MEDIA RELEASE

25 FEBRUARY 2010

IAG's performance continues to improve in first half

Insurance Australia Group Limited (IAG) today announced a net profit after tax of $329 million for the six months ended 31 December 2009 (1H09: $4m). Insurance profit increased to $488 million (1H09: $227m), representing an improved insurance margin of 13.4% (1H09: 6.2%).

IAG Managing Director and CEO, Mr Mike Wilkins, said the result confirmed that the turnaround in the Group's underlying performance was progressing to plan.

"Our significantly improved first half insurance profit demonstrates that the actions we've taken over the past 18 months have delivered tangible results, with over half of the expansion in insurance margin derived from operational improvements," Mr Wilkins said.

"In particular, the performance of our businesses in Australia and New Zealand has improved on the back of better pricing and underwriting discipline, improved claims management practices and cost saving initiatives.

"In addition, the first half's financial performance has been buoyed by favourable credit spread movements and fewer natural peril claims than anticipated, particularly in November and December which traditionally experience above average storm activity," Mr Wilkins said.

The Group's underlying gross written premium (GWP) increased by 5.1% compared with the previous corresponding period, excluding divested businesses and the impact of foreign exchange movements. Reported GWP reduced 1.5% to $3,863 million.

Key features of the first half result are:

- A strong performance from Australia Direct, which recorded GWP growth of 7.8% and an increased insurance margin of 16.9%;
- Further improvement in the underlying performance of Australia Intermediated (CGU) which reported an insurance margin of 10.2%;
- A strong turnaround in the New Zealand business which recorded an insurance margin of 15%, compared to negative 3.9% in 1H09, reflecting the benefits of remedial actions and benign weather;
- Reserve releases of $80 million, lower than the $85 million reported in 1H09;
- Lower natural peril claim costs of $121 million (1H09: $176m), compared to allowances of $166 million;
- A gain of $28 million attributable to credit spreads, contrasting with a loss of $86 million in 1H09;
- No net writedown of deferred acquisition costs, compared with $42 million in 1H09; and
- A cash return on equity (ROE) of 17.0%, up from 3.5% in 1H09.

Investment income on technical reserves of $210 million reduced significantly from $732 million in 1H09, owing to the absence of the sharp interest rate movements that triggered recognition of substantial capital gains, and a corresponding increase in reported claim costs, in the previous period.

The Group's shareholders' funds returned a $91 million profit in 1H10, compared with a loss of $72 million in the previous corresponding period. This was despite reversal of the $96 million exchange right on the Reset Exchangeable Securities (RES), following amendments to the RES which became effective in December 2009.

Dividend and capital position

The board has determined to pay a fully franked interim dividend of 8.5 cents per share (1H09: 4cps), payable on 12 April 2010 to shareholders registered on 10 March 2010.

The Group's capital position further strengthened during the first half with a minimum capital requirement (MCR) ratio of 2.03 at 31 December 2009. The increase in the MCR is attributable to the improved profitability of the Group and the amendments made to the RES, which were brought onto the Group's balance sheet and now qualify as regulatory capital.

Divisional results

Mr Wilkins said the strong insurance margins delivered by IAG's businesses across Australia and New Zealand reflected the Group's focus on operational improvement, as well as fewer natural peril events.

"In Australia, the direct insurance business, which includes NRMA Insurance, SGIO and SGIC, delivered strong GWP growth and an improved insurance margin. The ongoing turnaround in our intermediated business, CGU, reflects a disciplined long term approach to rebuilding, including strict underwriting and risk management that has seen rate increases targeting unprofitable portfolios," Mr Wilkins said.

"IAG's New Zealand operations have built upon the turnaround evident in 2H09 and produced a significantly improved performance, assisted by modest natural peril claim costs.

"In the UK, GWP grew in local currency, with growth focused on profitable specialist insurance classes. A lower margin of 6.6% reflected reserve strengthening for prior year bodily injury claims and weaker investment returns, both of which have been felt across the UK industry.

"Established businesses in the Asia division produced strong operational performances, ahead of their respective markets. We also completed the investment in our 26%-owned general insurance joint venture in India, and look forward to this business writing its first policy during 2010."

Outlook

Mr Wilkins said he expects further, steady improvement in operating performance over the balance of the 2010 financial year.

"As announced earlier this month, we now expect the Group to achieve an insurance margin in the range of 11.5–13.0% for the full year, up from previous guidance of 9–11%. Underlying GWP is expected to grow 3–5%, while reported GWP is likely to be affected by the strength of the Australian dollar," he said.

"This revised outlook reflects both the stronger than expected first half performance as well as our expectation that the improvement in the Group's operating performance will continue during the second half, on the back of ongoing operating efficiencies and improved underwriting disciplines," Mr Wilkins said.

Mr Wilkins said the revised FY10 guidance is subject to losses from natural perils being within the budgeted allowance of $184 million for the second half; no material movement in foreign exchange rates; and no material movement in investment markets.

– **ends** –

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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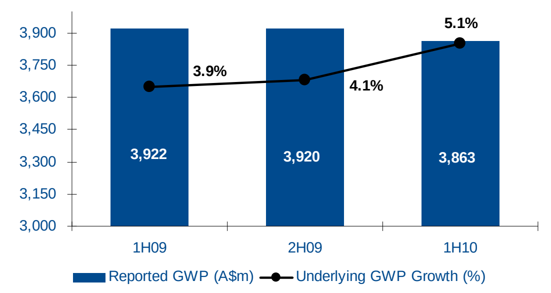
FACT SHEET

25 FEBRUARY 2010

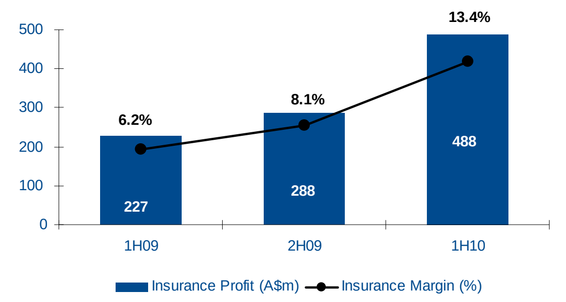
IAG results for the six months to 31 December 2009

GROUP PERFORMANCE
Key measures

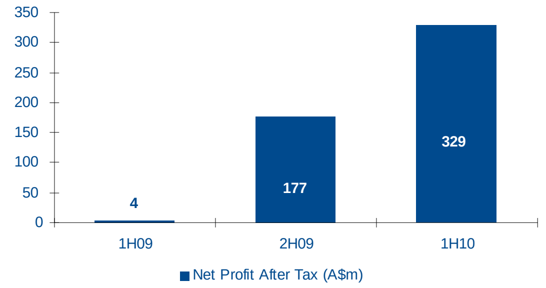
Reported GWP & Underlying GWP Growth



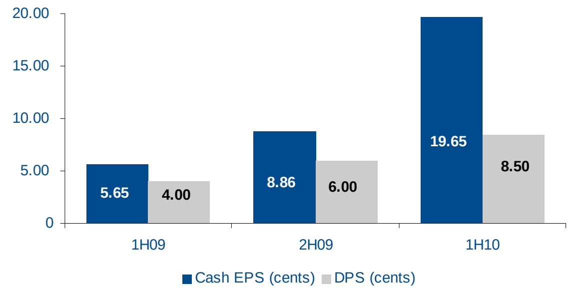
Insurance Profit & Margin



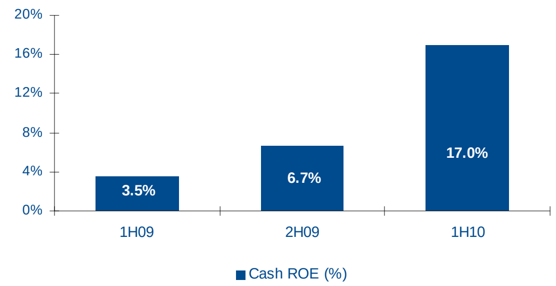
Net Profit After Tax



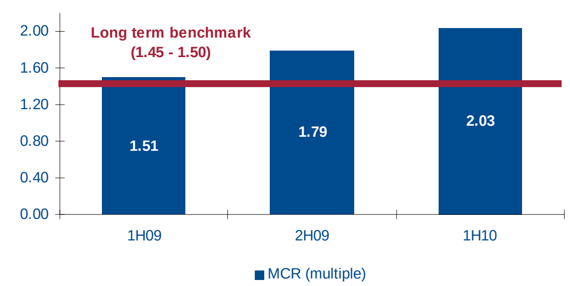
Cash EPS & DPS



Cash ROE



Minimum Capital Ratio



DIVISIONAL PERFORMANCE Insurance profit	1H09 A$m	2H09 A$m	1H10 A$m
Australia Direct	194	179	**281**
Australia Intermediated (CGU)	(7)	55	**112**
New Zealand	(17)	17	**68**
United Kingdom (retained)	77	36	**24**
Asia	9	-	**2**

PROGRESS AGAINST STRATEGY

1. IMPROVING OUR PERFORMANCE IN AUSTRALIA AND NEW ZEALAND

- Australia Direct (which includes NRMA Insurance, SGIO and SGIC) increased its insurance margin to 16.9%. GWP growth was achieved in all States and was driven by a combination of rate and volume increases. Customer satisfaction remains high, with the division's customer satisfaction index score increasing marginally to 85.
- Australia Intermediated (CGU) further improved its performance, recording a higher insurance margin of 10.2%. This reflects CGU's disciplined approach to rebuilding its business, with rate increases targeted at unprofitable portfolios.
- The New Zealand business recorded a significantly higher insurance margin, reflecting the benefits of remedial actions and benign weather.

2. PURSUING SELECTIVE GENERAL INSURANCE OPPORTUNITIES

- The UK business achieved strong local currency GWP growth driven by rate increases and a strong performance in the areas of fleet and special risks which have recorded local currency GWP growth of 15%. Retention rates have held up well.
- In Asia, established operations performed strongly and the investment in a general insurance joint venture in India was completed, with the first policy expected to be sold this year. The Group continued to review other highly targeted acquisition opportunities in chosen markets.
- The Group's online insurance operation, The Buzz, launched in May 2009, has received very positive reactions from customers and is performing broadly in line with expectations.

3. DRIVING PERFORMANCE AND ACCOUNTABILITY

- The Group continued to invest in employee programs to drive engagement, improve internal performance and identify and grow future leaders.
- Its 'balanced scorecard' methodology continued to help each employee to ensure their daily tasks are serving to support the priorities of the entire Group.

GROUP OUTLOOK FOR FY10	
Underlying GWP growth (adjusting for divested businesses and foreign exchange)	**3–5%**
Reported GWP growth	**0%**
Insurance margin[1]	**11.5–13.0%**

[1] Subject to losses from natural perils being within the budgeted allowance of $184 million for the second half and no material movement in foreign exchange rates or investment markets.