

IAG delivers improved performance in FY09

Insurance Australia Group Limited (IAG) today announced a net profit after tax of \$181 million for the 12 months ended 30 June 2009 (FY08: -\$261m). Insurance profit increased to \$515 million (FY08: \$392m), representing an improved insurance margin of 7.1% (FY08: 5.4%) in line with revised guidance.

Gross written premium (GWP) increased from \$7,793 million to \$7,842 million. When excluding foreign exchange impacts and businesses divested or placed into run-off during the year, underlying GWP growth was 4%.

IAG Managing Director and CEO, Mr Michael Wilkins, said he was pleased the actions taken during the year were delivering results.

"The past year has been one of rebuilding for IAG. We refocused back on our core businesses, improved our underwriting disciplines and put decision-making closer to our customers. In our largest business, Australia Direct, we grew GWP by more than 9% and insurance profit increased by 18%," Mr Wilkins said.

"We also delivered the \$130 million per annum run-rate of pre-tax cost savings targeted in our Australian operations.

"These actions have seen us deliver a result ahead of last year and broadly in line with the guidance given in February. However, there is still more work to do. While our performance has improved, it's below the expectations we held at the outset of the year largely due to unprecedented volatility in investment markets, high natural peril claim costs, a slower than anticipated recovery in CGU and a disappointing first half performance in our New Zealand business.

"We're confident the fundamentals of our business are now stronger and we expect to continue to improve our performance this financial year," Mr Wilkins said.

Key factors contributing to the full year result include:

- A strong performance from Australia Direct;
- Improved cost control with the \$130 million per annum pre-tax run-rate of cost savings in Australia achieved;
- A return to profitability by New Zealand in the second half of the year;
- A solid performance from specialist motor underwriter, Equity Red Star, in the UK and the sale of the underperforming mass-market portion of the UK business;
- An adverse \$50m effect from lower running yields;
- Natural peril claim costs of \$451 million, net of reinsurance, compared to \$502 million last year; and
- A \$191m reduction in reserve releases.

Mr Wilkins said as a result of volatile markets the Group's shareholders' funds returned a loss of \$39 million (FY08: \$24m), and credit spreads adversely affected the insurance profit by \$13 million (FY08: -\$122m).

In line with the Group's dividend policy to pay-out approximately 50–70% of cash earnings, the Board has determined to pay a fully franked final dividend of 6 cents per ordinary share (FY08: 13.5 cps), payable on 2 October 2009 to shareholders registered on 2 September 2009. This takes the total dividend for the year to 10 cents per share (FY08: 22.5 cps).

Divisional results

Commenting on the individual business segments, Mr Wilkins said the Group's largest business, Australia Direct, delivered a particularly strong result.

"The direct insurance business in Australia, which includes the NRMA Insurance, SGIO and SGIC brands, grew GWP by around 9.1% and generated an improved insurance margin of 12%, up from 10.7% in the previous corresponding period.

“This improvement was driven by premium rate and volume increases across the portfolio, lower claims from natural perils, cost reduction initiatives and a reduced negative impact from wider credit spreads. In addition, the ‘Unworry’ marketing campaign and new product initiatives showed encouraging early results. These benefits were partially offset by a lower running yield on our technical reserves.

“In our intermediated business, CGU, our turnaround strategy is delivering results and the underlying performance has improved on last year. However, the continued challenging economic and market conditions have meant the business’ recovery is taking longer than anticipated.

“In New Zealand, the business delivered an improved performance in the second half to close the year at breakeven. We anticipate this improvement will continue as the benefits of rate increases, improved underwriting discipline and cost control flow through.

“In the UK, Equity Red Star continued to perform well and delivered a solid result.

“In Asia, the underlying performance of our operations improved, reflecting better cost control and claims management. Asia remains important to our medium to long term strategy and we are pleased with the progress we’ve made with our joint venture partners in India and Malaysia during the year,” Mr Wilkins said.

Capital management initiatives

The Group’s capital position has strengthened with a minimum capital requirement ratio of 1.79 at 30 June 2009. During the year, the Group raised more than \$530 million in equity capital and bought back approximately £144 million of debt at a 30% discount.

Mr Wilkins said, “I am pleased with the success of our capital management initiatives. Through these measures we have improved our capital mix and further strengthened our financial position, which we see as prudent in these still challenging market conditions.”

IAG’s key wholly owned insurers remain the highest rated of any Australian-based general insurer, with very strong insurer financial strength ratings from Standard & Poor’s of ‘AA-’ (Stable).

Outlook

Mr Wilkins said he was confident that IAG would further improve its performance. The Group’s guidance for the 2010 financial year is 3–5% growth in underlying gross written premium and an insurance margin in the range of 9–11%*.

“This year we have strengthened the business and now have a platform for future success. While the early benefits of this are visible in the FY09 result, we expect to see a stronger performance in the 2010 financial year. This will be on the back of higher premiums, ongoing operating efficiencies, improved underwriting discipline and hardening market conditions,” Mr Wilkins said.

“We’ll also benefit from the changes we have made to our operations, such as the significantly reduced exposure to the mass, private motor market in the UK.

“For the longer term, we continue to aim to deliver a return on equity of at least 1.5 times the Group’s weighted average cost of capital and a top quartile shareholder return through the cycle.”

* This guidance is subject to losses from natural perils being within the budgeted allowance of \$350m and no material movement in foreign exchange rates or investment markets.

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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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IAG results for the 12 months to 30 June 2009

Summary financial information	1H09	2H09	FY08	FY09
Gross written premium (GWP) (A\$m)	3,922	3,920	7,793	7,842
Insurance profit (A\$m)	227	288	392	515
Net profit/(loss) after tax (A\$m)	4	177	(261)	181
Insurance margin (%)	6.2	8.1	5.4	7.1
Dividend per share, fully franked (cps)	4.0	6.0	22.5	10.0

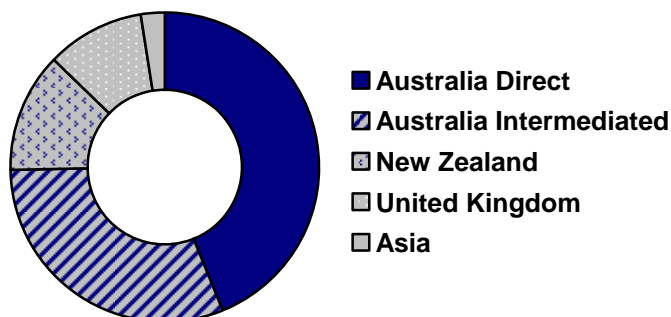
Group highlights FY09

- FY09 was a rebuilding year for IAG. In July, the Group announced a refined strategy designed to improve profitability, and in line with that strategy it has:
 - Refocused on its core businesses in Australia and New Zealand;
 - Narrowed its focus to a specialist motor underwriter in the UK;
 - Continued to focus on growth opportunities in Malaysia and India;
 - Moved to a devolved operating model;
 - Strengthened its executive team; and
 - Concentrated on driving operational performance and execution.
- These actions contributed to an improved performance in FY09, despite a challenging operating environment. Key operating highlights include:
 - Underlying GWP increased 4.0%, after adjusting for divested businesses and foreign exchange movements;
 - Insurance margin increased to 7.1% (7.7% for the ongoing business), compared to 5.4% in FY08;
 - Australia Direct performed strongly, increasing GWP by 9.1% and insurance profit by 18%;
 - \$130m per annum pre-tax run-rate cost savings achieved in the Australian businesses;
 - New Zealand returned to profitability in 2H09; and
 - Group net profit after tax increased to \$181m, compared to a loss of \$261m in FY08.
- The Group's capital position strengthened, with its MCR multiple increasing to 1.79 at 30 June 2009.

Insurance profit by division	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Australia Direct	194	179	316	373
Australia Intermediated (CGU)	(7)	55	134	48
New Zealand	(17)	17	12	0
United Kingdom (retained)	77	36	53	113
Asia	9	0	(11)	9
Total retained	256	287	504	543
Discontinued business	(29)	1	(112)	(28)
TOTAL	227	288	392	515

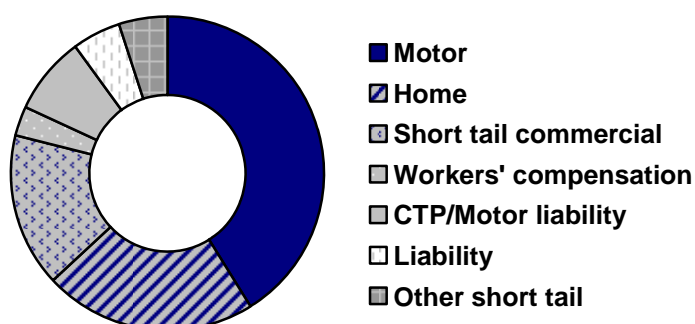
IAG PORTFOLIO MIX BY GEOGRAPHY

At 30 June 2009



IAG PORTFOLIO MIX BY PRODUCT

At 30 June 2009



FY09 natural perils and associated claim costs	A\$m
New Zealand storms (July 2008)	23
Lismore hailstorm (October 2008)	22
South-east Queensland storms (November 2008)	52
WA and NSW storm events (November 2008)	10
Victorian bushfires (February 2009)	126
Queensland and NSW storm events (February 2009)	6
Coffs Harbour storms (March/April 2009)	28
Northern NSW / south-east Queensland storms (May 2009)	28
Other events	156
TOTAL	451

- FY09 natural peril claim costs were \$51m lower than FY08.
- Overall natural peril claim costs exceeded allowances by \$137m in FY09, but were slightly lower than those incorporated in the adjusted guidance provided in February 2009, after the Victorian bushfires.

Group outlook for FY10

GWP growth	1–3%
Underlying GWP growth (adjusting for divested businesses and foreign exchange)	3–5%
Insurance margin ¹	9–11%

¹ Subject to losses from natural perils being within the budgeted allowance of \$350m and no material movement in foreign exchange rates or investment markets.