

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
Directory

Securities Exchange Listings of the Group

ASX Limited:

ASX code for Ordinary Shares: **IAG** (Shares on issue, 31 December 2008: 1,888,332,519)

ASX code for Reset Preference Shares: **IAGPA** (Listed June 2002)

ASX code for Reset Exchangeable Securities: **IANG** (Listed January 2005)

London Stock Exchange:

LSE code: 70QG for

Insurance Australia Group Limited £250m Fixed/Floating Rate Subordinated Notes due 2026

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Key dates for shareholders – proposed calendar of events*

Interim dividend - ordinary shares

- Ex-dividend date	4 March 2009
- Record date	11 March 2009
- Payment date	8 April 2009

Payment date for IANG quarterly distribution	16 March 2009
Payment date for IAGPA and IANG distributions	15 June 2009
Announcement of full-year results to 30 June 2009	21 August 2009

Final dividend - ordinary shares

- Ex-dividend date	27 August 2009
- Record date	2 September 2009
- Payment date	2 October 2009

Payment date for IANG quarterly distribution	15 September 2009
Annual General Meeting	10 November 2009
Payment date for IAGPA and IANG distributions	15 December 2009
Announcement of half-year results to 31 December 2009	25 February 2010

**These dates are indicative dates only and are subject to change. Any change will be announced on ASX.*

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1. EXECUTIVE SUMMARY

1.1 1H09 overview

- FY09 is a year of rebuilding for IAG, and the first six months have seen significant activity as the Group delivered on a number of the priorities outlined in its refined corporate strategy presented in July 2008.
- This activity was undertaken against the backdrop of unprecedented volatility in financial markets and economic uncertainty on a global scale, coupled with a steep decline in interest rates during the half.
- Operating within this environment, IAG recorded an improved underlying result for the half year and registered sound progress towards its goal of delivering an improved performance in the medium term.
- Gross written premium (GWP) of \$3,922m increased by 1.8% over 1H08, driven predominantly by strong growth from Australia Direct. Underlying GWP, after allowing for foreign exchange movements and the sale of the non-core UK operations, increased by 3.9%.
- 1H09 insurance profit increased to \$227m (1H08: \$190m), representing an improved insurance margin of 6.2% (1H08: 5.1%). This result is after incurring a 3.4% reduction in insurance margin from two external influences of an industry-wide nature:
 - An \$86m (2.3%) adverse impact from the further widening of credit spreads, much of which occurred late in the half; and
 - A net \$42m (1.1%) impairment of deferred acquisition costs (DAC). This comprises a \$50m writedown within Australia Intermediated, as required by the liability adequacy test (LAT) and primarily caused by a significant reduction in interest rates in the half, offset by an \$8m benefit from the introduction of DAC accounting in Thailand.
- The insurance margin also includes prior period reserve releases of \$85m, a reduction of \$143m compared to 1H08.
- Natural peril claim costs were \$176m, a reduction of \$150m over 1H08 (\$326m), but exceeded first half allowances by \$23m.
- After removal of the impact of credit spreads, DAC writedown and natural peril claim costs in excess of allowances, the Group has delivered an adjusted insurance margin of 10.3% for 1H09, which reflects the following:
 - Increases in average premium rates, notably in Australia Direct;
 - Improved underwriting discipline as more appropriate pricing for risk is implemented across the Group; and
 - The initial benefit from the initiatives implemented to reduce the Australian cost base by \$130m per annum.
- 1H09 net profit after tax of \$4m (1H08: \$110m) was materially impacted by the following significant or unusual factors:
 - Adverse financial market conditions contributing to a pre-tax investment loss on shareholders' funds of \$72m, compared to a pre-tax profit of \$76m in 1H08;
 - The recognition of a loss of \$115m on the sale of IAG's non-core mass market distribution operations in the United Kingdom (UK), closure of its Lloyd's syndicate Alba and associated underwriter Diagonal, and restructuring costs in respect of our ongoing business in the UK; and
 - A \$38m profit recognised on the sale of IAG's interest in the life insurance portion of its Malaysian joint venture.

- The Board has declared an interim dividend of 4.0 cents per ordinary share (fully franked) (1H08: 13.5 cps), which represents approximately 70% of reported cash earnings for the half. This is in accordance with the Group's revised dividend policy, as announced in July 2008, under which IAG intends to pay out 50–70% of cash earnings. For this purpose, cash earnings is defined as net profit after tax, plus depreciation and amortisation and excluding any unusual items, and amounted to \$107m in 1H09 (1H08: \$173m).
- During 1H09, the Group delivered on the following priorities set out in its refined corporate strategy in July 2008:
 - A simpler, devolved operating model was implemented by the end of September 2008;
 - Annual run rate cost savings of \$130m pre-tax were achieved in Australia;
 - A new CEO was appointed to the Australia Direct business, completing the new management structure;
 - Growth initiatives were finalised in Asia, including a general insurance joint venture with the State Bank of India and an increase in ownership to 49% of the general insurance joint venture in Malaysia;
 - Implementation of the exit from Alba, the Group's Lloyd's managing agency and specialist Asian syndicate, which has been put into run-off; and
 - The sale of the non-core mass market businesses in the UK was agreed, allowing IAG to become a specialist underwriter in that market.

1.2 Divisional highlights

- | | |
|--------------------------------------|--|
| Australia Direct | <ul style="list-style-type: none"> • The Group's largest business delivered a strong result, growing GWP by 8.8% over 1H08 and recording an insurance margin of 12.6%. • The improved performance was supported by rate increases across the portfolio, volume gains, lower claims from natural perils and cost reduction initiatives, partially offset by lower reserve releases and the impact of wider credit spreads. • The commencement of a brand relaunch, supplemented by new product initiatives, has shown encouraging early results. |
| Australia Intermediated (CGU) | <ul style="list-style-type: none"> • CGU's new leadership team's strategy for the business is beginning to yield positive results. Whilst still below the desired level, the underlying insurance margin has improved, and further improvement is expected in 2H09. • CGU continued to focus on improving underwriting discipline, repricing unprofitable portfolios and controlling expenses in what remains a highly competitive environment. As a result, GWP has marginally declined, however some positive signs on pricing are emerging. • The 1H09 result includes a significantly reduced level of reserve releases and a \$50m writedown of DAC under the LAT requirements. This impairment was heavily influenced by the period's sharp drop in interest rates. |

- New Zealand**
- The New Zealand operations recorded a disappointing insurance loss of \$17m (insurance margin of -3.9%) in a challenging environment, exacerbated by severe storms in late July and a higher than expected frequency of claims.
 - Local currency GWP growth of 4.7% has been driven by price increases across the majority of the book. Reported GWP is, however, flat due to an adverse foreign exchange movement.
 - The business' focus on rate increases, underwriting discipline and tighter claims management is aimed at reducing the impact of higher claims frequency and providing the basis for improved underlying profitability in future periods.
- United Kingdom**
- Despite the ongoing challenging conditions in the private motor market, the UK businesses delivered an improved insurance margin during 1H09 reflecting the withdrawal of capacity from underperforming elements of the market, rate increases and reduced natural peril claim costs.
 - The retained business, Equity Red Star, continued to perform well and delivered an underlying 1H09 insurance margin of over 13% after allowing for significant one-off reserve releases from a syndicate in run-off.
 - The divested mass market businesses reported a pre-tax operating loss of \$26m and a negative insurance margin of 20%. The sale of these businesses was completed by early February 2009.
- Asia**
- The underlying operating result of the Group's existing Asian businesses improved owing to continuing cost control and lower claim ratios, and was achieved despite a significant deterioration in investment markets and declining consumer confidence.
 - The reported result was assisted by an \$8m one-off benefit from the introduction of DAC accounting in Thailand, bringing this business in line with the rest of the Group.
 - Several important initiatives were executed in the half and are expected to materially increase the Asian business' regional footprint. This expanded presence is expected to provide significant growth potential over the longer term.

1.3 Capital management

- The Group's capital position remains sound, with an MCR ratio of 1.51x at 31 December 2008.
- Conversion of the Group's Reset Exchangeable Securities (RES) to Tier 1 capital - which can occur at the Group's option - would increase the MCR coverage to 1.74x.
- The Group's probability of adequacy for the outstanding claim provision remains unchanged at 90%, as at 31 December 2008.
- At 31 December 2008, the Group had interest bearing liabilities of \$1.36bn, with no refinancing commitments until 2010. It retains an 'A+' rating at the Group level and the key wholly owned operating insurance subsidiaries have 'AA-' insurer financial strength ratings from Standard & Poor's, as affirmed on 16 December 2008.
- On 18 February 2009, IAG announced a number of capital management initiatives. These included the raising of \$450m through a fully underwritten institutional placement, together with a share purchase plan (SPP) which is expected to raise approximately \$100m. The Group also announced the intention to repurchase a portion of its subordinated debt, which it has now completed. In total the Group repurchased approximately £108m of UK subordinated debt at a discount to face value, which has resulted in a net profit before tax of approximately \$70m. On a proforma basis at 31 December 2008, these initiatives strengthen IAG's MCR coverage to approximately 1.69x.

1.4 Outlook

- The downturn in global economic conditions is expected to place continuing pressure on the performance of the Group's individual operations, however rate cycles are generally hardening as the need to reflect reduced investment returns gathers momentum and competitive discounting activity dissipates.
- The Group remains confident of a further improvement in operating performance in the second half of FY09, building on the progress evident in 1H09. This will be derived from:
 - Full realisation of announced cost savings in Australia, at an annualised rate of \$130m (pre-tax);
 - Higher premiums including the earned effect of rate rises implemented in FY08 and 1H09; and
 - Favourable portfolio mix changes, including a reduced exposure to UK private motor via divestment of the poorly performing mass market operations.
- For FY09, the Group has reaffirmed full year guidance of reported GWP growth of 0-2% and underlying GWP growth of 3-5%. The latter excludes the divested mass market operations in the UK and the impact of foreign exchange movements.
- The Group has revised its FY09 insurance margin guidance to 6%+, from 10%+. This revision reflects the following factors:
 - Incorporation of the adverse impact from widening credit spreads incurred in 1H09 of \$86m (-1.2%);
 - Allowance for the net \$42m DAC writedown in 1H09, being largely a reflection of the sharp decline in interest rates in that half (-0.6%); and
 - The expectation that natural peril allowances for FY09 of \$314m will now be exceeded by \$150m, after inclusion of an anticipated maximum single event retention of \$126m in respect of the Victorian bushfires in February 2009 (-2.1%).
- The revised FY09 insurance margin guidance is based on the following assumptions for the second half of the financial year:
 - No material movements in foreign exchange rates;
 - No further catastrophes or large losses beyond \$150m in excess of the Group's allowances;
 - No further movement in credit spreads;
 - No further DAC impairment; and
 - Modest levels of reserve releases.
- Moving forward, the Group's priorities remain to:
 - Improve the performance of the Australian and New Zealand businesses;
 - Pursue international growth opportunities in Asia and other select segments of the Group's existing markets; and
 - Drive operational performance, execution and accountability.
- It remains the Group's intent to deliver an ROE of at least 1.5x WACC and top quartile shareholder return through the cycle.

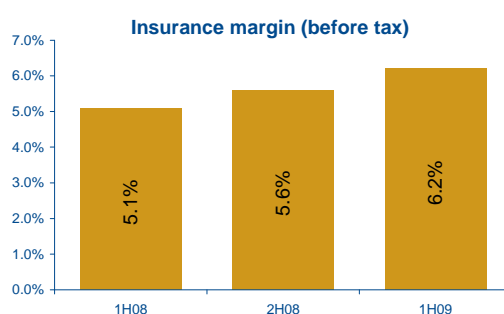
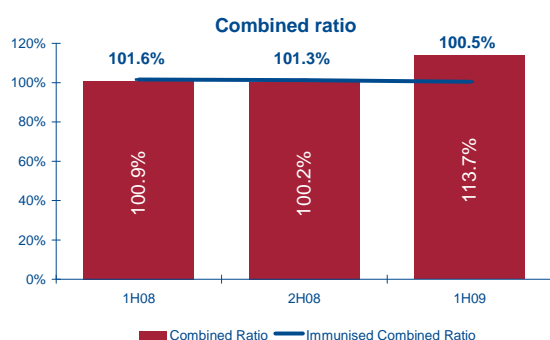
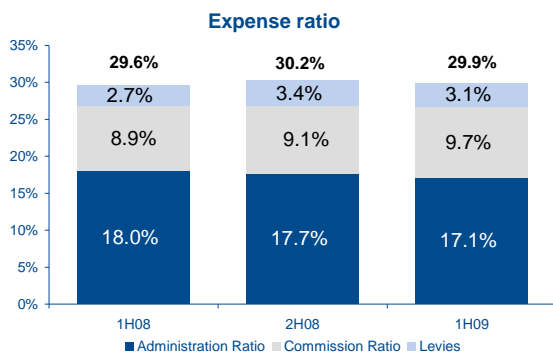
2. RESULTS OVERVIEW

INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	3,851	3,942	3,922
Gross earned premium	3,923	3,842	3,931
Reinsurance expense	(214)	(256)	(248)
Net premium revenue	3,709	3,586	3,683
Net claims expense	(2,644)	(2,511)	(3,088)
Commission expense	(331)	(326)	(356)
Underwriting expense	(768)	(755)	(744)
Underwriting profit/ (loss)	(34)	(6)	(505)
Investment income on technical reserves	224	208	732
Insurance profit	190	202	227
Net corporate expense	-	(69)	(77)
Interest	(58)	(43)	(46)
Profit/ (loss) from fee based business/ share from associates	29	(4)	13
Investment income on shareholders' funds	76	(52)	(72)
Profit/ (loss) before income tax and amortisation	237	34	45
Income tax expense	(78)	(12)	17
Profit (loss) after income tax (before amortisation)	159	22	62
Minority interest	(17)	(18)	(28)
Profit attributable to IAG shareholders (before amortisation)	142	4	34
Amortisation and impairment	(32)	(371)	(30)
Profit/ (loss) attributable to IAG shareholders	110	(371)	4

Insurance Ratios			
Loss ratio	71.3%	70.0%	83.8%
Expense ratio	29.6%	30.2%	29.9%
Commission ratio	8.9%	9.1%	9.7%
Administration ratio	20.7%	21.1%	20.2%
Combined ratio	100.9%	100.2%	113.7%
Insurance margin	5.1%	5.6%	6.2%

Key Financial Metrics			
Reported ROE % (Avg Equity) pa	4.7%	(16.5%)	0.2%
EBITDA (A\$m)	341	172	141
Net cash flow from operations (A\$m)	73	(68)	224
Basic EPS (cents)	6.07	(20.05)	0.23
Cash EPS (cents)	9.58	0.15	5.68
DPS (cents)	13.50	9.00	4.00
Probability of adequacy of general insurance claims reserves	90%	90%	90%
MCR multiple - Group	1.87x	1.62x	1.51x

Insurance ratios



2.1 Premiums

- GWP for the Group was \$3,922m, up 1.8% from \$3,851m in 1H08, driven by a strong performance from Australia Direct.
- After allowing for the negative impact of foreign exchange movements and the sale of the non-core UK operations, underlying GWP growth of 3.9% was achieved compared to 1H08.



- Comparing 1H09 GWP with 1H08:
 - Australia Direct GWP grew by 8.8% to \$1,650m, reflecting increases in both price and volume;
 - Australia Intermediated (CGU) GWP decreased by less than 1% to \$1,159m reflecting improved pricing discipline which saw increased rates offset by some loss of business in highly competitive market segments;
 - New Zealand's reported GWP of \$482m was flat. In local currency terms, GWP increased by 4.7%, reflecting recent rate increases;
 - In the UK, reported GWP of \$532m was approximately 9% lower, reflecting the business' decision to withdraw capacity from the private motor market and an adverse foreign exchange movement;
 - In Asia, reported GWP of \$92m increased by 3.4%. In local currency terms it grew by 2.5%, with political and economic uncertainty impacting regional growth levels; and
 - In Corporate & Other, reported GWP of \$7m comprised the external reinsurance activities of Alba and Labuan, and decreased from \$11m in 1H08 due to the closure of Alba with effect from October 2008.

2.2 Reinsurance expense

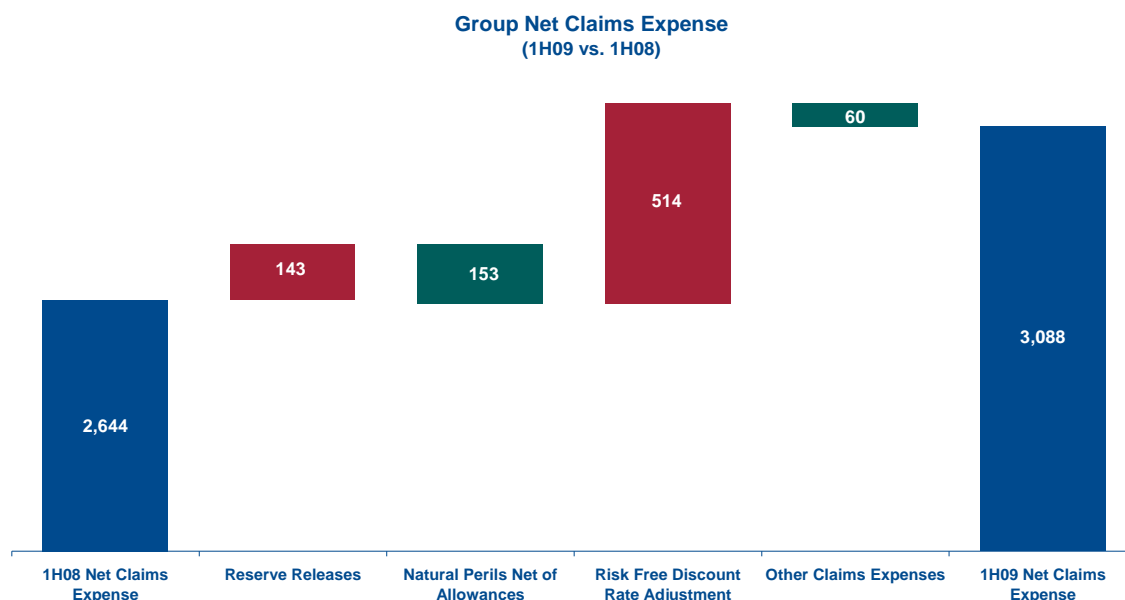
- The Group's reinsurance expense increased in 1H09 to \$248m (1H08: \$214m). The majority of this increase is attributable to additional property catastrophe cover which the Group purchased with effect from 1 January 2008.

2.3 Claims

- Net claims expense of \$3,088m represents a loss ratio of 83.8%, compared with 71.3% in 1H08 and 70.0% in 2H08. On an immunised basis, allowing for the effect of changes in the risk free rate used to discount claim liabilities, the loss ratio of 70.6% is slightly lower than that of the preceding two halves. The impact of changes to the risk free discount rate in 1H09 was \$488m (1H08: -\$26m).
- Reserve releases were materially lower than those in 1H08, conforming with previous guidance that releases in FY09 would be significantly reduced compared to FY08 levels. The majority of 1H09's reserve releases were sourced from the central estimate, reflecting prior period claim experience which was better than expected. Modest levels of reserve release are anticipated in 2H09.
- The impact of lower reserve releases on a Group basis has largely been offset by reduced natural peril losses. Major natural peril losses (net of reinsurance) in 1H09 were as follows:

Natural perils for 1H09 and associated claims costs (A\$m)	
Aust. November storm events (WA and NSW) (November 2008)	16
Aust. South-East QLD storms (November 2008)	69
Aust. Lismore hailstorm (October 2008)	15
Aust. NSW/QLD storm (September 2008)	6
NZ North Island storms (July 2008)	24
Other small events	46
Total	176

- In 1H09, losses from natural perils totalled \$176m, \$150m lower than 1H08 which included the major Lismore and Western Sydney storms. Significant loss events in 1H09 were the SE Queensland storms in November 2008 (\$69m) and the July 2008 storms in New Zealand (\$24m). Overall natural peril claim costs exceeded related allowances by \$23m in 1H09.



2.4 Expenses

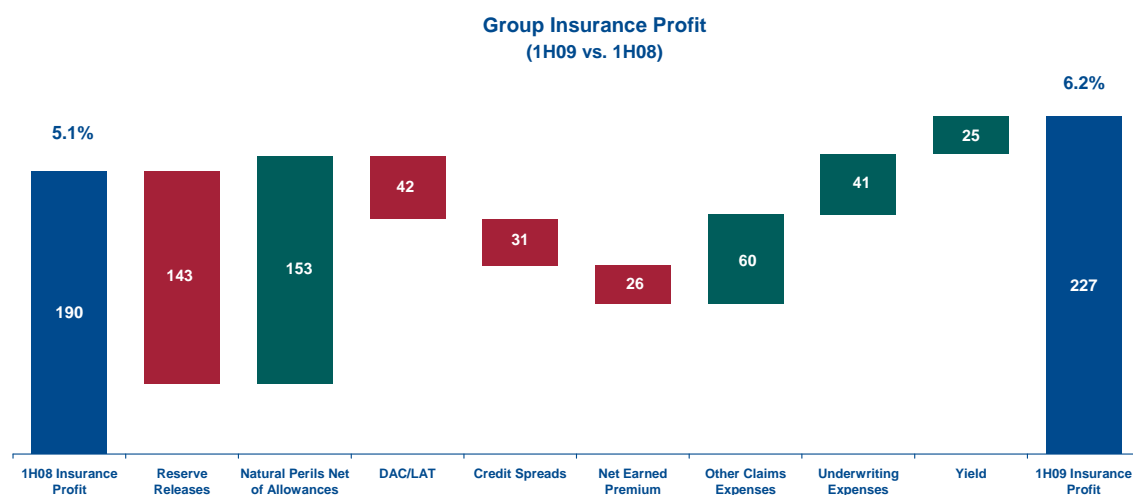
- The Group's overall expense ratio was 29.9% in 1H09, compared to 29.6% in 1H08. Total expenses were inflated by the inclusion of a \$42m net writedown of DAC, which was allocated between commission expense (\$20m) and underwriting expense (\$22m). Excluding the DAC writedown, the Group's expense ratio improved to 28.7%.
- The net DAC charge arose from a \$50m impairment within CGU, as required by the liability adequacy test (LAT) in the face of a significant reduction in interest rates in the half, offset by an \$8m benefit from the introduction of DAC accounting in Thailand.
- The commission ratio increased to 9.7% (1H08: 8.9%). Excluding the DAC impairment impact, the underlying commission ratio was 9.1%.
- The administration ratio of 20.2% was lower than those of the two preceding halves, as the benefit of cost initiatives began to be realised. Excluding the DAC impairment impact, the underlying administration ratio was 19.6%.

2.5 Investment income on technical reserves

- Investment income on technical reserves for 1H09 was \$732m, compared to \$224m in 1H08 and \$208m in 2H08. The higher income in 1H09 reflects higher running yields on the portfolio and material capital gains on bonds, partially offset by the negative impact of widening credit spreads.

2.6 Insurance margin

- The Group's insurance margin for 1H09 was 6.2% compared to 5.1% in 1H08. The main drivers of the improvement were:
 - Premium rate increases and improved underwriting discipline;
 - Lower natural peril claim costs; and
 - The realisation of initial expense savings from the initiatives to reduce the Australian cost base by \$130m pre-tax per annum.
- Offsetting adverse factors were:
 - An \$86m impact from widening credit spreads in the half, representing a 2.3% reduction in the reported insurance margin;
 - The net writedown of DAC of \$42m; and
 - Reduced prior period reserve releases of \$85m compared to \$228m in 1H08.

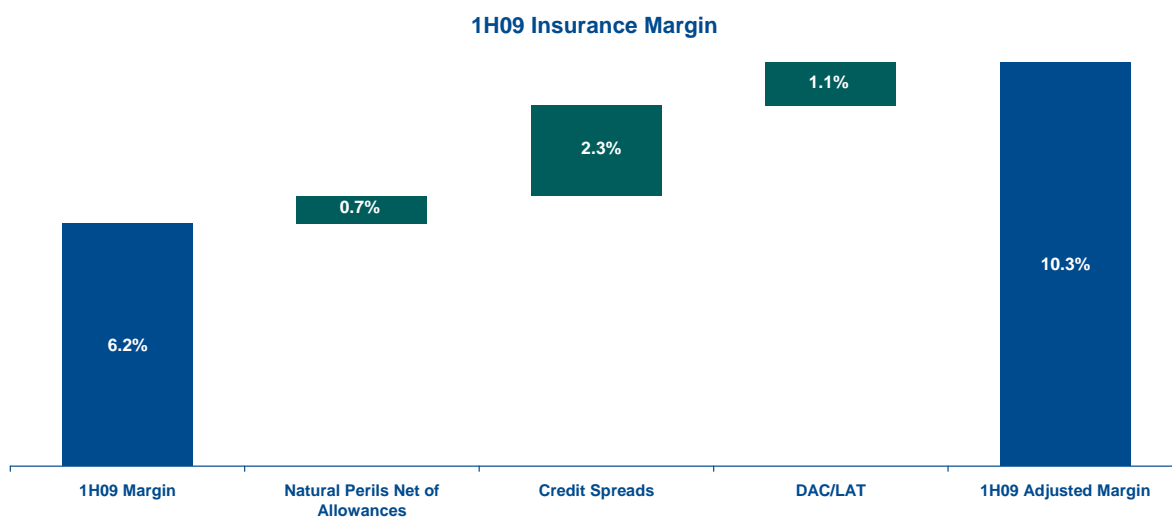


* Offsetting risk free discount rate adjustment movement of \$514m excluded from other claims expenses and yield.

- The impact of prior period reserve releases, the incidence of natural perils, the widening of credit spreads and the DAC writedown on the insurance result is highlighted in the table below:

Group	1H08 A\$m	2H08 A\$m	1H09 A\$m
Reserve releases	228	178	85
Natural perils	(326)	(176)	(176)
Natural perils allowance	150	170	153
Credit spreads	(55)	(67)	(86)
DAC/LAT	-	(15)	(42)
Impact on Group Insurance result	(3)	90	(66)
Reserve releases	6.1%	5.0%	2.3%
Natural perils	(8.8%)	(4.9%)	(4.8%)
Natural perils allowance	4.0%	4.7%	4.1%
Credit spreads	(1.5%)	(1.9%)	(2.3%)
DAC/LAT	-	(0.4%)	(1.1%)
Impact on Group Insurance margin	(0.1%)	2.5%	(1.8%)
Insurance margin	5.1%	5.6%	6.2%

- After allowance for natural peril claim costs in excess of allowances, credit spreads and the net DAC writedown, the Group's adjusted 1H09 insurance margin was 10.3%.



2.7 Net corporate expenses

- As previously advised, all corporate expenses which are not of a one-off nature are now wholly allocated to the operating businesses (i.e. included in the calculation of the insurance profit) and no longer separately disclosed. Comparative figures for 1H08 have been reclassified to reflect this revised treatment, and were issued to the ASX in December 2008.
- Net corporate expenses of \$77m comprised:
 - A loss of \$85m on the sale of IAG's non-core mass market distribution operations in the UK;
 - \$30m of restructuring costs relating to the closure of the Lloyd's syndicate Alba and associated underwriter Diagonal, as well as the restructure of our ongoing business in the UK; and
 - A \$38m profit recognised on the sale of IAG's interest in the life insurance business of its Malaysian joint venture.

2.8 Interest

- The interest expense was lower in 1H09, reflecting the repayment of subordinated debt late in 1H08 and the buyback of Reset Preference Shares in 2H08. Most of the Group's borrowings are at fixed rates of interest.

2.9 Profit/(loss) from fee based businesses and share from associates

- The combined contribution of \$13m (1H08: \$29m) from fee based business and associates comprises \$10m (1H08: \$28m) of fee based income and \$3m (1H08: \$1m) in respect of share of associates.
- Profit from fee based business of \$10m in 1H09 has reduced from 1H08, primarily owing to the absence of the profit on sale of CGU Premium Funding which occurred in September 2007. While government underwritten workers' compensation schemes contain an element of unpredictability in the form of prior year experience adjustments and performance fees, the Group considers a reasonable expectation of future fee based income to be up to \$15m per annum.
- The \$3m share of profit from associates recorded in 1H09 is mainly in respect of the Malaysian joint venture, now named AmG Insurance.

2.10 Investment income on shareholders' funds

- There has been a substantial reduction in the income generated from the Group's shareholders' funds portfolios compared to 1H08 as a result of the poor performance of equity investment markets, offset by gains on the bond portfolio.
- The result includes a \$25m revaluation profit from the exchange right held by the Group in respect of its Reset Exchangeable Securities (RES) owing to further expansion of credit spreads during 1H09. This exchange right had a value of \$93m at 31 December 2008, but can be expected to fluctuate with future credit spread movements and the traded value of the RES security.

2.11 Tax expense/benefit

- The Group reported a tax benefit in 1H09 of \$17m compared to an expense of \$78m in 1H08.
- Whilst impacted by a lower pre-tax profit, the current period's tax credit reflects significant non-assessable/deductible items. These include: the profit on sale of the life insurance business in Malaysia; revaluation income on the Reset Exchangeable Securities; profits from IAG Re Labuan; the loss on sale of the non-core assets in the UK net of non-assessable related income; amortisation of intangibles; and other prior period adjustments.

2.12 Minority interest

- The minority interest in the Group's profit of \$28m compares to the \$17m reported in 1H08. The increase is a result of the improved performance of the Group's main joint venture, Insurance Manufacturers of Australia Pty Limited (IMA), reflecting increased average premium rates, higher volumes, lower losses from natural perils and early gains from the cost reduction programme, partially offset by weaker investment returns and the impact of wider credit spreads.

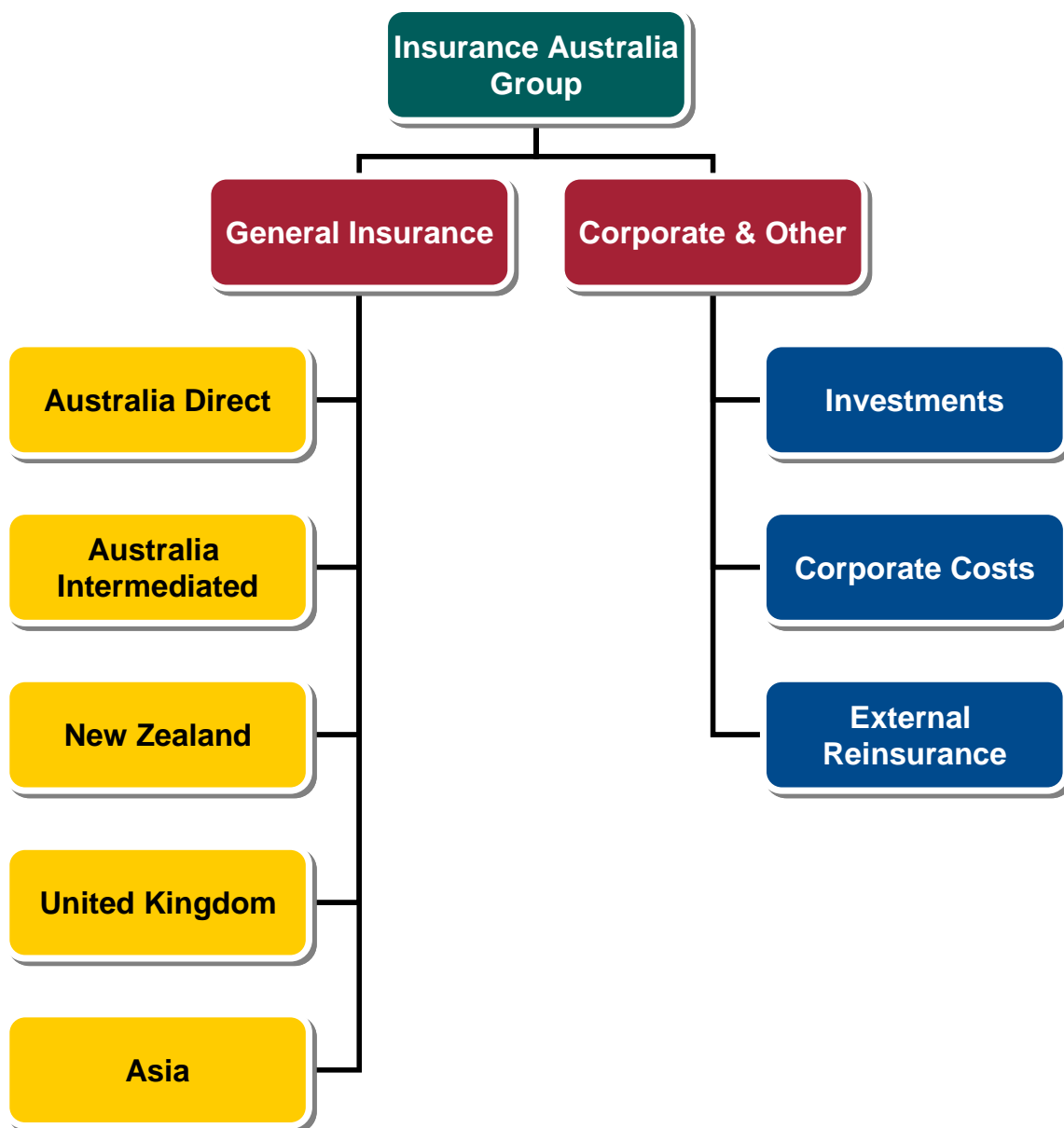
2.13 Amortisation

- The 1H09 amortisation charge of \$30m compares to \$32m in 1H08, and is in line with the annual rate previously indicated by the Group for FY09. All impairments to intangible assets incurred as part of the divestment of the non-core UK operations are included in the related loss on sale within net corporate expenses.

2.14 Changes in reporting from FY09

- From FY09, the results of the international captive are being allocated across the respective offshore operations, bringing its reporting into line with that of the Australian captive.
- All corporate expenses which are not of a one-off nature are being allocated to business operations with effect from FY09.
- From FY09 Australia Direct includes the Group's Retail Business Insurance (RBI) channel, encompassing direct commercial insurance offerings, which was previously reported within Australia Intermediated.
- As disclosed in December 2008, FY08 results have been reclassified to reflect the above changes.

3. DIVISIONAL OVERVIEW



INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	Australia Direct A\$m	Australia Intermediated A\$m	New Zealand A\$m	UK Retained A\$m	Asia A\$m	Corporate & Other A\$m	Total Retained Business A\$m	Run off/ Held for Sale A\$m	Total 1H09 A\$m
Gross written premium	1,650	1,159	482	389	92	1	3,773	149	3,922
Gross earned premium	1,597	1,218	480	404	94	1	3,794	137	3,931
Reinsurance expense	(63)	(90)	(44)	(22)	(19)	-	(238)	(10)	(248)
Net premium revenue	1,534	1,128	436	382	75	1	3,556	127	3,683
Net claims expense	(1,360)	(985)	(324)	(244)	(45)	(2)	(2,960)	(128)	(3,088)
Commission expense	(33)	(194)	(55)	(56)	(15)	-	(353)	(3)	(356)
Underwriting expense	(296)	(256)	(95)	(58)	(12)	-	(717)	(27)	(744)
Underwriting profit/ (loss)	(155)	(307)	(38)	24	3	(1)	(474)	(31)	(505)
Investment income on technical reserves	349	300	21	53	6	1	730	2	732
Insurance profit	194	(7)	(17)	77	9	-	256	(29)	227
Profit/ (loss) from fee based business/ share from associates	-	15	1	(2)	2	-	16	(3)	13
Total Divisional Result	194	8	(16)	75	11	-	272	(32)	240

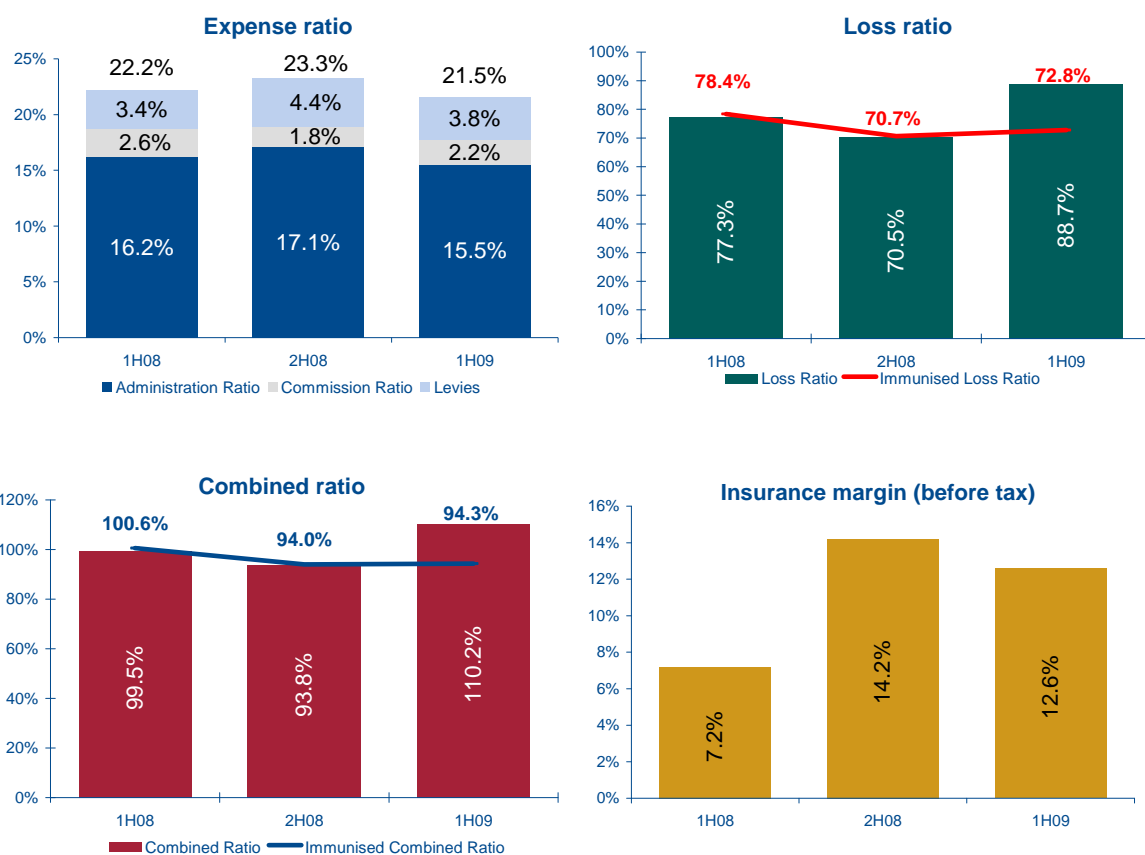
Insurance Ratios

Loss ratio	88.7%	87.3%	74.3%	63.9%	60.0%		83.2%	100.8%	83.8%
Expense ratio	21.5%	39.9%	34.4%	29.9%	36.0%		30.1%	23.7%	29.9%
Commission ratio	2.2%	17.2%	12.6%	14.7%	20.0%		9.9%	2.4%	9.7%
Administration ratio	19.3%	22.7%	21.8%	15.2%	16.0%		20.2%	21.3%	20.2%
Combined ratio	110.2%	127.2%	108.7%	93.8%	96.0%		113.3%	124.5%	113.7%
Insurance margin	12.6%	(0.6%)	(3.9%)	20.2%	12.0%		7.2%	(22.8%)	6.2%

4. AUSTRALIA DIRECT

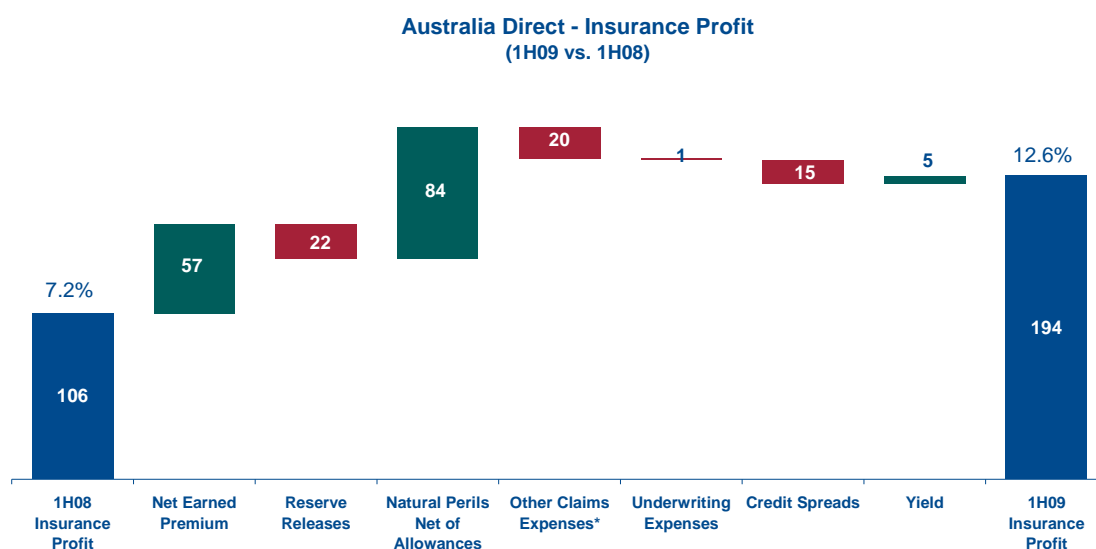
AUSTRALIA DIRECT	1H08	2H08	1H09
FINANCIAL PERFORMANCE	A\$m	A\$m	A\$m
Gross written premium	1,516	1,580	1,650
Gross earned premium	1,537	1,531	1,597
Reinsurance expense	(60)	(55)	(63)
Net premium revenue	1,477	1,476	1,534
Net claims expense	(1,142)	(1,041)	(1,360)
Commission expense	(38)	(26)	(33)
Underwriting expense	(290)	(317)	(296)
Underwriting profit/ (loss)	7	92	(155)
Investment income on technical reserves	99	118	349
Insurance profit/ (loss)	106	210	194
Insurance Ratios			
Loss ratio	77.3%	70.5%	88.7%
Expense ratio	22.2%	23.3%	21.5%
Commission ratio	2.6%	1.8%	2.2%
Administration ratio	19.6%	21.5%	19.3%
Combined ratio	99.5%	93.8%	110.2%
Insurance margin	7.2%	14.2%	12.6%

Insurance ratios



4.1 Executive summary

- Australia Direct, IAG's largest business, contributed around 42% of the Group's GWP in 1H09. Strong GWP growth of 8.8% was achieved over the comparable half from a combination of price increases and volume gains. Growth was achieved in all state markets, with a particularly strong performance from CTP.
- Australia Direct generated an insurance profit of \$194m in 1H09, up from \$106m in 1H08, reinforcing its status as the Group's largest contributor of operating profits. This insurance profit equated to an insurance margin of 12.6% for 1H09 (1H08: 7.2%).
- The improved insurance margin is attributable to a combination of increased rates, volume gains, decreased claim costs from natural perils and early benefits from the cost reduction programme, and was achieved despite the adverse impact of lower reserve releases and wider credit spreads.
- During the half, the business commenced its "Unworry" brand relaunch, which has been supported by new advertising campaigns and the launch of a number of new product initiatives.
- In October 2008, IAG announced the appointment of Andy Cornish as CEO of Australia Direct, effective from early 2009.



* Offsetting risk free discount rate adjustment movement of \$260m excluded from other claims expenses and yield.

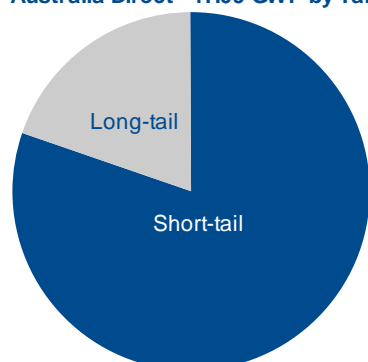
4.2 Market environment

- 1H09 presented a fresh set of challenges for the direct insurance market, given the economic uncertainty created by financial market volatility. In particular, the market has seen slower home dwelling commencements and new car sales, which have the potential to impact future revenue growth. Australia Direct's successful brand relaunch, initially in New South Wales (NSW) and Western Australia (WA), and new product initiatives have helped to cushion any such impact to date.
- The market for direct insurance remained competitive, but rational pricing behaviour was still evident. Building on the positive momentum evident in the preceding 12 months, prices increased in all portfolios at average rates above CPI, to counter the reduced yield from investments and the claim inflation experienced following last year's natural peril events.
- CTP market premium rates in NSW and Queensland have been growing at more than 10% per annum, reflecting lower investment yields and increased claim costs. A further 7% increase in the NSW CTP premium has been implemented from 1 February 2009.

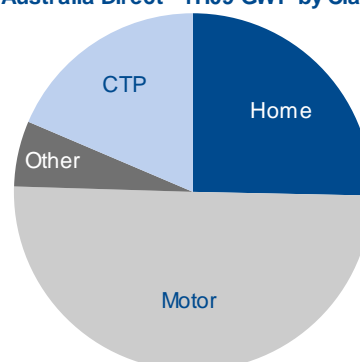
4.3 Premiums

- Total Australia Direct GWP in 1H09 increased to \$1,650m, up 8.8% on 1H08 and 4.4% on 2H08. Strong revenue increases were recorded in all major portfolios, with short-tail up 7.4% and long-tail up 17.2% when compared to 1H08.

Australia Direct - 1H09 GWP by Tail

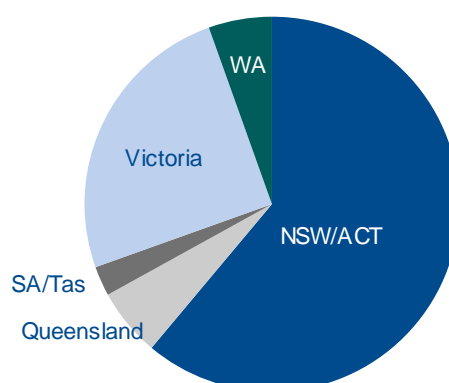


Australia Direct - 1H09 GWP by Class



- Growth in short-tail GWP was achieved in all state markets and across all products. Stand out state performances relative to 1H08 were Queensland and WA, which achieved growth of approximately 16% and 9% respectively, followed by NSW with growth in excess of 7%.
- GWP from home insurance products rose by 10.4% and from motor insurance products by 5.9%, driven by strong results from NSW and Queensland over 1H08. Around 70% of the home GWP increase was derived from price, compared to 78% for motor.
- Short-tail average premiums rose by 5.0% over 1H08 (+1.5% on 2H08), with above average rates recorded in NSW, Queensland and WA. By product, home insurance showed an increase of 6.9% in average premium against 1H08, and motor insurance an increase of 4.5%.

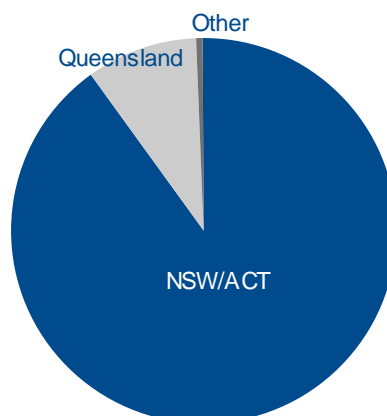
Australia Direct - 1H09 Short-Tail GWP by State



- CTP GWP grew by more than 17% largely driven by price rises implemented in Queensland and NSW from July 2008 and volume growth in both markets. Volumes in NSW increased by an estimated 8.6% (after adjusting for six-monthly policies) and in Queensland by 33.7%, against 1H08.
- The introduction of six-monthly CTP policies in the NSW market became effective on 1 November 2008 and had minimal impact on 1H09 GWP (estimated impact of around \$13m in 2H09). This change does not impact NEP and, to date, the take-up of six-monthly policies has been lower than originally anticipated.
- IAG's share of NSW CTP registrations increased to 38.7%, up from 38% at December 2007, on a rolling yearly average. On a similar basis, the Group's share of the Queensland CTP market increased to 6.1% at December 2008, up from 4% at December 2007.

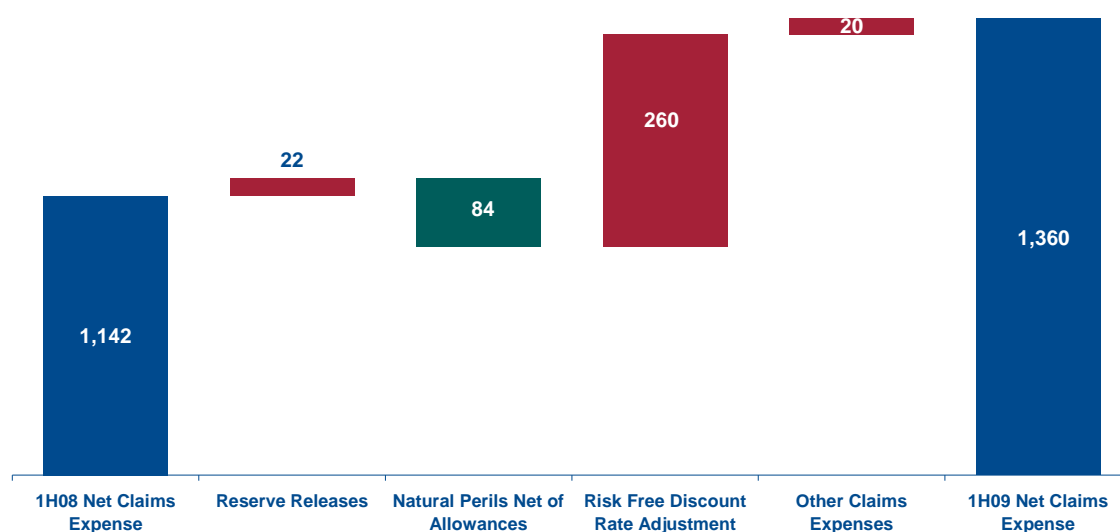
- The new ACT CTP scheme became effective on 1 October 2008, however new competitors are not expected to commence operation until later in 2009.

Australia Direct - 1H09 Long-Tail GWP by State



4.4 Claims

Australia Direct - Net Claims Expense (1H09 vs. 1H08)



- The reported loss ratio of 88.7% (1H08: 77.3%) has increased significantly owing to the substantial risk free discount rate adjustment of \$244m in the half in the face of a sharp decline in interest rates. After allowing for the effect of changes in the risk free rate used to discount claim liabilities, the immunised loss ratio of 72.8% represents an improvement on 1H08 (78.4%), reflecting the strong growth in GWP and lower natural peril claim costs.
- Prior period reserve releases in 1H09 were \$22m lower than in 1H08, continuing the reducing trend evident across FY08.

- Natural peril claim costs, net of allowances, were \$84m lower in 1H09 than in 1H08. Whilst Australia Direct incurred significant claims in respect of the SE Queensland storms in November 2008, overall natural peril claim costs were substantially lower than those of 1H08 which contained the impact of the Western Sydney storms (December 2007).
- Non-storm claim frequency for all short-tail products in all states was slightly lower than that experienced in 1H08.
- The average motor comprehensive claim cost (excluding storms) increased by 2.9%, compared to 1H08, mainly driven by a disproportionately higher level of collision claims. Relative to 2H08, the average cost increased by 0.7%, driven by a 1.2% increase experienced in Victoria as a result of higher total vehicle losses.
- Motor average collision repair costs have been relatively stable, despite the continuing shift in mix towards smaller, imported 4-cylinder vehicles which are more costly to repair.
- The average home claim cost (excluding storms) increased in 1H09 by 0.2% compared to 1H08, but by 4.8% compared to 2H08 owing to the seasonal increase in higher cost fire claims experienced during the winter months.
- The cost of sub-contract labour has continued to increase, but the rate of increase has been trending down in all states over the course of calendar 2008. Overall construction costs are increasing in all states, however, the rate of increase has been fairly static at about 1.5%.
- Other points of note within the short-tail claim experience are as follows:
 - An increase in the number and severity of fire and escape of water claims within the home buildings portfolio has put pressure on average building claim costs;
 - Consumer buying trends are continuing to place upward pressure on average claim costs, through increased ownership levels of portable technology items;
 - The procurement price for brown / white goods and contents items overall has steadied in the last 12 months after a sustained period of growth;
 - Motor vehicle theft has seen a slight increase compared with 1H08; and
 - A renewed focus on the use of quality recycled parts will help to mitigate the impact of new parts price increases stemming from the recent decline in the Australian dollar (AUD). Such price increases are expected to continue over the medium term as suppliers negotiate new hedging rates.
- CTP claim costs experienced increased inflation in all markets, but particularly in the ACT.
- Evolutionary CTP scheme changes in NSW and the ACT were implemented during the half to further improve health recovery outcomes for claimants and to provide some scheme benefits to more injured people. Australia Direct worked closely with the respective regulators to bring these scheme improvements to fruition.

4.5 Expenses

- The expense ratio for 1H09 was 21.5%, compared to 22.2% in 1H08 and 23.3% in 2H08. The improvement was driven largely by expense management initiatives.
- Australia Direct is on track to achieve its share of the targeted cost savings of \$130m per annum, with both expense and claim management initiatives showing benefits and reductions in underlying costs.

4.6 Insurance margin

- Australia Direct's overall insurance profit of \$194m for 1H09 represents an 83% increase on 1H08, and a decrease of 8% over the 2H08 profit. The reported insurance margin of 12.6% compares to 7.2% in 1H08 and 14.2% in 2H08. The increase in margin between 1H09 and 1H08 reflects the combined impact of increased rates and volumes, lower net claims from adverse weather and reduced costs, partially offset by the effect of wider credit spreads and a lower level of reserve releases.
- The table below shows the impact of reserve releases, natural peril claim costs, natural perils allowance and credit spreads on Australia Direct's insurance trading result and insurance margin.

Australia Direct	1H08 A\$m	2H08 A\$m	1H09 A\$m
Reserve releases	61	50	39
Natural perils	(154)	(86)	(82)
Natural perils allowance	60	70	72
Credit spreads	(32)	(41)	(47)
Impact on Australia Direct Insurance result	(65)	(7)	(18)
Reserve releases	4.1%	3.4%	2.5%
Natural perils	(10.4%)	(5.8%)	(5.3%)
Natural perils allowance	4.1%	4.7%	4.7%
Credit spreads	(2.2%)	(2.8%)	(3.1%)
Impact on Australia Direct Insurance margin	(4.4%)	(0.5%)	(1.2%)
Insurance margin	7.2%	14.2%	12.6%

4.7 Customer experience

- The Group's customer satisfaction index score (claims and sales and service) was 84 in December 2008, an identical rating to that in June 2008.
- In September 2008, Australia Direct launched three significant product changes:
 - A new third party fire and theft motor product in NSW, Queensland, South Australia (SA) and WA;
 - Variable excess options on comprehensive motor; and
 - More products qualifying for multi-policy discount.
- During December 2008 Australia Direct introduced further choices for customers by extending comprehensive motor insurance and offering new options for renters in the home contents category.
- Other customer-based initiatives which were implemented during 1H09 were:
 - Re-engineered motor, home and CTP renewal documents to improve customer useability; and
 - The introduction of 'click and we will call you' functionality on all brand websites, enabling customers to interact with telephone consultants while obtaining motor and home premium estimates.
- Short-tail due renewal rates for motor and home were maintained at levels comparable to the 90% and 94% respectively achieved in 1H08. CTP due renewal rates improved in 1H09 to finish at 81% compared to 79% in 1H08. Sales conversion rates continued to improve in 1H09.

4.8 FY09 outlook

- Australia Direct is expecting to continue the positive momentum achieved during recent periods for both GWP growth and insurance margin. Due to the economic conditions the market has seen slower home dwelling commencements and new car sales, which have the potential to impact future growth and margin. These will continue to be monitored over the coming months.
- There will be a continuation of price increases for both short-tail and long-tail portfolios supported by the further rollout of the successful "Unworry" brand relaunch, new products and associated advertising programmes. The business will continue to focus on expense and claims management initiatives to offset underlying cost pressures, particularly within short-tail claims.
- Effective 1 November 2008, the NSW motor registration authority (RTA) initiated a six-monthly registration option for motorists. From this date CTP policyholders also had the option to take out a six-monthly policy in conjunction with their registration renewal. The take up rate of six-monthly registrations has been below initial expectations. Increased CTP pricing, as embodied in the July 2008, December 2008 and February 2009 refilings, continues to be implemented to allow for the impact of reduced investment yields.
- With the ACT government changes to legislation allowing competitors into the local CTP scheme, the Group expects a reduction in its current 100% market share (the Group has been the only CTP insurer in the ACT for over 20 years following the withdrawal of other insurers). The new arrangements took effect from 1 October 2008 and it remains the Group's expectation that competitor underwriting will commence during 2009.
- In Queensland, the CTP regulator has continued to increase the price ceiling each quarter to reflect the increasing scheme costs. This should continue to positively impact reported GWP.
- Australia Direct will incur significant claim costs in 2H09 as a result of the bushfires which occurred in Victoria in early February 2009. The overall cost to the Group is expected to be \$126m, equivalent to the Group's maximum event retention under its reinsurance arrangements.

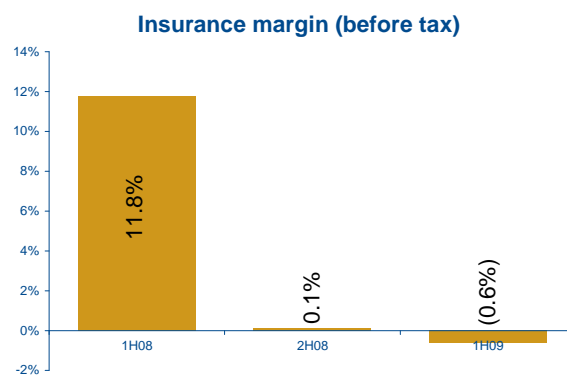
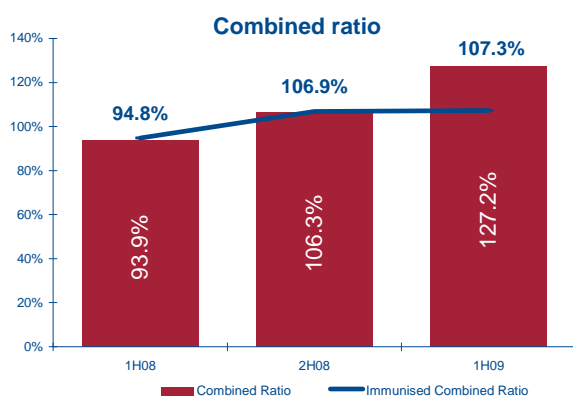
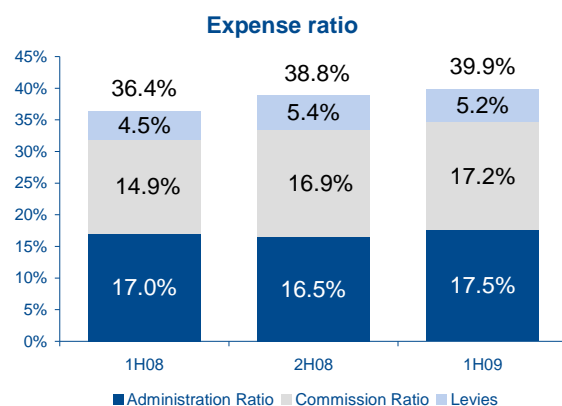
4.9 Changes in reporting from FY09

- From FY09 Australia Direct includes the Group's Retail Business Insurance (RBI) channel, encompassing direct commercial insurance offerings, which was previously reported within Australia Intermediated. Reclassified FY08 results for Australia Direct include GWP of \$155m and insurance profit of \$28m in respect of RBI (1H08: \$75m and \$16m; 2H08: \$80m and \$12m).
- All corporate expenses which are not of a one-off nature are being allocated to business operations with effect from FY09. Reclassified FY08 results for Australia Direct include net corporate expense of \$24m (1H08: \$11m; 2H08: \$13m).

5. AUSTRALIA INTERMEDIATED (CGU)

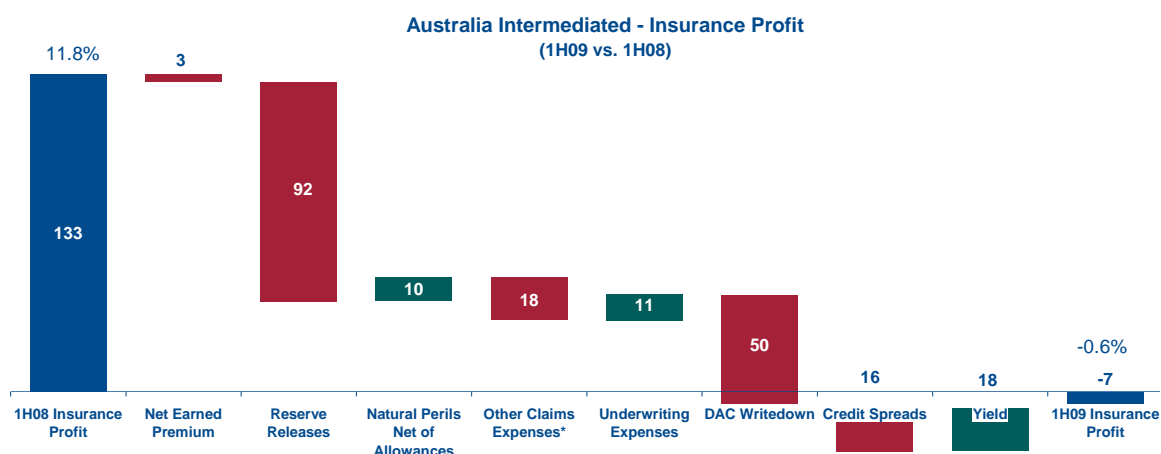
AUSTRALIA INTERMEDIATED FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	1,167	1,231	1,159
Gross earned premium	1,220	1,198	1,218
Reinsurance expense	(89)	(113)	(90)
Net premium revenue	1,131	1,085	1,128
Net claims expense	(650)	(732)	(985)
Commission expense	(168)	(183)	(194)
Underwriting expense	(243)	(238)	(256)
Underwriting profit/ (loss)	70	(68)	(307)
Investment income on technical reserves	63	69	300
Insurance profit/ (loss)	133	1	(7)
Profit/ (loss) from fee based business	32	1	15
Total Divisional Results	165	2	8
Insurance Ratios			
Loss ratio	57.5%	67.5%	87.3%
Expense ratio	36.4%	38.8%	39.9%
Commission ratio	14.9%	16.9%	17.2%
Administration ratio	21.5%	21.9%	22.7%
Combined ratio	93.9%	106.3%	127.2%
Insurance margin	11.8%	0.1%	(0.6%)

Insurance ratios



5.1 Executive summary

- Australia Intermediated (CGU) represented around 30% of the Group's GWP in 1H09, of which approximately 55% is commercial and 45% is personal lines. CGU includes all products sold through brokers, agents, dealers and business partners.
- In 1H09, CGU reported an insurance loss of \$7m (1H08: insurance profit \$133m) or a negative insurance margin of 0.6% (1H08: positive 11.8%).
- The 1H09 result includes a \$50m writedown of deferred acquisition costs (DAC), as required by the liability adequacy test (LAT) in the face of a significant reduction in interest rates in the half.
- The DAC writedown, together with significantly reduced reserve releases, accounted for most of the reduction in insurance margin compared to 1H08.
- Underlying performance has improved and is being driven by greater underwriting discipline, a focus on rate increases targeted at unprofitable portfolios and risks, along with strong expense control. Overall rates have increased by nearly 6% during 1H09.
- CGU's improved underwriting discipline is evident in a marginal decrease in 1H09 GWP to \$1,159m (1H08: \$1,167m). Retention levels have been higher than expected, at around 78%.
- Higher than expected claims inflation, combined with adverse experience on personal lines portfolios, has eroded the impact of rate increases implemented to date, in what remains a highly competitive environment.



* Offsetting risk free discount rate adjustment movement of \$235m excluded from other claims expenses and yield.

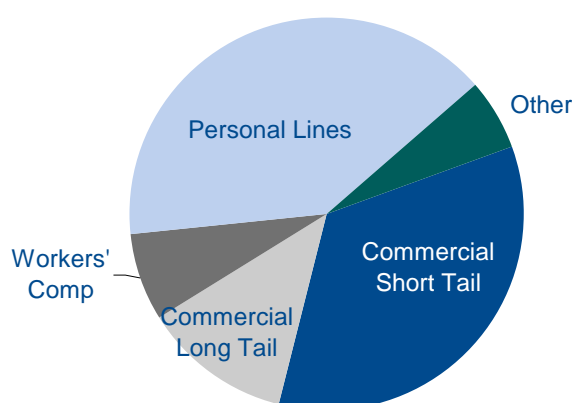
5.2 Market environment

- Some adverse impacts from the economic downturn are beginning to emerge, with reduced appetite for consumer lending affecting activity levels within the Swann and financial institutions businesses. Ongoing consolidation in the financial services sector continues to limit opportunities for profitable growth in this area.
- Some encouraging signs are emerging on pricing, with rate hardening occurring for unprofitable portfolios and risks such as fleet motor. Whilst competition remains strong for profitable risks, rate reductions for this business are now more measured.
- CGU's strategic focus on pricing is making new business difficult to obtain, with low strike rates across most commercial products.
- The workers' compensation market is still soft across all industry segments in the relevant risk states. New business, even at the very small end, is proving difficult to win because of discounting in the market at levels which CGU regards as unsustainable.

5.3 Premiums

- 1H09 GWP of \$1,159m was 0.7% down on 1H08 (\$1,167m) and 5.8% lower than 2H08 (\$1,231m). The reduced premium reflects CGU's ongoing commitment to maintaining price discipline rather than writing unprofitable business in soft cycle conditions.
- New business volumes have been well down on the prior period as CGU continues to drive pricing initiatives. Despite this, CGU's strong customer relationships have seen better than anticipated retention rates, which have held at close to historical levels.
- Loss of the ING Australia account, with effect from 1 October 2008 on new business premiums and 1 April 2009 on renewals, served to reduce 1H09 GWP by approximately \$5m. A related reduction in 2H09 GWP of approximately \$40m is expected.

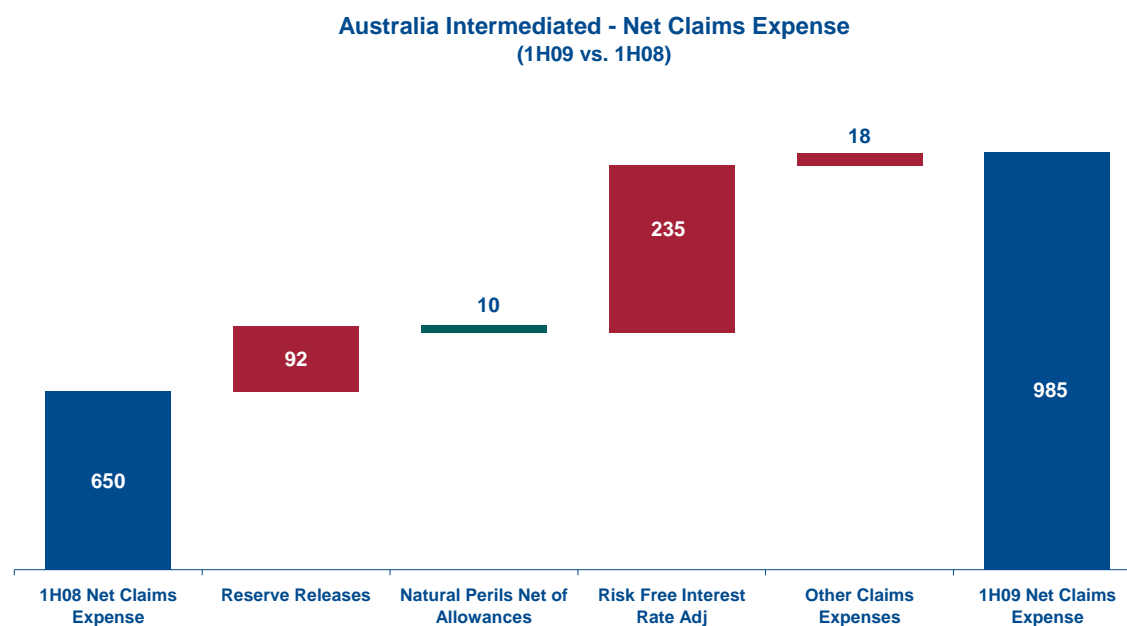
Australia Intermediated - 1H09 GWP by Class



- Pricing initiatives have resulted in loss of market share in commercial short-tail classes, most notably in the fire and industrial special risks classes, with overall commercial short-tail GWP falling by approximately 2% compared to 1H08. While retention levels have held reasonably firm, new business has declined significantly.
- Commercial long-tail GWP has decreased by approximately 10% compared to 1H08. Reductions have occurred across all business classes, with liability and professional risks suffering significant rate increase-driven falls, while home warranty has been heavily impacted by the slowdown in the housing market.
- Workers' compensation GWP has increased by approximately 4% over 1H08, largely due to high retention rates. Continuing growth in wages has offset the reduction in premium rates flowing from positive claim trends and market competition.
- Personal lines GWP has experienced growth of approximately 2% over 1H08. This growth has been derived predominantly from the motor portfolio, and to a lesser extent from home, reflecting rate-driven increases in average premiums. Elevated retention rates have offset the impact of declining new business volumes.
- Net earned premium in 1H09 was in line with 1H08 owing to strong fourth quarter FY08 written premium now being earned. The expectation remains that full year net earned premium will be lower than that recorded in FY08.
- Real rate increases have been achieved, consistent with CGU's strategy of profit over growth, most notably in the home, landlords, domestic motor, commercial motor and country pack portfolios. Adequacy of returns remains a challenge, with underlying factors such as claim cost inflation eroding some of these increases. CGU closely monitors price movements within the market and the profitability of portfolio segments, allowing corrective action to be initiated where required.

5.4 Claims

- The reported loss ratio of 87.3% (1H08: 57.5%) has increased significantly owing to the significant risk free discount rate adjustment of \$225m (1H08: -\$10m) in the half in the face of a sharp decline in interest rates. After allowing for the effect of changes in the risk free rate used to discount claim liabilities, the immunised loss ratio of 67.4% represents an improvement on 2H08 (68.1%), but a decline on 1H08 (58.4%) owing to the significantly lower level of reserve releases in 1H09.



- The significant reduction in reserve releases is in line with prior guidance, as both liability and workers' compensation reserving models move more in line with emerging experience.
- The total impact of natural perils in 1H09 is approximately \$70m net of reinsurance, of which a large portion relates to the events in SE Queensland in November 2008.

5.5 Expenses

- The expense ratio of 39.9% is well up on that of previous halves owing to the inclusion of a \$50m impairment to DAC, as required by the liability adequacy test (LAT) in the face of a significant reduction in interest rates in the half. With the ongoing reduction in interest rates, there remains the possibility of a further DAC impairment in 2H09.
- Excluding the DAC impairment, the underlying expense ratio of 35.5% is lower than prior periods, as the benefit of improved cost control begins to emerge. The DAC impairment has been allocated between commission expense (\$21m) and underwriting expense (\$29m).
- CGU remains on track to deliver its portion of the \$130m of annualised cost savings in FY09. With the business' focus on building a new organisational structure, there has been some delay to associated consulting and IT project spend which will be skewed more heavily to 2H09.

5.6 Insurance margin

- The insurance loss of \$7m in 1H09 is \$140m lower than 1H08, in large part reflecting the combined effect of reduced prior period reserve releases, from \$148m in 1H08 to \$56m in 1H09, and the DAC writedown of \$50m in 1H09.
- The impact of prior period reserve releases, the incidence of natural perils, the widening of credit spreads and the DAC writedown on CGU's insurance result is highlighted below:

Australia Intermediated	1H08 A\$m	2H08 A\$m	1H09 A\$m
Reserve releases	148	107	56
Natural perils	(74)	(99)	(70)
Natural perils allowance	63	78	69
Credit spreads	(23)	(26)	(39)
DAC/LAT	-	-	(50)
Impact on Aust Intermediated Insurance result	114	60	(34)
Reserve releases	13.1%	9.9%	5.0%
Natural perils	(6.5%)	(9.1%)	(6.2%)
Natural perils allowance	5.6%	7.2%	6.1%
Credit spreads	(2.0%)	(2.4%)	(3.5%)
DAC/LAT	-	-	(4.4%)
Impact on Aust Intermediated Insurance margin	10.2%	5.6%	(3.0%)
Insurance margin	11.8%	0.1%	(0.6%)

5.7 Fee based income

- The business generates fee income by acting as an agent under both the NSW and Victorian state governments' underwritten workers' compensation schemes by providing claims management, policy services and return to work and risk management advice.
- While the standard fees covering expenses are reasonably predictable, the total reported result contains an element of volatility due to performance fees and prior year experience adjustments paid or charged by the state bodies. As such, the 1H09 result contained \$10m of prior period fee income, compared to \$16m in 1H08. The 1H09 result was also impacted by the absence of the premium funding business which was divested at a profit in September 2007. Allowing for these, like-for-like income was modestly higher.
- Independent surveys have recognised the improvements achieved by CGU in its workers' compensation businesses in both NSW and Victoria. These are a direct result of the initiatives implemented to improve customer experience.

5.8 Customer experience

- Higher than expected retention levels, at around 78%, reflect CGU's longstanding customer relationships and its ongoing focus on providing superior customer experiences.
- A number of initiatives were launched during the period as part of CGU's new model implementation, with its focus on end customers:
 - The CGU Privilege Card was launched to financial institution partners, providing a unique service offering to their loyal customers;
 - The entry-level Fundamentals Home Insurance product provides the opportunity to offer a service to customers who were previously unable to acquire insurance, while enabling customers to choose insurance products unique to their own needs;
 - The CGU Padlock is an all-in-one insurance package tailored for the commercial investment property owner, which has met with an encouraging response from intermediaries;
 - Professional risks has launched the Pinnacle directors' & officers' (D&O) policy for the corporate market, and a combined professional indemnity / public liability (PI/PL) policy for the SME segment, with positive initial reactions; and
 - The rollout of Salesforce.com, a new tool which provides a whole of account view, which will be completed by the end of the year.
- CGU is also providing technical capabilities to selected intermediaries to build or enhance their on-line offering and continues the promotion of the Right Cover (reviewing clients who are potentially under-insured) and Risk Radar (facilitating compliance with legislative requirements) tools.

5.9 FY09 outlook

- The turnaround in underlying profitability is expected to continue in 2H09. However, a prolonged economic downturn, along with higher than expected claim inflation and adverse emerging experience on some personal lines portfolios, will continue to affect overall profitability.
- The impact of rate increases will continue to foster a challenging environment in which to retain existing business, and even more so in writing new business. Competition within the SME sector remains strong and further rate increases in motor and property will present further challenges. These increases have, however, been targeted at poorly performing segments and should result in improved profitability in 2H09.
- CGU has been increasing prices for 12 months and some encouragement is taken from recent competitor announcements on proposed rate increases. This may result in a greater hardening of rates over the next 12 months than has occurred in the past 12 months.
- The downturn in the economy is expected to reduce 'cross-sell / up-sell' opportunities, as clients pull back on their spending. Together with the hardening of rates, this is expected to result in an increase in the marketing of accounts by brokers, particularly in the middle market and top end space.
- The recent decrease in interest rates will impact premium rates in 2H09 across the workers' compensation market. The slowdown in the economy may lead to an increase in workers' compensation claims, which CGU has taken into account in establishing its claim provisions at the end of 1H09.
- In September 2008, ING Australia and CGU agreed to end their insurance partnership. Whilst the loss of this account represents approximately 3% of CGU's net earned premium, the impact on profitability is not material due to the removal of high associated reinsurance and claims costs. FY09 GWP is expected to decline by over \$40m as a result of this account loss.

- CGU will incur significant claim costs in 2H09 as a result of the bushfires which occurred in Victoria in early February 2009. The overall cost to the Group is expected to be \$126m, equivalent to the Group's maximum event retention under its reinsurance arrangements.

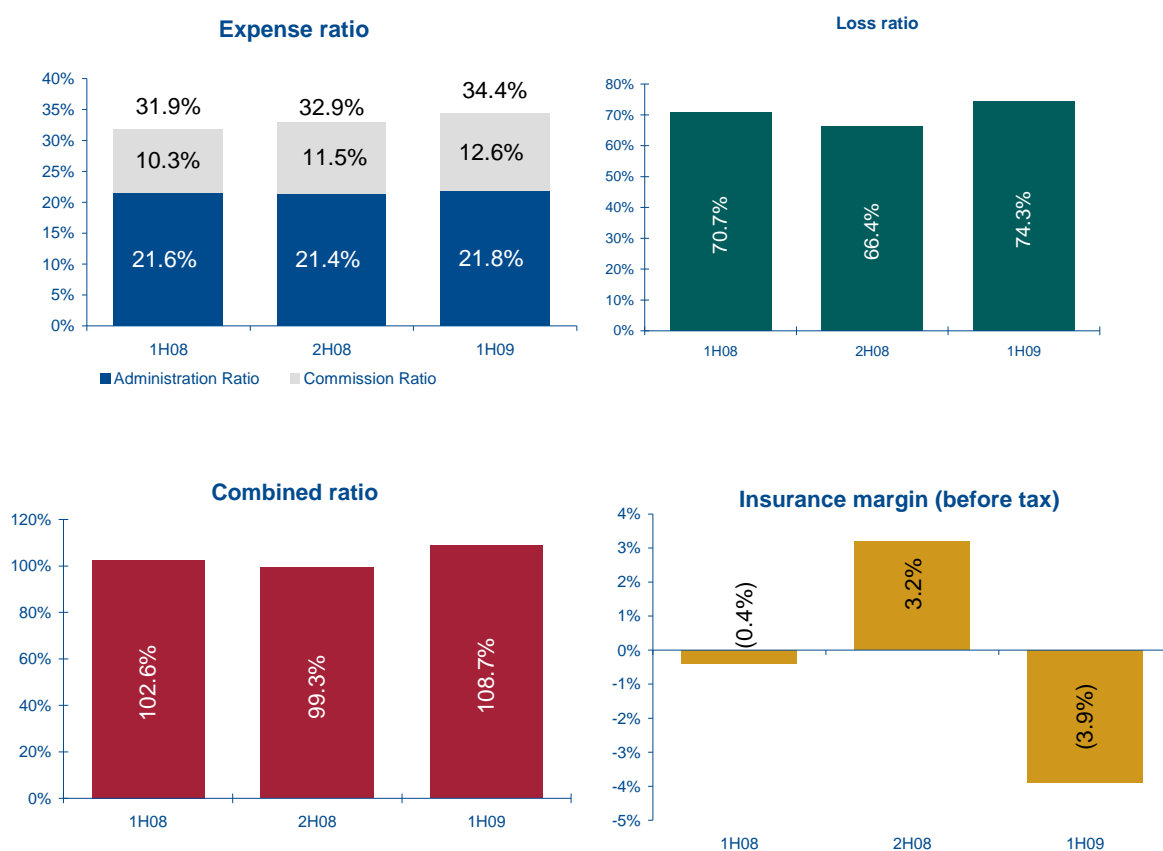
5.10 Changes in reporting from FY09

- From FY09, Australia Intermediated no longer includes the Group's Retail Business Insurance (RBI) channel, encompassing direct commercial insurance offerings, which is now reported in Australia Direct. Reclassified FY08 results for Australia Intermediated exclude GWP of \$155m and insurance profit of \$28m in respect of RBI (1H08: \$75m and \$16m; 2H08: \$80m and \$12m).
- All corporate expenses which are not of a one-off nature are being allocated to business operations with effect from FY09. Reclassified FY08 results for Australia Intermediated include net corporate expense of \$12m (1H08: \$5m; 2H08: \$7m).

6. NEW ZEALAND

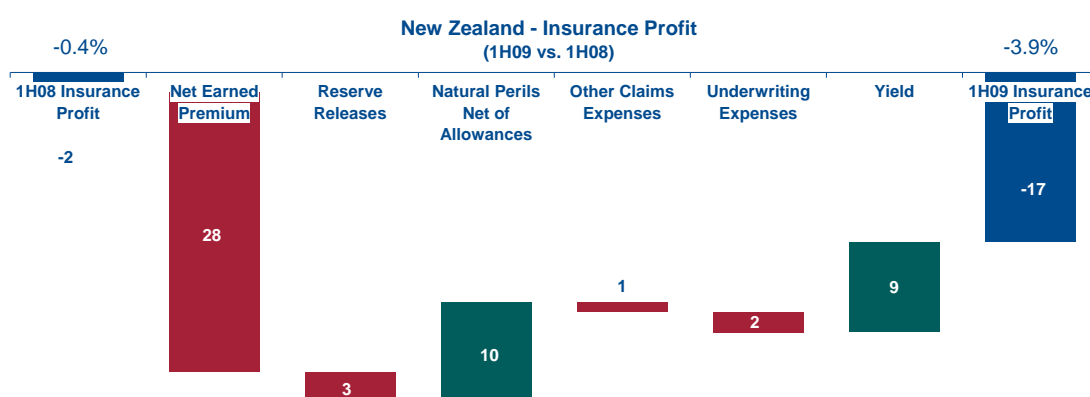
NEW ZEALAND	1H08	2H08	1H09
FINANCIAL PERFORMANCE	A\$m	A\$m	A\$m
Gross written premium	483	491	482
Gross earned premium	488	467	480
Reinsurance expense	(24)	(33)	(44)
Net premium revenue	464	434	436
Net claims expense	(328)	(288)	(324)
Commission expense	(48)	(50)	(55)
Underwriting expense	(100)	(93)	(95)
Underwriting profit/ (loss)	(12)	3	(38)
Investment income on technical reserves	10	11	21
Insurance profit/ (loss)	(2)	14	(17)
Profit/(loss) from fee based business	-	-	1
Total Divisional Result	(2)	14	(16)
Insurance Ratios			
Loss ratio	70.7%	66.4%	74.3%
Expense ratio	31.9%	32.9%	34.4%
Commission ratio	10.3%	11.5%	12.6%
Administration ratio	21.6%	21.4%	21.8%
Combined ratio	102.6%	99.3%	108.7%
Insurance margin	(0.4%)	3.2%	(3.9%)

Insurance ratios



6.1 Executive summary

- The New Zealand operations accounted for over 12% of the Group's GWP in 1H09. IAG, through the State and NZI brands, is the largest underwriter in New Zealand with a 35.3% market share as at September 2008 based on statistics compiled by the Insurance Council of New Zealand. This is broadly in line with the position at 30 June 2008.
- The operating environment in New Zealand continued to be challenging during 1H09. Two severe storms in late July, a higher than expected frequency of losses, and the influence of a slowing local economy contributed to a disappointing result for 1H09. The business reported flat GWP growth (in AUD terms) and a negative insurance margin of 3.9%. GWP in local currency terms rose 4.7%, driven largely by premium increases.
- During the half the New Zealand operations actively increased rates, while continuing to focus on underwriting discipline and claims management. These initiatives are providing the basis for future improvement in profitability, which is expected to emerge from 2H09 onwards.



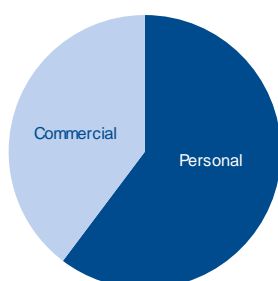
6.2 Market environment

- The industry environment continued to prove challenging in 1H09. According to the Insurance Council of New Zealand, the industry suffered the highest ever gross claims incurred for commercial material damage, domestic buildings, domestic contents and in total for the September 2008 quarter. Net industry claims were also at record levels for this quarter (76% average loss ratio) as catastrophe covers were not triggered.
- The slowing domestic economy put further pressure on an already difficult commercial underwriting environment and resulted in the New Zealand operations not renewing business where pricing was considered unsustainable.
- In the face of a deteriorating economic climate, there are signs of increased claim levels across all sectors, and supplier costs have increased with the depreciation of the New Zealand dollar (NZD).

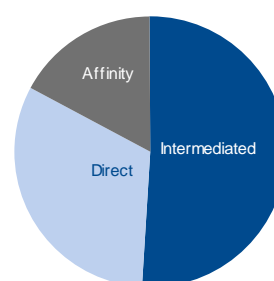
6.3 Premiums

- 1H09 GWP of \$482m was flat in AUD terms compared to 1H08 GWP of \$483m. However, in local currency terms, it grew by 4.7%.
- NZD GWP growth was derived from the combination of:
 - Rate increases across all classes of direct business, resulting in direct GWP growth of 6.1% over 1H08;
 - Intermediated GWP growth of 4.0% compared to 1H08, reflecting commercial rate increases which have averaged 6-7% in the SME market, partly eroded by strong competitive pressures on corporate accounts; and
 - A 4.1% increase in GWP from the affinity channel, with reduced travel and credit and warranty volumes more than offset by the effect of rate increases across the corporate partners book.

New Zealand - 1H09 GWP by Class



New Zealand - 1H09 GWP by Channel



- Customer retention rates in the intermediated business continued to show positive trends despite the slowing economy and rate rises. Direct was down on 1H08, but has shown a modest increase over 2H08 following the completion of the migration of over one million policies to the Huon / Bonus IT platform.

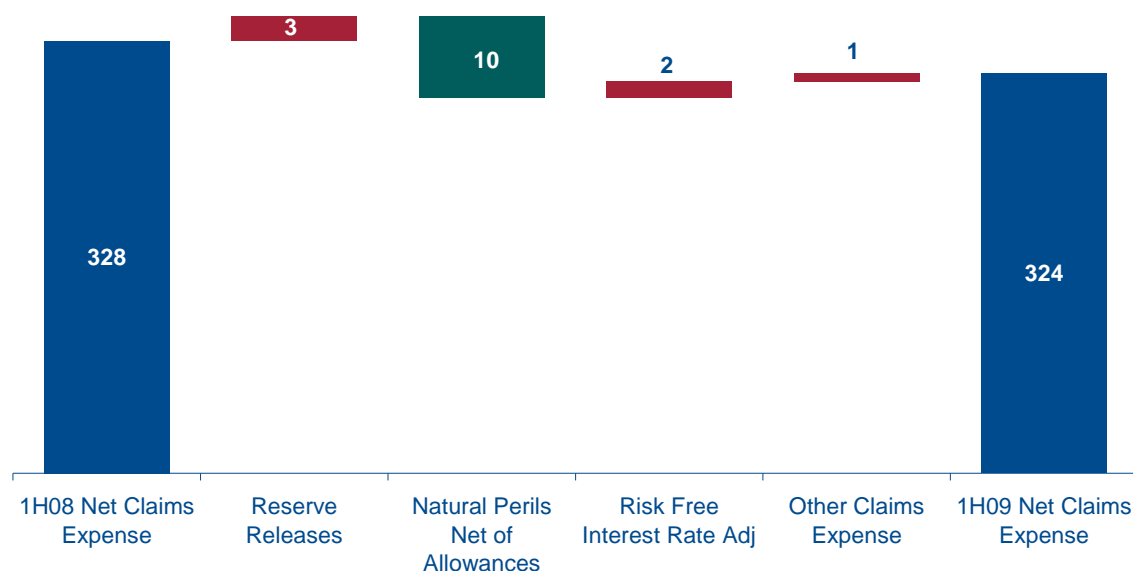
6.4 Reinsurance

- New Zealand's 1H09 reinsurance expense increased from \$24m in 1H08 to \$44m in 1H09. Much of the increased cost relates to the purchase of additional property catastrophe cover with effect from 1 January 2008, as well as the refinement of the reallocation of reinsurance costs from the Group captives.

6.5 Claims

- The reported loss ratio of 74.3% represents an increase over the 70.7% recorded in 1H08. While the overall claims expense is broadly flat half-on-half, net earned premium has declined due to the higher reinsurance expense.
- There has been a higher than expected incidence of both large and smaller losses. This has been experienced on both the personal and commercial sides of the business. A notable increase in large claims for home and working claims for home contents has occurred, while NZI experienced increased large claims particularly in its material damage / business interruption and liability books.
- Two severe storms in July 2008 led to the business incurring \$24m in claim costs. While this exceeded the full year allowance for natural perils of \$22m, it was \$17m less than the \$41m of natural peril claim costs incurred in 1H08, which included the Northland storms in July 2007 (\$32m) and the Gisborne earthquake in December 2007 (\$9m).

**New Zealand - Net Claims Expense
(1H09 vs. 1H08)**



- With the transition to the Huon / Bonus technology platform now complete, this new system is enabling the direct business to better analyse claims, assisting with improved claims management and debt recovery.

6.6 Expenses

- The commission ratio has increased from 10.3% in 1H08 to 12.6% in 1H09, consistent with GWP growth in the intermediated broker channel and additional pressure on commissions as brokers consolidate. The 2H08 commission ratio was 11.5%.
- The administration expense ratio of 21.8% is slightly higher than 1H08 (21.6%). One-off IT costs have countered the impact of the cost initiatives implemented in FY08.

6.7 Insurance margin

- Insurance margin for 1H09 was negative 3.9%, compared to negative 0.4% in 1H08 and positive 3.2% in 2H08.
- The deterioration in insurance margin reflects reduced net earned premium due to increased reinsurance expense, partially offset by increased investment income on technical reserves, while claim and combined underwriting and commission expenses have been broadly flat.

6.8 Customer initiatives

- Net customer advocacy for State has registered an encouraging increase over the half, to 22%. This improvement is attributable to increased staff confidence and familiarity with Huon / Bonus. Customer advocacy is a measure of the degree to which someone would recommend an insurance company to a friend, with the end score representing a net percentage of promoters less detractors, exclusive of all passive ratings.

- State's new advertising campaign supports its "Helpful" brand promise. This campaign has performed particularly well amongst the 25-40 year-old target market. A number of promotions supported sales levels, and State continues to lead the market in terms of brand awareness. In the past six months State has focused more on cross-sell and up-sell to existing customers, with encouraging results.
- NZI was awarded the 2008 Insurance Brokers Association of New Zealand Insurer of the Year and has the highest net customer advocacy, at 25%, in the intermediated market.

6.9 FY09 outlook

- The underwriting environment, in terms of new business written, customer retention and claims, is expected to remain challenging in 2H09 with the economic environment not expected to improve until at least 2010.
- The direct business continues to implement initiatives derived from the Huon underwriting system with a new risk rating structure launched in early 2009 for personal lines products. Rate increases across home and motor categories will result, with appropriate ratings increases for previously poorly priced risks. The application of larger compulsory excesses across the home portfolio will reduce the frequency and cost of low value claims.
- The intermediated business is implementing several initiatives to reinforce recent rate increases, improve customer retention and emphasise risk selection and underwriting discipline to improve profitability.
- The insurance margin is expected to improve in 2H09, reflecting some of the earned impact of calendar 2008 rate increases and benefits from recent claims initiatives.

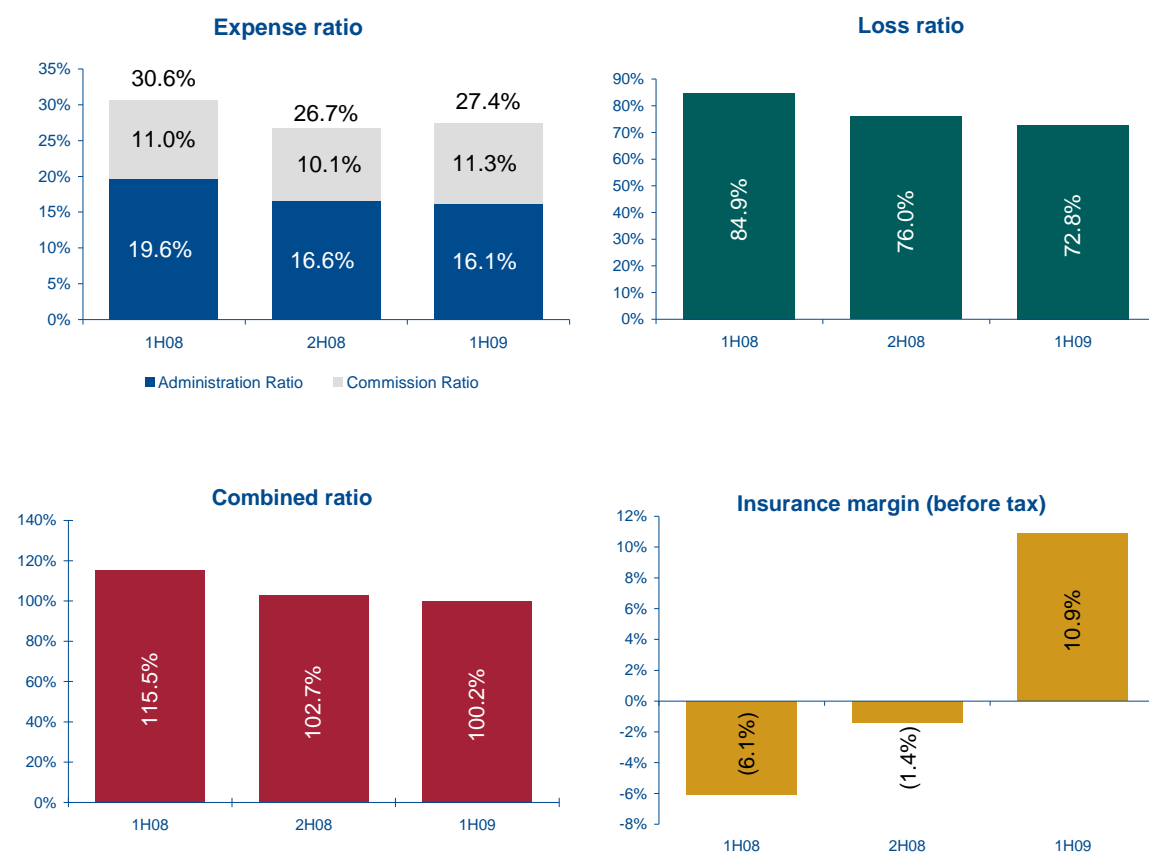
6.10 Changes in reporting from FY09

- From FY09, the results of the international captive are being allocated across the respective offshore operations, bringing its reporting into line with that of the Australian captive. Reclassified FY08 results for New Zealand include a \$32m profit (1H08: \$20m; 2H08: \$12m) attributable to intercompany risk underwritten by the captive which was previously recorded within the Asian Reinsurance segment.
- All corporate expenses which are not of a one-off nature are being allocated to business operations with effect from FY09. Reclassified FY08 results for New Zealand include net corporate expense of \$3m (1H08: \$1m; 2H08: \$2m).

7. UNITED KINGDOM (UK)

UNITED KINGDOM FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	585	540	532
Gross earned premium	576	552	526
Reinsurance expense	(20)	(35)	(29)
Net premium revenue	556	517	497
Net claims expense	(472)	(393)	(362)
Commission expense	(61)	(52)	(56)
Underwriting expense	(109)	(86)	(80)
Underwriting profit/ (loss)	(86)	(14)	(1)
Investment income on technical reserves	52	7	55
Insurance profit/ (loss)	(34)	(7)	54
Profit/ (loss) from fee based business	(2)	1	(5)
Share of profit/ (loss) from associates	(2)	(1)	-
Total Divisional Result	(38)	(7)	49
Insurance Ratios			
Loss ratio	84.9%	76.0%	72.8%
Expense ratio	30.6%	26.7%	27.4%
Commission ratio	11.0%	10.1%	11.3%
Administration ratio	19.6%	16.6%	16.1%
Combined ratio	115.5%	102.7%	100.2%
Insurance margin	(6.1%)	(1.4%)	10.9%

Insurance ratios



7.1 Executive summary

- In accordance with its refined strategy, IAG announced the sale of the mass market distribution portion of its United Kingdom (UK) business during the period, allowing it to become a specialist motor underwriter in that market.
- The sale of the UK mass market distribution businesses was announced in December 2008 and completed in February 2009, realising a total value of £73.5m (approximately \$165m). The sale involved two separate transactions:
 - The sale of the insurance branch network to Swinton Group for £50m; and
 - The sale of Hastings Direct and its associated underwriter Advantage, together with the internet-based operations that trade under the Insure brand, to a small team of management and private investors for £23.5m.
- In 1H09, the UK business accounted for approximately 14% of the Group's GWP and produced an improved insurance margin of 10.9% (1H08: -6.1%).
- The significant improvement in the UK insurance result reflects the withdrawal of capacity from underperforming elements of the private motor market, rate increases, increased reserve releases and a substantial decrease in natural peril claim costs owing to the absence of the UK flood costs which were incurred in 1H08.
- The retained business, comprising Equity Red Star, the Equity Broking affinity business and specialist commercial broker Barnett & Barnett, continued to perform well. It represented 9.9% of the Group's GWP in 1H09 and produced an insurance margin of 20.2%. After allowance for significant net reserve releases in the half, largely attributable to a syndicate in run-off, the ongoing business delivered an underlying insurance margin of 13.4% in 1H09.
- Divested operations contributed an insurance loss of \$23m in 1H09, compared to an insurance loss of \$40m in 1H08.

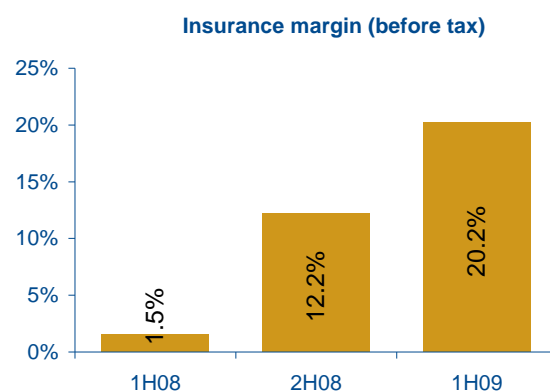
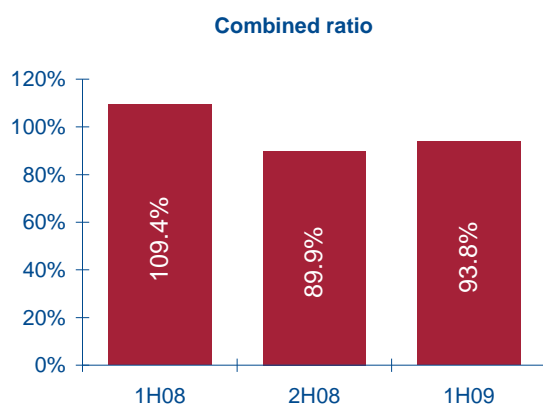
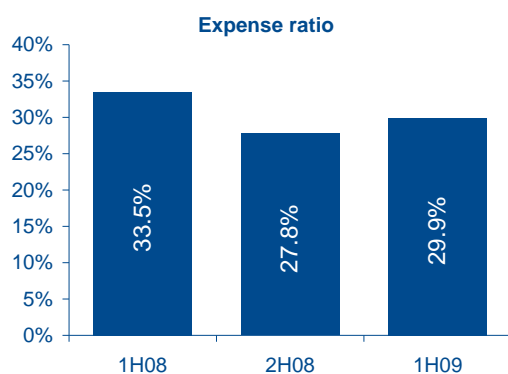
7.2 Market environment

- The operating environment in 1H09 continued to be challenging with the private motor market remaining soft and the motor cycle segment being highly competitive.
- Internet aggregators continued to grow market share in the private motor market and now represent approximately 50% of online sales, projected to increase to 75% by 2010. The associated increased transparency is making consumer behaviour highly price sensitive, and is leading to a lower value of sales for insurers, higher acquisition costs for other marketing routes, increased switching and reduced up-selling opportunities.
- Specialist motor classes continue to trade profitably although rates represent a mixed picture with some specialist areas such as taxi, haulage and minibus yet to harden. Rates in the fleet business are showing signs of hardening.
- Lower investment returns combined with a reduction in available reserve releases within private motor is adding pressure on industry rates to harden, with a number of major insurers beginning to signal an intent to increase rates.
- The downturn in the economy has also caused a reduction in new car sales by more than 20% in recent months.

7.3 Retained Business - Equity Red Star

The retained UK business comprises the Equity Red Star specialist motor underwriting business, Equity Broking affinity business and specialist commercial broker Barnett & Barnett.

UK RETAINED BUSINESS	1H08	2H08	1H09
FINANCIAL PERFORMANCE	A\$m	A\$m	A\$m
Gross written premium	417	389	389
Gross earned premium	404	399	404
Reinsurance expense	(10)	(14)	(22)
Net premium revenue	394	385	382
Net claims expense	(299)	(239)	(244)
Commission expense	(61)	(52)	(56)
Underwriting expense	(71)	(55)	(58)
Underwriting profit/ (loss)	(37)	39	24
Investment income on technical reserves	43	8	53
Insurance profit/ (loss)	6	47	77
Profit/ (loss) from fee based business	(1)	2	(2)
Share of profit/ (loss) from associates	(2)	(1)	-
Total Divisional Result	3	48	75
Insurance Ratios			
Loss ratio	75.9%	62.1%	63.9%
Expense ratio	33.5%	27.8%	29.9%
Commission ratio	15.5%	13.5%	14.7%
Administration ratio	18.0%	14.3%	15.2%
Combined ratio	109.4%	89.9%	93.8%
Insurance margin	1.5%	12.2%	20.2%

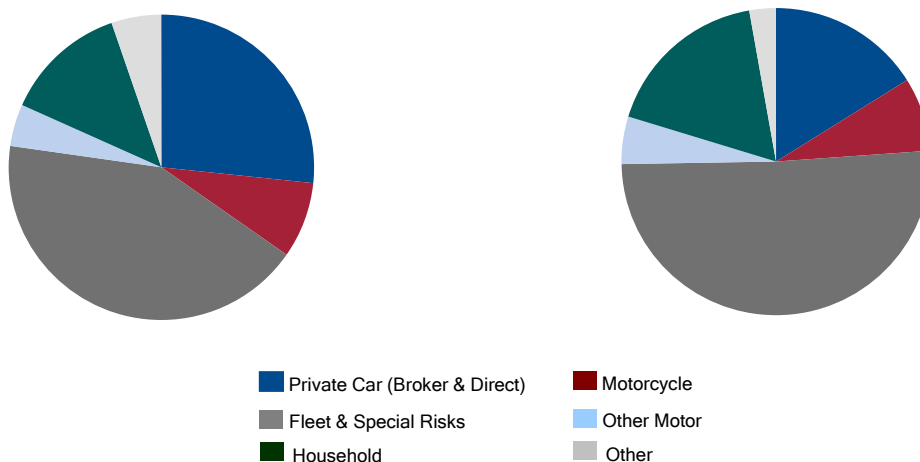


7.3.1 Premiums

- Reported GWP attributable to the ongoing business decreased by 6.7% to \$389m in 1H09, compared to 1H08.
- In local currency terms, GWP for the ongoing business declined by 2.2% to £174m compared to £178m in 1H08. The small net reduction in GWP represents the combined effect of rate increases in a mostly soft market and the managing down of poorly performing private car volumes.

Equity Red Star 1H08 GWP Mix (£178m)

Equity Red Star 1H09 GWP Mix (£174m)



- Rate increases were achieved across most classes. As anticipated, 10% increases in private motor have impacted market share, as have 5% increases in the highly competitive motorcycle segment. Average increases of around 2.5% have been achieved in fleet, in a hardening environment. Special risks rates were maintained on some poorer performing classes.

7.3.2 Claims

- The retained UK business' loss ratio decreased to 63.9% in 1H09, compared with 75.9% in 1H08. Much of the improvement is attributable to lower natural peril claim costs, with internally reinsured UK flood cover adversely impacting the 1H08 result.

UK Retained Business - Net Claims Expense (1H09 vs. 1H08)



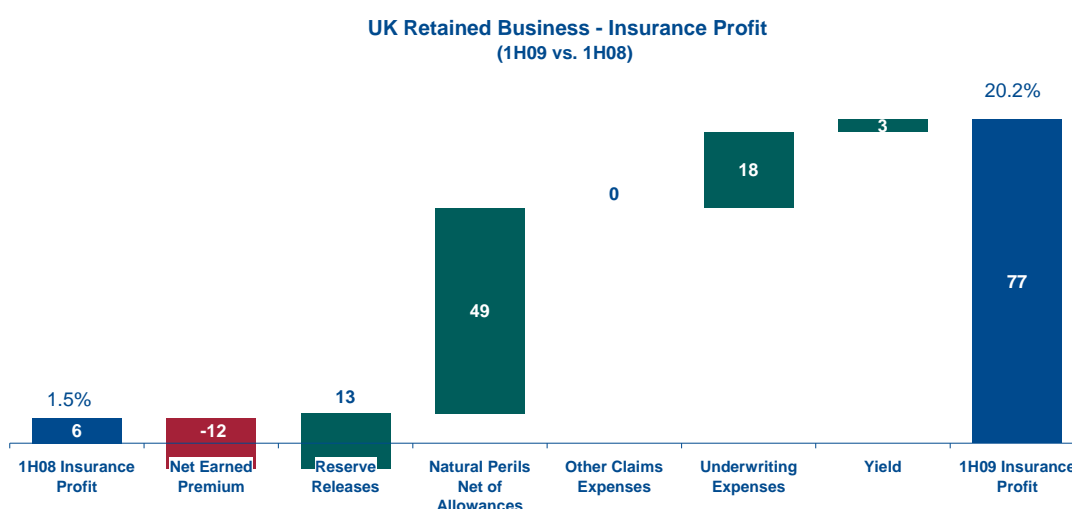
- The 1H09 result has also benefited from net reserve releases of approximately \$26m, primarily attributable to a syndicate nearing conclusion of its run-off process.
- Underlying claims inflation has remained at around 3-4%, however changes in mix of business away from private car have led to slightly higher levels during 1H09 owing to the slightly longer-tailed nature of specialist and commercial motor business.
- Overall claim volume has reduced, but with a differing mix as glass and liability claims have increased and accidental damage claims have declined. This shift in composition can in part be attributed to the changing mix of business written as Equity Red Star reduces its exposure to the private motor market.

7.3.3 Expense ratio

- The expense ratio decreased from 33.5% in 1H08 to 29.9% in 1H09.
- Combined commission and underwriting expenses fell from \$132m in 1H08 to \$114m in 1H09. The main drivers of this movement were the reduced volume effect from managing down poorly performing private car volumes and the absence of one-off underwriting integration costs incurred in 1H08.
- The commission expense is stated net of profit commission received by the Group’s managing agent from the third party names in the Equity Red Star syndicate 218. 1H09 profit commission was approximately \$2m and compares to \$1m received in 1H08 and \$4m in 2H08.
- Operational savings which were realised following the integration of the mass market distribution businesses are not expected to unwind following the sale of these non-core assets. The savings realised included business processes, extending supplier relationships and improved claim cost control.

7.3.4 Insurance margin

- The 1H09 insurance margin achieved by the retained UK operations was 20.2% in 1H09. This has been inflated by \$26m of net reserve releases, largely attributable to a syndicate which was in run-off at the time IAG acquired Equity Insurance Group at the beginning of 2007.
- Excluding reserve releases, a more indicative underlying margin is 13.4%, which represents a significant improvement over the 1.5% margin recorded in 1H08. This improvement is attributable to deliberately reduced exposure to poorly performing elements of the private motor market, rate increases and a substantial decrease in natural peril claim costs.



7.3.5 Fee based business

- The fee based business being retained is Equity Direct affinity business and the specialist commercial broker Barnett & Barnett. Net fee based income from these businesses was a loss of \$2m.

7.3.6 Outlook

- The retained UK business will continue to focus on Equity Red Star's underwriting and cost discipline to build on its 37 year track record of profitability.
- The UK group will continue growing its speciality underwriting business and distribution through third party and owned brokers. Private car exposure will be maintained through key broker relationships only.
- The sale of the mass market distribution business is not expected to adversely impact Equity Red Star volumes. Equity Red Star will benefit from its existing relationship with Swinton Group and will continue to source business through the divested branch network.
- While the favourable rating outlook is encouraging for the future, the recessionary impact on both claims and broker performance will present additional challenges. Reduced investment returns due to the current economic climate will also reflect in the performance of 2H09 and beyond.
- In light of these factors, a weaker underlying performance from Equity Red Star is expected in 2H09.

7.4 Discontinued Business

The discontinued businesses comprise the branch network, Hastings Direct and its associated underwriter Advantage and the internet-based operations that trade under the Insure brand. The sale of these assets was completed with effect from February 2009.

UK DISCONTINUED BUSINESS FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	168	151	143
Gross earned premium	172	153	122
Reinsurance expense	(10)	(21)	(7)
Net premium revenue	162	132	115
Net claims expense	(173)	(154)	(118)
Underwriting expense	(38)	(31)	(22)
Underwriting profit/ (loss)	(49)	(53)	(25)
Investment income on technical reserves	9	(1)	2
Insurance profit/ (loss)	(40)	(54)	(23)
Profit/ (loss) from fee based business	(1)	(1)	(3)
Total Divisional Result	(41)	(55)	(26)
Insurance Ratios			
Loss ratio	106.8%	116.7%	102.6%
Expense ratio	23.5%	23.5%	19.1%
Combined ratio	130.2%	140.2%	121.7%
Insurance margin	(24.7%)	(40.9%)	(20.0%)

- GWP attributable to these operations amounted to \$143m in 1H09, down from \$168m in 1H08. This reflects a loss in volume as substantial average premium increases were implemented and Advantage ceased writing poorly performing business.
- The reported loss ratio for the discontinued businesses improved to 102.6% in 1H09, compared to 106.8% in 1H08, with the net claims expense declining from \$173m in 1H08 to \$118m in 1H09.
- Underwriting expenses declined from \$38m in 1H08 to \$22m in 1H09, reflecting reduced business volumes.
- The insurance loss of \$23m for 1H09 represents a negative margin of 20.0%, compared to a negative outcome of 24.7% in 1H08.

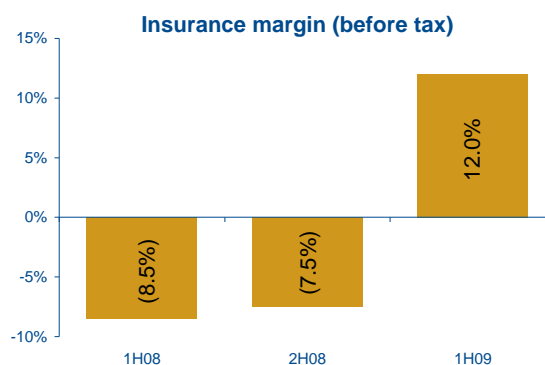
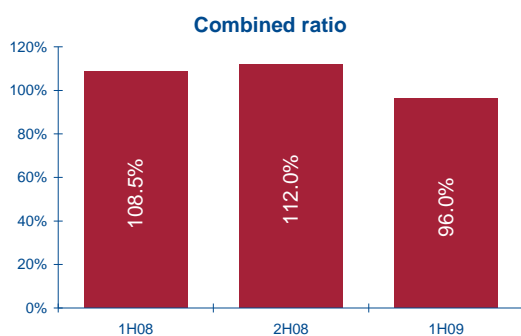
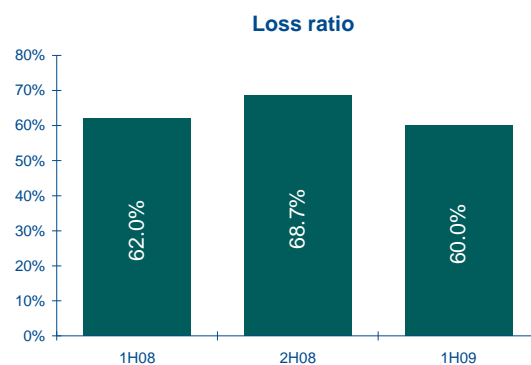
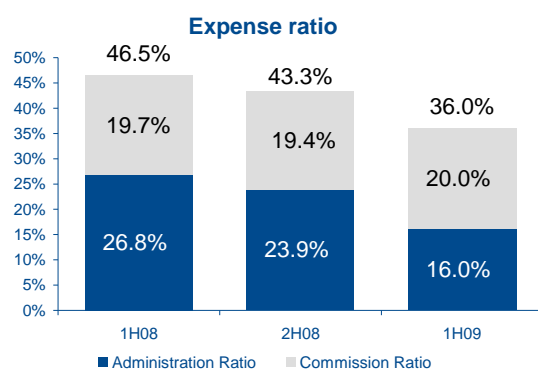
7.5 Changes in reporting from FY09

- From FY09, the results of the international captive are being allocated across the respective offshore operations, bringing its reporting into line with that of the Australian captive. Reclassified FY08 results for the total UK operations include a \$66m loss (1H08: \$54m; 2H08: \$12m) attributable to inter-company risk underwritten by the captive which was previously recorded within Asian Reinsurance.
- All corporate expenses which are not of a one-off nature are being allocated to business operations with effect from FY09. Reclassified FY08 results for the total UK operations include net corporate expense of \$3m (1H08: \$1m; 2H08: \$2m).

8. ASIA

ASIA	1H08	2H08	1H09
FINANCIAL PERFORMANCE	A\$m	A\$m	A\$m
Gross written premium	89	85	92
Gross earned premium	88	84	94
Reinsurance expense	(17)	(17)	(19)
Net premium revenue	71	67	75
Net claims expense	(44)	(46)	(45)
Commission expense	(14)	(13)	(15)
Underwriting expense	(19)	(16)	(12)
Underwriting profit/ (loss)	(6)	(8)	3
Investment income on technical reserves	-	3	6
Insurance profit/ (loss)	(6)	(5)	9
Profit/ (loss) from fee based business	(2)	(2)	(1)
Share of profit/ (loss) from associates	3	(3)	3
Total Divisional Result	(5)	(10)	11
Insurance Ratios			
Loss ratio	62.0%	68.7%	60.0%
Expense ratio	46.5%	43.3%	36.0%
Commission ratio	19.7%	19.4%	20.0%
Administration ratio	26.8%	23.9%	16.0%
Combined ratio	108.5%	112.0%	96.0%
Insurance margin	(8.5%)	(7.5%)	12.0%

Insurance ratios



8.1 Executive summary

- The Group's Asian operations represented around 2% of the Group's GWP in 1H09 and are an important part of the Group's medium to long term growth strategy. They provide the potential for the Group to participate in selected high growth markets driven by increasing proportions of GDP spent on insurance as these emerging markets develop.
- During 1H09, the Group executed three key initiatives consistent with its strategy to strengthen its position in select Asian general insurance markets, with a focus on Thailand, Malaysia, India and China:
 - On 24 November 2008, the Group signed a joint venture agreement to establish a general insurance business in India with the State Bank of India. IAG will initially hold 26% of the joint venture, the maximum allowable under India's current foreign investment rules. The business is expected to commence trading in late 2009;
 - On 1 December 2008, the Group increased its interest in the general insurance business of its joint venture in Malaysia, AmAssurance Berhad, from 30% to 49% (this business has been renamed AmG Insurance (AmG)), and sold its interest in the life insurance business; and
 - On 10 November 2008, AmG signed a memorandum of understanding to acquire 100% of the general insurance business of Malaysian Assurance Alliance Berhad (MAA) which, once completed, is expected to make AmG a top three general insurer in Malaysia by GWP. AmG will also acquire a strategic 4.9% interest in MAA's takaful (Islamic insurance) business, MAA Takaful Berhad.
- The operating result for the Group's existing Asian businesses (in Thailand and Malaysia) improved in 1H09, due to an increasingly disciplined approach to cost management and a lower loss ratio. The result also received a one-off \$8m benefit from the adoption by Safety Insurance in Thailand of deferred acquisition cost (DAC) accounting to bring it into line with the rest of the Group. Future results are not expected to reflect such a significant benefit.

8.2 Market environment

- During 1H09, Thailand and Malaysia's investment markets experienced significant falls, and consumer confidence declined as uncertain political and economic conditions continued in both markets. Competition in the respective general insurance industries remained strong, particularly in commercial classes. As a result, industry revenue growth has been well below the expected long term average for these markets.
- Passenger car sales in the region, which directly impact motor-related GWP, have experienced significant falls in the closing months of 2008, with declines of around 10% in Malaysia and 20% in Thailand.

8.3 Premiums

- The Group's total operations in Thailand (Safety Insurance and NZI Thailand) increased GWP by 3.4% to \$92m in 1H09 compared with \$89m in 1H08, in AUD terms. In local currency terms, GWP increased 2.5% for 1H09 relative to 1H08, and was in line with 2H08.
- In local currency terms, Safety Insurance, which is primarily a personal lines insurer, grew GWP by 4.3% in 1H09 compared with 1H08 and 1% relative to 2H08. Growth in premiums was driven by an expansion in Safety's distribution network with two new branches opened during the period, and some repricing of the insurance book to better reflect underlying risks. However, this growth was offset by a decline in business due to falling car sales.
- NZI Thailand, which is primarily a commercial lines insurer, recorded a reduction of 3% in GWP in local currency terms relative to 1H08 and a decrease of 9% compared to 2H08. This resulted from a decision to decline unprofitable business while focusing on disciplined pricing, as competition remained strong in commercial lines.

8.4 Claims

- The 1H09 loss ratio of 60.0% has improved relative to both 1H08 (62.0%) and 2H08 (68.7%). This has been primarily driven by active portfolio management undertaken by Safety Insurance whereby underperforming classes have been either repriced to adequate levels or not renewed. In addition, an expansion of the distribution network, via the opening of new rural branches in the prior period, has reduced Safety Insurance's exposure to the Bangkok market and provided a better spread of risks, thus lowering the overall loss ratio.

8.5 Insurance margin

- The Asian operations achieved an insurance profit of \$9m for 1H09, an improvement from the 1H08 loss of \$6m. This represented an improved 1H09 insurance margin of 12.0% compared with negative 8.5% in 1H08.
- The result benefited from the adoption by Safety Insurance of deferred acquisition cost (DAC) accounting to bring it into line with the rest of the Group. This resulted in the deferral of approximately \$8m of customer acquisition expenses during 1H09. Future results are not expected to reflect such a significant benefit.
- Excluding the DAC benefit, an improvement in underlying performance was driven by a disciplined approach to cost management coupled with a significant increase in investment income from technical reserves, following a decision to reduce exposure to equity investments in favour of fixed interest assets. As interest rates have fallen across the region, the Asian operation has benefited from gains in the value of its bond portfolio. These gains have not been offset by a revaluation of outstanding claim liabilities, given their largely short-tail duration.

8.6 Share of profits from associates – AmG Insurance

- On 1 December 2008, the Group increased its interest in the general insurance business of its joint venture in Malaysia, AmAssurance Berhad, from 30% to 49%, the maximum allowable under Malaysia's current foreign investment rules. This business has been renamed AmG. At the same time, the Group exited its interest in the life insurance business of the joint venture, and recognised a profit of \$38m on the sale, which has been included in net corporate expenses.
- AmG's GWP increased by 5.5% during 1H09 compared with 1H08, in local currency terms. This was driven by a continued focus on leveraging the distribution network of joint venture partner, AmBank Group, and further expansion of the product offering as IAG undertakes a focused capability transfer programme with AmG. This growth rate remains below long-term expectations for the Malaysian market, as lower car sales and a general dip in consumer confidence have impacted new business.
- IAG's share of the joint venture's results is reported as share of profit from associates. The result for 1H09 was \$3m, which was flat compared with 1H08 but represented an improvement from the \$3m loss recorded in 2H08. This increase was driven by a much improved underwriting performance in 1H09 due to the absence of the 2H08 requirement to strengthen bodily injury reserves and management's continued focus on reducing costs. As part of the IAG capability transfer programme, a specialist has been seconded to AmG to assist in better managing the bodily injury claims portfolio.

8.7 China Automobile Association

- CAA reported a loss of approximately \$1m for 1H09, which is a 24% improvement relative to 1H08. The Group is significantly restructuring CAA, including the appointment of a new senior management team, and continues to review its options for this business.

8.8 Expenses

- The total expense ratio for the Group's Asian business was 36.0% in 1H09, compared to 46.5% in 1H08 and 43.3% in 2H08. This substantial improvement is due to a focus on cost control and the benefit gained from the adoption of DAC accounting in Thailand.
- All business development costs associated with building IAG's Asian platform, including new market entry, have been fully expensed as part of underwriting expenses. It is expected that the Asian expense ratio will improve over time as these business development costs subside and earnings from new operations, such as India, come on line.

8.9 FY09 outlook

- For the remainder of FY09, the Group expects average GWP growth in its existing Asian businesses (Thailand and Malaysia) of approximately 3–5% in local currency terms. This is, as anticipated, below the long term average of around 8–10%, due to the current difficult market conditions. Profitability within the existing businesses is expected to steadily improve.
- In Thailand, the short to medium term outlook is expected to remain difficult as new car sales continue to decline and consumer confidence remains low. A rise in inflation is likely to also impact claim costs, although this is expected to be offset through rate increases. The Group remains confident that the longer-term outlook is positive with GWP growth likely to revert to a range of between 7–10%.
- In Malaysia, AmG's proposed acquisition of MAA's general insurance business, and a strategic interest in its takaful business, remains on track. Definitive agreements are expected to be signed during 2H09, once regulatory and other approvals are received. The integration of the businesses will make AmG a top three general insurer in Malaysia by GWP. The introduction of risk-based capital in Malaysia from 1 January 2009 is considered a positive development for the insurance sector.
- In India, the Group expects its general insurance joint venture with the State Bank of India (SBI) to commence writing business towards the end of the 2009 calendar year, once it has received full regulatory approvals. Business plan development for the joint venture is well underway, with a focus on leveraging its exclusive access to SBI's extensive distribution network and brand, to build scale in the corporate, SME and retail segments where SBI has particularly strong customer relationships. Premium growth across India's general insurance industry remains strong despite weak global economic conditions and the Group remains confident in forecasts that the industry will grow 15–20% per annum over the next ten years.
- The Group is confident that the medium to longer term outlook for its four target Asian markets remains positive, and continues to view China as a priority for growth in the medium term.

8.10 Changes in reporting from FY09

- From FY09, the results of the international captive are being allocated across the respective offshore operations, bringing its reporting into line with that of the Australian captive. Reclassified FY08 results for Asia include a \$0m result (1H08: \$2m profit; 2H08: \$2m loss) attributable to intercompany risk underwritten by the captive which was previously recorded within Asian Reinsurance.
- Reclassified FY08 results for Asia include development costs of \$3m (1H08: \$2m; 2H08: \$1m) which are now included in the insurance profit.
- All corporate expenses which are not of a one-off nature are being allocated to business operations with effect from FY09. Reclassified FY08 results for Asia include net corporate expense of \$11m (1H08: \$6m; 2H08: \$5m).

9. CORPORATE AND OTHER

CORPORATE & OTHER FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m
Gross written premium	11	15	7
Gross earned premium	14	10	16
Reinsurance expense	(4)	(3)	(3)
Net premium revenue	10	7	13
Net claims expense	(8)	(11)	(12)
Commission expense	(2)	(2)	(3)
Underwriting expense	(7)	(5)	(5)
Underwriting profit/ (loss)	(7)	(11)	(7)
Investment income on technical reserves	-	-	1
Insurance profit/ (loss)	(7)	(11)	(6)
Net corporate expenses	-	(69)	(77)
Interest expense	(58)	(43)	(46)
Investment income on shareholders' funds	76	(52)	(72)
Amortisation	(32)	(375)	(30)

9.1 Executive summary

- Corporate & Other comprises the following components:
 - All external reinsurance activities;
 - One-off and unusual corporate profits or losses;
 - Net interest expense;
 - Investment income on shareholders' funds; and
 - Amortisation of intangibles.

9.2 External reinsurance

- External reinsurance activities include a small portion of IAG Re Labuan and Alba, the specialist Lloyd's syndicate which was put into run-off from the end of September 2008.

9.3 Corporate expenses

- All corporate expenses are being allocated to business operations with effect from FY09, with the exception of those of a material one-off or unusual nature. Net corporate expenses in 1H09 amounted to a loss of \$77m, and comprised:
 - A loss of \$85m on the sale of IAG's non-core mass market distribution operations in the UK;
 - \$30m of restructuring costs relating to the closure of the Lloyd's syndicate Alba and associated underwriter Diagonal, as well as the restructure of our ongoing business in the UK; and
 - A \$38m profit recognised on the sale of IAG's interest in the life insurance business of its Malaysian joint venture.
- Net corporate expenses of \$69m identified in 2H08 comprised \$60m of restructuring costs and a \$9m property writedown in the UK.

9.4 Interest expense

- Interest expense of \$46m in 1H09 was lower than that in 1H08 (\$58m) owing to the repayment of subordinated debt late in 1H08 and the buyback of the Reset Preference Shares in 2H08.

9.5 Investment income on shareholders' funds

- The Group suffered a sharp deterioration in investment income on shareholders' funds, reflecting the poor performance of equity investment markets over the half. A net loss of \$72m compares to a profit of \$76m in 1H08 and a loss of \$52m in 2H08.
- Investment income includes a \$25m revaluation profit from the exchange right held by the Group in respect of its Reset Exchangeable Securities (RES). 2H08 included a revaluation profit of \$69m in respect of the RES.

9.6 Amortisation

- The 1H09 amortisation charge of \$30m compares to \$32m in 1H08, and is in line with the annual rate previously indicated by the Group for FY09. All impairments to intangible assets incurred as part of the divestment of the non-core UK operations are included in the related loss on sale within net corporate expenses.

10. INVESTMENTS

10.1 Investment policy

- The Group's investment policy is to maintain control of risk and return through a global Strategic Asset Allocation (SAA) that is implemented at a regional or business level.
- Additional considerations specific to each region or business, such as regulatory, tax and capital requirements, are factored in when determining the SAA appropriate for each business, in line with the Group's investment philosophy.

10.2 Investment philosophy

- The Group's investment philosophy is:
 - To manage the assets backing technical reserves and shareholders' funds separately, subject to regulatory or other structural constraints. However, a total portfolio view is taken in assessing and maintaining the appropriateness of the risk and return balance of the assets of the Group;
 - To invest the assets backing technical reserves, wherever possible, in a combination of government and high quality fixed interest securities with interest rate sensitivities that match the underlying insurance liabilities;
 - To invest the Group's shareholders' funds to produce an optimal risk-adjusted return that is consistent with the Group's risk appetite and flexibility needs, including, where practical, investments that are aligned with corporate sustainability goals without sacrificing investment return for the Group's shareholders;
 - To generate cost-effective and consistent added value to technical reserves and shareholders' funds in accordance with SAA benchmarks and within strict risk tolerance parameters; and
 - To maintain highly liquid portfolios, invested in accordance with the Group's foreign exchange, credit and liquidity policies.

10.3 Changes to investment strategies

- The Group's investments (including all overseas entities and minority interests) totalled \$10.7bn as at 31 December 2008.
- In the September quarter of FY09, the Group undertook a review of IAG's investment strategy, which resulted in some key enhancements to the investment strategy and framework. The key elements of the changes were:
 - Reduced risk and enhanced flexibility and efficiency in the investment portfolios;
 - More cost effective active return management; and
 - Consideration of the new APRA risk capital charges and asset co-mingling rules.
- 1H09 presented the most challenging investment market conditions in recent history, as the impact of the credit crisis caused significant dislocation to the financial markets and economic activity globally.

- Given the unprecedented financial market volatility, downside risk to equities and above average return opportunities available from fixed interest, during 1H09 the Group adopted a more defensive position within the approved SAA asset class ranges:
 - At 31 December 2008, 92% of the Group's investment assets was invested in fixed interest and cash, with the remaining 8% invested in growth and alternative assets;
 - 99.5% of technical reserves was allocated to fixed interest and cash; and
 - The Australian equities exposure in shareholders' funds was reduced.

10.4 Group investment assets

Investment Assets at end of:	1H08 A\$bn	2H08 A\$bn	1H09 A\$bn
Technical reserves ¹	8.2	7.6	7.7
Shareholders' funds	2.5	2.1	2.3
Funds at Lloyd's	0.2	0.2	0.2
Investment Assets	10.9	9.9	10.2
Minority interest - unitholders' funds ²	0.3	0.1	0.1
Investments in joint ventures and associates	0.1	0.1	0.1
Other ³	0.4	0.7	0.3
Total investment assets on balance sheet	11.7	10.8	10.7
Reset exchangeable security (RES) funds ⁴	0.6	0.6	0.6
Total investment assets	12.3	11.4	11.3
Other funds managed on behalf of third parties	1.3	0.9	0.9

Notes:

- The technical reserves balance is calculated net of GST on premium debtors and outstanding claims.
- The unitholders' funds shown are those units owned by third parties invested in trusts that are controlled entities of the Group. There is a matching liability in the Group's balance sheet.
- Other assets of \$0.3bn represent items that are not under investment management mandate, which include cash in corporate treasury and operating cash in subsidiary companies and related entities.
- The Group continues to have \$550m of contingent capital (Reset Exchangeable Securities) available, which is not shown on its balance sheet.

10.5 Asset allocation

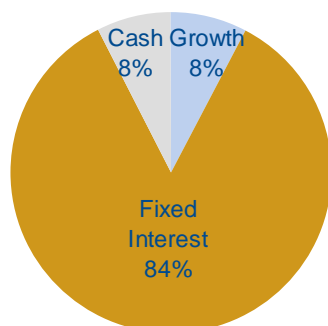
- This table represents the Group's effective exposure (i.e. after allowing for derivatives) to each asset class, as at the dates shown.

Asset Class Exposure at end of:	Technical Reserves	Shareholders' Funds	Technical Reserves	Shareholders' Funds	Technical Reserves	Shareholders' Funds
	1H08 %	1H08 %	2H08 %	2H08 %	1H09 %	1H09 %
Australian equities	0.0	24.1	0.0	26.3	0.0	21.7
Listed property trusts	0.0	2.2	0.0	2.3	0.0	0.0
International and other	1.5	8.3	0.7	8.4	0.5	11.0
Fixed interest	94.8	53.6	97.8	51.4	99.2	58.7
Cash	3.3	10.0	1.4	10.7	0.3	8.6
Hedge funds	0.4	1.8	0.1	0.9	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

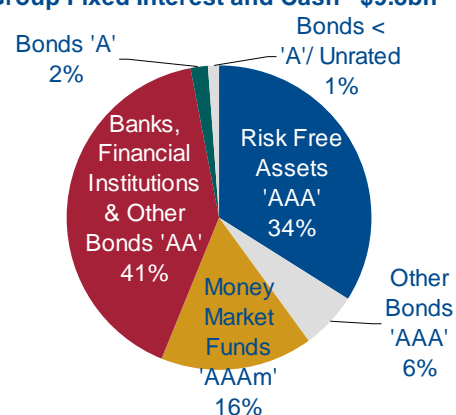
- As at 31 December 2008, the Group had reduced its exposure to growth assets relative to fixed interest and cash held in its shareholders' funds to 33:67 compared with 38:62 as at 30 June 2008.

10.6 Credit quality of assets

Group Investment Asset Exposure - \$10.6bn



Group Fixed Interest and Cash - \$9.8bn



- The credit quality of the Group remains high with 97% of the fixed interest and cash portfolio rated 'AA' or better.
- The Group has no direct exposure to US sub-prime mortgages.
- All credit assets are performing and meeting interest and principal repayment obligations.

10.7 Sensitivity analysis

- As at 31 December 2008 the sensitivity of the Group's net profit before tax to investment market movements was as set out below:

Sensitivity of NPBT at end of:	Change in Assumption	1H08 A\$m	2H08 A\$m	1H09 A\$m
Investment sensitivities				
Growth assets:				
Australian equities	+1%	5.9	7.0	3.5
Listed property trusts	+1%	0.5	0.6	-
International equities (inc private equities)	+1%	2.0	1.9	1.2
Hedge funds	+1%	0.3	-	-
Interest rates:				
Active return on technical provisions	-0.1% or 10 bpts change in credit spreads	10.5	11.0	10.9
Active return on shareholders' funds	-0.1% or 10 bpts change in credit spreads	1.5	1.1	0.9
Technical provisions (Aust & NZ fixed interest)	-1% or 100 bpts change in interest rates	152.9	149.5	199.0
Shareholders' funds (Aust & NZ fixed interest)	-1% or 100 bpts change in interest rates	13.5	10.0	9.6
Total investment returns	-1% or 100 bpts change in interest rates	166.4	159.5	208.6
Outstanding claims	-1% change in net discount rate	(164.7)	(159.3)	(191.9)

10.8 Investment performance

- A summary of the investment income and the investment returns generated on the technical reserves and shareholders' funds portfolios is set out in the following table. The percentage returns are before tax and expenses.

Portfolio Income Including Derivatives	1H08		2H08		1H09	
	A\$m	Return%	A\$m	Return%	A\$m	Return%
Technical reserves	224	2.6	208	2.7	732	8.9
Shareholders' funds	76	2.6	(121)	(4.5)	(97)	(4.1)
RES revaluation	-	-	69	-	25	-
Total Investment Income	300	2.6	156	1.0	660	6.0

Note: Returns (%) are accounting yields being investment income based on average exchange rates divided by closing funds under management. Returns (%) exclude fees and other investment income generated by investments not under active management.

- The total year-to-date return achieved on the assets in 1H09 was 6.0%.
- The contribution from the Group's technical reserve assets to the insurance result was \$732m for 1H09. This comprised \$670m from the Group's Australian and New Zealand businesses with the balance of \$62m from the Group's UK and Asian businesses.
- The widening in credit spreads resulted in a \$94m mark-to-market loss on the Group's fixed interest portfolios for 1H09, of which \$86m was in the technical reserves portfolio. The Group has not experienced any impairment on any of these assets. This revaluation loss is expected to be recovered over the remaining life of the securities as the underlying cash flows continue to perform.
- The investment return on the Group's portfolios in Australia and New Zealand outperformed the aggregate benchmark by 57 basis points in 1H09.
- This positive result was achieved against the backdrop of a very difficult investment environment globally, in which fixed interest and equity markets have been very volatile, producing material swings in benchmark and active return performances from month to month. However, the Group's move to reduce shareholders' funds' exposure to risk assets (equities and listed property trusts) from 38% to 33% over the course of 1H09, in favour of fixed interest assets, has had a positive impact.
- The year-to-date percentage returns are net of transaction fees but before deducting management fees, expenses and income tax.
- Investment income on shareholders' funds includes a \$25m revaluation gain from the exchange right embedded in the Group's \$550m contingent capital arrangement.

11. BALANCE SHEET, CAPITAL AND DIVIDENDS

11.1 Balance sheet

IAG GROUP BALANCE SHEET AT END OF:	1H08 A\$m	2H08 A\$m	1H09 A\$m
Assets			
Cash and cash equivalents	560	679	275
Investments	11,083	10,034	10,314
Investments in joint ventures & associates	79	70	138
Premium receivable	1,935	2,046	1,973
Trade and other receivables	986	1,207	1,087
Reinsurance recoveries on claims	711	679	707
Other recoveries on claims	377	364	311
Deferred acquisition costs	779	758	723
Deferred reinsurance expense	332	308	360
Intangible assets	722	585	449
Goodwill	2,219	1,875	1,904
Other assets	783	775	911
Assets held for sale	-	-	653
Total Assets	20,566	19,380	19,805
Liabilities			
Outstanding claims	8,228	7,827	8,154
Unearned premium	4,105	4,097	3,970
Interest bearing liabilities	1,723	1,401	1,360
Trade and other payables	697	906	704
Other liabilities	893	798	870
Liabilities held for sale	-	-	612
Total Liabilities	15,646	15,029	15,670
Net Assets	4,920	4,351	4,135
Equity			
Equity attributable to holders of ordinary shares	4,774	4,204	3,986
Minority interests	146	147	149
Total Equity	4,920	4,351	4,135

- In December 2008, IAG announced that it had finalised agreements for the sale of its mass market distribution businesses in the UK. These businesses are classified as held for sale for accounting purposes. The relevant assets and liabilities of these businesses are excluded from their corresponding asset and liability categories and grouped and presented separately on the balance sheet as assets and liabilities held for sale.
- The total assets of the Group as at 31 December 2008 were \$19,805m compared to \$19,380m at 30 June 2008. The increase is mainly attributable to increased investments from the mark-to-market gains on the fixed interest portfolio.
- The other assets category represents the aggregate of current and deferred tax assets, prepayments, property, plant and equipment, defined benefit superannuation assets, deferred expenditure and other assets.
- The total liabilities of the Group as at 31 December 2008 were \$15,670m compared to \$15,029m at 30 June 2008. A large portion of the increase is attributable to increased outstanding claim liabilities, reflecting the reduction in interest rates over the period.
- The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unitholders' funds held by external holders of units in IAG-controlled trusts and lease provisions.

- The decrease in IAG shareholders' equity from \$4,204m at 30 June 2008 to \$3,986m at 31 December 2008 is mainly due to:
 - The \$127m cash component of the October 2008 final dividend (the remaining \$42m was satisfied by the issue of shares via the dividend reinvestment plan); and
 - Defined benefit plan losses of \$68m.

11.2 Capital management

11.2.1 Capital adequacy

- The Group uses a long term benchmark MCR multiple of 1.50x.
- Given the significant financial market uncertainty and volatility prevailing, the Board has determined (in February 2009) to pursue a range of capital initiatives which, upon completion, will increase the Group's MCR multiple well above the long term benchmark of 1.50x.

11.2.2 Minimum Capital Requirement (MCR) position

- The Group's minimum capital requirements increased to \$1,934m as at 31 December 2008, from \$1,872m as at 30 June 2008.

Minimum Capital Requirements at end of:	1H08 A\$m	2H08 A\$m	1H09 A\$m
Insurance risk	1,256	1,224	1,249
Concentration risk	93	118	126
Investment risk	504	530	559
Minimum capital requirements	1,853	1,872	1,934

- The increase in the insurance risk charge is due to an increase in net insurance liabilities, offset to some extent by the exclusion of risk charges on the Advantage Insurance business in the UK which was deemed to be held for sale.
- The increase in catastrophe concentration risk is due to changes in reinsurance cover which became effective from 1 January 2009.
- The increase in the investment risk charge reflects the impact of the revised rules introduced by APRA with effect from 1 July 2008. This was partially offset by the exclusion of risk charges on the Advantage Insurance business which was deemed to be held for sale at the end of 1H09.
- The Group's regulatory capital and its MCR position are set out below.

IAG Group Coverage of Regulatory Capital Requirements	1H08 A\$m	2H08 A\$m	1H09 A\$m
Tier 1 capital			
Paid-up ordinary shares	4,649	4,740	4,782
Treasury shares	(26)	(15)	(26)
Hybrid equity	550	350	350
Reserves	3	(7)	(35)
Retained earnings	194	(458)	(691)
Excess technical provisions (net of tax)	396	359	371
Less: deductions ⁽¹⁾	(3,232)	(2,772)	(2,785)
Total Tier 1 Capital	2,534	2,197	1,966
Tier 2 Capital			
Subordinated debt	923	844	947
Total Tier 2 Capital	923	844	947
Capital Base	3,457	3,041	2,913
Minimum Capital Requirement (MCR)	1,853	1,872	1,934
MCR multiple	1.87 x	1.62 x	1.51 x

Note: (1) Includes goodwill and intangibles, net deferred tax assets and capitalised software.

- The Group's regulatory capital has decreased from \$3,041m as at 30 June 2008 to \$2,913m as at 31 December 2008. The major factors contributing to the movement were:
 - A reduction in the defined benefit superannuation financial position by \$68m;
 - Payment of the final 2008 dividend in October 2008 totalling \$169m, satisfied through cash (\$127m) and the issue of ordinary shares (\$42m) under the dividend reinvestment plan; and
 - An increase in tier 2 capital of \$103m due to foreign exchange movements.
- Since period end the Group has announced the following measures which will result in an estimated proforma MCR at 31 December 2008 of 1.69x:
 - A fully underwritten institutional placement conducted on 18 February 2008 which raised \$450m;
 - A share purchase plan which is expected to raise approximately \$100m; and
 - The intended repurchase of up to \$225m of subordinated debt. Subsequent to this announcement the Group successfully repurchased approximately £108m of UK subordinated debt which has resulted in a pre-tax profit of approximately \$70m.

11.2.3 Interest bearing liabilities

- The breakdown of the Group's interest bearing liabilities is as follows:

Interest Bearing Liabilities At End Of	1H08 A\$m	2H08 A\$m	1H09 A\$m
Interest bearing liabilities			
Senior debt/unsecured notes	107	64	7
Subordinated debt	957	848	951
Reset preference shares ⁽¹⁾	550	350	350
Secured mortgage	2	-	-
Capitalised transaction costs	(15)	(12)	(7)
Cross-currency swap payable ⁽²⁾	122	151	59
Total Interest Bearing Liabilities	1,723	1,401	1,360

Notes:

1. Buy-back of all RPS 2 completed in June 2008 for \$200m.
2. Cross-currency swaps are used to hedge the currency exposure from the US\$240m denominated subordinated debt issue. The cross-currency swaps are revalued to take into account movements in the US\$/A\$ exchange rate and market interest rates and are reported as part of interest bearing liabilities.

- As at 31 December 2008, the maturity profile of Group debt and hybrids was as follows:

Maturity Profile of Group Debt and Reset Preference Shares as at 31 December 2008	Currency principal amount \$m	A\$ equivalent principal amount A\$m	Yield (net of interest rate and cross currency swaps) %	Fixed Rate / Variable Rate (net of swaps)	Call Date or Reset Date	Maturity Date
Long-term debt:						
US\$240m subordinated fixed rate notes ¹	US\$240	405	6.93%	Fixed	Apr-10	Apr-15
Reset Preference Shares (IAGPA) ²	A\$350	350	5.63%	Fixed	Jun-12	Perpetual
NZ\$100m subordinated fixed rate notes	NZ\$100	84	9.11%	Fixed	Nov-12	Nov-17
£250m subordinated fixed rate notes	£250	521	5.66%	Fixed	Dec-16	Dec-26
Other	Various	7	-	-	-	-
Capitalised transaction costs	-	(7)	-	-	-	-
Total Debt		1,360				
Reset exchangeable securities (IANG) ³	A\$550	550	4.00%	Variable	Mar-10	Perpetual

Notes:

- The A\$ equivalent of the US\$ proceeds received by the Group, net of related cross-currency swaps and excluding transaction costs.
- The dividend yields shown on the Reset Preference Shares are the cash yields, excluding the value to investors of the attached franking credits. The principal amount excludes capitalised transaction costs.
- The Reset Exchangeable Securities pay a floating rate quarterly interest payment. The interest yield shown is the cash yield for the current interest period, excluding the value to investors of the attached franking credits.

- The Group has no debt maturing in calendar 2009, with the earliest individual call or reset date occurring in March 2010.



11.2.4 Capital mix

- The Group has reviewed its measures around capital mix and moved to one based on net tangible equity, i.e. after deduction of goodwill and intangibles. This also provides better alignment of the treatment of these items in regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the next 1-2 years:
 - Ordinary equity (net of goodwill and intangibles) 60-70%
 - Debt and hybrids 30-40%

Capital Mix	1H08 A\$m	2H08 A\$m	1H09 A\$m	1H09 Proforma ⁽¹⁾
Shareholder equity	4,920	4,351	4,135	4,735
Intangibles and goodwill	(2,941)	(2,460)	(2,353)	(2,353)
Tangible shareholder equity	1,979	1,891	1,782	2,382
Interest bearing liabilities	1,723	1,401	1,360	1,121
Total tangible capitalisation	3,702	3,292	3,142	3,503
Debt to total tangible capitalisation	46.5%	42.6%	43.3%	32.0%

⁽¹⁾ Incorporates capital management initiatives announced 18 February 2009

11.2.5 Reset Exchangeable Securities (RES)

- The Group continues to have \$550m of pre-funded contingent capital available, which is not shown on its consolidated balance sheet. This contingent capital is in the form of debt securities issued by a subsidiary that is matched by a portfolio of high grade short-dated interest bearing securities. The contractual set-off rights between the liability for the notes and the assets held to support them mean the two balances are offset for financial reporting purposes. The terms of the issued debt notes mean that the Group can direct conversion of this debt to qualifying regulatory capital in Australia at very short notice. The debt securities, known as Reset Exchangeable Securities (RES), are listed on ASX as IANG. If the securities had been converted as at 31 December 2008, the MCR multiple would have increased by 0.23x.

Off Balance Sheet Contingent Capital A\$m	Proforma adjustments on		
	Group ⁽²⁾	Exchange ^{(3),(4)}	Proforma
Tier 1 capital	1,966	-	1,966
Tier 2 capital	947	457	1,404
Regulatory capital base	2,913	457	3,370
Minimum capital requirements (MCR)	1,934	3	1,937
MCR multiple	1.51 x	0.23 x	1.74 x

Notes:

- RES are not recognised in the Group's capital adequacy position as they are not eligible to be treated as regulatory capital until such time as they are converted into qualifying regulatory capital instruments.
 - These amounts reflect the composition of the Group's capital adequacy position as at 31 December 2008.
 - Assuming there has been no change in the Group's capital adequacy position at the time of exchange.
 - Assuming that the \$550m in investment assets attracts minimal investment charges and that they have no material impact on the Group's MCR. Additional Tier 2 capital is net of existing value of exchange right (\$93m).
- As at 31 January 2009, the value of the portfolio held for the benefit of the RES noteholders had a value of \$553m.
 - This value is updated monthly and can be found on the Group's website at: <http://www.iag.com.au/shareholder/res/index.shtml>.
 - IAG may exchange some or all of the RES for preference shares issued by IAG at any time. This exchange right is considered an embedded derivative within the RES and is recognised at fair value on the balance sheet. The exchange right has been assessed as having a fair value of \$93m at 31 December 2008. As at 30 June 2008, it had a value of \$69m.
 - This valuation reflects the substantial widening in credit spreads that has occurred since the security was issued in January 2005, and is reflected in the closing price for RES on ASX on 31 December 2008, which was \$73 per \$100 of face value.
 - Exercise of all of the RES would increase the MCR multiple from 1.51x to 1.74x at 31 December 2008.

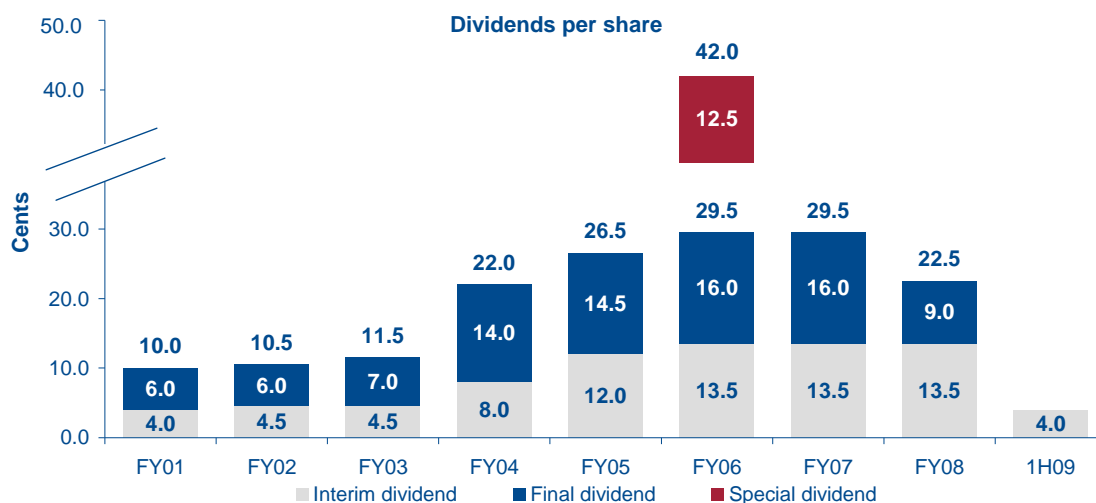
11.2.6 Credit ratings

- On 16 December 2008, Standard & Poor's (S&P) affirmed its 'A+' rating on IAG (the ultimate parent entity) and the 'AA-' ratings on its core operating companies. The outlook on all entities remains stable.

11.2.7 Reinsurance

- IAG's catastrophe protections are placed on an excess of loss basis. This enables greater flexibility in future protections.
- The Group's main catastrophe reinsurance was renewed for 12 months effective 1 January 2009, and provides cover in excess of the retention for losses up to \$4bn in excess of \$200m. This catastrophe protection covers all territories.
- IAG has also purchased a series of covers that reduces the Maximum Event Retention (MER) of the Group to \$126m for an Australian event, \$105m for a New Zealand event and \$53m for an event in the UK. For a second event the retention drops to \$75m for Australia, \$66m for New Zealand and \$50m for the UK, and \$50m for a third event across all territories.
- The Group has also renewed its property catastrophe \$150m excess of \$150m aggregate cover which provides protection for accumulated losses arising from events larger than \$15m, with a limit of \$50m per event.
- The reinsurance renewals at 1 January 2009 are with similar counterparties to those in the previous year.
- The Group has a customised event definition in its contract wordings with reinsurers to ensure that covers provide appropriate protection to the Group. The June 2007 storms, the December 2007 hailstorm and the Mackay storms in 2008 all demonstrated the benefit of this, as it enabled the entire duration of each of the losses to be treated as one event.
- The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where whole of portfolio is the sum of all non-correlated risk). The limits purchased reflect a 1-in-250 year return period.
- The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4% of net earned premium. Its current retentions are below this level.
- The casualty reinsurances were renewed at 30 June 2008 at consistent terms to expiry. Unlimited cover is purchased on statutory classes where available and for other lines cover was placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business. Unlimited workers' compensation coverage was withdrawn from the market and the Group has conducted loss analysis to ensure it has adequate reinsurance protection.
- IAG Re Australia, the Group's Australian based captive reinsurer, captures 100% of the reinsurance spend of the Australian business, accepting facultative reinsurance with effect from 1 October 2007. Whilst the bulk of this facultative reinsurance is passed straight through to the external market, counter-party and regulatory exposure is captured within a single Group entity.
- International business units continue to place some reinsurances directly with the external market, however, IAG Re Labuan, the Group's offshore captive reinsurer, has increased its capture of Group spend, underwriting close to 100% of New Zealand treaty business and a substantial amount of business from the UK and Asia.
- The first signs of the Australian reinsurance market hardening are being seen in certain sectors. This has been driven by a series of substantial single risk and catastrophe losses suffered by reinsurers over the last 12 months. The current economic climate has the potential to increase the cost of reinsurance capital in the future.
- The counter-party credit profile of the main catastrophe programme has more than 88% of the limit provided by parties rated 'A+' or better by S&P.

11.3 Dividends



- Under its revised dividend policy it is the Group's intention to pay dividends of 50-70% of reported cash earnings. Cash earnings are defined as:
 - Net profit after tax attributable to IAG shareholders;
 - Plus amortisation and depreciation (including amortisation of capitalised software development expenditure); and
 - Excluding any unusual items, which in 1H09 were the loss on sale of the non-core assets in the UK and related restructuring costs, the profit on the sale of the Malaysian life business and the revaluation income from the exchange right attached to the RES.
- In accordance with this policy, the Board has declared an interim dividend of 4.0 cents per ordinary share (1H08: 13.5 cents per share), which is equivalent to approximately 70% of 1H09 cash earnings. The dividend is payable on 8 April 2009 to shareholders registered as at 5pm on 11 March 2009.
- The dividend reinvestment plan (DRP) will be operational for the interim dividend and will be met by issuing new shares to DRP participants. The issue price per share for the FY09 interim dividend will be the Average Market Price as defined in the DRP terms. There will be no discount for participants.
- A copy of the Group's DRP is available at: <http://www.iag.com.au/shareholder/reinvestment/index.shtml>
- The listed entity had distributable retained earnings of \$747m as at 31 December 2008 and the Group's franking balance was \$509m at this date.
- After payment of the interim dividend the franking balance is capable of fully franking a further \$1,111m of distributions.

APPENDIX A – GROUP STRATEGY

In July 2008, IAG refined its corporate strategy and operating model. While the Group's focus remains general insurance, its new strategic intent is to create a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

The concept of portfolio should enable the Group to deliver a more consistent performance, despite owning a group of general insurance businesses operating at different stages in both the economic and the insurance cycle.

The Group's financial targets are to deliver:

- Top quartile total shareholder return (TSR); and
- ROE greater than 1.5x the weighted average cost of capital (WACC). Return is defined as NPAT plus amortisation and adjusted for unusual items.

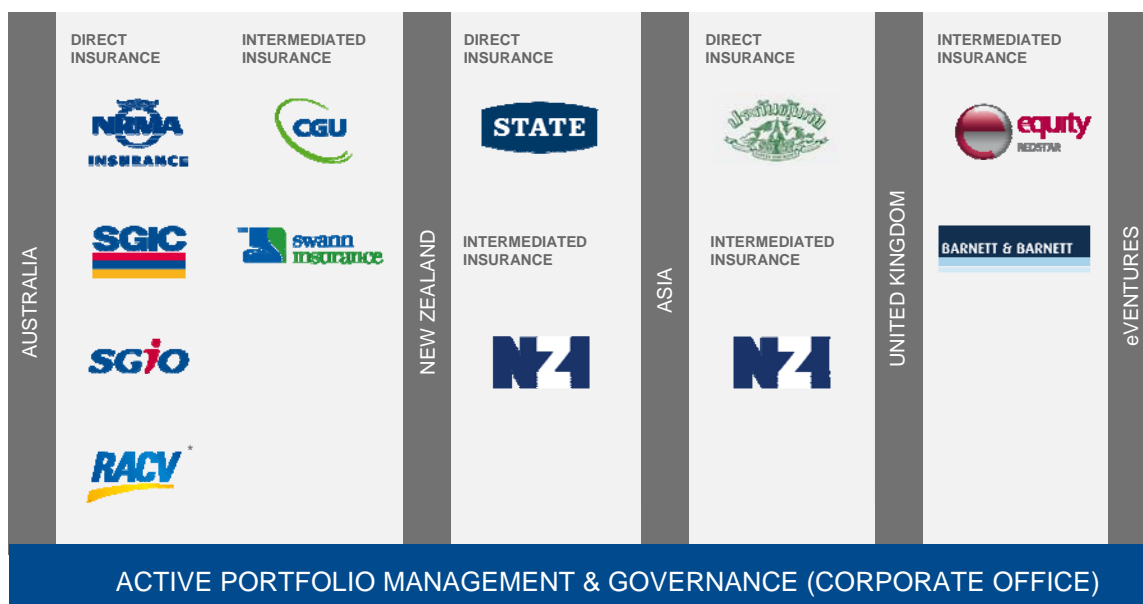
The aim is to achieve these targets through the cycle, given the nature and volatility of insurance. The clear focus is on margin and profitability.

The Group's strategic priorities are to:

- Improve performance in Australia and New Zealand, the Group's two biggest markets;
- Pursue select international growth opportunities in particular in Asia and other narrow, specialist opportunities; and
- Drive operational performance and execution.

The Group has a portfolio of end-to-end businesses aligned around customers, brands and markets. In this devolved model, accountability and responsibility is close to the end customer. This provides the operating businesses with control over the levers needed to execute strategies and manage performance, but within an overall Group framework.

The operating model is summarised below:



* Via a distribution relationship and underwriting joint venture with RACV Limited

IAG's short-tail personal insurance products are distributed in Victoria by RACV, under the RACV brand. These products are manufactured by IMA. Were either of IMA's shareholders (RACV and IAG) to experience a change of control, the other shareholder has a pre-emptive right to acquire all the equity in IMA, at market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value (as would the duration of the arrangements governing IMA's reinsurance of NRMA-branded products in NSW and the ACT).

APPENDIX B – A SNAPSHOT OF IAG

Australia Direct

Direct insurance products, which include personal insurance as well as business insurance packages targeted at sole operators and smaller businesses, are sold primarily under the NRMA Insurance brand in NSW, ACT, Queensland and Tasmania. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Victoria, the Group distributes home, motor and other insurance products through RACV. Products are distributed through branches, call centres, the internet and representatives.

Short-tail Insurance

- Motor vehicle
- Home and contents
- Niche insurance, such as pleasure craft, veteran and classic car, caravan, and travel insurance
- Commercial property
- Commercial motor and fleet motor
- Farm, crop and livestock

Long-tail Insurance

- Compulsory Third Party (motor injury liability)
- Public and products liability

Australia Intermediated

Intermediated insurance products are sold primarily under the CGU Insurance and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. Australia Intermediated is also a leading provider of workers' compensation services in Australia and operates in every State and Territory except South Australia and Queensland. In NSW and Victoria, it collects premiums and manages claims on behalf of each State Government. In Western Australia, Tasmania, ACT and the Northern Territory, the Group underwrites policies and manages claims. Comprehensive risk management services are available to all employer customers.

Short-tail Insurance

- Commercial property
- Commercial motor and fleet motor
- Construction and engineering
- Farm, crop and livestock
- Marine
- Motor vehicle
- Home and contents
- Niche insurance, such as consumer credit and travel insurance

Long-tail Insurance

- Public and products liability
- Professional indemnity
- Directors' and officers' insurance
- Home warranty
- Workers' compensation

New Zealand

The New Zealand business is the leading insurance provider in the country in the direct channel and a leading insurer in the broker/agent channel. The Group provides insurance products directly to customers under its State brand and indirectly, through insurance brokers and agents, under its NZI brand. The personal lines and simplified commercial products are also distributed through agents and under the third party brands by the corporate partners, which include large financial institutions.

Short-tail Insurance

- Motor vehicle
- Home and contents
- Commercial property, motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat, caravan and travel
- Rural and horticultural
- Marine

Long-tail Insurance

- Personal liability
- Income protection
- Commercial liability

United Kingdom

In the UK, IAG has a specialist motor underwriting operation, Equity Red Star. Commencing operations in 1946, Equity Red Star has grown to become the largest personal lines syndicate at Lloyd's, providing insurance to business and personal lines customers. It was acquired by IAG in 2007.

Asia

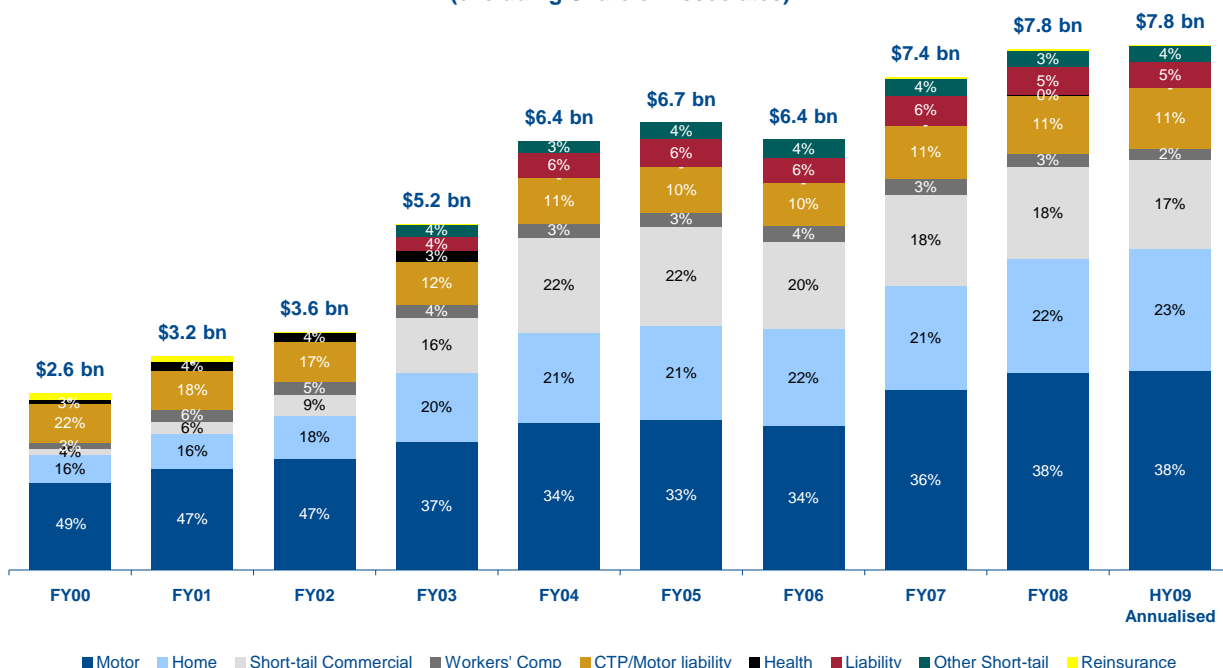
The Group has interests in four businesses in Asia - controlling economic interests in NZI (from July 2005) and Safety Insurance (following a public tender for shares completed in March 2006) in Thailand; a 49% share of AmG, a general insurance joint venture in Malaysia (from March 2006) and 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China. In November 2008, the Group agreed to form a general insurance joint venture with the State Bank of India (SBI) expected to commence trading in late 2009.

APPENDIX C – PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

Group Gross Written Premium - growth and product split

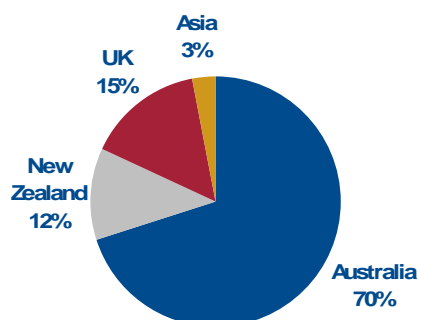
This graph shows a history of the Group's growth in Gross Written Premium (GWP) and the increased diversification over a 10 year period.

Gross Written Premium by Business A\$bn
(excluding Share of Associates)

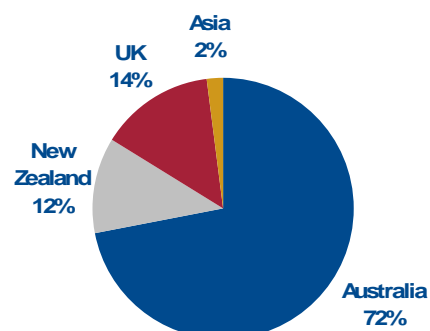


Group Gross Written Premium – Region split

IAG Group GWP by Region
HY ended 31 December 2007

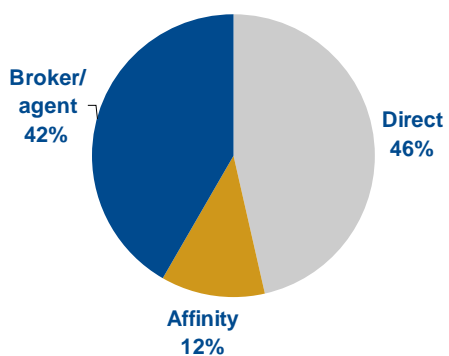


IAG Group GWP by Region
HY ended 31 December 2008

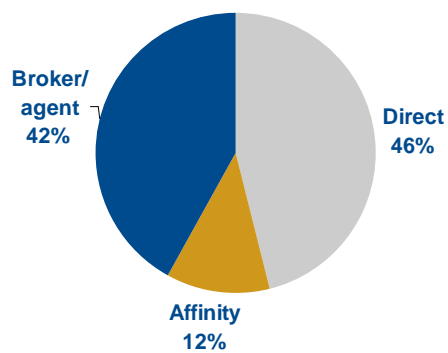


Group Gross Written Premium – Channel split

IAG Group GWP by Channel
HY ended 31 December 2007



IAG Group GWP by Channel
HY ended 31 December 2008



APPENDIX D - KEY ASX RELEASES

This schedule contains only a summary of the announcements made to the ASX since July 2008. It does not include announcements of changes in Directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements should further information be required. These are available from <http://www.iag.com.au>

9-Jul-08 Group Strategy and Trading Update

IAG announced its refined corporate strategy and new operating model, together with changes to its executive team.

The Group forecast underlying GWP growth of 3-5% for the year ending 30 June 2009 (reported GWP growth of 0-2%), and an insurance margin above 10%, inclusive of corporate expenses and the NSW insurance protection tax.

9-Jul-08 Director Appointment

IAG announced the appointment of Mr. Philip Twyman as a non-executive director,

22-Aug-08 Investor Report Full Year to 30 June 2008

IAG announced a net loss after tax of \$261 million for the year ended 30 June 2008, including nearly \$400 million (after-tax) of restructuring and impairment charges.

The board declared a fully franked final dividend of 9 cents per share, taking the total dividend to 22.5 cents per share.

1-Sep-08 Retirement of Directors

IAG announced that Mr Neil Hamilton and Mr Rowan Ross retired from the Board effective 31 August 2008.

16-Sep-08 Presentation by IAG CEO to Trans-Tasman Business Circle

IAG Managing Director and Chief Executive Officer, Mr Michael Wilkins, presented to the Trans-Tasman Business Circle on IAG's newly refined strategy, and confirmed that progress with strategic milestones was on track and that FY09 guidance was unchanged.

19-Sep-08 Dividend Reinvestment Plan - Pricing of Shares

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$4.1536 per share for the final dividend payable on 3 October 2008.

3-Oct-08 Annual Report

IAG's 2008 Annual Report and notice of Annual General Meeting was released to the market.

29-Oct-08 IAG Executive Appointment

IAG announced the appointment of Mr Andy Cornish as Chief Executive Officer of its Australian Direct insurance division, effective from late January 2009.

11-Nov-08 IAG Annual General Meeting

IAG advised shareholders at the company's annual general meeting that the Group remained on track to deliver on its guidance for the 2009 financial year.

The following motions were passed:

- Mr Brian Schwartz, Mr James Strong and Mr Philip Twyman were re-elected as directors of IAG; and
- The Company's Remuneration Report for the financial year ended 30 June 2008 was adopted.

24-Nov-08 South East Queensland Storms Update

IAG confirmed it expected to pay between \$60m and \$70m to customers affected by the November storms in south-east Queensland.

24-Nov-08 IAG and State Bank of India Agree to Form General Insurance Joint Venture

IAG and State Bank of India (SBI) announced they had signed a joint venture agreement to establish a general insurance company in India, expected to commence trading in 2009.

1-Dec-08 IAG Increases Malaysian General Insurance Interest

IAG announced an increase in interest to 49% of its Malaysian general insurance joint venture, AmG Insurance, and the sale of its interest in the life portion of the business.

18-Dec-08 IAG Exits Mass Market Distribution Businesses in United Kingdom

IAG announced it had agreed to sell its mass market distribution businesses in the UK for a total value of £73.5m (approximately A\$165m), in line with its strategy to concentrate on its profitable specialist motor underwriting business in that market.

18-Dec-08 Reclassification of FY08 Results

IAG issued a reclassification of its FY08 results to provide comparable figures for the segment reporting being adopted in FY09.

9-Feb-09 Victoria Fires Update

IAG issued a preliminary update on the impact of the Victorian bushfires.

9-Feb-09 IAG Confirms Reinsurance Arrangements

In light of the Victorian fires, IAG confirmed that its maximum single event retention for an event in Australia is \$126m.

18-Feb-09 IAG to Deliver Sound Underlying Improvement in First Half, and Announces Capital Management Initiatives

IAG provided details of its expected results for the six months to 31 December 2008, an update to guidance for FY09, including a revised insurance margin of 6%+, and announced a range of capital management initiatives.

19-Feb-09 IAG Raises \$450m Through Upsized Institutional Placement

IAG confirmed the completion of a \$450m placement to institutional investors at \$3 per share.

APPENDIX E - GLOSSARY

The following is a glossary of the terms used in this report including terms commonly used in the insurance industry.

APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange Limited.
Business volume	A measure of the units of business traded within each class of business and the basis of the measure depends on the class of business. In personal lines classes of business, the relevant volume measure is “risks in force”. In commercial classes, the volume measure is “policies in force”. The difference in the definition is required to capture the distinct nature of IAG’s business mix.
Combined ratio	Represents the total of net claims expense incurred and underwriting expenses, as a percentage of Net Earned Premium. It is equivalent to the sum of the loss ratio and expense ratio.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase.
Discount rate	In accordance with accounting standards outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.
DAC	Deferred acquisition costs
Deferred acquisition costs	Accounting standards require that acquisition costs incurred in obtaining and recording general insurance contracts shall be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DRP	Dividend Reinvestment Plan. This plan permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
Gross earned premium	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.
Expense ratio	The ratio of underwriting expenses to net earned premium. Expenses are split into administration and commission, with rates calculated on the same basis.
Fire services levy (FSL)	FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying the FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy.

Gross written premium (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
Group	Insurance Australia Group Limited (IAG) and its subsidiaries.
Immunised ratio	An immunised ratio is used to compare underwriting results between periods as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
Insurance margin	The ratio of insurance profit to net earned premium.
Insurance profit	Underwriting result plus investment income on assets backing technical reserves.
LAT	Liability adequacy test
Liability adequacy test	Accounting standards require that an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the profit and loss firstly as an impairment to related intangible assets and then to the related deferred acquisition costs. If an additional liability is required this is recognised in the balance sheet as an unexpired risk liability.
Long-tail	Classes of insurance (such as CTP and workers' compensation insurance) with an average period between the time when earned premiums are collected and final settlement of claims that is generally greater than 12 months.
Loss ratio	The ratio of net claims expense to net earned premium.
LTCS	Lifetime Care and Support Scheme. This scheme is operated by the NSW Government and provides care for people catastrophically injured in motor vehicle accidents in NSW regardless of fault. It is funded by a levy collected with NSW CTP premiums.
MCR	Minimum capital requirement as defined by APRA.
Net claims expense	Insurance claim losses incurred plus claims handling expenses net of recoveries from reinsurance arrangements.
NEP	Net earned premium.
Net earned premium	Net earned premium is gross earned premium less reinsurance premiums paid.
Probability of adequacy (PoA)	The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency. APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is of a value greater than a 75% level of sufficiency.
RACV	Royal Automobile Club of Victoria (RACV) Limited.
Recoveries	The amount of claims recovered from reinsurers, third parties or salvage.

Reinsurance	The practice whereby one party (the reinsurer), in consideration for a premium paid to it, agrees to meet certain pre-agreed liabilities of another party (the cedant) arising from insurance policies issued by that cedant.
Reset Exchangeable Securities (RES)	Reset Exchangeable Securities (RES) issued by IAG Finance (New Zealand) Limited and quoted on ASX as IANG. The issuer is a wholly owned subsidiary of IAG.
Reset Preference Shares (RPS)	Reset Preference Shares issued by IAG in two tranches and listed on ASX as IAGPA and IAGPB. All IAGPB securities were bought back in June 2008. IAGPB was removed from official quotation on 25 November 2008.
Risk free rate	The risk free rate of return is deemed by IAG to be the rate of return on a range of Commonwealth government bonds. The return is deemed to be risk free as there is a very low risk that the Commonwealth Government of Australia will default on its obligations.
Risks in force	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
Shareholders' funds	The investment portfolio of assets held in excess of the amount backing technical reserves. It represents shareholders' equity not used in day to day operations.
Short-tail	Classes of insurance (such as motor, home and small-to-medium enterprise commercial) with an average period between the time when premiums are earned and final settlement of claims that is generally less than 12 months.
S&P	Standard & Poor's Rating Services or Standard & Poor's Investment Services.
Technical reserves	The investments held to back provisions for outstanding claims (including incurred but not reported and incurred but not enough reported) and unearned premium, net of recoveries and premium debtors.
Underwriting	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
Underwriting expenses	Those expenses incurred as a result of underwriting activities, including risk assessment, commission expenses and other acquisition expenses.
Underwriting profit/(loss)	Net earned premium less net claims expense less underwriting expenses.
Unearned premium	The portion of premium written applicable to the unexpired portion of a policy.
Unearned premium liability	Premium that has not been recognised in the income statement is premium that is unearned and is recognised in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.