

INVESTOR REPORT ▶▶

FY09

30 JUNE 2009

21 AUGUST 2009

Insurance Australia Group Limited ABN 60 090 739 923



INSURANCE AUSTRALIA GROUP LIMITED - DIRECTORY

Securities exchange listings

ASX Limited:

ASX code for Ordinary Shares: **IAG** (Shares on issue, 30 June 2009: 2,071,414,339)

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

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

London Stock Exchange:

LSE code for Insurance Australia Group Limited Fixed Rate Subordinated Notes due 2026:
70QG (£142.4m outstanding at 30 June 2009)

Key dates

Final dividend - ordinary shares

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

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

Interim dividend - ordinary shares

- Ex-dividend date	4 March 2010*
- Record date	10 March 2010*
- Payment date	12 April 2010*

Payment date for IANG quarterly distribution	15 March 2010
Payment date for IAGPA and IANG distributions	15 June 2010
Announcement of full-year results to 30 June 2010	27 August 2010*

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

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FY09 GROUP RESULTS – SUMMARY

INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	FY08 A\$m	FY09 A\$m	Mvt %
Gross written premium	7,793	7,842	+0.6%
Gross earned premium	7,765	7,718	
Reinsurance expense	(470)	(485)	
Net earned premium	7,295	7,233	-0.8%
Net claims expense	(5,155)	(5,370)	
Commission expense	(657)	(693)	
Underwriting expense	(1,523)	(1,435)	
Underwriting profit/(loss)	(40)	(265)	
Investment income on technical reserves	432	780	
Insurance profit	392	515	+31.4%
Net corporate expense	(69)	(22)	
Interest	(101)	(87)	
Profit from fee based business/share of associates	25	10	
Investment income on shareholders' funds	24	(39)	
Profit before income tax and amortisation	271	377	+39.1%
Income tax expense	(90)	(65)	
Profit after income tax (before amortisation)	181	312	
Minority interest	(35)	(66)	
Profit attributable to IAG shareholders (before amortisation)	146	246	+68.5%
Amortisation and impairment	(407)	(65)	
Profit/(loss) attributable to IAG shareholders	(261)	181	

Insurance Ratios	FY08	FY09
Loss ratio	70.7%	74.2%
Immunised loss ratio	71.1%	70.7%
Expense ratio	29.9%	29.4%
Commission ratio	9.0%	9.6%
Administration ratio	20.9%	19.8%
Combined ratio	100.6%	103.6%
Immunised combined ratio	101.0%	100.1%
Insurance margin	5.4%	7.1%

Key Financial Metrics	FY08	FY09	
Reported ROE (average equity) (% pa)	(5.9%)	4.1%	
Basic EPS (cents) ¹	(14.11)	9.32	
Cash EPS (cents) ¹	9.50	14.34	+50.9%
DPS (cents)	22.50	10.00	-55.6%
MCR multiple	1.62	1.79	
Debt to total tangible capitalisation	42.6%	29.2%	

¹ FY08 EPS restated to reflect deemed bonus element of institutional placement/share purchase plan completed in 2H09.

HIGHLIGHTS

The 2009 financial year has been one of rebuilding for IAG. At the start of the year the Group announced a refined strategy designed to improve profitability. In line with that strategy IAG has:

- Refocused on its core businesses in Australia and New Zealand;
- Narrowed its focus to a specialist motor underwriter in the UK;
- Continued to progress growth opportunities in Malaysia and India;
- Moved to a devolved operating model;
- Strengthened its executive team; and
- Concentrated on driving operational performance and execution.

These actions have contributed to an improvement in the Group's financial performance in FY09, despite a challenging operating environment. Key highlights include:

- A 4% increase in underlying gross written premium (GWP), after adjusting for divested and run-off businesses and foreign exchange movements;
- An increased insurance margin of 7.1% (7.7% for the ongoing business), compared to 5.4% in FY08;
- A strong performance from Australia Direct with GWP growth of over 9% and an 18% increase in insurance profit;
- \$130m per annum pre-tax run-rate of cost savings achieved in Australia;
- A return to profitability in New Zealand in 2H09; and
- A Group net profit after tax of \$181m, compared to a loss of \$261m in FY08.

The Group's capital position improved during the year with an MCR ratio of 1.79 at 30 June 2009 and debt to total tangible capitalisation of 29.2%. This reflected:

- A capital raising of \$534m;
- A buyback of £144m of subordinated debt at a 30% discount to face value; and
- The introduction of a revised dividend policy, paying out approximately 50-70% of cash earnings.

In FY10, further improvement in operating performance is expected. The Group is targeting:

- Reported GWP growth of 1-3%;
- Underlying GWP growth of 3-5%; and
- An insurance margin in the range of 9-11%.

1. EXECUTIVE SUMMARY

1.1 FY09 overview

- FY09 has been a year of rebuilding for IAG, with the Group delivering on all of the immediate priorities outlined in its refined corporate strategy. These actions have contributed to an improved financial performance in FY09.
- While the degree of underlying improvement has been significant, it was less than anticipated at the beginning of the financial year. This was primarily due to the adverse impact from unprecedented volatility in financial markets, higher than anticipated natural peril costs, a slower than expected recovery by Australia Intermediated (CGU) and a disappointing first half performance from New Zealand.
- The Group has reported an improved insurance margin of 7.1%, compared to 5.4% in FY08 and updated guidance of 6%+ provided in February 2009. The insurance margin for the ongoing business was 7.7%. This improved performance includes:
 - A strong result from Australia Direct, reflecting increased volumes and rate increases;
 - Improved cost control, with a \$130m per annum pre-tax run-rate of cost savings achieved in Australia;
 - A return to profitability by New Zealand in 2H09;
 - The sale of the loss making, non-core mass market businesses in the UK, half-way through the year;
 - \$451m in natural peril claim costs, net of reinsurance (FY08: \$502m);
 - Higher than originally expected reserve releases of \$215m (FY08: \$406m), including approximately \$40m in 2H09 from a reduction in cost and earnings related inflation assumptions;
 - A reduced negative credit spread impact of \$13m (FY08: \$122m);
 - An adverse \$50m effect from a lower running yield; and
 - A \$38m net impairment of deferred acquisition costs (DAC).
- Net profit after tax for FY09 was \$181m, compared to a loss of \$261m in FY08.
- The Board has determined to pay a final dividend of 6.0 cents per ordinary share (fully franked) (2H08: 9.0 cps), bringing the total dividend for the year to 10.0 cents (FY08: 22.5 cps).

1.2 Divisional highlights

- The Group's FY09 insurance margin is summarised below on a divisional basis:

INSURANCE MARGINS	1H09 %	2H09 %	FY09 %
Australia Direct	12.6	11.4	12.0
Australia Intermediated	(0.6)	5.0	2.2
New Zealand	(3.9)	4.0	0.0
UK Retained	20.2	9.9	15.2
Asia	12.0	0.0	5.9
Total Margin - Ongoing Business	7.2	8.1	7.7
Discontinued Operations	(22.8)	5.3	(19.2)
Total Margin	6.2	8.1	7.1

- Australia Direct**
 - The Group's largest business grew GWP by 9.1% and delivered an improved insurance margin.
 - The strong result was supported by increased rates, volume gains, lower natural peril claims, cost-saving initiatives and a reduced negative impact from credit spreads.
- Australia Intermediated (CGU)**
 - CGU's underlying full year insurance margin has improved, after allowing for a \$131m reduction in reserve releases, higher natural peril costs, a lower adverse impact from credit spreads and a \$50m writedown of DAC.
 - This reflects early benefits from CGU's back-to-basics focus on greater underwriting discipline, rate increases, claim management and tight expense control. While new business levels reduced, customer retention remained high.
- New Zealand**
 - After a disappointing 1H09 performance, New Zealand delivered an improved performance in 2H09 to break-even for the full year.
 - The 2H09 improvement reflected increased rates, better risk selection, lower claim costs and better expense control.
- United Kingdom**
 - The performance of the UK business improved significantly reflecting the sale of underperforming assets, rate increases and the continued shift of the portfolio mix away from private motor.
 - The retained business, Equity Red Star, delivered a sound margin, excluding reserve releases from a syndicate in run-off.
- Asia**
 - The performance of the Group's existing businesses in Thailand and Malaysia improved on the back of tighter underwriting, rate increases and improved cost control.
 - Important strategic achievements included the signing of a joint venture agreement with State Bank of India (SBI) and an increase in ownership of AmG Insurance Berhad (AmG Insurance) in Malaysia to 49%.

1.3 Capital management

- The Group's capital position improved during the year with an MCR ratio of 1.79 at 30 June 2009. This reflected:
 - A capital raising of \$534m in 2H09;
 - The repurchase of £144m of UK subordinated debt at a 30% discount to face value; and
 - Implementation of a revised dividend policy of approximately 50-70% of cash earnings.
- The Group's probability of adequacy for the outstanding claims provision remains unchanged at 90% as at 30 June 2009, with risk margins increasing slightly to 19.1% of the net discounted central estimate.
- At 30 June 2009, IAG held an 'A+' rating at the Group level and the key wholly owned operating insurance subsidiaries hold 'AA-' ratings, from Standard & Poor's (S&P).
- The Group's debt to total tangible capitalisation at 30 June 2009 stood at 29.2%, which is slightly below the Group's targeted range of 30-40%.

1.4 Outlook

- The Group is confident of further improvement in operating performance in FY10. Its guidance for the year is:
 - Reported GWP growth in the range of 1-3%;
 - Underlying GWP growth in the range of 3-5%; and
 - An insurance margin in the range of 9-11%.
- Underpinning this improved outlook are:
 - Higher premiums, including the earned effect of rate rises implemented in FY09;
 - Ongoing operating efficiencies across the Group;
 - Improved underwriting discipline, in particular in Australia Intermediated and New Zealand;
 - Hardening market conditions in most businesses; and
 - The reduced exposure to the underperforming UK private motor market.
- This guidance is based on:
 - Losses from natural peril events being within the budgeted allowance of \$350m; and
 - No material movement in foreign exchange rates or investment markets.
- Moving forward, the Group's priorities remain to:
 - Improve the performance of the Australian and New Zealand businesses;
 - Pursue selective general insurance growth opportunities; and
 - Drive operational performance and accountability.
- It is IAG's objective to deliver a cash ROE of at least 1.5 times the Group's weighted average cost of capital (WACC) and a top quartile shareholder return, through the cycle.

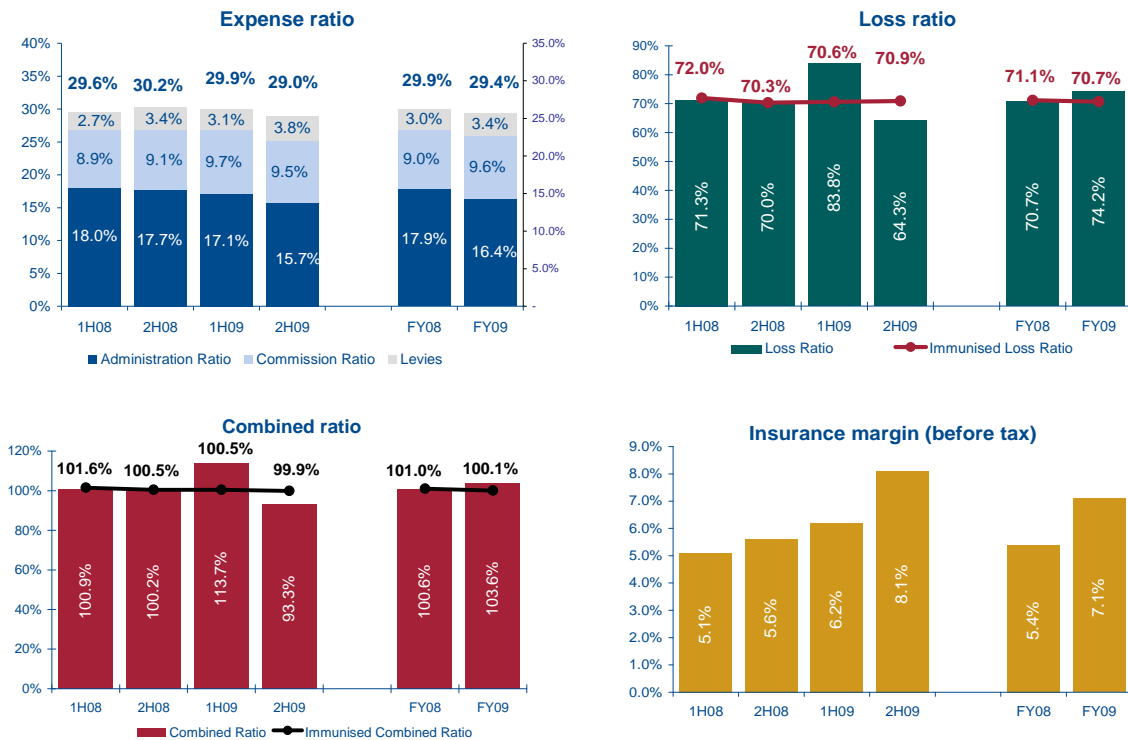
2. GROUP RESULTS

INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	3,851	3,942	3,922	3,920	7,793	7,842
Gross earned premium	3,923	3,842	3,931	3,787	7,765	7,718
Reinsurance expense	(214)	(256)	(248)	(237)	(470)	(485)
Net earned premium	3,709	3,586	3,683	3,550	7,295	7,233
Net claims expense	(2,644)	(2,511)	(3,088)	(2,282)	(5,155)	(5,370)
Commission expense	(331)	(326)	(356)	(337)	(657)	(693)
Underwriting expense	(768)	(755)	(744)	(691)	(1,523)	(1,435)
Underwriting profit/(loss)	(34)	(6)	(505)	240	(40)	(265)
Investment income on technical reserves	224	208	732	48	432	780
Insurance profit	190	202	227	288	392	515
Net corporate expense	-	(69)	(77)	55	(69)	(22)
Interest	(58)	(43)	(46)	(41)	(101)	(87)
Profit/(loss) from fee based business/share of associates	29	(4)	13	(3)	25	10
Investment income on shareholders' funds	76	(52)	(72)	33	24	(39)
Profit before income tax and amortisation	237	34	45	332	271	377
Income tax expense	(78)	(12)	17	(82)	(90)	(65)
Profit after income tax (before amortisation)	159	22	62	250	181	312
Minority interest	(17)	(18)	(28)	(38)	(35)	(66)
Profit attributable to IAG shareholders (before amortisation)	142	4	34	212	146	246
Amortisation and impairment	(32)	(375)	(30)	(35)	(407)	(65)
Profit/(loss) attributable to IAG shareholders	110	(371)	4	177	(261)	181
Insurance Ratios						
Loss ratio	71.3%	70.0%	83.8%	64.3%	70.7%	74.2%
Immunised loss ratio	72.0%	70.3%	70.6%	70.9%	71.1%	70.7%
Expense ratio	29.6%	30.2%	29.9%	29.0%	29.9%	29.4%
Commission ratio	8.9%	9.1%	9.7%	9.5%	9.0%	9.6%
Administration ratio	20.7%	21.1%	20.2%	19.5%	20.9%	19.8%
Combined ratio	100.9%	100.2%	113.7%	93.3%	100.6%	103.6%
Immunised combined ratio	101.6%	100.5%	100.5%	99.9%	101.0%	100.1%
Insurance margin	5.1%	5.6%	6.2%	8.1%	5.4%	7.1%
Key Financial Metrics						
Reported ROE (average equity) (% pa)	4.7%	(16.5%)	0.2%	8.2%	(5.9%)	4.1%
Basic EPS (cents) ¹	5.99	(19.81)	0.23	9.09	(14.11)	9.32
Cash EPS (cents) ¹	9.46	0.15	5.65	8.86	9.50	14.34
DPS (cents)	13.50	9.00	4.00	6.00	22.50	10.00
Probability of adequacy of general insurance claims reserves	90%	90%	90%	90%	90%	90%
MCR multiple	1.87	1.62	1.51	1.79	1.62	1.79

¹ FY08 EPS restated to reflect deemed bonus element of institutional placement/share purchase plan completed in 2H09.

Group insurance ratios

Group Results



2.1 Premiums

- GWP for the Group was \$7,842m, up 0.6% from \$7,793m in FY08. This was in line with guidance of 0-2% and driven by a strong performance from Australia Direct.
- After allowing for the impact of foreign exchange movements, the sale of the non-core UK operations and placing Alba into run-off, underlying GWP growth in FY09 was approximately 4%, compared to the Group's guidance of between 3% and 5%.



- Comparing FY09 GWP with FY08:
 - Australia Direct GWP grew by 9.1% to \$3,379m, reflecting increases in both price and volume;
 - Australia Intermediated (CGU) GWP decreased by less than 2% to \$2,357m reflecting improved pricing discipline which saw increased rates offset by some loss of volume, notably the ING Australia account;

- New Zealand's reported GWP declined by approximately 1% to \$965m. In local currency terms, GWP increased by more than 4%, reflecting recent rate increases;
- In the UK, reported GWP of \$944m was approximately 16% lower, primarily due to the sale of the non-core mass market operations during the year. In local currency terms, GWP attributable to the retained business increased by approximately 1%;
- In Asia, reported GWP of \$193m increased by nearly 11%. In local currency terms it grew by 2%, with political and economic uncertainty impacting regional growth levels; and
- In Corporate & Other, reported GWP of \$4m comprised the external reinsurance activities of Alba and Labuan, and decreased from \$26m in FY08 as Alba was placed into run-off in September 2008.

2.2 Reinsurance expense

- The Group's reinsurance expense increased in FY09 to \$485m (FY08: \$470m), largely reflecting additional natural peril cover purchased from the beginning of calendar 2008.

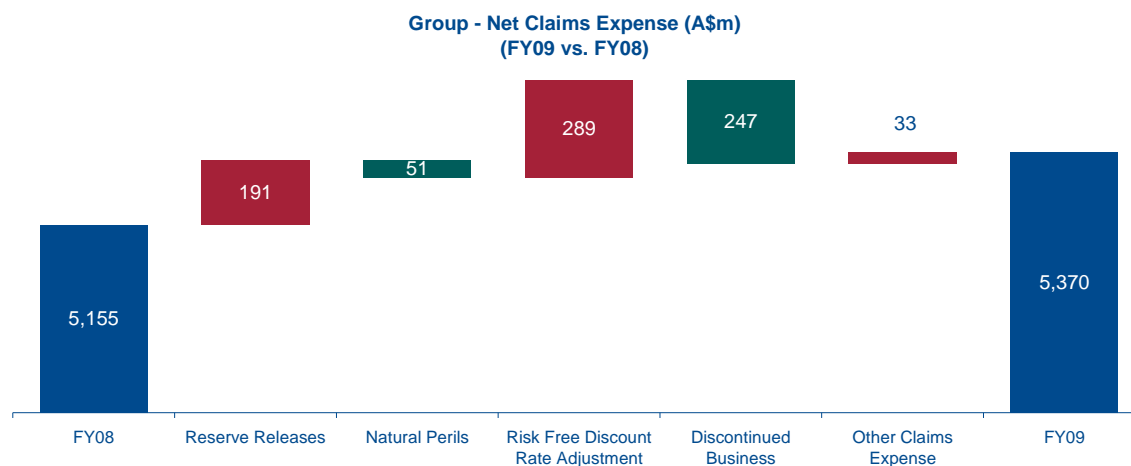
2.3 Claims

- Net claims expense of \$5,370m for FY09 represents a loss ratio of 74.2% (FY08: 70.7%). On an immunised basis, allowing for the effect of changes in the risk free rate used to discount claim liabilities, the loss ratio of 70.7% has improved compared to 71.1% in FY08. The adverse impact from the movement in the risk free discount rate adjustment in FY09 was \$289m.
- Reserve releases of \$215m in FY09 were \$191m lower than those in FY08. The 2H09 net release of \$130m includes approximately \$40m from a reduction in cost and earnings related inflation assumptions, including Average Weekly Earnings (AWE) for Australian portfolios.
- The majority of FY09's reserve releases were sourced from the central estimate, reflecting better than expected prior period experience and the revision of projected claims experience.
- In FY09, losses from natural perils net of reinsurance totalled \$451m, \$51m lower than FY08. Losses from the Victorian bushfires in February 2009 were capped at the maximum single event retention of \$126m under the Group's reinsurance cover.
- Overall natural peril claim costs exceeded related allowances by \$137m in FY09, but were slightly lower than those incorporated in the adjusted guidance provided in February 2009, after the Victorian bushfires.

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

- Other natural peril event costs of \$156m were slightly higher than FY08 (\$142m).
- Cost estimates for natural peril events can change as more claim data is received and settlements are made. As a result, some of the estimates of individual event costs disclosed in 1H09 have been revised.

Group Results



2.4 Expenses

- The Group has made significant progress in improving its operating efficiency as the benefits from cost initiatives are realised. The Group's expense ratio improved to 29.4%, from 29.9% in FY08, despite the inclusion of:
 - A \$38m net writedown of deferred acquisition costs (DAC), which increased the expense ratio by 0.5%; and
 - Higher government levies which added 0.4% to the FY09 expense ratio.
- The \$38m net writedown of DAC was allocated between commission expense (\$16m) and underwriting expense (\$22m), and arose from a \$50m impairment within Australia Intermediated, as required under the liability adequacy test (LAT), offset by a \$12m benefit from the introduction of DAC accounting in Thailand. A \$4m DAC benefit, in respect of Thailand, was recognised in 2H09.
- The FY09 commission ratio increased to 9.6% (FY08: 9.0%), and to 9.4% after exclusion of the DAC impairment impact. The higher ratio reflects changed business mix, notably in New Zealand and the UK, and pressure on commissions from broker consolidation.

2.5 Investment income on technical reserves

- Investment income on technical reserves for FY09 was \$780m, compared to \$432m in FY08. The higher income in FY09 reflects capital gains on bonds offset by a lower running yield.
- After allowing for the impact of credit spreads and the risk free discount rate adjustment, the table below demonstrates the significant reduction in running yield incurred, notably in 2H09.

INVESTMENT INCOME ON TECHNICAL RESERVES	1H08 \$m	2H08 \$m	1H09 \$m	2H09 \$m	FY08 \$m	FY09 \$m
Investment income on technical reserves	224	208	732	48	432	780
Adjusted for:						
- Risk free discount rate adjustment	26	9	(488)	234	35	(254)
- Credit spread impact	55	67	86	(73)	122	13
Running yield on technical reserves	305	284	330	209	589	539
	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
Average technical reserves ¹	8.1	7.9	7.8	8.0	8.0	7.9
	%	%	%	%	%	%
Annualised average running yield	7.5	7.2	8.5	5.2	7.4	6.8

¹Based on period end balance.

- Sharply reduced technical reserve income of \$48m in 2H09 reflected capital losses on bonds stemming from an increase in interest rates in that half and a lower running yield, partially offset by a significant narrowing of credit spreads.

2.6 Insurance margin

- The Group's insurance margin for FY09 improved to 7.1% (FY08: 5.4%), driven by:
 - Premium rate increases and improved underwriting discipline;
 - Lower natural peril claim costs, net of reinsurance;
 - Savings from the \$130m pre-tax per annum cost initiatives in Australia;
 - Lower losses from the non-core mass market operations in the UK, which were divested mid-way through the year; and
 - A significantly reduced negative impact from wider credit spreads.
- Offsetting adverse factors were:
 - The net writedown of DAC of \$38m;
 - A \$191m reduction in prior period reserve releases, to \$215m; and
 - A \$50m (2H09: \$75m) reduction in running yield on technical reserves.
- The impact of prior period reserve releases, the incidence of natural perils, credit spreads and the DAC writedown on the insurance result is highlighted in the table below:

INSURANCE AUSTRALIA GROUP - INSURANCE MARGIN IMPACTS	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Reserve releases	228	178	85	130	406	215
Natural perils	(326)	(176)	(176)	(275)	(502)	(451)
Natural perils allowance	150	170	153	161	320	314
Credit spreads	(55)	(67)	(86)	73	(122)	(13)
DAC/LAT	-	(15)	(42)	4	(15)	(38)
Impact on Group insurance profit	(3)	90	(66)	93	87	27
Reserve releases	6.1%	5.0%	2.3%	3.7%	5.6%	3.0%
Natural perils	(8.8%)	(4.9%)	(4.8%)	(7.7%)	(6.9%)	(6.2%)
Natural perils allowance	4.0%	4.7%	4.1%	4.5%	4.4%	4.3%
Credit spreads	(1.5%)	(1.9%)	(2.3%)	2.1%	(1.7%)	(0.2%)
DAC/LAT	-	(0.4%)	(1.1%)	0.1%	(0.2%)	(0.5%)
Impact on Group insurance margin	(0.1%)	2.5%	(1.8%)	2.7%	1.2%	0.4%
Reported insurance margin	5.1%	5.6%	6.2%	8.1%	5.4%	7.1%

- A number of specific factors were taken into account when framing IAG's revised FY09 margin guidance of 6%+, as announced in February 2009. These were:
 - Credit spreads: revised guidance included no 2H09 impact, compared to an actual \$73m positive effect from the narrowing of spreads. This had a favourable impact on the FY09 reported margin of 1.0%;
 - Natural peril claim costs: revised guidance included a full year natural peril claim cost impact of \$464m, inclusive of a \$126m cost from the Victorian bushfires which occurred in February 2009. Total natural peril claim costs in FY09 amounted to \$451m, net of reinsurance, giving a favourable impact against revised guidance of 0.2% at the insurance margin level; and
 - DAC impairment: revised guidance included no further movement on the \$42m net impairment recognised in 1H09. 2H09 contained a further \$4m benefit in respect of the introduction of DAC accounting in Safety Insurance in Thailand, favourably impacting the FY09 reported margin by less than 0.1%.
- On this basis, the reported margin of 7.1% is close to the February 2009 guidance of 6%+, and can be reconciled accordingly:

REPORTED MARGIN vs. GUIDANCE	Guidance \$m	Actual \$m	Adjusted \$m	%
Reported Margin			515	7.1
Less 2H09 impacts from:				
- Credit spreads	(86)	(13)	(73)	(1.0)
- Natural perils	(464)	(451)	(13)	(0.2)
- DAC/LAT	(42)	(38)	(4)	(0.0)
Reported Margin - Adjusted			425	5.9
FY09 Revised Margin Guidance				6%+

2.7 Net corporate expenses

- From FY09, all corporate expenses that are not of a one-off nature are wholly allocated to the operating businesses (i.e. included in the calculation of the insurance profit). Comparative figures for FY08 have been reclassified to reflect this revised treatment, and were published in December 2008.
- Net one-off corporate expenses in FY09 amounted to \$22m (2H09: \$55m net profit), and comprised:
 - A loss of \$122m (2H09: \$7m) associated with the Group's exit from non-core operations in the UK, comprising:
 - The loss on sale of the mass market distribution operations; and
 - Restructuring costs, including those related to placing Alba into run-off.
 - A \$38m profit recognised in 1H09 on the sale of IAG's interest in the life insurance business of its Malaysian joint venture;
 - A \$92m profit on the buyback of sterling denominated subordinated debt in 2H09; and
 - \$30m of one-off costs in 2H09 relating to:
 - Build costs associated with The Buzz, IAG's new standalone online business; and
 - Onerous lease provisions relating to surplus space following implementation of \$130m per annum of pre-tax cost-saving initiatives in Australia.

2.8 Interest

- The lower interest expense of \$87m (FY08: \$101m) reflects the repayment of subordinated debt late in 1H08, and the buyback of Reset Preference Shares and sterling denominated subordinated debt in 2H08 and 2H09 respectively. Most of the Group's borrowings are at fixed rates of interest.

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

- The combined contribution of \$10m (FY08: \$25m) from fee based business and associates comprises \$4m (FY08: \$28m) of fee based income and \$6m (FY08: -\$3m) in respect of share of associates.
- Profit from fee based business of \$4m in FY09 has declined against FY08, owing to:
 - A reduced contribution from Australia Intermediated, reflecting lower prior period fee income and the FY08 result including a profit on sale of CGU Premium Funding; and
 - Additional costs incurred in the Equity Direct business in the UK, including site rationalisation costs.
- The \$6m share of profit from associates recorded in FY09 is mainly in respect of the Malaysian joint venture, now named AmG Insurance. The stronger share of associates result in FY09 reflects AmG Insurance's improved underwriting performance and unrealised investment gains on its bond portfolio, as well as the dial-up of IAG's interest in AmG Insurance, from 30% to 49%, on 1 December 2008.

2.10 Investment income on shareholders' funds

- Investment income on shareholders' funds amounted to a loss of \$39m compared to a profit of \$24m in FY08. The FY09 outcome embraced contrasting halves, including a profit of \$33m in 2H09, and reflected:
 - Volatile investment market returns, with the poor full year performance of equity investment markets offset by gains on the bond portfolio; and
 - A \$27m revaluation profit (FY08: \$69m) from the exchange right held by the Group in respect of its Reset Exchangeable Securities (RES).
- The RES exchange right had a value of \$96m at 30 June 2009.

2.11 Tax expense

- The Group reported a tax expense in FY09 of \$65m compared to \$90m in FY08.
- The FY09 expense represents an effective tax rate (pre-amortisation) of 17.2%, and is lower than the prevailing 30% corporate tax rate in Australia because of the following non-assessable/deductible items:
 - The profit on sale of the life insurance business in Malaysia;
 - Revaluation income on the Reset Exchangeable Securities;
 - The loss on sale of the non-core assets in the UK net of non-assessable related income;
 - The profit on the subordinated debt buyback;
 - Profits from IAG Re Labuan;
 - Rebateable dividend income; and
 - Other non-assessable and prior period items.

2.12 Minority interest

- The minority interest in the Group's profit of \$66m compares to the \$35m reported in FY08. The increase is a result of the improved performance of the Group's main joint venture, Insurance Manufacturers of Australia Pty Limited (IMA), which forms part of Australia Direct.

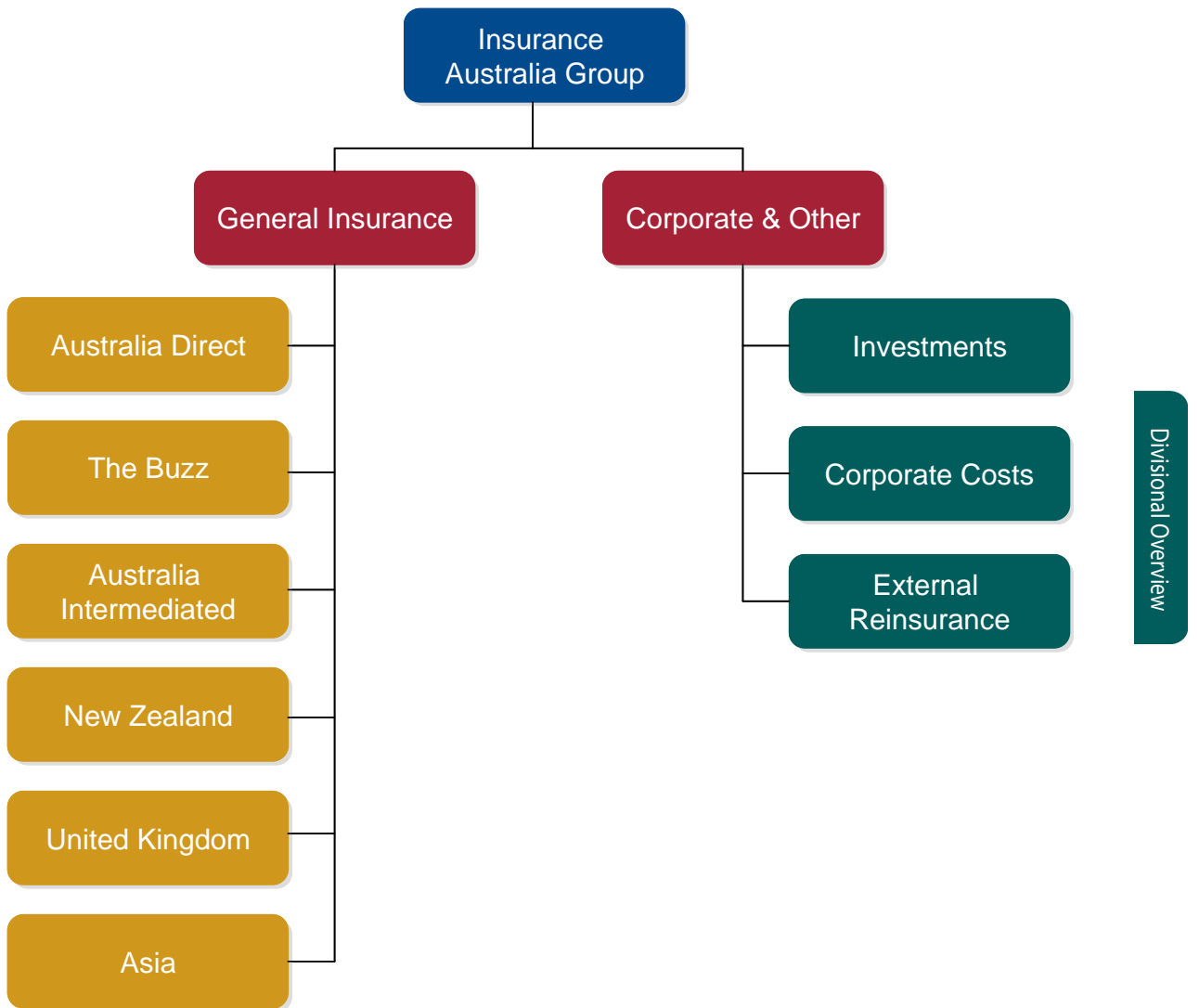
2.13 Amortisation

- The FY09 amortisation charge of \$65m includes a writedown of intangibles associated with customer relationships in the direct and affinity channels of the retained UK business.
- The FY08 amortisation charge of \$407m included a \$342m writedown associated with the Hastings/Advantage assets in the UK, which were subsequently divested.

2.14 FY09 changes in reporting

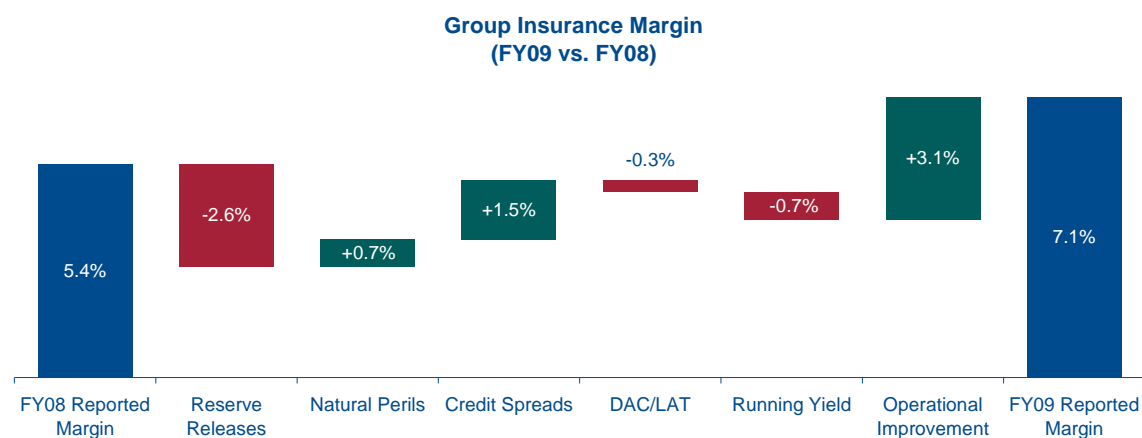
- From FY09, the results of the international captive are allocated across the respective offshore operations, bringing its reporting into line with that of the Australian captive.
- All corporate expenses which are not of a one-off nature are allocated to business operations with effect from FY09, reflecting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

3. DIVISIONAL OVERVIEW



FY09 Investor Report

INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	Australia Direct	Australia Intermediated	New Zealand	UK Retained	Asia	Corporate & Other	Total Retained Business	Discontinued/ Run off	FY09 A\$m
Gross written premium	3,379	2,357	965	787	193	2	7,683	159	7,842
Gross earned premium	3,236	2,400	945	781	191	2	7,555	163	7,718
Reinsurance expense	(132)	(179)	(82)	(37)	(39)	1	(468)	(17)	(485)
Net earned premium	3,104	2,221	863	744	152	3	7,087	146	7,233
Net claims expense	(2,450)	(1,619)	(604)	(462)	(92)	(2)	(5,229)	(141)	(5,370)
Commission expense	(67)	(374)	(103)	(122)	(23)	(1)	(690)	(3)	(693)
Underwriting expense	(608)	(480)	(180)	(102)	(33)	-	(1,403)	(32)	(1,435)
Underwriting profit/(loss)	(21)	(252)	(24)	58	4	-	(235)	(30)	(265)
Investment income on technical reserves	394	300	24	55	5	-	778	2	780
Insurance profit/(loss)	373	48	-	113	9	-	543	(28)	515
Profit/(loss) from fee based business/share of associates	-	18	1	(8)	6	-	17	(7)	10
Total divisional results	373	66	1	105	15	-	560	(35)	525
Insurance Ratios									
Loss ratio	78.9%	72.9%	70.0%	62.1%	60.5%		73.8%		74.2%
Expense ratio	21.8%	38.4%	32.8%	30.1%	36.8%		29.5%		29.4%
Commission ratio	2.2%	16.8%	11.9%	16.4%	15.1%		9.7%		9.6%
Administration ratio	19.6%	21.6%	20.9%	13.7%	21.7%		19.8%		19.8%
Combined ratio	100.7%	111.3%	102.8%	92.2%	97.3%		103.3%		103.6%
Insurance margin	12.0%	2.2%	-	15.2%	5.9%		7.7%		7.1%

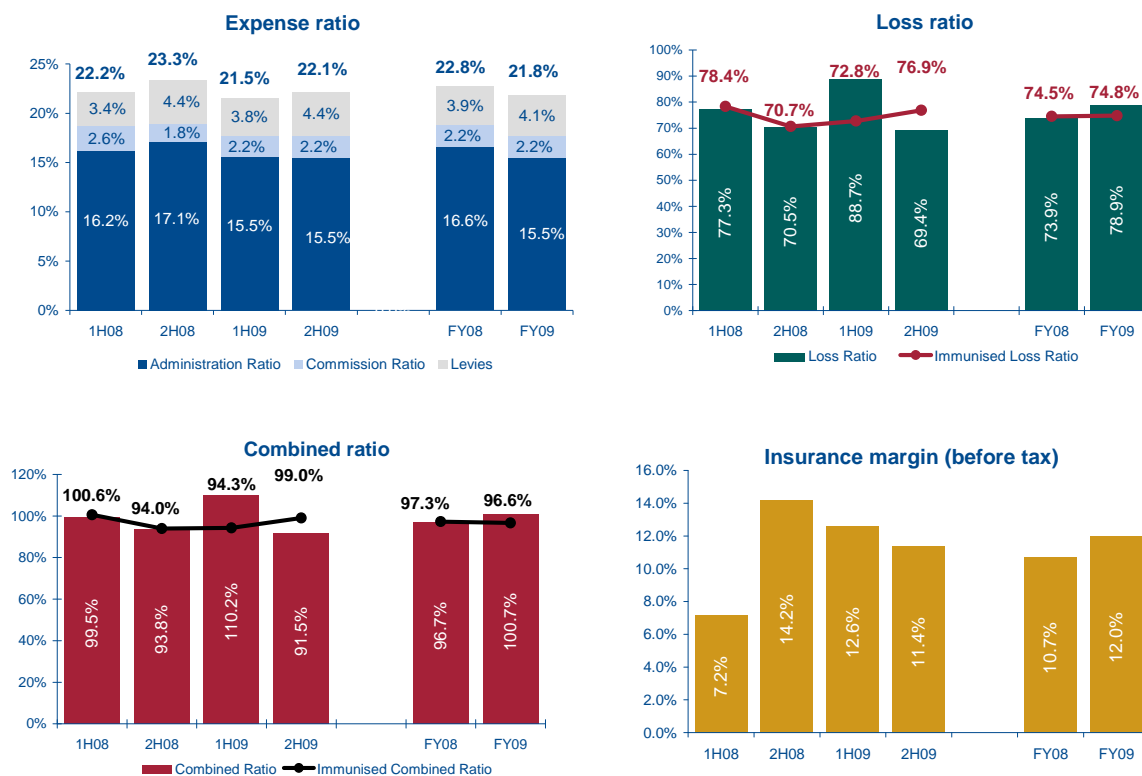


4. AUSTRALIA DIRECT

AUSTRALIA DIRECT FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	1,516	1,580	1,650	1,729	3,096	3,379
Gross earned premium	1,537	1,531	1,597	1,639	3,068	3,236
Reinsurance expense	(60)	(55)	(63)	(69)	(115)	(132)
Net earned premium	1,477	1,476	1,534	1,570	2,953	3,104
Net claims expense	(1,142)	(1,041)	(1,360)	(1,090)	(2,183)	(2,450)
Commission expense	(38)	(26)	(33)	(34)	(64)	(67)
Underwriting expense	(290)	(317)	(296)	(312)	(607)	(608)
Underwriting profit/(loss)	7	92	(155)	134	99	(21)
Investment income on technical reserves	99	118	349	45	217	394
Insurance profit	106	210	194	179	316	373

Insurance Ratios	1H08	2H08	1H09	2H09	FY08	FY09
Loss ratio	77.3%	70.5%	88.7%	69.4%	73.9%	78.9%
Immunised loss ratio	78.4%	70.7%	72.8%	76.9%	74.5%	74.8%
Expense ratio	22.2%	23.3%	21.5%	22.1%	22.8%	21.8%
Commission ratio	2.6%	1.8%	2.2%	2.2%	2.2%	2.2%
Administration ratio	19.6%	21.5%	19.3%	19.9%	20.6%	19.6%
Combined ratio	99.5%	93.8%	110.2%	91.5%	96.7%	100.7%
Immunised combined ratio	100.6%	94.0%	94.3%	99.0%	97.3%	96.6%
Insurance margin	7.2%	14.2%	12.6%	11.4%	10.7%	12.0%

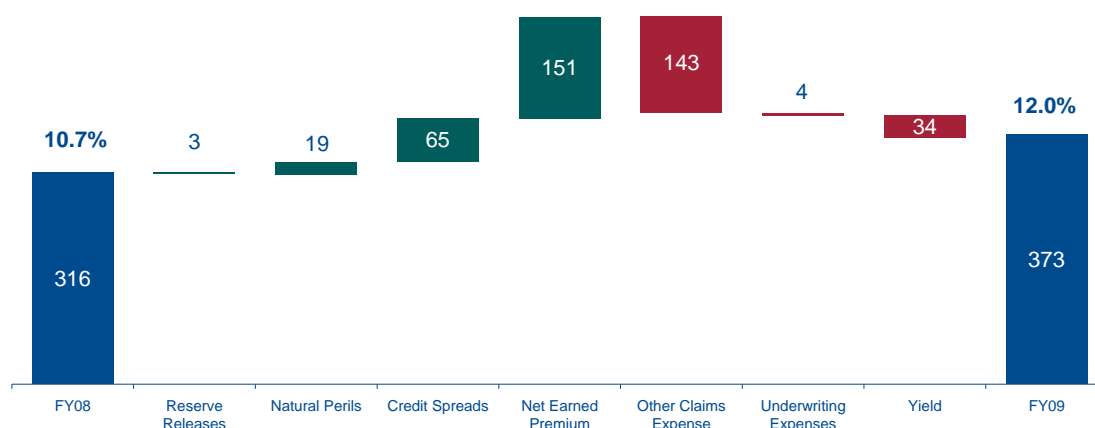
Insurance ratios



4.1 Executive summary

- Australia Direct, IAG's largest business, contributed around 43% of the Group's GWP in FY09. The strong GWP growth of 8.8% witnessed in 1H09 has continued into the second half, with an increase in full year GWP of 9.1%. This has been driven predominantly (around 70%) by price increases across the motor, home and CTP portfolios, with the balance attributable to volume gains. Growth was achieved in all states.
- Australia Direct generated an insurance profit of \$373m in FY09, up from \$316m in FY08, and an improved insurance margin of 12.0% (FY08: 10.7%).
- The improved FY09 margin is attributable to a combination of increased rates, volume gains, decreased claim costs from natural perils, benefits from the cost savings programme and a reduced negative impact from wider credit spreads.
- During the year the business successfully launched the "Unworry" marketing campaign and a number of new product initiatives aimed at improving consumer choice.
- In FY10 Australia Direct is targeting further GWP growth and an improvement in insurance margin, on the back of past and ongoing rate increases and efficiency measures.

Australia Direct - Insurance Profit (A\$m)
(FY09 vs. FY08)



Australia Direct

4.2 Market environment

- The direct insurance market environment in Australia is being influenced by the current state of the economy, which has varying impacts on demand for insurance. For example:
 - Increasing unemployment and falling consumer confidence can lead to customers shopping around more for insurance, downgrading of cover (e.g. higher excess levels, lower level products or reducing sums insured) and increasing levels of non-insurance; and
 - Lower new motor vehicle sales and housing starts are impacting the growth of new business. Australia Direct expects the growth in the size of the car market will slow considerably in all states in the short term and that overall sum insured growth will slow marginally, as the age of the fleet remains constant and as consumers increasingly opt for smaller vehicles.

- These factors may be partially offset by:
 - A 'flight to quality' as consumers opt for trusted brands in uncertain economic times; and
 - The impact of stimulus packages, new home owners' grants and record low interest rates.
- Other external factors, such as lower investment yields and the longer term increase in natural peril impacts that has been experienced, are expected to drive further price increases.
- The market for direct insurance has remained competitive but rational. Australia Direct remains cognisant of the competitive threat posed by new and potential market entrants.
- CTP market premium rates in NSW, Queensland and the Australian Capital Territory (ACT) have been growing at more than 10% per annum to address claim inflation and lower investment returns.

4.3 Premiums

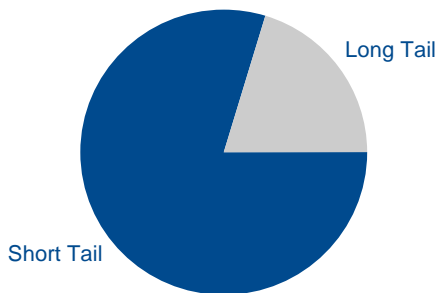
- Australia Direct premium growth during 2H09 continued the strong 1H09 trend, resulting in total GWP for FY09 of \$3,379m, up 9.1% on FY08.

AUSTRALIA DIRECT - GWP GROWTH	1H09	2H09	FY09
Motor	5.9%	6.7%	6.3%
Home	10.4%	11.3%	10.9%
Total Short Tail¹	7.4%	8.3%	7.9%
Long Tail ¹	17.2%	15.6%	16.2%
Total GWP²	8.8%	9.4%	9.1%

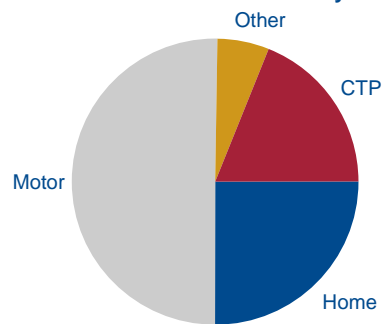
¹Excluding RBI channel.

²Including RBI channel.

Australia Direct - FY09 GWP by Tail

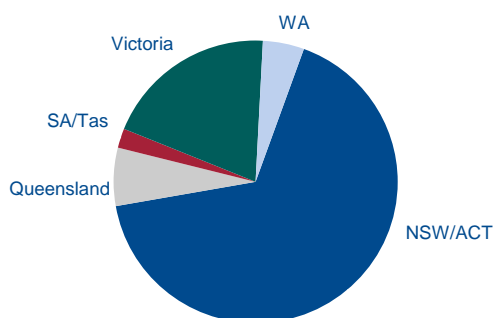


Australia Direct - FY09 GWP by Class



- Growth in short tail GWP was achieved in all state markets and across all products. About 72% of FY09 short tail GWP growth was derived from price. Australia Direct's largest markets of NSW and Victoria contributed approximately 80% of the overall growth.

Australia Direct - FY09 GWP by State



- Average short tail premiums grew by 5.2% in FY09:

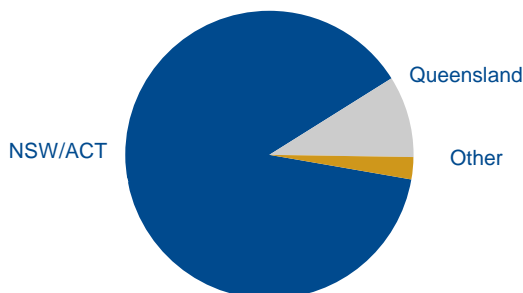
AUSTRALIA DIRECT - AVERAGE SHORT-TAIL PREMIUM GROWTH	1H09	2H09	FY09
Motor	4.5%	5.3%	4.9%
Home	6.9%	6.9%	6.9%
Total Short Tail¹	5.0%	5.4%	5.2%

¹Excluding RBI channel.

- In FY09, CTP GWP grew by more than 16% compared to FY08 (2H09 up 15.6% on 2H08), driven by price rises implemented in Queensland and NSW from July 2008. Around 65% of CTP GWP growth was achieved from price.
- IAG's share of NSW CTP registrations increased to nearly 39.4% at June 2009, up from 38% in June 2008 on a 12-month rolling average. On the same basis, the Group's share of the Queensland CTP market at June 2009 was 6.4%, compared to 6.1% in December 2008 and 5.2% in June 2008.
- The compulsory introduction of six-monthly CTP policies in the NSW market took effect on 1 November 2008. The take-up of six-monthly policies has been lower than originally expected and has not materially impacted FY09 GWP. This change does not impact NEP.

Australia Direct

Australia Direct - FY09 Long Tail GWP by State

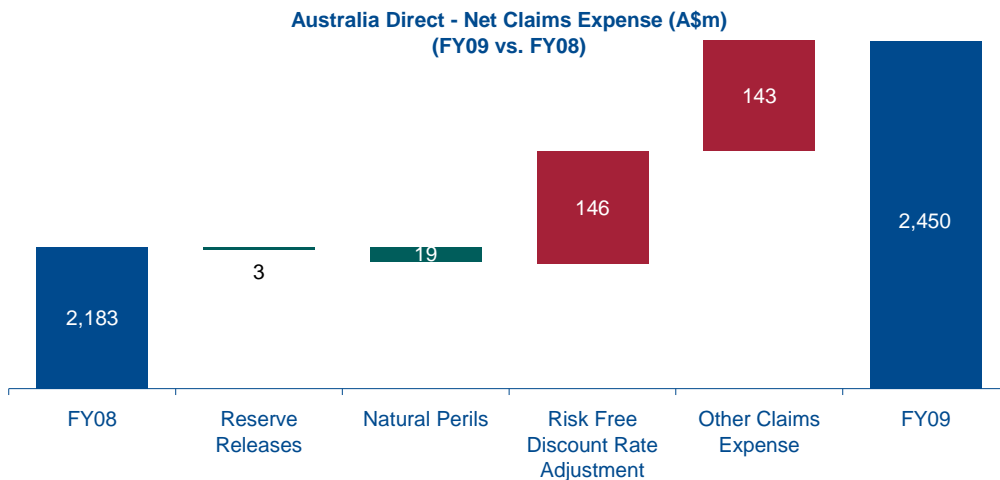


4.4 Reinsurance

- Reinsurance expense, as a proportion of net earned premium (NEP), is slightly higher in FY09 than FY08 and reflects additional natural peril cover purchased from the beginning of calendar 2008.

4.5 Claims

- The reported loss ratio of 78.9% (FY08: 73.9%) has increased significantly owing to the adverse risk free discount rate adjustment movement of \$146m. After allowing for this effect, the immunised loss ratio at 74.8% is consistent with FY08.
- The FY09 net claims expense reflected volume increases associated with general business growth, and also benefited from slightly lower natural peril claim costs.



- In 2H09, the immunised loss ratio was 76.9% (reported loss ratio of 69.4%), largely reflecting higher natural peril costs. The 2H09 result included three notable natural peril events: the Victorian bushfires in February 2009, the Coffs Harbour storms in March 2009 and the south-east Queensland and northern NSW storms in May 2009.
- Excluding RBI, non-peril claim frequency for all short tail products in all states for FY09 was stable compared to FY08. Most states saw a slight increase in frequency in 2H09 on 2H08.
- The average motor comprehensive claim cost (excluding natural perils) decreased by 1.4% during FY09 compared to FY08, and by 3.3% in 2H09 compared to 2H08. The reduction has largely been driven by a change in claim mix, with notably fewer collision claims in 2H09. Average repair costs have remained stable, assisted by claim cost initiatives during the year.
- The average home claim cost (excluding natural perils) decreased slightly in FY09 and 2H09, compared to FY08 and 2H08 respectively.
- Other points of note within the short tail claim experience are:
 - Although overall theft volumes have remained relatively low, there has been a trend towards theft of newer, luxury vehicles and a greater incidence of thefts where the vehicle is not recovered, contributing to an increase in average claim cost;
 - New parts prices have continued to increase owing to the weaker Australian dollar relative to FY08 and automotive suppliers seeking to optimise returns from the sale of parts in the face of significantly lower new car sales;
 - Although underlying costs in the building industry are expected to continue to ease, the increased frequency of storms is exerting some upwards pressure; and
 - Claim initiatives, such as the increased use of procurement models, improved supplier management and greater control of claims leakage, have helped contain costs.
- In long tail, CTP superimposed inflation is an emerging issue, particularly in Queensland and the ACT, due to more generous interpretations embodied in court awards.

4.6 Expenses

- The expense ratio for FY09 was 21.8%, compared to 22.8% in FY08. This improvement reflects Australia Direct's share of the \$130m per annum run rate of pre-tax targeted cost savings. Related benefits are included in both the claims and underwriting expense lines.
- Excluding government levies, Australia Direct's administration expense ratio improved to 15.5% in FY09 from 16.6% in FY08.

4.7 Insurance margin

- Australia Direct's insurance profit of \$373m for FY09 represents an 18% increase on FY08. This equates to an insurance margin of 12.0% (FY08: 10.7%).
- The improvement in the full year insurance margin reflects the combination of:
 - Increased rates and volumes;
 - Benefits from the cost saving programme;
 - Lower natural peril claim costs;
 - A reduced negative impact from wider credit spreads; and
 - An adverse running yield effect.
- The 2H09 insurance margin of 11.4% was lower than that of the two preceding halves, owing to the combination of:
 - Higher natural peril costs of \$139m;
 - An adverse running yield impact which trimmed the 2H09 margin by 2.5% (1H09: +0.3%);
 - The favourable effect from a narrowing of credit spreads in the half; and
 - Higher reserve releases, including approximately \$20m from a reduction in cost and earnings related inflation assumptions, including Average Weekly Earnings (AWE).
- The table below shows the impact of reserve releases, natural peril claim costs, natural perils allowance and credit spreads on Australia Direct's insurance result.

AUSTRALIA DIRECT - INSURANCE MARGIN IMPACTS	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Reserve releases	61	50	39	75	111	114
Natural perils	(154)	(86)	(82)	(139)	(240)	(221)
Natural perils allowance	60	70	72	72	130	144
Credit spreads	(32)	(41)	(47)	39	(73)	(8)
Impact on Australia Direct insurance profit	(65)	(7)	(18)	47	(72)	29
Reserve releases	4.1%	3.4%	2.5%	4.8%	3.8%	3.7%
Natural perils	(10.4%)	(5.8%)	(5.3%)	(8.9%)	(8.1%)	(7.1%)
Natural perils allowance	4.1%	4.7%	4.7%	4.6%	4.4%	4.6%
Credit spreads	(2.2%)	(2.8%)	(3.1%)	2.5%	(2.5%)	(0.3%)
Impact on Australia Direct insurance margin	(4.4%)	(0.5%)	(1.2%)	3.0%	(2.4%)	0.9%
Reported insurance margin	7.2%	14.2%	12.6%	11.4%	10.7%	12.0%

4.8 Customer experience

- Short tail due renewal rates for motor and home were maintained at around 90% and 93% respectively during FY09. CTP due renewal rates were stable in FY09 at nearly 81%.
- Australia Direct's customer satisfaction index score (claims, sales and service) remained stable at 84 in June 2009.
- In September 2008 Australia Direct commenced its "Unworry" marketing campaign in NSW, followed by launches across Queensland, South Australia (SA) and WA. Overall customer response has been strong.
- During the same period a number of significant product changes were launched to market which have proved popular with customers:
 - A new third party fire and theft product in NSW, Queensland and WA;
 - Variable excess options on comprehensive motor;
 - A new comprehensive motor insurance product called "Comprehensive Plus"; and
 - A new option for renters in the home contents category.
- Towards the end of FY09 NRMA Insurance launched flood insurance in NSW, ACT and Tasmania. From June 2009, 98% of home insurance customers in those markets have flood automatically included in their cover. The remaining 2% are being given a choice to keep flood cover at a premium commensurate with their higher risk, or to remove flood from their home insurance cover. Flood cover will be introduced in Queensland and Victoria when adequate flood mapping data is available. SGIO and SGIC customers, in WA and SA respectively, continue to have optional flood cover.
- Improved functionality of retail websites also enhanced customer experience during the year.

4.9 The Buzz

- The Buzz is IAG's new online insurer, launched in May 2009. Initially focusing on car insurance, The Buzz is designed to capitalise on the opportunities presented by evolving web technologies and changing consumer behaviours. The aim of The Buzz is to be Australia's pre-eminent end-to-end online insurer.
- The Buzz was built with direct consumer involvement, including the creation of an industry-first online community forum. Its strategy is to continue to co-create with consumers and respond quickly to feedback, thus ensuring an enduring brand and business proposition.
- The Buzz has focused on putting the customer in charge, offering transactional capability that is:
 - Quick - including the industry-leading 60-second quick quote facility;
 - Easy and flexible - with full online transactional ability, including purchase, claim lodgement and tracking, tailored product choices and options like fortnightly or monthly payments; and
 - Transparent - with each part of the insurance cover transparently priced, allowing customers to have more control over the premium they pay.
- The Buzz is a standalone business within IAG. In FY09 related build costs have been reported as part of the corporate expense line. In future reporting periods, The Buzz will be reported within Australia Direct until it has sufficient scale to warrant separate disclosure.
- RACV will have a 30% interest in The Buzz, subject to a joint venture agreement being finalised by the end of calendar 2009.

4.10 FY10 outlook

- Australia Direct is expecting to achieve further GWP growth and an increased insurance margin in FY10, derived from:
 - The full benefit from price increases implemented in FY09;
 - Further rate increases; and
 - Benefits from past and ongoing efficiency measures.
- CTP GWP will benefit from further rate increases already implemented or approved in each of the NSW, Queensland and ACT markets. Competition is expected to emerge in the ACT CTP market during FY10, and the growing popularity of six month registrations in NSW could manifest itself in a temporary slowing of GWP growth.

4.11 FY09 changes in reporting

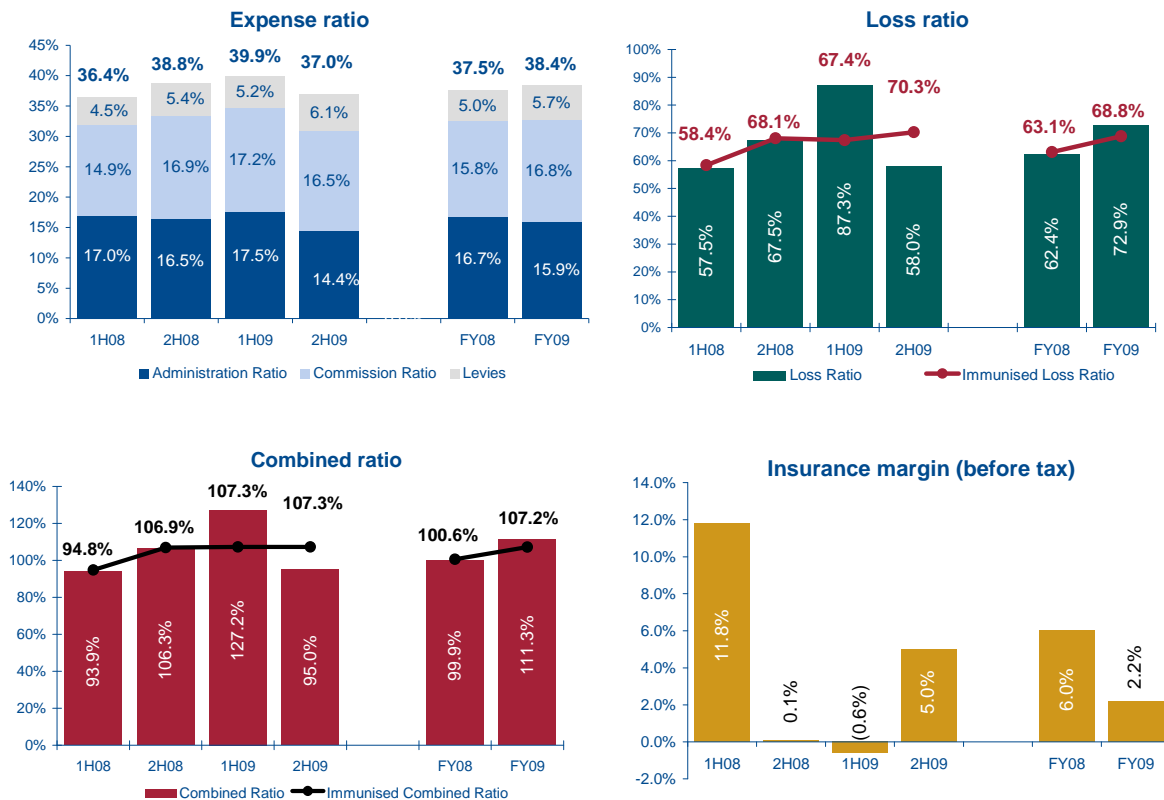
- From FY09 Australia Direct includes the Group's RBI channel, encompassing direct commercial insurance offerings, which was previously reported within Australia Intermediated. Reclassified FY08 results for Australia Direct include GWP of \$155m and insurance profit of \$28m in respect of RBI (1H08: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

5. AUSTRALIA INTERMEDIATED (CGU)

AUSTRALIA INTERMEDIATED FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	1,167	1,231	1,159	1,198	2,398	2,357
Gross earned premium	1,220	1,198	1,218	1,182	2,418	2,400
Reinsurance expense	(89)	(113)	(90)	(89)	(202)	(179)
Net earned premium	1,131	1,085	1,128	1,093	2,216	2,221
Net claims expense	(650)	(732)	(985)	(634)	(1,382)	(1,619)
Commission expense	(168)	(183)	(194)	(180)	(351)	(374)
Underwriting expense	(243)	(238)	(256)	(224)	(481)	(480)
Underwriting profit/(loss)	70	(68)	(307)	55	2	(252)
Investment income on technical reserves	63	69	300	-	132	300
Insurance profit/(loss)	133	1	(7)	55	134	48
Profit/(loss) from fee based business/share of associates	32	1	15	3	33	18
Total divisional result	165	2	8	58	167	66

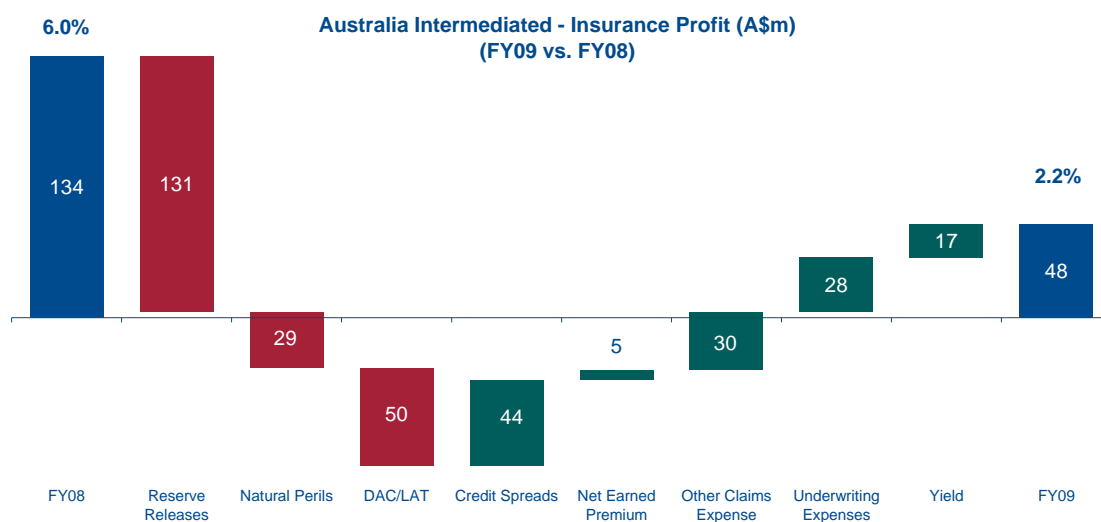
Insurance Ratios	1H08	2H08	1H09	2H09	FY08	FY09
Loss ratio	57.5%	67.5%	87.3%	58.0%	62.4%	72.9%
Immunised loss ratio	58.4%	68.1%	67.4%	70.3%	63.1%	68.8%
Expense ratio	36.4%	38.8%	39.9%	37.0%	37.5%	38.4%
Commission ratio	14.9%	16.9%	17.2%	16.5%	15.8%	16.8%
Administration ratio	4.5%	5.4%	5.2%	6.1%	5.0%	5.7%
Levies	17.0%	16.5%	17.5%	14.4%	16.7%	15.9%
Combined ratio	93.9%	106.3%	127.2%	95.0%	99.9%	111.3%
Immunised combined ratio	94.8%	106.9%	107.3%	107.3%	100.6%	107.2%
Insurance margin	11.8%	0.1%	(0.6%)	5.0%	6.0%	2.2%

Insurance ratios



5.1 Executive summary

- Australia Intermediated (CGU) represented around 30% of the Group's GWP in FY09. CGU includes all products sold through brokers, agents, dealers and business partners.
- In FY09, CGU reported an insurance profit of \$48m, down from \$134m in FY08. The lower insurance margin of 2.2% (FY08: 6.0%), however, includes the adverse impact from:
 - A \$131m reduction in reserve releases;
 - Higher natural peril costs; and
 - A \$50m writedown of deferred acquisition costs (DAC), as identified in 1H09.
- The FY09 results show an improvement in underlying performance over FY08, however a continuation of challenging economic and market conditions has meant the business' recovery is taking longer than originally anticipated.
- CGU continues to focus on greater underwriting discipline, rate increases targeting unprofitable portfolios and risks, claims management and tight expense control.
- Overall rates have increased by approximately 6% during FY09, reflecting a gradually hardening, but still patchy, pricing environment. However, GWP is marginally lower as CGU remains committed to maintaining price discipline.
- Steady improvement in underlying performance is expected in FY10.



5.2 Market environment

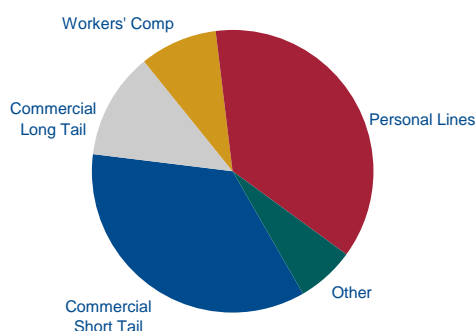
- The effects of the global financial crisis are having a short term impact on both market growth and profitability.
- The market remains competitive, particularly in commercial lines where insurers continue to compete aggressively for market share. The commercial market is experiencing a slow hardening of rates, although this is far from uniform across the market segments. Moderate increases of around 3-5% have been introduced by the major insurers at the SME level.
- Personal lines pricing is trending upwards, as insurers respond to lower investment yields and increased natural peril claim costs.

- There is now strong evidence of a reduced appetite for lending-linked consumer spending. This is being felt within the Swann and financial institution businesses. Ongoing consolidation in the financial services sector, particularly amongst the credit unions, continues to place pressure on opportunities for growth in this area.
- The biggest challenges are in long tail classes, where industry profitability is under pressure as reserve releases diminish in size. The workers' compensation market has remained soft across all segments in FY09 but rate increases are expected in WA following an average 9.9% increase in recommended premium for FY10.

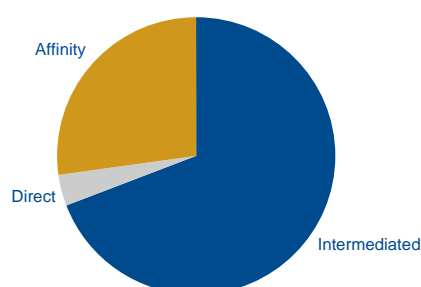
5.3 Premiums

- FY09 GWP decreased by 1.7% to \$2,357m (FY08: \$2,398m), reflecting CGU's preference to maintain price discipline rather than write unprofitable business.
- CGU's strategic focus on pricing has made it difficult to obtain new business, with low strike rates across most products. Despite this, CGU's strong customer relationships have resulted in retention rates holding at near-historical levels.
- The withdrawal from the ING Australia account, with effect from 1 October 2008 on new business premiums and 1 April 2009 on renewals, reduced FY09 GWP by approximately \$43m. Around \$38m of this reduction occurred in 2H09, accounting for a 3.1% reduction in GWP in that half.

Australia Intermediated - FY09 GWP by Class



Australia Intermediated - FY09 GWP by Channel



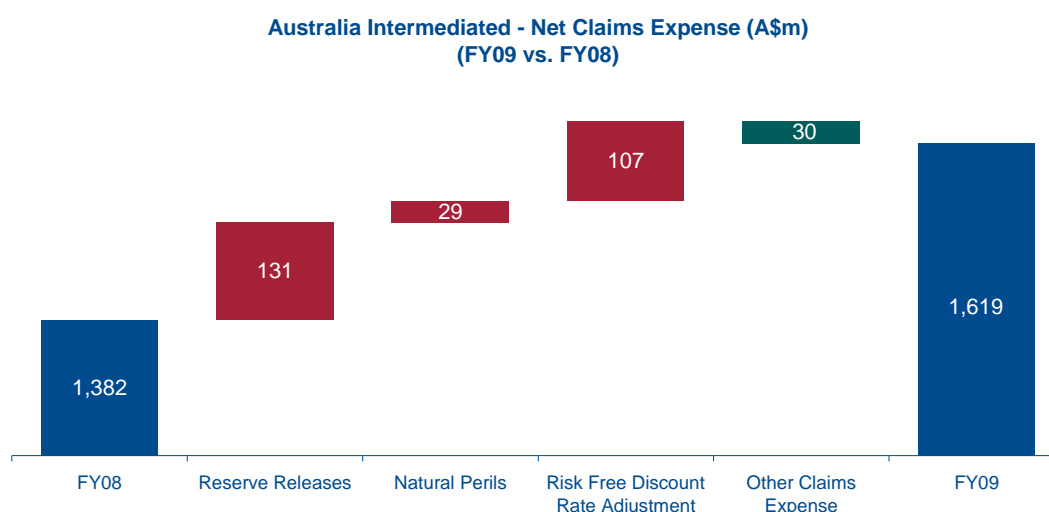
- Experience across the various classes can be summarised as:
 - Commercial short tail GWP was flat compared to FY08, with volume loss offset by rate increases. Retention levels have remained reasonably firm, however, new business has declined significantly;
 - Commercial long tail GWP has decreased by approximately 7% compared to FY08, with reductions in all business classes. Rate increases and more critical risk selection have driven a significant reduction in liability and professional risks new business;
 - Workers' compensation GWP has remained relatively flat in FY09, with high retention rates and growth in wages offsetting the reduction in premium rates flowing from positive claim trends and market competition; and
 - Personal lines GWP has experienced a decline of approximately 2% in FY09, which is largely attributable to the withdrawal from the ING Australia account.
- Real rate increases have been achieved. The most notable increases have been in the home, landlords, domestic motor, commercial motor and countrypak portfolios. However, claim cost inflation has eroded some of these increases.

5.4 Reinsurance

- The FY09 reinsurance expense of \$179m is approximately 11% lower than that recorded in FY08, primarily reflecting changes in business mix.

5.5 Claims

- The reported and immunised loss ratios of 72.9% and 68.8%, respectively, are up on FY08 owing to a \$131m reduction in reserve releases and a significant adverse risk free discount rate adjustment movement of \$107m.



- While FY09 reserve releases were significantly down on the prior year, the 2H09 net release of \$68m represented an increase over 1H09 and included approximately \$15m in respect of a reduction in cost and earnings related inflation assumptions, including Average Weekly Earnings (AWE).
- The total impact of natural perils in FY09 is approximately \$202m (\$132m in 2H09), net of reinsurance. Major events in the year were the Victorian bushfires in February 2009 and the Queensland storms in November 2008.

Australia Intermediated

5.6 Expenses

- The FY09 expense ratio of 38.4% has been inflated by the inclusion of a \$50m impairment to DAC, as identified in 1H09 under the requirements of the liability adequacy test (LAT).
- Excluding government levies, CGU's expense ratio was marginally higher at 32.7% (FY08: 32.5%). However, adjusting for the DAC impairment, this declines to 30.2% in FY09, as the benefit of improved cost control begins to emerge:
 - The reported commission ratio of 16.8% reduces to 15.9% after allowing for the \$21m allocated from the DAC impairment, which is in line with FY08 (15.8%).
 - The reported administration ratio (ex-government levies) of 15.9% reduces to 14.6% after allowing for the \$29m attributable to the DAC impairment, and is an improvement on FY08 (16.7%).
- CGU has achieved its share of the targeted \$130m of annualised cost savings in Australia.

5.7 Insurance margin

- The insurance profit of \$48m equates to an insurance margin of 2.2% (FY08: 6.0%). While \$86m lower than the result achieved in FY08, an improvement in underlying performance is evident after adjusting for the \$131m reduction in prior period reserve releases and the \$50m DAC writedown incurred in FY09.
- In 2H09, a reported margin of 5.0% was inflated by a favourable movement in credit spreads.
- The impact of prior period reserve releases, the incidence of natural perils, credit spreads and the DAC writedown on CGU's insurance result is highlighted in the table below:

AUSTRALIA INTERMEDIATED - INSURANCE MARGIN IMPACTS	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Reserve releases	148	107	56	68	255	124
Natural perils	(74)	(99)	(70)	(132)	(173)	(202)
Natural perils allowance	63	78	69	75	141	144
Credit spreads	(23)	(26)	(39)	34	(49)	(5)
DAC/LAT	-	-	(50)	-	-	(50)
Impact on Australia Intermediated insurance profit	114	60	(34)	45	174	11
Reserve releases	13.1%	9.9%	5.0%	6.2%	11.5%	5.6%
Natural perils	(6.5%)	(9.1%)	(6.2%)	(12.1%)	(7.8%)	(9.1%)
Natural perils allowance	5.6%	7.2%	6.1%	6.9%	6.4%	6.5%
Credit spreads	(2.0%)	(2.4%)	(3.5%)	3.1%	(2.2%)	(0.2%)
DAC/LAT	-	-	(4.4%)	-	-	(2.3%)
Impact on Australia Intermediated insurance margin	10.2%	5.6%	(3.0%)	4.1%	7.9%	0.5%
Reported insurance margin	11.8%	0.1%	(0.6%)	5.0%	6.0%	2.2%

5.8 Fee based income

- The business generates fee income by acting as an agent under both the NSW and Victorian state governments' underwritten workers' compensation schemes.
- Fee based income contains an element of volatility due to performance fees and prior year experience adjustments. The FY09 result contained \$11m of prior period fee income, compared to \$16m in FY08. The result was also impacted by the absence of the premium funding business which was divested at a profit in September 2007. Allowing for these, like-for-like income was approximately \$5m higher in FY09.
- The Victorian business has successfully grown market share in target industry segments, most notably local government bodies. However, deterioration in return-to-work performance across the Victorian and NSW schemes has meant a reduction in incentive fees.

5.9 Customer experience

- CGU's retention levels have remained high. During the year CGU was restructured into five business segments: workers' compensation; Swann Insurance; financial institutions and affinity; corporate; and retail. This ensures businesses are aligned to customer needs, thereby leading to enhanced customer service levels.
- As part of the new model, CGU has successfully introduced the following initiatives:
 - The CGU Privilege Card and the entry-level Fundamentals Home Insurance product were launched to financial institution partners;
 - CGU Padlock, an all-in-one insurance package, was launched for the commercial investment property owner;

- The Pinnacle directors' & officers' (D&O) policy was launched for the corporate market, and a combined professional indemnity and public liability (PI/PL) policy was developed for the SME segment; and
- A new brand-building advertising campaign was undertaken.
- CGU is also providing technical capabilities to selected intermediaries to build or enhance their on-line offerings.
- In workers' compensation, CGU achieved a score of 86% in the WorkSafe employer satisfaction survey, a 4% improvement on FY08.

5.10 FY10 outlook

- Steady improvement in underlying profitability is expected in FY10 derived from a combination of:
 - Past and ongoing rate increases;
 - Improved underwriting discipline;
 - Claim management initiatives; and
 - Ongoing operating efficiencies.
- Reported profitability in FY10 is expected to be adversely impacted by a further decline in prior period reserve releases.
- The key June 2009 renewal season has confirmed a gradual, albeit patchy, hardening of the commercial market.
- Following a strategic review, CGU is withdrawing from the home warranty insurance market from the end of November 2009. Related GWP in FY09 was under \$10m. Offsetting this, CGU is establishing a presence in the corporate market, where expertise is steadily being built.
- A reduction in FY10 GWP of approximately \$120m is expected from the following account-specific factors:
 - The full year effect of withdrawal from the ING Australia account; and
 - Following the acquisition of St George by Westpac, the transfer (from October 2009) of St George/BankSA home and landlord portfolios to Westpac's own insurance operations. The St George motor, commercial and travel portfolios will remain with CGU.
- Since 30 June 2009, CGU has resolved its dispute regarding the ownership of the specialist truck insurance joint venture, NTI. As a result CGU will retain a 50% holding in this business.
- A comprehensive series of IT upgrades is planned to commence in FY10, designed to deliver superior customer experiences and improved efficiencies.

5.11 FY09 changes in reporting

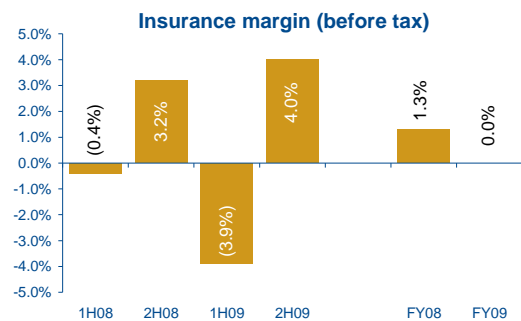
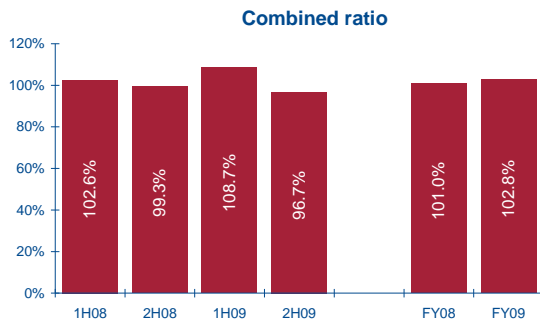
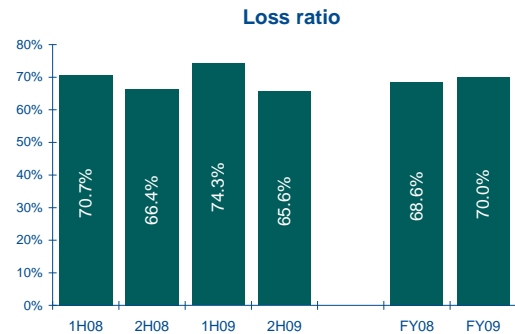
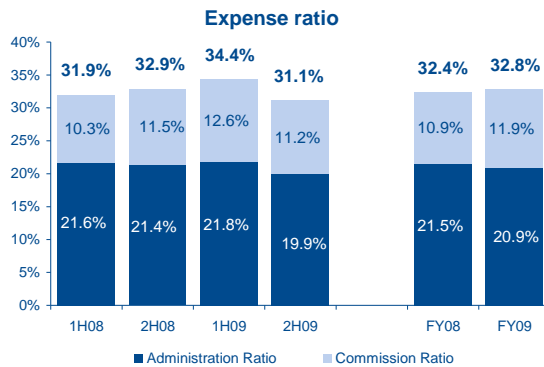
- From FY09, Australia Intermediated no longer includes the Group's RBI channel, encompassing direct commercial insurance offerings, which is now reported in Australia Direct. Reclassified FY08 results for Australia Intermediated exclude GWP of \$155m and insurance profit of \$28m in respect of RBI (1H08: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

6. NEW ZEALAND

NEW ZEALAND FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	483	491	482	483	974	965
Gross earned premium	488	467	480	465	955	945
Reinsurance expense	(24)	(33)	(44)	(38)	(57)	(82)
Net earned premium	464	434	436	427	898	863
Net claims expense	(328)	(288)	(324)	(280)	(616)	(604)
Commission expense	(48)	(50)	(55)	(48)	(98)	(103)
Underwriting expense	(100)	(93)	(95)	(85)	(193)	(180)
Underwriting profit/(loss)	(12)	3	(38)	14	(9)	(24)
Investment income on technical reserves	10	11	21	3	21	24
Insurance profit/(loss)	(2)	14	(17)	17	12	-
Profit from fee based business	-	-	1	-	-	1
Total divisional result	(2)	14	(16)	17	12	1

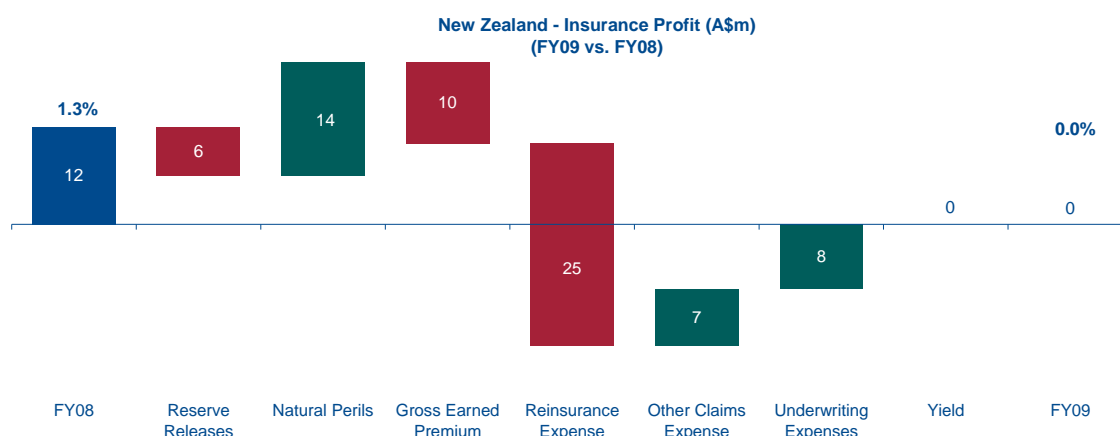
Insurance Ratios						
Loss ratio	70.7%	66.4%	74.3%	65.6%	68.6%	70.0%
Expense ratio	31.9%	32.9%	34.4%	31.1%	32.4%	32.8%
Commission ratio	10.3%	11.5%	12.6%	11.2%	10.9%	11.9%
Administration ratio	21.6%	21.4%	21.8%	19.9%	21.5%	20.9%
Combined ratio	102.6%	99.3%	108.7%	96.7%	101.0%	102.8%
Insurance margin	(0.4%)	3.2%	(3.9%)	4.0%	1.3%	-

Insurance ratios



6.1 Executive summary

- The New Zealand operations accounted for more than 12% of the Group's GWP in FY09. IAG, through the State, NZI and affinity brands, is the largest underwriter in New Zealand with a 35.1% market share as at June 2009, based on statistics compiled by the Insurance Council of New Zealand. This is broadly in line with the position in June 2008.
- FY09 was a year of contrasting halves for the New Zealand business. After a disappointing 1H09 performance, the business returned to profitability in 2H09 to give a breakeven position for the full year. Reported GWP was flat, but increased by 4.4% in local currency terms.
- The performance in 1H09 was exacerbated by July storm activity exceeding the full year's natural peril allowance, a higher incidence of large losses and the general effects of a recessionary environment.
- Whilst assisted by more benign weather conditions, the 2H09 insurance profit of \$17m (an insurance margin of 4.0%) reflects initial benefits from:
 - Significant price increases across most portfolios;
 - Better risk selection; and
 - Improved cost control.
- Further improvement in operating performance is expected in FY10, building on the progress evident in 2H09.

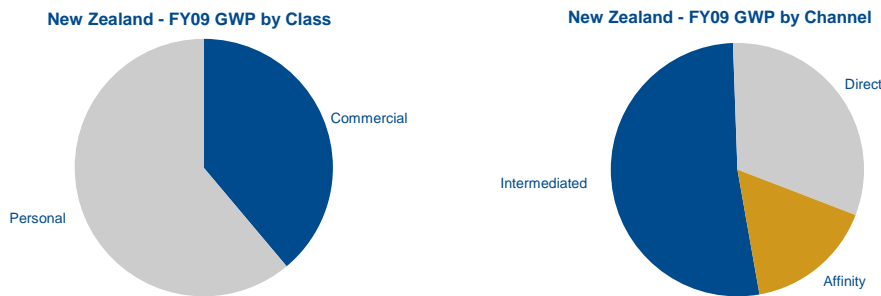


6.2 Market environment

- New Zealand has been in recession for more than a year, and poor business sentiment and rising unemployment are expected to exert pressure on growth throughout FY10.
- Increased claims are a key potential consequence of this economic environment, alongside lower investment returns.
- While the market remains competitive in selected areas, most participants are seeking rate increases to counter the reduced profitability which has been felt across the industry.
- The Reserve Bank of New Zealand released a draft of the Insurance (Prudential Supervision) Bill for comment, with related submissions made by 22 June 2009. It is anticipated this bill will be brought to parliament later in calendar 2009, significantly strengthening New Zealand regulatory standards and bringing them much closer to the Australian regime under which the entire IAG group already operates.

6.3 Premiums

- FY09 GWP of \$965m was broadly flat in Australian dollar terms compared to FY08 (\$974m). In local currency, however, GWP growth was 4.4%.
- GWP growth in 2H09 was held back by the commenced migration of a large customer portfolio in Business Partners to a system that reports GWP on a monthly, rather than the previous annual, basis. Excluding this effect, local currency GWP growth in FY09 would have been 5.7%. There is no effect on net earned premium.
- State Insurance has recorded strong GWP growth of 5.5% in FY09 in local currency terms. Personal lines, which represent approximately 85% of State's GWP, achieved growth of close to 8% throughout FY09. The factors influencing this growth were:
 - Rate increases across the portfolios;
 - The introduction of a new risk-based pricing model; and
 - Customer retention-focused initiatives which have kept volume loss to a minimum.
- The much smaller State commercial book experienced a reduction in GWP of more than 8%, with the decline accelerating in the second half as recessionary pressures caused volume loss in the SME market.
- The NZI intermediated business achieved GWP growth of 4.9% in FY09, compared to 4.0% at 1H09. This has been mainly driven by rate increases with both personal and commercial lines showing good growth.
- The Business Partners affinity business has achieved moderate GWP growth in FY09 as a result of price increases in the corporate partners channel, partially offset by the effect of the large customer portfolio migration to a monthly reporting basis and by recessionary impacts on volumes in both consumer credit and warranty and travel.



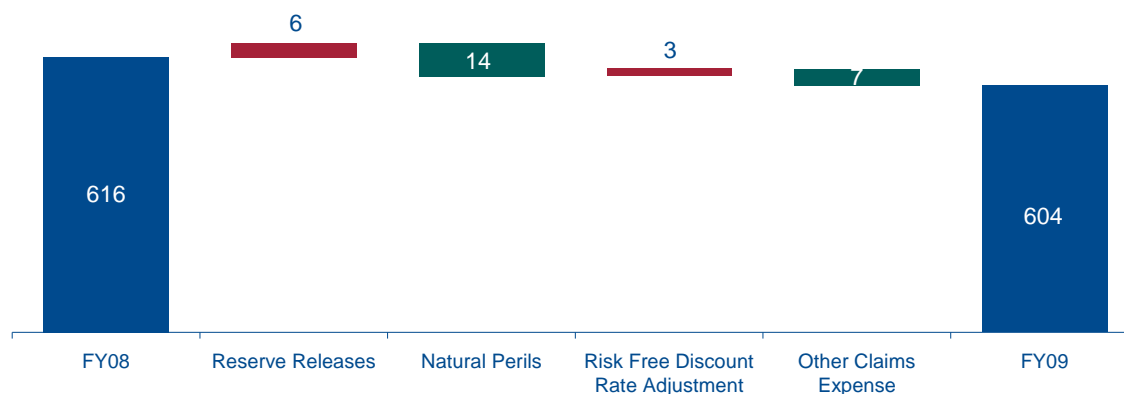
6.4 Reinsurance

- New Zealand's reinsurance expense has increased from \$57m in FY08 to \$82m in FY09. This reflects the combined effect of:
 - The purchase of additional property catastrophe cover from 1 January 2008;
 - Growth in the corporate and commercial areas in the NZI broker channel; and
 - Refinement of the reallocation of reinsurance costs from the Group captive.

6.5 Claims

- The reported loss ratio of 70.0% in FY09 is slightly higher than the 68.6% recorded in FY08, but includes an improved 2H09 loss ratio of 65.6%. In local currency terms, the overall FY09 claims expense was over 3% higher than FY08.
- After severe storm activity in July 2008, which saw two events incur claim costs of \$23m, weather conditions in 2H09 were relatively benign. Natural peril claim costs for the full year were \$14m lower than those incurred in FY08.
- There has been a higher than expected incidence of large losses on both the personal and commercial sides of the business. A notable increase in large claims for home has occurred, while NZI also experienced increased large claims, particularly in its material damage/business interruption and liability books.
- Working claim frequency and average cost have both increased. This is due to a range of factors including recessionary impacts, changing customer behaviour, wider policy coverage and a weaker New Zealand dollar generating more expensive car parts and building materials.
- Claims initiatives, such as a programme to address claims leakage and increased base excesses, have been developed across all channels to mitigate further increases in costs.

**New Zealand - Net Claims Expense (A\$m)
(FY09 vs. FY08)**



6.6 Expenses

- A focused effort to manage controllable expenses has kept full year costs in line with FY08 in local currency terms. More than \$12m of savings from a business-wide productivity improvement project was achieved in FY09. Some offsetting costs have been incurred, including make-good expenditure and asset write-offs associated with the Auckland office relocation in June 2009.
- The FY09 commission ratio of 11.9% has increased over FY08 (10.9%), reflecting the growth in the NZI broker channel and the additional pressure on commissions arising from broker consolidation.
- The administration expense ratio of 20.9% is slightly lower than FY08 (21.5%), and includes an improved second half performance of 19.9%.

6.7 Insurance margin

- The breakeven insurance margin is a modest deterioration on the 1.3% reported for FY08. The FY09 outcome, however, includes an improved second half margin of 4.0%.
- Key factors behind the 2H09 margin improvement are the significant rate increases imposed across the business and initial benefits from cost initiatives.

6.8 Customer experience

- Customer retention rates in NZI continued to improve. State Insurance was slightly down on FY08, reflecting the migration of policies to the Huon/Bonus IT platform and the resultant application of more granular pricing which has seen poorer risks shed.
- Product initiatives launched during the year include State online, which allows customers to obtain a quote and buy car insurance in three steps.
- In Business Partners, a new technology application integrates the customer management system of banking partners with that of IAG New Zealand to offer a seamless service.
- NZI celebrated its 150th anniversary in May 2009, and was awarded the Insurance Brokers Association of New Zealand Insurer of the Year for the second consecutive year.

6.9 FY10 outlook

- The outlook for FY10 is for further improvement in insurance margin as the business builds on the progress evident in 2H09. This will be derived from:
 - A full year impact from the price increases implemented in FY09; and
 - Additional gains from the underwriting and cost initiatives introduced.
- Completion of the large customer portfolio migration within Business Partners, from an annual to monthly reporting basis, is expected to trim local currency GWP growth by up to 2% in FY10. No impact on net earned premium will result.
- A range of initiatives being rolled out across each business channel aims to mitigate the effect of the depressed local economy:
 - In State, further segmented price increases will be implemented across the portfolio, together with a heightened focus on customer retention;
 - In NZI, a combination of price increases and initiatives around customer, claims, underwriting and people are taking place, including improved customer segmentation and a number of product extensions; and
 - In Business Partners, further premium increases and retention campaigns are being undertaken.

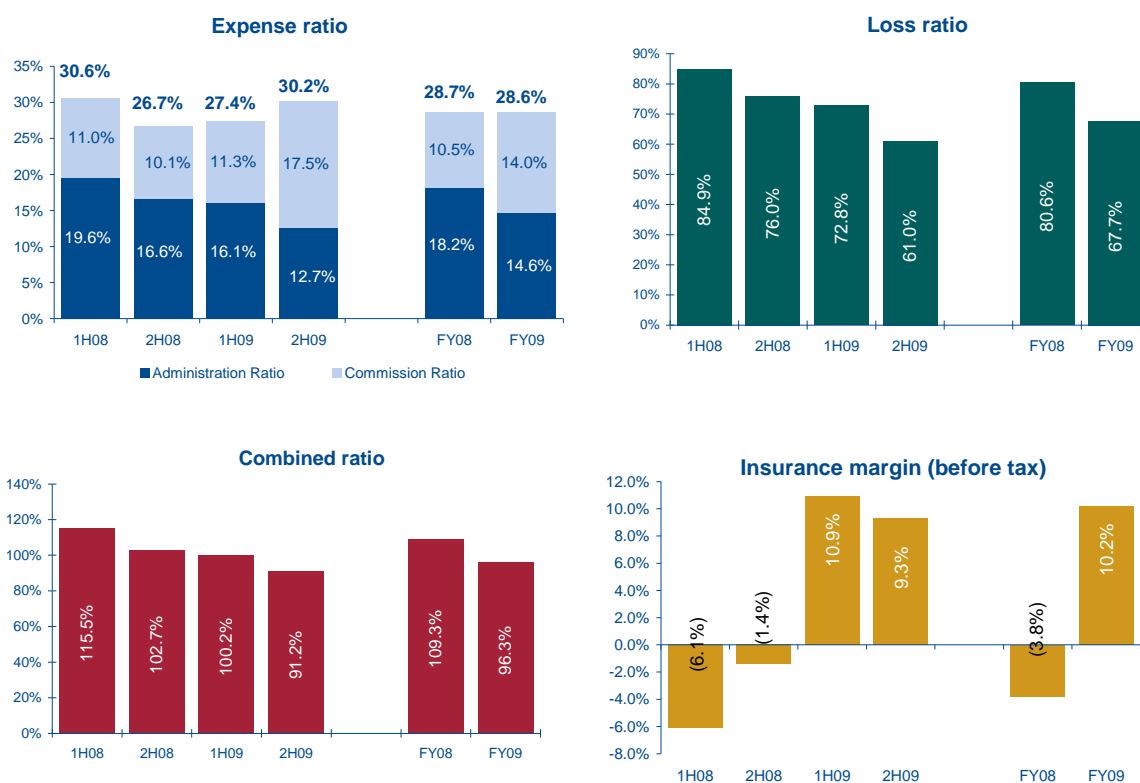
6.10 FY09 changes in reporting

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

7. UNITED KINGDOM (UK)

UNITED KINGDOM FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	585	540	532	412	1,125	944
Gross earned premium	576	552	526	397	1,128	923
Reinsurance expense	(20)	(35)	(29)	(20)	(55)	(49)
Net earned premium	556	517	497	377	1,073	874
Net claims expense	(472)	(393)	(362)	(230)	(865)	(592)
Commission expense	(61)	(52)	(56)	(66)	(113)	(122)
Underwriting expense	(109)	(86)	(80)	(48)	(195)	(128)
Underwriting profit/(loss)	(86)	(14)	(1)	33	(100)	32
Investment income on technical reserves	52	7	55	2	59	57
Insurance profit/(loss)	(34)	(7)	54	35	(41)	89
Profit/(loss) from fee based business	(2)	1	(5)	(8)	(1)	(13)
Share of profit/(loss) from associates	(2)	(1)	-	(2)	(3)	(2)
Total divisional result	(38)	(7)	49	25	(45)	74
Insurance Ratios						
Loss ratio	84.9%	76.0%	72.8%	61.0%	80.6%	67.7%
Expense ratio	30.6%	26.7%	27.4%	30.2%	28.7%	28.6%
Commission ratio	11.0%	10.1%	11.3%	17.5%	10.5%	14.0%
Administration ratio	19.6%	16.6%	16.1%	12.7%	18.2%	14.6%
Combined ratio	115.5%	102.7%	100.2%	91.2%	109.3%	96.3%
Insurance margin	(6.1%)	(1.4%)	10.9%	9.3%	(3.8%)	10.2%

Insurance ratios



7.1 Executive summary

- In line with its refined strategy, IAG announced the sale of the mass market distribution portion of its United Kingdom (UK) business in December 2008. The sale involved two separate transactions, completed by February 2009, realising a total value of £73.5m (approximately \$165m):
 - The insurance branch network, sold for £50m; and
 - Hastings Direct and its associated underwriter Advantage, together with the internet-based operations that trade under the Insure brand, sold for £23.5m.
- In FY09, the UK business produced an improved insurance margin of 10.2% (FY08: -3.8%), reflecting:
 - The sale of the poorly performing mass market operations half way through the year;
 - Reduced exposure within Equity Red Star to the private motor market;
 - Rate increases; and
 - A substantial decrease in natural peril claim costs. FY08 included exceptionally high flood costs early in the year.
- A lower 2H09 margin of 9.3% (1H09: 10.9%), whilst including only a small loss from the non-core businesses divested at the beginning of that half, reflects the absence of reserve releases from a syndicate in run-off which assisted the 1H09 result.
- The retained business performed well in difficult market conditions and produced an insurance margin of 15.2% in FY09.

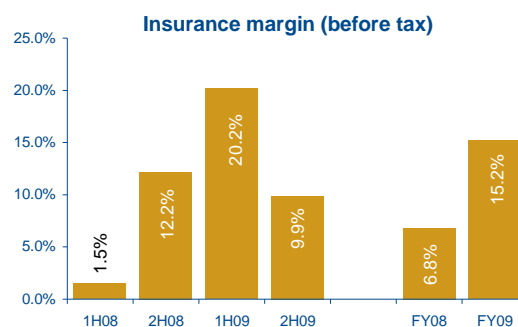
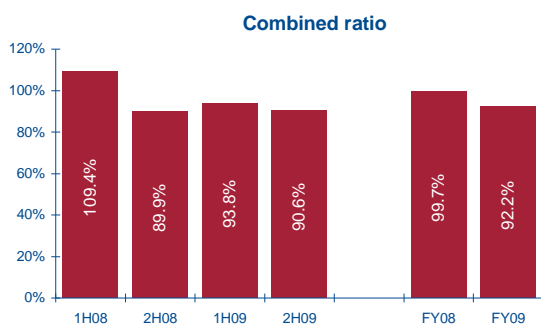
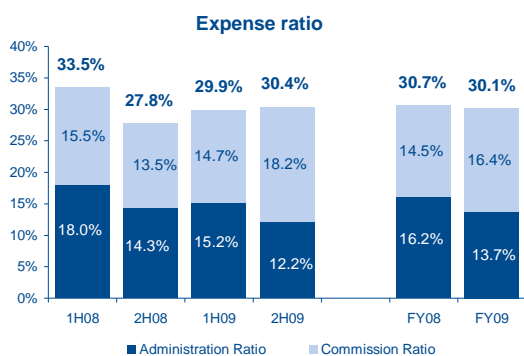
7.2 Market environment

- The UK operating environment remains challenging with the government forecasting a contraction in the UK economy of about 4% in calendar 2009, before a return to modest growth in 2010.
- The insurance industry has not suffered significant effects from the recession, however, there are particular concerns around the SME sector and broker credit.
- New car registrations for the year to 30 June 2009 were nearly 26% lower than the prior year. However, overall insured vehicle volumes have remained relatively flat.
- Dynamics in the private motor segment continue to be driven by the online aggregators which now account for over 50% of the market. This is leading to a lower value of sales for insurers, higher direct acquisition costs, increased switching and reduced up-selling opportunities.
- Specialist motor classes, however, continue to trade profitably. There are signs across all classes of this business that rates are rising at a level in excess of claim inflation.
- Despite the impact of the economic downturn, premium growth in the home insurance market was 2% in calendar 2008.

7.3 Retained Business - Equity Red Star

UK RETAINED BUSINESS FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	417	389	389	398	806	787
Gross earned premium	404	399	404	377	803	781
Reinsurance expense	(10)	(14)	(22)	(15)	(24)	(37)
Net earned premium	394	385	382	362	779	744
Net claims expense	(299)	(239)	(244)	(218)	(538)	(462)
Commission expense	(61)	(52)	(56)	(66)	(113)	(122)
Underwriting expense	(71)	(55)	(58)	(44)	(126)	(102)
Underwriting profit/(loss)	(37)	39	24	34	2	58
Investment income on technical reserves	43	8	53	2	51	55
Insurance profit	6	47	77	36	53	113
Profit/(loss) from fee based business	(1)	2	(2)	(4)	1	(6)
Share of profit/(loss) from associates	(2)	(1)	-	(2)	(3)	(2)
Total divisional result	3	48	75	30	51	105

Insurance Ratios						
Loss ratio	75.9%	62.1%	63.9%	60.2%	69.1%	62.1%
Expense ratio	33.5%	27.8%	29.9%	30.4%	30.7%	30.1%
Commission ratio	15.5%	13.5%	14.7%	18.2%	14.5%	16.4%
Administration ratio	18.0%	14.3%	15.2%	12.2%	16.2%	13.7%
Combined ratio	109.4%	89.9%	93.8%	90.6%	99.7%	92.2%
Insurance margin	1.5%	12.2%	20.2%	9.9%	6.8%	15.2%

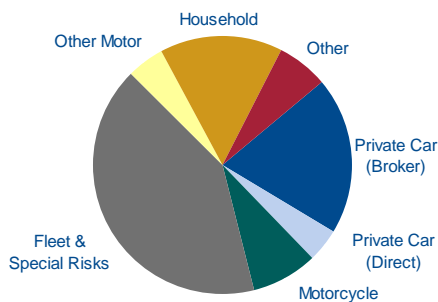


- The retained UK business comprises the Equity Red Star specialist motor underwriting business, Equity Broking affinity business and specialist commercial broker Barnett & Barnett. Also retained is Lloyd's Syndicate 1208, which has been in run-off since 2002.

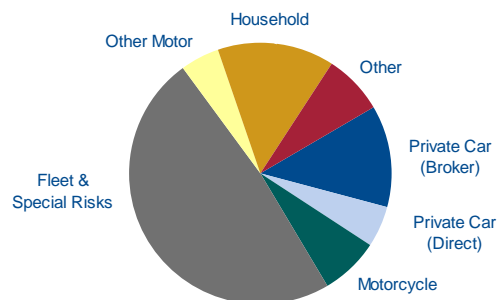
7.3.1 Premiums

- Reported GWP attributable to the ongoing business declined by 2.4% to \$787m in FY09, compared to FY08. In 2H09, GWP was up 2.3% on 2H08, derived evenly from volume gains and rate increases.
- In local currency terms, FY09 GWP for the ongoing business increased by approximately 1% to £364m, compared to £361m in FY08. In 2H09, GWP increased by around 4% to £190m on 2H08. The increase in GWP represents the combined effect of:
 - Rate increases across all market segments, with an average increase of approximately 7%;
 - Some loss of volume from those rate increases, notably in the motorcycle segment;
 - Strong performances from fleet and special risks; and
 - The deliberate managing down of poorly performing private car volumes, following an average rate increase across the year of approximately 18%.

Equity Red Star - FY08 GWP by Class



Equity Red Star - FY09 GWP by Class



- The above charts demonstrate Equity Red Star has successfully shifted its business mix away from the less profitable private car segment, and particularly poorer quality broker-sourced volumes. Total private car represented approximately 18% of the overall book in FY09, compared to 24% in FY08.
- During the year, Equity Red Star has secured a number of new accounts and has strengthened its position with major business introducers.
- Equity Red Star is continuing with its strategy of establishing satellite offices to meet the tailored solutions required by locally-based brokers and expand the talent pool available for underwriting. Equity Red Star now has offices in Leeds, Birmingham, Bristol and Glasgow, with Manchester to open in 1H10.

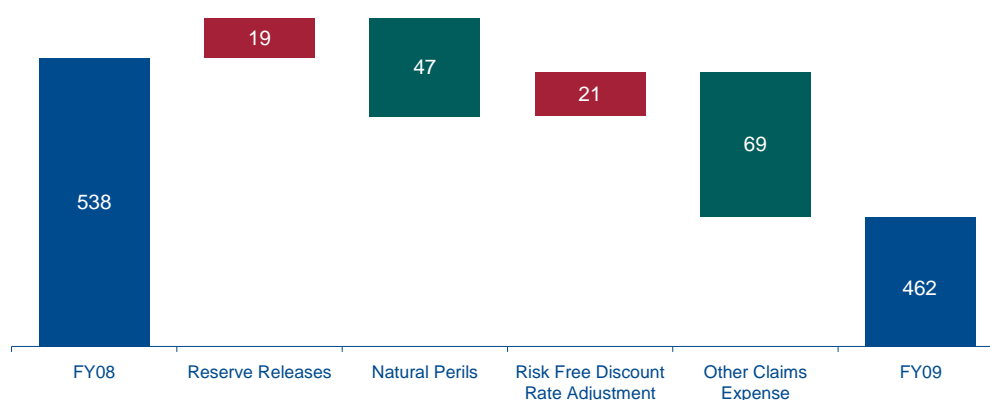
7.3.2 Reinsurance

In FY09 reinsurance expense increased to \$37m (FY08: \$24m), primarily reflecting additional UK-specific catastrophe cover purchased below normal Group retention levels with effect from 1 January 2009.

7.3.3 Claims

- Equity Red Star's loss ratio decreased to 62.1% in FY09, compared with 69.1% in FY08. The improvement is attributable to:
 - Lower natural peril claim costs, with UK flood costs adversely impacting the FY08 result;
 - Higher quality business written; and
 - A programme to increase the quality of claim handling.

UK Retained Business - Net Claims Expense (A\$m)
(FY09 vs. FY08)



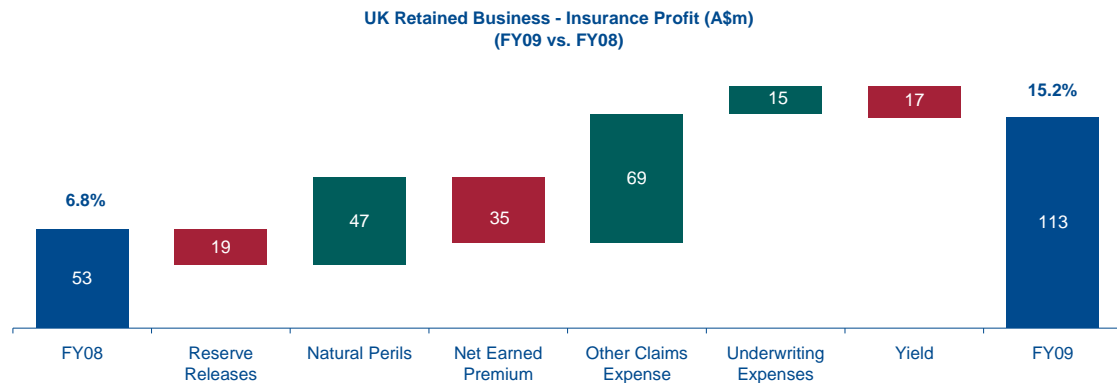
- Net reserve releases of \$12m were \$19m lower than FY08, The net release of approximately \$26m in 1H09 (largely attributable to a syndicate in run-off) was offset in 2H09 by reserve strengthening due to adverse experience in bodily injury classes.
- Underlying claim inflation was steady at 3-4%. However, the ongoing shift in business mix away from private car has led to a moderately higher level of inflation during FY09 compared to FY08. Owing to the higher excesses on specialist and commercial motor business, the claim mix has shifted towards a heavier weighting of higher inflation-affected injury claims.
- Claims frequency has continued to improve. The reduced exposure to private motor has resulted in a decline in accidental damage claims.

7.3.4 Expenses

- The expense ratio decreased from 30.7% in FY08 to 30.1% in FY09. The 2H09 expense ratio of 30.4% reflects an increase in premises costs arising from the relocation of two offices and associated dilapidation expenses.
- The business is well-advanced in reducing central administration functions and costs in line with its smaller UK market presence.
- Combined commission and underwriting expenses fell from \$239m in FY08 to \$224m in FY09, due to the reduced volume effect from private car and the absence of one-off underwriting integration costs.
- The commission expense is stated net of profit commission received by the Group's managing agent from third party names in the Equity Red Star syndicate 218. FY09 profit commission was approximately \$2m and compares to \$5m received in FY08.

7.3.5 Insurance margin

- The insurance margin achieved by the retained UK operations was 15.2% in FY09, up from 6.8% in FY08. The improved margin has been driven by:
 - Reduced exposure to poorly performing elements of the private motor market;
 - Rate increases across the portfolio;
 - Higher quality business written;
 - Improved claim management; and
 - No repetition of the UK flood costs which adversely impacted the FY08 result.



7.3.6 Fee based business

- Net fee based income from Equity Direct and Barnett & Barnett was a loss of \$6m in FY09 compared to a profit of \$1m in FY08. The loss includes additional central administration costs previously allocated to the divested businesses, as well as site rationalisation costs.
- The Equity Direct business is being simplified, in terms of its processes, systems, products and number of sites, to improve future performance. The closure and migration of activities from Southampton to the main site in Colchester will be completed by September 2009.
- The introduction of a strategic insurer panel is being undertaken in the first half of FY10 to increase the footprint offered to affinity partners. While competition within the affinity market is becoming more intense, Equity Direct has recently won an affinity motor deal with Santander Insurance Services UK (SISUK), part of Banco Santander.
- The Barnett & Barnett broking business has been successfully integrated and contributed approximately \$2m to the FY09 result.

7.3.7 Customer experience

- Retention rates have held up well across the major motor and household books and are at levels consistent with FY08.
- Equity Red Star's bi-annual broker research shows its overall satisfaction rating has improved marginally over FY08.
- 2009 has seen the first small amounts of commercial SME business being written.
- The efforts of the business were recognised with various awards during the year:
 - Bike Team, the specialist motorcycle insurer, achieved first place in the "Overall Favourite UK Insurer" category of RiDE magazine's annual survey of motorcyclists;
 - first4cover, the specialist division supporting the mortgage lender or intermediary market, won "Partner With Most Supportive Staff" at the 2009 Mortgage Force Provider Awards; and
 - Autonational Rescue, the car breakdown service with a no claims bonus, was placed third in Which? Magazine's annual review of breakdown cover.

7.3.8 FY10 outlook

- Equity Red Star plans to continue to grow its specialist books, primarily fleet and special risks, while retaining the quality element of private car.
- GWP is expected to grow in FY10, but the reported insurance margin is likely to be lower than FY09 owing to the expected absence of reserve releases from the syndicate in run-off.
- GWP growth will be derived from:
 - Price increases;
 - The further development of satellite underwriting offices; and
 - The leveraging and deepening of key broker and major client relationships.
- A reduction in like for like expenses will be driven from the rationalisation of central functions following the divestment of Hastings and Advantage.

7.4 Discontinued Business

UK DISCONTINUED BUSINESS FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	168	151	143	14	319	157
Gross earned premium	172	153	122	20	325	142
Reinsurance expense	(10)	(21)	(7)	(5)	(31)	(12)
Net earned premium	162	132	115	15	294	130
Net claims expense	(173)	(154)	(118)	(12)	(327)	(130)
Commission expense	-	-	-	-	-	-
Underwriting expense	(38)	(31)	(22)	(4)	(69)	(26)
Underwriting loss	(49)	(53)	(25)	(1)	(102)	(26)
Investment income on technical reserves	9	(1)	2	-	8	2
Insurance loss	(40)	(54)	(23)	(1)	(94)	(24)
Profit/(loss) from fee based business	(1)	(1)	(3)	(4)	(2)	(7)
Total divisional result	(41)	(55)	(26)	(5)	(96)	(31)
Insurance Ratios						
Loss ratio	106.8%	116.7%	102.6%	80.0%	111.2%	100.0%
Expense ratio	23.5%	23.5%	19.1%	26.7%	23.5%	20.0%
Combined ratio	130.2%	140.2%	121.7%	106.7%	134.7%	120.0%
Insurance margin	(24.7%)	(40.9%)	(20.0%)	(6.7%)	(32.0%)	(18.5%)

- The discontinued businesses comprise the branch network, Hastings Direct and its associated underwriter Advantage and the internet-based operations that trade under the Insure brand. The branch network was sold at the beginning of January 2009, with completion on sale of the other assets occurring on 3 February 2009.
- The divested operations remained in loss up until the point of sale, with a further insurance loss of \$1m incurred in 2H09.

7.5 FY09 changes in reporting

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

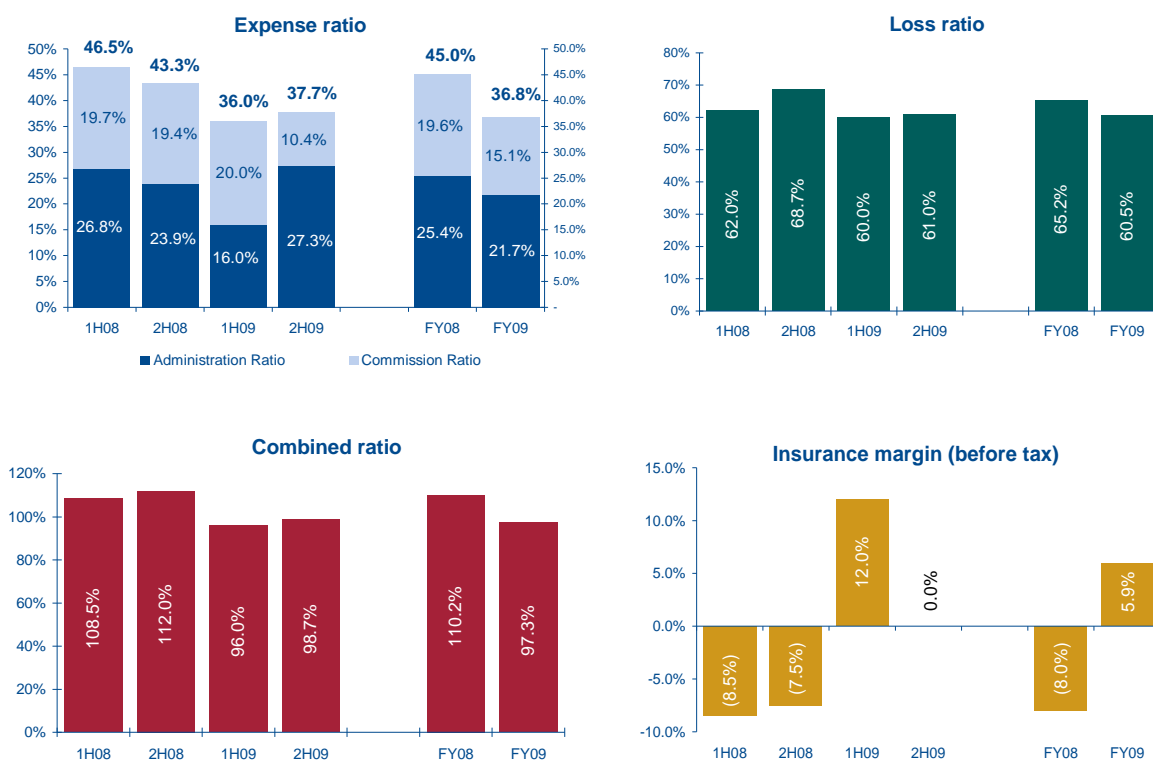
8. ASIA

Asia

ASIA FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	89	85	92	101	174	193
Gross earned premium	88	84	94	97	172	191
Reinsurance expense	(17)	(17)	(19)	(20)	(34)	(39)
Net earned premium	71	67	75	77	138	152
Net claims expense	(44)	(46)	(45)	(47)	(90)	(92)
Commission expense	(14)	(13)	(15)	(8)	(27)	(23)
Underwriting expense	(19)	(16)	(12)	(21)	(35)	(33)
Underwriting profit/(loss)	(6)	(8)	3	1	(14)	4
Investment income on technical reserves	-	3	6	(1)	3	5
Insurance profit/(loss)	(6)	(5)	9	-	(11)	9
Profit/(loss) from fee based business	(2)	(2)	(1)	(1)	(4)	(2)
Share of profit/(loss) from associates	3	(3)	3	5	-	8
Total divisional result	(5)	(10)	11	4	(15)	15

Insurance Ratios						
Loss ratio	62.0%	68.7%	60.0%	61.0%	65.2%	60.5%
Expense ratio	46.5%	43.3%	36.0%	37.7%	45.0%	36.8%
Commission ratio	19.7%	19.4%	20.0%	10.4%	19.6%	15.1%
Administration ratio	26.8%	23.9%	16.0%	27.3%	25.4%	21.7%
Combined ratio	108.5%	112.0%	96.0%	98.7%	110.2%	97.3%
Insurance margin	(8.5%)	(7.5%)	12.0%	-	(8.0%)	5.9%

Insurance ratios



8.1 Executive summary

- While the Asia division represented only 2.5% of Group GWP for FY09, it is an important part of the Group's future growth strategy. The division contributed an improved insurance profit of \$9m in FY09.
- The operating performance of the existing businesses (Thailand and Malaysia) has improved in FY09, due largely to lower loss ratios and the successful pursuit of cost efficiencies.
- The FY09 result also includes a one-off deferred acquisition cost (DAC) benefit of \$12m (2H09: \$4m) arising from the implementation of DAC accounting by Safety Insurance in Thailand, bringing it into line with the rest of the Group.
- During FY09, the Asia division executed two key initiatives in line with its strategy of developing a strong portfolio of assets in selected Asian markets:
 - The signing of a joint venture agreement to establish a general insurance business in India with the State Bank of India (SBI). The first of three required regulatory approvals was received in July 2009; and
 - A dial-up of interest in AmG Insurance in Malaysia, from 30% to 49%.

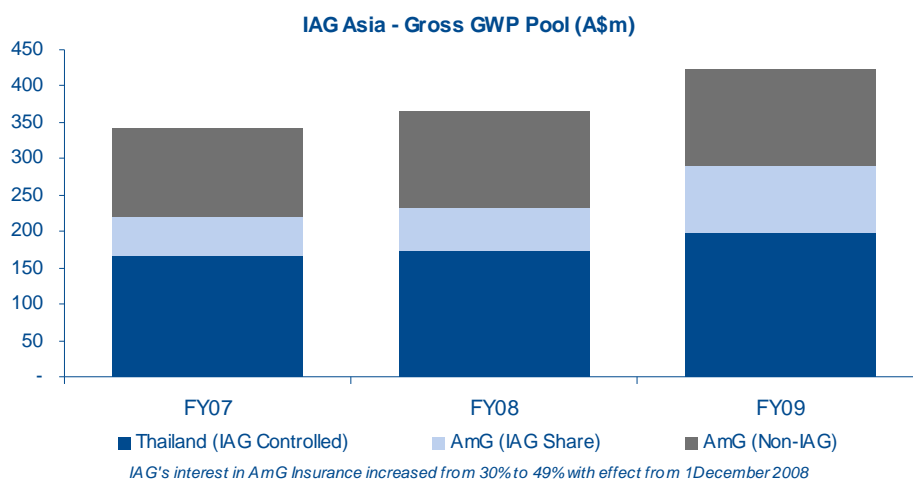
8.2 Market environment

- The Asian markets in which IAG operates have not escaped the impact of the global financial crisis.
- The uncertain economic and political environment in Thailand has curtailed public spending and depressed both consumer and business sentiment. In this environment, Thailand's insurance market has been affected, with a 26% decline in car sales presenting a challenge for near-term GWP growth.
- The Malaysian economy is entering a period of negative real GDP growth with rising unemployment and negative consumer sentiment. The 10% year-on-year drop in car sales, driven partly by tightening credit terms, is adversely affecting GWP growth.
- A risk-based capital framework is being progressively introduced in Malaysia from January 2009 and is expected to drive further rationalisation in that market.

8.3 Premiums

- The Asia division's GWP is represented by its Thailand operations, Safety Insurance and NZI Thailand. Combined FY09 GWP from these businesses increased by 2% in local currency terms, relative to FY08. Due to favourable exchange rate movements this translates into an 11% increase in reported FY09 GWP to \$193m, from \$174m in FY08.
- Safety Insurance, which is primarily a personal lines insurer, grew GWP by 3.4% in local currency terms in FY09, assisted by the opening of a number of new branches outside Bangkok in FY08 and FY09. In addition, the growing recognition of Safety's brand as a sound and trustworthy insurer has aided volume growth. These factors have significantly reduced the impact of lower car sales on motor-related business.
- NZI Thailand, which is primarily a commercial lines insurer, recorded a 1.8% decrease in FY09 GWP in local currency terms, relative to FY08. This is due to the strategic restructuring of the business, which has seen unprofitable lines of business put into run-off, as well as an increased focus on disciplined pricing.

- The reported \$193m GWP of the Asia division relates to the near-100% owned businesses in Thailand that are consolidated into the Group results. However, after inclusion of the Malaysian joint venture, AmG Insurance (49%-owned), the regional GWP pool in which the Group participates now stands at well in excess of \$400m. AmG Insurance's GWP for FY09 was approximately \$220m.



8.4 Claims

- The FY09 loss ratio of 60.5% has improved relative to FY08 (65.2%), owing to the combination of:
 - Lower frequency from motor claims, reflecting the impact of political and economic factors on driving behaviour;
 - Safety Insurance applying more stringent underwriting criteria and actively managing risk through pricing initiatives; and
 - Deliberate actions over the past two years to selectively reduce Safety Insurance's exposure to the Bangkok market, providing a better spread of risks.

8.5 Expenses

- The FY09 expense ratio of 36.8% has improved relative to FY08 (45.0%), driven primarily by the one-off benefit arising from the implementation of DAC accounting in Safety Insurance in Thailand (\$12m).
- The FY09 expense ratio excluding the one-off DAC benefit was 44.7%. This slight improvement is despite the restructuring costs taken within NZI to realise long term operational efficiencies from substantially merging the back office functions of the two businesses in Thailand.
- All business development costs associated with building IAG's Asian platform, including new market entry, have been fully expensed and included within individual operational results. It is expected that the Asian expense ratio will improve over time as costs of this nature reduce and earnings from newly established operations emerge.

8.6 Insurance margin

- The Asia division achieved an insurance profit of \$9m in FY09, an improvement from an FY08 loss of \$11m. This equates to an improved insurance margin of 5.9% compared with negative 8.0% in FY08.
- Of the \$20m turnaround in performance, \$12m related to the benefit from adoption of DAC accounting by Safety Insurance in Thailand. Other than normal increases in DAC in line with business growth, no recurrence of such a one-off benefit is anticipated.
- Excluding the DAC benefit, the insurance result for FY09 was a loss of \$3m or a negative insurance margin of 2.0%. This result also bore increased business development costs related to expansion into new markets.
- The improvement in underlying performance has been driven by the application of stringent underwriting rules and pricing initiatives in Thailand and by a reduction in operating costs. The business has also benefited from falling interest rates across the region, which has increased the value of bond portfolios held by Safety Insurance and NZI Thailand. This has resulted in a \$2m increase in investment income on technical reserves compared to FY08.

8.7 Malaysia – AmG Insurance

- AmG Insurance, the fifth largest general insurer in Malaysia, increased its GWP by 2.6% in local currency terms for FY09 relative to FY08. This is a strong result given the current economic environment and has been driven by a continued focus on IAG's capability transfer programme and the leveraging of the distribution network of joint venture partner, AmBank Group.
- The Group's share of the joint venture's results is reported as share of profit from associates. The result for FY09 was an \$8m profit up from a breakeven position in FY08 due to:
 - An improved underwriting performance;
 - Unrealised gains on investments driven largely by an increase in bond values; and
 - The dial-up of IAG's interest in AmG Insurance, from 30% to 49%, on 1 December 2008.

8.8 India - SBI General Insurance Company

- On 24 November 2008, IAG and State Bank of India (SBI) signed a joint venture agreement to establish a general insurance operation in India. IAG will initially have a 26% stake, but has an option to increase its shareholding to 49% subject to a change occurring in the Indian foreign direct investment limit. The joint venture company is called SBI General Insurance Company Ltd (SBI General).
- IAG will invest capital into SBI General once the joint venture receives the second of its three required regulatory approvals. The first of these was received from the Insurance Regulatory and Development Authority (IRDA) on 8 July 2009. The second regulatory application was submitted on 27 July 2009.
- IAG will invest 5.4bn Indian rupees (approximately A\$140m at FY09 year-end exchange rates). It remains the Group's expectation that no further capital will be required for at least four years.
- SBI is the largest commercial bank in India and has a 200-year history. SBI and its six associate banks have over 15,000 branches across India and a combined customer base approaching 150 million.

- The joint venture plans to ultimately participate in all segments of the Indian general insurance market but in its initial 12 months will concentrate on corporate and SME products, while slowly building the high volume personal lines business over the first three years. It will utilise all sales channels available in the market but with a prime emphasis on the SBI bancassurance channel. The new joint venture is expected to commence operations in 2H10.
- In the year ending 31 March 2009, the Indian general insurance market recorded growth of 9.1%. The market is forecast to grow by 15-20% per annum over the next decade. Per capita general insurance penetration remains extremely low at an estimated 0.6%.

8.9 China - China Automobile Association

- China Automobile Association (CAA) reported a loss for FY09, which was slightly worse than that in FY08. Restructuring costs have been incurred, aimed at re-engineering the business to ensure breakeven is achieved in FY10.
- The Group's small team in Shanghai continues to focus on finding and developing joint venture general insurance opportunities in the Chinese market. Good progress has been made during the year in developing strong relationships with a number of potential insurance partners in China.

8.10 FY10 outlook

- In FY10, further improvement in underlying performance is expected, embracing:
 - Modest GWP growth in Thailand and Malaysia; and
 - Further improvement in underwriting performance.

8.11 FY09 changes in reporting

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

9. CORPORATE AND OTHER

CORPORATE & OTHER FINANCIAL PERFORMANCE	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m	FY08 A\$m	FY09 A\$m
Gross written premium	11	15	7	(3)	26	4
Gross earned premium	14	10	16	7	24	23
Reinsurance expense	(4)	(3)	(3)	(1)	(7)	(4)
Net earned premium	10	7	13	6	17	19
Net claims expense	(8)	(11)	(12)	(1)	(19)	(13)
Commission expense	(2)	(2)	(3)	(1)	(4)	(4)
Underwriting expense	(7)	(5)	(5)	(1)	(12)	(6)
Underwriting profit/(loss)	(7)	(11)	(7)	3	(18)	(4)
Investment income on technical reserves	-	-	1	(1)	-	-
Insurance profit/(loss)	(7)	(11)	(6)	2	(18)	(4)
Net corporate expense	-	(69)	(77)	55	(69)	(22)
Interest	(58)	(43)	(46)	(41)	(101)	(87)
Investment income on shareholders' funds	76	(52)	(72)	33	24	(39)
Amortisation and impairment	(32)	(375)	(30)	(35)	(407)	(65)

9.1 Composition

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

9.2 External reinsurance

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

9.3 Corporate expenses

- All corporate expenses are allocated to business operations with effect from FY09, with the exception of those of a material one-off or unusual nature.
- Net corporate expenses of \$22m in FY09 comprised:
 - A loss of \$122m associated with the Group's exit from non-core operations in the UK, comprising:
 - The loss on sale of the mass market distribution operations; and
 - Restructuring costs, including those relating to placing Alba into run-off.
 - The \$38m profit on sale of IAG's interest in the life insurance portion of its Malaysian joint venture;
 - The \$92m profit on the buyback of sterling denominated subordinated debt; and

- \$30m of one-off costs relating to:
 - Build costs associated with The Buzz, IAG's new standalone online business; and
 - Onerous lease provisions relating to surplus space following implementation of \$130m of cost-saving initiatives in Australia.
- Corporate expenses in 2H09 amounted to a net profit of \$55m, and comprised:
 - Final costs of \$7m associated with the sale of IAG's non-core mass market distribution operations in the UK;
 - The \$92m profit on the subordinated debt buyback; and
 - \$30m of one-off costs associated with the build of The Buzz and onerous lease provisions.
- Net corporate expenses of \$69m identified in FY08 comprised \$60m of restructuring costs and a \$9m property writedown in the UK.

9.4 Interest expense

- Interest expense of \$87m in FY09 was lower than that in FY08, of \$101m, owing to the buyback of the Reset Preference Shares in 2H08 and a reduced level of subordinated debt owing to the combined effect of repayment late in 1H08 and buyback in 2H09.

9.5 Investment income on shareholders' funds

- Investment income on shareholders' funds was a loss of \$39m compared to a profit of \$24m in FY08. The FY09 result embraced contrasting halves, including a profit of \$33m in 2H09, and reflected:
 - Volatile investment market returns, with the poor full year performance of equity investment markets offset by gains on the bond portfolio; and
 - A \$27m revaluation profit (FY08: \$69m) from the exchange right held by the Group in respect of its Reset Exchangeable Securities (RES).

9.6 Amortisation

- The FY09 amortisation charge of \$65m is higher than the previously indicated expense of \$55m, owing to the net effect of:
 - An \$18m impairment of intangibles associated with customer relationships in the direct and affinity channels of the retained UK business; and
 - The absence of 2H09 amortisation in respect of intangibles divested with the non-core UK operations.
- The FY08 amortisation charge of \$407m included a \$342m writedown associated with the Hastings/Advantage assets in the UK. Any further impairment to intangible assets incurred as part of the divestment of the non-core UK operations in FY09 is included in the related loss on sale within net corporate expenses.
- The expected amortisation charge for FY10 is \$26m.

10. REINSURANCE

10.1 Reinsurance strategy

- IAG's reinsurance programme is a key element of the Group's overall approach to capital management.
- The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4% of net earned premium. Its current retentions are below this level.
- The Group determines its reinsurance requirements for Australia and New Zealand on a 1-in-250 year modified whole of portfolio basis (where whole of portfolio is the sum of all correlated risk).
- IAG Re Australia, the Group's Australian-based captive reinsurer, captures 100% of the reinsurance spend of the Australian business. Whilst the bulk of the facultative reinsurance underwritten is passed straight through to the external market, counter-party and regulatory exposures are captured within a single Group entity.
- IAG's international business units continue to place some reinsurances directly with the external market, however, IAG Re Labuan, the Group's offshore captive reinsurer, has increased its visibility of Group spend, underwriting close to 100% of New Zealand treaty business and a substantial amount of income from the UK and Asia.

10.2 Market environment

- Following the global financial downturn, reinsurance security has seen a decline in credit quality. Whilst sufficient capacity remains, consolidation of the sector is beginning to emerge. This has the potential to impact capacity, risk appetite and price in the future and will be monitored closely.
- IAG continues to see signs of a hardening reinsurance market. Whilst a key driver is the global economic climate, the Australian and New Zealand market has seen an increased frequency in both natural perils and significant single risk losses ceded to reinsurers.

10.3 Catastrophe cover

- The Group's main catastrophe reinsurance protection was renewed for 12 months effective 1 January 2009, and provides cover for losses up to \$4.1bn. The Group retains the first \$200m of each loss under this reinsurance cover. This catastrophe protection covers all territories and operates on an excess of loss basis.
- In 2008, IAG entered into a multi-year arrangement that reduces the Maximum Event Retention (MER) of the Group below \$200m. For the 2009 calendar year, the MER for a first event was \$126m. This cover was utilised during February 2009 on the occasion of the Victorian bushfires. In calendar 2010, the MER under this multi-year programme will be \$135m. IAG also purchases a series of covers that further reduces the Group's retained loss from subsequent events.
- For the six months commencing 1 July 2009, the combined operation of all Group catastrophe covers reduces the Group's MER to:
 - \$100m for Australia, \$80m for New Zealand and \$53m for the UK; and
 - For a further event, \$75m for Australia, \$60m for New Zealand and \$50m for the UK.

- The Group has a property catastrophe aggregate cover of \$150m excess of \$150m, operating on a calendar year basis. This provides protection for accumulated losses arising from events larger than \$15m, across IAG's operations, capped at a maximum of \$50m per event. At 30 June 2009 this cover had \$43m of erosion left before recoveries can be made.
- The Group has a customised event definition in its catastrophe reinsurance contract wordings which ensures that covers provide appropriate protection to the Group, both in terms of geographical exposure and event duration.

10.4 Other covers

- The Group continues to improve the efficiency of its per risk reinsurance programmes by replacing a significant amount of the proportional property surplus covers with a risk excess of loss protection. These risk protections cover all territories in which IAG underwrites.
- The casualty reinsurances were renewed at 30 June 2009 at consistent terms to expiry. Unlimited cover is purchased on statutory classes where available and for other lines cover was placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

10.5 Counter-party risk

- The counter-party credit profiles for the current key reinsurances of the Group are as follows:
 - The property catastrophe programme has 85% of limits placed with 'A+' or better rated entities; and
 - The casualty programme has 100% of limits placed with 'A+' or better rated entities.

11. INVESTMENTS

11.1 Investment philosophy

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

11.2 Changes to investment strategies

- The Group's investments totalled \$10.6bn as at 30 June 2009, excluding investments held in joint ventures and associates.
- In early FY09, the Group undertook a review of IAG's investment strategy, which resulted in some key enhancements to the investment strategy and framework. The key elements of the changes were:
 - Reduced risk and enhanced flexibility and efficiency in the investment portfolios;
 - More cost effective active return management; and
 - Consideration of the new APRA risk capital charges and asset co-mingling rules.
- The above changes resulted in the Group migrating the overall investment portfolio to a more conservative position, including a further reduction in the Australian equities exposure in shareholders' funds. This reflected the unprecedented financial market volatility, downside risk to equities and above average return opportunities available from fixed interest.
- Additionally, the Group has moved away from strategies that are inappropriate in the current investment market environment, including overlay strategies aimed at adding equity or equity-like active return into technical reserves and market neutral/long short strategies that sought to neutralise market risk and add active return to a cash benchmark.
- As at 30 June 2009, nearly 100% of the Group's technical reserves, and over 94% of combined technical reserves and shareholders' funds, were held in a combination of government bonds, high-grade bonds and cash.

11.3 Group investment assets

INVESTMENT ASSETS AT END OF:	1H08 A\$bn	2H08 A\$bn	1H09 A\$bn	2H09 A\$bn
Technical reserves ¹	8.2	7.6	8.0	8.0
Shareholders' funds	3.0	2.4	2.3	2.6
Total investment assets on balance sheet	11.2	10.0	10.3	10.6
Reset Exchangeable Securities' (RES) funds ²	0.6	0.6	0.6	0.6
Total investment assets	11.8	10.6	10.9	11.2
Other funds managed on behalf of third parties	1.3	0.9	0.9	0.4

¹The technical reserves balance is calculated net of GST on premium debtors and outstanding claims.

²Investments held in respect of \$550m contingent capital (Reset Exchangeable Securities), not on Group balance sheet.

11.4 Asset allocation

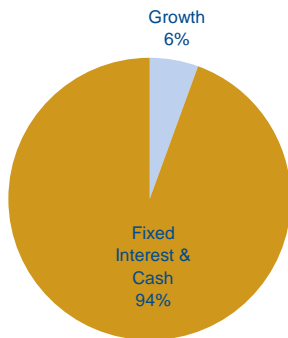
- This table represents the Group's exposure to each asset class, as at the dates shown.

ASSET ALLOCATION AS AT:	1H08	2H08	1H09	2H09
Shareholders' funds	%	%	%	%
Australian equities	24.1	26.3	21.7	15.4
Listed property trusts	2.2	2.3	-	-
International equities and other	8.3	8.4	11.0	6.2
Fixed interest and cash	63.6	62.1	67.3	78.4
Hedge funds	1.8	0.9	-	-
Total	100.0	100.0	100.0	100.0
Technical reserves	%	%	%	%
Australian equities	-	-	-	-
Listed property trusts	-	-	-	-
International equities and other	1.5	0.7	0.5	0.5
Fixed interest and cash	98.1	99.2	99.5	99.5
Hedge funds	0.4	0.1	-	-
Total	100.0	100.0	100.0	100.0
Total shareholders' funds and technical reserves	%	%	%	%
Australian equities	6.5	6.3	4.8	3.8
Listed property trusts	0.6	0.6	-	-
International equities and other	3.3	2.5	2.8	1.9
Fixed interest and cash	88.8	90.3	92.4	94.3
Hedge funds	0.8	0.3	-	-
Total	100.0	100.0	100.0	100.0

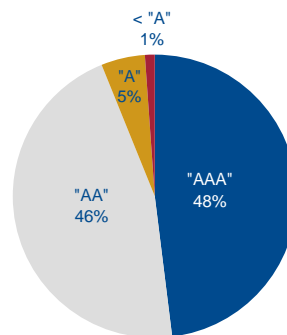
- As at 30 June 2009, the Group had reduced its exposure to growth assets relative to fixed interest and cash held in its shareholders' funds to 22:78, compared with 38:62 as at 30 June 2008. Additional shareholders' funds generated from the capital raising initiatives in 2H09 were invested entirely in fixed interest and cash.

11.5 Credit quality of assets

Group Investment Asset Allocation - \$10.6bn



Group Fixed Interest & Cash - \$10.0bn



- The credit quality of the Group's investment book remains high, with 94% of the fixed interest and cash portfolio rated 'AA' or better. All credit assets are performing and meeting interest and principal repayment obligations.

11.6 Sensitivity analysis

- As at 30 June 2009 the sensitivity of the Group's net profit before tax to investment market movements was as set out below:

SENSITIVITY OF NET PROFIT BEFORE TAX AS AT 30 JUNE 2009	Change in Assumption	
	+1% \$m	-1% \$m
Equity market values:		
Australian equities	4	(4)
International equities and other	2	(2)
Interest rates:		
Technical provisions	(183)	193
Shareholders' funds	(11)	12
Total investment returns	(194)	205
Outstanding claims	180	(191)

11.7 Investment performance

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

INVESTMENT RETURNS ¹ (INCL. DERIVATIVES)	1H08		2H08		1H09		2H09		FY08		FY09	
	A\$m	% ²	A\$m	% ²	A\$m	% ²	A\$m	% ²	A\$m	%	A\$m	%
Technical reserves	224	2.6	208	2.7	732	8.9	48	0.6	432	5.6	780	9.8
Shareholders' funds	76	2.6	(121)	(4.5)	(97)	(4.1)	31	1.2	(45)	(1.5)	(66)	(2.5)
RES revaluation	-	-	69	-	25	-	2	-	69	-	27	-
Total investment income	300	2.6	156	1.0	660	6.0	81	0.8	456	4.0	741	7.0

¹Returns are accounting yields, being investment income based on average exchange rates divided by closing funds under management.

²Half year returns have not been annualised.

- An improved investment return of 7.0% was achieved on the Group's investment assets in FY09 owing to the combination of:
 - Unprecedented cuts in interest rates, resulting in substantial mark-to-market gains;
 - Significant declines in equity markets around the world; and
 - The Group's decision to move to a more defensive asset allocation, with an increased fixed interest and cash exposure countering the decline suffered on equity positions.
- Reported investment income on shareholders' funds includes a \$27m revaluation gain (FY08: \$69m) from the exchange right embedded in the Group's \$550m contingent capital arrangement, via the Reset Exchangeable Securities (RES).

12. BALANCE SHEET, CAPITAL AND DIVIDENDS

12.1 Balance sheet

IAG GROUP BALANCE SHEET	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m
Assets				
Cash and cash equivalents	560	679	275	344
Investments	11,083	10,034	10,314	10,563
Investments in joint ventures and associates	79	70	138	122
Premium receivable	1,935	2,046	1,973	2,126
Trade and other receivables	986	1,207	1,087	887
Reinsurance recoveries on claims	711	679	707	654
Other recoveries on claims	377	364	311	393
Deferred acquisition costs	779	758	723	733
Deferred reinsurance expense	332	308	360	268
Intangible assets	722	585	449	398
Goodwill	2,219	1,875	1,904	1,880
Other assets	783	775	911	947
Assets held for sale	-	-	653	-
Total assets	20,566	19,380	19,805	19,315
Liabilities				
Outstanding claims	8,228	7,827	8,154	7,816
Unearned premium	4,105	4,097	3,970	4,072
Interest bearing liabilities	1,723	1,401	1,360	1,053
Trade and other payables	697	906	704	818
Other liabilities	893	798	870	720
Liabilities held for sale	-	-	612	-
Total liabilities	15,646	15,029	15,670	14,479
Net assets	4,920	4,351	4,135	4,836
Equity				
Equity attributable to holders of ordinary shares	4,774	4,204	3,986	4,671
Minority interests	146	147	149	165
Total equity	4,920	4,351	4,135	4,836

- The total assets of the Group as at 30 June 2009 were \$19,315m compared to \$19,805m at 31 December 2008. The decline primarily reflects settlement on the UK assets held for sale at 31 December 2008, of \$653m. A corresponding liability of \$612m was also recognised at that date.
- The other assets category represents the aggregate of current and deferred tax assets, prepayments, property, plant and equipment, defined benefit superannuation assets, deferred expenditure and other assets.
- The total liabilities of the Group as at 30 June 2009 were \$14,479m compared to \$15,670m at 31 December 2008. The decrease is mainly attributable to:
 - Settlement on the UK liabilities held for sale at 31 December 2008, of \$612m;
 - The buyback of approximately £144m of sterling denominated subordinated debt in 2H09; and
 - A \$234m reduction in the risk free discount rate adjustment applicable to outstanding claims.

- The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unitholders' funds held by external holders of units in IAG-controlled trusts and lease provisions.
- The increase in IAG shareholders' equity from \$4,135m at 31 December 2008 to \$4,836m at 30 June 2009 largely reflects:
 - Capital management initiatives which saw \$450m raised by way of a placement to institutional investors in February 2009 and a further \$84m from a Share Purchase Plan offering to investors completed in April 2009; and
 - 2H09 reported earnings attributable to shareholders of \$177m.

12.2 Outstanding claims

12.2.1 Net outstanding claims liability

- The Group's net outstanding claims liability at 30 June 2009 stood at \$6,405m and comprised the following elements:

NET OUTSTANDING CLAIMS LIABILITY	FY08 A\$m	FY09 A\$m
Gross outstanding claims liability	7,827	7,816
Reinsurance recoveries on claims	(679)	(654)
Other recoveries on claims	(364)	(393)
GST recoverable on net outstanding claims	(368)	(364)
Net outstanding claims liability	6,416	6,405

12.2.2 Claims development table

- Note 11 of the Group's Financial Report includes a claims development table that shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claims costs for the eight most recent accident years as estimated at each reporting date. An extract from that table is set out below:

CLAIMS DEVELOPMENT	ACCIDENT YEAR ENDED 30 JUNE									
	2001 and prior \$m	2002 \$m	2003 \$m	2004 \$m	2005 \$m	2006 \$m	2007 \$m	2008 \$m	2009 \$m	TOTAL \$m
Development										
At end of accident year		3,213	3,351	3,492	3,603	3,994	4,798	4,666	4,694	
One year later		3,141	3,174	3,326	3,556	3,921	4,763	4,614		
Two years later		3,080	3,099	3,353	3,524	3,852	4,720			
Three years later		3,046	3,068	3,337	3,480	3,854				
Four years later		3,024	3,014	3,321	3,444					
Five years later		2,995	3,021	3,310						
Six years later		2,996	3,015							
Seven years later		2,976								
Current estimate		2,976	3,015	3,310	3,444	3,854	4,720	4,614	4,694	
Cumulative payments made to date		2,889	2,897	3,104	3,124	3,352	3,868	3,685	2,637	
Net undiscounted outstanding claims payments	793	87	118	206	320	502	852	929	2,057	5,864
Discount to present value	(235)	(16)	(20)	(32)	(46)	(65)	(106)	(120)	(192)	(832)
Net discounted outstanding claims liability	558	71	98	174	274	437	746	809	1,865	5,032
Claims handling expense										347
Risk margin										1,026
Net outstanding claims liability										6,405

- The above table shows a history of the claim reserves being conservatively stated and demonstrates favourable development each successive year, as the ultimate claim costs were settled or became more certain.
- The table highlights that, as at 30 June 2009, more than 90% of the total estimated liability for the 2002, 2003, 2004 and 2005 accident years had been paid, for the 2006 and 2007 accident years more than 80% had been paid, and for 2008 nearly 80% had been paid.

12.2.3 Risk margins

- The table above also identifies the total risk margin held to allow for the uncertainty surrounding the outstanding claims liability estimation process. The risk margin is set to take into account the correlations assessed between outstanding claims liabilities arising from the various forms of business underwritten by the different entities within the consolidated Group. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.
- The Group's policy is for the risk margin to be set so as to provide an overall probability of adequacy for the outstanding claims liability of at least 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment. The Group's probability of adequacy of the claims liability for FY09 is 90%, which is unchanged from the prior year.
- Insurers are in the business of accepting and managing risks. A key feature of insurance businesses is diversification between risks and without it the insurance business would not exist. The Group uses diversification to manage the portfolio of risks that arises in the business.
- The risk margin at the end of FY09 as a percentage of the net discounted outstanding claims liability was 19.1%, compared to 18.7% in FY08.

12.2.4 Reserve releases

- During FY09 prior period reserve releases amounted to \$215m (FY08: \$406m). The majority of FY09's reserve releases were sourced from the central estimate, reflecting better than expected prior period experience and revision of projected claims experience.
- Of the 2H09 reserve release of \$130m (2H08: \$178m), approximately \$40m is attributable to cost and earnings related inflation assumptions, including Average Weekly Earnings (AWE) for Australian portfolios, which have been lowered by about 0.25%.

12.3 Capital management

12.3.1 Capital adequacy

- The Group retains a target capital requirement (MCR) multiple of 1.45 to 1.50 as a long term benchmark.
- Given the significant financial market uncertainty and volatility prevailing, the Board determined in February 2009 to pursue a range of capital initiatives which resulted in an increase in the Group's MCR multiple to above this level.
- At 30 June 2009 the group's MCR multiple stood at 1.79. Given the ongoing uncertainty in financial markets, the Group is comfortable retaining a capital position overweight the long term benchmark.

12.3.2 Minimum Capital Requirement (MCR) position

- The Group's minimum capital requirement increased to \$1,997m as at 30 June 2009, from \$1,934m as at 31 December 2008.

MINIMUM CAPITAL REQUIREMENT	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m
Insurance risk	1,256	1,224	1,249	1,279
Concentration risk	93	118	126	100
Investment risk	504	530	559	618
Minimum capital requirement	1,853	1,872	1,934	1,997

- The reduction in catastrophe concentration risk since 31 December 2008 reflects utilisation of the first event maximum event retention (MER) following the February 2009 Victorian bushfires.
- The Group's regulatory capital and its MCR position are set out below.

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m
Tier 1 capital				
Paid-up ordinary shares	4,649	4,740	4,782	5,326
Minority interest	-	-	-	165
Treasury shares	(26)	(15)	(26)	(7)
Hybrid equity	550	350	350	350
Reserves	3	(7)	(35)	(11)
Retained earnings	194	(458)	(691)	(589)
Excess technical provisions (net of tax)	396	359	371	438
Less: deductions ¹	(3,232)	(2,772)	(2,785)	(2,689)
Total Tier 1 capital	2,534	2,197	1,966	2,983
Tier 2 capital				
Subordinated debt ²	923	844	947	590
Total Tier 2 capital	923	844	947	590
Capital base	3,457	3,041	2,913	3,573
Minimum Capital Requirement (MCR):				
Australian insurance businesses	1,407	1,440	1,539	1,621
International insurance businesses	353	314	269	276
Catastrophe concentration risk	93	118	126	100
Total MCR	1,853	1,872	1,934	1,997
MCR multiple	1.87	1.62	1.51	1.79

¹ Includes goodwill and intangibles, net deferred tax assets and capitalised software.

² Excludes cross-currency swaps, capitalised transaction costs and discount on issue.

- The Group's regulatory capital has increased from \$2,913m as at 31 December 2008 to \$3,573m at 30 June 2009. The major factors contributing to the movement were:
 - A fully underwritten \$450m institutional placement conducted on 18 February 2009;
 - A share purchase plan which raised over \$84m from investors in April 2009;
 - The buyback of £144m of UK subordinated debt at a discount of 30%, resulting in an outlay of approximately \$224m and the realisation of a net profit of approximately \$92m;

- Payment of the interim 2009 dividend in April 2009 totalling \$76m, satisfied through cash (\$59m) and the issue of ordinary shares (\$17m) under the dividend reinvestment plan; and
- Inclusion of the minority interest from 1 April 2009 under the revised APRA guidelines.

12.3.3 Interest bearing liabilities

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

INTEREST BEARING LIABILITIES	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m
Senior debt/unsecured notes	107	64	7	-
Subordinated debt ¹	957	848	951	596
Reset preference shares ²	550	350	350	350
Secured mortgage	2	-	-	-
Capitalised transaction costs	(15)	(12)	(7)	(4)
Cross-currency swap payable ³	122	151	59	111
Total interest bearing liabilities	1,723	1,401	1,360	1,053

¹ Approximately £144m of subordinated debt was bought back in February and April 2009, of which approximately £108m has been cancelled.

² Buyback of all RPS 2 completed in June 2008 for \$200m.

³ Cross-currency swaps are used to hedge the US\$240m subordinated debt issue.

- As at 30 June 2009, the maturity profile of Group debt and hybrids was as follows:

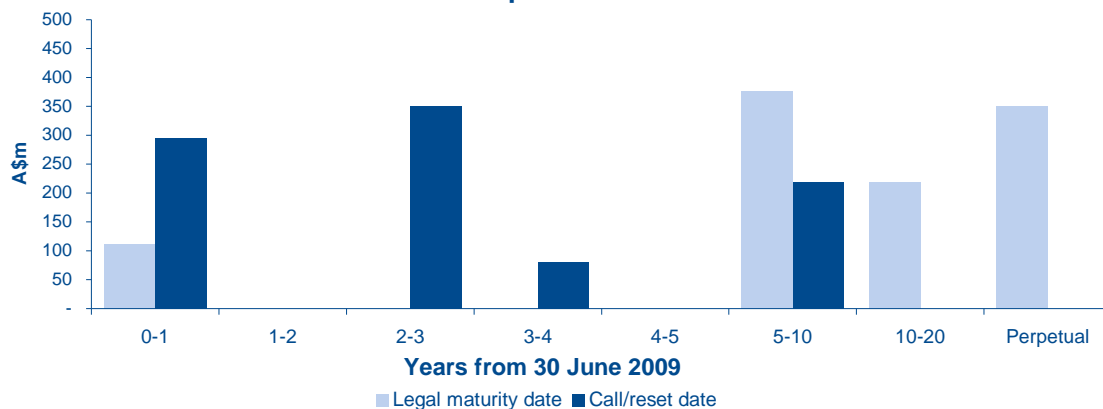
MATURITY PROFILE OF GROUP DEBT & HYBRID CAPITAL	Currency principal amount \$m	A\$ equivalent principal amount A\$m	Yield (net of interest rate & cross currency swaps) %	Fixed rate / variable rate (net of swaps)	Call date, reset date, or maturity date	S&P rating
US\$240m subordinated fixed rate notes ¹	US\$240	406	6.93%	Fixed	Apr-10	'A+'
NZ\$100m subordinated fixed rate notes	NZ\$100	81	9.11%	Fixed	Nov-12	'A+'
£107m subordinated fixed rate notes	£107	220	5.66%	Fixed	Dec-16	'A-'
Total Debt		707				
Reset Preference Shares (IAGPA) ²	A\$350	350	5.63%	Fixed	Jun-12	'A-'
Reset Exchangeable Securities (IANG) ³	A\$550	550	3.15%	Variable	Mar-10	'A-'

¹ A\$ equivalent of the US\$ proceeds received by the Group, net of related cross-currency swaps and excluding transaction costs.

² Dividend yield on the Reset Preference Shares is a cash yield, excluding attached franking credits. Principal excludes capitalised transaction costs.

³ The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

Group Debt Profile



12.3.4 Capital mix

- During FY09 the Group reviewed its measures around capital mix and moved to one based on net tangible equity, i.e. after deduction of goodwill and intangibles. This provides better alignment with the treatment of these items in regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the next 1-2 years:
 - Ordinary equity (net of goodwill and intangibles) 60-70%; and
 - Debt and hybrids 30-40%.
- At 30 June 2009, the Group was marginally below the targeted capital mix, with debt to total tangible capitalisation of 29.2%.

CAPITAL MIX	1H08 A\$m	2H08 A\$m	1H09 A\$m	2H09 A\$m
Shareholder equity	4,920	4,351	4,135	4,836
Intangibles and goodwill	(2,941)	(2,460)	(2,353)	(2,278)
Tangible shareholder equity	1,979	1,891	1,782	2,558
Interest bearing liabilities	1,723	1,401	1,360	1,053
Total tangible capitalisation	3,702	3,292	3,142	3,611
Debt to total tangible capitalisation	46.5%	42.6%	43.3%	29.2%

12.3.5 Reset Exchangeable Securities (RES)

- The Group has \$550m of pre-funded contingent capital available, which is not shown on its consolidated balance sheet. This contingent capital is in the form of debt securities issued by a subsidiary that is matched by a portfolio of high grade short-dated interest bearing securities. The contractual set-off rights between the liability for the notes and the assets held to support them mean the two balances are offset for financial reporting purposes.
- As at 31 July 2009, the value of the portfolio held for the benefit of the RES holders had a value in excess of \$552m. This value is updated monthly and can be found on the Group's website at: <http://www.iag.com.au/shareholder/res/index.shtml>.
- The terms of the issued debt notes mean that the Group can direct conversion of this debt to qualifying regulatory capital in Australia at very short notice. The debt securities, known as Reset Exchangeable Securities (RES), are listed on ASX as IANG. If the securities had been converted as at 30 June 2009, the MCR multiple would have increased by 0.24, to 2.03.
- IAG may exchange some or all of the RES for preference shares at any time. This exchange right is considered an embedded derivative within the RES and is recognised at fair value on the balance sheet. The exchange right has been assessed as having a fair value of \$96m at 30 June 2009, and reflects the widening in credit spreads that has occurred since the security was issued in January 2005. The closing price for RES on ASX on 30 June 2009 was \$74.75 per \$100 of face value.

REVISED RES IMPACT - MCR/CAPITAL MIX AS AT 30 JUNE 2009	Group A\$m	Adjustments on exchange ^{1,2,3} A\$m	Pro forma A\$m
Tier 1 capital	2,983	-	2,983
Tier 2 capital	590	454	1,044
Regulatory capital base	3,573	454	4,027
Minimum capital requirement (MCR)	1,997	(16)	1,981
MCR multiple	1.79	0.24	2.03

¹ Assuming there has been no change in the Group's capital adequacy position at the time of exchange.

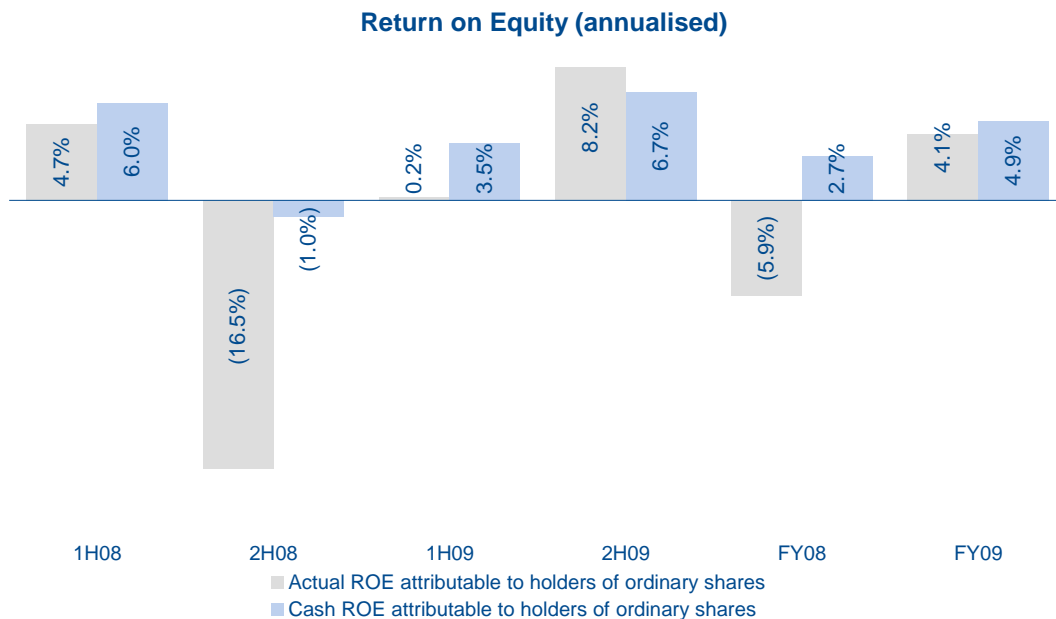
² Assuming the \$550m in investment assets attracts minimal investment charges.

³ Additional Tier 2 capital is net of the existing value of the RES exchange right (\$96m).

12.3.6 Credit ratings

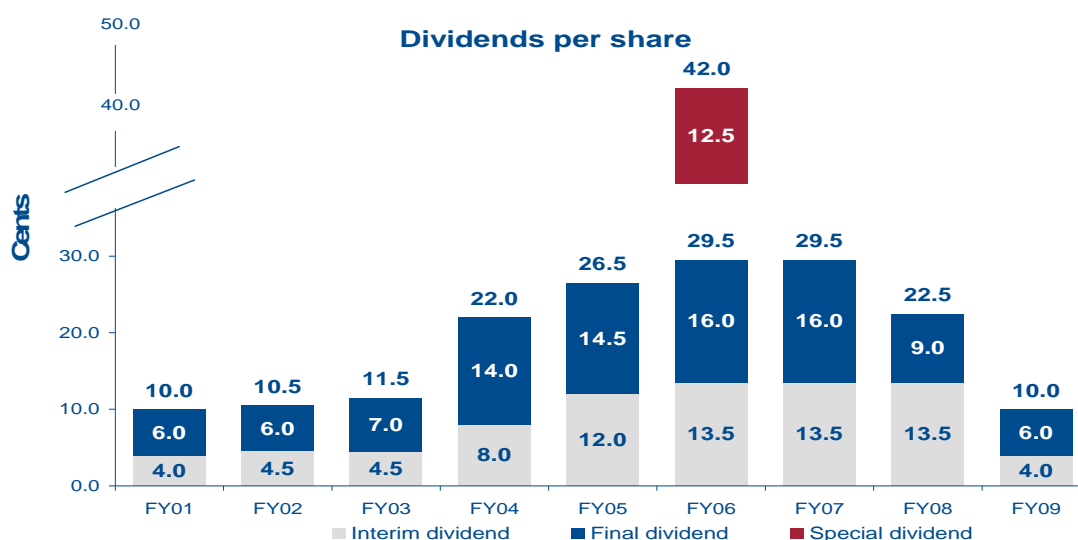
- On 16 December 2008, Standard & Poor's (S&P) affirmed its 'A+' rating on IAG (the ultimate parent entity) and the 'AA-' ratings on its core operating companies. The outlook on all entities remains stable.

12.4 Return on equity



- The Group targets a cash ROE of at least 1.5 times WACC through the cycle. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation of intangibles and unusual items.

12.5 Dividends



- Under its revised dividend policy, which was announced in July 2008, it is the Group's intention to pay dividends equivalent to approximately 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.
- In accordance with this policy, the Board has determined to pay a final dividend of 6.0 cents per ordinary share (2H08: 9.0 cents). The dividend is payable on 2 October 2009 to shareholders registered as at 5pm on 2 September 2009.
- This brings the full year dividend to 10.0 cents per share (FY08: 22.5 cents), equating to a payout ratio of approximately 71.5% of FY09 cash earnings.

CASH EARNINGS	FY08 A\$m	FY09 A\$m
Net profit after tax	(261)	181
Intangible amortisation and impairment	407	65
Depreciation and software amortisation (net of tax)	99	63
Net corporate expense (net of tax)	51	(3)
Revaluation of RES exchange right	(69)	(27)
Cash earnings	227	279
Dividend paid/payable	419	200
Cash payout ratio	184.6%	71.5%

- The dividend reinvestment plan (DRP) will be operational for the final dividend and will be met by issuing new shares to DRP participants. The issue price per share for the FY09 final dividend will be the Average Market Price as defined in the DRP terms. There will be no discount for participants.

- IAG's DRP is available at: <http://www.iag.com.au/shareholder/reinvestment/index.shtml>.
- The listed entity had distributable retained earnings of \$831m as at 30 June 2009 and the Group's franking balance was \$455m at this date.
- After payment of the final dividend the franking balance is capable of fully franking a further \$909m of distributions.

APPENDIX A – GROUP STRATEGY

The Group’s strategic intent is to manage a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

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

The Group’s financial targets are to deliver through the cycle:

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

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

The Group’s strategic priorities are to:

- Continue to improve the performance of the Australian and New Zealand businesses;
- Pursue selective general insurance growth opportunities; and
- Drive operational performance and accountability.

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

The operating model is summarised below:

	DIRECT INSURANCE	INTERMEDIATED INSURANCE	ONLINE INSURANCE		DIRECT INSURANCE		DIRECT INSURANCE		INTERMEDIATED INSURANCE
AUSTRALIA				NEW ZEALAND		ASIA		UNITED KINGDOM	
					INTERMEDIATED INSURANCE				
					INTERMEDIATED INSURANCE				
				OTHER					
ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)									

¹ IAG’s short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV. If one of IMA’s shareholders were to experience a change of control, the other has a pre-emptive right to acquire that shareholder’s interest in IMA at market value. The duration of the arrangements governing RACV’s distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value (as would the duration of the arrangements governing IMA’s reinsurance of NRMA-branded products in NSW and the ACT).

² IAG owns 49% of Malaysian-based AmG Insurance, which is part of AmAssurance. The remaining 51% is owned by AmBank Group.

³ IAG holds 98% voting rights in Safety Insurance, based in Thailand.

APPENDIX B – A SNAPSHOT OF IAG

Australia Direct

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

Short tail Insurance

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

Long tail Insurance

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

Australia Intermediated

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

Short tail Insurance

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

Long tail Insurance

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

The Buzz

The Buzz was launched in May 2009 as a standalone Australian online insurer initially focusing on car insurance.

Short tail Insurance

- Car insurance

New Zealand

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

Short tail Insurance

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

Long tail Insurance

- Personal liability
- Income protection
- Commercial liability

United Kingdom

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

Asia

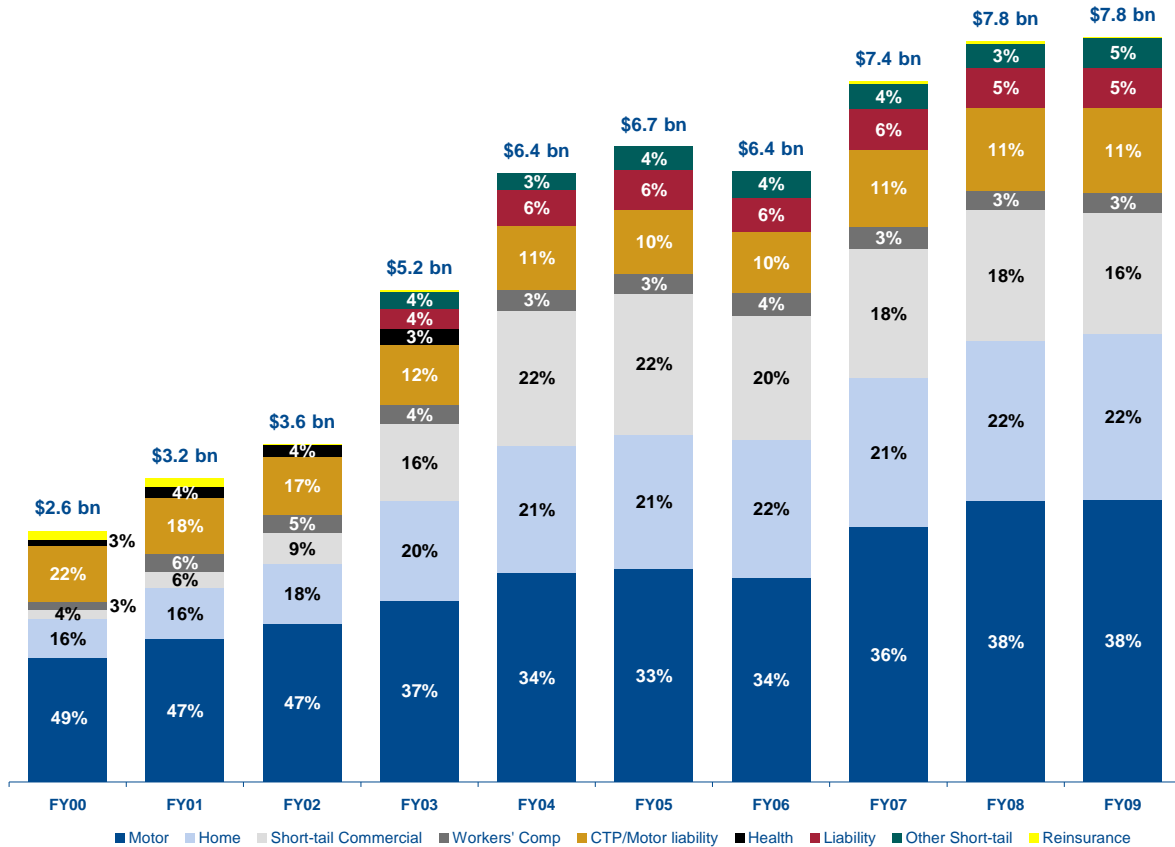
The Group has interests in four businesses in Asia - controlling economic interests in NZI and Safety Insurance in Thailand; a 49% share of AmG Insurance, a general insurance joint venture in Malaysia and 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China. In November 2008, the Group agreed to form a general insurance joint venture with the State Bank of India (SBI), State Bank of India General Insurance Company Ltd, which is expected to commence trading in 2010.

APPENDIX C – PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

Group Gross Written Premium - growth and product split

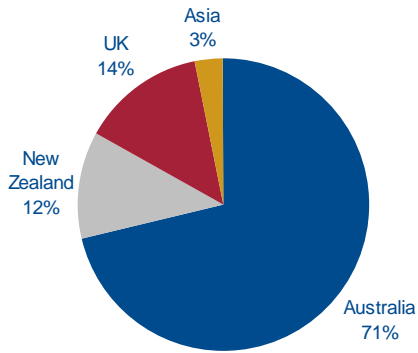
This graph shows a history of the Group's growth in Gross Written Premium (GWP) and the increased diversification over a 10 year period.

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

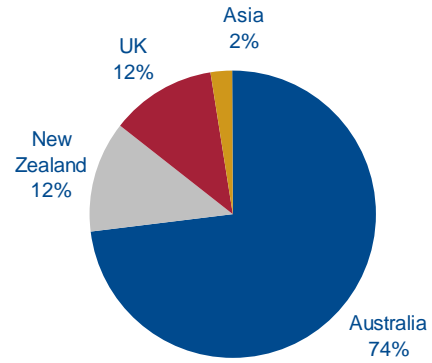


Group Gross Written Premium – Region split

IAG Group GWP by Region FY08

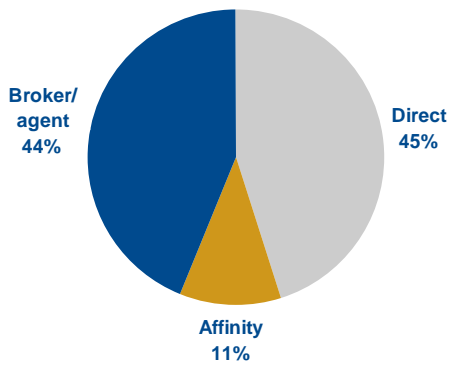


IAG Group GWP by Region FY09

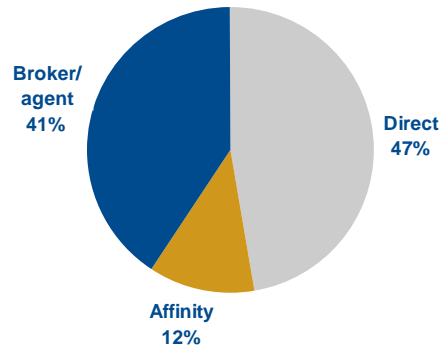


Group Gross Written Premium – Channel split

IAG Group GWP by Channel FY08



IAG Group GWP by Channel FY09



APPENDIX D - KEY ASX RELEASES

This schedule contains a summary of the announcements made to the ASX since 31 December 2008. It does not include announcements of changes in Directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements should further information be required. These are available from <http://www.iag.com.au>

9-Feb-09 Victoria Fires Update

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

9-Feb-09 IAG Confirms Reinsurance Arrangements

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

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

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

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

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

26-Feb-09 Investor Report Half Year to 31 December 2008

IAG announced a net profit after tax of \$4m for the half year ended 31 December 2008. This embraced an insurance margin of 6.2% and a net pre-tax loss of \$77m from one-off items including the loss on sale associated with the exit from the non-core mass market distribution operations in the UK. The Board declared a fully franked interim dividend of 4 cents per share.

26-Feb-09 Share Purchase Plan

IAG announced details of the Share Purchase Plan, under which eligible shareholders could purchase up to \$5,000 of IAG shares without paying brokerage fees or transaction costs.

26-Feb-09 Completion of Subordinated Debt Buyback

IAG announced the repurchase of £108m of its sterling denominated subordinated debt at a 30% discount to face value, resulting in a pre-tax profit of approximately \$70m.

10-Mar-09 Presentation by IAG CEO to Citi Investment Conference

IAG Managing Director and Chief Executive Officer, Mr Michael Wilkins, presented to the Citi Australia and New Zealand Investment Conference, providing an update on the Group's performance to investors in London.

6-Apr-09 Share Purchase Plan Result and Further Subordinated Debt Buyback

IAG announced the successful raising of \$84.4m under the Group's Share Purchase Plan and the repurchase of a further £36m of its sterling denominated subordinated debt at a 30% discount to face value, resulting in an additional pre-tax profit of approximately \$23m.

6-Apr-09 Dividend Reinvestment Plan - Pricing of Shares

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$3.4320 per share for the interim dividend payable on 8 April 2009.

6-Apr-09 Interim Report

IAG's 2009 Interim Report to shareholders was released to the market.

2-Jun-09 Impact of South-East Queensland / Northern NSW Storms

IAG confirmed it had received approximately 4,000 claims in respect of the late May 2009 storms in south-east Queensland and northern NSW, with an expected cost of \$25-35m.

4-Jun-09 Presentation by Australia Direct CEO

The Chief Executive Officer of the Australia Direct insurance division of IAG, Mr Andy Cornish, made a brief presentation to analysts and investors in Sydney.

11-Aug-09 CGU and Vero continue NTI JV

IAG announced that CGU had reached agreement with Vero regarding the ongoing structure of their 50:50 joint venture, NTI, Australia's largest specialist truck insurer.

APPENDIX E - GLOSSARY

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

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

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

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