

IAG announces FY10 result and confirms improved outlook for FY11

Insurance Australia Group Limited (IAG) today announced an insurance profit of \$493 million (FY09: \$515m) for the year ended 30 June 2010, representing an insurance margin of 7.0% (FY09: 7.1%). These results are in line with the expectations announced on 27 July 2010. A final dividend of 4.5 cents per share (cps), fully franked, has been determined, bringing the full year dividend to 13cps, a 30% increase on last year (FY09: 10cps).

IAG Managing Director and CEO, Mr Michael Wilkins, said a strong underlying performance from the businesses in the Group's home markets of Australia and New Zealand had underpinned the result, which was impacted by some adverse developments in the second half.

"This result demonstrates clear and ongoing improvement in our Australian and New Zealand businesses which represent nearly 90% of gross written premium (GWP). Collectively these businesses delivered an insurance margin of 13.2%, up from 6.8% last year," Mr Wilkins said.

"Our focus on underwriting discipline, risk selection, cost control and the customer experience is delivering results.

"However, at the Group level, our result was diluted by the impact of the unprecedented Melbourne and Perth storms in March 2010, which generated almost 75,000 claims and a net cost of \$210 million, as well as the one-off \$367 million charge recognised in our UK business, following an increase in bodily injury motor claims in that market.

"We remain confident in the outlook of the Group, as evidenced by our FY11 insurance margin guidance of 10.5-12.5%."

Other key features of the FY10 result are:

- GWP of \$7.8 billion (FY09: \$7.8bn), and underlying GWP growth of 3.8%, in line with guidance, after adjusting for foreign exchange movements and divested businesses;
- Natural peril claim costs of \$463 million (FY09: \$451m), inclusive of the Melbourne and Perth storm costs, compared to an allowance of \$350 million;
- Reserve releases of \$228 million excluding the UK strengthening in the second half (FY09: \$215m);
- A \$53 million reduction in running yield on technical reserves, owing to lower average interest rates;
- Investment income on shareholders' funds of \$96 million (FY09: \$39m loss); and
- Net profit after tax of \$91 million (FY09: \$181m). In accordance with accounting requirements, IAG has not tax-effected the one-off UK charge in its FY10 results.

Divisional results

"The Group's largest business, Australia Direct, has continued to perform strongly with a full year insurance margin of 16.9% (FY09: 12.0%). GWP has increased by more than 8%, with growth across all States and products," Mr Wilkins said.

"CGU has demonstrated further progress in restoring its underlying performance through a disciplined focus on rebuilding the business' fundamentals, although reported profitability is below desired long-term levels. CGU's insurance margin was 6.6% compared to 2.2% the previous year.

"Our New Zealand business has produced a significantly improved result this year with an insurance margin of 14.7% (FY09: nil). This was largely driven by a combination of rate increases across all portfolios, improved underwriting disciplines, claim initiatives and tight cost management, aided by more benign weather conditions.

"In the UK, the market remains challenging. Following the substantial full year insurance loss we reported this year, our remedial action program is underway. We are implementing rate increases of up to 20% across most classes of business, exiting unprofitable broker relationships and strengthening

underwriting and actuarial resources. We expect a modest insurance margin in FY11, returning to more normal levels in subsequent years.

“We’ve seen a strong performance from our established businesses in Asia and SBI General, our Indian joint venture, has commenced underwriting for a limited product range. In Australia, our online business, The Buzz, has recently added home and contents insurance to its offer and continues to perform in line with our expectations,” Mr Wilkins said.

Dividend and capital position

The Board has determined to pay a final dividend of 4.5cps fully franked, taking the full year dividend to 13.0cps (FY09: 10.0cps). This represents approximately 70% of cash earnings for the year. The dividend will be paid on 6 October 2010 to shareholders registered as at 8 September 2010.

IAG’s capital position remains strong with a minimum capital requirement (MCR) multiple of 1.92, as at 30 June 2010. The Group’s long term benchmark remains an MCR multiple of 1.45 to 1.50. Debt to total tangible capitalisation at 30 June 2010 was 36%, which is within the targeted range of 30 to 40%.

Outlook

“Our focus for FY11 is to build on the strong performance we have seen from our largest businesses in Australia and New Zealand and to restore profitability in the UK, while continuing to pursue growth opportunities in our chosen markets, particularly Asia,” Mr Wilkins said.

Mr Wilkins reaffirmed FY11 guidance of an insurance margin of 10.5-12.5% and underlying GWP growth of 3-5%. This guidance assumes losses from natural perils are in line with budgeted allowances of \$435 million, no material movement in foreign exchange rates or investment markets, and lower reserve releases than FY10 (excluding the one-off UK strengthening in the second half).

IAG Chair succession

Mr Brian Schwartz was today appointed Chairman of the IAG Board, succeeding Mr James Strong, in line with the transition plan announced in November 2009. Mr Schwartz, who has been a director of IAG since 2005 and Deputy Chairman since November 2009, said he was honoured to succeed Mr Strong.

“I congratulate James on how much IAG has achieved in his nine years as Chairman. Over this period IAG has evolved from a NSW-based direct insurer, to a diversified general insurance group, with leading market shares and some of the most trusted and recognised brands in Australia and New Zealand, as well as international operations. This has been achieved despite facing a number of significant industry challenges on a local and global basis,” Mr Schwartz said.

“I look forward to leading a well qualified and committed Board of Directors and working closely with Mike Wilkins and the executive team, as the Group continues on its course to deliver improved operational and financial performance,” Mr Schwartz said.

The Board expects to appoint another director before the end of the 2010 calendar year.

About Insurance Australia Group Limited

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 approximately \$7.8 billion of premium per annum. It sells 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 NZI and Safety (Thailand). For further information please visit www.iag.com.au.

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FACT SHEET

26 AUGUST 2010



IAG results for the year ended 30 June 2010: Improvement in home markets

DIVISIONAL PERFORMANCE

Insurance profit & margin	FY09 \$Am	FY10 \$Am	FY09 %	FY10 %
Australia Direct	373	569	12.0	16.9
Australia Intermediated	48	139	2.2	6.6
New Zealand	0	131	0.0	14.7
United Kingdom	113	(355)	15.2	(65.5)
Asia	9	2	5.9*	1.4
Corporate & other	-	3	-	-
Total retained	543	489	7.7	6.9
Discontinued operations	(28)	4	(19.2)	-
Total	515	493	7.1	7.0

* Asia margin in FY09 inflated by on-off benefit from introduction of DAC accounting in Thailand

Clear and ongoing operational improvement in home markets.

AUSTRALIA DIRECT

- GWP growth of 8.1% over FY09
- Insurance profit of \$569 million (FY09: \$373m) – underpinned by strong underwriting performance and cost initiatives
- A number of successful growth initiatives launched during FY10, including 2-year fixed price and loyalty campaigns

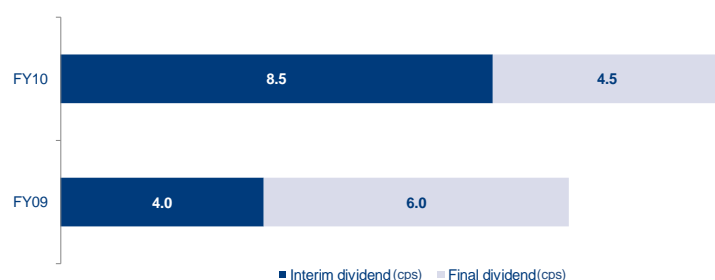
CGU

- Insurance profit of \$139 million (FY09: \$48m)
- \$50 million improvement in underlying performance over FY09, driven by ongoing focus on underwriting discipline
- Continued improvement in underlying performance expected in FY11

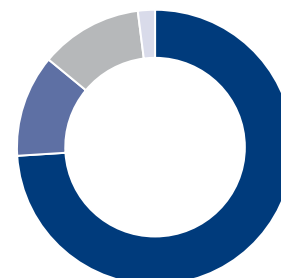
NEW ZEALAND

- GWP increased by 3.6% in local currency terms
- Significant improvement in insurance profit to \$131 million (FY09: nil)
- Improved result driven by rate increases across all portfolios, improved risk selection, claim initiatives and cost management; aided by benign weather

DIVIDENDS



GROUP FY10 GWP BY REGION



- Australia
- New Zealand
- UK
- Asia

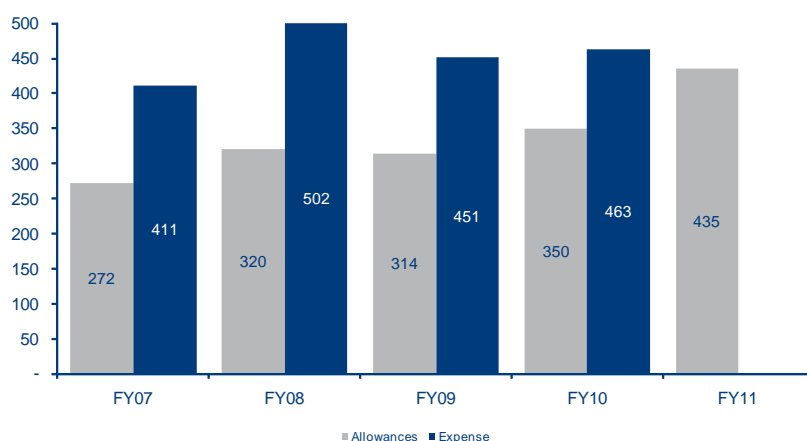
Full year dividend up 30% from previous year.

NATURAL PERIL COST BY EVENT (FY10)

	A\$m
Severe winds South East Australia (August 2009)	8
Thunderstorms and rain South Australia (September 2009)	8
Severe wind and storms NSW (September 2009)	14
Severe wind and storms ACT (September 2009)	5
Heavy rain and storms NSW (November 2009)	6
Rain, wind and thunderstorms NSW (November 2009)	6
Rain and thunderstorms Victoria (November 2009)	7
Tropical cyclone Laurence (December 2009)	5
Severe thunderstorms NSW/Queensland (December 2009)	6
Tropical cyclone Olga (January 2010)	20
Severe thunderstorms NSW (January 2010)	6
Severe storms NSW (February 2010)	21
Monsoonal rain North and East Australia (February 2010)	7
Melbourne hail and heavy rain (March 2010)	135
Tropical cyclone Ului (March 2010)	18
Perth hail, severe storms (March 2010)	75
Other events	116
Total	463

Natural peril allowances exceeded by \$113m (1.6% impact on insurance margin).

NATURAL PERIL CLAIM COSTS VS. ALLOWANCES



The Group has increased its natural peril allowances in recent years following increased peril activity.

GROUP OUTLOOK

	FY11
Insurance margin	10.5-12.5%
Underlying GWP growth	3-5%

FY11 guidance demonstrates confidence in improved outlook.