

INVESTOR REPORT FY10

26 AUGUST 2010



DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:

- ASX code for Ordinary Shares: **IAG** (Shares on issue, 30 June 2010: 2,078,994,021)
- 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 Fixed Rate Subordinated Notes due 2026: **70QG** (£142.4m outstanding at 30 June 2010)

KEY DATES

Final dividend – ordinary shares

- Ex-dividend date 2 September 2010
- Record date 8 September 2010
- Payment date 6 October 2010

Payment date for IANG quarterly distribution 15 September 2010

Annual General Meeting 27 October 2010

Payment date for IAGPA and IANG distributions 15 December 2010

Announcement of half year results to 31 December 2010 24 February 2011

Interim dividend – ordinary shares

- Ex-dividend date 3 March 2011*
- Record date 9 March 2011*
- Payment date 11 April 2011*

Payment date for IANG quarterly distribution 15 March 2011

Payment date for IAGPA and IANG distributions 15 June 2011

Announcement of full year results to 30 June 2011 25 August 2011*

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

CONTACT DETAILS

Corporate Affairs & Investor Relations

Email: investor.relations@iag.com.au

Simon Phibbs

Telephone: +61 2 9292 8796

Mobile: +61 411 011 899

Email: simon.phibbs@iag.com.au

Carolyn McCann

Telephone: +61 2 9292 9557

Mobile: +61 411 014 126

Email: carolyn.mccann@iag.com.au

Registered Office

Level 26, 388 George Street

Sydney NSW 2000

Telephone: +61 2 9292 9222

Website: www.iag.com.au

Investor Information/Administration

Computershare Investor Services Pty Limited

452 Johnston Street, Abbotsford VIC 3067

Telephone: 1300 360 688

Email: iag@computershare.com.au

Facsimile: +61 3 9473 2470

Or by mail to:

GPO Box 4709

Melbourne VIC 3001

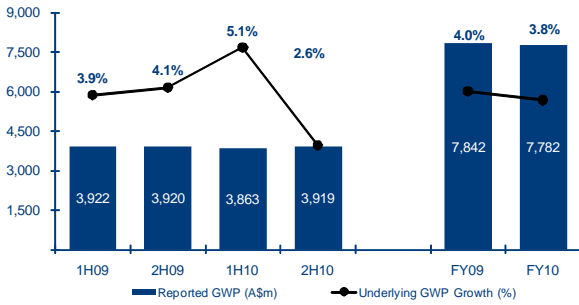
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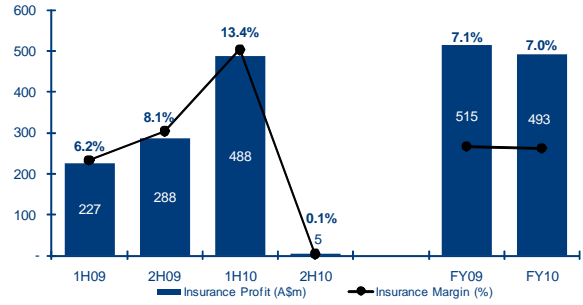
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FY10 GROUP RESULTS

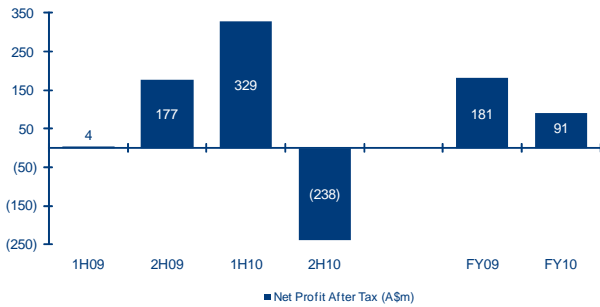
REPORTED GWP & UNDERLYING GWP GROWTH



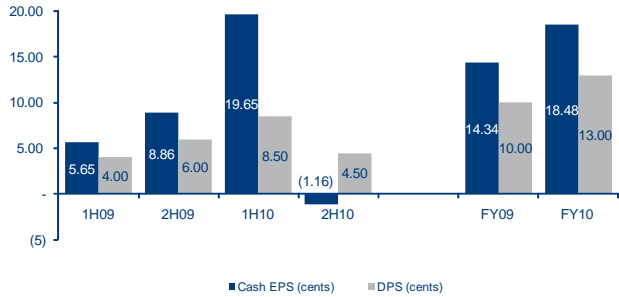
INSURANCE PROFIT & MARGIN



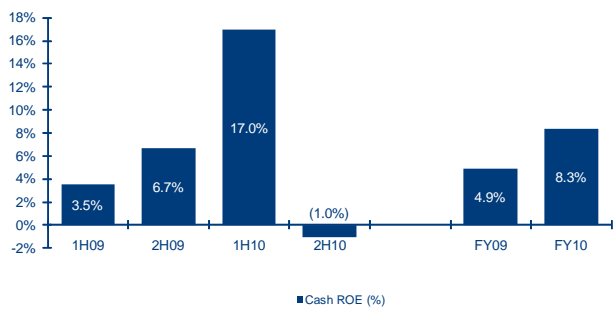
NET PROFIT AFTER TAX



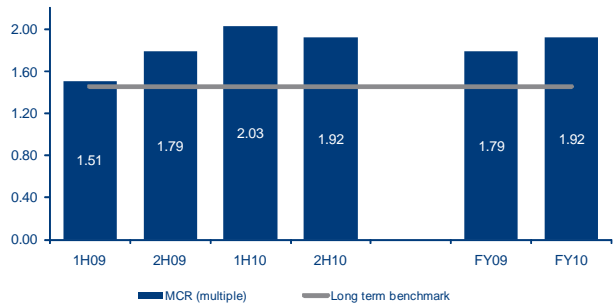
CASH EPS & DPS



CASH ROE



MINIMUM CAPITAL RATIO



KEY POINTS

FY10 OVERVIEW

For FY10 the Group has announced:

- Underlying gross written premium (GWP) growth of 3.8%; and
- An insurance margin of 7.0%.

These results reflect:

- A strong underlying performance from IAG's Australian and New Zealand businesses, which represent over 88% of Group GWP; and
- A negligible insurance profit in 2H10 following a material reserve strengthening in the UK as well as two severe weather events in Australia in March 2010.

While the FY10 result is significantly lower than that anticipated at the beginning of the financial year, it embodies clear and ongoing improvement in the Group's largest businesses, in the home markets of Australia and New Zealand.

In the UK, the Group is implementing a comprehensive programme of remedial action to return that business to profit, including appointing a new CEO.

FY10 insurance margin of 7.0%, in line with revised guidance

FY11 OUTLOOK

The Group's guidance for FY11 remains unchanged at:

- Underlying GWP growth of 3-5%; and
- An insurance margin of 10.5-12.5%.

This assumes:

- Losses from natural perils in line with budgeted allowances of \$435m;
- No material movement in foreign exchange rates or investment markets;
- Lower net reserve releases than FY10's \$228m (excluding the one-off UK strengthening in 2H10); and
- A modest contribution from the UK business.

FY11 insurance margin guidance of 10.5-12.5%

1. EXECUTIVE SUMMARY

FY10 OVERVIEW

IAG's Australian and New Zealand businesses, which represented over 88% of the Group's GWP in FY10, have registered further encouraging improvement in their collective underlying performance, as benefits from IAG's refined corporate strategy continue to be realised.

Together, the Australasian businesses reported GWP growth of 2.6% and a significantly improved combined margin of 13.2% (FY09: 6.8%), demonstrating clear progress against the Group's strategic priority of improving the performance of the Australian and New Zealand businesses.

The Group's reported insurance margin of 7.0%, however, fell well short of expectations held at the outset of the year, and compares to 7.1% in FY09.

The Group's performance was adversely affected by the following significant developments during 2H10:

- Two extreme weather events in March 2010, in Melbourne and Perth, culminating in a combined net claim cost to the Group of \$210m which contributed to a total natural peril claim cost in FY10 of \$463m (FY09: \$451m), compared to allowances of \$350m; and
- A marked deterioration in claim experience in the UK business, owing to adverse bodily injury claim trends, which resulted in the recognition of a \$367m charge.

Other notable impacts during the year were:

- Reserve releases of \$228m (excluding the one-off UK motor strengthening in 2H10), compared to \$215m in FY09;
- A modestly favourable credit spread impact of \$33m, compared to a loss of \$13m in FY09; and
- An adverse investment running yield effect in excess of \$50m, owing to lower average interest rates.

Underlying GWP growth of 3.8% was achieved in FY10, in line with guidance of 3-5%. Reported GWP of \$7,782m declined by 0.8% due to the impact of a stronger Australian dollar on translation of offshore operations and the divestment of non-core UK operations that contributed \$157m of GWP in FY09. In addition, a \$114m reduction in GWP can be directly attributed to the previously advised non-renewal of two major accounts in CGU.

Investment income on shareholders' funds improved significantly to \$96m (FY09: loss of \$39m), despite inclusion of a \$96m charge from reversal of the exchange right valuation in respect of the Reset Exchangeable Securities (RES).

Net profit after tax for FY10 was \$91m, compared to a profit of \$181m in FY09.

Reported ROE in FY10 was 2.0%, and cash ROE was 8.3%.

The Board has determined to pay a final dividend of 4.5 cents per ordinary share (fully franked). This brings the full year fully franked dividend to 13.0 cents (FY09: 10.0 cents), equating to a cash payout ratio of approximately 70%. This is consistent with the Group's policy to pay out 50-70% of full year cash earnings.

FY10 has seen further improvement in the underlying performance of the Australian and New Zealand businesses, offset by adverse developments in the UK

1. EXECUTIVE SUMMARY

DIVISIONAL HIGHLIGHTS AND DEVELOPMENTS

DIVISIONAL MARGINS

	1H09	2H09	1H10	2H10	FY09	FY10
	%	%	%	%	%	%
Australia Direct	12.6	11.4	16.9	16.9	12.0	16.9
Australia Intermediated	(0.6)	5.0	10.2	2.6	2.2	6.6
New Zealand	(3.9)	4.0	15.0	14.3	0.0	14.7
UK	20.2	9.9	6.6	(209.4)	15.2	(65.5)
Asia ¹	12.0	0.0	2.9	0.0	5.9	1.4
Total Margin - Ongoing Business	7.2	8.1	13.5	0.0	7.7	6.9
Discontinued Operations	(22.8)	5.3	0.0	0.0	(19.2)	0.0
Total Margin	6.2	8.1	13.4	0.1	7.1	7.0

¹ Asia margin in 1H09 and FY09 inflated by one-off benefit from introduction of DAC accounting in Thailand.

The Group's largest business, **Australia Direct**, grew GWP by 8.1% and delivered an improved insurance margin of 16.9% on the back of a strong underwriting performance and the benefits from cost saving initiatives.

Australia Intermediated continues to steadily improve its underlying performance, with a reported insurance margin of 6.6% (FY09: 2.2%). This reflects CGU's disciplined focus on rebuilding its business fundamentals.

IAG's **New Zealand** operations have produced a significantly improved result in FY10, with an insurance margin of 14.7%. The result was driven by the benefits of corrective action undertaken, assisted by lower natural peril and large loss claims.

The insurance margin of the **UK** business was affected by a material strengthening of bodily injury claim reserves in 2H10. A programme of remedial actions is being implemented and is expected to help restore the business to modest profitability in FY11.

The Group's established businesses in **Asia** produced strong operational performances. In addition, good progress has been made in the division's strategy to access new, high growth markets with a full launch of the Indian joint venture expected before the end of calendar 2010.

CAPITAL

The Group's capital position remains strong with an MCR ratio of 1.92 as at 30 June 2010. Capital management initiatives undertaken during the year included amendments to the terms of the Group's \$550m Reset Exchangeable Securities (RES) which brought that instrument onto the balance sheet as eligible regulatory and rating agency capital.

At 30 June 2010, IAG's key wholly owned operating insurance subsidiaries held 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG retains an 'A+' rating.

The Group's debt to total tangible capitalisation at 30 June 2010 stood at 36.0%, near the mid-point of the Group's targeted range of 30-40%.

The Group's probability of adequacy for the outstanding claims liability remains at least 90% at 30 June 2010.

Australia Direct, IAG's largest business, has recorded GWP growth in excess of 8% and a strong margin of 16.9%

The Group's capital position remains strong

1. EXECUTIVE SUMMARY

OUTLOOK

The Group's guidance for FY11 is:

- Underlying GWP growth of 3-5%; and
- An insurance margin of 10.5-12.5%.

This outlook embraces the following divisional expectations:

- GWP growth from **Australia Direct** and a strong, but lower, reported insurance margin;
- Further steady improvement in underlying performance from **Australia Intermediated**;
- Modest GWP growth in **New Zealand** and a strong, but lower, reported margin as natural peril costs revert to more normal levels;
- A modest contribution from the **UK** business, including an anticipated small first half loss, as the programme of remedial action progressively delivers an improvement in performance; and
- A continued strong performance from established businesses in **Asia**.

Underlying assumptions are:

- Losses from natural perils in line with budgeted allowances of \$435m;
- No material movement in foreign exchange rates or investment markets; and
- Lower net prior period reserve releases than FY10's \$228m (excluding the one-off UK strengthening in 2H10).

FY11 insurance margin guidance of 10.5-12.5%, despite anticipated modest input from the UK and lower reserve releases

2. GROUP RESULTS

FINANCIAL PERFORMANCE

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Gross written premium	3,922	3,920	3,863	3,919	7,842	7,782
Gross earned premium	3,931	3,787	3,872	3,749	7,718	7,621
Reinsurance expense	(248)	(237)	(229)	(327)	(485)	(556)
Net earned premium	3,683	3,550	3,643	3,422	7,233	7,065
Net claims expense	(3,088)	(2,282)	(2,335)	(2,737)	(5,370)	(5,072)
Commission expense	(356)	(337)	(341)	(317)	(693)	(658)
Underwriting expense	(744)	(691)	(689)	(707)	(1,435)	(1,396)
Underwriting profit/(loss)	(505)	240	278	(339)	(265)	(61)
Investment income on technical reserves	732	48	210	344	780	554
Insurance profit	227	288	488	5	515	493
Net corporate expense	(77)	55	8	(4)	(22)	4
Interest	(46)	(41)	(43)	(45)	(87)	(88)
Profit/(loss) from fee based business/share of associates	13	(3)	11	(1)	10	10
Investment income on shareholders' funds	(72)	33	91	5	(39)	96
Profit/(loss) before income tax and amortisation	45	332	555	(40)	377	515
Income tax expense	17	(82)	(156)	(56)	(65)	(212)
Profit/(loss) after income tax (before amortisation)	62	250	399	(96)	312	303
Non-controlling interests	(28)	(38)	(58)	(41)	(66)	(99)
Profit/(loss) attributable to IAG shareholders (before amortisation)	34	212	341	(137)	246	204
Amortisation and impairment	(30)	(35)	(12)	(101)	(65)	(113)
Profit/(loss) attributable to IAG shareholders	4	177	329	(238)	181	91
Insurance Ratios						
Loss ratio	83.8%	64.3%	64.1%	80.0%	74.2%	71.8%
Immunised loss ratio	70.6%	70.9%	65.0%	78.0%	70.7%	71.3%
Expense ratio	29.9%	29.0%	28.3%	30.0%	29.4%	29.1%
Commission ratio	9.7%	9.5%	9.4%	9.3%	9.6%	9.3%
Administration ratio	20.2%	19.5%	18.9%	20.7%	19.8%	19.8%
Combined ratio	113.7%	93.3%	92.4%	110.0%	103.6%	100.9%
Immunised combined ratio	100.5%	99.9%	93.3%	108.0%	100.1%	100.4%
Insurance margin	6.2%	8.1%	13.4%	0.1%	7.1%	7.0%
Key Financial Metrics						
Reported ROE (average equity) (% pa)	0.2%	8.2%	13.8%	(10.2%)	4.1%	2.0%
Cash ROE (average equity) (% pa)	3.5%	6.7%	17.0%	(1.0%)	4.9%	8.3%
Basic EPS (cents)	0.23	9.09	15.96	(11.56)	9.32	4.39
Cash EPS (cents)	5.65	8.86	19.65	(1.16)	14.34	18.48
DPS (cents)	4.00	6.00	8.50	4.50	10.00	13.00
Probability of adequacy	90%	90%	90%	90%	90%	90%
MCR multiple	1.51	1.79	2.03	1.92	1.79	1.92

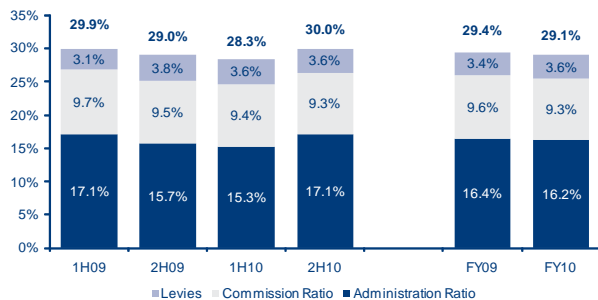
KEY FOREIGN EXCHANGE RATES APPLIED

	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY09	FY10	FY09	FY10
New Zealand dollar	0.8041	0.8136	0.8134	0.7965
British pound	2.0568	1.7664	2.1613	1.7933
Thai baht	0.0361	0.0362	0.0386	0.0342

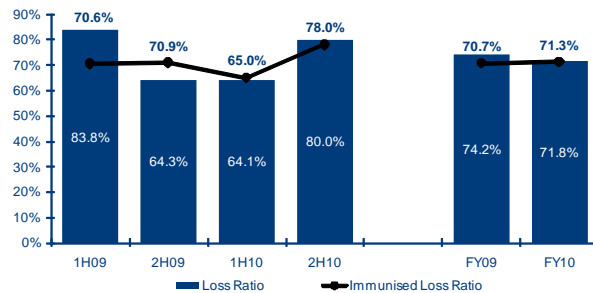
2. GROUP RESULTS

INSURANCE RATIOS

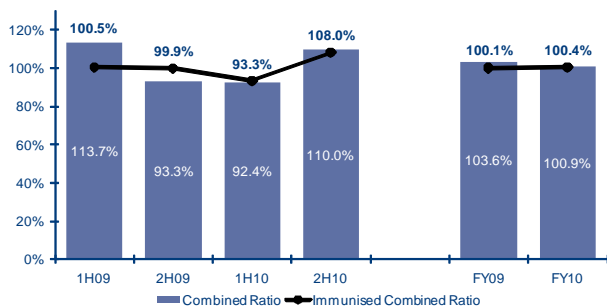
EXPENSE RATIO



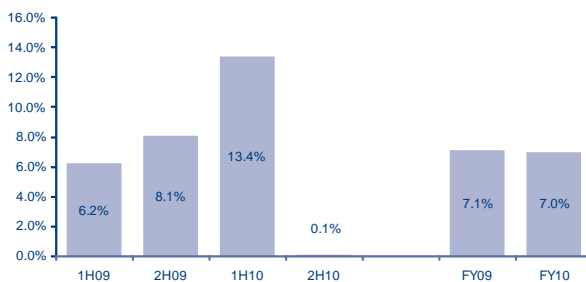
LOSS RATIO



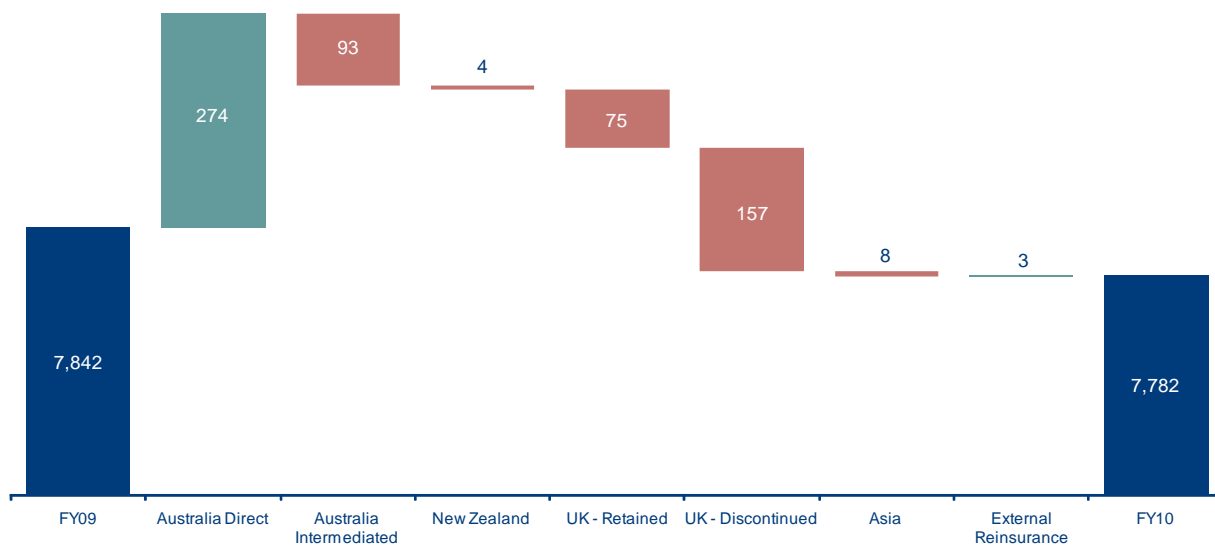
COMBINED RATIO



INSURANCE MARGIN (BEFORE TAX)



GWP - FY10 VS. FY09 (A\$M)



2. GROUP RESULTS

PREMIUMS

GWP for the Group was \$7,782m, down 0.8% from \$7,842m in FY09. This is broadly in line with the guidance provided of flat reported GWP growth, given the impact of the strong Australian dollar on translation of premium generated offshore, notably in the UK and Asia.

After allowing for the impact of foreign exchange movements and the sale of the non-core UK operations in FY09, underlying GWP growth in FY10 was 3.8%. This compares to guidance of 3-5%.

Comparing FY10 GWP with FY09:

- Australia Direct grew by 8.1% to \$3,653m, driven by rate increases and volume growth, particularly in the home portfolio;
- Australia Intermediated (CGU) decreased by \$93m to \$2,264m. This incorporates a \$114m reduction in GWP from the previously advised withdrawal from two major accounts;
- New Zealand's reported GWP declined by 0.4% to \$961m. In local currency terms (and excluding the effect of a change in income recognition for a major portfolio), GWP increased by 3.6%, reflecting rate increases;
- The UK business reported a reduction in GWP of 9.5%, to \$712m, however in local currency terms this amounted to growth of 8.8%; and
- In Asia, reported GWP of \$185m declined by 4.1% owing to the strength of the Australian dollar, however local currency GWP grew by 8.1%.

INSURANCE MARGIN

The Group's insurance margin was 7.0% (FY09: 7.1%), in line with the updated guidance provided on 2 June 2010.

While FY10 entailed two contrasting halves in reported margin terms, the full year outcome embraces over \$300m of operational improvement from the key businesses in the home markets of Australia and New Zealand. This advance in underlying performance was derived from the combined effect of improved underwriting and claim management disciplines and cost saving initiatives.

The combined Australasian businesses reported a markedly higher insurance margin of 13.2% (FY09: 6.8%), with some benefit from lower natural peril costs in New Zealand but all other natural peril and reserve release influences being broadly similar in quantum to FY09.

The Group 1H10 margin of 13.4% embraced strong operational improvement, but was assisted by favourable impacts from lower natural peril costs and narrower credit spreads.

The Group 2H10 margin of 0.1% incorporated three adverse material items:

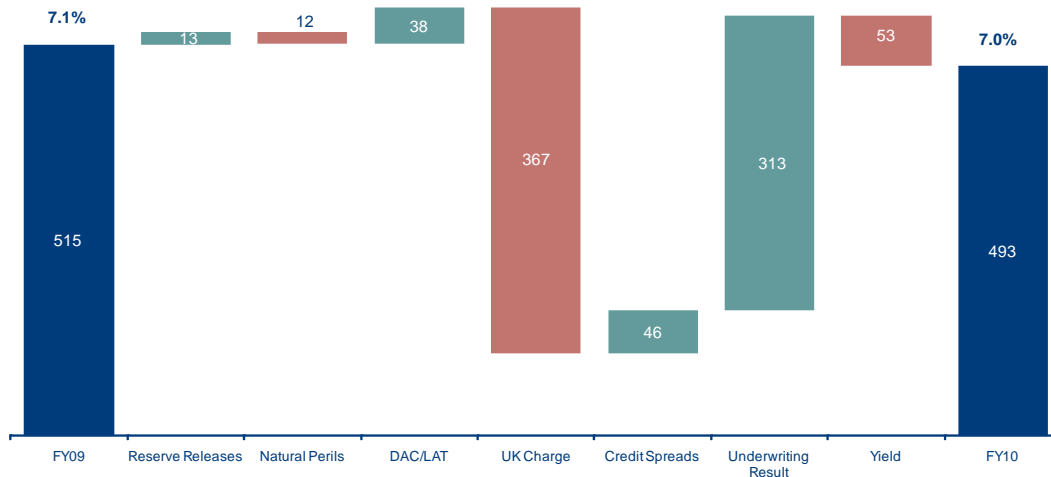
- \$135m of net claim cost in respect of the storm that struck Melbourne in early March 2010 (equivalent to a full year margin effect of 1.9%);
- \$75m of net claim cost following the Perth hailstorm in late March 2010 (full year margin impact of 1.1%); and
- A \$367m charge stemming from a significant deterioration in UK claim experience, in particular bodily injury claims, announced in June 2010.

Underlying GWP grew by 3.8% during FY10

Insurance margin of 7.0% in line with updated guidance

2. GROUP RESULTS

INSURANCE MARGIN - FY10 VS. FY09



Other contributory factors to the movement in full year margin were:

- Higher than expected net prior period reserve releases (excluding the one-off UK strengthening in 2H10) of \$228m (FY09: \$215m), reflecting continuing favourable run-off of claims relative to initial assumptions;
- A favourable impact from credit spread movements of \$33m, compared to a loss of \$13m in FY09;
- No DAC writedown (excluding the UK), compared to \$38m in FY09; and
- A lower running yield impact of \$53m.

The impact on the insurance profit of prior period reserve releases, natural perils, credit spreads, DAC adjustments and the one-off UK charge is summarised in the table contained in Appendix D.

REINSURANCE EXPENSE

The Group's reinsurance expense increased to \$556m in FY10 (FY09: \$485m), largely reflecting the new adverse development cover (ADC) entered into in June 2010 and fully expensed in 2H10. This cover provides significant protection against further claim deterioration in the UK motor book, for the underwriting years ending 31 December 2009 and prior.

The Group renewed its main catastrophe reinsurance protection for 12 months effective 1 January 2010, with rate increases of 2-3%.

CLAIMS

The reported loss ratio of 71.8% is lower than FY09 (74.2%). This reflects the combined effect of:

- A relative stabilisation in interest rates since 1H09, reducing the effect of the risk free discount rate adjustment;
- The impact of the one-off strengthening of UK reserves in 2H10 in the face of a deterioration in bodily injury experience; and
- Improved claim experience elsewhere, notably in CGU and New Zealand.

After allowing for the risk free discount rate adjustment, the immunised loss ratio of 71.3% is slightly higher than FY09 (70.7%).

Reinsurance expense includes cost of new ADC in UK

Material UK reserve strengthening identified in 2H10

2. GROUP RESULTS

RESERVE RELEASES

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Reserve releases ¹	85	130	80	148	215	228
Impact on insurance margin	2.3%	3.7%	2.2%	4.3%	3.0%	3.2%

¹ Excluding one-off UK strengthening in 2H10.

NATURAL PERILS – CLAIM COSTS AND ALLOWANCES

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Natural peril claim costs	(176)	(275)	(121)	(342)	(451)	(463)
Natural peril allowances	153	161	166	184	314	350
Impact on insurance profit	(23)	(114)	45	(158)	(137)	(113)
Impact on insurance margin	(0.6%)	(3.2%)	1.2%	(4.6%)	(1.9%)	(1.6%)

RESERVE RELEASES

The FY10 net claims expense was reduced by \$228m of prior period reserve releases, excluding the one-off reserve strengthening identified in 2H10 in respect of the UK motor business. Reserve releases in FY09 amounted to \$215m.

FY10 reserve releases (ex the one-off UK strengthening in 2H10) were higher than originally anticipated owing to the impact of improved economic conditions on underlying assumptions and favourable experience in classes such as workers' compensation and professional risks. The majority of FY10's reserve releases were sourced from the central estimate.

The Group believes that reserve releases in the range of 0.5% to 1.0% of NEP are a recurring underlying feature of its reported operating results in any one year. This reflects the Group's approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years.

The Group expects a reduction in full year prior period reserve releases in FY11 compared to FY10 levels (excluding the one-off UK strengthening).

NATURAL PERILS

The FY10 net claims expense included \$463m (FY09: \$451m) of losses from natural perils (net of reinsurance), compared to allowances of \$350m. The net effect of natural perils (after allowances) was a negative impact on reported insurance margin of 1.6% (FY09: -1.9%).

Following relatively benign natural peril activity in 1H10, the natural perils expense was significantly higher in 2H10 owing to the major Melbourne and Perth storm events. The cost of these events was capped by the Group's reinsurance cover, at \$135m and \$75m respectively.

Smaller attritional events (under \$5m in size) amounted to \$116m in FY10, compared to \$156m in FY09.

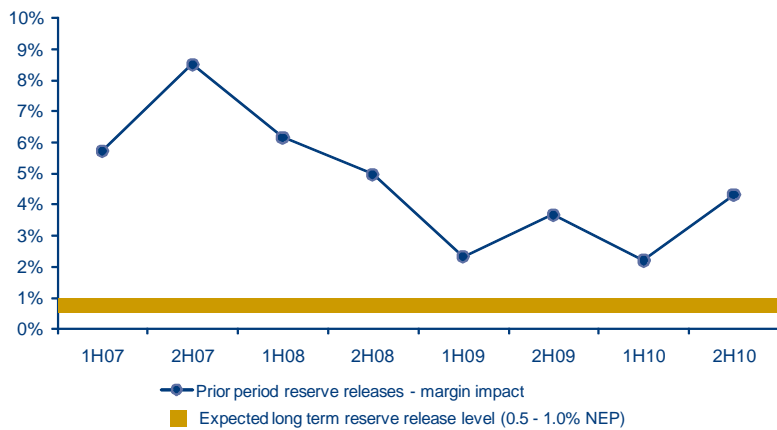
Owing to the number of qualifying events in 2H10 in excess of \$15m (capped individually at \$50m), the Group's aggregate reinsurance cover protection, of \$150m in excess of \$150m, is active for the balance of calendar 2010.

Higher than expected 2H10 reserve releases (ex-UK)

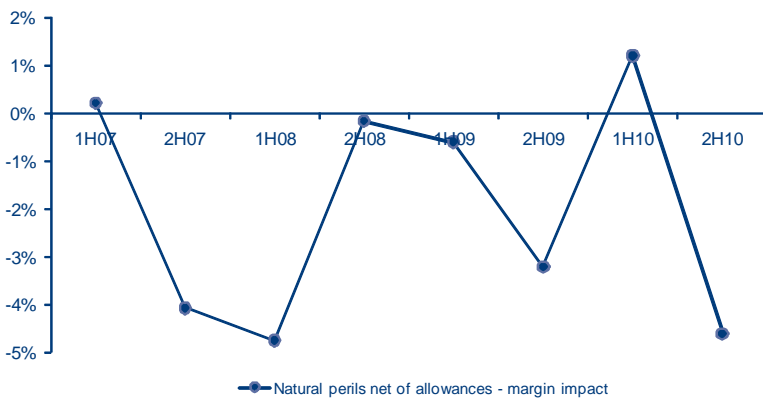
Natural peril allowances exceeded by \$113m (1.6% margin impact)

2. GROUP RESULTS

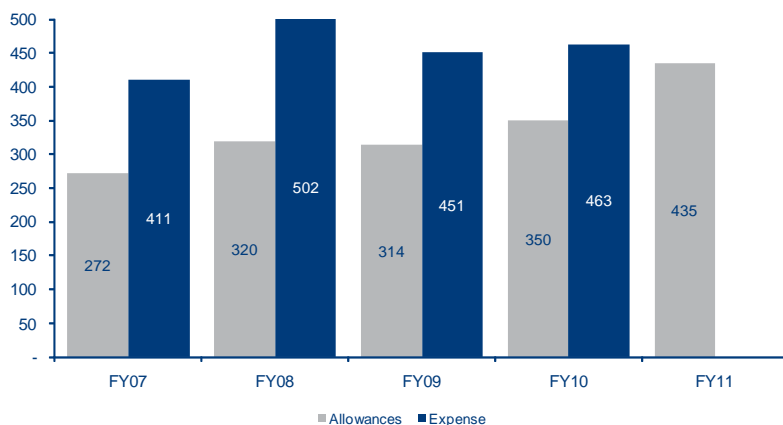
RESERVE RELEASES – IMPACT ON INSURANCE MARGIN



NATURAL PERILS – IMPACT ON INSURANCE MARGIN



NATURAL PERIL CLAIM COSTS VS. ALLOWANCES



The Group has increased its natural peril allowances in recent years in the face of increased peril activity. Allowances for FY11 are \$435m.

2. GROUP RESULTS

FY10 NATURAL PERIL COSTS BY EVENT

	A\$m
Severe winds South East Australia (August 2009)	8
Thunderstorms and rain South Australia (September 2009)	8
Severe wind and storms NSW (September 2009)	14
Severe wind and storms ACT (September 2009)	5
Heavy rain and storms NSW (November 2009)	6
Rain, wind and thunderstorms NSW (November 2009)	6
Rain and thunderstorms Victoria (November 2009)	7
Tropical cyclone Laurence (December 2009)	5
Severe thunderstorms NSW/Queensland (December 2009)	6
Tropical cyclone Olga (January 2010)	20
Severe thunderstorms NSW (January 2010)	6
Severe storms NSW (February 2010)	21
Monsoonal rain North and East Australia (February 2010)	7
Melbourne hail and heavy rain (March 2010)	135
Tropical cyclone Ului (March 2010)	18
Perth hail, severe storms (March 2010)	75
Other events	116
Total	463

EXPENSES

The Group's reported expense ratio improved slightly to 29.1% (FY09: 29.4%), as operational efficiencies and the benefits from cost initiatives were offset by the effect of the charge identified in the UK. Excluding the UK business, the Group's expense ratio was 27.5%.

Excluding government levies, the Group's administration ratio has improved from 16.4% in FY09 to 16.2% in FY10.

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY10 was \$554m, compared to \$780m in FY09. Much of this movement was due to the influence of a more benign interest rate environment on the risk free discount rate adjustment. Year-on-year, a \$53m reduction in running yield occurred.

Credit spread volatility has eased. The FY10 insurance profit included a favourable impact of \$33m (2H10: \$5m), as spreads narrowed over the year. This compares to a net loss of \$13m from the widening of spreads in FY09.

\$53m reduction in running yield

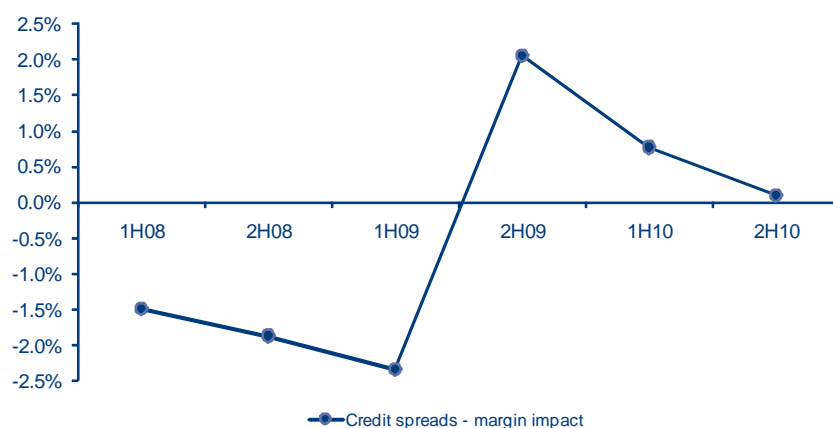
INVESTMENT INCOME ON TECHNICAL RESERVES

	1H09	2H09	1H10	2H10	FY09	FY10
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Investment income on technical reserves	732	48	210	344	780	554
Adjusted for:						
- Risk free discount rate adjustment	(488)	234	34	(69)	(254)	(35)
- Credit spread impact	86	(73)	(28)	(5)	13	(33)
Running yield on technical reserves	330	209	216	270	539	486

2. GROUP RESULTS

It remains the Group's expectation that it can deliver at least 100bps over the risk free rate for the average duration of its claim liability, which is approximately three years.

CREDIT SPREADS – INSURANCE MARGIN IMPACT



NET CORPORATE EXPENSES

All corporate expenses are allocated to business operations, with the exception of those of a one-off or unusual nature.

Net corporate expenses in FY10 amounted to a profit of \$4m and comprised:

- A net profit on finalisation of issues associated with the FY09 divestment of non-core UK assets; and
- A small expense in respect of build costs for The Buzz's new home product offer.

INTEREST

The Group's interest expense of \$88m in FY10 was marginally higher than that of FY09 (\$87m). This reflects the combined effect of:

- The buyback of sterling denominated subordinated debt in 2H09; and
- The \$550m Reset Exchangeable Securities (RES) instrument being brought on to the balance sheet from December 2009.

A change in debt mix in April 2010, entailing the repayment of a US\$ note facility and the issue of new sterling denominated exchangeable loan notes, resulted in negligible impact on interest expense during FY10.

2. GROUP RESULTS

PROFIT/(LOSS) FROM FEE BASED BUSINESS/SHARE OF ASSOCIATES

The combined contribution of \$10m (FY09: \$10m) from fee based business and associates comprises:

- \$8m (FY09: \$4m) of fee based income; and
- \$2m (FY09: \$6m) in respect of share of associates.

The increase in profit from fee based business is explained by:

- The absence of previously loss-making activities in the divested UK business; partially offset by
- A reduced contribution from Australia Intermediated, reflecting lower prior period fee income.

A large portion of the share of profit from associates is represented by the Group's Malaysian joint venture, AmG Insurance. This business performed well, but its contribution was impacted by the translation effect of a stronger Australian dollar.

Lower prior period fee income in Australia Intermediated

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds amounted to a profit of \$96m, compared to a loss of \$39m in FY09. The improved FY10 outcome reflects:

- Improved equity market returns; offset by
- Reversal of the \$96m exchange right previously recognised in respect of the Reset Exchangeable Securities (RES). This was identified in 1H10 on the amendment of the RES to an on-balance sheet Tier 1 instrument.

In FY09 a \$27m revaluation profit in respect of the RES exchange right was recognised.

As foreshadowed, the Group has progressively increased its weighting to growth assets (equities and alternatives) within shareholders' funds over the course of 2H10, to approximately 37% at 30 June 2010.

Improved investment income, despite inclusion of RES exchange right reversal

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

	1H09	2H09	1H10	2H10	FY09	FY10
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Shareholders' funds investment income	(97)	31	187	5	(66)	192
RES revaluation	25	2	(96)	-	27	(96)
Total investment income on shareholders' funds	(72)	33	91	5	(39)	96

TAX EXPENSE

The Group reported a tax expense in FY10 of \$212m, compared to \$65m in FY09, which represents an effective tax rate (pre-amortisation) of 41.2%.

Major factors in reconciling back to the prevailing 30% corporate tax rate in Australia include:

- Tax benefits arising from the restructure of certain financing arrangements, including intra-group funding of the UK operations; and
- The non-recognition for accounting purposes of any future tax benefit stemming from the \$367m charge identified in 2H10 in respect of the UK.

Effective tax rate of 41% comparable to Australian corporate rate after allowing for one-off items

2. GROUP RESULTS

TAX EXPENSE RECONCILIATION

	FY10 A\$m
Profit before income tax and amortisation	515
Tax at Australian corporate rate (30%)	155
Adjusted for:	
- Tax benefits on restructure of financing arrangements	(119)
- UK tax benefits not recognised/derecognised	163
- Non-deductible RES exchange right reversal	29
- Other items	(16)
Tax expense	212

NON-CONTROLLING INTERESTS

The non-controlling interest in the Group's profit of \$99m compares to the \$66m reported in FY09. The increase reflects the improved performance of the Group's main joint venture, the 70%-owned Insurance Manufacturers of Australia Pty Limited (IMA), which forms part of Australia Direct.

Increased non-controlling interests reflects improved IMA result

AMORTISATION

The FY10 amortisation charge of \$113m is significantly higher than FY09 (\$65m) owing to inclusion of a one-off write-down of goodwill and intangibles associated with the UK business of \$87m. This follows the deterioration in UK profitability associated with the bodily injury claims issue in that market.

EARNINGS PER SHARE

Basic earnings per share (EPS) in FY10 was 4.39 cents per share (cps), compared to 9.32cps in FY09, a decrease of approximately 53%. On a diluted basis, EPS was 4.36cps (FY09: 9.26cps). Basic EPS was calculated on weighted average capital on issue in FY10 of 2,065m shares (excluding treasury shares).

ORDINARY ISSUED CAPITAL

	Shares (m)
Balance at the beginning of the financial year	2,071
Shares issued under dividend reinvestment plan (October 2009)	8
Balance at the end of the financial year	2,079
Average weighted shares on issue¹	2,065

¹ Basic EPS calculated after exclusion of treasury shares held in trust.

Cash EPS was 18.48cps, compared to 14.34cps in FY09, an increase of nearly 29%. Cash earnings are used for the purposes of targeted ROE and dividend payout policy, and are defined as:

Cash EPS of 18.48 cents, up 29%, adjusted for unusual items

2. GROUP RESULTS

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles; and
- Excluding any unusual items.

Unusual items in 2H10 included the cost of the ADC reinsurance entered into in the UK, as well as identification of the future tax benefit on the UK charge that is expected to be recovered as profitability is restored in that business. In accordance with accounting standard requirements, this tax benefit has not been recognised in the reported FY10 result.

CASH EARNINGS

	FY10 A\$m
Net profit after tax	91
Intangible amortisation and impairment	113
Unusual items (net of tax):	
- Reversal of RES exchange right	96
- Tax benefit on financial restructuring	(119)
- UK adverse development cover (ADC)	67
- UK deferred tax benefit	144
- Net corporate expenses	(10)
Cash earnings	382
Dividend paid/payable	270
Cash payout ratio	70.8%

DIVIDENDS

The Group's policy is to pay dividends equivalent to approximately 50–70% of reported cash earnings in any given financial year.

The Board has determined to pay a fully franked final dividend of 4.5 cents per ordinary share (2H09: 6.0 cents). This brings the full year dividend to 13.0 cents per share (FY09: 10.0 cents), fully franked, an increase of 30% over FY09. This equates to a payout ratio of 70.8% of cash earnings for the year.

The final dividend is payable on 6 October 2010 to shareholders registered as at 5pm on 8 September 2010.

The dividend reinvestment plan (DRP) will be operational for the final dividend. The issue price per share for the 2H10 dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. IAG's DRP is available at: <http://www.iag.com.au/shareholder/reinvestment/index.shtml>.

The listed entity had distributable retained earnings of \$751m as at 30 June 2010. At this date, and after allowance for payment of the final dividend, the Group's franking balance was \$419m, giving the capacity to fully frank a further \$807m of distributions.

30% increase in full year dividend, equates to payout of approximately 70% of cash earnings

2. GROUP RESULTS

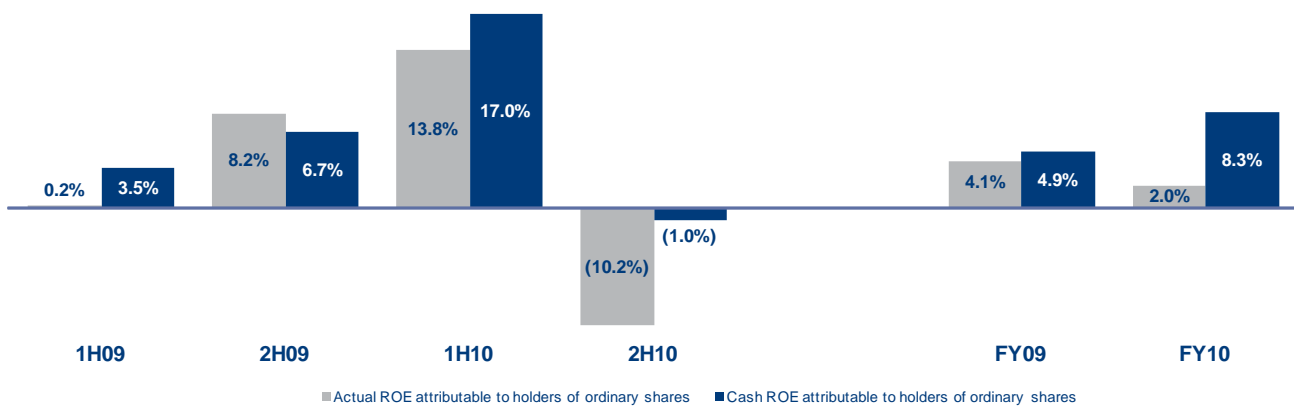
RETURN ON EQUITY

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.

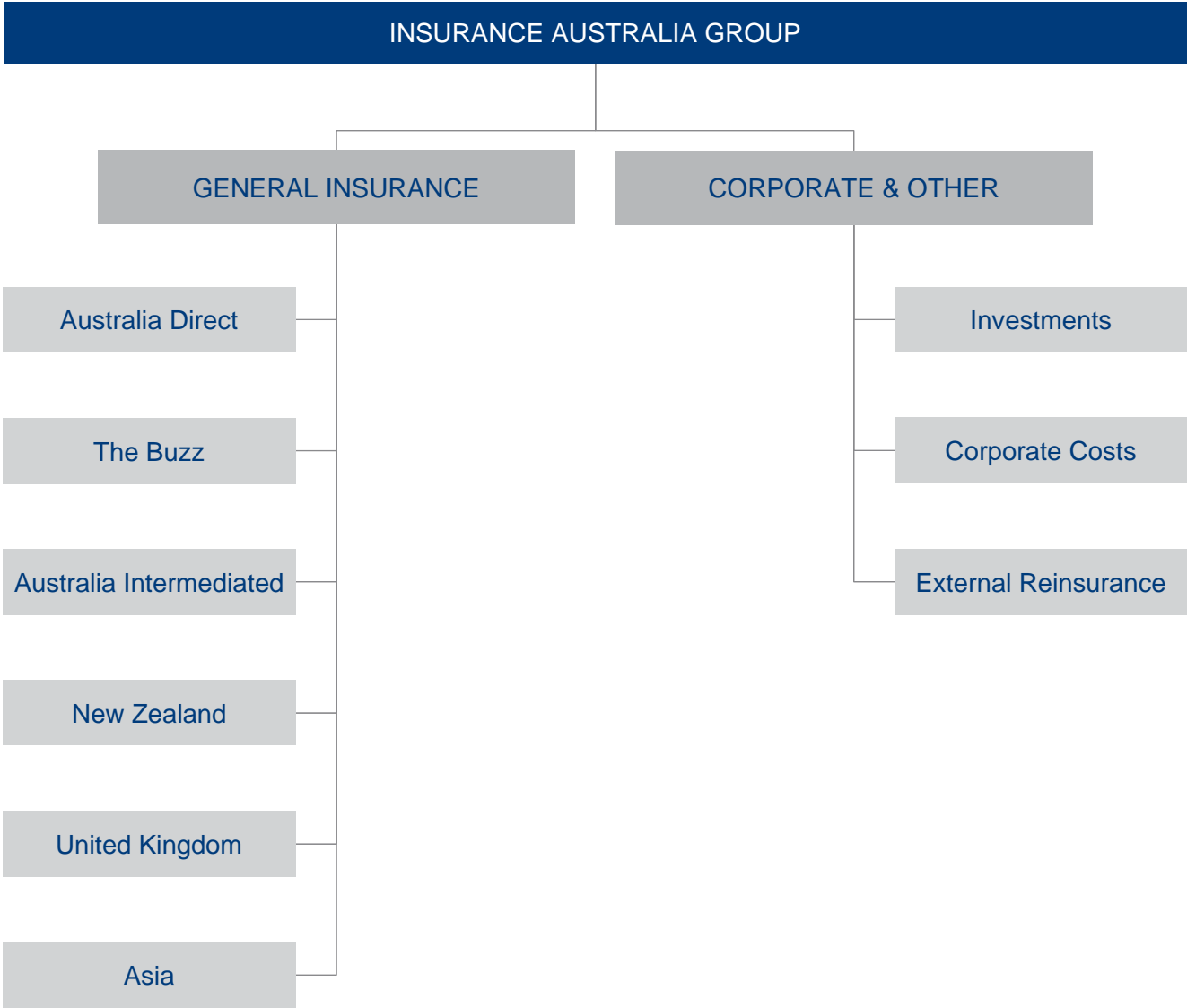
Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%.

**Cash ROE of 8.3% (FY09:
4.9%)**

RETURN ON EQUITY (ANNUALISED)



3. DIVISIONAL OVERVIEW



FY10 DIVISIONAL FINANCIAL PERFORMANCE

	Australia Direct A\$m	Australia Intermediated A\$m	New Zealand A\$m	UK A\$m	Asia A\$m	Corporate & Other A\$m	Continuing Business A\$m	Discontinued / Run off A\$m	FY10 Total A\$m
Gross written premium	3,653	2,264	961	712	185	8	7,783	(1)	7,782
Gross earned premium	3,511	2,299	968	663	176	4	7,621	-	7,621
Reinsurance expense	(147)	(177)	(75)	(121)	(33)	-	(553)	(3)	(556)
Net earned premium	3,364	2,122	893	542	143	4	7,068	(3)	7,065
Net claims expense	(2,438)	(1,416)	(494)	(645)	(88)	-	(5,081)	9	(5,072)
Commission expense	(71)	(319)	(109)	(129)	(29)	(1)	(658)	-	(658)
Underwriting expense	(596)	(465)	(175)	(129)	(29)	-	(1,394)	(2)	(1,396)
Underwriting profit/(loss)	259	(78)	115	(361)	(3)	3	(65)	4	(61)
Investment income on technical reserves	310	217	16	6	5	-	554	-	554
Insurance profit/(loss)	569	139	131	(355)	2	3	489	4	493
Profit/(loss) from fee based business/share of associates	-	9	1	(3)	3	-	10	-	10
Total divisional results	569	148	132	(358)	5	3	499	4	503
Insurance Ratios									
Loss ratio	72.5%	66.7%	55.3%	119.0%	61.5%		71.9%		71.8%
Expense ratio	19.8%	36.9%	31.8%	47.6%	40.6%		29.0%		29.1%
Commission ratio	2.1%	15.0%	12.2%	23.8%	20.3%		9.3%		9.3%
Administration ratio	17.7%	21.9%	19.6%	23.8%	20.3%		19.7%		19.8%
Combined ratio	92.3%	103.6%	87.1%	166.6%	102.1%		100.9%		100.9%
Insurance margin	16.9%	6.6%	14.7%	(65.5%)	1.4%		6.9%		7.0%

4. AUSTRALIA DIRECT

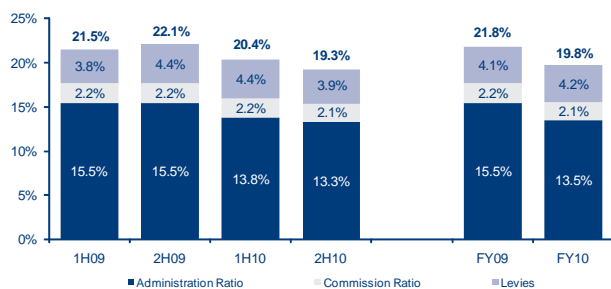
FINANCIAL PERFORMANCE

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Gross written premium	1,650	1,729	1,779	1,874	3,379	3,653
Gross earned premium	1,597	1,639	1,733	1,778	3,236	3,511
Reinsurance expense	(63)	(69)	(74)	(73)	(132)	(147)
Net earned premium	1,534	1,570	1,659	1,705	3,104	3,364
Net claims expense	(1,360)	(1,090)	(1,158)	(1,280)	(2,450)	(2,438)
Commission expense	(33)	(34)	(36)	(35)	(67)	(71)
Underwriting expense	(296)	(312)	(302)	(294)	(608)	(596)
Underwriting profit/(loss)	(155)	134	163	96	(21)	259
Investment income on technical reserves	349	45	118	192	394	310
Insurance profit	194	179	281	288	373	569

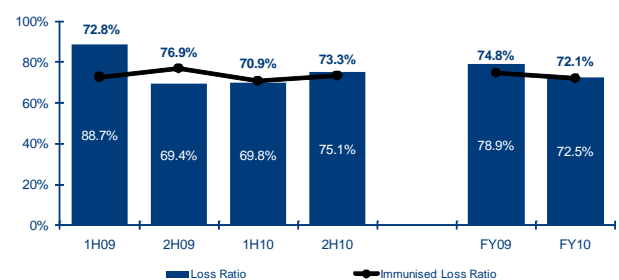
Insurance Ratios						
Loss ratio	88.7%	69.4%	69.8%	75.1%	78.9%	72.5%
Immunised loss ratio	72.8%	76.9%	70.9%	73.3%	74.8%	72.1%
Expense ratio	21.5%	22.1%	20.4%	19.3%	21.8%	19.8%
Commission ratio	2.2%	2.2%	2.2%	2.1%	2.2%	2.1%
Administration ratio	19.3%	19.9%	18.2%	17.2%	19.6%	17.7%
Combined ratio	110.2%	91.5%	90.2%	94.4%	100.7%	92.3%
Immunised combined ratio	94.3%	99.0%	91.3%	92.6%	96.6%	91.9%
Insurance margin	12.6%	11.4%	16.9%	16.9%	12.0%	16.9%

INSURANCE RATIOS

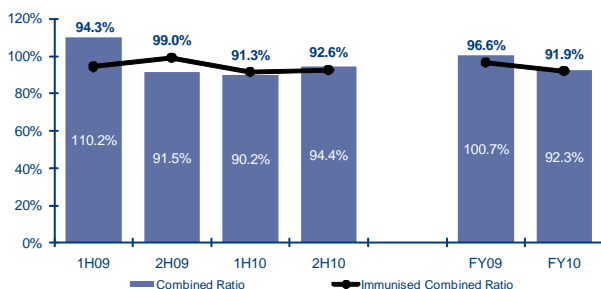
EXPENSE RATIO



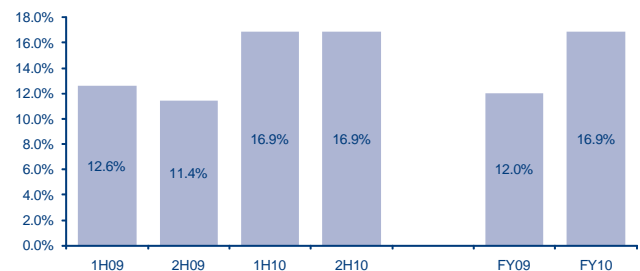
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



4. AUSTRALIA DIRECT

EXECUTIVE SUMMARY

Australia Direct is IAG's largest business, concentrating on direct personal lines insurance products, including compulsory third party (CTP). Australia Direct contributed 47% of the Group's GWP in FY10 and has continued to perform strongly.

GWP growth of 8.1% was recorded, over FY09. GWP has increased in all States and in all product areas.

Australia Direct generated an insurance profit of \$569m, an increase of over 50% on the \$373m reported in FY09. This equates to an insurance margin of 16.9% (FY09: 12.0%).

A margin of 16.9% has been reported in 2H10, despite significant natural peril claim costs from the severe storms in Melbourne and Perth in March 2010.

The improved FY10 margin is the result of a strong underwriting performance across the year, underpinned by earned premium and volume growth, together with cost saving initiatives.

In FY11, Australia Direct expects continued GWP growth, but at a more modest pace than FY10, and to maintain a strong, but lower insurance margin. This will be influenced by reinvestment in the business and an anticipated reduction in reserve releases, while supported by various product initiatives in an increasingly competitive landscape.

MARKET ENVIRONMENT

It is anticipated that overall demand for insurance (and consequently industry GWP growth) will increase, as the effects of the Global Financial Crisis (GFC) dissipate and motor vehicle sales recover.

Competition in personal lines, however, continues to increase, with:

- Both established insurers and new entrants launching targeted marketing campaigns and releasing product and price combinations specifically aimed at the most profitable segments of the market;
- Increased industry emphasis on the online channel; and
- The appearance of new competitors seeking to exploit well-known, familiar brands that are not generally associated with insurance to sell white-labelled products.

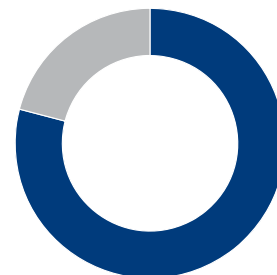
There are a number of proposed regulatory changes and reviews underway, which will impact the general insurance industry. These include:

- Legislation scheduled for introduction by the NSW Government in October 2010 to prohibit the re-registration of all repairable written-off vehicles in an attempt to reduce car re-birthing;
- Reduction of the Queensland CTP ceiling price by \$24 from 1 October 2010. Other changes resulting from the recently completed government review of the scheme include abolition of the \$4 HIH surcharge included with the nominal defendant levy, and removal of the payment of CTP-related commissions; and
- Extension of the NSW Life Time Care scheme to anyone who is injured as a result of a motor vehicle accident.

The combined effect of these changes may increase the cost and complexity of doing business.

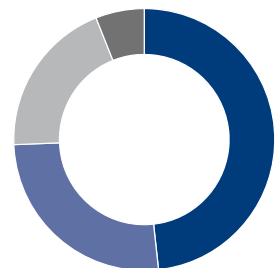
Strong business performance, with improved full year margin of 16.9%

FY10 GWP BY TAIL



- Short Tail
- Long Tail

FY10 GWP BY CLASS



- Motor
- Home
- CTP
- Other

4. AUSTRALIA DIRECT

PREMIUMS

Australia Direct's premium growth during 2H10 continued the strong momentum evident over the preceding 18 months. Total GWP for 2H10 of \$1,874m was up 8.4% on 2H09, and 5.3% on 1H10. Overall GWP for FY10 amounted to \$3,653m, an 8.1% increase over FY09 (\$3,379m).

All States and products have achieved GWP growth in FY10, on the back of price and volume increases. The home portfolio, in particular, performed well, with recent natural peril events enhancing the demand for insurance.

During the year, the business launched a number of successful initiatives to promote growth, including a national 2-year fixed price product and State-based loyalty campaigns. Australia Direct's internet offering has also been enhanced, with encouraging results.

Short tail GWP in 2H10 was 7.3% ahead of 2H09, resulting in a full year increase of 6.8% on FY09. Despite increased competitive activity in the market, motor GWP in 2H10 was up 3.3% on 2H09 (up 5.7% on 1H10), culminating in FY10 GWP growth of 3.3% compared to FY09. Home continued to register double digit GWP growth, up 15.2% on 2H09 and 13.5% on FY09.

Average short tail premiums in FY10 were 5.6% higher than FY09, with similar levels of growth achieved in both halves of the year. Higher increases have continued to be achieved in the home portfolio, relative to motor. Motor GWP growth has been influenced by the post-GFC decline in sums insured, which began to show signs of recovery in 2H10. Overall short tail volumes were up nearly 2%, with most of the growth derived from home while motor was relatively flat.

The strong GWP growth evident in CTP during 1H10 continued in 2H10, with an increase of 12.3% on 2H09 (7.4% on 1H10). This results in a full year increase of 12.7%.

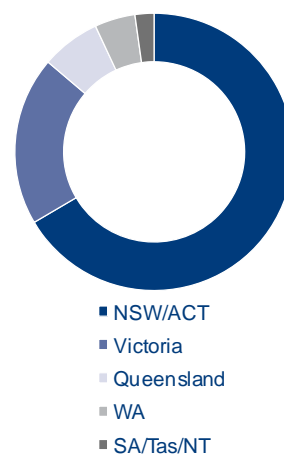
Overall CTP policies in force grew by 1.8%. This growth was predominantly in the NSW market, despite continued competitive pricing.

IAG's share of CTP registrations (on a 12-month rolling average basis) remained relatively stable compared to the previous two halves, with NSW market share around 40% and Queensland at 6.3%, as at 30 June 2010.

Due renewal levels remained relatively stable throughout FY10, at 89% for motor, 94% for home and 78% for CTP.

Australia Direct continues to command a high customer satisfaction index score (claims, sales and service), remaining stable at 84 at June 2010.

FY10 GWP BY STATE



FY10 LONG TAIL GWP BY STATE



GWP GROWTH BY CLASS

	1H09	2H09	1H10	2H10	FY09	FY10
Motor	5.9%	6.7%	3.7%	3.3%	6.3%	3.3%
Home	10.4%	11.3%	11.8%	15.2%	10.9%	13.5%
Total Short Tail¹	7.4%	8.3%	6.3%	7.3%	7.9%	6.8%
Long Tail ¹	17.2%	15.6%	13.2%	12.3%	16.2%	12.7%
Total GWP²	8.8%	9.4%	7.8%	8.4%	9.1%	8.1%

¹ Excluding Retail Business Insurance and The Buzz.

² Including Retail Business Insurance and The Buzz.

4. AUSTRALIA DIRECT

REINSURANCE

Reinsurance expense of \$147m in FY10 was over 11% higher than FY09, reflecting:

- Overall portfolio growth; and
- Inclusion of additional flood cover, following the launch of flood insurance in the NSW, ACT and Tasmanian markets from June 2009 onwards.

CLAIMS

The reported loss ratio of 72.5% for FY10 compares to 78.9% in FY09. This improvement reflects a stabilisation in interest rates, avoiding a repeat of the significant risk free discount rate adjustment that occurred in FY09, particularly in the opening half of that year. After allowing for this effect, the immunised loss ratio is 72.1% (FY09: 74.8%).

The increase in 'other claims expense' largely reflects increased claim volume associated with general business growth.

In 2H10 the reported loss ratio of 75.1% represented a significant increase over the two preceding halves – 69.8% in 1H10 and 69.4% in 2H09. This largely reflects the natural peril claim costs arising from the severe weather events in Melbourne and Perth in March 2010.

Reduced loss ratio as discount rate effect eases

NET CLAIMS EXPENSE – FY10 VS. FY09 (A\$M)



4. AUSTRALIA DIRECT

RESERVE RELEASES

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Reserve releases	39	75	35	72	114	107
Impact on insurance margin	2.5%	4.8%	2.1%	4.2%	3.7%	3.2%

NATURAL PERIL COSTS

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Natural perils	(82)	(139)	(60)	(161)	(221)	(221)
Natural perils allowance	72	72	81	80	144	161
Impact on insurance profit	(10)	(67)	21	(81)	(77)	(60)
Impact on insurance margin	(0.7%)	(4.3%)	1.3%	(4.7%)	(2.5%)	(1.8%)

RESERVE RELEASES

Reserve releases of \$107m were \$7m lower than those in FY09, and included a net release of \$72m in 2H10. FY10 reserve releases were higher than originally anticipated, owing to the impact of improved economic conditions on underlying assumptions.

NATURAL PERILS

Losses from natural perils (net of reinsurance) totalled \$221m, \$60m in excess of allowances for the year.

The effect of unusually benign weather in 1H10 was offset by the severe storm events in Melbourne and Perth in 2H10. Despite this, overall peril costs were in line with FY09, which included a significant impact from the Victorian bushfires in February 2009.

2H10 peril costs inflated by Melbourne and Perth events

CLAIM EXPERIENCE

Excluding natural perils, the FY10 short tail claim experience was characterised by:

- Stable frequency, compared to FY09;
- No material change in average motor repair costs;
- A decrease in average motor comprehensive claim cost, by 0.5% in 2H10 compared to 2H09 and by 2.6% in FY10 against FY09, driven by a change in mix away from collision claims towards lower cost windscreen claims and a reduction in average theft cost;
- The realisation of benefits from cost saving initiatives, including increased use of procurement models, improved supplier management and greater control of claim leakage; and
- A number of severe fire claims during the year contributing to an increase in average home claim cost of 11.3% compared to FY09.

CTP claim costs continue to be managed closely, given gradual increases in frequency and scheme costs relative to FY09.

In NSW CTP, evidence is emerging that past legislative changes associated with increased scheme utilisation are driving costs up. As a result, NSW CTP premium rates were increased from 1 July 2010.

Stable frequency within non-peril claim experience

4. AUSTRALIA DIRECT

NSW CTP scheme changes include:

- Changes to the Medical Care and Injury Services (MCIS) levy processes, implemented during 1H10; and
- An at-fault Accident Notification Form (ANF) benefit, which allows a driver at fault in a motor vehicle accident to recover medical expenses and wage losses up to \$5,000, implemented from April 2010. This change has resulted in an increase in claim frequency which had been anticipated in premiums charged since October 2009.

Superimposed inflation in NSW CTP is currently in line with expectations, however there are some concerns in the ACT. Superimposed inflation in Queensland CTP has reduced to more sustainable levels in recent quarters.

The unfavourable large claim experience in the Queensland CTP portfolio has continued, albeit to a lesser extent than the previous 12 months.

EXPENSES

Australia Direct's expense ratio improved over the course of FY10, as a result of the combined effect of earned rate increases, more effective marketing spend and a range of cost saving initiatives. The total expense ratio of 19.3% for 2H10 compares with 20.4% in 1H10 and 22.1% in 2H09.

On a full year basis, the total expense ratio reduces from 21.8% in FY09 to 19.8% in FY10. Excluding government levies, Australia Direct's administration expense ratio improved to 13.5% in FY10, from 15.5% in FY09.

**Improved expense ratio,
driven by earned rate
increases and cost initiatives**

INSURANCE PROFIT

Australia Direct's insurance profit for FY10 of \$569m was an increase of over 50% on FY09's performance (\$373m). This represents an insurance margin of 16.9% compared to 12.0% for FY09 and reflects a significantly improved underwriting performance. The main drivers of this strong outcome were earned rate increases, improved underwriting quality around risk selection and cost saving initiatives.

Despite the inclusion of the Melbourne and Perth major peril events, Australia Direct's 2H10 margin of 16.9% was in line with that of 1H10, following higher than expected reserve releases of \$72m (1H10: \$35m).

The 2H10 insurance margin was considerably higher than that of 2H09 (11.4%), a period which absorbed a number of adverse factors, including claim costs from the Victorian bushfires, some restructuring costs and a spike in superimposed inflation in Queensland CTP.

In line with the Group as a whole, the narrowing of credit spreads had a modestly positive effect on reported insurance margin in FY10, compared to a small net loss in FY09.

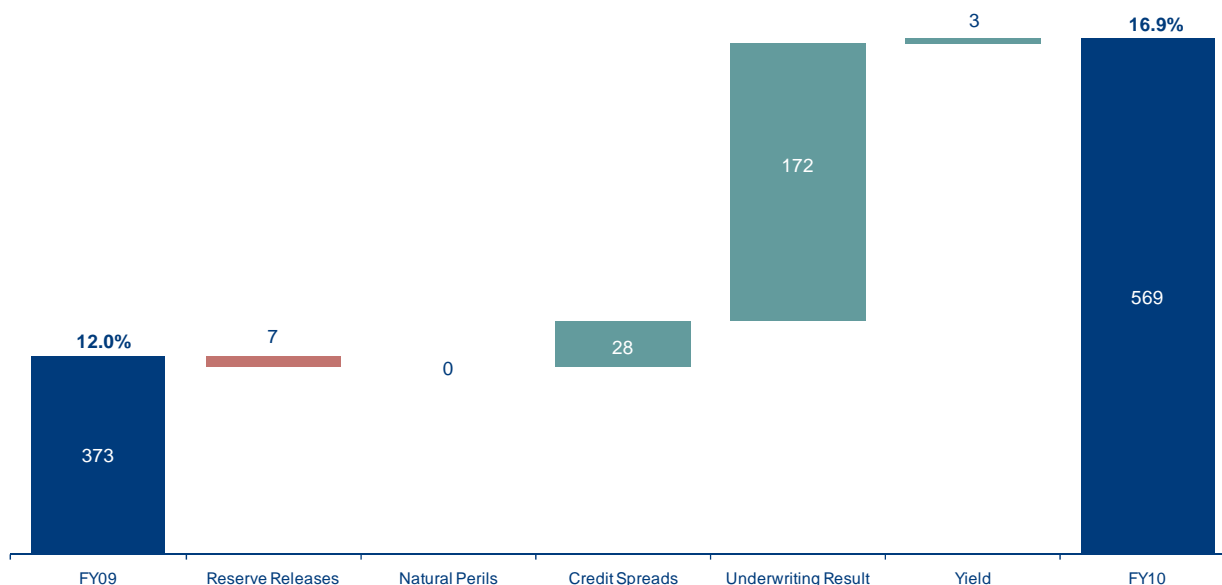
**Strong underwriting
performance driving higher
margin**

CREDIT SPREADS

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Credit spreads	(47)	39	17	3	(8)	20
Impact on insurance margin	(3.1%)	2.5%	1.0%	0.2%	(0.3%)	0.6%

4. AUSTRALIA DIRECT

INSURANCE PROFIT – FY10 VS. FY09 (A\$M)



The impact on the insurance profit of prior period reserve releases, the incidence of natural perils and credit spreads is summarised in the table contained in Appendix D.

THE BUZZ

The Buzz is IAG's pure online insurance business in Australia and was launched in May 2009. While a standalone business, its operating results are included within those for Australia Direct and had a modest negative impact in FY10 (FY09: Nil).

The Buzz's strategic focus is to be recognised as the dominant online Australian business, synonymous with innovative insurance. The Buzz's target consumers want transparency, unlimited access to online services, user friendly processes and services, simple products with choice, and to be recognised as an individual.

The Buzz has been shaped by feedback from customers. It interacts with customers via the internet through the entire lifecycle of their insurance policy, from buying a car insurance policy right through to making a claim, renewing or cancelling a policy. The Buzz also utilises social media to engage with communities and to continue to 'co-create'.

Performance to date has been broadly in line with expectations:

- Customers accord with the target demographic, with a majority from mid to higher socio-economic postcodes and older than 30 years of age;
- The majority of customers have migrated from non-IAG brands;
- The portfolio is diversified across Australia;
- High conversion rates are being achieved;
- Claims experience has been in line with expectations;
- Early indications are that renewals are strong; and
- A high customer value index has been achieved, with a net promoter score of 98.

The Buzz is IAG's pure online insurance business in Australia

4. AUSTRALIA DIRECT

Building on its initial car insurance offer, in June 2010 The Buzz launched the following additional initiatives:

- A suite of home and landlord insurance products; and
- A reward and recognition programme, in part responding to the high percentage of referrals coming from existing customers.

The Buzz has been externally recognised for its approach to co-creation by winning awards for innovation from Australian Banking & Finance (October 2009) and Australian Business Awards (July 2010).

FY11 OUTLOOK

Australia Direct expects to maintain a strong, but lower, insurance margin in FY11, as increased reinvestment in the business, together with an anticipated reduction in prior period reserve releases, counter the effect of further earned rate increases. The focus on cost control will continue.

In addition, GWP growth is expected to be more subdued than FY10 as the scale of average rate increases eases.

The market for direct insurance is expected to remain competitive, as a number of new market participants seek to increase their presence. Australia Direct continues to take all competitive threats seriously, and will leverage its strong market position through:

- Superior customer service;
- New product initiatives, including further enhancement of its online offering;
- Innovative marketing campaigns;
- Continued focus on core underwriting disciplines; and
- Ongoing cost efficiencies.

In NSW CTP, increased frequency and scheme costs have contributed to a rate increase of 7% from 1 July 2010.

In Queensland CTP, the impact of recently indicated changes to the scheme is uncertain, however, Australia Direct has only a small exposure to this market.

The Buzz expects to build on its encouraging start, assisted by the recently launched home product offer and customer loyalty programme.

More modest GWP growth and a strong, but lower, margin expected in FY11

5. AUSTRALIA INTERMEDIATED (CGU)

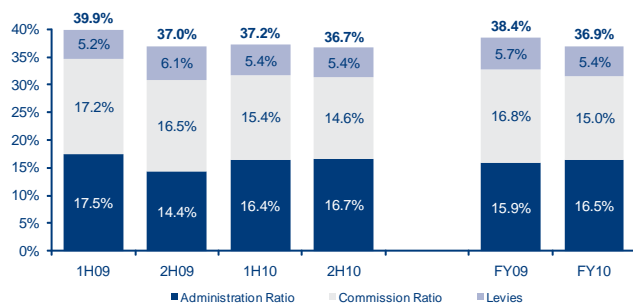
FINANCIAL PERFORMANCE

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Gross written premium	1,159	1,198	1,117	1,147	2,357	2,264
Gross earned premium	1,218	1,182	1,182	1,117	2,400	2,299
Reinsurance expense	(90)	(89)	(84)	(93)	(179)	(177)
Net earned premium	1,128	1,093	1,098	1,024	2,221	2,122
Net claims expense	(985)	(634)	(657)	(759)	(1,619)	(1,416)
Commission expense	(194)	(180)	(169)	(150)	(374)	(319)
Underwriting expense	(256)	(224)	(239)	(226)	(480)	(465)
Underwriting profit/(loss)	(307)	55	33	(111)	(252)	(78)
Investment income on technical reserves	300	-	79	138	300	217
Insurance profit/(loss)	(7)	55	112	27	48	139
Profit/(loss) from fee based business/share of associates	15	3	10	(1)	18	9
Total divisional result	8	58	122	26	66	148

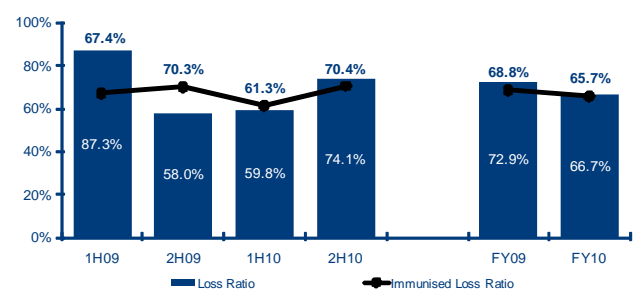
Insurance Ratios						
Loss ratio	87.3%	58.0%	59.8%	74.1%	72.9%	66.7%
Immunised loss ratio	67.4%	70.3%	61.3%	70.4%	68.8%	65.7%
Expense ratio	39.9%	37.0%	37.2%	36.7%	38.4%	36.9%
Commission ratio	17.2%	16.5%	15.4%	14.6%	16.8%	15.0%
Administration ratio	22.7%	20.5%	21.8%	22.1%	21.6%	21.9%
Combined ratio	127.2%	95.0%	97.0%	110.8%	111.3%	103.6%
Immunised combined ratio	107.3%	107.3%	98.5%	107.1%	107.2%	102.6%
Insurance margin	(0.6%)	5.0%	10.2%	2.6%	2.2%	6.6%

INSURANCE RATIOS

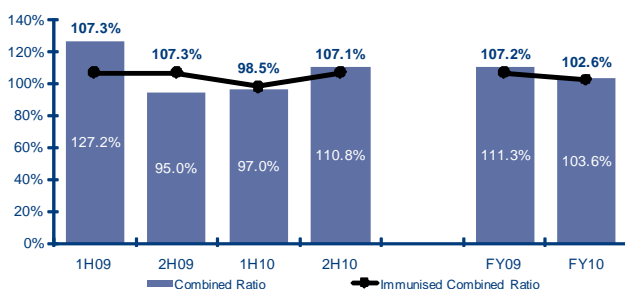
EXPENSE RATIO



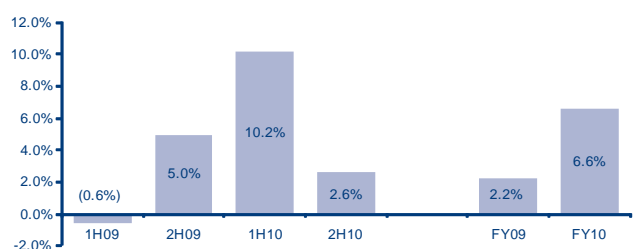
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



5. AUSTRALIA INTERMEDIATED (CGU)

EXECUTIVE SUMMARY

Australia Intermediated (CGU) represented approximately 29% of the Group's GWP in FY10, and comprises all products sold in Australia through brokers, authorised representatives, motor dealers and business partners.

While profitability remains below desired levels, CGU has demonstrated further progress in the restoration of its underlying performance through a disciplined focus on rebuilding the business' fundamentals.

Rate increases have been achieved across most portfolios, however market conditions have remained tough over the past year, notably in commercial lines which have been impacted by excess industry capacity.

Reported GWP has decreased by \$93m, to \$2,264m. Modest GWP growth was recorded after allowance for the impact of the previously advised non-renewal of accounts with St George/BankSA and ING Australia.

CGU delivered a total divisional result of \$148m in FY10 (FY09: \$66m), comprising an insurance profit of \$139m and \$9m from fee based income. This equates to a reported insurance margin of 6.6%, compared to 2.2% in FY09.

After adjusting for prior year reserve releases, higher natural peril costs following the March 2010 storm events, credit spread impacts and the absence of the \$50m deferred acquisition cost (DAC) writedown incurred in FY09, CGU has achieved an improvement in underlying performance of approximately \$50m, against FY09.

During FY10 CGU has progressed a range of strategic initiatives to improve its technology, processes and capabilities, which will enable it to provide a more efficient service to its intermediaries and customers.

While the tough operating environment is expected to continue in FY11, CGU's investment in rebuilding business fundamentals will enable a continued steady improvement in underlying performance.

MARKET ENVIRONMENT

The commercial market remains competitive and is experiencing a slow hardening of rates, although this is far from uniform across market segments. This is particularly evident at the top end of the corporate sector where rate rises have stalled.

New capacity has emerged in some commercial classes, and a number of industry participants have indicated increased targeting of the SME segment.

In contrast, the rural market has seen a number of smaller competitors exit over the last six months.

Personal lines rates have continued to harden, reflecting the increase in natural peril claim costs experienced in recent years.

The workers' compensation market remains very competitive across the risk States. WorkCover WA has reduced average recommended premium rates by 13.9%, following better than anticipated claim experience and a weaker than expected impact from the GFC.

Continued improvement in underlying performance

Slow rate hardening in competitive commercial market

5. AUSTRALIA INTERMEDIATED (CGU)

PREMIUMS

GWP in FY10 decreased by \$93m, or 3.9%, to \$2,264m (FY09: \$2,357m). This largely reflects the previously highlighted non-renewal of the ING Australia account and the St George/BankSA home and landlord portfolios, which together represented a GWP reduction of \$114m.

2H10 GWP declined by 4.3% compared to 2H09, as CGU adhered to its strict underwriting disciplines and shed unprofitable business.

In summarising GWP experience in FY10 across the various classes, relative to FY09:

- Commercial short tail GWP increased by 5%, reflecting the continued implementation of pricing initiatives and strong retention levels, as well as additional premium resulting from the revised NTI agreement;
- Commercial long tail GWP decreased by 6% largely driven by CGU's decision to withdraw from the home warranty market, while rate increases have partially offset a reduction in liability and professional risks new business;
- Workers' compensation GWP also declined by 6%, with rate increases of approximately 9% offset by volume reductions in what remains a highly competitive market; and
- Personal lines GWP experienced a decline of approximately 13%, being largely attributable to CGU's withdrawal from the ING Australia account, partly offset by increased rates.

Rate increases have varied in scale by segment but have been achieved across most portfolios, with an average increase of around 6%. The most notable increases have been in personal lines, namely landlords, home and motor, and to a lesser extent commercial motor and the CountryPak product within commercial lines. Retention rates have held up well across all segments.

As previously highlighted, the key areas of focus have continued to be:

- Maintaining risk acceptance and coverage disciplines – ensuring CGU underwriters appropriately assess exposure and coverage on each risk, and only accept risks that are consistent with underwriting guidelines;
- Lapsing expiring business that is either materially under-priced (and cannot be repriced) or is inconsistent with preferred underwriting criteria;
- Improving terms on renewals; and
- Improving disciplines on new business – accepting risk consistent with underwriting guidelines and pricing risks at sustainable rates.

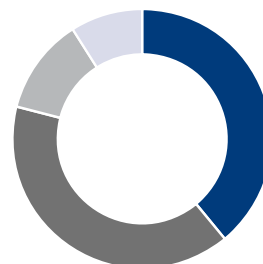
REINSURANCE

CGU's reinsurance programmes have remained broadly unchanged. The FY10 reinsurance expense of \$177m is marginally lower than that recorded in FY09 (\$179m).

Lower reinsurance expense on the back of reduced premium has been largely offset by the effect of reinsurance rate increases and growth in CGU's corporate business, where higher levels of reinsurance are employed.

Modest GWP growth, after allowance for non-renewal of major accounts

FY10 GWP BY CLASS



- Commercial Short Tail
- Personal Lines
- Commercial Long Tail
- Workers' Compensation

Flat reinsurance expense on changed business mix

5. AUSTRALIA INTERMEDIATED (CGU)

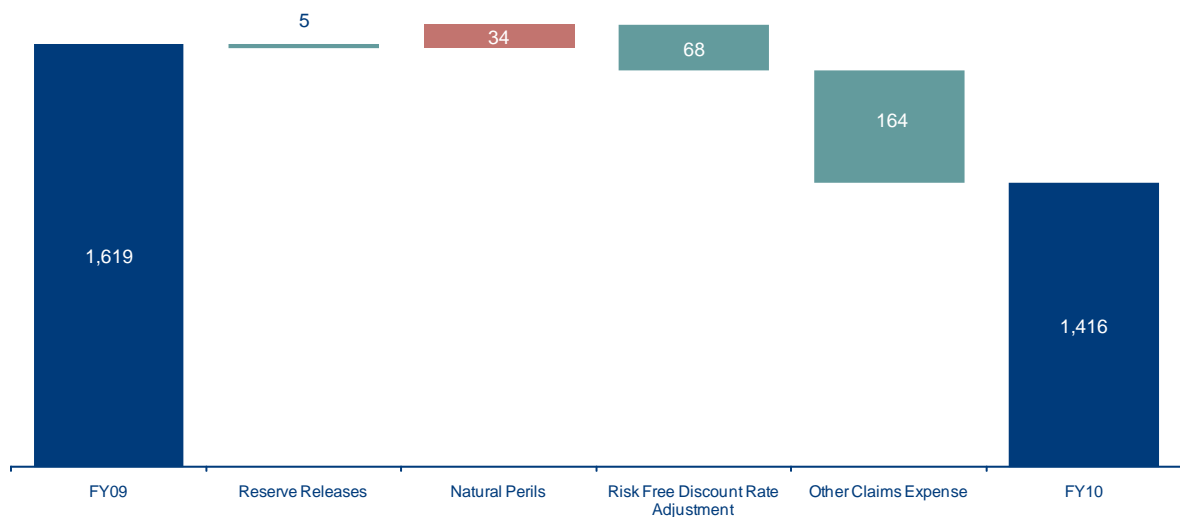
CLAIMS

CGU's reported loss ratio of 66.7% in FY10 compares to 72.9% in FY09, with part of the improvement attributable to a favourable discount rate adjustment movement compared to FY09. On an immunised basis, the ratio has improved from 68.8% in FY09 to 65.7% in FY10.

While part of the \$164m reduction in 'other claims expense' is volume related, a significant improvement in underlying claim performance has occurred on the back of active management of the portfolio. This includes pricing initiatives, remedial underwriting actions to exit unprofitable business, better risk selection and improved recoveries.

Significant improvement in underlying claims performance

NET CLAIMS EXPENSE - FY10 VS. FY09 (A\$M)



RESERVE RELEASES

Prior period reserve releases of \$129m slightly exceeded those reported in FY09 (\$124m).

FY10 reserve releases were higher than originally anticipated, owing to the impact of improved economic conditions on underlying assumptions and favourable experience in classes such as workers' compensation and professional risks.

While accounting for a greater than 600bps impact on reported insurance margin in FY10, the contribution from reserve releases is expected to reduce over time as the impacts of legislative changes on claim frequency and average claim sizes have now been largely incorporated in reserving models.

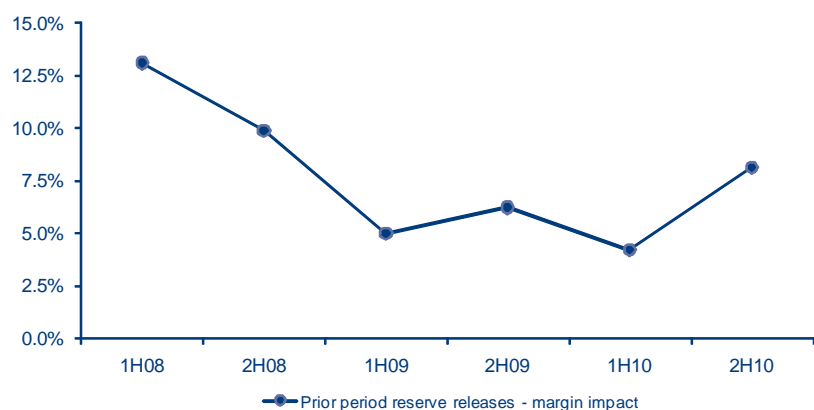
Reserve releases have remained high, but are expected to fall in future

5. AUSTRALIA INTERMEDIATED (CGU)

RESERVE RELEASES

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Reserve releases	56	68	46	83	124	129
Impact on insurance margin	5.0%	6.2%	4.2%	8.1%	5.6%	6.1%

RESERVE RELEASES – MARGIN IMPACT



NATURAL PERIL COSTS

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Natural perils	(70)	(132)	(60)	(176)	(202)	(236)
Natural perils allowance	69	75	64	83	144	147
Impact on insurance profit	(1)	(57)	4	(93)	(58)	(89)
Impact on insurance margin	(0.1%)	(5.2%)	0.4%	(9.1%)	(2.6%)	(4.2%)

NATURAL PERILS

Losses from natural perils in FY10 (net of reinsurance) totalled \$236m, \$89m higher than related allowances for the year and \$34m higher than those incurred in FY09. The second half of FY09 bore the cost of the Victorian bushfires.

After a 1H10 performance where natural peril costs were broadly in line with allowances, 2H10 suffered from three significant peril events around March 2010: respective severe storms in Melbourne and Perth, and tropical cyclone Ului in Queensland. These three events resulted in net claims of approximately \$115m, or over 65% of CGU's natural peril costs in 2H10.

EXPENSES

Reported expenses, comprising commission and underwriting costs, have decreased from \$854m in FY09 to \$784m in FY10. Most of this reduction is attributable to the \$50m liability adequacy test (LAT) failure identified in FY09, which increased commission expense by \$21m and underwriting expense by \$29m in that year.

Significant natural peril impact owing to 2H10 events

\$20m reduction in expenses, after allowance for FY09 LAT fail impact

5. AUSTRALIA INTERMEDIATED (CGU)

The reported FY10 expense ratio of 36.9% shows an improvement over FY09 (38.4%), however, after allowing for the LAT failure impact in FY09, a slight deterioration is evident. This is mainly attributable to changes in business mix and provisions for restructuring activity across several parts of the business.

During FY10 CGU commenced the implementation of a strategic investment programme in systems and processes that will provide efficiencies across the business.

INSURANCE PROFIT

The insurance profit of \$139m represents an improved insurance margin of 6.6% (FY09: 2.2%). After adjusting for the \$50m DAC writedown in FY09, and the combined impact from natural perils, prior period reserve releases and credit spreads, a further advance of approximately \$50m in underlying performance is evident.

An insurance margin of 2.6% in 2H10 (2H09: 5.0%) reflects the significant adverse impact of the March weather events.

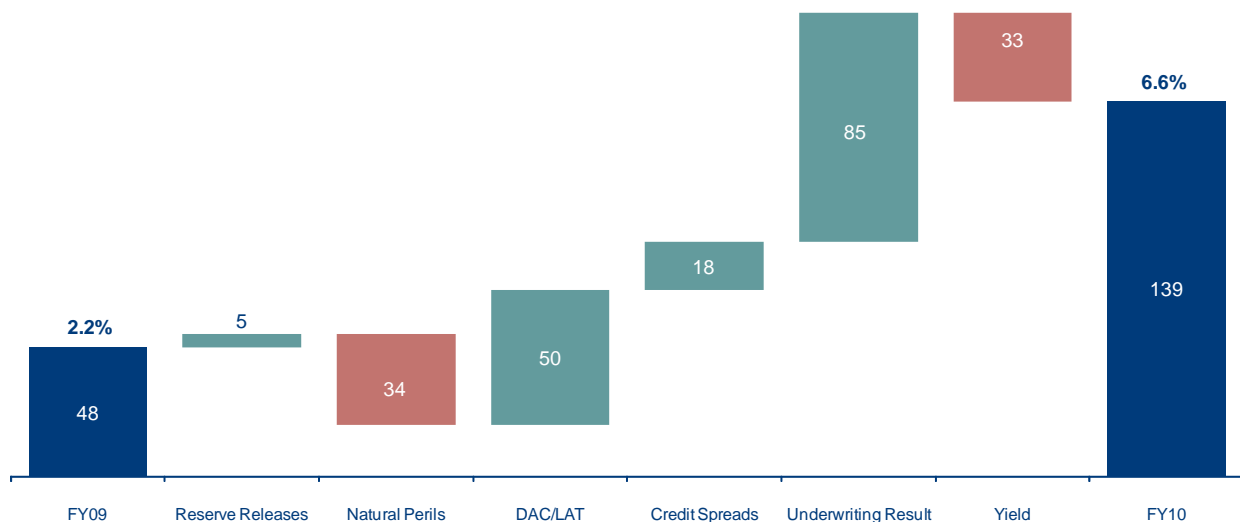
In the two-year period since FY08, CGU has delivered an improvement in underlying performance of approximately \$130m, derived from:

- Pricing initiatives;
- Improved underwriting and risk selection;
- Improved claims management processes; and
- Strict cost control.

In line with the Group experience, the previously volatile impact of credit spreads has eased considerably during FY10. A modestly positive impact from the narrowing of credit spreads assisted CGU's reported FY10 insurance profit, to the extent of \$13m (FY09: a net loss of \$5m).

Improved underwriting performance key driver of higher reported margin

INSURANCE PROFIT – FY10 VS. FY09 (A\$M)



5. AUSTRALIA INTERMEDIATED (CGU)

CREDIT SPREADS

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Credit spreads	(39)	34	11	2	(5)	13
Impact on insurance margin	(3.5%)	3.1%	1.0%	0.2%	(0.2%)	0.6%

The impact on the insurance profit of prior period reserve releases, the incidence of natural perils, credit spreads and DAC adjustments is summarised in the table contained in Appendix D.

FEE BASED INCOME

CGU generates fee income by acting as an agent under both the NSW and Victorian State government underwritten workers' compensation schemes.

In FY10, net income from fee based operations totalled \$9m, which was \$9m lower than FY09.

While the standard fees covering expenses are reasonably predictable, the total reported result continues to be volatile due to performance fees and prior year experience adjustments paid or charged by the State bodies. The FY10 result contained \$3m of prior period fee income compared to \$11m in FY09.

The FY10 result was also impacted by a reduction in CGU's NSW workers' compensation market share, reflecting the reallocation of some policies at the smaller end of the market, and other scheme changes implemented by the WorkCover Authority of NSW from 1 January 2010.

FY11 OUTLOOK

A further improvement in underlying performance is expected in FY11 as the focus on rebuilding the fundamentals of the business continues.

The commercial lines market is expected to remain competitive during FY11. The level of achievable rate increases will be moderated by the existence of excess capacity.

Modest premium growth is expected in FY11, largely within commercial short tail lines. This will be derived from further rate increases, stable retention levels and new business growth.

CGU is maintaining underwriting discipline in the workers' compensation market, although it expects to incur a fall in rates on the back of WorkCover WA's average recommended reduction of 13.9%.

CGU will continue to selectively target profitable portfolios for growth, while remedial action will address profitability on others. CGU's presence in the corporate market, where significant growth potential exists, is expected to increase.

A continuing focus will be placed on underlying cost control to create investment capacity. Ongoing investment in improving technology, processes and capabilities will allow CGU to improve the service experience for its customers and brokers, while realising efficiencies in the process.

Lower prior period fee income

Further improvement in underlying performance expected in FY11

6. NEW ZEALAND

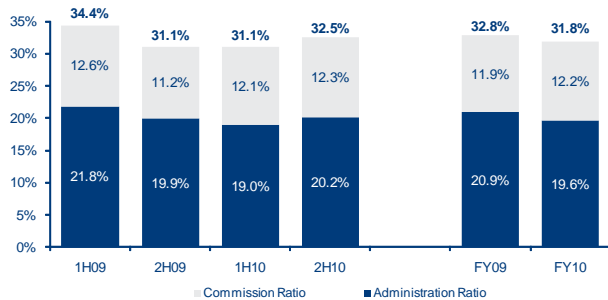
FINANCIAL PERFORMANCE

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Gross written premium	482	483	472	489	965	961
Gross earned premium	480	465	491	477	945	968
Reinsurance expense	(44)	(38)	(38)	(37)	(82)	(75)
Net earned premium	436	427	453	440	863	893
Net claims expense	(324)	(280)	(249)	(245)	(604)	(494)
Commission expense	(55)	(48)	(55)	(54)	(103)	(109)
Underwriting expense	(95)	(85)	(86)	(89)	(180)	(175)
Underwriting profit/(loss)	(38)	14	63	52	(24)	115
Investment income on technical reserves	21	3	5	11	24	16
Insurance profit/(loss)	(17)	17	68	63	-	131
Profit from fee based business	1	-	1	-	1	1
Total divisional result	(16)	17	69	63	1	132

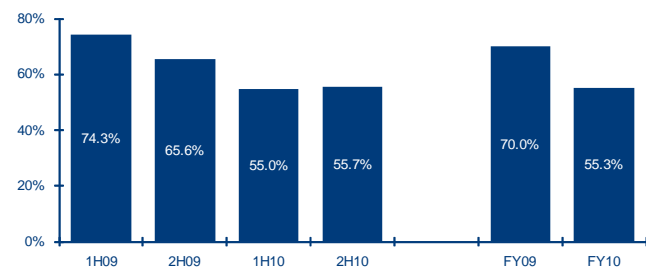
Insurance Ratios						
Loss ratio	74.3%	65.6%	55.0%	55.7%	70.0%	55.3%
Expense ratio	34.4%	31.1%	31.1%	32.5%	32.8%	31.8%
Commission ratio	12.6%	11.2%	12.1%	12.3%	11.9%	12.2%
Administration ratio	21.8%	19.9%	19.0%	20.2%	20.9%	19.6%
Combined ratio	108.7%	96.7%	86.1%	88.2%	102.8%	87.1%
Insurance margin	(3.9%)	4.0%	15.0%	14.3%	-	14.7%

INSURANCE RATIOS

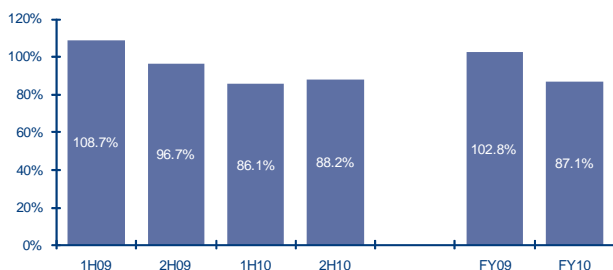
EXPENSE RATIO



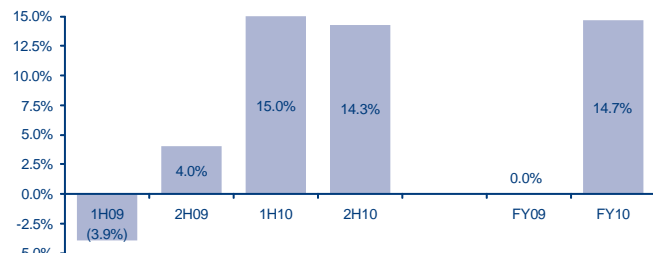
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



6. NEW ZEALAND

EXECUTIVE SUMMARY

IAG's New Zealand operations accounted for over 12% of the Group's GWP in FY10 and, through the State, NZI and Business Partners affinity brands, IAG is the largest underwriter in New Zealand.

The strong underlying performance from 1H10 was largely repeated in 2H10, despite a small increase in natural peril claim costs experienced from the onset of the winter season. There was also a slight increase in the incidence of large losses in 2H10.

Reported GWP was flat, but increased by 3.6% in local currency terms.

The FY10 insurance profit of \$131m (an insurance margin of 14.7%) is a significant improvement on the breakeven position registered in FY09, and reflects the continuation of benefits realised in 1H10 from:

- Significant rate increases across all portfolios;
- Improved underwriting and better risk selection;
- Embedded claim initiatives;
- Improved cost management; and
- Favourable large loss and natural peril claim experience.

In FY11 the New Zealand business expects to record a modest increase in GWP, in local currency terms, and a lower insurance margin on the assumption that natural perils experience will return to more normal levels.

The potential opening of the Accident Compensation Corporation (ACC) to competition remains a significant long term growth opportunity, but this is not expected to occur before FY12.

With effect from 1 November 2010, Jacki Johnson, currently CEO of The Buzz, will assume the role of CEO New Zealand. Ms Johnson has over 20 years' experience in the insurance industry and has spent the last 9 years with IAG in a number of senior roles.

MARKET ENVIRONMENT

The New Zealand general insurance market is showing signs of softening, with rate increases becoming harder to achieve. While IAG is adhering to its strict underwriting disciplines, there is evidence of competitors widening their acceptable risk parameters and pricing aggressively to win business.

The New Zealand economy continued its slow recovery in 2H10, with economic growth of 2-3% widely anticipated in FY11. Contributory factors to the direction of the economy include:

- Personal tax cuts, particularly for high earners, included in the first budget from the National Party-led government in May 2010;
- An accompanying cut in the corporate tax rate, from 30% to 28%;
- An increase in the Goods and Services Tax (GST) from 12.5% to 15%, with effect from 1 October 2010; and
- Moves by the Reserve Bank of New Zealand to raise the Official Cash Rate, with further increases expected.

Whilst the overall impact of these changes is unknown, households should enjoy higher disposable income.

Corporates should also benefit from the tax package, and economic recovery should stimulate employment. Whilst unemployment is expected to remain above 7% throughout most of 2010, firms are expected to start to increase staffing levels heading into 2011.

Strong improvement in New Zealand on the back of management actions, assisted by benign weather

Signs of a softening market, despite recovering economy

6. NEW ZEALAND

The Insurance (Prudential Supervision) Bill, Financial Advisers Act and Financial Service Providers (Registration and Dispute Resolution) Act 2008, are expected to add some additional compliance cost in the short term, but ultimately provide increased consumer confidence in the industry. Implementation is expected during FY11.

The government established an Accident Compensation Corporation (ACC) working group to compile a stocktake report on the feasibility of opening ACC to competition. This report has been received, but its findings have yet to be made public. In the meantime, the government has instituted a new rating structure to charge major businesses based on claims experience. ACC remains a potential source of strong new business over the medium term.

PREMIUMS

New Zealand's FY10 GWP of \$961m was broadly flat in Australian dollar terms compared to FY09 (\$965m), but grew by 1.7% in local currency terms.

GWP growth in FY10 was slightly held back by the migration of a large customer portfolio in Business Partners to a system that reports GWP on a monthly, rather than the previous annual basis. This changed accounting treatment commenced in 2H09. Excluding this effect, local currency GWP growth in FY10 was 3.6%.

Overall GWP growth reflects the combined effect of:

- Rate increases across all portfolios;
- Lower commercial volumes, influenced by economic factors; and
- Reduced volumes stemming from improved underwriting disciplines.

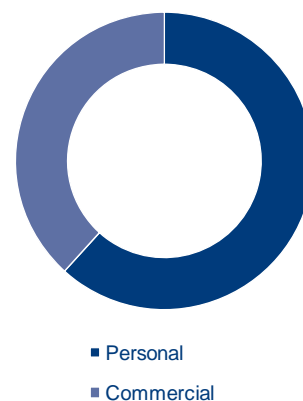
State Insurance recorded strong GWP growth of 5.0% in FY10 in local currency terms. This was driven by growth in personal lines, which represent approximately 87% of State's GWP, where targeted rate increases across all classes were supported by better than expected retention levels.

The much smaller State commercial book experienced a modest reduction in GWP, due mainly to residual recessionary pressures on SME business in 1H10 affecting volumes. State's recent rebranding of its commercial products under the State Business brand has had a positive impact on volumes, and rate increases have been successfully implemented over the course of 2H10. Marketing campaigns are set to continue to drive the performance of this channel.

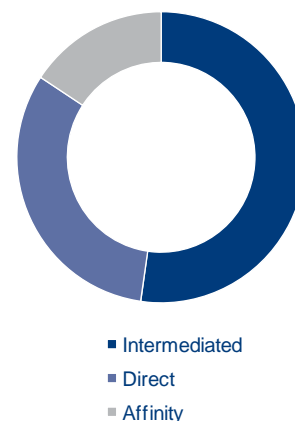
The NZI intermediated business achieved GWP growth of 1.7% in local currency terms. This has been driven by further rate increases, offset partially by some volume loss, particularly in commercial lines. NZI continues to focus on addressing volumes in its corporate book, with limited rate increases planned in FY11 and the anticipated economic recovery expected to create new business opportunities.

The Business Partners affinity business, excluding the accounting reporting difference, has achieved local currency GWP growth of 4.3% in FY10. The Corporate Partners channel, representing 90% of Business Partners' GWP, grew by 8.2%. This is as a result of rate increases and moderate volume growth as banks capitalise on customer ownership. Banks' appetite for fee based business remains strong with insurance seen as a key product to actively market.

FY10 GWP BY CLASS



FY10 GWP BY CHANNEL



6. NEW ZEALAND

REINSURANCE

Reinsurance expense of \$75m is 8.5% lower than FY09, reflecting structural changes in the external reinsurance programme.

CLAIMS

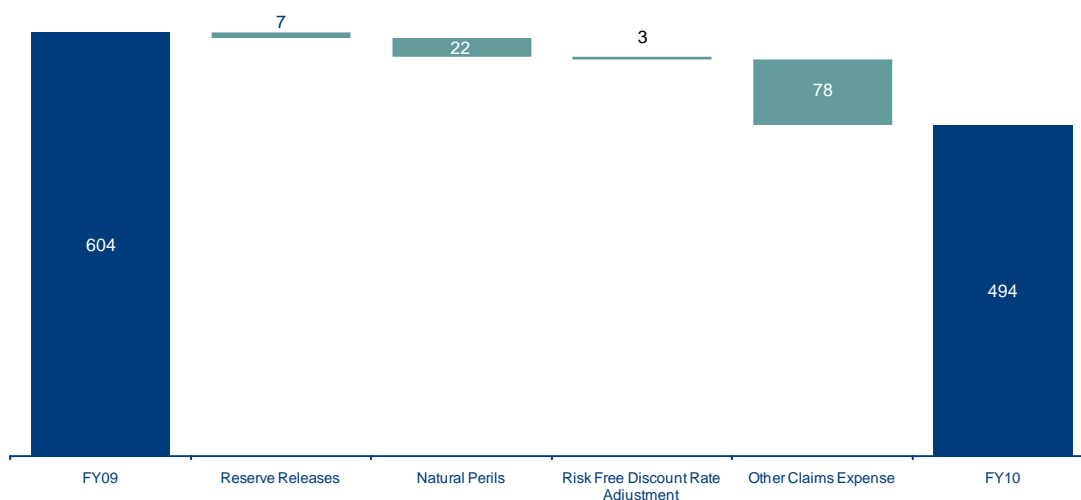
The reported loss ratio of 55.3% in FY10 represents a substantial improvement on the 70.0% recorded in FY09, reflecting increased net earned premium and a significantly lower net claims expense. The reported ratio also benefited from an increase in prior period reserve releases of \$7m, compared to FY09.

Claim performance across all channels benefited from:

- Lower working claim frequency and flat average cost, owing to:
 - Improved claim operating efficiency, particularly around the processing and settlement of both prior and current year claims; and
 - A range of claim initiatives, including increased base excesses, leakage reviews, tighter controls relating to fraud and a focus on recoveries.
- Relatively benign weather conditions. Natural peril claim costs for FY10 are \$22m lower than those incurred in FY09 (\$28m), which included two severe storms in July 2008; and
- A considerably lower incidence of large losses (claims >NZ\$100,000) than FY09, which was impacted by an unprecedented number of large commercial fires. This improved experience has been influenced by more disciplined underwriting and better risk selection, particularly in the broker channel where the re-underwriting of the book was completed during FY10.

Significantly lower loss ratio reflects management actions, assisted by benign weather throughout FY10

NET CLAIMS EXPENSE - FY10 VS. FY09 (A\$M)



6. NEW ZEALAND

EXPENSES

Total reported expenses in FY10 are flat compared to FY09, but have risen by 3.1% in local currency terms. The business has reported an improved expense ratio of 31.8%, down from 32.8% in FY09. 2H10 included some one-off expenditure associated with the forthcoming GST rate revision.

Reported commission expense has risen by nearly 6% to \$109m, and by 7.5% in local currency terms. This reflects changes in business mix and some one-off costs associated with the disposal of an unprofitable portfolio. The commission ratio is broadly flat in local currency terms at 11.9%.

The FY10 administration ratio of 19.6% is a significant improvement on FY09 (20.9%) and reflects the combination of higher NEP and lower expenditure.

Underwriting expenses of \$175m are \$5m lower than FY09. Contributory factors to this improvement were more effective marketing and sponsorship activity, and the absence of one-off project-related IT expenditure which was incurred in FY09.

Improved expense ratio and discretionary cost control

INSURANCE PROFIT

The New Zealand business has built on its strong 1H10 performance to report an FY10 insurance profit of \$131m, equivalent to an insurance margin of 14.7%. This represents a substantial improvement on the breakeven position reported in FY09.

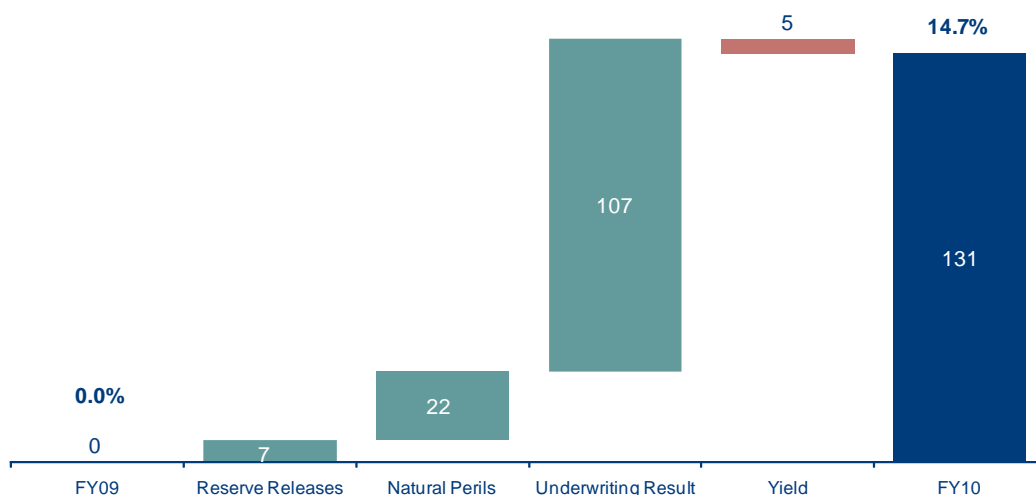
The reported 2H10 margin (14.3%) was slightly lower than that of the opening half, as higher natural peril and large loss claim costs were incurred, although these remained at a relatively benign level.

The key factors behind the FY10 margin improvement are:

- An increased earned premium base, arising from rate increases;
- Improved underwriting and claim disciplines;
- Improved cost control; and
- The benefit of benign weather conditions on natural peril claim levels.

Strong insurance margin of 14.7% in excess of expected long term level

INSURANCE PROFIT – FY10 VS. FY09 (A\$M)



6. NEW ZEALAND

FY11 OUTLOOK

In FY11, softening market conditions, especially in the broker channel, are expected to impact the ability to implement further price increases.

However, further GWP growth is expected, through initiatives to enhance the customer experience that will reinforce retention levels as well as grow new business. In addition, further corrective pricing action will occur in selected books, alongside broader inflationary increases in others.

The strong earnings base generated from corrective pricing action taken across FY09 and FY10 will continue to support future years' profitability, however a return to a more normal natural peril claim experience is anticipated to result in a lower margin in FY11.

Inflationary pressure is expected to adversely impact supply chain costs, however further benefits from embedded claims initiatives are expected to be realised. Controllable expenses are expected to rise broadly in line with inflation.

During FY11:

- Increased marketing is planned in State Insurance, through advertising and sponsorship opportunities;
- In NZI, a new corporate structure will be bedded down and retention and growth related initiatives implemented; and
- In Business Partners, the focus will be on continuing the strong growth in existing portfolios.

Modest rate increases and lower margin expected in FY11, as natural perils revert to more normal levels

7. UNITED KINGDOM (UK)

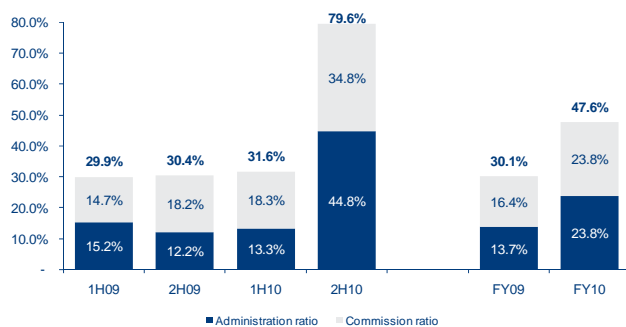
FINANCIAL PERFORMANCE

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Gross written premium	389	398	406	306	787	712
Gross earned premium	404	377	379	284	781	663
Reinsurance expense	(22)	(15)	(18)	(103)	(37)	(121)
Net earned premium	382	362	361	181	744	542
Net claims expense	(244)	(218)	(230)	(415)	(462)	(645)
Commission expense	(56)	(66)	(66)	(63)	(122)	(129)
Underwriting expense	(58)	(44)	(48)	(81)	(102)	(129)
Underwriting profit/(loss)	24	34	17	(378)	58	(361)
Investment income on technical reserves	53	2	7	(1)	55	6
Insurance profit/(loss)	77	36	24	(379)	113	(355)
Profit/(loss) from fee based business	(2)	(4)	(2)	-	(6)	(2)
Share of profit/(loss) from associates	-	(2)	-	(1)	(2)	(1)
Total divisional result	75	30	22	(380)	105	(358)

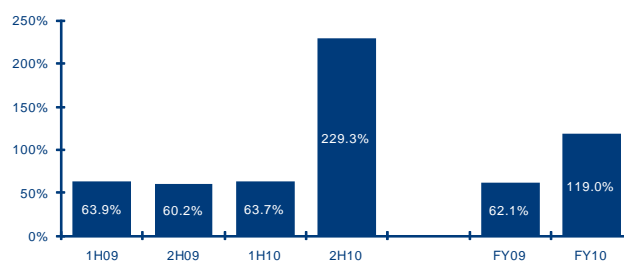
Insurance Ratios						
Loss ratio	63.9%	60.2%	63.7%	229.3%	62.1%	119.0%
Expense ratio	29.9%	30.4%	31.6%	79.6%	30.1%	47.6%
Commission ratio	14.7%	18.2%	18.3%	34.8%	16.4%	23.8%
Administration ratio	15.2%	12.2%	13.3%	44.8%	13.7%	23.8%
Combined ratio	93.8%	90.6%	95.3%	308.9%	92.2%	166.6%
Insurance margin	20.2%	9.9%	6.6%	(209.4%)	15.2%	(65.5%)

INSURANCE RATIOS

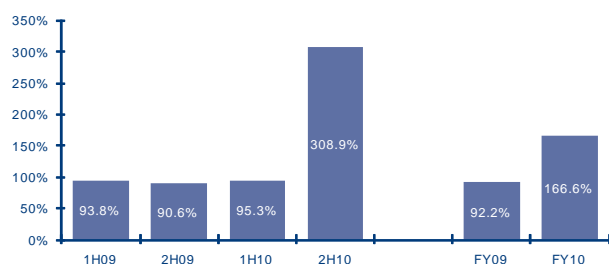
EXPENSE RATIO



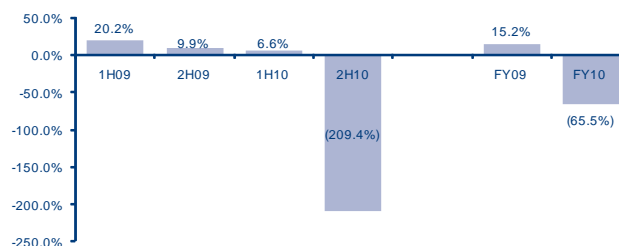
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



7. UNITED KINGDOM (UK)

EXECUTIVE SUMMARY

IAG's business in the United Kingdom (UK) accounted for approximately 9% of the Group's GWP in FY10, and includes:

- Equity Red Star (ERS), the largest motor syndicate at Lloyd's;
- The Equity Direct Broking Limited (EDBL) affinity business;
- Specialist commercial broker, Barnett & Barnett;
- Insurance Dialogue Limited (IDL) (consolidated from July 2009) that targets the retired household insurance market; and
- Lloyd's Syndicate 1208, which has been in run-off since 2002.

A substantial full year insurance loss has been recorded in FY10, largely due to the recognition of a significant deterioration in bodily injury motor claims experience.

Following a detailed actuarial review, an associated one-off, pre-tax charge of \$367m was recognised in 2H10, and a programme of remedial actions is being implemented to restore profitability. The majority of the charge is in respect of claim reserve strengthening, but it also includes the cost of a new reinsurance cover which protects the motor account against further adverse deterioration on the underwriting years ending 31 December 2009 and prior.

In spite of the recent claim deterioration, management is confident that, in the medium to long term, satisfactory profitability can be restored to the UK business.

The outlook is for a modest insurance margin in FY11, including an anticipated small loss in the opening half of the year.

Ian Foy will become CEO of the UK business with effect from 1 September 2010. Mr Foy has been CEO of IAG's New Zealand business since 2008 and has extensive insurance industry experience, including a long period in the UK intermediated motor market.

MARKET ENVIRONMENT

The UK economy has returned to modest growth, however, a prolonged period of public spending austerity and rising taxation lies ahead as the new Coalition government seeks to rectify the UK's record budget deficit whilst still maintaining economic growth.

In its first budget, handed down in June 2010, the government announced an increase in Value Added Tax (VAT), from 17.5% to 20%, with effect from January 2011, and an increase in Insurance Premium Tax (IPT) from 5% to 6%.

New car registrations, across both the fleet and private markets, have increased by nearly 20% in the opening six months of calendar 2010, despite the phasing out of the government's scrappage scheme at the end of March 2010. However, registration numbers are still down on 2008 levels. The Society of Motor Manufacturers predicts a modest decline in the second half of calendar 2010.

The UK motor insurance market remains extremely challenging with many personal insurers reporting a deterioration in financial results in the 2009 calendar year and beyond. Industry data from the Financial Services Authority (FSA) indicates a market aggregate combined ratio for personal motor of 121.8%, up from 107.8% in 2008.

Significant strengthening of claim reserves in response to deterioration in bodily injury experience

Difficult economic backdrop and challenging industry conditions

7. UNITED KINGDOM (UK)

This deterioration has been driven primarily by an unprecedented increase in the frequency and severity of third party property damage and small bodily injury costs, offsetting a number of positive trends such as a reduction in the number of road accidents and improvements in vehicle theft frequency.

The increase in bodily injury claims is being driven by the 'claim farming' activities of accident lawyers. Datamonitor states that the number of firms registered to offer personal injury claims services grew from around 1,400 to in excess of 2,200 between July 2008 and June 2009. Industry research from EMB has quantified bodily injury claims inflation as running at in excess of 10% per annum, with an increase in frequency of 5-10% and an increase in the severity of an average claim of 5-8%. Preliminary findings from the Actuarial Profession's third party motor insurance working party indicate claim inflation has escalated since the end of 2009 and is now of the order of 21% for settled claims.

Some encouragement is taken from the new government commissioning Lord Young to tackle the growth of a 'compensation culture' in the UK as part of a wider-ranging review of health and safety legislation. Lord Young has indicated his support of the findings of the earlier Jackson Report, which included the banning of referral fees for personal injury cases, and will issue his own report later in 2010 which it is hoped will go some way to addressing the bodily injury claims issue.

The economic crisis, and the subsequent impact on interest rates, has resulted in a significant decline in investment levels, further hampering industry profitability. At the same time, the availability of prior year reserve releases has significantly diminished.

As a result, the majority of market players are increasing premium rates, and there is strong evidence that this will continue over the balance of 2010. The average cost of a comprehensive car insurance policy rose by 14.2% in the second quarter of calendar 2010, according to the Confused.com/EMB Car Insurance Price Index, giving an annual increase in excess of 30%.

Aggregators, however, continue to present a pricing challenge to UK personal motor insurers. Independent estimates suggest aggregator-instigated sales will account for 64% of new business GWP in the private motor market by 2011.

Affinity programmes are also growing in importance for private motor insurance distributors as consumers have become comfortable buying financial products from non-financial institutions.

The new Coalition government has also announced changes to the regulatory framework. The FSA will cease to exist from 2012 with its powers being shared among several bodies, the majority coming under the control of the Bank of England and a new regulator, the Prudential Regulatory Authority, to carry out the regulation of financial firms, including insurance companies.

Industry annual rate increases in comprehensive car insurance of over 30%, according to recent research

7. UNITED KINGDOM (UK)

PREMIUMS

Reported GWP for FY10 decreased by approximately 9.5% to \$712m (FY09: \$787m). This reflects the combined effect of several elements:

- A significant adverse currency movement which cut reported GWP by approximately \$140m;
- Underlying GWP growth (in local currency terms, GWP increased by 8.8% to £396m) from a combination of higher volumes and increased average rates; and
- The move to a more conservative basis of estimation for unclosed business. This revised estimation resulted in a net charge of \$9m, after allowance for attributable unearned premium and loss ratio, which is included in the \$367m charge reported in 2H10.

The reduction in reported GWP in 2H10, compared to 1H10, is largely explained by the application of the revised approach to unclosed business estimates towards the end of 2H10. This results in the reversal of some unclosed business recognised in 1H10 under the previous estimation basis.

Retention rates have been under pressure but have held up well across the major motor and household books, with the exception of broker private car where, as expected, aggregator distribution has led to an increase in the churn rate.

ERS has continued its strategy of establishing satellite offices to meet the tailored solutions required by locally-based brokers and expanding the talent pool available for underwriting. ERS now has five satellite offices following the opening of Manchester in 1H10.

As announced in June 2010, a package of remedial actions is being implemented to restore ERS's profitability. Those actions include:

- Further rate increases of up to 20% across most business classes;
- The exit from certain unprofitable broker relationships, with over 8% advised of cancellation by the end of August 2010; and
- The cessation of external aggregator-sourced business of a non-bike nature.

It is anticipated that these measures will result in some volume loss and that local currency GWP in FY11 will be, at best, flat.

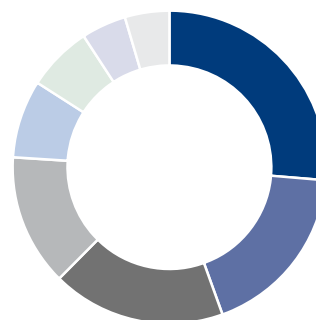
REINSURANCE

The reinsurance expense in FY10 is a material increase over FY09 owing to the inclusion of the new adverse development cover (ADC) taken out in June 2010 and fully expensed in 2H10.

The cost of this new cover is approximately \$67m, and it provides over \$200m of protection against further claims deterioration arising on the ERS motor account for the underwriting years ending 31 December 2009 and prior.

Underlying GWP growth negated by significant adverse FX impact

FY10 GWP BY CLASS



- Special Risks
- Household & Commercial Property
- Fleet
- Private Car - Broker
- Private Car - Direct
- Motorcycle
- Other
- Other Motor

Reinsurance expense inflated by new ADC which protects against further deterioration in the motor book

7. UNITED KINGDOM (UK)

CLAIMS

The UK business' loss ratio was 119.0% in FY10, compared with 62.1% in FY09. The vast majority of the deterioration is attributable to the additional reserving identified in 2H10.

As a result of the deteriorating claim payment experience in the opening months of calendar year 2010 and concerns over bodily injury issues in general, an additional independent actuarial review was initiated in May 2010 and finalised in early June 2010. This included a rigorous review of the book and a revisiting of the actuarial assumptions used by the independent actuary in its last review, carried out at the end of November 2009 and used as the basis of the results presented for 1H10.

As part of the related \$367m one-off charge identified in 2H10, \$275m of net claim reserve strengthening was incurred. This is in respect of most classes of motor business, but primarily private car and private van.

The size of claim adjustment recognised in 2H10 reflects both the revision of assumptions and the extrapolation of those revised assumptions to the 2008 and 2009 underwriting years. These two years, which are relatively undeveloped and which were previously believed to be insulated from this issue given the scale of rate increases implemented, account for approximately 50% of the reserve strengthening identified.

Claim payment patterns in the period since the actuarial review was completed have supported the appropriateness of the action taken.

As part of the remedial programme of action being undertaken, ERS is enhancing its claim recording and settlement processes and further improving its claim data and management information.

Outside the one-off motor reserve strengthening identified in 2H10, the net claims line has also borne:

- Reduced reserve releases from Syndicate 1208 in run-off; and
- Poor claim experience in respect of the household and commercial property book, notably from the severe winter weather in 2H10.

EXPENSES

Total expenses have increased by \$34m, from \$224m in FY09 to \$258m in FY10, and the expense ratio has risen from 30.1% in FY09 to 47.6% in FY10. The deterioration in reported expense ratio has been exaggerated by the reduction in reported NEP to \$542m (FY09: \$744m), itself influenced by the cost of the ADC which was fully expensed in 2H10.

The increase in total reported expenditure, compared to FY09, included:

- Recognition of a LAT fail, which at 30 June 2010 increased expenses by \$16m; and
- A revised allocation (implemented in 2H10) of certain overheads previously reported as claim handling expenses.

Loss ratio materially inflated by bodily injury deterioration

Increased expense ratio influenced by reinsurance expense and LAT fail

7. UNITED KINGDOM (UK)

INSURANCE PROFIT

As a result of the deterioration in bodily injury claims and associated reinsurance costs, the UK business has reported a negative insurance margin of 65.5% in FY10.

The overwhelming influence on FY10's reported insurance result has been the \$367m one-off charge recognised in 2H10, primarily in respect of bodily injury claims.

Substantial negative margin in 2H10 reflecting response to bodily injury issue

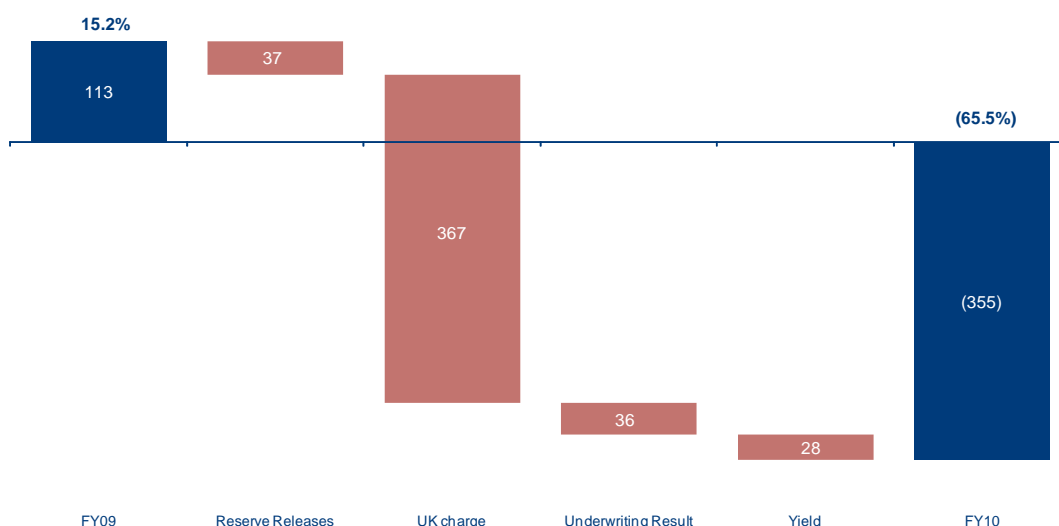
UK CHARGE

	A\$m
Claim reserve strengthening	275
Adverse development cover (ADC)	67
LAT fail	16
Revised recognition of unclosed business estimates	9
Total UK charge	367

During FY10 a significant decrease in investment income was incurred, owing to lower interest rates and lower funds under management.

Excluding the one-off charge of \$367m, the UK business recorded an insurance loss of \$12m in 2H10. This included the effect of the severe winter weather on the household and commercial property book.

INSURANCE PROFIT – FY10 VS. FY09 (A\$M)



7. UNITED KINGDOM (UK)

FEE BASED INCOME

Net fee based income, from EDBL, Barnett & Barnett, IDL and managing agent fee income, amounted to a loss of \$2m in FY10, compared to a loss of \$6m in FY09. These businesses have performed to expectations.

EDBL has delivered an improved performance by:

- Increasing sales from affinity partnerships, including Alliance & Leicester, first direct, HSBC, Renault, Nissan, Santander and Royal British Legion (Poppy);
- Improving sales of ancillary products including legal protection, premium financing and breakdown cover; and
- Reducing costs through simplification of infrastructure.

The Barnett & Barnett broking business has performed well, contributing a profit modestly higher than that of FY09.

IDL was consolidated with effect from July 2009, and its financial performance has improved across the year to post a modest profit, in line with plan.

FY11 OUTLOOK

Following the deterioration in claim reserves recognised in 2H10, management is confident the remedial programme being implemented will assist in restoring profitability over the medium to longer term.

Local currency GWP is expected to be flat at best in FY11, as the impact of rate increases is offset by an anticipated decline in volume. In addition, retention rates are expected to remain under pressure given an increasingly price sensitive consumer mindset.

The claim environment is expected to remain challenging, however considerable motor reinsurance protection is in place in respect of the underwriting years ending 31 December 2009 and prior.

The outlook for ERS is a low single digit insurance margin in FY11, with a small loss anticipated in the opening half of the year. As the benefits of the remedial programme are realised, the UK insurance margin is expected to recover to more normal levels.

EDBL is expected to benefit from recent affinity wins, while further growth is expected from Barnett & Barnett. IDL is expected to increase its contribution as the business matures.

Solvency II preparation work is continuing. ERS is expected to be substantially compliant by the end of 2011, with parallel running during 2012. The new regime that regulates Lloyd's, as a single entity, comes into force on 1 January 2013. Modest additional costs in relation to Solvency II compliance are expected in FY11.

Fee based operations have performed to expectations

Remedial programme expected to return UK to modest profitability in FY11

8. ASIA

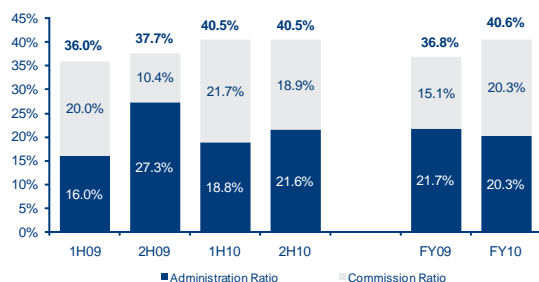
FINANCIAL PERFORMANCE

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Gross written premium	92	101	89	96	193	185
Gross earned premium	94	97	86	90	191	176
Reinsurance expense	(19)	(20)	(17)	(16)	(39)	(33)
Net earned premium	75	77	69	74	152	143
Net claims expense	(45)	(47)	(40)	(48)	(92)	(88)
Commission expense	(15)	(8)	(15)	(14)	(23)	(29)
Underwriting expense	(12)	(21)	(13)	(16)	(33)	(29)
Underwriting profit/(loss)	3	1	1	(4)	4	(3)
Investment income on technical reserves	6	(1)	1	4	5	5
Insurance profit	9	-	2	-	9	2
Profit/(loss) from fee based business	(1)	(1)	-	-	(2)	-
Share of profit from associates	3	5	2	1	8	3
Total divisional result	11	4	4	1	15	5
Insurance Ratios¹						
Loss ratio	60.0%	61.0%	58.0%	64.9%	60.5%	61.5%
Expense ratio	36.0%	37.7%	40.5%	40.5%	36.8%	40.6%
Commission ratio	20.0%	10.4%	21.7%	18.9%	15.1%	20.3%
Administration ratio	16.0%	27.3%	18.8%	21.6%	21.7%	20.3%
Combined ratio	96.0%	98.7%	98.5%	105.4%	97.3%	102.1%
Insurance margin	12.0%	-	2.9%	-	5.9%	1.4%

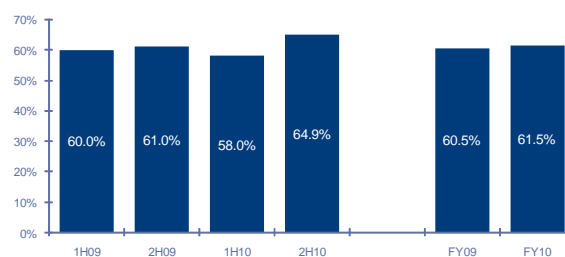
¹ Insurance ratios include divisional expense overlays and are not a true representation of the underlying consolidated business (Thailand).

INSURANCE RATIOS

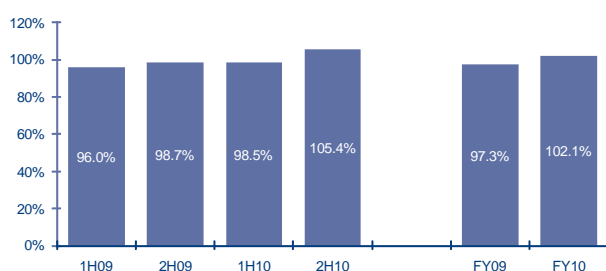
EXPENSE RATIO



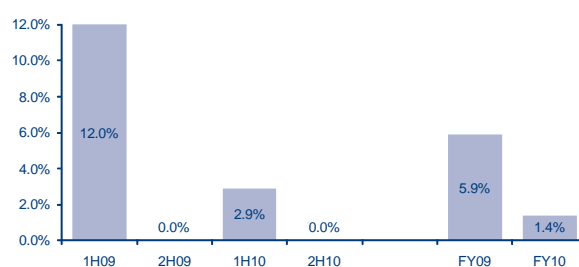
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



8. ASIA

EXECUTIVE SUMMARY

FY10 has seen strong operational performances from established businesses in Thailand and Malaysia, in the face of a variety of challenges, and good progress in the division's strategy to access high growth markets in Asia.

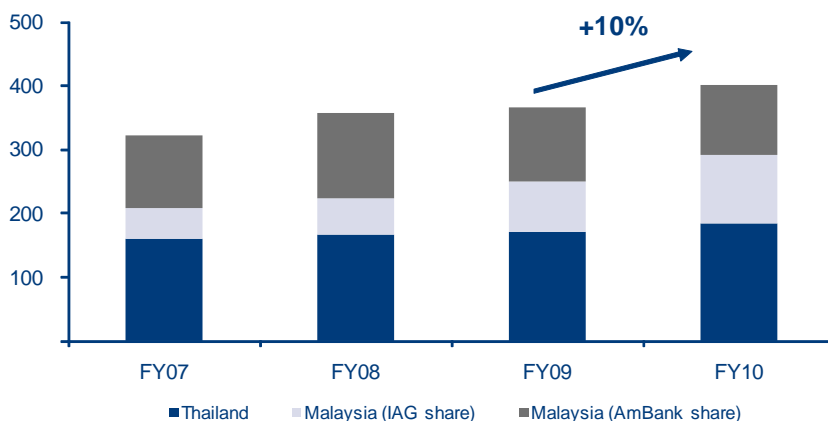
The Asia division contributed a \$5m profit in FY10 compared to \$15m in FY09. This outcome has been influenced by:

- Increased business development costs, including start-up expenditure in respect of the Indian joint venture;
- No benefit from the introduction of DAC accounting in Thailand, compared to \$12m in FY09; and
- Significantly adverse (10%+) foreign exchange movements on translation of the Thai and Malaysian businesses' contributions.

While representing only 2.4% of Group GWP for FY10 (being only Thailand which is consolidated), the Asia division remains an important part of the Group's future growth strategy. The division currently participates in a gross regional GWP pool of in excess of \$400m per annum.

Strong operational performances from established businesses, good progress in expansion of regional footprint

IAG Asia - GWP Pool (A\$m)



Notes:

1. IAG's interest in AmG increased from 30% to 49% with effect from 1 December 2008.
2. All amounts have been converted to A\$ using the exchange rate at the most recent reporting date to aid comparability.

During the opening half of FY10, the Group completed its investment in SBI General Insurance Company (SBI General), a 26%-owned joint venture with State Bank of India. SBI General commenced underwriting insurance policies on a very limited basis towards the end of FY10, with a full launch expected by the end of calendar 2010.

Key priorities for FY11 are:

- Focus on the full launch of SBI General in India;
- Progressing appropriate investment opportunities in China; and
- Initial assessment of other select emerging Asian markets.

8. ASIA

THAILAND

OPERATIONS

IAG's controlled operations in Thailand comprise:

- Safety Insurance – Thailand's fifth largest motor insurer; and
- NZI Thailand – a commercial insurer.

MARKET ENVIRONMENT

The Thai economy was still contracting at the beginning of FY10, reflecting the tail of the GFC which significantly impacted Thailand's major trading partners. The economy is showing good signs of recovery despite the dampening effect of the political unrest in April and May 2010 which undermined both consumer and business confidence. Forecast GDP growth for calendar 2010 is expected to rebound to around 6-7%.

The Thai general insurance market grew by 3.4% in local currency terms for calendar year 2009, and is expected to grow by 6-9% in 2010. With relatively low levels of insurance penetration and expected strong GDP growth, Thailand continues to offer good long term growth prospects.

With the return of civil calm and the positive economic outlook, investment markets, both equity and fixed interest, are performing well. The Stock Exchange of Thailand (SET) index increased by 33% over the course of FY10.

OPERATING PERFORMANCE

Thailand has contributed a \$2m profit to the divisional result, compared to a \$9m profit in FY09. After allowing for the \$12m one-off benefit from the introduction of DAC accounting in FY09, the underlying performance of the business has been strong with an improved insurance margin of 9.2%. Excluding the DAC effect, the FY09 margin was below 8%.

The FY10 result is after \$11m of regional support and development costs (FY09: \$14m), split \$5m in 1H10 and \$6m in 2H10 and included in the Asia division's reported underwriting expense.

Thai business is sole consolidated operation in Asia

Good long term growth prospects, but political situation poses short term uncertainty

Strong operating performance in FY10 after allowing for one-off DAC benefit in FY09

THAILAND FINANCIAL PERFORMANCE

	FY09		FY10	
	Bm	A\$m	Bm	A\$m
Gross written premium	5,002	193	5,407	185
Insurance margin ¹	7.9%		9.2%	

¹ Excludes captive reinsurance result, allocated regional support and development costs and one-off effect of introduction of DAC accounting (FY09).

8. ASIA

In local currency terms, FY10 GWP increased by 8.1% compared to FY09, and 2H10 GWP increased by 10.6% compared to 2H09. However, owing to the significant appreciation of the Australian dollar against the Thai baht during FY10, reported FY10 GWP of \$185m has declined by over 4% relative to FY09.

A key driver for the increased local currency GWP was Safety's success in targeting a car manufacturer's affinity scheme. This was partially offset by a lower performance from NZI following the strategic restructure of the business and fallout from the political protests which delayed infrastructure projects and hampered broked business.

The impact of the political demonstrations was minimised through the quick implementation of business continuity plans and the successful diversification of the Safety business outside Bangkok in recent years.

A modest deterioration in the FY10 loss ratio to 61.5% (FY09: 60.5%) reflects the combined impact of:

- Claims in respect of the Bangkok riots in 2H10;
- A higher loss ratio attaching to affinity car volumes;
- The maintenance of strong expense control within personal lines; and
- Continuing favourable experience in the more volatile commercial side of the business.

After allowing for the one-off DAC benefit in FY09, there has been an improvement in the underlying expense ratio in FY10. This is largely due to benefits realised from the restructuring undertaken in NZI.

The investment performance for FY10 is well ahead of FY09 in local currency terms, incorporating gains from both equity and fixed interest markets following recovery from the GFC.

MALAYSIA

OPERATIONS

IAG owns a 49% interest in AmG Insurance, the general insurance arm of AmBank Group, which controls Malaysia's fifth largest bank branch network. This joint venture was established in 2006. At the end of calendar 2009, AmG Insurance was the sixth largest general insurer in Malaysia and the country's third largest motor insurer.

AmG remains in discussion over the proposed acquisition of 100% of the general insurance business of Malaysian Assurance Alliance Berhad (MAA), the eighth largest general insurer in Malaysia. The proposed transaction has been approved by the Malaysian industry regulator.

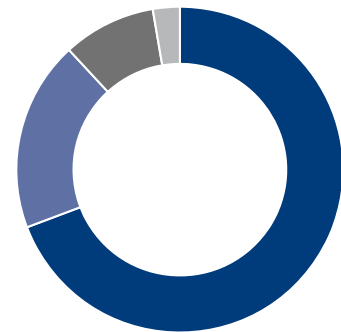
MARKET ENVIRONMENT

The Malaysian economy contracted by 1.7% in calendar 2009, however, the year ended strongly with fourth quarter GDP growth of 4.5%. The Malaysian economy is projected to grow by over 6% in 2010, underpinned by strengthening domestic demand and an improving external environment.

New car sales in the first six months of 2010 have risen by about 20% on the prior period, and the full year is expected to see a strong increase. Strong consumer sentiment and stability in the job market have led to a significantly more optimistic outlook, despite higher interest rates and fuel prices.

Strong local currency GWP growth on back of increased affinity business

THAILAND – FY10 GWP BY CLASS



- Motor
- Other Short Tail
- Liability
- Short Tail Commercial

AmG is a 49%-owned JV with AmBank

Good growth prospects, as economy recovers

8. ASIA

Malaysia's general insurance market grew by 5.7% in calendar 2009 in local currency terms. With solid GDP growth, a strengthening regulatory environment and significant development in insurance penetration still to come, Malaysia continues to offer good long term growth prospects.

The Third Party Bodily Injury (TPBI) scheme continues to raise industry-wide challenges for all general insurers, however the Malaysian government is currently working with stakeholders to implement significant reforms in 2011. Due to the complexity of issues, a large number of stakeholders with varying interests and the highly political nature of any reforms, satisfactory resolution may take some time. TPBI products accounted for only 5% of AmG's GWP for FY10.

OPERATING PERFORMANCE

AmG Insurance has delivered a strong underlying performance in FY10, recording robust GWP growth and an improved insurance margin.

AMG FINANCIAL PERFORMANCE

	FY09 ¹		FY10 ¹	
	RMm	A\$m	RMm	A\$m
Gross written premium	581	221	649	217
Insurance profit	59		62	
Net profit after tax - IAG's share ^{2,3}	26		30	
Insurance Ratios				
Insurance margin	12.0%		12.2%	

¹ Figures represent AmG's results for year ended 30 June (AmG reports on a 31 March year end basis).

² Before regional support and development costs.

³ IAG increased its ownership of AmG Insurance from 30% to 49% in December 2008.

The reported contribution from Malaysia of \$3m in FY10 (FY09: \$8m) is after:

- A significant increase in regional support and development costs to \$7m (split \$4m in 1H10 and \$3m in 2H10), compared to \$2m in FY09, under the division's revised allocation methodology; and
- A material adverse foreign exchange impact upon translation of earnings, owing to the significant appreciation of the Australian dollar against the Malaysian ringgit during FY10.

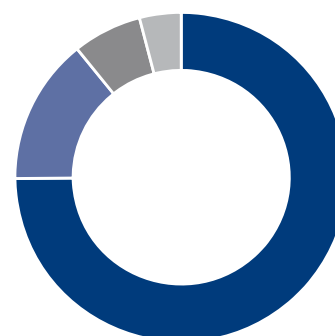
In local currency terms, FY10 GWP increased by 11.7% compared to FY09, and 2H10 GWP by 12.7% compared to 2H09. This improvement was driven by growth across the majority of AmG's products, facilitated by the strong distribution network of the AmBank Group and IAG's successful capability transfer programme.

The FY10 insurance margin has improved to 12.2% (FY09: 12.0%), despite a slightly higher loss ratio of 70.5% which reflects some deterioration in the bodily injury claims experience.

Following the market recovery from the GFC, FY10 investment performance was significantly better than that of FY09.

Strong local currency GWP growth and underlying performance in FY10

AMG – FY10 GWP BY CLASS



- Motor
- Other
- Fire
- Personal Accident

8. ASIA

INDIA

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India, India's largest bank. The interest was acquired in November 2009 for \$126m (5.4bn Indian rupees).

IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit. It remains the Group's expectation that, at its current ownership level, no further capital will be required for approximately four years from commencement.

SBI General is a start-up operation and commenced very limited underwriting towards the end of FY10. A full launch is expected before the end of calendar 2010.

By 30 June 2010, SBI General had already recruited over 200 staff. During FY11 the number of IAG personnel based in India will reduce as some of the near term capability transfer programmes finish and the business moves towards establishment. The main roles occupied or appointed by IAG will remain the deputy CEO role and key positions in underwriting and claims. IAG also has two Board positions.

In the initial 12 months of full operation, the joint venture will build a balanced portfolio, with a presence in corporate, retail and SME markets across India.

The general insurance market in India grew by 15% in the 12 months to 31 March 2010 and is forecast to grow by 15-20% per annum over the next decade. While over half of the market is occupied by public sector insurers, private sector participants continue to capture market share, reaching 43% for the year to 31 March 2010. The regulatory framework has been incorporating reforms conducive for growth in the insurance industry.

CHINA

A successful turnaround of the existing China Automobile Association (CAA) business has been completed, with it contributing a small profit in FY10 compared to a loss of \$2m in FY09.

China remains an attractive general insurance market underpinned by strong forecast growth in GWP and motor vehicles. IAG is committed to exploring opportunities in China and good progress continues to be made with a number of potential insurance partners.

REGIONAL SUPPORT AND DEVELOPMENT COSTS

As IAG broadens its operational footprint in Asia, the division incurs regional support and development costs which are borne within its reported results. These costs cover a wide range of activities, including the divisional level management, on-the-ground capability transfer teams, and the costs of developing opportunities in new and existing markets.

During FY10, the division revised its approach to the allocation of regional support and development costs. These are now allocated between the consolidated businesses and share of associates, rather than largely against the consolidated businesses. This is considered a more appropriate allocation methodology, with each operating component of the division bearing a portion of such costs.

Total regional support and development costs increased by \$2m in FY10, and include establishment costs for the Indian joint venture.

Indian JV investment completed in November 2009, with full launch expected before end of calendar 2010

IAG continues to explore insurance opportunities in China

Increased business development costs include Indian JV establishment expenditure

8. ASIA

FY11 OUTLOOK

It is anticipated that underlying performance in Thailand and Malaysia will remain strong, with system growth expected to be exceeded. There is, however, some uncertainty around growth levels in Thailand, given the ongoing political risk in that country.

The full launch of SBI General will be a key focus area for FY11. This is expected to occur before the end of calendar 2010.

The division will continue to pursue dialogue with potential insurance partners in China.

While the division's immediate growth strategy is based on the selected markets of Thailand, Malaysia, India and China, additional emerging markets have begun to be assessed.

In the near term, regional support and development costs are not expected to be significantly different from those incurred in FY10. The Asia division continues to self-fund such costs.

Full launch of SBI General a key focus in FY11

9. REINSURANCE

REINSURANCE STRATEGY

IAG's reinsurance programme is an important part 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 modified whole of portfolio basis (where whole of portfolio is the sum of all correlated risk). The limits purchased reflect a 1-in-250 year return period.

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, the Group captures counter-party and regulatory exposures within a single entity.

IAG Re Labuan, the Group's offshore captive reinsurer, underwrites close to 100% of New Zealand treaty business and a substantial amount from the UK and Asia. IAG's international business units do, however, continue to place some reinsurance directly with the external market, subject to local market or regulatory requirements.

In May 2010, the Group established a third reinsurance operation in Singapore. IAG Re Singapore will commence underwriting business from the Group's international operations in 1H11.

MARKET ENVIRONMENT

The Group has experienced little impact from the GFC on its reinsurance costs, with additional capacity emerging, particularly from Lloyd's and the Singaporean reinsurance market.

During the 2010 renewal, IAG observed modest rate increases for natural perils and little or no change to other lines of business.

CATASTROPHE COVER

The Group's main catastrophe reinsurance protection was renewed for 12 months effective 1 January 2010, and provides cover for losses up to \$4.1bn. Applicable rate increases were around 2-3%. The Group retains the first \$200m of each loss under this cover. This catastrophe protection covers all territories and operates on an excess of loss basis.

In 2008, IAG entered into a three-year arrangement (concluding 31 December 2010) that reduces the Maximum Event Retention (MER) of the Group below \$200m. At the commencement of the 2010 calendar year, the MER for a first event was \$135m in Australia, \$108m for New Zealand and \$53m for the UK. The severe weather experienced in Melbourne in early March 2010 triggered this first event MER of \$135m.

The Group purchases further cover that protects the MER against a second and third event. This was renegotiated at 1 January 2010 and placed on a calendar year basis. The impact of this cover, together with the main catastrophe programme, multi-year transaction and a number of other strategic purchases, is that the MER for a second event is \$75m for Australia, \$60m for New Zealand and \$50m for the UK. The Perth storm in late March 2010 triggered a second event MER of \$75m.

Reinsurance is a key part of IAG's overall approach to capital management

Modest peril rate increases in respect of calendar 2010

Comprehensive catastrophe cover in place, on calendar year basis

9. REINSURANCE

The Group also 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. As at 30 June 2010 this contract is active.

Taking into account the combined operation of the Group's catastrophe protections and the sequence of catastrophe events over the first six months of calendar 2010, at 1 July 2010 the Group's exposure to a subsequent event is limited to \$15m.

The Group has a customised event definition in its catastrophe reinsurance contract wording which ensures that covers provide appropriate protection to the Group, both in terms of geographical exposure and event duration. IAG's reinsurance protections have been extended to provide cover for flood.

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances which protect the Group in all territories in which it underwrites.

The casualty reinsurances were renewed at 30 June 2010 with marginal price reductions and a strengthening of coverage. 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.

During the course of 2010, a separate reinsurance structure was purchased as part of the strategy to manage the recent reserve deterioration in the UK. This reinsurance provides the Group with significant protection against any further adverse development of the UK motor portfolio for the calendar underwriting years 2009 and prior.

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.

Casualty reinsurances renewed with small price reductions and stronger cover

Strong counter-party risk profile

10. INVESTMENTS

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;
- 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 maximise return, consistent with the Group's risk appetite and flexibility requirements;
- To invest Group assets such that the contribution of investment risk to IAG's earnings volatility should not dominate the contribution from insurance risk;
- 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 Group policies.

Technical reserves invested in duration-matched fixed interest securities

INVESTMENT STRATEGIES

As at 30 June 2010, the Group's overall investment allocation remained relatively conservatively positioned with nearly 90% of total investments in fixed interest and cash. Technical reserves remained almost entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was 63%.

Since 30 June 2009, the Group has moved to an increasingly less conservative position within its shareholders' funds investment mix, reflecting both a recovery in underlying equity markets and recognition that market conditions are sufficiently improved to justify an increased exposure to growth assets. It is the Group's intent to move towards a 50% target for growth assets within shareholders' funds over the next 12 months, subject to continued improvement in the outlook for markets.

The Group's strategy is to gradually increase the growth assets weighting in shareholders' funds, but in doing so to utilise alternative assets that have growth asset return characteristics and result in lower overall portfolio volatility than listed equities. Global convertible bonds is one such category, and in FY10 an exposure was established using two specialist managers in this field.

In technical reserves, no material deviation from the current strategy is planned, given the attractive returns on high-grade credit currently available.

GROUP INVESTMENT ASSETS

The Group's investments totalled \$11.7bn as at 30 June 2010, excluding investments held in joint ventures and associates. This compares to \$10.6bn at 30 June 2009 and \$11.5bn at 31 December 2009.

10. INVESTMENTS

INVESTMENT ASSETS

	1H09 A\$bn	2H09 A\$bn	1H10 A\$bn	2H10 A\$bn
Technical reserves	8.0	8.0	7.9	8.4
Shareholders' funds	2.3	2.6	3.6	3.3
Total investment assets on balance sheet	10.3	10.6	11.5	11.7
Reset Exchangeable Securities' (RES) funds	0.6	0.6	-	-
Total investment assets	10.9	11.2	11.5	11.7
Other funds managed on behalf of third parties	0.9	0.4	0.5	0.5

ASSET ALLOCATION

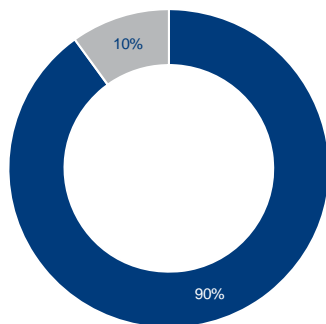
Since 31 December 2009, the most significant change in asset allocation has been the increased exposure to growth assets (equities and alternatives) within shareholders' funds. Over the course of the six months to 30 June 2010, growth assets have risen to 37% of shareholders' funds, in line with previously expressed intent.

ASSET ALLOCATION

	1H09 %	2H09 %	1H10 %	2H10 %
Shareholders' funds	%	%	%	%
Australian equities	21.7	15.4	14.4	19.4
International equities	5.0	4.6	4.5	5.5
Alternatives	6.0	1.6	5.0	12.2
Fixed interest and cash	67.3	78.4	76.1	62.9
Total	100.0	100.0	100.0	100.0
Technical reserves	%	%	%	%
Australian equities	-	-	-	-
International equities	-	-	-	-
Alternatives	0.5	0.4	0.4	0.2
Fixed interest and cash	99.5	99.6	99.6	99.8
Total	100.0	100.0	100.0	100.0
Total shareholders' funds and technical reserves	%	%	%	%
Australian equities	4.8	3.8	4.6	5.4
International equities	1.1	1.1	1.4	1.5
Alternatives	1.7	0.8	1.9	3.5
Fixed interest and cash	92.4	94.3	92.1	89.6
Total	100.0	100.0	100.0	100.0

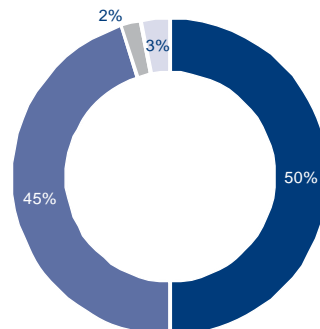
10. INVESTMENTS

GROUP ASSET ALLOCATION – 30 JUNE 2010



- Fixed Interest and Cash
- Growth

CREDIT QUALITY – 30 JUNE 2010



- "AAA"
- "AA"
- "A"
- <"A"

CREDIT QUALITY OF ASSETS

The credit quality of the Group's investment book remains high, with 95% of the fixed interest and cash portfolio rated 'AA' or better. All credit assets are performing and meeting interest and principal repayment obligations.

SENSITIVITY ANALYSIS

As at 30 June 2010 the sensitivity of the Group's net profit before tax to investment market movements was as set out in the table below. Interest rate sensitivities are measured against the Commonwealth Government of Australia bond yield curve.

SENSITIVITY OF NET PROFIT BEFORE TAX – AS AT 30 JUNE 2010

	Change in Assumption	
	+1% A\$m	-1% A\$m
Equity market values:		
Australian equities	6	(6)
International equities	5	(5)
Interest rates:		
Assets backing technical provisions	(233)	255
Assets backing shareholders' funds	(19)	21
Total investment returns	(252)	276

10. INVESTMENTS

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 (INCLUDING DERIVATIVES)¹

	1H09		2H09		1H10		2H10		FY09		FY10	
	A\$m	% ²	A\$m	% ²	A\$m	% ²	A\$m	% ²	A\$m	%	A\$m	%
Technical reserves	732	8.9	48	0.6	210	2.7	344	4.1	780	9.8	554	6.6
Shareholders' funds	(97)	(4.1)	31	1.2	187	5.2	5	0.2	(66)	(2.5)	192	5.8
RES revaluation	25	-	2	-	(96)	-	-	-	27	-	(96)	-
Total investment income	660	6.0	81	0.8	301	2.6	349	3.0	741	7.0	650	5.6

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.

Investment returns on technical reserves were lower than FY09, reflecting the residual effect of the sharp drop in interest rates incurred in 1H09. Yields over subsequent halves have progressively recovered as interest rates moved higher.

Investment returns on shareholders' funds have shown considerable improvement, reflecting the recovery in equity markets relative to FY09. This improvement is despite inclusion of a \$96m loss on reversal of the exchange right gain embedded in the RES, identified on that instrument's amendment to on-balance sheet regulatory capital in 1H10. FY09 investment income on shareholders' funds included a \$27m revaluation gain in respect of the RES.

11. BALANCE SHEET & CAPITAL

BALANCE SHEET

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m
Assets				
Cash and cash equivalents	275	344	387	416
Investments	10,314	10,563	11,540	11,734
Investments in joint ventures and associates	138	122	255	283
Premium receivable	1,973	2,108	1,896	2,046
Trade and other receivables	1,087	887	743	1,084
Reinsurance recoverables on claims	707	654	530	663
Other recoverables on claims	311	393	379	408
Deferred acquisition costs	723	733	688	688
Deferred reinsurance expense	360	268	370	258
Intangible assets	449	398	361	301
Goodwill	1,904	1,880	1,834	1,782
Other assets	911	1,010	774	783
Assets held for sale	653	-	-	-
Total assets	19,805	19,360	19,757	20,446
Liabilities				
Outstanding claims	8,154	7,816	7,576	8,253
Unearned premium	3,970	4,072	4,033	4,207
Interest bearing liabilities	1,360	1,053	1,586	1,450
Trade and other payables	704	863	728	1,041
Other liabilities	870	720	794	839
Liabilities held for sale	612	-	-	-
Total liabilities	15,670	14,524	14,717	15,790
Net assets	4,135	4,836	5,040	4,656
Equity				
Equity attributable to holders of ordinary shares	3,986	4,671	4,886	4,486
Non-controlling interests	149	165	154	170
Total equity	4,135	4,836	5,040	4,656

The total assets of the Group as at 30 June 2010 were \$20,446m compared to \$19,757m at 31 December 2009. The increase primarily reflects:

- The seasonal increase in premium receivable, largely attributable to renewals at 30 June and unclosed business in respect of commercial premiums;
- An increase in reinsurance recoverables, driven by the March 2010 storms in Melbourne and Perth; and
- An uplift in invested assets due to the Group's strong operating cash flow in the period.

11. BALANCE SHEET & CAPITAL

The other assets category represents the aggregate of current and deferred tax assets, prepayments, property and equipment, deferred expenditure and other assets.

The total liabilities of the Group as at 30 June 2010 were \$15,790m, compared to \$14,717m at 31 December 2009. The movement is primarily attributable to a substantial increase in outstanding claims which has been driven by a combination of:

- The reserve strengthening in respect of bodily injury claims in the UK; and
- The gross provisions held for claims arising from the March 2010 storms in both Melbourne and Perth.

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, reinsurance premiums payable and lease and other provisions.

The decrease in IAG shareholders' equity (excluding non-controlling interests), from \$4,886m at 31 December 2009 to \$4,486m at 30 June 2010, largely reflects:

- A 2H10 reported loss attributable to shareholders of \$238m; and
- Dividends of \$177m that were declared and paid during the period.

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 30 June 2010 stood at \$2,083m, down from \$2,278m at 30 June 2009, and comprises \$1,782m of goodwill (FY09: \$1,880m) and \$301m of other intangible assets (FY09: \$398m).

The most significant divisional movement over the year is the reduction in goodwill and intangibles in respect of the UK, which reflects:

- The \$87m write down identified in 2H10; and
- The substantial adverse translation effect owing to the strength of the Australian dollar.

UK intangibles reduced by FX effect and \$87m write down

GOODWILL & INTANGIBLES – BY DIVISION

	FY09 A\$m	FY10 A\$m
Australia Direct	601	599
Australia Intermediated	579	595
New Zealand	298	293
United Kingdom	746	542
Asia	54	54
Total goodwill & intangibles	2,278	2,083

11. BALANCE SHEET & CAPITAL

OUTSTANDING CLAIMS

NET OUTSTANDING CLAIMS LIABILITY

The Group's net outstanding claims liability at 30 June 2010 stood at \$6,765m, compared to \$6,405m at 30 June 2009. The increase reflects the combined effect of reserve strengthening in the UK and outstanding claims in respect of the major storm events in Melbourne and Perth in March 2010.

As at 30 June 2010, the sensitivity of the Group's net outstanding claims liability to a 1% movement in the discount rate, as applied to expected future payments, was:

- +1%, a reduction in net outstanding claims liability of \$189m; and
- -1%, an increase in net outstanding claims liability of \$207m.

CLAIMS DEVELOPMENT

Note 12 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 nine most recent accident years as estimated at each reporting date. An extract from that table is set out below.

CLAIMS DEVELOPMENT TABLE

	Accident Year Ended 30 June											TOTAL
	2001 and prior	2002	2003	2004	2005	2006	2007	2008	2009	2010		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Development												
At end of accident year		3,217	3,355	3,496	3,608	4,000	4,695	4,596	4,617	4,603		
One year later		3,145	3,178	3,331	3,561	3,927	4,660	4,554	4,656			
Two years later		3,084	3,103	3,358	3,529	3,858	4,619	4,549				
Three years later		3,050	3,073	3,342	3,485	3,860	4,632					
Four years later		3,028	3,018	3,326	3,450	3,847						
Five years later		3,000	3,026	3,315	3,399							
Six years later		3,000	3,020	3,286								
Seven years later		2,980	3,008									
Eight years later		2,981										
Current estimate of net ultimate claims payments		2,981	3,008	3,286	3,399	3,847	4,632	4,549	4,656	4,603		
Cumulative payments made to date		(2,901)	(2,929)	(3,153)	(3,213)	(3,494)	(4,046)	(3,845)	(3,558)	(2,387)		
Net undiscounted outstanding claims payments	690	80	79	133	186	353	586	704	1,098	2,216	6,125	
Discount to present value	(207)	(15)	(14)	(22)	(28)	(47)	(62)	(79)	(126)	(184)	(784)	
Net discounted outstanding claims liability	483	65	65	111	158	306	524	625	972	2,032	5,341	
Claims handling expense												325
Risk margin												1,099
Net outstanding claims liability												6,765
Gross outstanding claims liability on the balance sheet												8,253
Outstanding reinsurance and other recoveries												(1,071)
GST recoverable on net outstanding claims liability												(417)
Net outstanding claims liability												6,765

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 2010, more than 90% of the total estimated liability for the 2002 to 2006 accident years had been paid, for the 2007 and 2008 accident years more than 80% had been paid, and for 2009 over 76% had been paid.

**Increased claims liability
owing to March 2010 storms
and UK reserve strengthening**

11. BALANCE SHEET & CAPITAL

RISK MARGINS

The claims development table 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 claim 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 FY10 is at least 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 FY10 as a percentage of the net discounted outstanding claims liability was 19.4%, compared to 19.1% in FY09.

90% probability of adequacy maintained

CAPITAL

CAPITAL ADEQUACY

The Group retains a target minimum capital requirement (MCR) multiple of 1.45 to 1.50 as a long term benchmark.

At 30 June 2010 the Group's MCR multiple stood at 1.92. Despite the diminished uncertainty in financial markets, the Group believes it is prudent to retain a strong capital position over the short to medium term.

The Group's regulatory capital has decreased from \$4,208m as at 31 December 2009 to \$4,140m at 30 June 2010, primarily due to the pre-amortisation loss incurred in 2H10.

The Group's minimum capital requirement increased to \$2,154m as at 30 June 2010, from \$2,070m as at 31 December 2009. This movement reflects the combined effect of:

- A higher insurance risk, primarily owing to business growth in Australia Direct and increased claim reserves held in the UK;
- Higher investment risk charges associated with the Group's increased weighting towards growth assets within shareholders' funds; and
- A decrease in catastrophe concentration risk, reflecting the active operation of the Group's aggregate cover as at 30 June 2010.

Strong capital position maintained

11. BALANCE SHEET & CAPITAL

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m
Tier 1 capital				
Paid-up ordinary shares	4,782	5,326	5,353	5,353
Non-controlling interests	-	165	154	170
Treasury shares	(26)	(7)	(34)	(31)
Hybrid equity ¹	350	350	496	475
Reserves	(35)	(11)	(37)	(34)
Retained earnings	(691)	(589)	(362)	(775)
Excess technical provisions (net of tax)	371	438	482	522
Less: deductions ²	(2,785)	(2,689)	(2,789)	(2,513)
Total Tier 1 capital	1,966	2,983	3,263	3,167
Tier 2 capital				
Hybrid equity in excess of Tier 1 limit ¹	-	-	404	425
Subordinated debt ³	947	590	537	536
Other	-	-	4	12
Total Tier 2 capital	947	590	945	973
Capital base	2,913	3,573	4,208	4,140
Minimum Capital Requirement (MCR):				
Insurance risk	1,249	1,279	1,242	1,344
Investment risk	559	618	693	790
Catastrophe concentration risk	126	100	135	20
Total MCR	1,934	1,997	2,070	2,154
MCR multiple	1.51	1.79	2.03	1.92

¹ Hybrid equity includes Reset Exchangeable Securities and Reset Preference Shares. These securities are classified under APRA's prudential standards as "Innovative Tier 1" and are eligible to be included in Tier 1 capital up to a limit of 15% of net Tier 1 capital. The aggregate amount of these securities in excess of this limit is included in Tier 2 capital.

² Includes goodwill and intangibles, net deferred tax assets, capitalised software, deferred reinsurance expense and expected dividends.

³ The amount of subordinated debt eligible to be included in Tier 2 capital excludes capitalised transaction costs and discount on issue, and for foreign currency denominated debt, the liability is translated at the current exchange rate excluding any related cross-currency swaps.

INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities have decreased from \$1,586m at 31 December 2009 to \$1,450m at 30 June 2010. This movement reflects the combined effect of:

- Repayment of the US\$240m subordinated note facility, inclusive of related cross-currency swap, in April 2010; and
- The issue of approximately £157m of subordinated exchangeable loan notes under a private placement in April 2010, with maturity in 2035.

These capital management transactions had negligible impact on the Group's funding costs, while the sterling issue provides a hedge for the Group's foreign currency exposure arising from its UK operations.

Changes to subordinated debt mix since 31 December 2009

11. BALANCE SHEET & CAPITAL

Amendments to the RES were approved on 9 December 2009, following which this instrument was brought onto the Group's balance sheet and qualified as Tier 1 capital for regulatory and rating purposes.

INTEREST BEARING LIABILITIES

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m
Senior debt/unsecured notes	7	-	-	-
Subordinated debt	951	596	540	541
Cross-currency swap payable	59	111	135	-
Reset Preference Shares	350	350	350	350
Reset Exchangeable Securities (RES)	-	-	550	550
Capitalised transaction costs	(7)	(4)	(3)	(5)
Other	-	-	14	14
Total interest bearing liabilities	1,360	1,053	1,586	1,450

GROUP DEBT & HYBRID CAPITAL

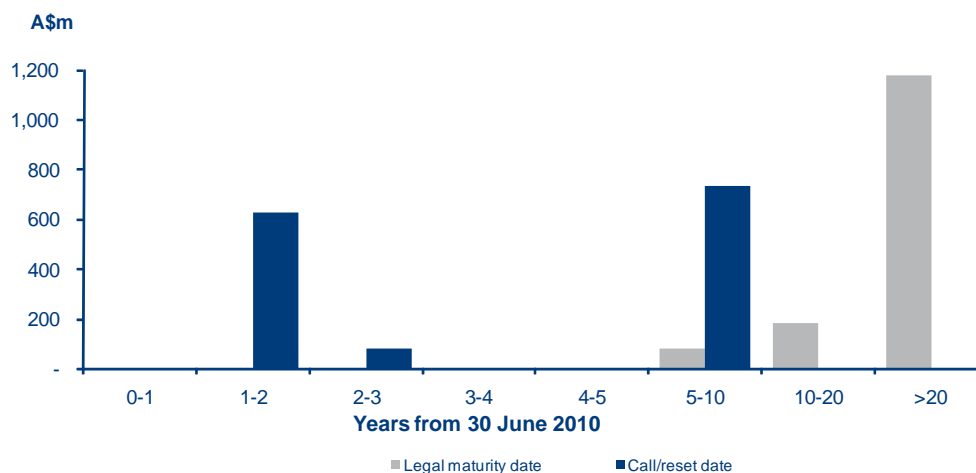
	Principal amount m	A\$m	Yield (net of swaps) %	Call, reset or Rate maturity date	S&P rating
£157m subordinated exchangeable term notes	£157	277	3.39%	Variable Oct-11	'A'
NZ\$100m subordinated fixed rate notes	NZ\$100	81	9.11%	Fixed Nov-12	'A+'
£103m subordinated fixed rate notes ¹	£103	183	5.63%	Fixed Dec-16	'A-'
Total Debt		541			
Reset Preference Shares (IAGPA) ²	A\$350	350	5.63%	Fixed Jun-12	'A-'
Reset Exchangeable Securities (IANG) ³	A\$550	550	6.24%	Variable Dec-19	'A-'

¹ IAG has bought back (but not cancelled) approximately £39m of the total outstanding notes on issue of £ 142.4m, as at 30 June 2010.

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 MATURITY PROFILE



11. BALANCE SHEET & CAPITAL

CAPITAL MIX

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the longer term:

- Ordinary equity (net of goodwill and intangibles) 60-70%; and
- Debt and hybrids 30-40%.

At 30 June 2010, the Group's capital mix was near the mid-point of the targeted range, with debt and hybrids representing 36.0% of total tangible capitalisation.

Capital mix near mid-point of targeted range

CAPITAL MIX

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m
Shareholder equity	4,135	4,836	5,040	4,656
Intangibles and goodwill	(2,353)	(2,278)	(2,195)	(2,083)
Tangible shareholder equity	1,782	2,558	2,845	2,573
Interest bearing liabilities	1,360	1,053	1,586	1,450
Total tangible capitalisation	3,142	3,611	4,431	4,023
Debt to total tangible capitalisation	43.3%	29.2%	35.8%	36.0%

CREDIT RATINGS

On 3 June 2010, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' ratings on IAG's core operating companies and its 'A+' rating on IAG (the ultimate parent entity). The outlook on all entities remains stable.

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.

Active portfolio management 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:

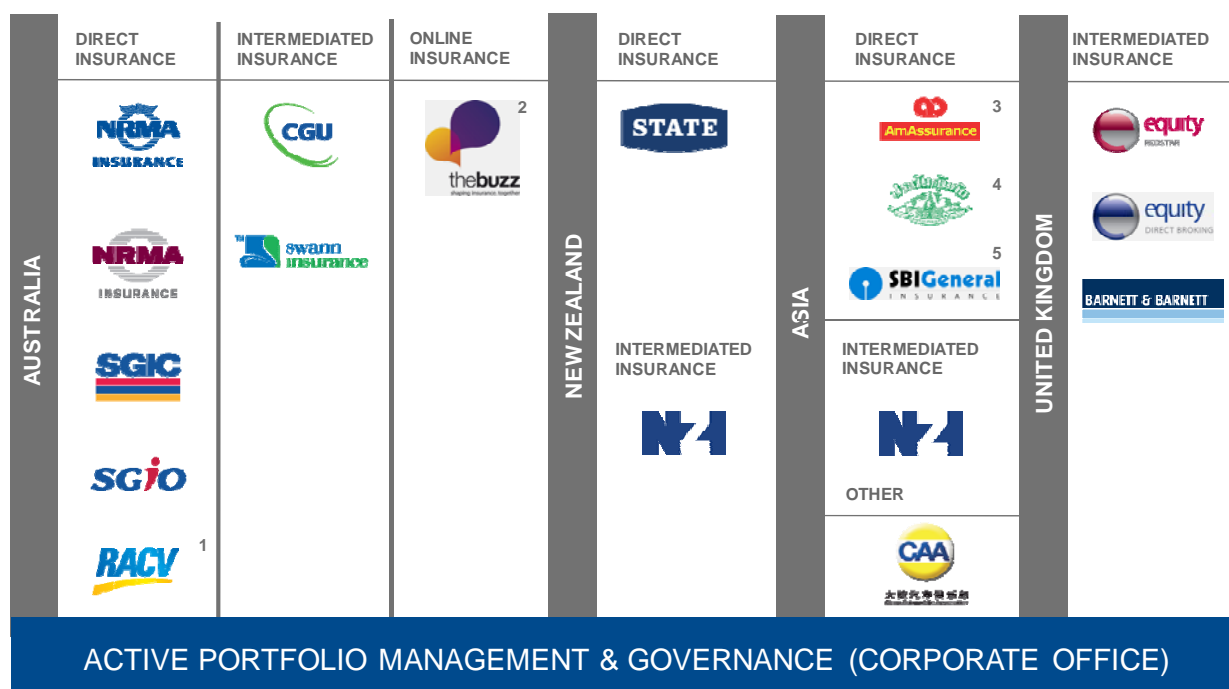
- Top quartile total shareholder return (TSR); and
- ROE greater than 1.5 times the weighted average cost of capital (WACC). Return is defined as NPAT plus amortisation and adjusted for unusual items (cash ROE).

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

The Group's strategic priorities are to:

- Deliver a strong performance in 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 are 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:



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 RACV has a 30% interest in The Buzz.

³ IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad, which trades under the AmAssurance brand.

⁴ IAG holds 98% voting rights in Safety Insurance, based in Thailand.

⁵ IAG has 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.

APPENDIX B – IAG SNAPSHOT

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.

THE BUZZ

The Buzz was launched in May 2009 as a standalone Australian online insurer initially focusing on car insurance. A home product was launched in June 2010.

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, operating 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.

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
- 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

Short tail insurance

- Car insurance
- Home and contents

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

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 (ERS). Commencing operations in 1946, ERS has grown to become the largest motor 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 Direct Broking Limited (EDBL) affinity business and specialist commercial broker Barnett & Barnett.

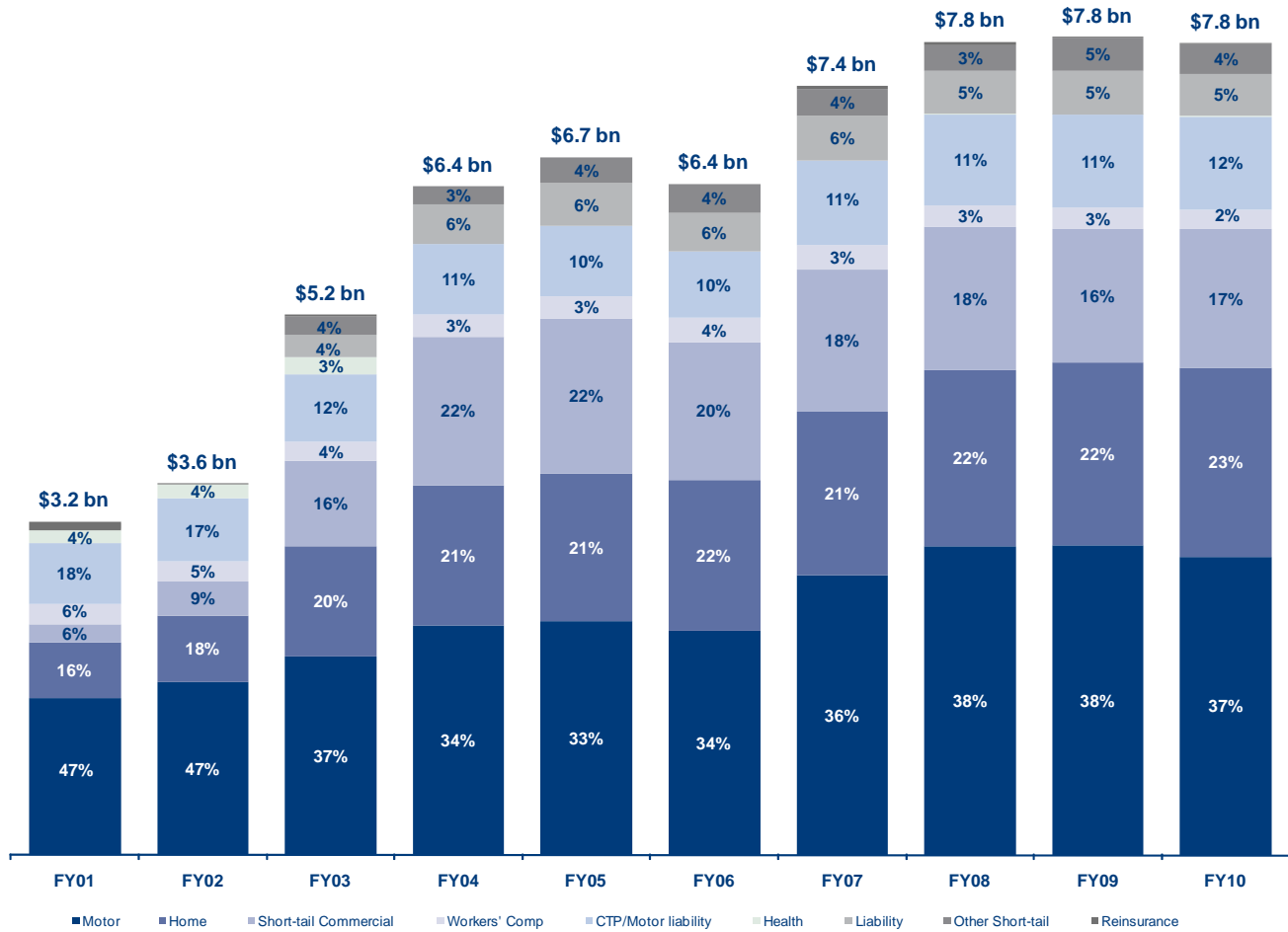
ASIA

The Group has interests in five businesses in Asia:

- Controlling economic interests in NZI and Safety Insurance in Thailand;
- A 49% share of AmG Insurance Berhad, a general insurance joint venture in Malaysia;
- A 26% interest in SBI General Insurance Company, a general insurance joint venture in India which commenced trading in 2010; and
- 100% of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China.

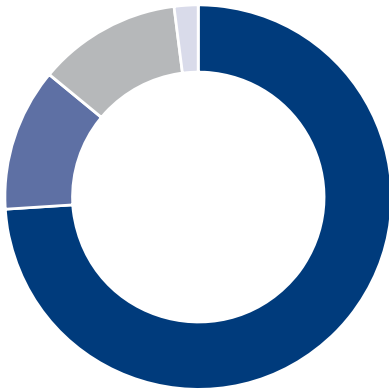
APPENDIX C – GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY BUSINESS CLASS - SINCE LISTING (A\$BN)



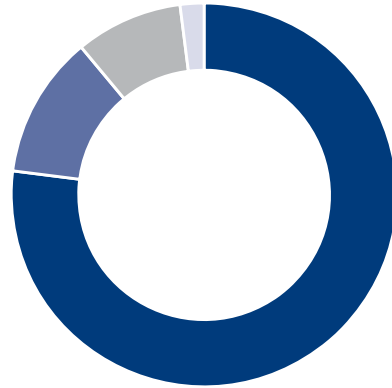
APPENDIX C – PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

IAG GROUP GWP BY REGION – FY09



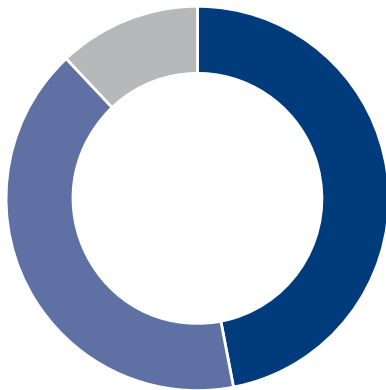
- Australia
- New Zealand
- UK
- Asia

IAG GROUP GWP BY REGION – FY10



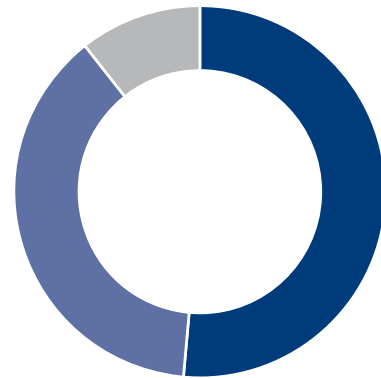
- Australia
- New Zealand
- UK
- Asia

IAG GROUP GWP BY CHANNEL – FY09



- Direct
- Broker/agent
- Affinity

IAG GROUP GWP BY CHANNEL – FY10



- Direct
- Broker/agent
- Affinity

APPENDIX D – INSURANCE PROFIT IMPACTS

GROUP

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Reserve releases (ex UK strengthening 2H10)	85	130	80	148	215	228
Natural perils	(176)	(275)	(121)	(342)	(451)	(463)
Natural perils allowance	153	161	166	184	314	350
Credit spreads	(86)	73	28	5	(13)	33
DAC/LAT (ex UK LAT fail 2H10)	(42)	4	-	-	(38)	-
UK charge	-	-	-	(367)	-	(367)
Impact on Group insurance profit	(66)	93	153	(372)	27	(219)

AUSTRALIA DIRECT

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Reserve releases	39	75	35	72	114	107
Natural perils	(82)	(139)	(60)	(161)	(221)	(221)
Natural perils allowance	72	72	81	80	144	161
Credit spreads	(47)	39	17	3	(8)	20
Impact on Australia Direct insurance profit	(18)	47	73	(6)	29	67

AUSTRALIA INTERMEDIATED

	1H09 A\$m	2H09 A\$m	1H10 A\$m	2H10 A\$m	FY09 A\$m	FY10 A\$m
Reserve releases	56	68	46	83	124	129
Natural perils	(70)	(132)	(60)	(176)	(202)	(236)
Natural perils allowance	69	75	64	83	144	147
Credit spreads	(39)	34	11	2	(5)	13
DAC/LAT	(50)	-	-	-	(50)	-
Impact on Australia Intermediated insurance profit	(34)	45	61	(8)	11	53

APPENDIX E – KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 2009 is set out below. 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 if further information is required. These are available at <http://www.iag.com.au>.

3-FEB-10 IAG LIFTS FY10 INSURANCE MARGIN GUIDANCE

IAG announced that it expected to achieve a full year insurance margin for FY10 in the range of 11.5-13.0%, up from previous guidance of 9-11%, based on indicated results for the six months to 31 December 2009. Underlying GWP growth guidance of 3-5% was maintained, while reported GWP growth guidance was lowered from 1-3% to a flat outlook.

25-FEB-10 INVESTOR REPORT HALF YEAR TO 31 DECEMBER 2009

IAG announced a net profit after tax of \$329m for the half year ended 31 December 2009. This embraced an improved insurance margin of 13.4% and underlying GWP growth of 5.1%. The Board determined to pay a fully franked interim dividend of 8.5 cents per share.

8-MAR-10 IAG CLAIMS UPDATE FOLLOWING SEVERE WEATHER IN VICTORIA

IAG issued a preliminary update on the severe storms that hit Melbourne and Victoria, advising it had received in excess of 10,000 claims. The maximum event retention (MER) in Australia was confirmed at \$135m.

9-MAR-10 PRESENTATION BY IAG TO CITI AUSTRALIA AND NEW ZEALAND INVESTMENT CONFERENCE

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

12-MAR-10 IAG UPDATE ON SEVERE WEATHER IN VICTORIA

IAG confirmed it had received in excess of 24,000 claims following the severe weather in Victoria on 6-9 March 2010. The Group advised it now expected the related claim cost to reach its MER of \$135 million under the Group's reinsurance cover. As a consequence, natural peril costs were estimated to exceed the budgeted second half allowance by \$105 million, resulting in a refinement of the Group's FY10 insurance margin guidance to 10.5-12.0%, from 11.5-13.0%.

26-MAR-10 IAG UPDATE ON PERTH STORM

IAG confirmed that it had received in excess of 13,500 claims in relation to the severe weather which struck Perth on 22 March 2010. As a consequence, the Group announced it expected to claim on its catastrophe reinsurance cover, capping the total pre-tax cost of the event at \$75m. To reflect the impact of this event, the Group lowered its FY10 insurance margin guidance to 9.5-11.0%, from 10.5-12.0%.

26-MAR-10 IAG CHANGES DEBT MIX

IAG announced it would repay its US\$240 million subordinated note facility on 28 April 2010, funded by the issue of approximately £160 million of subordinated exchangeable loan notes. Inclusive of the related hedge entered into at the time of issue in 2003, total outlay to repay the US subordinated notes is \$401 million.

29-MAR-10 DIVIDEND REINVESTMENT PLAN PRICING

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$3.9601 per share for the interim dividend payable on 12 April 2010.

11-MAY-10 IAG WARNS SHAREHOLDERS OF UNSOLICITED SHARE OFFERS

IAG warned its shareholders they may receive unsolicited offers for their IAG ordinary shares which significantly undervalue them, and that IAG does not endorse such offers.

2-JUN-10 IAG STRENGTHENS UK CLAIMS RESERVES AND REVISES FY10 INSURANCE MARGIN GUIDANCE

IAG announced that due to a significant deterioration in UK claim experience, in particular bodily injury claims, it expected to recognise an associated one-off, pre-tax charge of approximately \$365 million and to report a full year insurance margin of 6.0-7.0%, down from previous guidance of 9.5-11.0%. The Group also announced initial FY11 insurance margin guidance of 10.5-12.5% reflecting confidence in the continued underlying improvement in its overall business.

23-JUN-10 INVESTOR PRESENTATIONS BY IAG EXECUTIVES

Two investor presentations were made:

- Mr Mike Wilkins, Managing Director & Chief Executive Officer, provided an update to institutional investors in Tokyo, Japan.
- Ms Jacki Johnson, CEO of The Buzz presented “The customer-created brand” to investors at the UBS Ninth Annual Australian Financial Services Conference in Sydney.

27-JUL-10 IAG ANNOUNCES EXPECTED FY10 RESULT, DIVIDEND AND CHANGES TO EXECUTIVE TEAM

IAG announced it expected to report an insurance margin for the year ended 30 June 2010 of 7.0% and to determine a fully franked, final dividend of 4.5 cents per share. In addition, the Group announced changes to its executive team, centred on its UK and New Zealand operations.

APPENDIX F – GLOSSARY

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

APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange Limited.
Cash earnings	IAG defines cash earnings as net profit after tax attributable to IAG shareholders, plus amortisation and excluding any unusual items. This definition is used for the purposes of the Group's dividend policy.
Cash ROE	IAG defines cash ROE as reported ROE adjusted for amortisation and unusual items.
Combined ratio	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
Credit spread	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
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 acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent 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.
Expense ratio	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) 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 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.
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.

APPENDIX F – GLOSSARY

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 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 income statement, 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 expense.
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 (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is 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) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited. The issuer is a wholly owned subsidiary of IAG.
Reset Preference Shares (RPS)	Reset Preference Shares are quoted as IAGPA on ASX and issued by IAG.
Risk free rate	The risk free rate is 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.

APPENDIX F – GLOSSARY

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 (SME) commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
Technical reserves	The investments held to back provisions for outstanding claims (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) 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 and other acquisition expenses.
Underwriting profit/(loss)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
Unearned premium	Premium applicable to the unexpired portion of a policy's earned premium liability, which 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.