

Financial results

Half year ended 31 December 2009

Mike Wilkins, Managing Director & Chief Executive Officer

Nick Hawkins, Chief Financial Officer

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ABN 60 090 739 923



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All amounts are presented in Australian dollars unless otherwise stated. 1H09 refers to the six months ended 31 December 2008 and 1H10 refers to the six months ended 31 December 2009.

1

Group results & divisional performance

Mike Wilkins

PROGRESSING TO PLAN

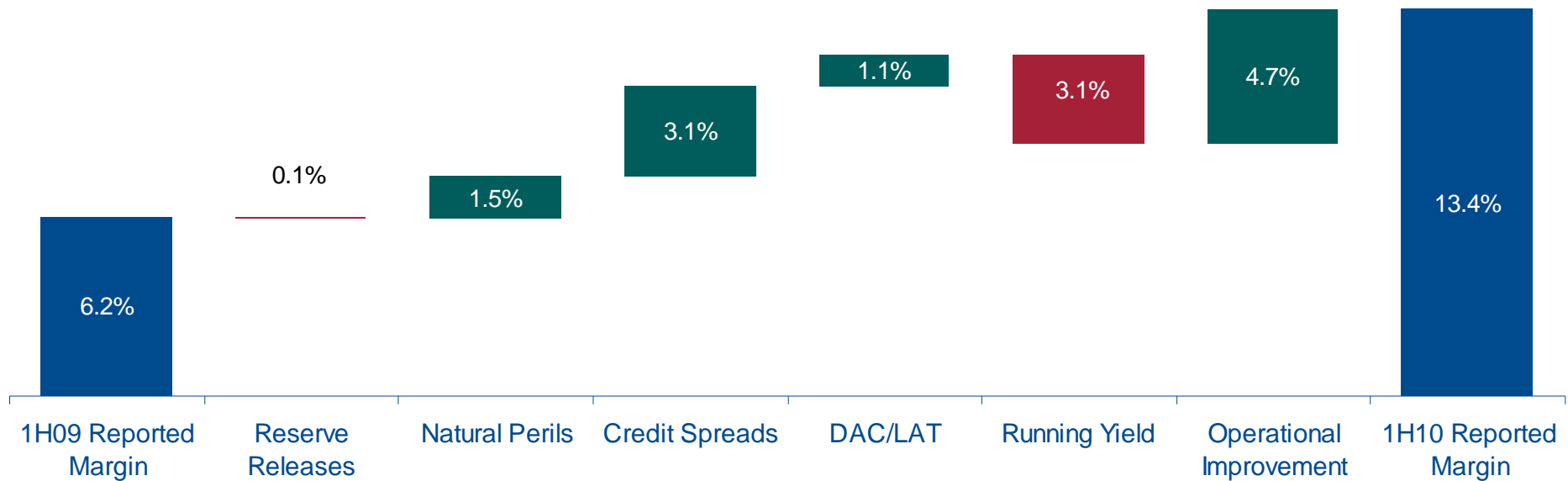
Further improvement during 1H10

- **Improved result in 1H10**
 - Net profit after tax of \$329m (1H09: \$4m)
 - Underlying GWP grew 5.1%
 - Insurance profit increased to \$488m (1H09: \$227m)
 - Insurance margin of 13.4% (1H09: 6.2%)
- **More than half of margin expansion from operational improvements**
 - Increased premium rates
 - Improved underwriting and claims management disciplines
 - Cost saving initiatives
 - Divestment of the underperforming UK mass market operations in 2H09
- **Result buoyed by favourable operating conditions**
 - Lower natural peril claim costs of \$121m (1H09: \$176m) (1H10 allowances: \$166m)
 - Favourable credit spread movements, with a \$28m gain (1H09: \$86m loss)
 - Reserve releases of \$80m (1H09: \$85m)
 - No net writedown of DAC (1H09: \$42m)

INSURANCE MARGIN

More than half of margin expansion from operational improvement

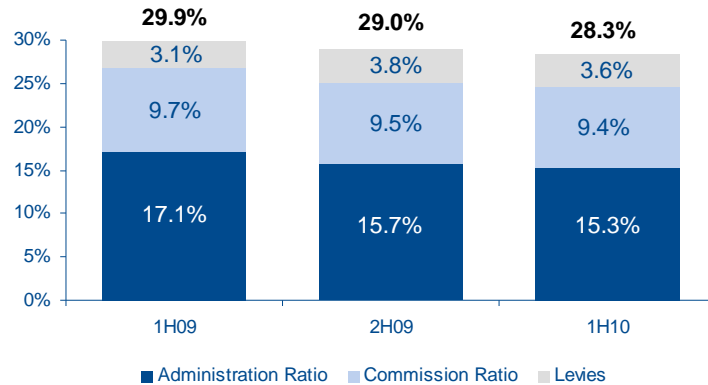
Group Insurance Margin
(1H10 vs. 1H09)



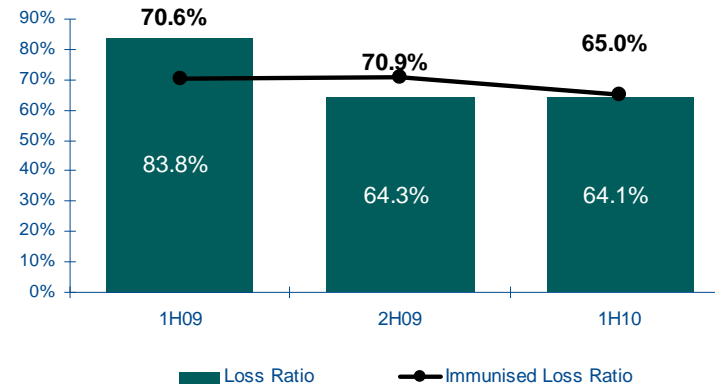
KEY INSURANCE RATIOS

Trending in the right direction

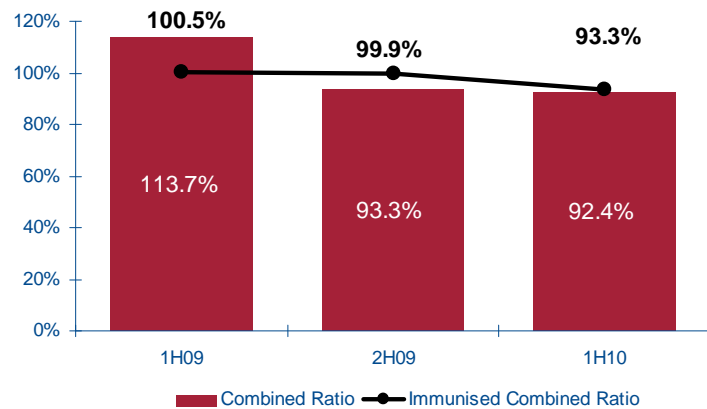
Expense ratio



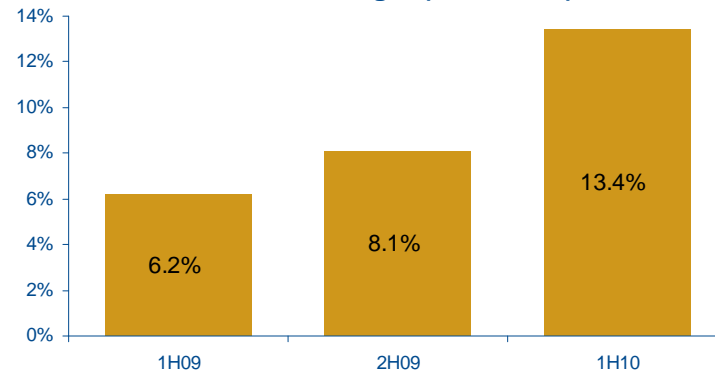
Loss ratio



Combined ratio



Insurance margin (before tax)



DIVISIONAL RESULTS

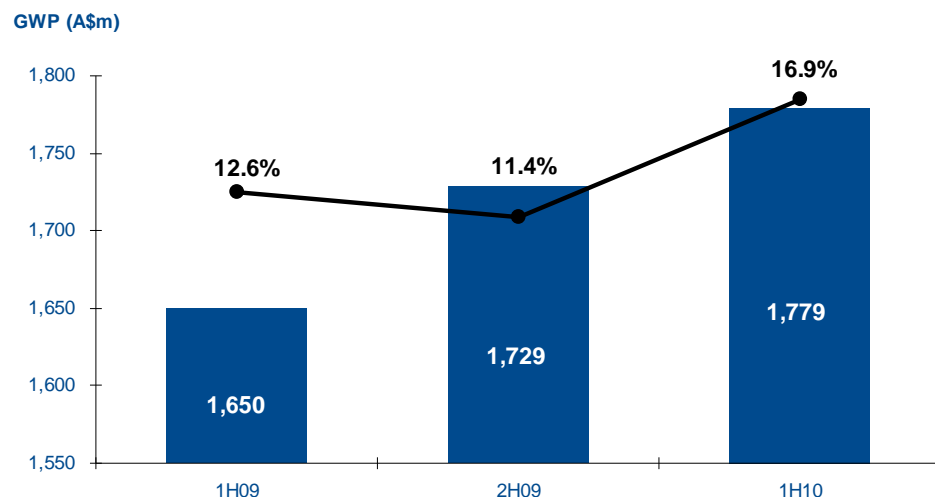
Positive contribution from all divisions

INSURANCE PROFIT	1H09 A\$m	2H09 A\$m	1H10 A\$m
Australia Direct	194	179	281
Australia Intermediated	(7)	55	112
New Zealand	(17)	17	68
UK Retained	77	36	24
Asia	9	-	2
Corporate & Other	-	-	3
Total Retained	256	287	490
Discontinued Operations	(29)	1	(2)
Total Insurance Profit	227	288	488

AUSTRALIA DIRECT

Continued strong performance

GWP & Margin



Insurance Ratios	1H09	2H09	1H10
Immunised loss ratio	72.8%	76.9%	70.9%
Expense ratio	21.5%	22.1%	20.4%
Administration ratio	19.3%	19.9%	18.2%
Immunised combined ratio	94.3%	99.0%	91.3%

Key points

- GWP growth of 7.8%
 - Across all States
 - Price and volume
- Insurance margin of 16.9%
 - Earned rate increases
 - Benefit from cost savings
 - Lower natural peril claim costs
 - Favourable impact from credit spreads
 - Offset by lower running yield

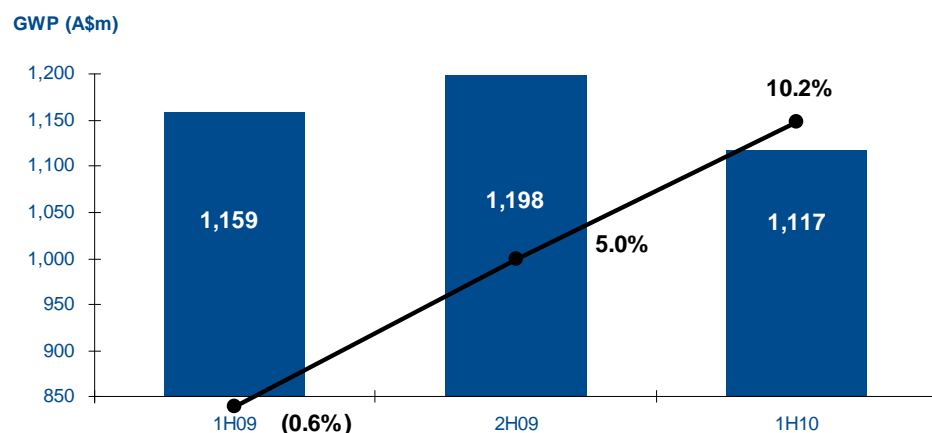
Outlook

- Further GWP growth
- FY10 insurance margin higher than FY09
- Lower 2H10 insurance margin than 1H10
 - Perils in line with allowances
 - Nil credit spread benefit

AUSTRALIA INTERMEDIATED

Turnaround on track

GWP & Margin



Insurance Ratios	1H09	2H09	1H10
Immunised loss ratio	67.4%	70.3%	61.3%
Expense ratio	39.9%	37.0%	37.2%
Commission ratio	17.2%	16.5%	15.4%
Administration ratio	22.7%	20.5%	21.8%
Immunised combined ratio	107.3%	107.3%	98.5%

Key points

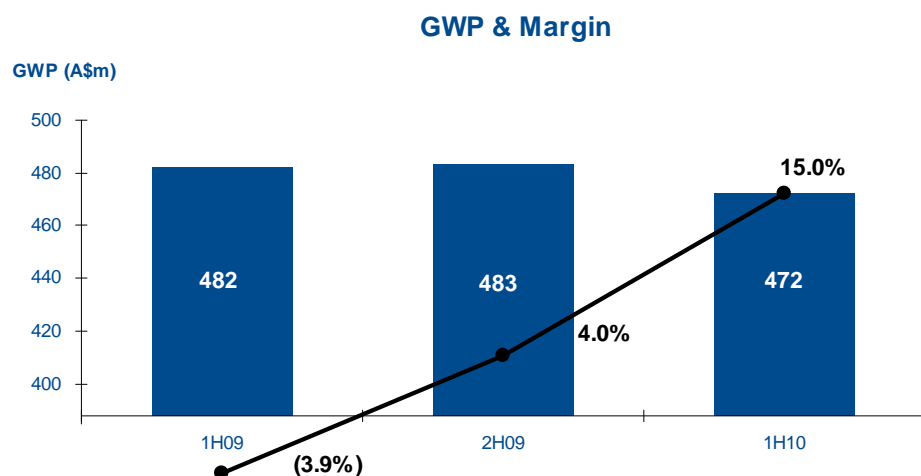
- Reported GWP down 3.6%
 - ING withdrawal and St George transition
- Underlying GWP up 2%
 - Underwriting discipline
 - Rates up 6% on average
- Insurance margin of 10.2%
 - Strong underwriting result
 - Absence of DAC impairment (1H09: \$50m)
 - Favourable credit spread movement
 - Offset by lower running yield

Outlook

- Continued underlying improvement
- Lower 2H10 insurance margin than 1H10
 - Perils in line with allowances
 - Nil credit spread benefit

NEW ZEALAND

Strong turnaround in 1H10, building on 2H09 improvement



Insurance Ratios	1H09	2H09	1H10
Loss ratio	74.3%	65.6%	55.0%
Expense ratio	34.4%	31.1%	31.1%
Commission ratio	12.6%	11.2%	12.1%
Administration ratio	21.8%	19.9%	19.0%
Combined ratio	108.7%	96.7%	86.1%

Key points

- GWP up 5% in local currency
- Insurance margin of 15%
 - Earned rate increases
 - Improved underwriting discipline
 - Better claims management practices
 - Better cost control
 - Lower natural perils and large losses
 - Higher reserve releases

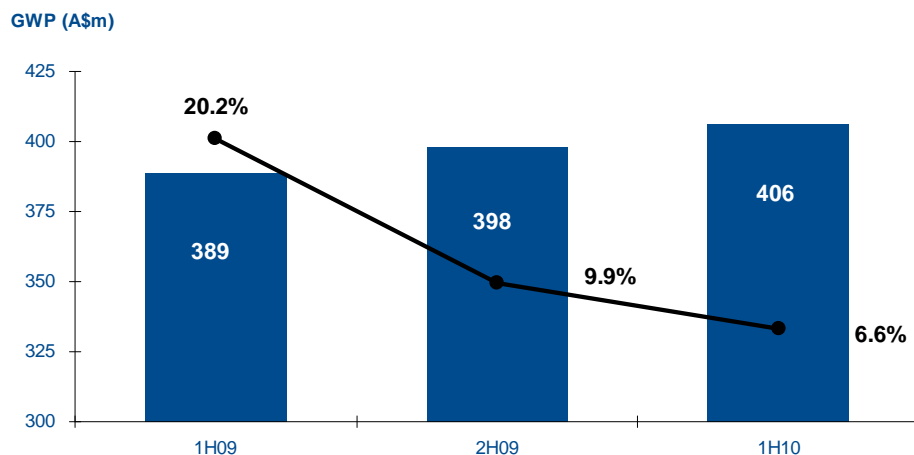
Outlook

- Improvement in underlying performance maintained
- Lower 2H10 insurance margin expected
 - Claim costs reverting to normal run rate

UNITED KINGDOM

Strong GWP growth, underlying insurance margin of 10%

GWP & Margin



Insurance Ratios	1H09	2H09	1H10
Loss ratio	63.9%	60.2%	63.7%
Expense ratio	29.9%	30.4%	31.6%
Commission ratio	14.7%	18.2%	18.3%
Administration ratio	15.2%	12.2%	13.3%
Combined ratio	93.8%	90.6%	95.3%

Key points

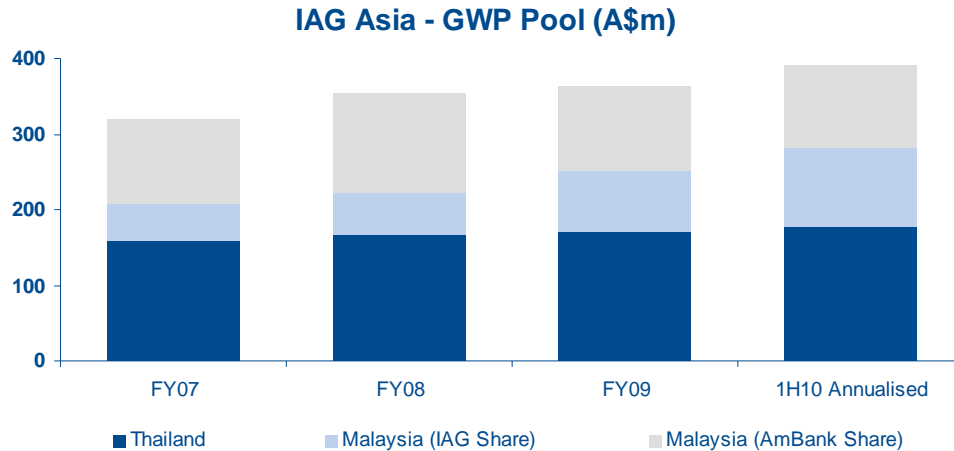
- GWP up 24% in local currency
 - Average rate increases of 10%
 - 15% growth in fleet and special risks
- Reported insurance margin lower
 - Strengthening of prior year bodily injury claim reserves, in line with UK industry
 - Lower reserve releases from run-off
 - Weaker investment income
 - Offset by increased rates and better claims processes
- Underlying insurance margin of 10% (1H09: 13.4%)

Outlook

- Further GWP growth (at a slower pace)
- Stronger 2H10 reported insurance margin

ASIA

Strong operating performance, Indian JV investment completed



Key points

- GWP up 5.5% in local currency
- Regional GWP pool around \$400m
- Thai and Malaysian businesses performing well
- Reported insurance margin lower – Absence of previous DAC benefit
- Investment in SBI General completed

Outlook

- Modest GWP growth
- SBI General to commence in 2H10

Insurance Ratios	1H09	2H09	1H10
Loss ratio	60.0%	61.0%	58.0%
Expense ratio	36.0%	37.7%	40.5%
Commission ratio	20.0%	10.4%	21.7%
Administration ratio	16.0%	27.3%	18.8%
Combined ratio	96.0%	98.7%	98.5%
Insurance margin	12.0%	-	2.9%

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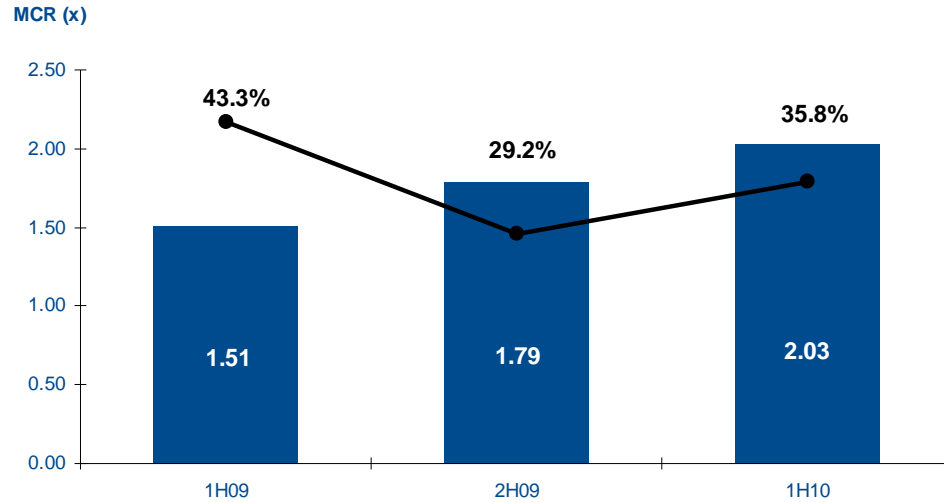
Capital Investments Dividend

Nick Hawkins

BALANCE SHEET

Capital position further strengthened

MCR / Debt: Total Tangible Capitalisation



CAPITAL MIX	1H09 A\$m	2H09 A\$m	1H10 A\$m
Shareholder equity	4,135	4,836	5,040
Intangibles and goodwill	(2,353)	(2,278)	(2,195)
Tangible shareholder equity	1,782	2,558	2,845
Interest bearing liabilities	1,360	1,053	1,586
Total tangible capitalisation	3,142	3,611	4,431

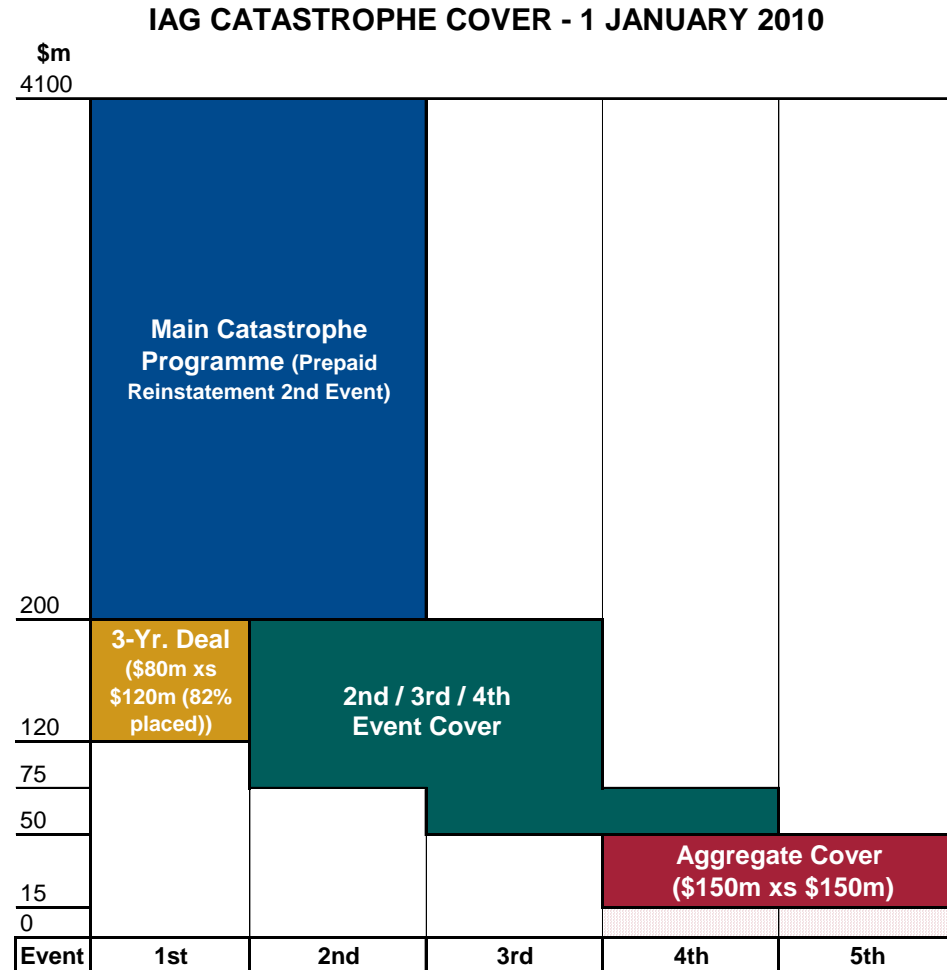
As at 31 December 2009

- Increased MCR multiple of 2.03
 - Improved financial performance
 - RES brought on-balance sheet following amendments in December 2009
- Retain strong capital position over short to medium term
- Debt to total tangible capitalisation of 35.8%, within the target range
- ‘Very strong’ ‘AA-’ ratings for key wholly owned insurers reaffirmed

REINSURANCE PROTECTIONS

Reducing earnings volatility

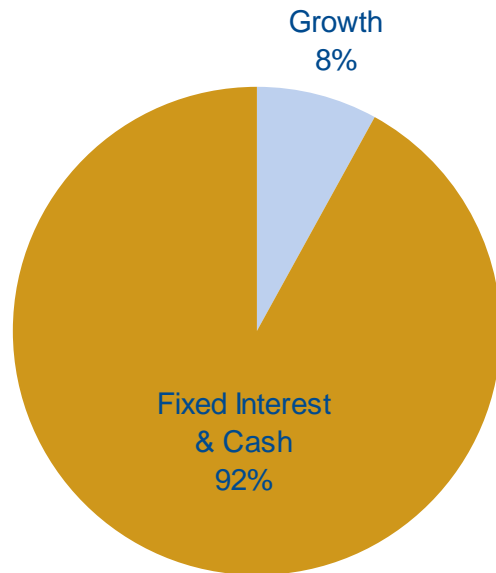
- **A key part of approach to capital management**
- **Integrated programme of catastrophe cover on calendar year basis**
 - Main cover from \$200m up to \$4.1bn
 - 3-year buydown – MER of \$135m
 - Second and third event cover
 - Sideways aggregate cover for multiple events
- **Counter-party credit profile remains strong**
- **Modest rate increases incurred on 1 January renewals**



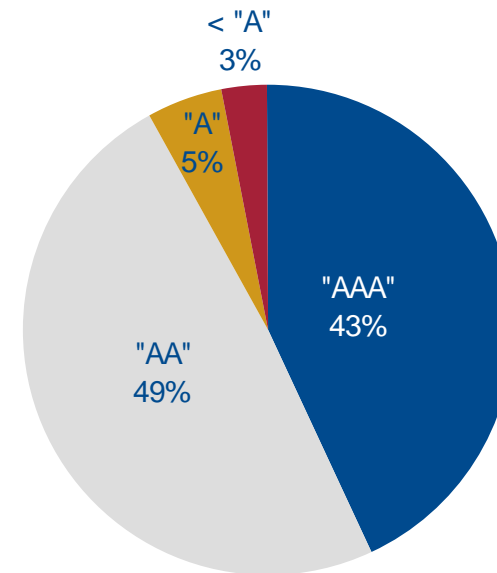
INVESTMENTS

Conservative mix and high credit quality

Group Investment Asset Allocation - \$11.5bn



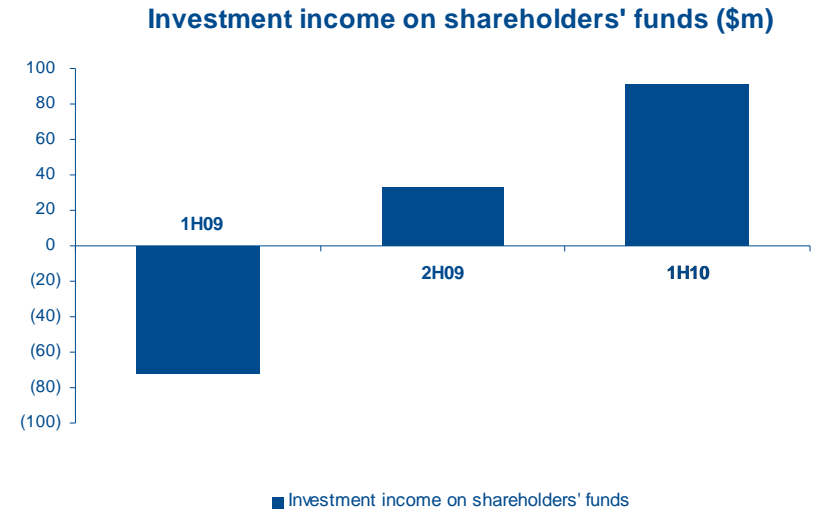
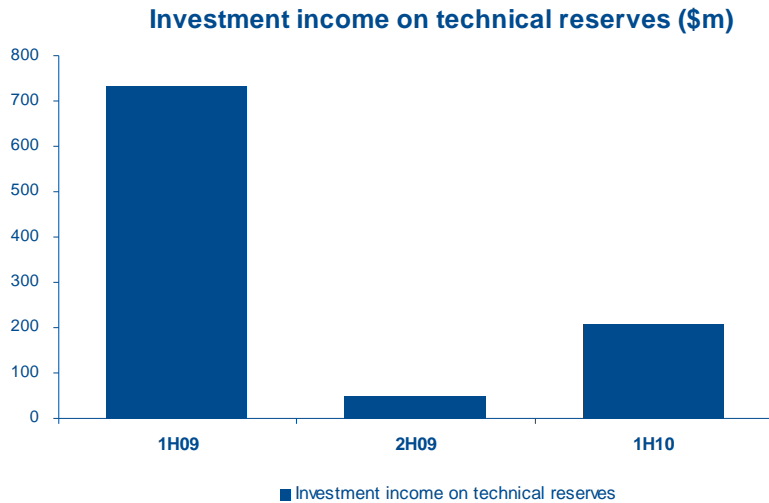
Group Fixed Interest & Cash - \$10.6bn



- Conservative overall investment mix – 92% invested in fixed interest and cash
- High credit quality maintained – over 90% rated AA or better, all performing
- Increasing growth assets weighting in shareholders' funds – now near lower end of 30–50% benchmark, excluding RES funds

INVESTMENT RETURNS

Volatility easing

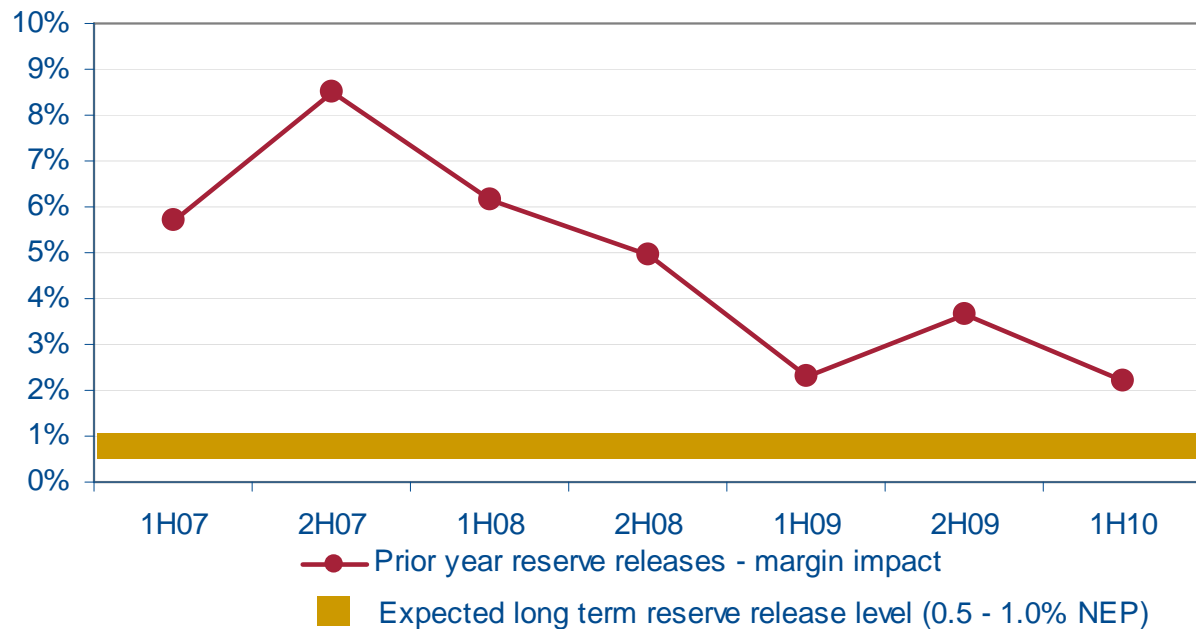


- Technical reserves income of \$210m (1H09: \$732m)
 - Absence of capital gains from sharp interest rate movements
 - 300 bps impact from lower running yield
- Shareholders' funds income of \$91m profit (1H09: \$72m loss)
 - Improved equity market returns
 - Reversal of \$96m RES exchange right

RESERVE RELEASES

Trending down, but a recurring feature

Reserve Releases - Impact on Insurance Margin



- Reserve releases in decline since 2007
- Reserve releases in range of 0.5–1.0% of NEP a recurring feature
- In 1H10, majority of \$80m releases from central estimate

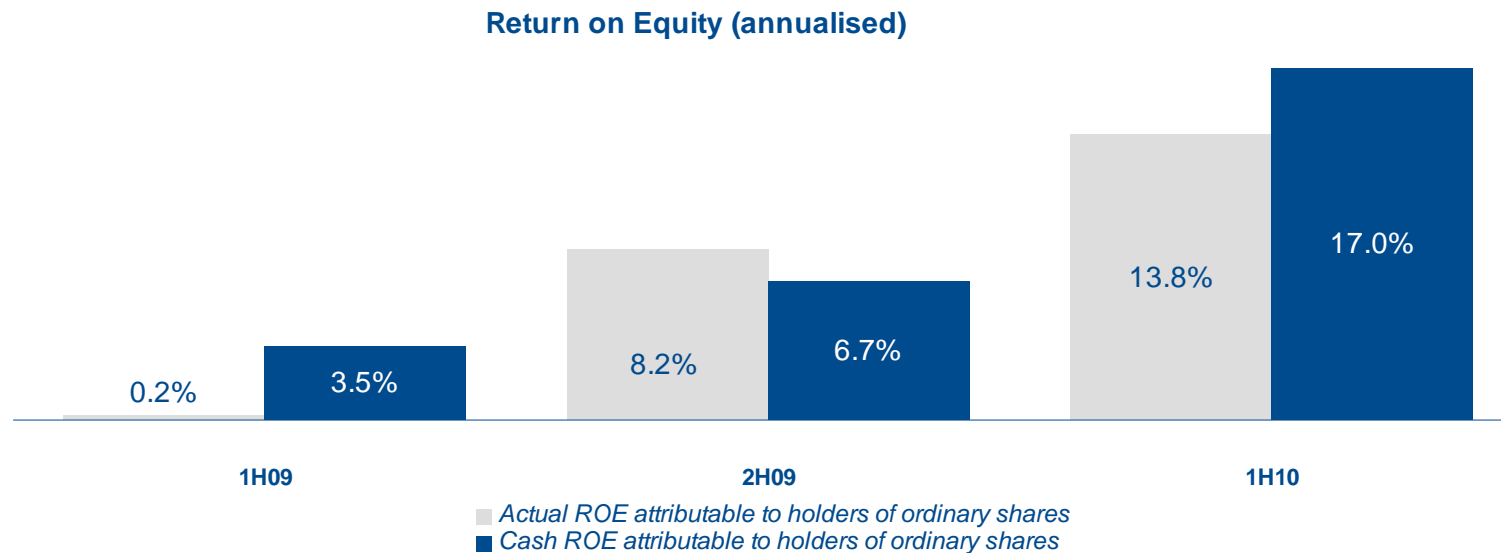
CORPORATE & OTHER EXPENSES

EXPENSES	1H09 A\$m	2H09 A\$m	1H10 A\$m
Net corporate expenses	(77)	55	8
Income tax expense	17	(82)	(156)
Amortisation and impairment	(30)	(35)	(12)

- **Net corporate expenses profit of \$8m (1H09: \$77m net loss)**
 - Primarily related to finalisation of divestment of non-core UK assets
- **Tax expense of \$156m (1H09: \$17m credit)**
 - An effective tax rate (pre-amortisation) of 28% in 1H10
 - Tax benefit of \$84m in 2H10 following restructure of intra-group financing of UK operations
- **Amortisation in line with guidance**

RETURN ON EQUITY

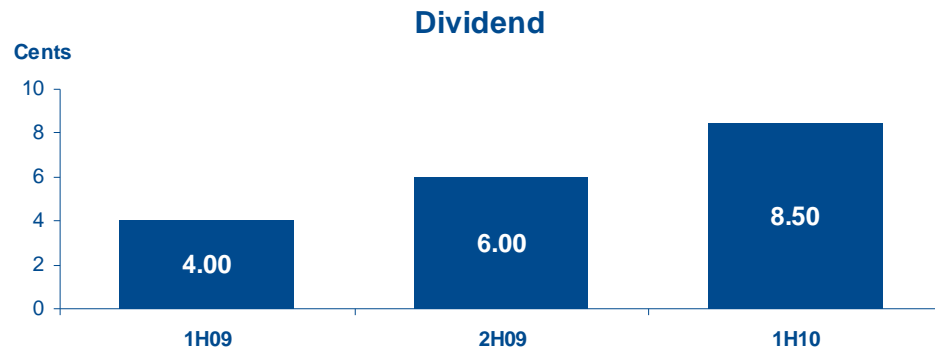
Targeted cash ROE of approximately 15%



- Reported ROE of 13.8% (1H09: 0.2%)
- Cash ROE of 17.0% (1H09: 3.5%)
- Long term target remains a cash ROE of 1.5x WACC (~15%)

DIVIDEND

Driven by increased cash earnings



8.5cps interim dividend, fully franked

- Equates to a cash payout ratio of around 44%
- Full year dividend policy to pay out 50–70% of cash earnings
- Cash earnings defined as NPAT, plus amortisation, excluding any unusual items
- Dividend payable on 12 April 2010, to shareholders registered on 10 March

3 **Group outlook**

Mike Wilkins

FY10 OUTLOOK

Further improvement in underlying performance

- **FY10 guidance revised**

FY10 Guidance	Previous	Updated
Underlying GWP growth	3–5%	3–5%
Reported GWP growth	1–3%	0%
Insurance margin	9–11%	11.5–13.0%

- **Assumes:**

- Natural perils in line with budget allowance of \$184m for 2H10
- No material movement in foreign exchange rates or investment markets
- Nil impact from credit spreads in 2H10

OUR BUSINESS MODEL AND BRANDS

	DIRECT INSURANCE	INTERMEDIATED INSURANCE	ONLINE INSURANCE		DIRECT INSURANCE		DIRECT INSURANCE		INTERMEDIATED INSURANCE
AUSTRALIA			²	NEW ZEALAND		ASIA	³	UNITED KINGDOM	
							⁴		
					⁵				
					INTERMEDIATED INSURANCE				
	¹				OTHER				

ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)

- 1. RACV is via a distribution relationship and underwriting joint venture with RACV Limited
- 2. RACV has a 30% interest in The Buzz
- 3. 49% ownership of AmG Insurance, which is part of AmAssurance
- 4. 98% voting rights in Safety Insurance, based in Thailand
- 5. 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India