

# ON TRACK ▶▶ THE YEAR SO FAR

## INTERIM REPORT 2010

Insurance Australia Group Limited ABN 60 090 739 923



### KEY FIGURES

1H09	3,922
2H09	3,920
<b>1H10</b>	<b>3,863</b>

**\$3,863m**

**GROSS WRITTEN PREMIUM (GWP)**  
Reduced 1.5% compared with the previous first half, due to the sale of underperforming businesses and foreign exchange effects. Excluding these factors, underlying gross written premium increased 5.1%.

1H09	6.2
2H09	8.1
<b>1H10</b>	<b>13.4</b>

**13.4%**

**INSURANCE MARGIN**  
Up from 6.2% in the first half last year, driven by a strong operational performance, lower natural peril claims and a favourable credit spread movement.

1H09	4
2H09	177
<b>1H10</b>	<b>329</b>

**\$329m**

**NET PROFIT AFTER TAX**  
Significant upswing from \$4 million in the previous first half. This reflects improved underlying performance, recovering investment markets and the absence of the loss incurred in the first half last year when we sold underperforming businesses in the UK.

1H09	4
2H09	6
<b>1H10</b>	<b>8.5</b>

**8.5cps**

**DIVIDEND**  
More than doubled from the last interim dividend, reflecting higher cash earnings, and is again fully franked. To be paid on 12 April 2010 to shareholders registered as at 10 March 2010.

### HOW WE'VE PERFORMED

#### FINANCIAL PERFORMANCE

	Six months ended 31 Dec 2008 \$m	Six months ended 31 Dec 2009 \$m
Gross premium revenue	3,922	3,863
Net premium revenue	3,683	3,643
Net claims expense	(3,088)	(2,335)
Underwriting profit/(loss)	(505)	278
Investment income on technical reserves	732	210
Insurance profit	227	488
Profit from fee based business/share from associates	13	11
Investment income on shareholders' funds	(72)	91
<b>Net profit attributable to holders of ordinary shares</b>	<b>4</b>	<b>329</b>

#### FINANCIAL POSITION

	As at 30 Jun 2009 \$m	As at 31 Dec 2009 \$m
Cash and investments	11,029	12,182
Other assets	6,008	5,380
Goodwill and intangibles	2,278	2,195
<b>Total assets</b>	<b>19,315</b>	<b>19,757</b>
Claims provisions and unearned premium	11,888	11,609
Borrowings and other liabilities	2,591	3,108
<b>Total liabilities</b>	<b>14,479</b>	<b>14,717</b>
<b>Net assets</b>	<b>4,836</b>	<b>5,040</b>
Equity attributable to IAG shareholders	4,671	4,886
Non-controlling interests	165	154
<b>Total equity</b>	<b>4,836</b>	<b>5,040</b>

### USEFUL INFORMATION

**IAG SHARE REGISTRY**  
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**ONLINE INFORMATION**  
To view other information about IAG and to manage your shareholding online, visit [www.iag.com.au](http://www.iag.com.au)

You can also register to receive email news alerts when IAG makes important announcements.

### OUR MAJOR BRANDS



100% owned unless indicated <sup>1</sup> RACV is via a distribution relationship and underwriting joint venture with RACV Limited  
<sup>2</sup> RACV has a 30% interest in The Buzz <sup>3</sup> 98% voting rights <sup>4</sup> 49% ownership of AmG Insurance, which is part of AmAssurance <sup>5</sup> 26% ownership

## IAG'S PERFORMANCE CONTINUED TO IMPROVE IN THE FIRST HALF OF THE 2010 FINANCIAL YEAR, DEMONSTRATING OUR ACTIONS OVER THE PAST 18 MONTHS ARE DELIVERING RESULTS.

# PROGRESSING TO PLAN ▶▶

We are pleased to advise that IAG recorded a net profit after tax of \$329 million for the first half of the 2010 financial year, up significantly from \$4 million in the previous corresponding period.

The Group's insurance profit increased to \$488 million from \$227 million in the first half last year, representing an improved insurance margin of 13.4%, up from 6.2%.

This substantial improvement confirms the actions taken since we outlined a new corporate strategy are delivering results.

In particular, our businesses in Australia and New Zealand have improved as we have introduced better pricing and underwriting disciplines, enhanced the way we manage claims and reduced our costs.

The Group's result was buoyed by fewer than anticipated natural perils which reduced the claim costs associated with major storms and fires, and the favourable effects of easing volatility in credit markets.

Our reported premium revenue—measured as gross written premium—declined 1.5% compared with the previous first half due to the sale of some underperforming businesses in the previous period, and the effect of foreign exchange on revenue as the Australian dollar strengthened. When you exclude these factors, our underlying premium revenue increased by 5.1%.

Key operational highlights in the first half were:

- a strong performance from our Australia Direct business, which recorded premium revenue growth of 7.8% and an increased insurance margin of 16.9%;
- further improvement in the underlying performance of our Australia Intermediated business (CGU), leading to a higher insurance margin of 10.2%;
- a strong turnaround in the New Zealand business which recorded an insurance margin of 15%, reflecting the benefits of remedial actions and benign weather;
- strong local currency revenue growth in specialist classes in the UK business; and
- continued progress with our goal of growing in select Asian markets, including completion of our investment in our general insurance joint venture in India.

Our insurance margin also benefited from:

- higher than expected reserve releases of \$80 million;
- natural peril claim costs which were \$45 million lower than our allowances;
- a favourable credit spread movement; and
- the absence of the writedown of deferred acquisition costs experienced in the previous corresponding period.

### CAPITAL AND DIVIDEND

IAG's cash return on equity was 17.0%, up from 3.5% in the first half last year.

We continued to maintain a very strong balance sheet and our regulatory capital position further strengthened during the period.

The Board has determined to pay a higher interim dividend of 8.5 cents per share (cps), fully franked, up from 4 cps in the first half last year. It will be paid on 12 April 2010 to shareholders registered on 10 March 2010.

### OUTLOOK

The progress made in turning around our performance gives us confidence this momentum will continue in the second half of the 2010 financial year.

We expect to report a full year insurance margin in the range of 9.5–11.0%. We refined this guidance twice in March, from the guidance we gave on 25 February 2010, following the severe weather events which hit Melbourne and Perth during that month. Further details about the impact of these events can be found at [www.iag.com.au](http://www.iag.com.au). The refined guidance remains subject to losses from natural perils being within the revised natural perils forecast for the second half of the 2010 financial year and no material movement in foreign exchange rates or investment markets.

Our underlying premium revenue is expected to grow in the range of 3–5%, while the reported premium revenue should be similar to last year.

We remain ever mindful of the challenges we face, including intensifying competition and other external factors. However, we are confident we have the right strategy, and the right team, to meet these challenges and ensure we continue to improve results for our shareholders.



*James Strong*

James Strong  
Chairman

*Michael Wilkins*

Michael Wilkins  
Managing Director &  
Chief Executive Officer

## WE REMAIN FOCUSED ON THREE KEY PRIORITIES AND MADE PLEASING PROGRESS DURING THE FIRST HALF.

### 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%. Customer satisfaction remained high and expenses reduced.**

**Australia Intermediated (CGU) further improved, recording a higher insurance margin of 10.2%. Rate increases were targeted at unprofitable portfolios and further efficiency sought.**

**Our New Zealand businesses recorded a significantly higher insurance margin, reflecting the benefits of remedial actions and benign weather.**

### 2

#### PURSUE SELECTIVE GENERAL INSURANCE GROWTH OPTIONS

**Our UK business achieved strong local currency premium revenue growth.**

**In Asia, we completed our investment in our general insurance joint venture in India and expect to sell our first policy this year; and we continued to review other highly targeted acquisition opportunities in our chosen markets.**

**Our new online insurance operation—The Buzz—has received very positive reactions from customers.**

### 3

#### DRIVING PERFORMANCE AND ACCOUNTABILITY

**Our 'balanced scorecard' methodology continued to help every one of our employees to ensure their daily tasks were serving to support the priorities of the entire Group.**

**We also continued our investment in employee programs to drive engagement, improve internal performance, and identify and grow future leaders.**