

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

HALF YEAR REPORT 31 DECEMBER 2009

APPENDIX 4D

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RESULTS FOR ANNOUNCEMENT TO MARKET

	Up / Down	% Change	31 December 2009 \$m	31 December 2008 \$m
Revenue from ordinary activities	Down	11.8 %	4,571	5,183
Profit/(loss) from ordinary activities after tax attributable to shareholders	Up	8,125.0 %	329	4
Net profit/(loss) attributable to shareholders	Up	8,125.0 %	329	4

DIVIDENDS - ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Interim dividend	8.5 cents	8.5 cents

The record date of the interim dividend is as at 5pm on 10 March 2010. The dividend is to be paid on 12 April 2010. The Company's Dividend Reinvestment Plan (DRP) will operate by issuing ordinary shares to participants using shares acquired on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 10 March 2010. The ordinary shares issued as a result of DRP participation will rank equally in all respects from the date of allotment, 12 April 2010, with all other ordinary shares of the Company. The DRP issue price will be based on a volume weighed average price over a ten day trading window from 15 March 2010 to 26 March 2010 inclusive.

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

This report is to be read in conjunction with the annual report of the Insurance Australia Group Limited for the year ended 30 June 2009 and any public announcements made by the Insurance Australia Group Limited during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

OTHER INFORMATION

During the reporting period Insurance Australia Group held an interest in the following joint ventures and associates:

	OWNERSHIP INTEREST
Joint venture	%
NTI Limited	50.00
Assetinsure Financial Products Pty Limited	50.00
Associates	
AmG Insurance Berhad (formally AmAssurance Berhad)	49.00
First Rescue and Emergency (NZ) Limited	50.00
Loyalty New Zealand Limited	25.00
Sureplan New Zealand Limited	30.00
AR Hub Pty Ltd	33.33
Arista Insurance Limited	25.60
InsuranceWide.com Services Limited	26.70
SBI General Insurance Company Limited	26.00
Photosecure (NZ) limited	50.00
NAS Insurance Broker	25.00

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

APPENDIX 4D COMPLIANCE MATRIX

		INSURANCE AUSTRALIA GROUP LIMITED	PAGE	NOTE
APPENDIX 4D DISCLOSURE REQUIREMENTS	APPENDIX 4D		NUMBER	NUMBER
1	Details of the reporting period and the previous corresponding period	All financial data headings		
2	Key information in relation to the following. This information must be identified as "Results for announcement to the market".	"Results for announcement to the market" page 1 Appendix 4D		
2.1	The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.			
2.2	The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.			
2.3	The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.			
2.4	The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.			
2.5	The record date for determining entitlements to the dividends (if any).			
2.6	A brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.			
3	Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Half year financial report 31 December 2009: Notes to the financial statements - Net tangible assets	P.20	NOTE 12
4	Details of entities over which control has been gained or lost during the period, including the following.	Attachment A: Half year financial report 31 December 2009: Notes to the financial statements - Acquisitions and disposals of businesses	P.20	NOTE 9
4.1	Name of the entity.			
4.2	The date of the gain or loss of control.			
4.3	Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.			
5	Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Attachment A: Half year financial report 31 December 2009: Notes to the financial statements - Dividends note	P.16	NOTE 7
6	Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Attachment A: Half year financial report 31 December 2009: Notes to the financial statements - Dividends note	P.16	NOTE 7
7	Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.	"Other information" page 2 Appendix 4D		

		INSURANCE AUSTRALIA GROUP LIMITED	PAGE	NOTE
APPENDIX 4D DISCLOSURE REQUIREMENTS	APPENDIX 4D		NUMBER	NUMBER
8	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable		
9	For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable		

ATTACHMENT A
INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES
HALF YEAR FINANCIAL REPORT - 31 DECEMBER 2009

INSURANCE AUSTRALIA GROUP LIMITED

AND SUBSIDIARIES

ABN 60 090 739 923

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

The directors present their report together with the financial report of Insurance Australia Group Limited (IAG) and its subsidiaries (IAG Group) for the half year ended 31 December 2009 and the independent review report thereon.

DIRECTORS

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

James Strong (director since 2 August 2001), Yasmin Allen (director since 10 November 2004), Phillip Colebatch (director since 1 January 2007), Hugh Fletcher (director since 1 September 2007), Anna Hynes (director since 1 September 2007), Brian Schwartz (director since 1 January 2005), Philip Twyman (director since 9 July 2008) and Michael Wilkins (director since 26 November 2007).

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

The IAG Group's net profit after tax for the half year was \$387 million (2008 - \$32 million). After adjusting for non-controlling interests in the IAG Group result, net profit attributable to the equity holders of the Company was \$329 million (2008 - \$4 million).

This half year has seen further improvement in the underlying performance of the IAG Group as execution of IAG's refined corporate strategy progresses to plan.

The IAG Group has reported an improved insurance margin of 13.4% (2008 - 6.2%). More than half of the expansion in margin is from operational improvements, including:

- increased premium rates, including those implemented during the prior year;
- improved underwriting and claims management disciplines;
- the benefit of cost saving initiatives; and
- the successful divestment of the underperforming mass market operations in the UK.

The IAG Group's insurance result has also benefited from:

- higher than expected reserve releases of \$80 million (2008 - \$85 million);
- lower natural peril claim costs of \$121 million (2008 - \$176 million), compared to allowances of \$166 million;
- a favourable movement in credit spreads, with a gain of \$28 million (2008 - net loss of \$86 million); and
- no net writedown of deferred acquisition costs during the period (2008 - \$42 million).

This improved result has been achieved despite a significantly lower running yield applicable to technical reserves, which has trimmed the reported insurance margin by over 300 basis points compared to the half year ended 31 December 2008.

Underlying gross written premium growth of 5.1% was achieved in the half year. Reported gross written premium of \$3,863 million declined by 1.5% due to the impact of a stronger Australian dollar and the divestment of the non-core UK operations.

Reported return on equity in the half year was 13.8%, and cash return on equity was 17.0%. This compares to the IAG Group's long term target of a cash return on equity equivalent to 1.5 times the weighted average cost of capital, which broadly equates to 15%.

The board has determined to pay an interim dividend of 8.5 cents per ordinary share (fully franked) (2008 - 4.0 cents per share), equating to a cash payout ratio of approximately 44%. It remains the IAG Group's policy to pay out 50%-70% of full year cash earnings.

A. AUSTRALIA DIRECT

- The IAG Group's largest business, Australia Direct, grew gross written premium by 7.8% and delivered an improved insurance margin on the back of increased rates, volume growth and the benefits from cost saving initiatives.
- The strong operating performance was aided by fewer natural perils and a narrowing of credit spreads.

B. AUSTRALIA INTERMEDIATED (CGU)

- The improvement in Australia Intermediated's underlying performance has continued, with a reported insurance margin of 10.2%.
- CGU's focus remains on strengthening the fundamentals of the business, including implementing rate increases to target unprofitable portfolios and risks.

C. NEW ZEALAND

- IAG's New Zealand operations have built upon the turnaround evident in the second half of the prior year to produce a significantly improved result in the current period.
- The result was driven by the benefits from remedial action undertaken by management, assisted by lower natural peril and large loss claims.

D. UNITED KINGDOM

- The retained UK business experienced strong local currency gross written premium growth driven by rate increases and a strong performance in the areas of fleet and special risks.
- The lower reported insurance margin was affected by a strengthening of bodily injury claim reserves in respect of prior underwriting years and a much more modest release from a portfolio in run-off.

E. ASIA

- The IAG Group's established businesses in Asia produced strong operational performances, ahead of their respective markets. Reported margin is lower than the prior period, owing to the absence of a one-off benefit from the introduction of deferred acquisition costs accounting.
- During the current period the IAG Group completed its investment in the 26% owned joint venture in India, SBI General Insurance Company Limited.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the IAG Group as at 31 December 2009 were \$19,757 million compared to \$19,315 million at 30 June 2009. The increase primarily reflects the recent amendments to the reset exchangeable securities (RES), which resulted in \$550 million of investments being brought on balance sheet.

The total liabilities of the IAG Group as at 31 December 2009 were \$14,717 million compared to \$14,479 million at 30 June 2009. The increase is mainly attributable to the net effect of:

- the \$550 million RES being included in interest bearing liabilities; and
- a \$240 million reduction in outstanding claims driven by a combination of more favourable claims experience and the impact of a stronger Australian dollar, particularly on claim liabilities in the UK.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the current period ended 31 December 2009 were \$610 million compared to \$224 million for the prior period. The increase is mainly attributable to:

- reduced tax payments resulting from a lower 2009 tax liability;
- lower natural peril claim costs; and
- underlying gross written premium growth and an improved premium debtor receipts cycle.

C. CAPITAL MANAGEMENT

The IAG Group's capital position improved during the year with a minimum capital requirement (MCR) multiple of 2.03 at 31 December 2009. This reflected:

- eligibility of the \$550 million RES as Tier 1 capital following the recent amendments made to its governing terms and conditions;
- the increase in retained earnings after the board's determination to pay a 8.5 cents interim dividend;
- higher investment risk charges associated with the IAG Group's increased weighting towards growth assets within shareholders' funds;
- an increase in the IAG Group's maximum event retention under its reinsurance programme effective from 1 January 2010; and
- lower insurance risk charges driven by the \$240 million reduction in outstanding claims.

Further information on the IAG Group's result and review of operations can be found in the 31 December 2009 Investor Report on IAG's website, www.iag.com.au.

LIKELY DEVELOPMENTS

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

Owing to the stronger than expected financial performance in the first half of the year, on 3 February 2010 the IAG Group revised its full year guidance and now expects to report an insurance margin in the range of 11.5%-13.0%. This compares to previous guidance of 9%-11%. The revised insurance margin guidance is based on:

- the IAG Group's continued expectation of further improvement in the underlying business performance in the second half;
- losses from natural peril events for the second half year period being in line with the budgeted allowance of \$184 million for that half period;
- no material movement in foreign exchange rates or investment markets, including nil credit spread impact, in the second half year period; and
- full year reserve releases lower than the \$215 million recognised in the prior year.

Underlying gross written premium growth is still expected to be within the range of 3%-5% for the full year. However, reported gross written premium is now expected to be flat given the strength of the Australian dollar.

Compared to the prior year, the anticipated improvement in the current year insurance margin is underpinned by:

- ongoing improvement in the IAG Group's underwriting performance, derived from rate increases, improved underwriting disciplines and tighter cost control;
- the absence of the non-core UK mass market operations, which were divested in the prior year; and
- retention of the benefits realised during the first half from lower than expected natural peril claim costs and a narrowing of credit spreads.

Moving forward, the IAG Group's priorities remain to:

- improve the performance of the Australian and New Zealand businesses;
- pursue selective general insurance growth opportunities; and
- drive operational performance and accountability.

It is IAG's objective to deliver a cash return on equity of at least 1.5 times the IAG Group's weighted average cost of capital and a top quartile shareholder return, through the cycle.

DIVIDENDS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- On 9 December 2009, the reset exchangeable securities (RES) holders approved amendments to the RES terms and conditions. In accordance with the amended terms and conditions, the RES were brought onto the IAG Group's balance sheet. This is in line with IAG's commitment to actively manage and enhance its capital structure. Refer to note 8 to the financial statements for details of the transaction.
- During the half year, the IAG Group completed the investment in 26% strategic stake in SBI General Insurance Company Limited and paid 5.4 billion Indian rupees (equivalent to \$126 million). Refer to note 9 to the financial statements for details of the transaction.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the half year is set out in note 13. This includes the IAG Board's determination to pay an interim dividend and refinancing of the United Kingdom businesses.

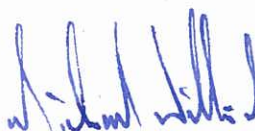
LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half year ended 31 December 2009.

ROUNDING OF AMOUNTS

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

Signed at Sydney this 25th day of February 2010 in accordance with a resolution of the directors.



.....
Director



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

To the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2009 there have been:

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

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'B Greig'.

Brian Greig

Partner

Sydney

25 February 2010

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	NOTE	CONSOLIDATED	
		31 December 2009 \$m	31 December 2008 \$m
Premium revenue	3	3,872	3,931
Outwards reinsurance premium expense	4	(229)	(248)
Net premium revenue (i)		3,643	3,683
Claims expense	4	(2,577)	(3,464)
Reinsurance and other recoveries revenue	3	242	376
Net claims expense (ii)		(2,335)	(3,088)
Acquisition costs	4	(646)	(717)
Other underwriting expenses	4	(259)	(272)
Fire services levies	4	(125)	(111)
Underwriting expenses (iii)		(1,030)	(1,100)
Underwriting profit/(loss) (i) + (ii) + (iii)		278	(505)
Investment income on assets backing insurance liabilities	3	221	743
Investment expenses on assets backing insurance liabilities	4	(11)	(11)
Insurance profit		488	227
Investment income on equity holders' funds	3	188	(84)
Fee and other income	3	46	214
Share of net profit/(loss) of associates	3	2	3
Finance costs	4	(43)	(46)
Fee based, corporate and other expenses	4	(135)	(290)
Net income attributable to non-controlling interests in unitholders' funds	4	(3)	(9)
Profit/(loss) before income tax		543	15
Income tax (expense)/credit		(156)	17
Profit/(loss) for the period		387	32
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Actuarial gains and (losses) on defined benefit arrangements		4	(97)
Net movement in foreign currency translation reserve		14	(31)
Net movement in hedging reserve		3	(9)
Income tax (expense)/credit on other comprehensive income and expense		(30)	53
Other comprehensive income and (expense), net of tax		(9)	(84)
Total comprehensive income and (expense) for the period, net of tax		378	(52)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO			
Equity holders of the Parent		329	4
Non-controlling interests		58	28
		387	32
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE PERIOD ATTRIBUTABLE TO			
Equity holders of the Parent		320	(78)
Non-controlling interests		58	26
		378	(52)
		CONSOLIDATED	
		31 December 2009 cents	31 December 2008 cents
EARNINGS PER SHARE			
Basic earnings per ordinary share	6	15.96	0.23
Diluted earnings per ordinary share	6	15.87	0.23

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

BALANCE SHEET AS AT 31 DECEMBER 2009

	NOTE	CONSOLIDATED	
		31 December 2009 \$m	30 June 2009 \$m
ASSETS			
Cash held for operational purposes		387	344
Investments		11,540	10,563
Premium receivable		1,896	2,126
Inventories		1	1
Trade and other receivables		743	887
Current tax assets		49	85
Reinsurance and other recoveries receivable on outstanding claims		909	1,047
Prepayments		30	45
Deferred levies and charges		134	126
Deferred outwards reinsurance expense		370	268
Deferred acquisition costs		688	733
Deferred tax assets		260	382
Property and equipment		300	308
Investment in joint ventures and associates		255	122
Intangible assets		361	398
Goodwill		1,834	1,880
Total assets		<u>19,757</u>	<u>19,315</u>
LIABILITIES			
Trade and other payables		728	818
Reinsurance premiums payable		303	188
Restructuring provisions		12	34
Current tax liabilities		49	27
Unearned premium liability		4,033	4,072
Non-controlling interest in unitholders' funds		119	79
Lease provision		30	32
Employee benefits provision		264	321
Deferred tax liabilities		17	39
Outstanding claims liability		7,576	7,816
Interest bearing liabilities	8	<u>1,586</u>	<u>1,053</u>
Total liabilities		<u>14,717</u>	<u>14,479</u>
Net assets		<u>5,040</u>	<u>4,836</u>
EQUITY			
Share capital		5,353	5,326
Treasury shares held in trust		(68)	(55)
Reserves		(37)	(11)
Retained earnings		<u>(362)</u>	<u>(589)</u>
Parent interest		4,886	4,671
Non-controlling interests		<u>154</u>	<u>165</u>
Total equity		<u>5,040</u>	<u>4,836</u>

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Share capital	Treasury shares held in trust	Foreign currency translation reserve	Share based remuneration reserve	Hedging reserve	Retained earnings	Non-controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
31 December 2009								
Balance at the beginning of the financial period	5,326	(55)	(58)	48	(1)	(589)	165	4,836
Profit/(loss) for the period	-	-	-	-	-	329	58	387
Other comprehensive income	-	-	(14)	-	2	3	-	(9)
Total comprehensive income for the period	-	-	(14)	-	2	332	58	378
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS								
Shares issued under dividend reinvestment plan	27	-	-	-	-	-	-	27
Shares acquired and held in trust	-	(23)	-	-	-	-	-	(23)
Share based payment expense recognised	-	-	-	15	-	-	-	15
Share based remuneration vested	-	10	-	(12)	-	2	-	-
Share based remuneration lapsed	-	-	-	(17)	-	17	-	-
Non-controlling interest in acquisitions during the period	-	-	-	-	-	-	(12)	(12)
Dividends declared and paid	-	-	-	-	-	(124)	(57)	(181)
Balance at the end of the financial period	<u>5,353</u>	<u>(68)</u>	<u>(72)</u>	<u>34</u>	<u>1</u>	<u>(362)</u>	<u>154</u>	<u>5,040</u>
31 December 2008								
Balance at the beginning of the financial period	4,740	(71)	(65)	56	2	(458)	147	4,351
Profit/(loss) for the period	-	-	-	-	-	4	28	32
Other comprehensive income	-	-	(10)	-	(6)	(66)	(2)	(84)
Total comprehensive income for the period	-	-	(10)	-	(6)	(62)	26	(52)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS								
Shares issued under dividend reinvestment plan	42	-	-	-	-	-	-	42
Shares acquired and held in trust	-	(16)	-	-	-	-	-	(16)
Share based payment expense recognised	-	-	-	2	-	-	-	2
Share based remuneration vested	-	17	-	(14)	-	(3)	-	-
Dividends declared and paid	-	-	-	-	-	(169)	(24)	(193)
Dividends received on treasury shares held in trust	-	-	-	-	-	1	-	1
Balance at the end of the financial period	<u>4,782</u>	<u>(70)</u>	<u>(75)</u>	<u>44</u>	<u>(4)</u>	<u>(691)</u>	<u>149</u>	<u>4,135</u>

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	NOTE	CONSOLIDATED	
		31 December 2009 \$m	31 December 2008 \$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		4,093	3,954
Reinsurance and other recoveries received		378	370
Claims costs paid		(2,816)	(2,875)
Outwards reinsurance premium expense paid		(217)	(242)
Dividends received		11	28
Interest and trust distributions received		267	311
Finance costs paid		(50)	(61)
Income taxes refunded		49	-
Income taxes paid		(84)	(147)
Other operating receipts		613	719
Other operating payments		<u>(1,634)</u>	<u>(1,833)</u>
Net cash flows from operating activities		<u>610</u>	<u>224</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net outlay for investment in an associate		(126)	(3)
Proceeds from disposal of investments and property and equipment		7,594	10,711
Outlays for investments and property and equipment acquired		<u>(7,477)</u>	<u>(10,966)</u>
Net cash flows from investing activities		<u>(9)</u>	<u>(258)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for purchase of treasury shares		(23)	(16)
Proceeds from issue of trust units		77	383
Outlays for redemption of trust units		(39)	(375)
Proceeds from borrowings		12	-
Repayment of borrowings		-	(62)
Dividends paid to IAG equity holders ^(a)		(124)	(169)
Distributions paid to non-controlling interests		(57)	(24)
Proceeds from issue of shares ^(a)		27	42
Dividends received on treasury shares		-	<u>1</u>
Net cash flows from financing activities		<u>(127)</u>	<u>(220)</u>
Net movement in cash held		474	(254)
Effects of exchange rate changes on balances of cash held in foreign currencies		(20)	(5)
Cash and cash equivalents at the beginning of the financial period		<u>1,282</u>	<u>1,234</u>
Cash and cash equivalents at the end of the financial period ^(b)		<u><u>1,736</u></u>	<u><u>975</u></u>

(a) Includes dividends settled with shares under the Dividend Reinvestment Plan (refer to note 7).

(b) Includes \$387 million (2008 - \$275 million) of cash held for operational purposes and \$1,349 million of cash and short term money held for investment (2008 - \$524 million of cash and short term money held for investment and \$176 million of cash and cash equivalents in the business held for sale).

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or the Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. These consolidated financial statements for the half year ended 31 December 2009 comprise the Company and its subsidiaries (IAG Group, Group or Consolidated entity).

This general purpose half year financial report was authorised by the board of directors for issue on 25 February 2010.

This half year financial report does not include all of the notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

A. STATEMENT OF COMPLIANCE

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

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

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

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The significant accounting policies adopted in the preparation of this financial report have been consistently applied by all entities in the Consolidated entity and are the same as those applied for the year ended 30 June 2009 except for those set out below in section II. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

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

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

I. Australian accounting standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting period.

None of these standards have been early adopted and applied in the current reporting period.

The standards and interpretations that have not been early adopted and that are relevant to current operations are provided below.

Title	Description	Operative date	Note
AASB 2009-5	Further amendment to Australian Accounting Standards arising from the annual improvement project	1 January 2010	A
AASB 9	Financial Instruments	1 January 2013	C
AASB 2009-11	Amendments to Australian Accounting Standards - Accounting standards arising from AASB 9	1 January 2013	D
AASB 2009-12	Amendments to Australian Accounting Standards	1 January 2011	B

Table notes

- A These changes are not expected to have a significant, if any, financial impact.
- B These changes will only impact disclosures when preparing the annual financial report.
- C These changes may have financial impact. However, the assessment of the impact is not completed yet and the impact cannot be reasonably estimated.
- D This standard gives effect to consequential changes arising from the issuance of AASB 9. This standard is required to be adopted in the same reporting period when AASB 9 is adopted.

II. Changes in accounting policies

There were a number of Australian Accounting Standards and Interpretations, applicable for the current reporting period. Adopting some of these standards and interpretations resulted in changes in accounting policies. However, none of these changes have a material financial impact on IAG Group.

The adoption of the following AASBs impacted the financial report disclosure for the current reporting period.

a. AASB 101 REVISED PRESENTATION OF FINANCIAL STATEMENTS

The adopted standard requires the presentation of a statement of comprehensive income by amalgamating the previously disclosed income statement and statement of recognised income and expense.

b. AASB 8 OPERATING SEGMENTS

The adopted standard requires the adoption of a 'management approach' to reporting on financial performance of operating segments. The information to be reported will be based on information used internally by key decision makers to evaluate performance of operating segments. A single set of operating segments replaces the business and geographical segments.

III. Reclassifications of comparatives

Certain items have been reclassified from the Consolidated entity's prior half year financial report. The reclassification is:

- a reallocation of \$46 million between fee and other income and fee based, corporate and other expense as at 31 December 2008 due to an incorrect classification related to the United Kingdom fee based business in the prior period. There is no impact to the profit/(loss) for the period.

IV. Rounding

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

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

- insurance contracts related:
 - claims;
 - reinsurance and other recoveries receivable on outstanding claims; and
 - liability adequacy test.

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

- other:
 - intangible assets and goodwill impairment testing;
 - acquired intangible assets initial measurement and determination of useful life;
 - share based remuneration;
 - defined benefit superannuation arrangements;
 - restructuring provisions; and
 - embedded derivatives.

The determination of the financial impact of each of these areas on the financial performance and position for the current reporting period has involved estimates and assumptions based on judgements. The judgement has been applied in a manner consistent with that used for the annual report for the year ended 30 June 2009.

The accounting judgements made during the half year that did not involve estimations, including determination of the existence of control when entities are not wholly owned, the selection of valuation models for complex financial instruments, the recognition of the identifiable intangible assets acquired in a business combination, and the probability of recovering carry forward tax losses, are considered to have had no significant impact on the amounts recognised in the financial report (31 December 2008 and 30 June 2009 – none).

CONSOLIDATED	
31 December 2009	31 December 2008
\$m	\$m

NOTE 3. ANALYSIS OF INCOME

A. GENERAL INSURANCE REVENUE

Gross written premium	3,863	3,922
Movement in unearned premium liability	<u>9</u>	<u>9</u>
Premium revenue	<u>3,872</u>	<u>3,931</u>
Direct premium revenue	3,871	3,915
Inwards reinsurance premium revenue	<u>1</u>	<u>16</u>
Premium revenue	3,872	3,931
Reinsurance and other recoveries revenue	<u>242</u>	<u>376</u>
Total general insurance revenue	<u>4,114</u>	<u>4,307</u>

B. INVESTMENT INCOME

Dividend revenue	10	22
Interest revenue	265	299
Trust revenue	<u>5</u>	<u>16</u>
Total investment revenue	280	337
Net changes in fair values of investments		
Realised net gains and (losses)	95	(45)
Unrealised net gains and (losses)	<u>34</u>	<u>367</u>
Total investment income	<u>409</u>	<u>659</u>
Represented by		
Investment income on assets backing insurance liabilities	221	743
Investment income on equity holders' funds	<u>188</u>	<u>(84)</u>
	<u>409</u>	<u>659</u>

C. FEE AND OTHER INCOME

Fee based revenue	71	87
Brokerage and commission	22	72
Other income	49	30
Realised/unrealised gains/(losses) on embedded derivatives	<u>(96)</u>	<u>25</u>
Total fee and other income	<u>46</u>	<u>214</u>

D. SHARE OF NET PROFIT/(LOSS) OF ASSOCIATES

Total income	<u>4,571</u>	<u>5,183</u>
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CONSOLIDATED	
31 December	31 December
2009	2008
\$m	\$m

NOTE 4. ANALYSIS OF EXPENSES

A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME

Outward reinsurance premium expense	229	248
Claims expense	2,577	3,464
Acquisition costs	646	717
Other underwriting expenses	259	272
Fire service levies	125	111
Investment expenses on assets backing insurance liabilities	11	11
Finance costs	43	46
Net income attributable to non-controlling interests in unitholders' funds	3	9
Fee based, corporate and other expenses	<u>135</u>	<u>290</u>
Total expenses	<u><u>4,028</u></u>	<u><u>5,168</u></u>

B. ANALYSIS OF EXPENSES BY FUNCTION

General insurance business expenses	3,847	4,823
Fee based business expenses	84	174
Investment and other expenses	8	9
Corporate and administration expenses	<u>89</u>	<u>162</u>
Total expenses	<u><u>4,028</u></u>	<u><u>5,168</u></u>

The IAG Group currently operates under a devolved model but there are shared services through the use of dedicated units (such as head office asset management operations providing an investment management function for certain operational entities) and entities (such as dedicated entities that provide employee services, technology development services and reinsurance services) which provide services throughout the IAG Group. The costs incurred by business units and entities directly, together with internal charges between them, are allocated to the various operating functions and so are included within the various expense classifications in the statement of comprehensive income. For example, the Consolidated entity incurs expense in meeting the superannuation contribution obligations for employees involved in a wide range of functions including sales and marketing, underwriting, and claims management. Hence the superannuation expense is allocated across the lines in the statement of comprehensive income based on the areas for which these employees provide services.

NOTE 5. SEGMENT REPORTING

The Consolidated entity operates in the Australia, New Zealand, United Kingdom and Asia (principally Thailand) general insurance industries. In Australia, the financial results are generated from three different divisions being Australia direct insurance, Australia intermediated insurance and Corporate and other.

The Consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (being the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by the management based on the manner in which the insurance products are underwritten and the related services provided to the customers through the various distribution channels in various countries. Discrete financial information about each of these operating segments is reported to the Chief Executive Officer on a monthly basis.

The reportable segments are based on aggregated operating segments as these are the sources of the Consolidated entity's major risks and have the most effect on the rates of return.

The reportable segments comprise the following business divisions:

I. Australia direct insurance

This segment comprises insurance products distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands as well as via a distribution relationship and underwriting joint venture with RACV Limited. The recently launched internet brand, The Buzz, is included in this segment.

II. Australia intermediated insurance

This segment comprises insurance products primarily sold under the CGU and Swann insurance brands through insurance brokers and authorised representatives and distribution partners.

III. New Zealand insurance

This segment comprises the general insurance business underwritten through subsidiaries in New Zealand. The insurance products are predominantly sold directly to customers using the State brand, and through intermediaries such as brokers and agents using the NZI brand. Personal and commercial products are also distributed by corporate partners, such as large financial institutions using third party brands.

IV. United Kingdom insurance

This segment comprises the general insurance underwriting and broker distribution services operating through subsidiaries in the United Kingdom. The underwriting business, Equity Red Star operates through a Lloyd's syndicate. The United Kingdom non-core mass market distribution businesses that were sold during the second half of the prior year formed part of this segment until divestment.

V. Asia insurance

This segment comprises primarily the direct insurance business underwritten through subsidiaries in Thailand and the share of the operating result from the investment in an associate in Malaysia. The businesses offer personal and commercial insurance products through local brands.

VI. Corporate and other

This segment comprises other activities, including corporate services, funding costs on the IAG Group's interest bearing liabilities, inwards reinsurance from associates, investment management and investment of the equity holders' funds. The results of the run-off of the Alba Group are also included in this segment.

The net outstanding claims liability for each segment includes an allocation of the diversification benefit incorporated into the risk margin relating to the combination of the segments at the Consolidated entity level.

There are no differences between the recognition and measurement criteria used in the segment disclosures and those used in the financial statements.

	Australia direct insurance \$m	Australia intermediated insurance \$m	New Zealand insurance \$m	United Kingdom insurance \$m	Asia insurance \$m	Corporate and other \$m	Total \$m
31 December 2009							
External revenue	<u>2,035</u>	<u>1,381</u>	<u>503</u>	<u>440</u>	<u>103</u>	<u>109</u>	<u>4,571</u>
Total revenue	<u>2,035</u>	<u>1,381</u>	<u>503</u>	<u>440</u>	<u>103</u>	<u>109</u>	<u>4,571</u>
Underwriting profit/(loss)	<u>163</u>	<u>33</u>	<u>63</u>	<u>17</u>	<u>1</u>	<u>1</u>	<u>278</u>
Investment income net of investment fees - assets backing insurance liabilities	<u>118</u>	<u>79</u>	<u>5</u>	<u>7</u>	<u>1</u>	<u>-</u>	<u>210</u>
Insurance profit/(loss)	<u>281</u>	<u>112</u>	<u>68</u>	<u>24</u>	<u>2</u>	<u>1</u>	<u>488</u>
Investment income net of investment fees - equity holders' funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91</u>	<u>91</u>
Share of net profit/(loss) of associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
Finance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43)</u>	<u>(43)</u>
Other net operating result	<u>-</u>	<u>10</u>	<u>1</u>	<u>(2)</u>	<u>-</u>	<u>(4)</u>	<u>5</u>
Profit/(loss) before income tax	<u>281</u>	<u>122</u>	<u>69</u>	<u>22</u>	<u>4</u>	<u>45</u>	<u>543</u>
Income tax (expense)/credit							<u>(156)</u>
Profit/(loss) for the period							<u>387</u>
Segment assets	<u>5,777</u>	<u>4,311</u>	<u>722</u>	<u>862</u>	<u>182</u>	<u>7,903</u>	<u>19,757</u>
Segment liabilities	<u>5,777</u>	<u>4,311</u>	<u>722</u>	<u>862</u>	<u>182</u>	<u>2,863</u>	<u>14,717</u>
Acquisitions of property and equipment, intangibles and other non-current segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70</u>	<u>70</u>
Depreciation expense	<u>18</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>3</u>	<u>29</u>
Amortisation of acquired intangibles	<u>3</u>	<u>-</u>	<u>5</u>	<u>12</u>	<u>-</u>	<u>1</u>	<u>21</u>
Total depreciation and amortisation expense	<u>21</u>	<u>1</u>	<u>8</u>	<u>15</u>	<u>1</u>	<u>4</u>	<u>50</u>
Other non-cash expenses	<u>19</u>	<u>8</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>36</u>
31 December 2008							
External revenue	<u>2,094</u>	<u>1,771</u>	<u>504</u>	<u>746</u>	<u>116</u>	<u>(48)</u>	<u>5,183</u>
Total revenue	<u>2,094</u>	<u>1,771</u>	<u>504</u>	<u>746</u>	<u>116</u>	<u>(48)</u>	<u>5,183</u>
Underwriting profit/(loss)	<u>(155)</u>	<u>(307)</u>	<u>(38)</u>	<u>(1)</u>	<u>3</u>	<u>(7)</u>	<u>(505)</u>
Investment income net of investment fees - assets backing insurance liabilities	<u>349</u>	<u>300</u>	<u>21</u>	<u>55</u>	<u>6</u>	<u>1</u>	<u>732</u>
Insurance profit/(loss)	<u>194</u>	<u>(7)</u>	<u>(17)</u>	<u>54</u>	<u>9</u>	<u>(6)</u>	<u>227</u>
Investment income net of investment fees - equity holders' funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72)</u>	<u>(72)</u>
Share of net profit/(loss) of associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>
Finance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46)</u>	<u>(46)</u>
Other net operating result	<u>-</u>	<u>15</u>	<u>1</u>	<u>(5)</u>	<u>(1)</u>	<u>(107)</u>	<u>(97)</u>
Profit/(loss) before income tax	<u>194</u>	<u>8</u>	<u>(16)</u>	<u>49</u>	<u>11</u>	<u>(231)</u>	<u>15</u>
Income tax (expense)/credit							<u>17</u>
Profit/(loss) for the period							<u>32</u>
Segment assets	<u>5,581</u>	<u>4,772</u>	<u>770</u>	<u>1,077</u>	<u>190</u>	<u>7,415</u>	<u>19,805</u>
Segment liabilities	<u>5,581</u>	<u>4,772</u>	<u>770</u>	<u>1,077</u>	<u>190</u>	<u>3,280</u>	<u>15,670</u>
Acquisitions of property and equipment, intangibles and other non-current segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59</u>	<u>59</u>
Depreciation expense	<u>21</u>	<u>3</u>	<u>2</u>	<u>8</u>	<u>1</u>	<u>3</u>	<u>38</u>
Amortisation of acquired intangibles	<u>5</u>	<u>1</u>	<u>5</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>40</u>
Total depreciation and amortisation expense	<u>26</u>	<u>4</u>	<u>7</u>	<u>37</u>	<u>1</u>	<u>3</u>	<u>78</u>
Other non-cash expenses	<u>12</u>	<u>9</u>	<u>5</u>	<u>52</u>	<u>1</u>	<u>15</u>	<u>94</u>

NOTE 6. EARNINGS PER SHARE

	CONSOLIDATED	
	31 December 2009	31 December 2008
	cents	cents

A. REPORTING PERIOD VALUES

Basic earnings per ordinary share *	<u>15.96</u>	<u>0.23</u>
Diluted earnings per ordinary share	<u>15.87</u>	<u>0.23</u>

* The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 *Earnings per Share*. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the half year ended 31 December 2009 would be reduced to 15.87 cents (31 December 2008 - 0.23 cents).

	CONSOLIDATED	
	31 December 2009	31 December 2008
	\$m	\$m

B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

Profit/(loss) for the period	387	32
(Profit)/loss attributable to non-controlling interests	<u>(58)</u>	<u>(28)</u>
Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	<u>329</u>	<u>4</u>

	CONSOLIDATED	
	31 December 2009	31 December 2008
	Number of shares in millions	Number of shares in millions

C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE

Ordinary shares on issue	2,075	1,883
Treasury shares held in trust	<u>(12)</u>	<u>(13)</u>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,063	1,870
Weighted average number of dilutive potential ordinary shares relating to		
Unvested share based remuneration rights supported by treasury shares held in trust	<u>12</u>	<u>13</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>2,075</u>	<u>1,883</u>

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

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

NOTE 7. DIVIDENDS

	Cents per share	Total amount \$m	Payment date	Tax rate for franking credit	Percentage franked
A. ORDINARY SHARES					
Recognised in the half year ended 31 December 2009					
2009 final dividend	6.0	<u>124</u>	2 October 2009	30%	100%
Recognised in year ended 30 June 2009					
2009 interim dividend	4.0	76	8 April 2009	30%	100%
2008 final dividend	9.0	<u>169</u>	3 October 2008	30%	100%
		<u>245</u>			

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

The dividends recognised in the current reporting period include \$Nil (2008 - \$1 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

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

The DRP for the 2009 final dividend payable on 2 October 2009 was settled with the issuance of 7.6 million fully paid ordinary shares priced at \$3.6199 per share (based on the average market price for the 5 trading days from 7 September 2009 to 11 September 2009 inclusive, with no discount applied) to existing shareholders with dividend entitlements.

A copy of the terms and conditions for the IAG Group DRP is available at www.iag.com.au/shareholder.

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

In addition to the above dividends, the IAG Board determined to pay the following dividend after the reporting date but before finalisation of this financial report and it has not been recognised in this financial report.

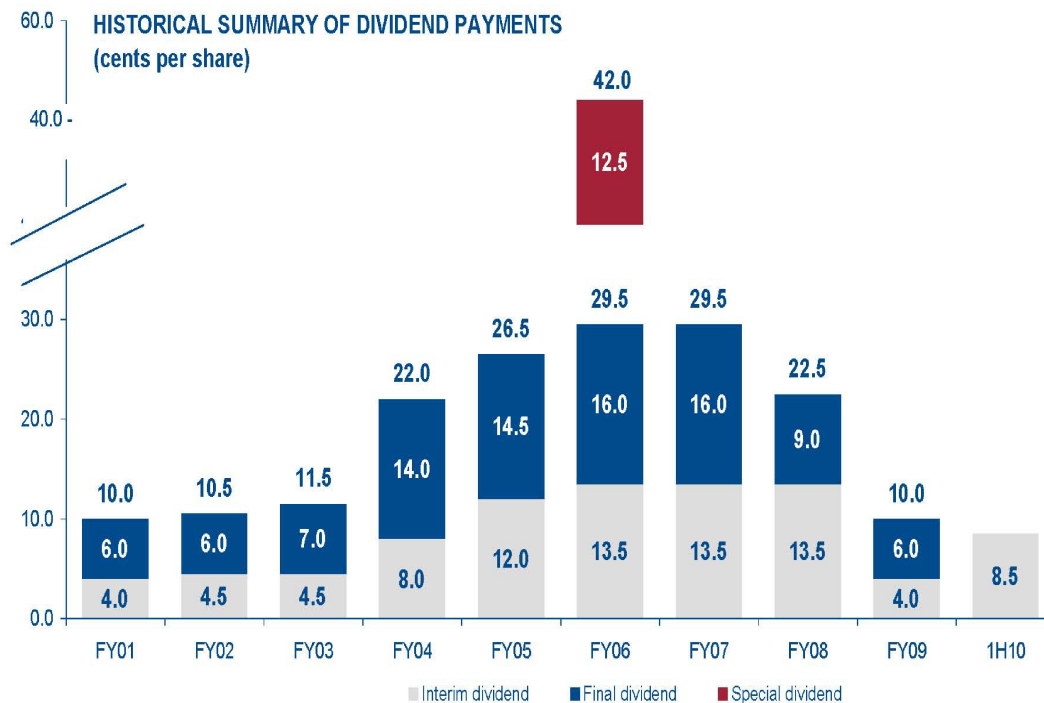
	Cents per share	Total amount \$m	Expected payment date	Tax rate for franking credit	Percentage franked
2010 interim dividend	8.5	<u>177</u>	12 April 2010	30%	100%

On 25 February 2010 the IAG Board determined the interim dividend will be payable to shareholders registered as at 5pm on 10 March 2010.

The Company's DRP will operate by issuing ordinary shares to participants using shares acquired on-market with an issue price per share of the average market price as defined in DRP terms with no discount applied. The last election notice for participation in the DRP in relation to this final dividend is 10 March 2010.

D. HISTORICAL SUMMARY

The graph below provides a historical summary of dividend payments since the IAG Group listed in 2000, aggregating dividends based on the financial period for which they were declared and not the financial period in which they were recognised and paid.



E. DIVIDEND POLICY

The Group's dividend policy is intended to pay dividends equivalent to 50%-70% of reported cash earnings. Cash earnings are defined as:

- net profit after tax attributable to IAG shareholders;
- plus amortisation of acquired identifiable intangible assets ; and
- excluding any unusual items, which in the half year reporting period ended 31 December 2009 comprised primarily the loss on revaluation of the embedded derivative in relation to the reset exchangeable securities.

F. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

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

- the payment of dividends generally being limited to profits and is subject to ongoing solvency obligations noting that under the APRA Level 2 insurance group supervision requirements, IAG is required to obtain approval from APRA before payment of dividends on ordinary shares that exceeds the IAG Group's after tax earnings as defined by APRA; and
- no dividends can be paid and no returns of capital can be made on ordinary shares, if distributions are not paid on the reset preference shares or reset exchangeable securities, unless certain actions are taken by IAG. For further details refer to the interest bearing liabilities note.

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

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

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

G. DIVIDEND FRANKING AMOUNT

	CONSOLIDATED	
	31 December 2009	30 June 2009
	\$m	\$m
Amount of franking credits available for the subsequent periods		
Franking account balance at reporting date at 30%	501	540
Franking credits to arise from payment of income tax payable	29	16
Franking debits to arise from receipt of income tax refundable	(37)	(49)
Franking credits to arise from receipt of dividends receivable	<u>-</u>	<u>1</u>
Franking credits available for future reporting periods	493	508
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	<u>(76)</u>	<u>(53)</u>
Franking credits available for subsequent financial periods based on a tax rate of 30%	<u>417</u>	<u>455</u>
After payment of the 2010 interim dividend the franking balance of the Company is capable of fully franking a further \$848 million distributions.		

Balance of the franking account arises from

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

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

All of the distributions paid in relation to the reset preference shares and the interest payments in relation to the reset exchangeable securities for the financial period were fully franked at 30% (31 December 2008 and 30 June 2009 - fully franked at 30%).

NOTE 8. INTEREST BEARING LIABILITIES

	CONSOLIDATED	
	31 December 2009	30 June 2009
	\$m	\$m
A. COMPOSITION		
I. Capital nature		
a. TIER 1 REGULATORY CAPITAL ^(a)		
AUD reset preference shares	350	350
Reset exchangeable securities	550	-
b. TIER 2 REGULATORY CAPITAL		
USD subordinated term notes	268	295
Derivatives related to USD subordinated term notes ^(b)	135	111
GBP subordinated term notes	191	220
NZD subordinated term notes	81	81
II. Operational nature		
Other interest bearing liabilities	14	-
Less: capitalised transaction costs	<u>(3)</u>	<u>(4)</u>
	<u>1,586</u>	<u>1,053</u>

(a) These instruments are eligible to be recognised as Tier 1 capital. A portion of them may be reclassified as Tier 2 capital if the amount on issue is in excess of APRA's Innovative Tier 1 limit.

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

B. SIGNIFICANT MOVEMENTS DURING THE PERIOD

Apart from the recognition of \$550 million reset exchangeable securities (RES) during the current reporting period, there have been no other significant movements in the interest bearing liabilities since 30 June 2009.

C. SIGNIFICANT CHANGES TO TERMS AND CONDITIONS DURING THE PERIOD

There have been no significant changes to the terms and conditions of the interest bearing liabilities since 30 June 2009, other than the following:

Reset exchangeable securities

On 5 January 2005, the RES with a face value of \$550 million were issued at par by IAG Finance (New Zealand) Limited, a wholly owned subsidiary of the Company. At 30 June 2009 the RES were presented net of the portfolio of assets (invested in high quality, short-dated, fixed interest securities) backing the RES because of the legal right of set-off that existed.

On 9 December 2009, the RES holders approved amendments to the RES terms and conditions. In accordance with the amended terms and conditions, the RES were brought onto the IAG Group's balance sheet with the corresponding assets of \$550 million included in investments. Refer to the notes to the financial statements of IAG Finance (New Zealand) Limited financial report for the half year ended 31 December 2009, for comparison of the current and previous terms and conditions.

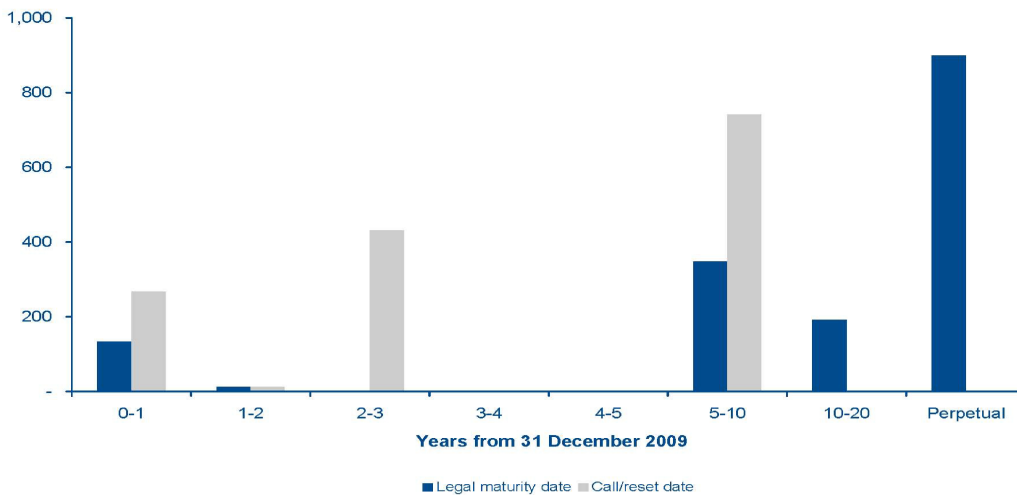
The key terms and conditions of the RES applicable from 15 December 2009 are:

FEATURE	AMENDED TERMS APPROVED
Initial reset date	16 December 2019
RES margin	4.00% per annum
Interest rate	(Three-month bank bill rate + RES margin) X (1 - tax rate)
Source of interest payment	The issuer, IAG Finance (New Zealand) Limited
Interest payment tests	The directors not having passed a resolution not to pay and the absence of an APRA condition
Redemption amount	\$100
Legal form	Unsecured notes, the Issuer's obligations are not secured by recourse to any assets and are subordinated to all policyholders and creditors
Exchange	Into amended preference share in respect of all amended RES: <ul style="list-style-type: none"> ■ mandatorily upon an exchange event; or ■ at IAG's discretion, at any time
Regulatory capital	Qualifies as Tier 1 regulatory capital rather than contingent capital, strengthening the IAG Group's capital position

D. LIQUIDITY RISK

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

GROUP DEBT PROFILE (\$million)



NOTE 9. ACQUISITIONS AND DISPOSALS OF BUSINESSES

There have been no significant changes to the IAG Group structure since 30 June 2009, other than the following:

A. OTHER ACQUISITIONS

I. Indian general insurance venture

On 19 November 2009, the Consolidated entity paid 5.4 billion Indian rupees (equivalent to \$126 million) to acquire a 26% strategic stake in SBI General Insurance Company Limited (SBI General), an Indian based general insurance company. The venture is a newly established business expecting to commence underwriting in the second half of the 2010 financial year. The net assets of SBI General as at 31 December 2009 were approximately 6.5 billion Indian rupees (equivalent to \$155 million).

II. Acquisition of regional broking business in the United Kingdom

During the half year ended 31 December 2009, the United Kingdom business acquired an additional stake in a regional broking business to increase its share from 25% to 52.6% for \$1 million.

III. NTI business

In August 2009, CGU Insurance Limited reached an agreement with Suncorp's intermediated business, Vero, regarding the ongoing structure of the 50:50 NTI joint venture (NTI JV). The agreement allows the joint venture to continue, with the parties agreeing to the transfer of Suncorp's heavy motor vehicle book to the NTI JV from an agreed date at an agreed price which is confidential and which IAG has assessed as immaterial to the IAG Group. A customer relationship identifiable intangible asset was recognised during the reporting period.

NOTE 10. CONTINGENCIES

There have been no material changes in the contingent liabilities or contingent assets since 30 June 2009 apart from the RES which were no longer secured post the RES amendment.

NOTE 11. RELATED PARTY DISCLOSURES

All intragroup transactions are charged to the relevant entities on either normal commercial terms and conditions, a direct and actual cost recovery basis or time allocation basis. All transactions that have occurred among the subsidiaries within the IAG Group have been eliminated for consolidation purposes.

	CONSOLIDATED	
	31 December 2009	30 June 2009
	\$	\$

NOTE 12. NET TANGIBLE ASSETS

Net tangible assets per ordinary share	<u>1.29</u>	<u>1.16</u>
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Net tangible assets per ordinary share has been determined using the net assets on the balance sheet adjusted for non-controlling interests, intangible assets and goodwill.

NOTE 13. EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the half year ended 31 December 2009.

A. FINAL DIVIDEND

On 25 February 2010, the IAG Board determined to pay an interim dividend of 8.5 cents per share, 100% franked. The dividend will be paid on 12 April 2010. The dividend reinvestment plan will operate by issuing ordinary shares to participants using shares acquired on-market with no discount applied.

B. REFINANCING OF THE UNITED KINGDOM BUSINESSES

On 1 February 2010 the IAG Group completed the refinancing of its United Kingdom businesses which was necessitated by the disposal of certain non-core businesses in the year ended 30 June 2009. The refinancing required the repayment of foreign currency borrowings resulting in the realisation of foreign currency exchange losses that had previously been recognised in the financial statements as unrealised foreign currency exchange losses. The repayment of these foreign currency borrowings has resulted in a taxation benefit of \$84 million which will be recognised in the financial statements in February 2010.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 13, are in accordance with the Corporations Act 2001 including:
 - giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2009 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 25th day of February 2010 in accordance with a resolution of the directors.



..... Director



INDEPENDENT REVIEW REPORT TO THE MEMBERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 13 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG
KPMG


Brian Greig
Partner

Sydney
25 February 2010