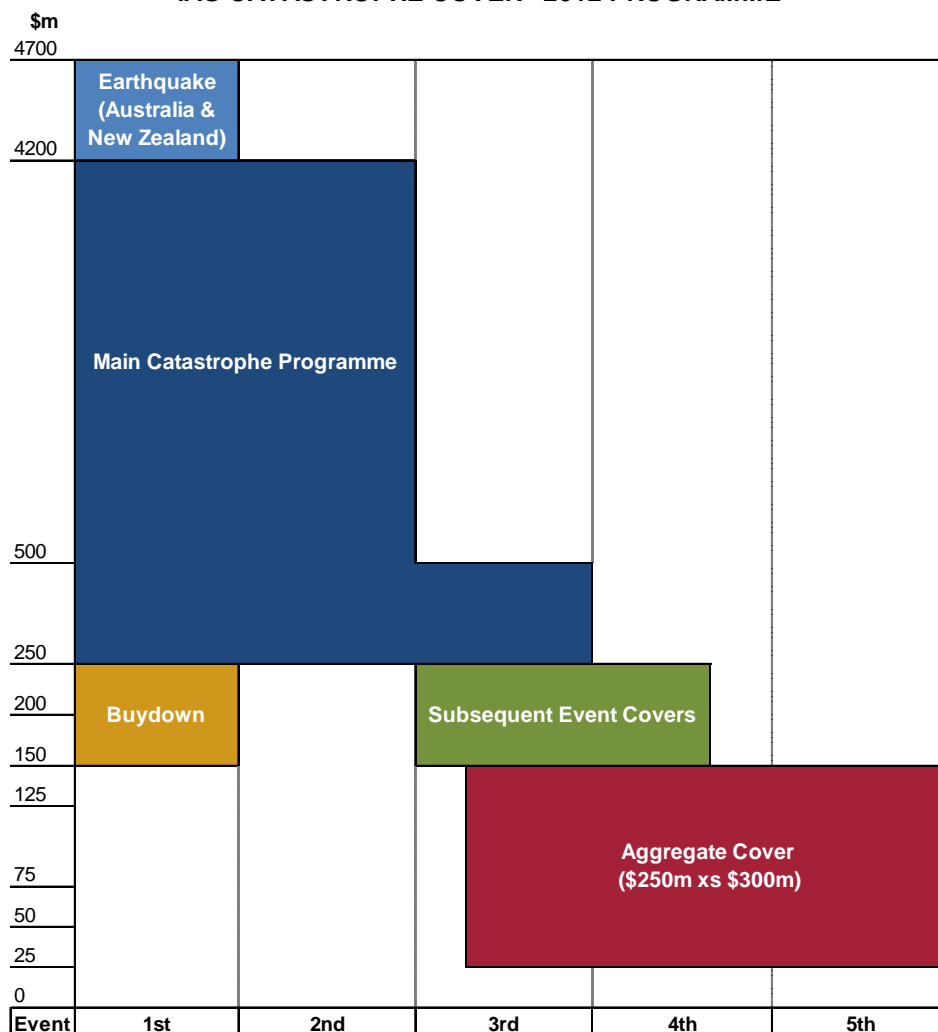
- A main catastrophe cover for losses up to \$4.2 billion, including one prepaid reinstatement. The Group retains the first \$250 million of each loss, with the lower layer of the main programme (\$250 million excess of \$250 million) fixed for a period of three years. Two reinstatements of this layer have been secured;
- An upper layer, from \$4.2 billion to \$4.7 billion, providing earthquake cover in respect of Australia and New Zealand for a period of three years at agreed prices;
- A buydown arrangement that reduces the maximum cost of a first event to \$150 million;
- Subsequent event cover providing protection above \$150 million; and
- An aggregate sideways cover of \$250 million excess of \$300 million, with qualifying events capped at a maximum contribution of \$125 million excess of \$25 million, per event.

The combination of covers in place at 1 January 2012 results in maximum first event retentions of \$150 million for Australia, \$130 million for New Zealand and \$50 million for the UK. The overall credit quality of the programme is high and has improved over that of 2011, with more than 90% placed with entities rated A+ or better.

For the financial year ended 30 June 2012 (FY12), the Group expects to report a total reinsurance expense, inclusive of catastrophe cover, casualty cover and expected facultative arrangements, of between \$700 million and \$720 million. This compares to a total reported reinsurance expense of \$620 million in FY11.

The programme outlined above, and the indicated FY12 reinsurance expense, exclude the AMI insurance business in New Zealand, the acquisition of which remains subject to regulatory approval. If acquired, the AMI business will initially carry specific reinsurance protection of up to NZ\$1.4 billion.

IAG CATASTROPHE COVER - 2012 PROGRAMME



Natural peril events update

IAG also advised that its Australia Direct and CGU businesses had, to date, received approximately 20,000 claims following the hailstorms and related severe weather which occurred in Victoria around Christmas Day. The majority of claims relate to vehicle damage caused by hail, although there is also damage to homes and other buildings.

Mr Wilkins said the Group's businesses, which distribute insurance predominantly under the RACV Insurance¹ and CGU brands in Victoria, were focused on providing their customers with the help they need.

"Our teams are working hard to assist our customers," Mr Wilkins said. "We have placed additional staff in call centres to process claims, provided emergency accommodation where needed, established a number of temporary hail assessment sites and are well-advanced with emergency make-safe repairs."

Mr Wilkins added that it remained too early to provide an estimate of the Group's total claim cost related to the severe weather in Victoria, however IAG would update the market as soon as it was in a position to do so.

¹ Short tail personal lines insurance products are distributed in Victoria under the RACV brand via a distribution relationship and underwriting joint venture with RACV Limited.

Since 23 December 2011, the Canterbury region of New Zealand has suffered a number of further earthquakes and aftershocks. Based on early claims activity in the State and NZI businesses, IAG does not currently expect this to be a material claims event.

At the time of these events, and under the catastrophe reinsurance cover which operated up until 31 December 2011, the Group's maximum potential exposure to a single event was approximately \$250 million.

The Group will release its results for the six months ended 31 December 2011 on 23 February 2012.

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About Insurance Australia Group Limited

IAG is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over A\$8 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann and The Buzz (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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