

IAG announces first half result

Insurance Australia Group Limited (IAG) today announced an insurance profit of \$470 million (1H10: \$488m) for the six months to 31 December 2010, representing an insurance margin of 12.7% (1H10: 13.4%), confirming the expectations provided in a market update on 14 February 2011. A fully franked interim dividend of 9.0 cents per share (cps) has been determined, up from 8.5 cps in the previous corresponding period.

IAG Managing Director and CEO, Mr Mike Wilkins, confirmed the Group's first half result reflected the combination of an ongoing strong performance in Australia and New Zealand, offset by a disappointing result in the UK.

"Our largest business, Australia Direct – which includes NRMA Insurance, SGIO and SGIC – delivered an improved insurance margin of 19.4%, up from 16.9% in the previous corresponding period. We've achieved this by staying focused on risk selection and cost control, while striving to improve our products and services. We're pleased we've been able to grow the business and that customer retention remains high," Mr Wilkins said.

"Meanwhile, CGU, our intermediated business, returned to top line growth and delivered an improved insurance margin of 14.3%. This has been achieved despite difficult market conditions.

"In New Zealand, our businesses produced a strong insurance margin of 19.8%. While in September 2010 the first destructive earthquake in Christchurch and nation-wide storms led to significant local claim costs, at a Group level these events were fully covered by reinsurance protections," he said.

"These three businesses in Australia and New Zealand now represent more than 90% of the Group's revenue and, collectively, produced a pleasing insurance margin of 17.8%, up from 14.4% in the previous corresponding period, and underlying gross written premium growth of 6.3%. This result demonstrates the effectiveness of the improvements we've been making in these businesses over the past two years."

Countering the strong performance in the Group's home markets, Mr Wilkins confirmed that, as previously announced, the UK operation reported an insurance loss of \$121 million.

"The disappointing result from the UK related primarily to bodily injury claim inflation which has continued to affect the local motor insurance industry, and has exceeded our previously held expectations. While we have made progress in remediating our UK business, the strengthened management team is accelerating our corrective actions and we remain confident profitability will be restored. Actions include further significant rate increases across the portfolio and continuing to exit poorly performing business."

IAG's established businesses in Asia – Thailand and Malaysia – performed well, and good progress was made in the division's strategy to access high growth markets in Asia. In particular, IAG's Indian joint venture, SBI General, is on track for a full launch in the current half and is expected to capitalise on the strong growth evident in the Indian general insurance market.

At the Group level, reported gross written premium increased 1.9% to \$3,936 million (1H10: \$3,863m) which, after removing the effect of foreign exchange movements, represents underlying growth of 3.2%.

Investment income on technical reserves was \$149 million (1H10: \$210m), with reported returns reducing in the face of rising yields. Shareholders' funds investments generated improved income of \$147 million (1H10: \$91m).

Net profit after tax was \$161 million for the period (1H10: \$329m), with the decline attributable to an impairment of UK goodwill and intangibles of \$150 million and the non-recognition of tax benefits in respect of the UK operating losses.

Dividend and capital position

The Board has determined to pay an interim dividend of 9.0 cps fully franked (1H10: 8.5 cps). This represents approximately 52% of cash earnings. The dividend will be paid on 11 April 2011 to shareholders registered as at 9 March 2011.

IAG's capital position remains strong with a minimum capital requirement multiple of 1.81, as at 31 December 2010. Debt to total tangible capitalisation at 31 December 2010 was 33%, which is within the targeted range of 30% to 40%.

Outlook

Mr Wilkins said the Group's focus for the second half of FY11 was to continue to deliver a solid underlying performance in the Australia and New Zealand businesses, work towards restoring profitability in the UK, and continue to pursue growth opportunities in chosen markets, particularly Asia.

As recently advised, the Group expects to produce an insurance margin in the range of 8%–10% and deliver underlying gross written premium growth of 3%–5% for the full year.

"The ongoing underlying strength of our businesses in Australia and New Zealand gives us confidence the Group will deliver an improved insurance margin in the 2011 financial year, compared to 7% reported in the 2010 financial year. This is despite the substantial net natural peril claim cost resulting from the sequence of severe weather events in Australia, as well as the powerful earthquake in New Zealand, in the opening weeks of calendar 2011," Mr Wilkins said.

Guidance assumes:

- Full year natural peril claim costs of \$540 million;
- Ongoing strong underlying performance from the Australian and New Zealand businesses, offset by a further second half loss from the UK operation albeit at a lower level than that of the first half;
- Increased reinsurance costs in 2H11, comprising the additional adverse development cover in the UK and catastrophe cover reinstatement costs;
- No material movement in foreign exchange rates or investment markets in 2H11; and
- Full year net reserve releases not exceeding FY10's \$228m.

The Group plans to provide an update on each of its businesses and longer term strategy on 14 June 2011.

- 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

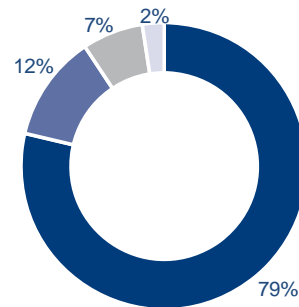
24 FEBRUARY 2011



IAG results for the six months to 31 December 2010

INTERNATIONAL PORTFOLIO

1H11 % OF GWP

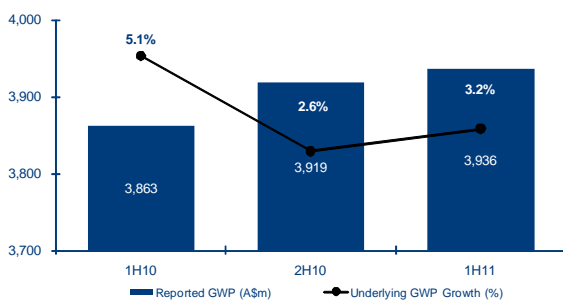


- Australia
- New Zealand
- UK
- Asia

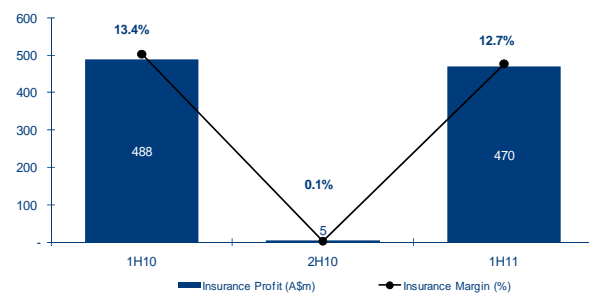
1. 49% ownership of the general insurance arm of AmBank Group, AmG Insurance Berhad, trading under the AmAssurance brand. 2. 98% voting rights in Safety Insurance, based in Thailand. 3. 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India. 4. RACV is via a distribution relationship and underwriting joint venture with RACV Limited. 5. RACV has a 30% interest in The Buzz.

GROUP PERFORMANCE – KEY INDICATORS

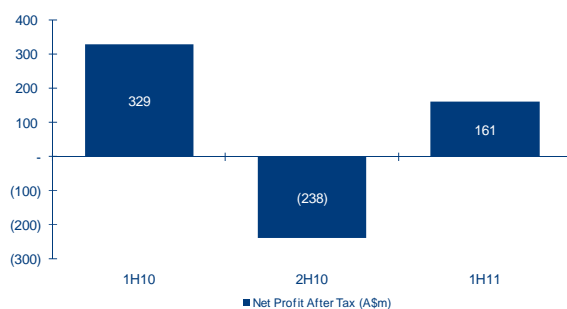
REPORTED GWP & UNDERLYING GWP GROWTH



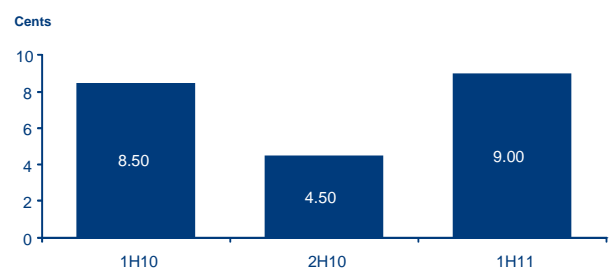
INSURANCE PROFIT & MARGIN



NET PROFIT AFTER TAX



DIVIDENDS PER SHARE



1H11 NATURAL PERIL CLAIM COSTS (NET OF REINSURANCE RECOVERIES)

	Net Cost A\$m
Severe weather and flooding - South East Australia (September 2010) ¹	-
Earthquake - Christchurch (September 2010) ¹	-
Heavy snow and wind - New Zealand (September 2010) ¹	-
Severe thunderstorms - Australia (October 2010)	11
Severe storms - South & East Australia (November 2010) ¹	-
Severe storms and wind - South & East Australia (December 2010) ¹	-
Severe storms - Brisbane & South East Australia (December 2010) ²	21
Tropical Cyclone Tasha and monsoonal rain - North & East Australia (December 2010)	20
Severe winter weather - UK (December 2010)	11
Other events	71
Total	134

¹ Covered by reinsurance.

² Partially covered by reinsurance.

Note: In 2H11, a significant number of natural perils have occurred in Australia and New Zealand in January and February 2011, including:

- Storms and flooding in Queensland, Northern NSW and Victoria (January);
- Tropical Cyclone Yasi in northern Queensland (February);
- Storms in Melbourne (February);
- Bushfires in Perth (February); and
- Earthquake in Christchurch, New Zealand (February).

Given the number and severity of these natural peril events, IAG has increased its net natural peril claim cost assumption for the full year to \$540 million, up from \$435 million at the beginning of the year.

FY11 GUIDANCE

For the 2011 full year, the Group expects to produce:

- An insurance margin in the range of 8%–10%; and
- Underlying gross written premium growth of 3%–5%.

Guidance assumes:

- Full year natural peril claim costs of \$540 million;
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