

26 February 2009

Manager, Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

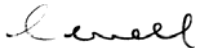
Dear Sir/Madam,

INSURANCE AUSTRALIA GROUP LIMITED ('IAG')
FINANCIAL RESULTS – HALF YEAR ENDED 31 DECEMBER 2008

Attached for immediate release to the market is Insurance Australia Group Limited's Appendix 4D – Half Year Ended 31 December 2008. The documents below will be lodged separately:

1. Media Release;
2. Investor Report; and
3. Investor Presentation Slides

Yours sincerely,



Glenn Revell
Company Secretary

Insurance Australia
Group Limited
ABN 60 090 739 923

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INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

HALF YEAR REPORT 31 DECEMBER 2008

APPENDIX 4D

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INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2008

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Up/down	% change	\$m
Revenue from ordinary activities	Up	13%	5,304
Profit from ordinary activities after tax attributable to shareholders	Down	-96%	4
Net profit attributable to shareholders of Insurance Australia Group Limited	Down	-96%	4

Dividends – ordinary shares	Amount per share	Franked amount per share
Interim dividend	4.0 cents	4.0 cents

The record date of the dividend is 11 March 2009. The dividend is to be paid on 8 April 2009. The Company's dividend reinvestment plan ("DRP") will operate by issuing new ordinary shares to participants with no discount applied. The last date for the receipt of an election notice for participation in the company's DRP is 11 March 2009. The DRP Issue Price* will be the Average Market Price* for a five day trading window from 30 March to 3 April 2009 inclusive.

Eligible shareholders may now lodge their DRP elections electronically by logging on to IAG's website at <http://www.iag.com.au/shareholder/manage/index.shtml>.

* Defined terms in the Dividend Reinvestment Plan booklet.

This report is to be read in conjunction with the annual report of the Insurance Australia Group for the year ended 30 June 2008 and any public announcements made by the Insurance Australia Group during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2008

OTHER INFORMATION

During the half year the Insurance Australia Group held an interest in the following joint ventures:

	% Held
Joint venture	
NTI Limited	50.00
Assetinsure Financial Products Pty Limited	50.00
Associates	
AmG Insurance Berhad	49.00
First Rescue and Emergency(NZ) Limited	50.00
Loyalty New Zealand Limited	25.00
Sureplan NZ Limited	30.00
AR Hub Pty Ltd	33.33
Arista Insurance Limited	25.60
InsuranceWide.com Services Limited	26.70
NAS Insurance Brokers	25.00

The company's aggregate share of profits of these entities is not material.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2008

APPENDIX 4D COMPLIANCE MATRIX

Appendix 4D disclosure requirements	Insurance Australia Group Appendix 4D	Page Number	Note Number
1. Details of the reporting period and the previous corresponding period.	All financial data headings		
2. Key information in relation to the following. This information must be identified as “Results for announcement to the market”. 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities. 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members. 2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members. 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends. 2.5 The record date for determining entitlements to the dividends (if any). 2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	“Results for announcement to the market” page 1 Appendix 4D		
3. Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Half year financial report 31 December 2008: <ul style="list-style-type: none"> • Notes to the financial statements - Net tangible assets. 	Page 29	Note 16
4. Details of entities over which control has been gained or lost during the period, including the following. 4.1 Name of the entity. 4.2 The date of the gain or loss of control. 4.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity’s profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.	Attachment A: Half year financial report 31 December 2008: <ul style="list-style-type: none"> • Notes to the financial statements - Acquisitions and disposals of businesses 	Page 25	Note 12

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2008

Appendix 4D disclosure requirements	Insurance Australia Group Appendix 4D	Page Number	Note Number
5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Attachment A: Half year financial report 31 December 2008: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Dividends note 	Page 19	Note 7
6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Attachment A: Half year financial report 31 December 2008: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Dividend note 	Page 19	Note 7
7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.	"Other information" page 2 Appendix 4D		
8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable		
9. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable		

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2008

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

HALF YEAR FINANCIAL REPORT – 31 DECEMBER 2008

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
AND SUBSIDIARIES

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the half year ended 31 December 2008 and the auditor's review report thereon.

Directors

The Company's directors in office at any time during or since the end of the half year are as follows. Directors were in office for the entire period unless otherwise stated.

James Strong (director since 2 August 2001), Yasmin Allen (director since 10 November 2004), Phillip Colebatch (director since 1 January 2007), Hugh Fletcher (director since 1 September 2007), Neil Hamilton (director from 19 June 2000 to 31 August 2008), Anna Hynes (director since 1 September 2007), Rowan Ross (director from 25 July 2000 to 31 August 2008), Brian Schwartz (director since 1 January 2005), Philip Twyman (director since 9 July 2008) and Michael Wilkins (director since 26 November 2007).

Principal activities

The principal continuing activities of the IAG Group are the underwriting of general insurance and related corporate services and investing activities.

Operating and financial review

Operating result for the half year

The IAG Group's net profit after tax for the half year was \$32 million (2007 - \$127 million). After adjusting for minority interests in the IAG Group result, net profit attributable to the equity holders of the Company was \$4 million (2007 - \$110 million).

(a) Underwriting result

Gross written premium of the IAG Group increased by \$71 million to \$3,922 million for the current period (2007 - \$3,851 million). The growth resulted mainly from the strong growth from the Australia direct insurance operations.

The IAG Group produced an underwriting loss before investment income on technical reserves of \$505 million (2007 - \$34 million).

The key factors driving the current period underwriting result were:

- Increase in claims expenses by \$488 million due to a significant reduction in discount rates partially offset by the reduction in the natural perils claim costs;
- Significant reduction in reserve releases by \$143 million to \$85 million (2007 - \$228 million); and
- Realisation of initial expense savings from the initiatives to reduce the Australia cost base as part of the IAG Group's refined corporate strategy.

The insurance profit of \$227 million (2007 - \$190 million) equated to an insurance margin of 6.2% (2007 - 5.1%). The fixed interest portfolio backing the technical reserves returned investment income of \$732 million (2007 - \$224 million). This investment income reflects capital gains due to a significant reduction in interest rates and higher running yields on the fixed interest portfolio offset by a \$86 million mark to market loss due to further widening of credit spreads. The majority of the fixed interest portfolio is invested in government and semi-government securities.

As a result of the major restructuring announced to the market on 9 July 2008 (refer to www.iag.com.au for a copy of the announcement (unaudited)), the comparative information mentioned in the following discussion has been reclassified to conform to the current period's business operations' results after the restructure. The change resulted in the separation of what was previously disclosed as the Australia insurance operations, into two components being Australia direct insurance and Australia intermediated insurance operations. The Asia reinsurance operations comprised the captive reinsurer for subsidiaries operating outside Australia and the Alba Group inwards reinsurance operation. The results of the intercompany reinsurance arrangements are now included in the operations to which the underlying risk relates. The Alba Group operation is included in the Corporate and other activities as this business is in run off.

(i) Australia direct insurance operations

Australia direct insurance operations generated an insurance profit of \$194 million (2007 - \$106 million) which equated to an insurance margin of 12.6% (2007 - 7.2%). The improved profit was contributed to by:

- strong premium revenue growth of 8.8% achieved from a combination of price increases and volume gains, in particular the strong growth of over 17% in compulsory third party policies;
- decrease in claims from natural perils; and
- early realisation of the expense and claims management initiatives showing benefits and reductions in underlying costs as reflected in the expense ratio reduced to 21.4% from 22.2%;

offset by the adverse impact of:

- lower reserve releases; and
- widening credit spreads impacting investment returns by \$47 million.

(ii) Australia intermediated insurance operations

Australia intermediated insurance operations generated an insurance loss of \$7 million (2007 – a profit of \$133 million) which equated to an insurance margin loss of 0.6% (2007 – an insurance margin of 11.8%). The decrease in profit was contributed to by the impact of:

- an impairment charge of \$50 million in respect of deferred acquisition costs. The impairment charge represented the deficiency by which the net present value of expected future cash flows relating to future claims exceeded the net unearned premium liability of the operations. The net present value of the expected future cash flows increased significantly as a result of the decline in interest rates compared to prior period; and
- significantly reduced reserve releases of \$92 million.

Excluding the above key factors impacting the insurance result, the Australia intermediated insurance operations' underlying performance improved slightly. This is an outcome of the net effect in:

- better underwriting discipline, encompassing a focus on premium rate increases targeting unprofitable portfolios and risks and strong expense control;

offset by

- higher than expected claims inflation.

Profit from fee based business was \$15 million compared to \$32 million in the prior period. The decrease was mainly due to the absence of receipts of prior period performance fees and experience adjustments.

(iii) New Zealand insurance operations

New Zealand insurance operations generated an insurance loss of \$17 million (2007 – \$2 million) which equated to an insurance margin loss of 3.9% (2007 – 0.4%). The operating result was mainly contributed to by:

- the flat premium revenue in Australian dollar terms. The operations grew premium (in New Zealand dollar terms) which was offset by the deterioration of Australian dollar to New Zealand dollar exchange rate. The growth was predominantly from premium rate increases across all classes of businesses;

offset by:

- the claims costs increase in New Zealand dollar terms was offset by the deterioration of Australian dollar to New Zealand dollar exchange rate. The increase in claims costs were due to the higher than expected incidence of large losses offsetting the decrease in natural perils claim costs; and
- higher commission expenses due to the growth in business written through the intermediated broker channel and additional pressure on commissions as brokers consolidated.

(iv) UK insurance operations

United Kingdom insurance operations generated an insurance profit of \$54 million (2007 – a loss of \$34 million) which equated to an insurance margin of 10.9% (2007 – an insurance margin loss of 6.1%). The result was mainly contributed to by:

- net reduction in premium revenue representing the combined effect of premium rate increases resulting in lower volume of business written and the withdrawal of capacity from the underperforming element of the private motor market;

offset by

- the substantial decrease in natural perils claim costs.

Loss from fee based business was \$5 million compared to \$2 million in the prior period. Of the total loss from fee based business, \$3 million was from the businesses to be sold as announced in December 2008 and completed in February 2009.

(v) Asia insurance operations

Thailand insurance operations generated an insurance profit of \$9 million (2007 – a loss of \$6 million) which equated to an insurance margin of 12.0% (2007 – an insurance margin loss of 8.5%). The operating result was mainly contributed by premium revenue growth, lower claims costs, savings from disciplined cost management and the first time deferral of acquisition costs of \$8 million.

The associate company in Malaysia generated the same level of profit of \$3 million (2007 – \$3 million).

(b) Corporate and other

Corporate and other activities generated a net loss of \$231 million (2007 - \$21 million). This was contributed to by the following key activities:

- a slight decrease in insurance loss of \$6 million (2007 - \$7 million) on all external reinsurance activities, including Labuan and Alba Group (the Lloyd's syndicate and underwriter put into run-off during this period);
 - one-off total loss of \$77 million representing the net effect of:
 - a total loss of \$79 million (including all incremental costs) relating to the sale of the non-core mass market distribution businesses in the United Kingdom;
 - total costs of \$36 million for closure of Alba Group business and restructuring costs applicable to the ongoing United Kingdom businesses;
- offset by
- a profit of \$38 million on sale of the Malaysian associate's life insurance operations.
 - investment losses net of investment expenses on shareholders' funds of \$72 million (2007 – investment income net of investment expenses of \$76 million). The deterioration was mainly due to poor performance of equity markets offset by the unrealised gain on embedded derivative of \$25 million; and
 - reduction of interest expenses to \$46 million from \$58 million mainly due to repayment of over \$600 million of interest bearing liabilities during the prior financial year.

Review of financial condition

(a) Financial position

In December 2008, the IAG Group announced that it had finalised agreements for the sale of its non-core mass market distribution businesses in the United Kingdom. These businesses were classified as businesses 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 following commentary of the movements in assets and liabilities excludes the impact of the separation and re grouping of those assets and liabilities as held for sale. The sale transactions were completed after 31 December 2008 but before the release of this half year report, refer to note 12(d) to the financial statements.

(i) Assets

The total assets of the IAG Group as at 31 December 2008 were \$19,805 million (30 June 2008 - \$19,380 million). The increase is mainly attributable to the:

- increase in investments from cash generated from operations and the mark to market gains on the fixed interest portfolio;
- increase in investment in the associate in Malaysia from 30% to 49% ownership;
- increase in current and deferred tax assets mainly due to provisional tax paid during the period and tax losses generated by the businesses mainly in Australia;

offset by

- amortisation of intangibles for the period.

(ii) Liabilities

The total liabilities of the IAG Group as at 31 December 2008 were \$15,670 million (30 June 2008 - \$15,029 million) with the major component being general insurance liabilities (excluding the general insurance liabilities of the businesses held for sale) of \$12,500 million (30 June 2008 – \$12,221 million). The movement is mainly attributable to the:

- significant increase in outstanding claims liability due to the reduction in discount rates;
- reduction in interest bearing liabilities due to the repayment of the NZD senior term notes and Euro floating rate notes; and
- significant decrease of over \$90 million in net defined benefit superannuation financial position. The decrease was mainly due to the reduction in discount rate (which resulted in higher defined benefit liabilities) and equity market investment losses (reduced the value of the superannuation plan assets) recognised for the period.

(iii) Equity

The decrease in total equity from \$4,351 million at 30 June 2008 to \$4,135 million at 31 December 2008 was mainly impacted by the following activities:

- 2008 final dividend payment of \$169 million partially financed (\$42 million) by issuance of new ordinary shares to the equity holders who participated in the dividend reinvestment plan; and
- the recognition of \$68 million after tax actuarial loss on defined benefit superannuation plans during the current period.

(b) Cash from operations

(i) Cash flows from operating activities

The net cash inflows from operating activities have increased by \$151 million to \$224 million. The main factors contributing to the total increase in operating cash flows were:

- lower net claims payments on natural perils during the current period; and
- decrease in other operating payments (net of other operating receipts) by \$56 million mainly due to timing in expenses settlement, lower expenses in the current period as a result of the various cost saving and management initiative programs offset by the settlement of the restructuring provision held as at 30 June 2008.

(ii) Cash flows from investing activities

Cash flows from investing activities have decreased by \$493 million to a net outflow of \$258 million. The increase in net cash outflow is mainly due to receipts on investment income (which are classified as cash flows from operating activities) being mainly re-invested during the current period.

(iii) Cash flows from financing activities

Cash flows from financing activities have decreased by \$119 million to a net outflow of \$220 million. This decrease is mainly attributable to:

- lower repayment of interest bearing liabilities in the current period;

offset by

- the final 2008 dividend being predominantly settled in cash compared to the final 2007 dividend which was fully funded by issuance of new shares.

(c) Capital adequacy / minimum capital requirements

The IAG Group regulatory capital position relative to its minimum capital requirement (MCR), calculated by applying the Australian Prudential Regulation Authority (APRA) standards for individual licensed insurers to the relevant consolidated results, is 1.51 times as at 31 December 2008 (30 June 2008 – 1.62 times).

The decrease is mainly attributable to new APRA capital risk charges which became effective from 1 July 2008. These changes have doubled the current charges on listed/unlisted equities, unit trusts and direct property holdings.

Under the recently released APRA level 2 general insurer supervision requirements, an insurance group will be required to determine the MCR at the insurance group level. Up to and including 31 December 2008, the IAG Group has been determining the IAG Group's MCR based on applying the principles for individual licensed insurers. The preliminary conclusion is that the new requirements will have the effect of increasing the MCR multiple by 0.02 based on a different treatment for minority interests.

Further information on the IAG Group's result and review of operations can be found in the 31 December 2008 investor report on IAG's website, www.iag.com.au.

Likely developments

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult.

The IAG Group is making solid progress towards the goals outlined in the refined strategy as announced in July 2008.

The IAG Group expects to deliver in the 2009 full financial year result:

- underlying gross written premium growth of 3% - 5%;
- revised insurance margin of over 6%. This revised insurance margin incorporates the expected adverse impact of:
 - widening credit spreads;
 - net impairment of deferred acquisition costs; and
 - expected increase in natural peril claim costs to approximately \$150 million more than the full year allowance particularly in light of the fires across Victoria;
- realisation of cost savings initiatives; and
- dividend payout ratio of 50% - 70% of cash earnings.

The expected results are subject to no further material movement in foreign exchange rates, no catastrophes or large losses beyond \$150 million in excess of the IAG Group's full year allowances, no material changes in investment markets, including credit spreads, no further impairment charges from the liability adequacy test and modest levels of reserve releases.

To achieve the medium and longer term improvement in the IAG Group's financial performance, the priorities of the IAG Group are:

- improve performance in the Australia and New Zealand markets;
- finalise the previously flagged growth opportunities in Asia; and
- drive operational performance, execution and accountability across the IAG Group.

Dividends

Details of dividends paid or declared by the Company are set out in note 7.

Significant changes in state of affairs

Significant changes in the state of affairs of IAG Group during the half year were as follows:

(a) As part of the IAG restructuring announced on 9 July 2008, there were changes in the executive team during the financial period:

- NB Hawkins, LC Murphy and I Foy were appointed to the Chief Financial Officer, Group Executive Corporate Office and Chief Executive Officer, IAG New Zealand roles respectively;
- AM Coleman, CF McLoughlin, J van der Schalk and G Venardos resigned.

(b) On 29 October 2008, IAG announced the appointment of A Cornish to the role of Chief Executive Officer, Direct Insurance, effective 2 February 2009.

(c) On 18 December 2008, IAG announced that it had agreed to sell its non-core mass market distribution businesses in the United Kingdom in line with its strategy to concentrate on its profitable specialist motor underwriting business in that market, refer to note 12 to the financial statements for details of the transactions.

Events subsequent to reporting date

Detail of matters subsequent to the end of the half year are set out in note 15. This includes:

- declaration of interim dividend;
- implementation of capital management initiatives;
- impact of fires across Victoria; and
- disposal of United Kingdom businesses.

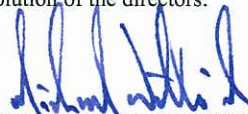
Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half year ended 31 December 2008.

Rounding of amounts

Unless otherwise stated, amounts in the financial report and directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 26th day of February 2009 in accordance with a resolution of the directors:



.....
Director



**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001**

To: the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2008 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Brian Greig

Partner

Sydney

26 February 2009

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Notes	CONSOLIDATED	
		31 December	31 December
		2008	2007
		\$m	\$m
Premium revenue	3	3,931	3,923
Outwards reinsurance premium expense	4	(248)	(214)
Net premium revenue (i)		<u>3,683</u>	<u>3,709</u>
Claims expense	4	(3,464)	(2,806)
Reinsurance and other recoveries revenue	3	<u>376</u>	<u>162</u>
Net claims expense (ii)		<u>(3,088)</u>	<u>(2,644)</u>
Acquisition costs	4	(717)	(671)
Other underwriting expenses	4	(272)	(329)
Fire services levies	4	<u>(111)</u>	<u>(99)</u>
Underwriting expenses (iii)		<u>(1,100)</u>	<u>(1,099)</u>
Underwriting profit/(loss) (i) + (ii) + (iii)		(505)	(34)
Investment income on assets backing insurance liabilities	3	743	235
Investment expenses on assets backing insurance liabilities	4	<u>(11)</u>	<u>(11)</u>
Insurance profit		227	190
Investment income on equity holders' funds	3	(84)	93
Fee and other income	3	260	274
Share of net profit/(loss) of associates	3	3	1
Finance costs	4	(46)	(58)
Fee based, corporate and other expenses	4	(336)	(285)
Net income attributable to minority interests in unitholders' funds	4	<u>(9)</u>	<u>(10)</u>
Profit/(loss) before income tax		15	205
Income tax (expense)/credit		<u>17</u>	<u>(78)</u>
Profit/(loss) for the period		<u>32</u>	<u>127</u>
Profit/(loss) for the period attributable to			
Equity holders of the Parent		4	110
Minority interests		<u>28</u>	<u>17</u>
Profit/(loss) for the period		<u>32</u>	<u>127</u>
		CONSOLIDATED	
		31 December	31 December
		2008	2007
		cents	
Basic earnings per ordinary share	6	<u>0.23</u>	<u>6.07</u>
Diluted earnings per ordinary share	6	<u>0.23</u>	<u>6.03</u>

The above income statement should be read in conjunction with the notes to the financial statements.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	CONSOLIDATED	
		31 December 2008	30 June 2008
		\$m	\$m
ASSETS			
Cash and cash equivalents		275	679
Investments	8	10,314	10,034
Premium receivable		1,973	2,046
Inventories		1	1
Trade and other receivables		1,087	1,207
Current tax assets		84	18
Defined benefit superannuation asset		-	3
Reinsurance and other recoveries receivable on outstanding claims		1,018	1,043
Prepayments		43	54
Deferred levies and charges		124	120
Deferred outwards reinsurance expense		360	308
Deferred acquisition costs		723	758
Deferred tax assets		377	288
Property, plant and equipment		282	291
Investments in joint ventures and associates		138	70
Intangible assets		449	585
Goodwill	9	1,904	1,875
Assets held for sale	12(d)	653	-
Total assets		19,805	19,380
LIABILITIES			
Trade and other payables		704	906
Reinsurance premiums payable		376	285
Restructuring provisions		41	61
Current tax liabilities		12	65
Unearned premium liability		3,970	4,097
Minority interest in unitholders' funds		111	93
Lease provision		23	22
Employee benefits provision		288	243
Unexpired risk liability		-	12
Deferred tax liabilities		19	17
Outstanding claims liability		8,154	7,827
Interest bearing liabilities	10	1,360	1,401
Liabilities held for sale	12(d)	612	-
Total liabilities		15,670	15,029
Net assets		4,135	4,351
EQUITY			
Share capital	11	4,782	4,740
Treasury shares held in trust	11(b)	(70)	(71)
Reserves	11(c)	(35)	(7)
Retained earnings/(accumulated losses)	11(d)	(691)	(458)
Parent interest	11	3,986	4,204
Minority interests	11(e)	149	147
Total equity	11	4,135	4,351

The above balance sheet should be read in conjunction with the notes to the financial statements.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	CONSOLIDATED	
	31 December 2008	31 December 2007
	\$m	\$m
INCOME AND (EXPENSES) RECOGNISED DIRECTLY IN EQUITY DURING THE PERIOD, NET OF TAX		
Actuarial gains and (losses) on defined benefit superannuation plans	(68)	(2)
Net movement in foreign currency translation reserve	(10)	(15)
Net movement in hedging reserve	(6)	9
Vesting of share based remuneration	<u>(3)</u>	<u>(1)</u>
Total net income and (expense) recognised directly in equity	(87)	(9)
Profit/(loss) for the period	<u>32</u>	<u>127</u>
Total recognised income and (expense) for the period	<u>(55)</u>	<u>118</u>
Total recognised income and (expense) for the period attributable to		
Equity holders of the Parent	(81)	102
Minority interests	<u>26</u>	<u>16</u>
Total recognised income and (expense) for the period	<u>(55)</u>	<u>118</u>

Other movements in equity arising from transactions with equity holders acting in their capacity as equity holders are set out in note 11.

The above statement of recognised income and expense should be read in conjunction with the notes to the financial statements.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	CONSOLIDATED	
	31 December	31 December
	2008	2007
	\$m	\$m
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium received	3,954	4,006
Reinsurance and other recoveries received	370	386
Claims costs paid	(2,875)	(3,097)
Outwards reinsurance premium expense paid	(242)	(187)
Dividends received	28	31
Interest and trust distributions received	311	324
Finance costs paid	(61)	(73)
Income taxes refunded	-	14
Income taxes paid	(147)	(161)
Other operating receipts	765	775
Other operating payments	<u>(1,879)</u>	<u>(1,945)</u>
Net cash flows from operating activities	<u>224</u>	<u>73</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows on acquisition of subsidiaries	-	(7)
Proceeds from disposal of premium funding loan portfolio	-	114
Proceeds from disposal of investments and property, plant and equipment	10,711	13,147
Outlays for investments and property, plant and equipment acquired	(10,966)	(13,002)
Repayment of premium funding loans	-	79
Advances of premium funding loans	-	(96)
Net outlay for additional investment in an associate	<u>(3)</u>	<u>-</u>
Net cash flows from investing activities	<u>(258)</u>	<u>235</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Outlays for purchase of treasury shares	(16)	(3)
Proceeds from issue of trust units	383	378
Outlays for redemption of trust units	(375)	(414)
Proceeds from borrowings	-	87
Repayment of borrowings	(62)	(347)
Dividends paid to IAG equity holders (1)	(169)	(287)
Dividends paid to minority interests	(24)	(42)
Proceeds from issue of shares (1)	42	287
Dividends received on treasury shares	<u>1</u>	<u>2</u>
Net cash flows from financing activities	<u>(220)</u>	<u>(339)</u>
Net movement in cash held	(254)	(31)
Effects of exchange rate changes on balances of cash held in foreign currencies	(5)	(14)
Cash and cash equivalents at the beginning of financial period	<u>1,234</u>	<u>1,163</u>
Cash and cash equivalents at the end of financial period (2)	<u>975</u>	<u>1,118</u>

(1) Includes dividends settled by issue of shares under the Dividend Reinvestment Plan (refer to note 7) and the fully underwritten 2007 final dividend (refer to note 11).

(2) Includes \$524 million of cash and short term money held for investment (refer to note 8) and \$176 million of cash and cash equivalents in the businesses held for sale (this was re-grouped and presented on the balance sheet as assets held for sale, refer to note 12(d)).

The above cash flow statement should be read in conjunction with the notes to the financial statements.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. These consolidated financial statements for the half year ended 31 December 2008 comprise the Company and its subsidiaries (IAG Group, Group or Consolidated entity).

This general purpose half year financial report was authorised by the board of directors for issue on 26 February 2009.

This half year financial report does not include all of the notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(a) Statement of compliance

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the recognition and measurement requirements of other applicable Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the ASX Listing Rules.

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board. IFRS forms the basis of the Australian Accounting Standards. This half year financial report of the Consolidated entity complies with IFRS.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

(b) Basis of preparation of the financial report

The significant accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Consolidated entity and are the same as those applied for the year ended 30 June 2008 unless otherwise noted. The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is Australian dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

(i) Australian Accounting Standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the AASB for which the mandatory application dates fall after the end of this current reporting period. None of these standards have been adopted and applied for the first time during the current reporting period. The standards that have not been early adopted and that are relevant to current operations are:

- AASB 3 *Business combinations* (revised March 2008) and AASB 2008-3 which makes a number of consequential amendments to other standards arising from the issue of the revised AASB 3. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report and will be applied prospectively from 1 July 2009.
- AASB 101 *Presentation of Financial Statements* (revised September 2007) and 2007-8 which makes a number of consequential amendments to other standards arising from the issue of the revised AASB 101. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report. The revised standard requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the statements.
- AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation*. The standard is mandatorily applicable for the first time to the 31 December 2009 financial report. This amending standard introduces an exception to the definition of financial liability to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity. These changes will have no financial impact.

- AASB 2008-1 *Amendments to Australian Accounting Standard AASB 2 Share-based Payments: Vesting Conditions and Cancellations*. The standard is mandatorily applicable for the first time to the 31 December 2009 financial report. This amending standard clarifies that only service and performance conditions are vesting conditions (change impacts only those arrangements which include conditions unrelated to service such as including a condition that the employee must hold a number of shares or awards linked to savings plans), and that if a share based payment arrangement is cancelled by a counterparty it is accounted for in the same way as a cancellation by the entity being acceleration of the expense (this change deals with companies structuring cancellations as if the employee had cancelled trying to avoid acceleration of the expense). These changes will have no financial impact.
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and the related 2008-6 which make 24 amendments to 15 standards impacting recognition, measurement or presentation requirements as well as other terminology or editorial amendments. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report with early adoption permitted. These changes are not expected to have a significant, if any, financial impact.
- Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* which clarifies three main areas; i) A parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation (confirming that the presentation currency does not create an exposure to which an entity may apply hedge accounting), ii) Which entity within a group can hold a hedging instrument, and iii) How an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment. This interpretation will be mandatorily applicable for the first time to the 31 December 2009 financial report with early adoption permitted. This interpretation is not expected to have a significant, if any, financial impact.
- AASB 8 *Operating Segments* and AASB 2007-3 which makes a number of consequential amendments to other standards arising from the issue of AASB 8. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report. The revised standards will have no financial impact but will impact on financial report disclosures. The new standards require adoption of a 'management approach' to reporting on the financial performance. The information to be reported will be based on information used internally by key decision makers to evaluate performance. A single set of operating segments will replace the business and geographical segments currently disclosed.

(ii) Changes in accounting policies

There have been no changes in accounting policies which had a material financial impact during the current half year reporting period.

(iii) Reclassifications of comparatives

Certain items have been reclassified from the Consolidated entity's prior year's financial report to conform to the current period's presentation. The reclassifications are:

- the reallocation of \$27 million of corporate and administration expenses in the income statement for the half year ended 31 December 2007 from the fee based, corporate and other expenses line to the other underwriting expenses line. This change arose from the IAG Group's move to the devolved model as referred to in note 5; and
- a restatement of certain cash amounts totalling \$555 million as at 30 June 2008 from the cash and cash equivalent balances to the investments balance to better align with the way the balances are managed internally and the way they are reported externally in other key investor communications, refer to note 8 for further details.
- a reallocation of \$46 million as at 30 June 2008 between certain sub-categories within the investments balance. There is no impact to the balance sheet.

(iv) Rounding

Amounts in this financial report have been rounded to the nearest million dollars, unless otherwise stated. The Company is the kind of company referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and the future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgment or complexity and are considered significant to the financial statements are:

- Insurance contracts related
 - claims;
 - reinsurance and other recoveries on outstanding claims; and
 - liability adequacy test.

There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (eg deferred acquisition costs; which costs are related to the acquisition of general insurance contracts and so eligible for deferral). The estimates relate to past events, do not incorporate forward looking considerations, and do not change from year to year.

- Other
 - restructuring provisions;
 - intangible assets and goodwill impairment testing, refer note 9;
 - acquired intangible assets initial measurement and determination of useful life;
 - share based remuneration;
 - defined benefit superannuation arrangements; and
 - embedded derivatives.

The determination of the financial impact of each of these areas on the financial performance and position for the current reporting period has involved estimates and assumptions based on judgements. The judgement has been applied in a manner consistent with that used for the annual report for the year ended 30 June 2008.

The accounting judgements made during the half year that did not involve estimations, including determination of the existence of control when entities are not wholly owned, the recognition of the identifiable intangible assets acquired in a business combination, and the probability of recovering carry forward tax losses, are considered to have had no significant impact on the amounts recognised in the financial report (31 December 2007 and 30 June 2008 – none).

CONSOLIDATED	
31 December 2008	31 December 2007
\$m	\$m

NOTE 3: ANALYSIS OF INCOME

(a) General insurance revenue

Gross written premium	3,922	3,851
Movement in unearned premium liability	<u>9</u>	<u>72</u>
Premium revenue	<u>3,931</u>	<u>3,923</u>
Direct premium revenue	3,915	3,910
Inwards reinsurance premium revenue	<u>16</u>	<u>13</u>
Premium revenue	3,931	3,923
Reinsurance and other recoveries revenue	<u>376</u>	<u>162</u>
Total general insurance revenue	<u>4,307</u>	<u>4,085</u>

(b) Investment income

Dividend revenue	22	24
Interest revenue	299	285
Trust revenue	<u>16</u>	<u>32</u>
Total investment revenue	337	341
Net changes in fair values of investments		
Realised net gains and (losses)	(45)	(3)
Unrealised net gains and (losses)	<u>367</u>	<u>(10)</u>
Total investment income	<u>659</u>	<u>328</u>

Represented by

Investment income on assets backing insurance liabilities	743	235
Investment income on equity holders' funds	<u>(84)</u>	<u>93</u>
	<u>659</u>	<u>328</u>

(c) Fee and other income

Fee based revenue	152	183
Brokerage and commission	72	80
Other income	11	11
Unrealised gains and (losses) on embedded derivatives	<u>25</u>	<u>-</u>
Total fee and other income	<u>260</u>	<u>274</u>

(d) Share of net profit/(loss) of associates

	<u>3</u>	<u>1</u>
Total income	<u>5,229</u>	<u>4,688</u>

CONSOLIDATED	
31 December	31 December
2008	2007
\$m	\$m

NOTE 4: ANALYSIS OF EXPENSES

(a) Expenses as presented in the income statement

Outward reinsurance premium expense	248	214
Claims expense	3,464	2,806
Acquisition costs	717	671
Other underwriting expenses	272	329
Fire service levies	111	99
Investment expenses on assets backing insurance liabilities	11	11
Finance costs	46	58
Net income attributable to minority interests in unitholders' funds	9	10
Fee based, corporate and other expenses	<u>336</u>	<u>285</u>
Total expenses	<u><u>5,214</u></u>	<u><u>4,483</u></u>

(b) Analysis of expenses by function

General insurance business expenses (1)	4,823	4,130
Fee based business expenses	220	237
Investment and other expenses	9	18
Corporate and administration expenses	<u>162</u>	<u>98</u>
Total expenses	<u><u>5,214</u></u>	<u><u>4,483</u></u>

(1) Included in the general insurance business expenses was the net impact from one-off adjustments to deferred acquisition costs of \$42 million (2007 - \$Nil).

NOTE 5: SEGMENT REPORTING

Primary reporting - business segments

The Consolidated entity operated in the general insurance industry throughout the half year reporting period. Revenue from the general insurance industry is derived from underwriting insurance in Australia (both direct and intermediated), New Zealand, United Kingdom and Asia and these form separate reportable segments. Other activities, including corporate services, investment management and investment of the equity holders' funds, form a separate segment. Key factors in determining the reportable segments are the geographies in which the IAG Group operates and the information used internally for evaluating performance and deciding how to allocate capital resources.

The reported segments have changed from those disclosed in the previous annual reporting period as a result of a major restructuring announced to the market on 9 July 2008 (refer to www.iag.com.au for a copy of the announcement (unaudited)). The change resulted in the separation of what was previously disclosed as the Australia insurance segment, into two components being Australia direct insurance and Australia intermediated insurance, which now form separate segments. What was previously the reinsurance operations segment which comprised the captive reinsurer for subsidiaries operating outside Australia and the Alba Group inwards reinsurance operation has been separated with the captive reinsurance operation being allocated to the other relevant segments and the Alba Group operation being included in the Corporate and other segment as this business is in run-off. The comparative information provided has been reclassified to conform to the current period's presentation.

The reportable segments comprise the following businesses:

- Australia direct insurance - insurance products are distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands as well as via a distribution relationship and underwriting joint venture with RACV Limited. The segment includes an allocation of the IAG Group's captive reinsurance operation.
- Australia intermediated insurance - insurance products are primarily sold under the CGU and Swann insurance brands through insurance brokers and authorised representatives and distribution partners. The segment includes an allocation of the IAG Group's captive reinsurance operation.
- New Zealand insurance - comprises the general insurance business underwritten through subsidiaries in New Zealand. The insurance products are predominantly sold directly to customers using the State brand, and through intermediaries such as brokers and agents using the NZI brand. Personal and commercial products are also distributed using third party brands by corporate partners such as large financial institutions. The segment includes an allocation of the IAG Group's captive reinsurance operation.
- United Kingdom insurance - comprises the general insurance underwriting and broker distribution services operating through subsidiaries in the United Kingdom. The underwriting business includes a Lloyd's syndicate and a licensed Gibraltar based underwriter. The broking business includes Equity insurance brokers which is a specialist small business insurer offering commercial insurance including haulage and heavy goods vehicles and Hastings which offers motor insurance. These brands provide a combination of direct and third party multi channel distribution. The segment includes an allocation of the IAG Group's captive reinsurance operation. Refer to note 12 for information regarding the sale of certain components of this segment.
- Asia insurance - comprises primarily the direct insurance business underwritten through subsidiaries in Thailand and the share of net operating result from investment in an associate in Malaysia. The businesses offer personal and commercial insurance products through local brands. The segment includes an allocation of the IAG Group's captive reinsurance operation.
- Corporate and other - comprises other activities, including corporate services, funding costs on the IAG Group's interest bearing liabilities, inwards reinsurance from associates, investment management and investment of the equity holders' funds. The results of the run-off of the Alba Group are also included in this segment.

31 December 2008	Australia direct insurance	Australia intermediated insurance	New Zealand insurance	United Kingdom insurance	Asia insurance	Corporate and other	Inter-segment elimination	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
External revenue	<u>2,094</u>	<u>1,771</u>	<u>504</u>	<u>792</u>	<u>116</u>	<u>(48)</u>	-	<u>5,229</u>
Total revenue	<u>2,094</u>	<u>1,771</u>	<u>504</u>	<u>792</u>	<u>116</u>	<u>(48)</u>	-	<u>5,229</u>
Underwriting profit/(loss)	(155)	(307)	(38)	(1)	3	(7)	-	(505)
Investment income net of investment fees - technical reserves	<u>349</u>	<u>300</u>	<u>21</u>	<u>55</u>	<u>6</u>	<u>1</u>	-	<u>732</u>
Insurance profit/(loss)	194	(7)	(17)	54	9	(6)	-	227
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	(72)	-	(72)
Share of net profit/(loss) of associates	-	-	-	-	3	-	-	3
Other net operating result	<u>-</u>	<u>15</u>	<u>1</u>	<u>(5)</u>	<u>(1)</u>	<u>(153)</u>	-	<u>(143)</u>
Profit/(loss) before income tax	<u>194</u>	<u>8</u>	<u>(16)</u>	<u>49</u>	<u>11</u>	<u>(231)</u>	-	<u>15</u>
31 December 2007								
External revenue	<u>1,749</u>	<u>1,389</u>	<u>517</u>	<u>788</u>	<u>103</u>	<u>142</u>	-	<u>4,688</u>
Total revenue	<u>1,749</u>	<u>1,389</u>	<u>517</u>	<u>788</u>	<u>103</u>	<u>142</u>	-	<u>4,688</u>
Underwriting profit/(loss)	7	70	(12)	(86)	(6)	(7)	-	(34)
Investment income net of investment fees - technical reserves	<u>99</u>	<u>63</u>	<u>10</u>	<u>52</u>	-	-	-	<u>224</u>
Insurance profit/(loss)	106	133	(2)	(34)	(6)	(7)	-	190
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	76	-	76
Share of net profit/(loss) of associates	-	-	-	(2)	3	-	-	1
Other net operating result	<u>-</u>	<u>32</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>(90)</u>	-	<u>(62)</u>
Profit/(loss) before income tax	<u>106</u>	<u>165</u>	<u>(2)</u>	<u>(38)</u>	<u>(5)</u>	<u>(21)</u>	-	<u>205</u>

NOTE 6: EARNINGS PER SHARE

	CONSOLIDATED	
	31 December 2008	31 December 2007
	cents	cents
(a) Reporting period values		
Basic earnings per ordinary share (i)	<u>0.23</u>	<u>6.07</u>
Diluted earnings per ordinary share	<u>0.23</u>	<u>6.03</u>

(i) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 *Earnings per Share*. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the half year ended 31 December 2008 would be reduced to 0.23 cents (31 December 2007 - 6.03 cents).

	CONSOLIDATED	
	31 December 2008	31 December 2007
	\$m	\$m
(b) Reconciliation of earnings used in calculating earnings per share		
Profit/(loss) for the period	32	127
(Profit)/loss attributable to minority interests	<u>(28)</u>	<u>(17)</u>
Profit/(loss) attributable to equity holders of the Parent which is the earnings used in calculating basic and diluted earnings per share	<u>4</u>	<u>110</u>

	CONSOLIDATED	
	31 December 2008	31 December 2007
	Number of shares in millions	Number of shares in millions
(c) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share		
Ordinary shares on issue	1,883	1,822
Treasury shares held in trust	<u>(13)</u>	<u>(13)</u>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,870	1,809
Weighted average number of dilutive potential ordinary shares relating to Unvested share based remuneration rights supported by treasury shares held in trust	<u>13</u>	<u>13</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>1,883</u>	<u>1,822</u>

The following matters are relevant to the determination of the weighted average number of ordinary shares:

- The reset preference shares are not included as dilutive potential ordinary shares even though they may convert into ordinary shares because the contingent conversion conditions were not met at the reporting date; and
- The reset exchangeable securities are not included as dilutive potential ordinary shares because the contingent conversion conditions were not met at the reporting date.

NOTE 7: DIVIDENDS

	Cents per share	Total amount	Payment date	Tax rate for franking credit	Percentage franked
		\$m			
(a) Ordinary shares					
Recognised in half year ended 31 December 2008					
2008 final dividend	9.0	<u>169</u>	3 October 2008	30%	100%
Recognised in year ended 30 June 2008					
2008 interim dividend	13.5	250	14 April 2008	30%	100%
2007 final dividend	16.0	<u>287</u>	8 October 2007	30%	100%
		<u>537</u>			

It is standard practice to declare the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy a dividend is not accrued for until it is declared and so the dividends for a period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

The dividend recognised in the half year to 31 December 2008 includes \$1 million (30 June 2008 - \$2 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

(b) Dividend reinvestment

A Dividend Reinvestment Plan (DRP) operated which allows equity holders to elect to receive their dividend entitlement in the form of IAG shares. The price of DRP shares is the average share market price, less a discount if any (determined by the directors) calculated over the pricing period (which is at least five trading days) as determined by the directors for each dividend payment date.

The DRP for the 2008 final dividend payable on 3 October 2008 was settled with the issuance of 10.0 million fully paid ordinary shares priced at \$4.1536 per share (based on the average market price for the ten trading days from 8 September 2008 to 19 September 2008 inclusive) to existing shareholders with dividend entitlements. There was no discount applied.

A copy of the terms and conditions for the IAG Group's dividend reinvestment plan is available at www.iag.com.au/shareholder.

(c) Dividend not recognised at reporting date

In addition to the above dividends, the following dividend was declared after the reporting date but before finalisation of this financial report and has not been recognised in this financial report.

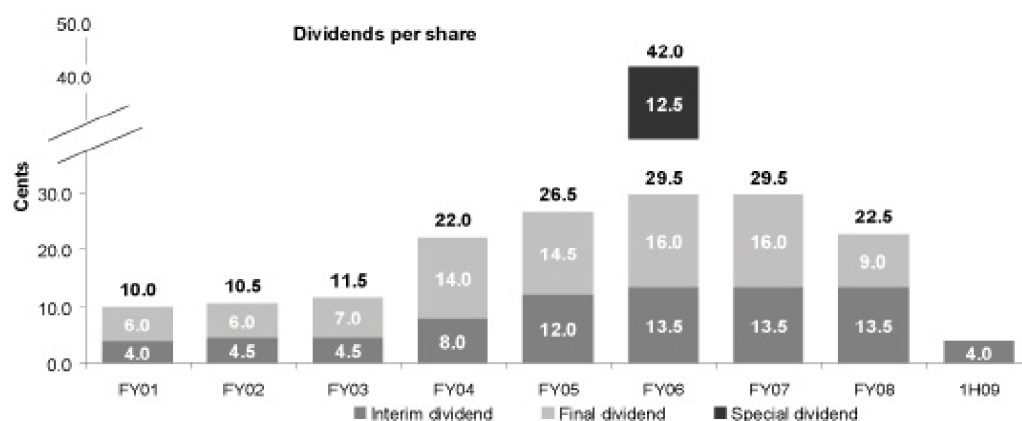
	Cents per share	Total amount	Expected payment date	Tax rate for franking credit	Percentage franked
		\$m			
2009 interim dividend	4.0	<u>76</u>	8 April 2009	30%	100%

The dividend was declared on 26 February 2009. The Company's DRP will operate by issuing new ordinary shares to participants with no discount applied.

The last election notice for participation in the DRP in relation to this interim dividend is 11 March 2009.

(d) Historical summary

The graph below provides a historical summary of dividend payments since the IAG Group listed in 2001, aggregating dividends based on the financial period for which they were declared and not the financial period in which they were recognised and paid.



(e) Dividend policy

The Group's dividend policy is intended to pay dividends equivalent to 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 the half year reporting period 31 December 2008 were the loss and other related costs on sale of the United Kingdom mass market distribution businesses, the profit on sale of the associate's life insurance business and the profit on revaluation of the embedded derivative inherent in the reset exchangeable securities.

(f) Restrictions that may limit the payment of dividends

There are currently no restrictions on the payment of dividends by the Parent other than:

- the payment of dividends generally being limited to profits subject to ongoing solvency obligations; and
- no dividends can be paid and no returns of capital can be made on ordinary shares, if distributions are not paid on the reset preference shares, unless certain actions are taken by IAG.

There are currently no restrictions on the payment of dividends from subsidiaries to the Parent other than:

- the payment of dividends generally being limited to profits subject to ongoing solvency obligations of the subsidiary;
- for certain subsidiaries, statutory reserve and regulatory minimum capital requirements, in particular, the Australian Prudential Regulation Authority (APRA) has advised Australian general insurers that a general insurer under its supervision must obtain approval from it before declaring a dividend if the general insurer has incurred a loss, or proposes to pay dividends which exceed the level of profits earned in the current period; and
- the Lloyd's syndicate operations being subject to specific solvency calculation restrictions regarding the payment of distributions from Funds at Lloyd's.

The impact to these requirements caused by the payment of dividends is monitored. Payments of dividends from overseas subsidiaries may attract withholding taxes which have not been provided for in this financial report.

From 31 March 2009, under the recently released APRA level 2 general insurer supervision requirements, IAG will be required to obtain approval from APRA before payment of dividends on ordinary shares that exceeds the IAG Group's after tax earnings as defined by APRA.

(g) Dividend franking amount

	CONSOLIDATED	
	31 December 2008	30 June 2008
	\$m	\$m
The amount of franking credits available for subsequent periods are:		
Franking account balance at reporting date at 30%	554	498
Franking credits to arise from payment of income tax payable	6	62
Franking debits to arise from receipt of income tax refundable	(51)	-
Franking credits to arise from receipt of dividends receivable	-	1
Franking credits available for future reporting periods	509	561
Franking account impact of dividends declared before issuance of financial report but not recognised at reporting date	(32)	(72)
Franking credits available for subsequent financial periods based on a tax rate of 30%	477	489

The balance of the franking account arises from:

- franked income received or recognised as a receivable at the reporting date;
- income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
- franking debits from the payment of dividends recognised as a liability at the reporting date.

In accordance with the tax consolidation legislation, the Parent, as the head entity in the tax-consolidated group, has also assumed the benefit of the franking credits available. The consolidated amounts include franking credits that would be available to the Parent if distributable profits of non-wholly owned subsidiaries were paid as dividends.

All of the distributions paid in relation to the reset preference shares and the interest payments in relation to the reset exchangeable securities for the financial period were fully franked at 30% (31 December 2007 and 30 June 2008 - fully franked at 30%).

CONSOLIDATED
31 December **30 June**
2008 **2008**

\$m **\$m**

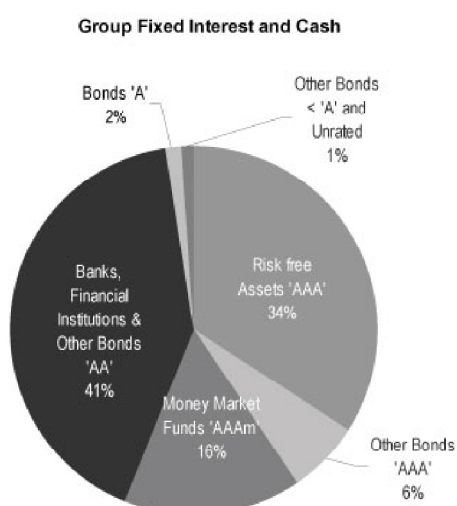
NOTE 8: INVESTMENTS

(a) Composition

(i) Cash and short term money held for investment	<u>524</u>	<u>555</u>
	<u>524</u>	<u>555</u>
(ii) Money market securities		
<i>Listed</i>		
Australian government and semi government	2,127	1,820
Australian financial institutions and corporate	211	259
Foreign government	240	427
Foreign financial institutions and corporate	549	519
<i>Unlisted</i>		
Australian financial institutions and corporate	5,658	4,983
Foreign government and institutions	<u>163</u>	<u>118</u>
	<u>8,948</u>	<u>8,126</u>
(iii) Equity and trust securities		
<i>Listed</i>		
Australian	385	797
International	242	314
<i>Unlisted</i>		
Australian	81	155
International	<u>117</u>	<u>82</u>
	<u>825</u>	<u>1,348</u>
(iv) Derivatives		
Exchange traded	17	4
Over the counter	<u>-</u>	<u>1</u>
	<u>17</u>	<u>5</u>
	<u>10,314</u>	<u>10,034</u>

(b) Credit risk

In light of the circumstances that have prevailed during the current reporting period, a graph is provided below demonstrating the high credit quality of the interest bearing assets held in the investments balance as at reporting date.



The credit quality of the fixed interest and cash portfolio remains high with 97% rated 'AA' or better

(c) Fair value information

In light of the circumstances that have prevailed during the current reporting period, we confirm that there has been no change in the processes used for the determination of the fair value for investments. The fair value of investments has continued to be determined based on independently sourced prices that do not involve the exercise of judgement by management.

Information provided by external pricing vendors is used to determine the fair value of more than 90%, by value, of investments. The remaining assets are valued based on information provided by external fund managers, or the custodian of the assets. All valuation information is subject to internal tolerance review as and when it is received.

	CONSOLIDATED	
	31 December 2008	30 June 2008
	\$m	\$m
NOTE 9: GOODWILL		
(a) Composition		
Goodwill	2,310	2,313
Net foreign exchange movements	(129)	(161)
Accumulated impairment charges	(277)	(277)
	<u>1,904</u>	<u>1,875</u>
(b) Allocation to cash generating units		
Australia direct insurance operations (i)	582	582
Australia intermediated insurance operations (i)	574	574
New Zealand insurance operations (ii)	298	281
Asia insurance operations (ii)	60	45
United Kingdom insurance operations (ii)	390	393
	<u>1,904</u>	<u>1,875</u>

The cash generating units have changed from those identified as at 30 June 2008 following a restructuring of the operation of the IAG Group similar to the change in the segments reported in note 5.

(i) In previous periods these goodwill amounts were tested on the basis of an aggregated Australia cash generating unit which included the Australia captive reinsurance operation. The goodwill has been allocated between the new Australia cash generating units based on relative values at date of separation.

(ii) These cash generating units now include an allocation of the non Australia captive reinsurance operation.

NOTE 10: INTEREST BEARING LIABILITIES

(a) Composition

(i) Capital nature

Tier 1 regulatory capital

AUD reset preference shares	350	350
-----------------------------	-----	-----

Tier 2 regulatory capital

USD subordinated term notes	346	250
-----------------------------	-----	-----

Derivatives for USD subordinated term notes*	59	151
--	----	-----

GBP subordinated term notes	521	519
-----------------------------	-----	-----

NZD subordinated term notes	84	79
-----------------------------	----	----

(ii) Operational nature

NZD senior term notes	-	40
-----------------------	---	----

GBP unsecured notes	2	4
---------------------	---	---

Euro floating rate notes	-	20
--------------------------	---	----

Other	5	-
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Less: capitalised transaction costs	(7)	(12)
-------------------------------------	-----	------

	<u>1,360</u>	<u>1,401</u>
--	--------------	--------------

* The derivatives related to the USD subordinated term notes are disclosed together with the notes but do not form part of Tier 2 regulatory capital.

(b) Significant movements during the period

There have been no significant movements in the interest bearing liabilities since 30 June 2008 other than the following:

(i) NZD senior term notes

The NZD senior term notes with a face value of NZ\$50 million on issue by IAG (NZ) Holdings Limited matured on 15 August 2008. They were fixed rate notes with an interest rate of 7.25% payable semi annually.

(ii) Euro floating rate notes

The Euro floating rate notes with a face value of €12 million on issue by IAG were redeemed on 11 December 2008. They were senior variable rate notes with an interest rate of three month Euribor plus 4.25% which were originally acquired as part of a September 2006 acquisition. Cross currency swaps were used to convert the currency exposure of these liabilities to GBP. These derivative positions were closed out on redemption.

(c) Significant changes to terms and conditions during the period

There has been no significant change in terms and conditions of the interest bearing liabilities since 30 June 2008.

(d) Liquidity risk

The following chart provides information about the maturity periods of the interest bearing liabilities showing undiscounted cash flows based on both the contractual maturity dates and call/reset dates which for some of the instruments may result in the actual maturities being different to the contractual maturities.



There are no debt instruments with legal maturity dates or call/reset dates falling within 15 months following reporting date.

	CONSOLIDATED			
	31 December 2008	30 June 2008	31 December 2008	30 June 2008
	Number of shares in millions	Number of shares in millions	\$m	\$m

NOTE 11: RECONCILIATION OF TOTAL EQUITY

Share capital

Ordinary shares

Balance at the beginning of the financial period	1,878	1,794	4,740	4,361
Shares issued for the fully underwritten dividend	-	59	-	287
Shares issued under Dividend Reinvestment Plan	10	25	42	92
Balance at the end of the half year	<u>1,888</u>	<u>1,878</u>	<u>4,782</u>	<u>4,740</u>

	CONSOLIDATED	
	31 December 2008	30 June 2008
	\$m	\$m
(a) Share capital (refer above)	4,782	4,740
(b) Treasury shares held in trust		
Balance at the beginning of the financial period	(71)	(69)
Acquisition of shares	(16)	(4)
Shares vested and/or released to participants	17	2
Balance at the end of the financial period	<u>(70)</u>	<u>(71)</u>
(c) Reserves		
<i>Foreign currency translation reserve</i>		
Balance at the beginning of the financial period	(65)	(34)
Net exchange difference on translation of foreign operations	46	(214)
Hedge of net investment in foreign operations	(58)	183
Net impact on disposal of foreign operations transferred to profit/(loss)	2	-
Balance at the end of the financial period	<u>(75)</u>	<u>(65)</u>
<i>Share based remuneration reserve</i>		
Balance at the beginning of the financial period	56	33
Charged to profit/(loss) for the period	1	25
Transfers from the reserve upon vesting of rights/shares	(13)	(2)
Balance at the end of the financial period	<u>44</u>	<u>56</u>
<i>Hedging reserve</i>		
Balance at the beginning of the financial period	2	(3)
Net movements in fair value of derivatives forming hedge		
- Cash flow hedges	87	(26)
Net movements in fair value recognised in profit/(loss)		
- Cash flow hedges	(96)	33
Net tax impact from movements	3	(2)
Balance at the end of the financial period	<u>(4)</u>	<u>2</u>
Total reserves	<u>(35)</u>	<u>(7)</u>

	CONSOLIDATED	
	31 December 2008	30 June 2008
	\$m	\$m
(d) Retained earnings/(accumulated losses)		
Balance at the beginning of the financial period	(458)	372
Profit/(loss) attributable to equity holders of the Parent	4	(261)
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax	(66)	(34)
Vesting of share based remuneration	(3)	-
Dividends declared and paid	(169)	(537)
Dividends on treasury shares held in trust	<u>1</u>	<u>2</u>
Balance at the end of the financial period	<u>(691)</u>	<u>(458)</u>
Parent interest	<u>3,986</u>	<u>4,204</u>
(e) Minority interests		
Balance at the beginning of the financial period	147	172
Profit/(loss) attributable to minority interests	28	35
Distributions to minority interests	(24)	(57)
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax, attributable to minority interests	<u>(2)</u>	<u>(3)</u>
Balance at the end of the financial period	<u>149</u>	<u>147</u>
Minority interests comprising		
Share capital	126	126
Retained earnings	<u>23</u>	<u>21</u>
Minority interests	<u>149</u>	<u>147</u>
Total equity	<u>4,135</u>	<u>4,351</u>

NOTE 12: ACQUISITIONS AND DISPOSALS OF BUSINESSES

The following information is provided regarding the changes in the IAG Group structure in the current half year reporting period.

(a) Acquisition of subsidiaries

For the half year ended 31 December 2008

(i) Acquisition of regional broking businesses in the United Kingdom

The IAG Group acquired a number of smaller regional brokers during the period with total consideration of \$1 million. The acquired businesses form part of the United Kingdom segment.

For the financial year ended 30 June 2008

(i) Acquisition of regional broking businesses in the United Kingdom

There were several businesses acquired in the United Kingdom during the year with total consideration of \$45 million. The largest three acquisitions during the year were the purchase of Barnett & Barnett effective 10 March 2008 for a total acquisition cost (including transaction costs) of \$26 million, the purchase of Just Idol Limited (trading as Diamond Insurance Services) effective 2 November 2007 for a total acquisition cost (including transaction costs) of \$5 million and purchase of Bryan & Knott Holdings Limited effective 4 April 2008 for a total acquisition cost (including transaction costs) of \$5 million. The additional information regarding these three larger acquisitions provided below is disclosed on an aggregated basis as the individual acquisitions were not significant to the IAG Group. The acquired businesses form part of the United Kingdom segment.

(ii) Acquisition of New Zealand based general insurance business

The IAG Group acquired the renewal business of Anthony Runacres and Associates Limited effective 30 November 2007 for a total acquisition cost of \$7 million including transaction costs and the estimated present value of deferred consideration. The business consists of insurance and risk professionals who specialise in fire and general insurance broking in the commercial sector. This business forms part of the New Zealand segment.

(iii) Acquisition of specialist underwriter in the Australian commercial insurance market

The IAG Group acquired Strata Unit Underwriting Agency Pty Ltd effective from 18 April 2008. The business consists of an underwriting operation specialising in strata insurance. This business forms part of the Australia intermediated segment.

**UK branch
acquisitions**

	\$m
Purchase price	
Cash paid	33
Present value of deferred payments	1
Present value of contingent payments	1
Costs directly associated with acquisition	<u>1</u>
Purchase consideration (including transaction costs)	<u><u>36</u></u>
Fair value of net identifiable assets acquired recognised by acquiree	
Cash and cash equivalents	10
Receivables	11
Payables	(14)
Current tax liabilities	<u>(1)</u>
Net identifiable assets acquired	<u><u>6</u></u>
Intangible assets recognised upon acquisition	
Customer relationships	14
Goodwill	<u>16</u>
	<u><u>30</u></u>

The fair value of assets and liabilities are based on discounted cash flow models or the book values have been used as a proxy for fair value. In addition to the intangible assets recognised and disclosed above, there are other intangible benefits that have been acquired. These benefits have not been recognised separately from goodwill because they were not separately recognisable and / or were not able to be reliably measured. These assets are principally the value of the workforce acquired and the value of cost and revenue synergies relating largely to an ability to provide improved products and services to customers.

The measurement of identifiable intangible assets acquired in a business combination is highly subjective and there are a range of possible values that could be attributed for initial recognition. The IAG Group uses the skills and experience of valuation specialists in establishing an initial range within which the fair value is to be recognised. Judgement is then applied in selecting the value to be recognised on the balance sheet. Judgement is also applied in determining the useful life of the intangible assets which impacts directly on the amortisation charges to be incurred following an acquisition.

Cash consideration paid	33
Cash balance acquired	<u>(10)</u>
Net outflow of cash	<u><u>23</u></u>
Contribution from the acquired businesses (from date of acquisition):	
Income	<u>5</u>
Profit/(loss) before income tax	<u><u>1</u></u>

(b) Other acquisitions

For the half year ended 31 December 2008

(i) Acquisition of minority stake in regional insurance broker in Australia

On 19 August 2008, the IAG Group acquired a 25% stake in NAS Insurance Brokers, a general insurance brokerage based in Western Australia. This business forms part of the Australia intermediated segment.

(ii) Increased investment in existing general insurance associate in Malaysia

In December 2008, the IAG Group acquired an additional stake in the general insurance business of the existing associate AmAssurance, lifting the stake from 30% to 49% (the maximum allowable ownership under Malaysia's current foreign investment rules), funded through the sale of the interest in the life insurance component of the business from which a profit on disposal of \$38 million (net of \$2 million loss transferred from foreign currency translation reserve) was presented in the fee based, corporate and other expenses line in the income statement. At the same time an additional amount of risk-based capital was injected into the business bringing the total costs of investment to \$132 million. For more detailed information refer to the market announcement (unaudited) on 1 December 2008 available at www.iag.com.au.

For the financial year ended 30 June 2008

There were no other acquisitions.

(c) Disposal of subsidiaries

For the half year ended 31 December 2008

There were no disposals of subsidiaries by the Consolidated entity.

For the financial year ended 30 June 2008

(i) Disposal of CGU Premium Funding loan business

Effective 17 August 2007, the IAG Group disposed of the existing and ongoing loan business of CGU Premium Funding Pty Limited. A net profit of \$9 million was recognised in the investment income on equity holders' funds from the sale of the business.

(d) Businesses held for sale

For the half year ended 31 December 2008

(i) United Kingdom businesses held for sale

On 18 December 2008, the IAG Group announced that it had finalised agreements for the sale of its mass market distribution businesses in the United Kingdom. The sale was to be effected through two separate transactions as set out below. While binding contracts were signed prior to reporting date the ongoing involvement of the IAG Group with the companies prior to completion and transfer of the businesses means that they were still controlled for accounting purposes as at reporting date. They did however meet the criteria for classification as held for sale and so the relevant assets and liabilities of the businesses have been separately recognised on the balance sheet. The classification of the businesses as held for sale has resulted in the recognition of a loss of \$79 million for the period, presented in the fee based, corporate and other expense line in the income statement. The two transactions are:

- The Equity and Open & Direct branch networks (Branch networks) sold for £50 million (approximately \$104 million). The business was sold for approximately the net asset value but the IAG Group has incurred other costs incremental to the transaction of \$15 million. The sale of the business was completed after reporting date on 8 January 2009; and
- The Hastings and Advantage businesses (Hastings and Advantage) sold via a management buy out for £17 million (approximately \$37 million). As this consideration is lower than the carrying value of the net assets sold, relevant assets were written down such that the group of assets and liabilities being sold were measured at reporting date at the lower of the carrying value and the expected fair value less costs to be sold. In addition, the IAG Group has incurred other costs incremental to the transaction resulting in a total loss on business held for sale of \$64 million. The sale of the business was completed after reporting date on 3 February 2009.

(ii) Alba Group no longer held for sale

As at 30 June 2008, the Alba Group operation (including both the Lloyd's syndicate 4455 and the Lloyd's managing agent Diagonal) was classified as held for sale. During the current period it has been decided that the business will instead be placed into run-off. The operation is no longer classified as held for sale. This change in classification had no financial impact.

Details of the businesses held for sale for the half year ended 31 December 2008 are as follows:

	Hastings and Advantage	Branch networks
	\$m	\$m
Net assets to be disposed		
Cash and cash equivalents	161	15
Investments	148	-
Trade and other receivables	327	9
Deferred acquisition costs	1	-
Deferred tax assets	9	-
Goodwill and intangibles (including software development)	-	96
Other assets	-	9
Total assets held for sale	<u>646</u>	<u>129</u>
Trade and other payables	186	25
Unearned premium liability	137	-
Outstanding claims liability	286	-
Total liabilities held for sale	<u>609</u>	<u>25</u>
	<u>37</u>	<u>104</u>
Reconciliation to balance sheet (1)		
Assets for sale as above	646	129
Less: Intercompany transactions eliminated on consolidation		
Reinsurance recoveries	(95)	-
Deferred reinsurance expense	(27)	-
Assets held for sale as per balance sheet	<u>524</u>	<u>129</u>
Liabilities held for sale as above	609	25
Less: Intercompany balances eliminated on consolidation	(22)	-
Liabilities held for sale per balance sheet	<u>587</u>	<u>25</u>
Other costs necessarily incurred as part of the sale process and included in total costs on businesses held for sale	7	15

(1) The assets and liabilities held for sale include amounts which do not appear on the IAG Group's balance sheet because they are eliminated on consolidation being transactions with other subsidiaries within the IAG Group that do not form part of the businesses held for sale. A reconciliation is provided here between the businesses relevant assets and liabilities held for sale and amounts presented in the balance sheet. The majority of these intercompany amounts relate to what were intragroup reinsurance arrangements which are the subject of a commutation contract expected to be settled during the second half of the 2009 financial year. The contract is expected to be settled for cash and have no impact on profit or loss.

For the year ended 30 June 2008

As at 30 June 2008, the Alba Group operation was classified as held for sale but was subsequently placed in run-off (refer to (d) (ii) above).

NOTE 13: CONTINGENCIES

There have been no material changes in contingent liabilities or contingent assets since 30 June 2008 other than the following:

(i) India general insurance venture

On 24 November 2008, the IAG Group signed an agreement with the State Bank of India to establish a general insurance start-up venture in India with the IAG Group having a 26% stake. The establishment of the venture is subject to regulatory approval but is expected to commence trading in the 2009 calendar year. The IAG Group's investment in the joint venture will be INR5,421 million (approximately \$170 million). The agreement includes an option for IAG to subsequently increase its stake to 49%, subject to regulatory and other conditions. For more detailed information (unaudited) refer to the market announcement on 24 November 2008 available from www.iag.com.au. At reporting date, the rights and obligations of the IAG Group under the agreement represent contingent assets and contingent liabilities respectively.

(ii) Hastings related liabilities

Certain amounts previously disclosed as contingent liabilities relating to the Hastings operations were settled during the period.

NOTE 14: RELATED PARTY DISCLOSURES

The IAG Group currently operates under a devolved model (following a major restructuring announced to the market on 9 July 2008) but there are shared services through the use of dedicated units (such as head office finance providing accounting and processing services to operational entities) and entities (such as dedicated entities that provides employee services, technology development services and reinsurance services) which provide services across the IAG Group. All such intragroup transactions are charged to the relevant entities on either normal commercial terms and conditions, a direct and actual cost recovery basis or time allocation basis. All transactions that have occurred among subsidiaries within the IAG Group have been eliminated for consolidation purposes.

NOTE 15: EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the half year ended 31 December 2008.

(a) Declaration of interim dividend

On 26 February 2009, an interim dividend of 4.0 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 8 April 2009.

(b) Implementation of capital management initiatives

On 18 February 2009, the IAG Group announced a number of capital initiatives which are designed to improve its capital mix and provide additional financial flexibility in light of the financial market conditions. They were:

- to raise \$450 million of ordinary share capital through an institutional placement at \$3 per ordinary share (the institutional placement completed on 18 February 2009 and new shares commenced trading on 25 February 2009);
- to raise approximately \$100 million of ordinary share capital through a Share Purchase Plan (with details to be announced later); and
- the repurchase of £108 million of GBP subordinated term notes at a 30% discount to face value.

(c) Impact of fires across Victoria

Both the Australia direct and Australia intermediated businesses have been impacted by claims arising from fires across Victoria in February 2009. It is expected that the ultimate cost to the IAG Group from the fires will reach the IAG Group's maximum event retention under the outward reinsurance arrangements and so the net impact will be capped at \$126 million. The event has had no financial impact on the current reporting period.

(d) Disposal of United Kingdom businesses

On 8 January 2009, the disposal of the Equity and Open & Direct branch networks was completed and the business has been deconsolidated from that date.

On 3 February 2009, the disposal of the Hastings and Advantage businesses was completed and the business has been deconsolidated from that date.

The financial impacts from the completion of these transactions were not materially different to the information provided in note 12(d).

	CONSOLIDATED	
	31 December 2008	30 June 2008
	\$	\$

NOTE 16: NET TANGIBLE ASSETS

Net tangible assets per ordinary share	<u>0.86</u>	<u>0.93</u>
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Net tangible assets per ordinary share has been determined using the net assets on the balance sheet adjusted for minority interests, intangible assets and goodwill.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' DECLARATION

In the opinion of the directors of Insurance Australia Group Limited:

- (a) the financial statements and notes 1 to 16, are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2008 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 26th day of February 2009 in accordance with a resolution of the directors.



..... Director



**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE EQUITY HOLDERS OF
INSURANCE AUSTRALIA GROUP LIMITED**

Report on the financial report

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited ("the Company"), which comprises the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of recognised income and expense and consolidated cash flow statement for the half year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 16 and the directors' declaration of the consolidated entity comprising the Company and its subsidiaries ("the Group") at the half year's end or from time to time during the half year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards and *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2008 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half year financial report of Insurance Australia Group Limited and its subsidiaries is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the half year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG
KPMG


Brian Greig
Partner

Sydney
26 February 2009