

INVESTOR REPORT ▶▶ 1H10

31 DECEMBER 2009

25 FEBRUARY 2010

INSURANCE AUSTRALIA GROUP LIMITED - DIRECTORY

Securities exchange listings

ASX Limited:

ASX code for Ordinary Shares: **IAG** (Shares on issue, 31 December 2009: 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**

Key dates

Interim dividend - ordinary shares

- Ex-dividend date	3 March 2010
- Record date	10 March 2010
- Payment date	12 April 2010

Payment date for IANG quarterly distribution	15 March 2010
Payment date for IAGPA and IANG distributions	15 June 2010
Announcement of full year results to 30 June 2010	26 August 2010

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*

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

Contact details

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
Website: www.iag.com.au

Or by mail to:
GPO Box 4709
Melbourne VIC 3001

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

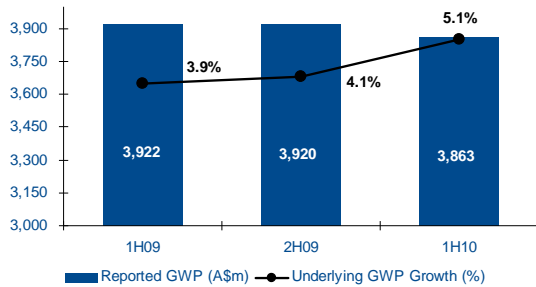
Level 26, 388 George Street
Sydney NSW 2000
Telephone: +61 2 9292 9222

TABLE OF CONTENTS

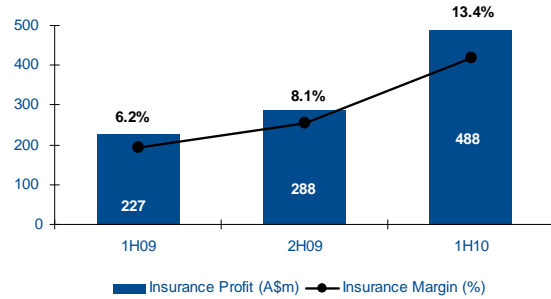
HIGHLIGHTS	2
1. EXECUTIVE SUMMARY	3
2. GROUP RESULTS	6
3. DIVISIONAL OVERVIEW.....	15
4. AUSTRALIA DIRECT	17
5. AUSTRALIA INTERMEDIATED (CGU).....	24
6. NEW ZEALAND	31
7. UNITED KINGDOM (UK)	37
8. ASIA	44
9. CORPORATE AND OTHER.....	50
10. REINSURANCE	52
11. INVESTMENTS.....	54
12. BALANCE SHEET, CAPITAL AND DIVIDENDS	58
APPENDICES	65

1H10 GROUP RESULTS

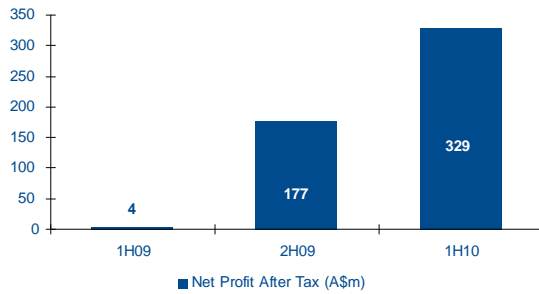
Reported GWP & Underlying GWP Growth



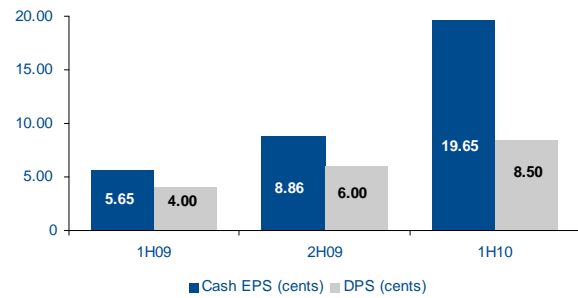
Insurance Profit & Margin



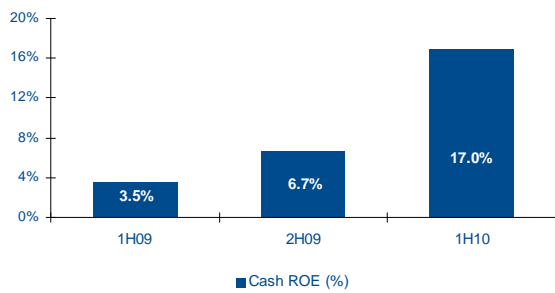
Net Profit After Tax



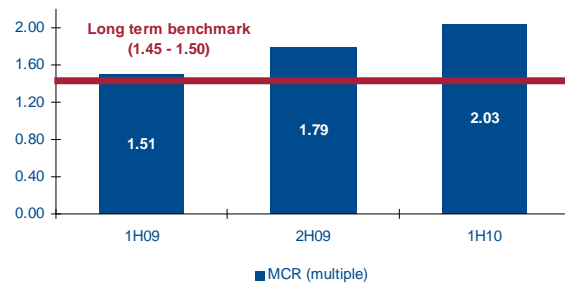
Cash EPS & DPS



Cash ROE



Minimum Capital Ratio



HIGHLIGHTS

Insurance Australia Group's (IAG) performance has continued to improve in the first half of FY10 as the execution of its refined corporate strategy progresses to plan.

Key operating highlights for the period include:

- A strong performance from Australia Direct which, compared to 1H09, recorded GWP growth of 7.8% and an insurance margin of 16.9%;
- Further improvement in the underlying performance of Australia Intermediated (CGU) which reported an insurance margin of 10.2%;
- A strong turnaround in the New Zealand business which recorded an insurance margin of 15%, reflecting the benefits of remedial actions and benign weather;
- Strong local currency GWP growth in the retained UK business;
- Continued progress with growth opportunities in Asia, including completion of the investment in the Indian joint venture; and
- Strengthening of the Group's capital base following amendments to IAG's Reset Exchangeable Securities, elevating the Group's MCR multiple to 2.03.

In addition to an improved operating performance, the Group's result was aided by lower natural peril claim costs, higher than expected reserve releases and a favourable movement in credit spreads.

At a Group level, reported results are:

- Underlying GWP growth of 5.1%;
- An insurance margin of 13.4%;
- An increase in net profit after tax to \$329m;
- An increase in fully franked interim dividend to 8.5 cents per share; and
- Cash ROE of 17.0%.

Owing to the better than expected financial performance during 1H10, the Group has revised its FY10 insurance margin guidance to a range of 11.5-13.0%, up from 9-11%.

Guidance for underlying GWP growth remains unchanged at 3-5%. Reported GWP growth is now expected to be flat, compared to previous guidance of 1-3%, given the strength of the Australian dollar.

This revised guidance assumes:

- Further improvement in the underlying performance of the Group in 2H10, as previously anticipated;
- No material movement in foreign exchange and investment markets, including a nil impact from credit spreads in 2H10; and
- Natural peril claim costs in line with related allowances (\$184m) in 2H10.

1. EXECUTIVE SUMMARY

1.1 1H10 overview

- 1H10 has seen further improvement in the underlying performance of the Group as execution of IAG's refined corporate strategy progresses to plan.
- The Group has reported an improved insurance margin of 13.4%, compared to 6.2% in 1H09. More than half of the expansion in margin is from operational improvements, including:
 - Increased premium rates, including those implemented in FY09;
 - 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 Group's insurance result has also benefited from:
 - Higher than expected reserve releases of \$80m (1H09: \$85m);
 - Lower natural peril claim costs of \$121m (1H09: \$176m), compared to allowances of \$166m;
 - A favourable movement in credit spreads, with a gain of \$28m in 1H10 (1H09: loss of \$86m); and
 - No net writedown of DAC during the period (1H09: \$42m).
- 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 (bps) compared to 1H09.
- Underlying GWP growth of 5.1% was achieved in 1H10. Reported GWP of \$3,863m declined by 1.5% due to the impact of a stronger Australian dollar and the divestment of the non-core UK operations.
- Net profit after tax for 1H10 was \$329m, compared to a profit of \$4m in 1H09. The previous corresponding period was affected by the loss incurred on disposal of the non-core UK assets.
- Reported ROE in 1H10 was 13.8%, and cash ROE was 17.0%. This compares to the Group's long term target of a cash ROE 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) (1H09: 4.0 cps), equating to a cash payout ratio of approximately 44%. It remains the Group's policy to pay out 50-70% of full year cash earnings.

1.2 Divisional highlights

- The Group's 1H10 insurance margin is summarised below on a divisional basis:

INSURANCE MARGINS	1H09 %	2H09 %	1H10 %
Australia Direct	12.6	11.4	16.9
Australia Intermediated	(0.6)	5.0	10.2
New Zealand	(3.9)	4.0	15.0
UK Retained	20.2	9.9	6.6
Asia	12.0	0.0	2.9
Total Margin - Ongoing Business	7.2	8.1	13.5
Discontinued Operations	(22.8)	5.3	0.0
Total Margin	6.2	8.1	13.4

- Australia Direct**
- The Group's largest business, Australia Direct, grew GWP 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.
- 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.
- New Zealand**
- IAG's New Zealand operations have built upon the turnaround evident in 2H09 to produce a significantly improved result in 1H10.
 - The result was driven by the benefits from remedial action undertaken by management, assisted by lower natural peril and large loss claims.
- United Kingdom**
- The retained UK business experienced strong local currency GWP 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.
- Asia**
- The Group's established businesses in Asia produced strong operational performances, ahead of their respective markets. Reported margin is lower than 1H09 owing to the absence of a one-off benefit from the introduction of DAC accounting.
 - During the period the Group completed its investment in the 26%-owned joint venture in India, SBI General.

1.3 Capital management

- The Group's capital position improved during the half with an MCR ratio of 2.03 at 31 December 2009. This reflected:
 - The improved financial performance of the Group; and
 - 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.
- The Group's probability of adequacy for the outstanding claims provision remains at least 90%, as at 31 December 2009.
- At 31 December 2009, IAG's key wholly owned operating insurance subsidiaries held 'very strong' 'AA-' ratings from Standard & Poor's (S&P) and an 'A+' rating at the Group level.
- The Group's debt to total tangible capitalisation at 31 December 2009 stood at 35.8%, which is around the middle of the Group's targeted range of 30-40%.

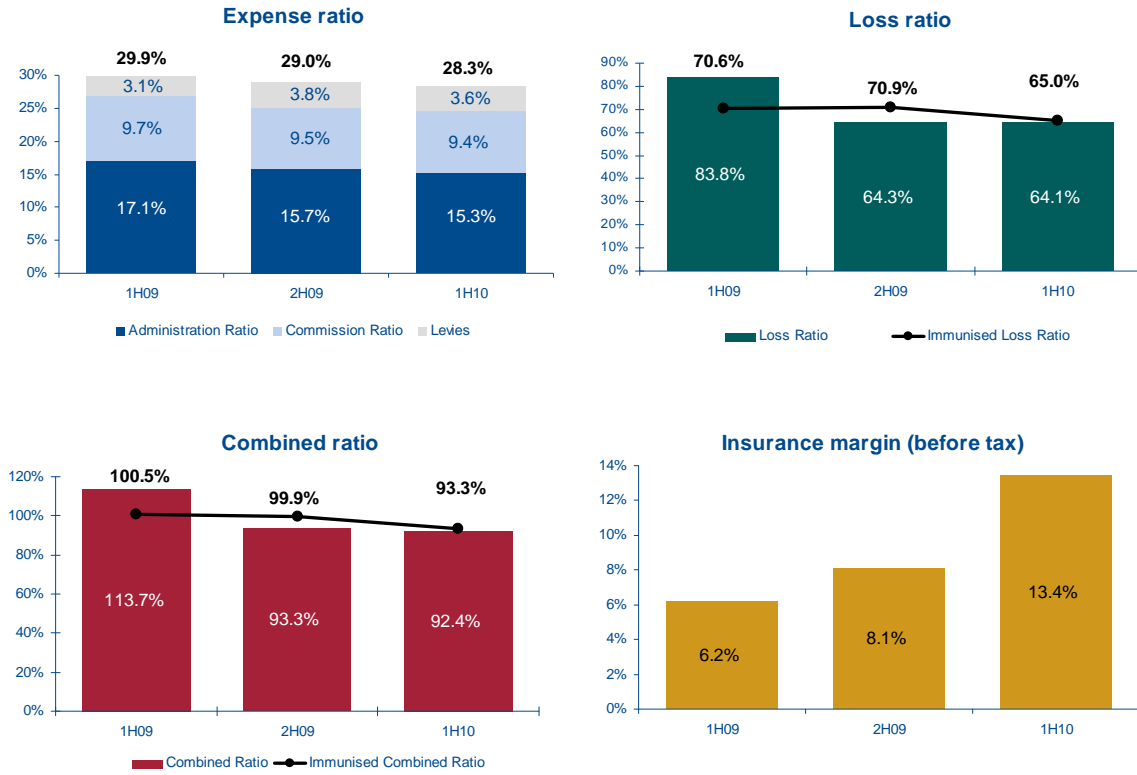
1.4 Outlook

- Owing to the stronger than expected financial performance in 1H10, on 3 February 2010 the 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 Group's continued expectation of further improvement in the underlying business performance in 2H10;
 - Losses from natural peril events in 2H10 being in line with the budgeted allowance of \$184m for that half;
 - No material movement in foreign exchange rates or investment markets, including nil credit spread impact, in 2H10; and
 - Full year reserve releases lower than the \$215m recognised in FY09.
- Underlying GWP growth is still expected to remain within the range of 3-5% for the full year, however reported GWP is now expected to be flat given the strength of the Australian dollar.
- Compared to FY09, the anticipated improvement in FY10 is underpinned by:
 - Ongoing improvement in the 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 2H09; and
 - Retention of the benefits realised in 1H10 from lower than expected natural peril claim costs and a narrowing of credit spreads.
- Moving forward, the Group's priorities remain to:
 - Improve the performance of the Australian and New Zealand businesses;
 - Pursue selective general insurance growth opportunities; and
 - Drive operational performance and accountability.
- It is IAG's objective to deliver a cash ROE of at least 1.5 times the Group's weighted average cost of capital (WACC) and a top quartile shareholder return, through the cycle.

2. GROUP RESULTS

INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	3,922	3,920	3,863
Gross earned premium	3,931	3,787	3,872
Reinsurance expense	(248)	(237)	(229)
Net earned premium	3,683	3,550	3,643
Net claims expense	(3,088)	(2,282)	(2,335)
Commission expense	(356)	(337)	(341)
Underwriting expense	(744)	(691)	(689)
Underwriting profit/(loss)	(505)	240	278
Investment income on technical reserves	732	48	210
Insurance profit	227	288	488
Net corporate expenses	(77)	55	8
Interest	(46)	(41)	(43)
Profit/(loss) from fee based business/share of associates	13	(3)	11
Investment income on shareholders' funds	(72)	33	91
Profit before income tax and amortisation	45	332	555
Income tax expense	17	(82)	(156)
Profit after income tax (before amortisation)	62	250	399
Non-controlling interests	(28)	(38)	(58)
Profit attributable to IAG shareholders (before amortisation)	34	212	341
Amortisation and impairment	(30)	(35)	(12)
Profit attributable to IAG shareholders	4	177	329
Insurance Ratios			
Loss ratio	83.8%	64.3%	64.1%
Immunised loss ratio	70.6%	70.9%	65.0%
Expense ratio	29.9%	29.0%	28.3%
Commission ratio	9.7%	9.5%	9.4%
Administration ratio	20.2%	19.5%	18.9%
Combined ratio	113.7%	93.3%	92.4%
Immunised combined ratio	100.5%	99.9%	93.3%
Insurance margin	6.2%	8.1%	13.4%
Key Financial Metrics			
Reported ROE (average equity) (% pa)	0.2%	8.2%	13.8%
Cash ROE (average equity) (% pa)	3.5%	6.7%	17.0%
Basic EPS (cents)	0.23	9.09	15.96
Cash EPS (cents)	5.65	8.86	19.65
DPS (cents)	4.00	6.00	8.50
Probability of adequacy of general insurance claim reserves	90%	90%	90%
MCR multiple	1.51	1.79	2.03

Group insurance ratios



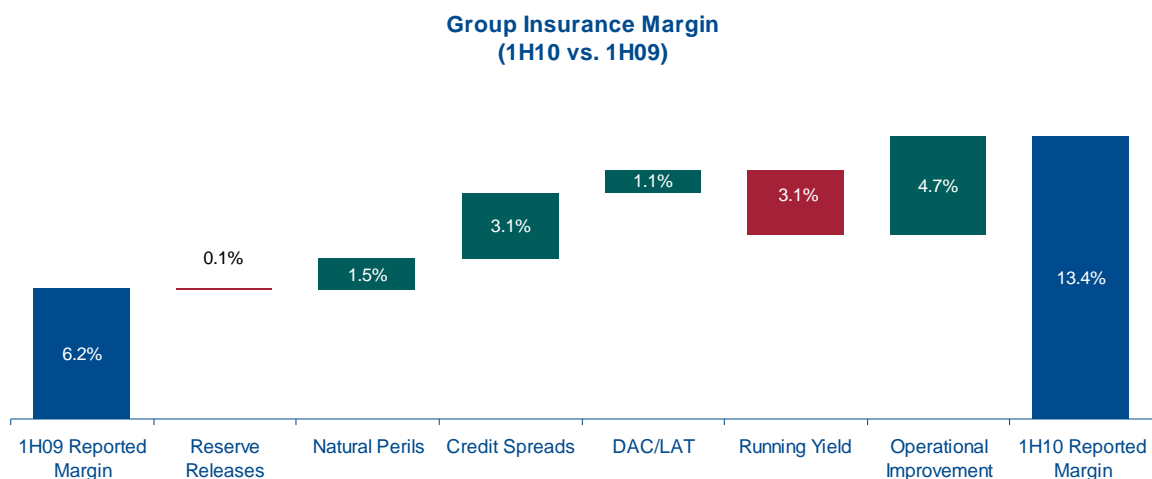
2.1 Premiums

- GWP for the Group was \$3,863m, down 1.5% from \$3,922m in 1H09. After allowing for the impact of foreign exchange movements and the sale of the non-core UK operations in 2H09, underlying GWP growth in 1H10 was 5.1%.



- Comparing 1H10 GWP with 1H09:
 - Australia Direct grew by 7.8% to \$1,779m, driven by rate increases and volume growth, particularly in the home portfolio;
 - Australia Intermediated (CGU) decreased by \$42m to \$1,117m, reflecting a \$64m reduction in GWP from previously advised account losses;
 - New Zealand's reported GWP declined by 2% to \$472m. In local currency terms (and excluding the effect of a change in income recognition for a major portfolio), GWP increased by 5%, reflecting rate increases;
 - The UK retained business reported GWP growth of 4%, to \$406m, however in local currency terms this amounted to growth of 24% on the back of rate and volume increases and a strong performance from fleet and special risks; and
 - In Asia, reported GWP of \$89m decreased by nearly 3%. In local currency terms it grew by 5.5%.

2.2 Insurance margin



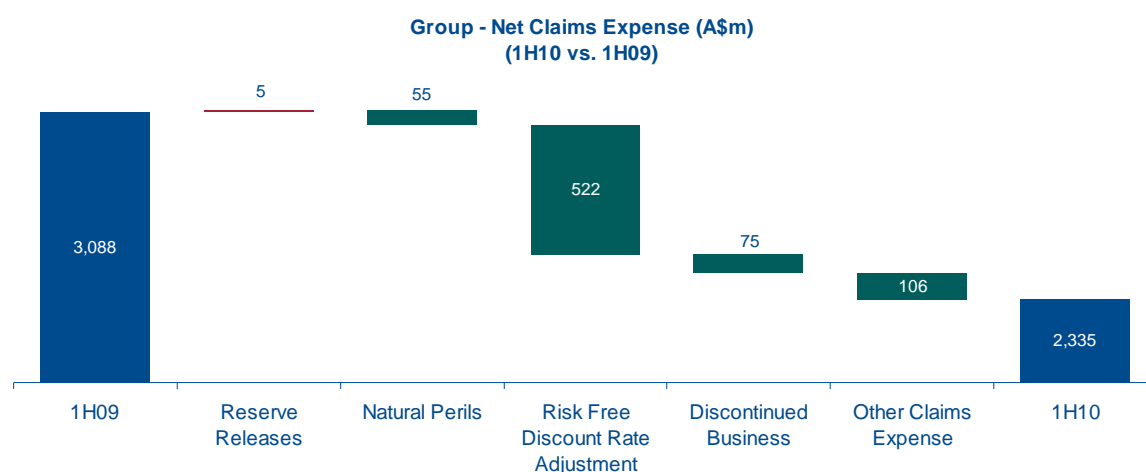
- The Group's insurance margin has improved to 13.4%, compared to 6.2% in 1H09 and 8.1% in 2H09. Over half of the expanded margin was derived from operational improvement, encompassing the benefits from premium rate increases, improved underwriting and claims management disciplines and cost saving initiatives. Divestment of the loss-making mass market operations in the UK in 2H09 contributed 60 bps of the improvement.
- Other contributory factors were:
 - Lower natural peril claim costs, net of reinsurance;
 - A favourable effect from credit spread movements; and
 - No DAC writedown, compared to \$42m in 1H09.
- The improvement in insurance margin was achieved despite a significantly lower running yield, which reduced the margin by \$114m, or over 300 bps, compared to 1H09. A similar reduction in running yield was experienced in 2H09.
- The impact on the insurance margin of prior period reserve releases, the incidence of natural perils, credit spreads and DAC adjustments is summarised in the table contained in Appendix D.

2.3 Reinsurance expense

- The Group's reinsurance expense decreased to \$229m in 1H10 (1H09: \$248m), largely reflecting the exit from the non-core UK businesses in 2H09.
- The Group has renewed its main catastrophe reinsurance protection for 12 months effective 1 January 2010, with rate increases of 2-3%.

2.4 Claims

Group Results



- The reported loss ratio of 64.1% (1H09: 83.8%) has decreased significantly. This reflects a relative stabilisation in interest rates during 2H09, and the absence of the substantial risk free discount rate adjustment that stemmed from a sharp drop in interest rates in 1H09. After allowing for this effect, the immunised loss ratio, at 65.0%, is lower than 1H09 (70.6%).
- Excluding reserve release and natural peril impacts, and allowing for discontinued business, the Group's claims expense has benefited from:
 - Realisation of a range of operating efficiencies across the Group; and
 - A significant reduction in large loss experience in New Zealand.

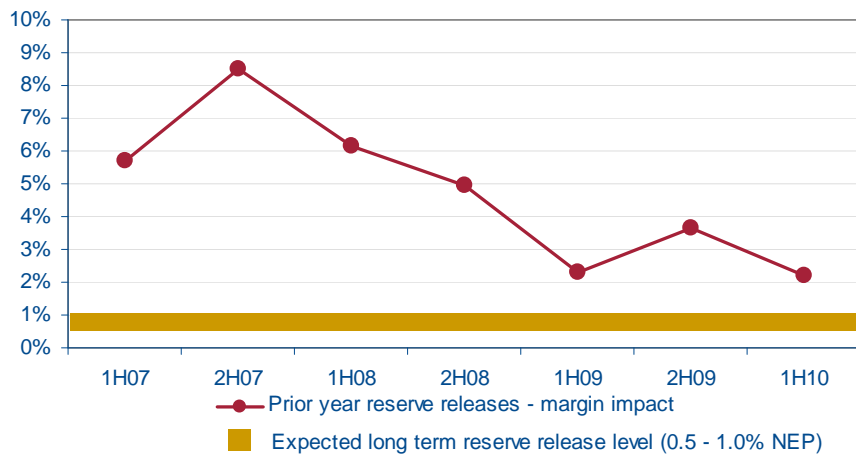
2.4.1 Reserve releases

- The 1H10 net claims expense was reduced by \$80m of reserve releases, which were higher than expected but \$5m lower than those in 1H09. The net release was despite a net \$12m reserve strengthening in the UK following a deterioration in prior period bodily injury claims.

RESERVE RELEASES	1H09 A\$m	2H09 A\$m	1H10 A\$m
Reserve releases	85	130	80
Impact on insurance margin	2.3%	3.7%	2.2%

- The majority of 1H10's reserve releases were sourced from the central estimate, reflecting better than expected prior period experience and the revision of projected claim experience.
- The favourable impact on the Group's reported insurance margin from reserve releases has trended down since FY07. It is expected that this downward trend will continue over time as the impacts of legislative changes on claim frequency and average claim sizes are now largely incorporated in reserving models.

Reserve Releases - Impact on Insurance Margin



- 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 continues to expect a reduction in full year reserve releases compared to FY09 (\$215m).

2.4.2 Natural perils

- The 1H10 net claims expense included \$121m of losses from natural perils (net of reinsurance). This is \$55m lower than 1H09, and \$45m lower than related allowances for 1H10.

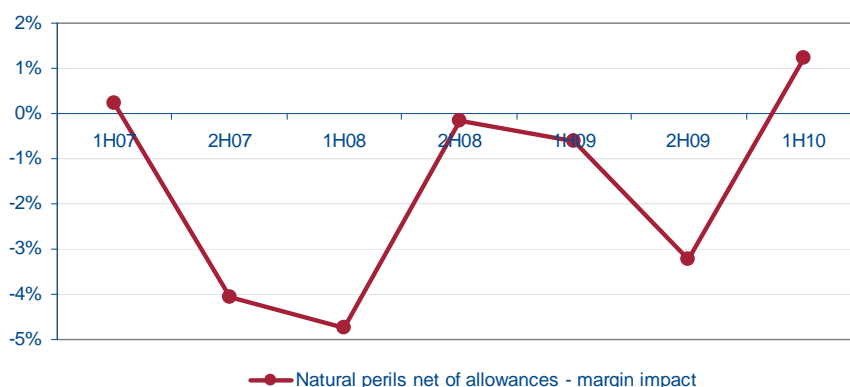
NATURAL PERIL COSTS	1H09 A\$m	2H09 A\$m	1H10 A\$m
Natural perils	(176)	(275)	(121)
Natural perils allowance	153	161	166
Impact on insurance profit	(23)	(114)	45
Impact on insurance margin	(0.6%)	(3.2%)	1.2%

- The 1H10 natural peril cost was dominated by smaller attritional events. Much of the higher equivalent expense in 1H09 can be attributed to the South-East Queensland storms in November 2008, which amounted to \$69m.
- Natural peril events in the first half of the financial year are typically skewed to the months of November and December. In 1H10, the natural peril activity in these two months proved to be relatively benign.

1H10 NATURAL PERIL COSTS	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)	6
Other events	68
Total	121

- Smaller attritional events (under \$5m in size) amounted to \$68m in 1H10, compared to \$46m in 1H09 and \$110m in 2H09.
- Natural peril claim allowances for 2H10 are \$184m, giving full year allowances of \$350m (FY09: \$314m). The Group's updated guidance assumes 2H10 peril costs will be in line with 2H10 allowances.
- In recent years the Group has steadily increased its allowances in the face of increased natural peril activity. 1H10 is the first six-monthly period since 1H07 in which allowances have exceeded natural peril claim costs incurred.

Natural Perils - Impact on Insurance Margin



2.5 Expenses

- The Group's expense ratio improved to 28.3% compared to 29.9% in 1H09, as the benefits from cost initiatives were fully realised. An improvement is still evident after excluding the \$42m net writedown of deferred acquisition costs (DAC) which increased the 1H09 expense ratio by 1.1%.
- Excluding government levies the Group's administration ratio has improved from 17.1% in 1H09 (or 16.5% excluding the DAC writedown) to 15.3% in 1H10.

2.6 Investment income on technical reserves

- Investment income on technical reserves for 1H10 was \$210m, compared to \$732m in 1H09 and \$48m in 2H09. As outlined in the table below, much of this movement was due to changes in the risk free discount rate adjustment and credit spread impacts.
- 1H10 has also incurred a significant reduction in running yield compared to 1H09, of \$114m, which has reduced the reported margin by over 300 bps. Driven by the sharp fall in interest rates experienced in the latter half of calendar 2008, this effect is commensurate with that absorbed in 2H09.

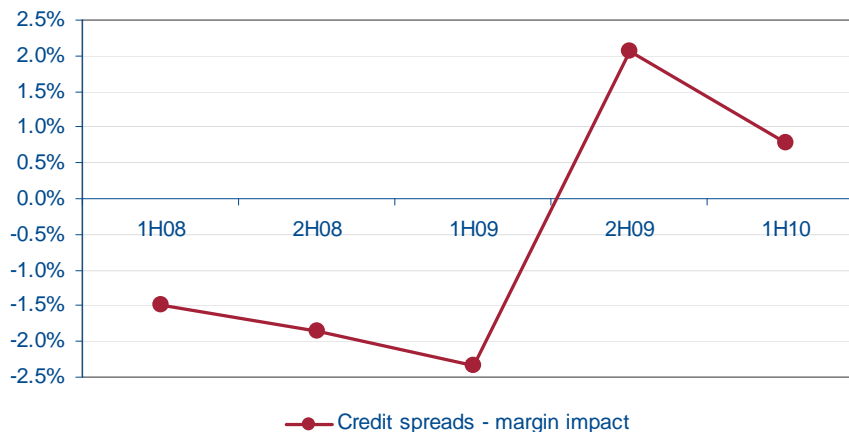
INVESTMENT INCOME ON TECHNICAL RESERVES	1H09	2H09	1H10
	\$m	\$m	\$m
Investment income on technical reserves	732	48	210
Adjusted for:			
- Risk free discount rate adjustment	(488)	234	34
- Credit spread impact	86	(73)	(28)
Running yield on technical reserves	330	209	216
	\$bn	\$bn	\$bn
Average technical reserves ¹	7.8	8.0	7.9
	%	%	%
Annualised average running yield	8.5	5.2	5.5

¹Based on period end balance.

- The impact on the Group's reported insurance margin from credit spreads has eased. The 1H10 insurance profit included a favourable impact of \$28m, as spreads narrowed over the half, primarily in the first quarter. This compares to a loss of \$86m from the widening of spreads in 1H09.

CREDIT SPREADS	1H09	2H09	1H10
	A\$m	A\$m	A\$m
Credit spreads	(86)	73	28
Impact on insurance margin	(2.3%)	2.1%	0.8%

Credit Spreads - Impact on Insurance Margin



- The Group is not factoring in any credit spread impact in 2H10 in its updated full year margin guidance.

2.7 Net corporate expenses

- From FY09, all corporate expenses that are not of a one-off nature are wholly allocated to the operating businesses (i.e. included in the calculation of the insurance profit).
- Net one-off corporate expenses in 1H10 amounted to a profit of \$8m (1H09: \$77m net loss), and primarily related to finalisation of issues associated with the divestment of the non-core UK assets in 2H09.
- Corporate expenses in 1H09 comprised the loss on sale of the mass market distribution operations in the UK, partially offset by the profit on sale of IAG's interest in the life insurance business of its Malaysian joint venture.

2.8 Interest

- The lower interest expense of \$43m (1H09: \$46m) reflects the buyback of sterling denominated subordinated debt in 2H09.

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

- The combined contribution of \$11m (1H09: \$13m) from fee based business and associates comprises:
 - \$9m (1H09: \$10m) of fee based income; and
 - \$2m (1H09: \$3m) in respect of share of associates.
- The modest decline in profit from fee based business is explained by:
 - A reduced contribution from Australia Intermediated, reflecting lower prior period fee income; offset by
 - The absence of previously loss-making activities in the divested UK business.
- A large portion of the share of profit from associates is represented by the Group's Malaysian joint venture, AmG Insurance. A stronger result from AmG, coupled with the effect of the dial-up of IAG's interest to 49% in December 2008, was offset by the inclusion of a share of divisional business development costs under a revised allocation methodology, as well as the impact of a stronger Australian dollar.

2.10 Investment income on shareholders' funds

- Investment income on shareholders' funds amounted to a profit of \$91m compared to a loss of \$72m in 1H09. The improved 1H10 outcome reflects:
 - Improved equity market returns; offset by
 - Reversal of the \$96m exchange right in respect of the Reset Exchangeable Securities (RES), reflecting amendments to the RES that have resulted in it becoming an on-balance sheet Tier 1 instrument.
- In 1H09 a \$25m revaluation profit was recognised in respect of the RES exchange right.

2.11 Tax expense

- The Group reported a tax expense in 1H10 of \$156m compared to a tax credit of \$17m in 1H09.
- The 1H10 expense represents an effective tax rate (pre-amortisation) of 28.1%, and is comparable to the prevailing 30% corporate tax rate in Australia after allowing for the following non-assessable/non-deductible items:
 - Reversal of the \$96m exchange right in respect of the RES;
 - A foreign exchange benefit associated with the restructuring of the RES;
 - Profits from IAG Re Labuan;
 - Rebateable dividend income; and
 - Other non-assessable and prior period items.
- A tax benefit of \$84m is expected to be recognised in 2H10 following the restructure of intra-group financing of the UK operations.

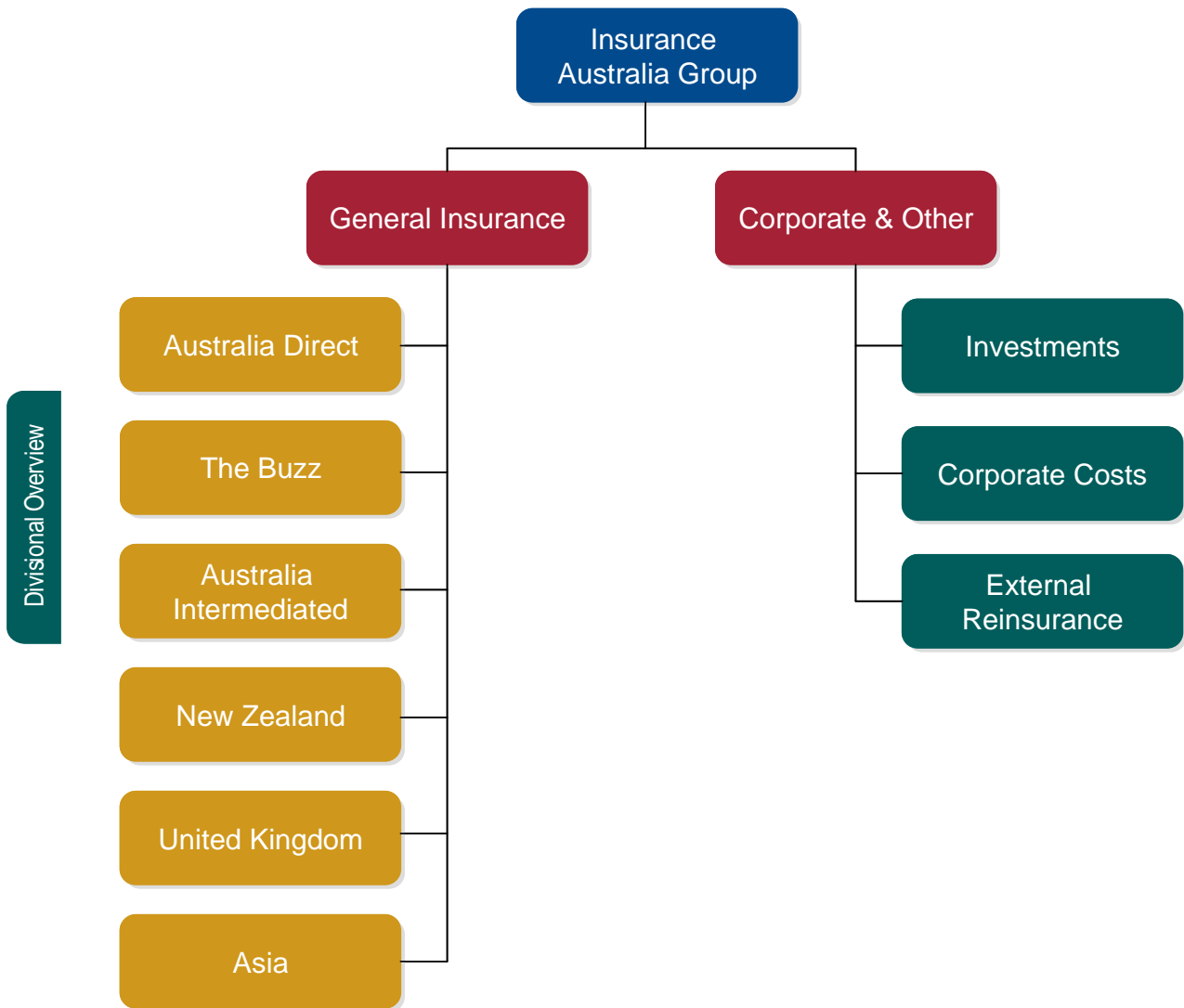
2.12 Non-controlling interests

- The non-controlling interest in the Group's profit of \$58m compares to the \$28m reported in 1H09. The increase is a result of 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.

2.13 Amortisation

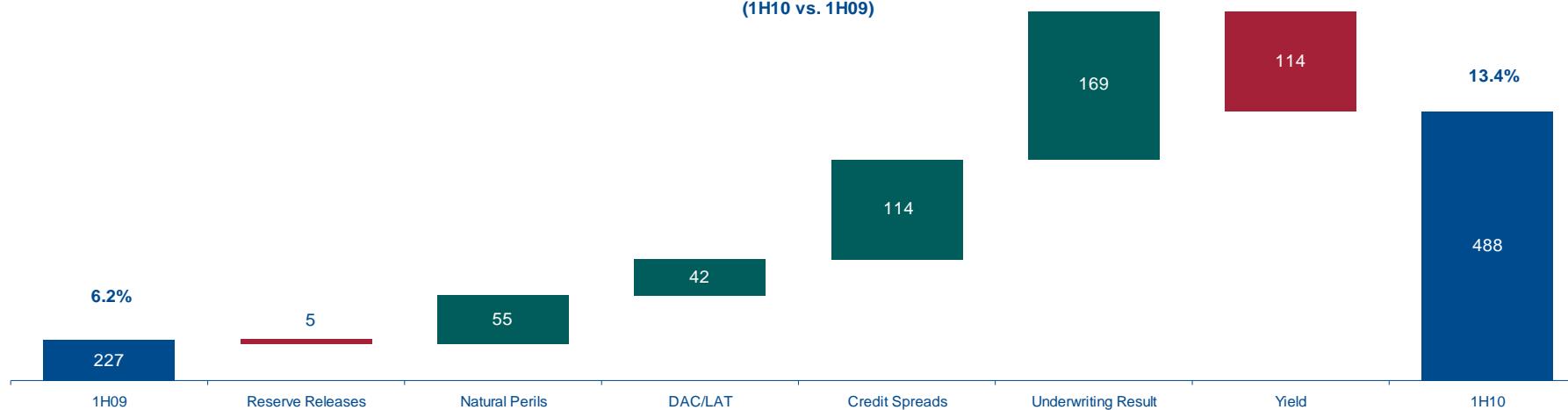
- The 1H10 amortisation charge of \$12m is broadly in line with the indicated FY10 charge of \$26m, as provided in August 2009. The charge is lower than that for 1H09, of \$30m, and reflects the absence of amortisation associated with the non-core UK business divested at the beginning of 2H09.

3. DIVISIONAL OVERVIEW



INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	Australia		New Zealand	UK Retained	Asia	Corporate & Other	Total		1H10 A\$m
	Direct	Intermediated					Retained Business	Discontinued / Run off	
Gross written premium	1,779	1,117	472	406	89	1	3,864	(1)	3,863
Gross earned premium	1,733	1,182	491	379	86	1	3,872	-	3,872
Reinsurance expense	(74)	(84)	(38)	(18)	(17)	1	(230)	1	(229)
Net earned premium	1,659	1,098	453	361	69	2	3,642	1	3,643
Net claims expense	(1,158)	(657)	(249)	(230)	(40)	1	(2,333)	(2)	(2,335)
Commission expense	(36)	(169)	(55)	(66)	(15)	-	(341)	-	(341)
Underwriting expense	(302)	(239)	(86)	(48)	(13)	-	(688)	(1)	(689)
Underwriting profit/(loss)	163	33	63	17	1	3	280	(2)	278
Investment income on technical reserves	118	79	5	7	1	-	210	-	210
Insurance profit/(loss)	281	112	68	24	2	3	490	(2)	488
Profit/(loss) from fee based business/share of associates	-	10	1	(2)	2	-	11	-	11
Total divisional results	281	122	69	22	4	3	501	(2)	499
Insurance Ratios									
Loss ratio	69.8%	59.8%	55.0%	63.7%	58.0%		64.1%		64.1%
Expense ratio	20.4%	37.2%	31.1%	31.6%	40.5%		28.3%		28.3%
Commission ratio	2.2%	15.4%	12.1%	18.3%	21.7%		9.4%		9.4%
Administration ratio	18.2%	21.8%	19.0%	13.3%	18.8%		18.9%		18.9%
Combined ratio	90.2%	97.0%	86.1%	95.3%	98.5%		92.4%		92.4%
Insurance margin	16.9%	10.2%	15.0%	6.6%	2.9%		13.5%		13.4%

Group Insurance Profit (\$m)
(1H10 vs. 1H09)



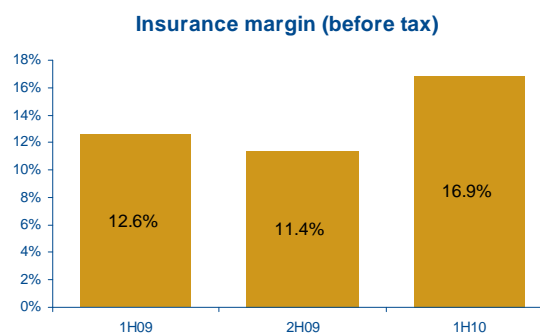
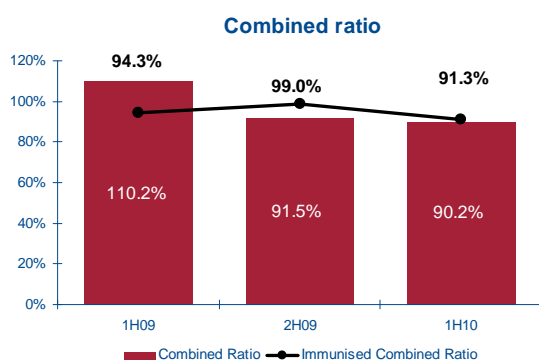
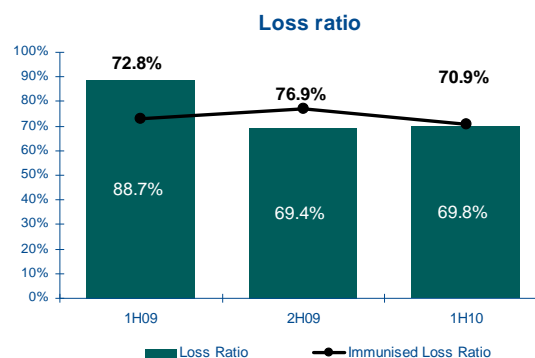
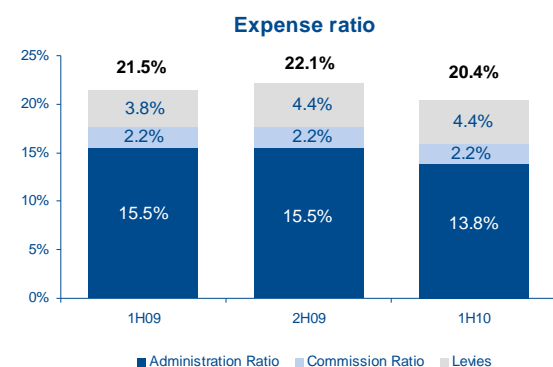
4. AUSTRALIA DIRECT

AUSTRALIA DIRECT FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	1,650	1,729	1,779
Gross earned premium	1,597	1,639	1,733
Reinsurance expense	(63)	(69)	(74)
Net earned premium	1,534	1,570	1,659
Net claims expense	(1,360)	(1,090)	(1,158)
Commission expense	(33)	(34)	(36)
Underwriting expense	(296)	(312)	(302)
Underwriting profit/(loss)	(155)	134	163
Investment income on technical reserves	349	45	118
Insurance profit	194	179	281

Insurance Ratios			
Loss ratio	88.7%	69.4%	69.8%
Immunised loss ratio	72.8%	76.9%	70.9%
Expense ratio	21.5%	22.1%	20.4%
Commission ratio	2.2%	2.2%	2.2%
Administration ratio	19.3%	19.9%	18.2%
Combined ratio	110.2%	91.5%	90.2%
Immunised combined ratio	94.3%	99.0%	91.3%
Insurance margin	12.6%	11.4%	16.9%

Australia Direct

Insurance ratios



4.1 Executive summary

- Australia Direct, IAG's largest business, contributed around 46% of the Group's GWP in 1H10, and has continued to perform well.
- The strong GWP growth witnessed in FY09 has continued into 1H10, with an increase of 7.8% over 1H09. GWP growth was achieved in all States.
- Australia Direct generated an insurance profit of \$281m in 1H10, up from \$194m in 1H09, and an improved insurance margin of 16.9% (1H09: 12.6%).
- The improvement in 1H10 margin over 1H09 includes a strong underwriting performance, which has benefited from increased rates, volume growth, particularly in the home portfolio, and cost saving initiatives.
- Other notable contributory factors were lower natural peril claim costs and a positive impact from a narrowing of credit spreads in the half.
- The improved result was achieved despite a material adverse impact from a lower running yield which, compared to 1H09, trimmed the reported margin by approximately 200 bps.
- Australia Direct is on track to deliver sustained GWP growth for FY10 and an improved margin over FY09. The reported margin in 2H10 is expected to be lower than that of 1H10, on the assumption there will be no credit spread impact in 2H10 and natural peril claim costs in 2H10 are in line with allowances for that half.

4.2 Market environment

- With the effects of the Global Financial Crisis (GFC) easing in Australia, it is anticipated that:
 - There will be modest growth in insurable assets during the next 12 months, although not to pre-GFC levels; and
 - Customers will continue to opt for lower cost insurance options, such as third party fire and theft cover and higher excesses, to reduce premiums.
- Over the past year, the level of competition in personal lines has increased, 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; and
 - The appearance of a new type of competitor in the personal lines market, seeking to exploit well-known, familiar brands that are not generally associated with insurance to sell white-labelled products.
- CTP rates are expected to increase slightly ahead of inflation across all portfolios to reflect incremental scheme design changes and claim inflation.

4.3 Premiums

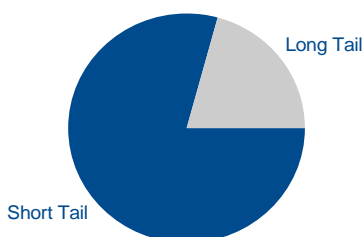
- Australia Direct premium growth during 1H10 continued the strong FY09 trend, resulting in total GWP for 1H10 of \$1,779m, up 7.8% on 1H09.
- GWP growth was achieved in all States and was driven by a combination of rate increases and volume, in particular in the home portfolio, where significant natural peril events in recent years have resulted in increased demand for insurance.
- Motor GWP was influenced by:
 - Increased competitive activity in the market; and
 - Downwards pressure on agreed values, synonymous with a soft vehicle sales market.

AUSTRALIA DIRECT GWP GROWTH	1H09	2H09	1H10
Motor	5.9%	6.7%	3.7%
Home	10.4%	11.3%	11.8%
Total Short Tail¹	7.4%	8.3%	6.3%
Long Tail ¹	17.2%	15.6%	13.2%
Total GWP²	8.8%	9.4%	7.8%

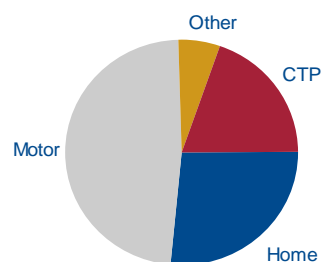
¹ Excluding RBI channel

² Including RBI channel

Australia Direct - 1H10 GWP by Tail

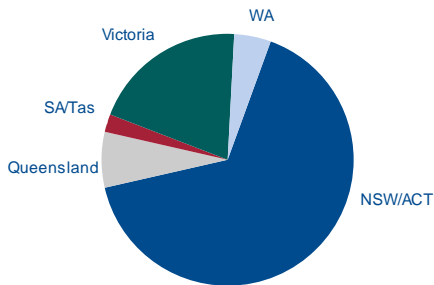


Australia Direct - 1H10 GWP by Class

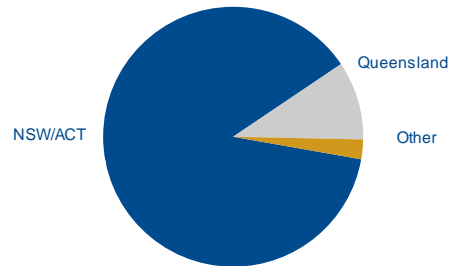


- Short tail GWP grew by 6.3% over 1H09. While particularly strong growth of 11% was achieved in Queensland, Australia Direct's largest markets of NSW and Victoria continue to represent over 80% of short tail GWP.
- Average short tail premiums grew by 5.8% in 1H10, compared to 1H09, with higher increases experienced in the home portfolio relative to motor.
- In 1H10, CTP GWP grew by 13.2% compared to 1H09, reflecting rate increases. Rates in the NSW CTP market were raised by 7% with effect from 1 July 2009 and a further 1.5% from 1 October 2009, in recognition of increased claim costs and lower investment yields.
- Overall CTP policies in force increased by 2.7%, against 1H09. Aggressive competitive pricing activity caused volumes to stabilise in the NSW market, following growth in 2H09, whereas Queensland policies in force increased by 3.9% compared to 1H09.
- IAG's share of NSW CTP registrations was 39.0% in December 2009, down from 39.4% in June 2009 on a 12-month rolling average. On the same basis, the Group's share of the Queensland CTP market at December 2009 was 6.6%, compared to 6.4% in June 2009.
- The compulsory introduction of six-monthly CTP policies in the NSW market took effect on 1 November 2008. The take-up of six-monthly policies continues to be lower than originally expected and has not materially impacted 1H10 GWP. This change does not impact NEP.

Australia Direct - 1H10 Total GWP by State



Australia Direct - 1H10 Long Tail GWP by State



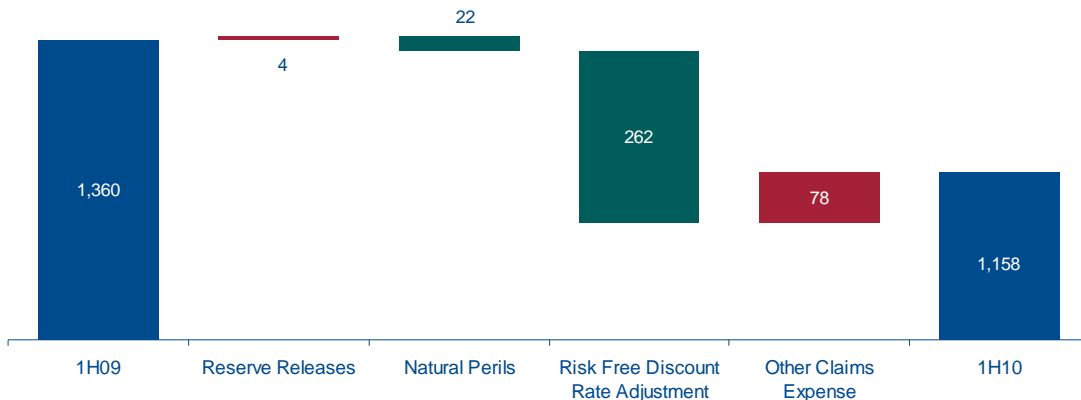
- Short tail due renewal levels for motor and home were relatively stable at around 89% and 93% respectively during 1H10. CTP renewal levels were slightly lower in 1H10, at approximately 78%.
- Australia Direct’s customer satisfaction index score (claims, sales and service) remains high, improving marginally to 85 in December 2009.

4.4 Reinsurance

- Reinsurance expense rose by 17% compared to 1H09, to \$74m, largely owing to the inclusion of flood cover.

4.5 Claims

Australia Direct - Net Claims Expense (A\$m)
(1H10 vs. 1H09)



- The reported loss ratio of 69.8% (1H09: 88.7%) has decreased significantly. This reflects a relative stabilisation in interest rates during 2H09, and the absence of the substantial risk free discount rate adjustment that stemmed from a sharp drop in interest rates in 1H09. After allowing for this effect, the immunised loss ratio of 70.9% is lower than 1H09 (72.8%).
- The increase in other claims expense primarily reflects claim volume increase associated with general business growth.

4.5.1 Reserve releases

- Reserve releases of \$35m in 1H10 were slightly lower than those of 1H09, but significantly lower than 2H09 which included \$20m from the reduction of cost and earnings related inflation assumptions, including Average Weekly Earnings (AWE).

AUSTRALIA DIRECT	1H09	2H09	1H10
RESERVE RELEASES	A\$m	A\$m	A\$m
Reserve releases	39	75	35
Impact on insurance margin	2.5%	4.8%	2.1%

4.5.2 Natural perils

- In 1H10, losses from natural perils (net of reinsurance) totalled \$60m, \$22m lower than 1H09 and \$21m lower than related allowances for the half.

AUSTRALIA DIRECT	1H09	2H09	1H10
NATURAL PERIL COSTS	A\$m	A\$m	A\$m
Natural perils	(82)	(139)	(60)
Natural perils allowance	72	72	81
Impact on insurance profit	(10)	(67)	21
Impact on insurance margin	(0.7%)	(4.3%)	1.3%

- Natural peril claims in 1H10 were dominated by smaller attritional events. Much of the higher natural peril expense in 1H09 can be attributed to the South-East Queensland storms in November 2008. Natural peril events were relatively benign in the traditionally high activity months of November and December.

4.5.3 Claim experience

- Excluding natural perils, short tail claim experience in 1H10 was characterised by:
 - A slight increase in frequency for all short tail products in all States, but most notably in the motor portfolio;
 - A decrease in average motor comprehensive claim cost, by 1.8% compared to 2H09 and by 3.4% compared to 1H09, driven by a change in claim mix away from collision claims towards lower cost windscreen claims. Average repair costs were stable;
 - The realisation of benefits from cost saving initiatives; and
 - A number of severe fire claims during the half contributing to an increase in average home claim cost of 6.4%, compared to 1H09.
- CTP claim costs continue to be managed closely, although the frequency of claims has increased slightly, relative to 1H09.
- In NSW CTP, claim experience is presently in line with assumptions, with claims frequency increasing slightly following scheme changes which have been made during the past few years. Increases in the fee structure, to reflect regulated legal cost increases, will flow through in 2H10.
- CTP scheme changes in NSW, including changes to the Medical Care and Injury Services (MCIS) levy processes, were implemented during 1H10. Planning is well underway for the implementation of a no fault Accident Notification Form (ANF) benefit which will allow a driver at fault in a motor vehicle accident to recover medical expenses and wage losses up to \$5,000 from April 2010. These changes are expected to result in an increase in claim frequency and have been anticipated in premiums paid since October 2009.
- Superimposed inflation in NSW CTP is currently of a modest scale and within expectations.

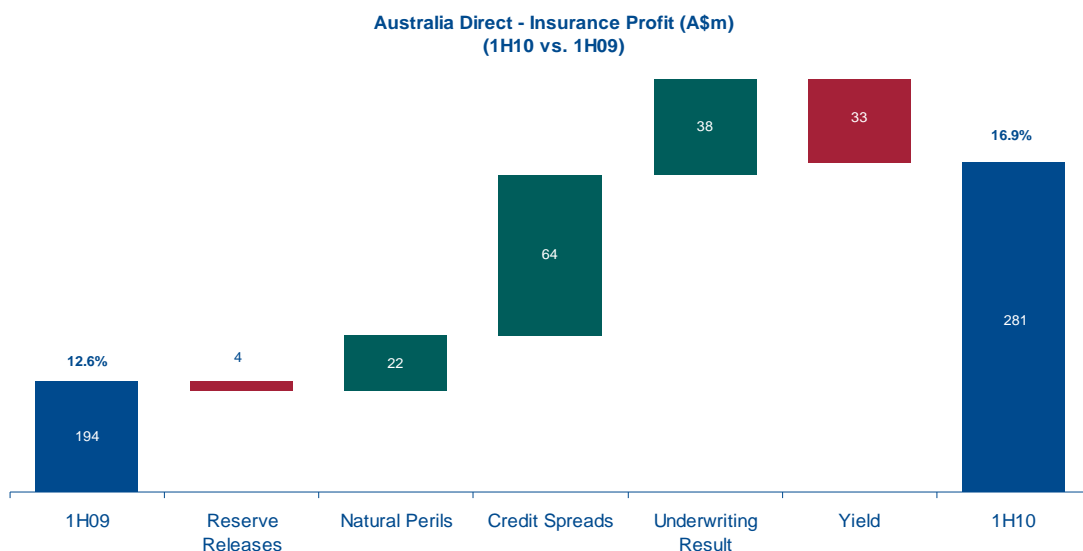
- The Queensland CTP portfolio has experienced a number of large claims which impacted on the 1H10 result. While the Queensland scheme actuary has revised down its view of superimposed inflation, trends in the portfolio continue to be monitored closely.

4.6 Expenses

- The expense ratio for 1H10 was 20.4%, compared to 21.5% in 1H09 and 22.1% in 2H09. This improvement reflects the realisation of benefits from cost saving initiatives.
- Excluding government levies, Australia Direct’s administration expense ratio improved to 13.8% in 1H10 from 15.5% in 1H09.

4.7 Insurance profit

- Australia Direct’s insurance profit of \$281m for 1H10 represents an increase of 45% over 1H09. This equates to an insurance margin of 16.9% (1H09: 12.6%). The increased insurance profit includes an improved underwriting result, driven by higher rates, volume growth and benefits from cost saving initiatives.



- Other contributory factors were:
 - Lower natural peril claim costs; and
 - A marked turnaround in credit spread impact.
- The impact from credit spreads has eased. 1H10 included a favourable impact of \$17m on the insurance profit, as spreads narrowed, representing a \$64m turnaround against the loss of \$47m incurred in 1H09.

AUSTRALIA DIRECT	1H09	2H09	1H10
CREDIT SPREADS	A\$m	A\$m	A\$m
Credit spreads	(47)	39	17
Impact on insurance margin	(3.1%)	2.5%	1.0%

- A countervailing force has been the material fall in running yield applicable to technical reserves, of approximately \$33m, which has trimmed the reported margin by around 200 bps.

- The 1H10 insurance margin was also higher than that of 2H09 (11.4%). 2H09's result absorbed a number of adverse factors, including claim costs from the Victorian bushfires, some restructuring costs and superimposed inflation in Queensland CTP.
- A summary of the impact on the insurance margin of prior period reserve releases, the incidence of natural perils and credit spreads is summarised in the table contained in Appendix D.

4.8 The Buzz

- The Buzz is IAG's online insurer, launched in May 2009. Its operating results are included within those for Australia Direct and had a modest negative impact in 1H10 (1H09: Nil). Performance to date has been broadly in line with expectations.
- Initially focusing on car insurance, The Buzz is designed to capitalise on the opportunities presented by evolving web technologies and changing consumer behaviours. The aim of The Buzz is to be Australia's pre-eminent end-to-end online insurer.
- Since launching, the online insurance market has, as expected, become increasingly competitive with a growing number of insurers targeting the end-to-end car segment. Pricing has remained rational, but increased competition for better risks is evident.
- Whilst the business has only been operating since May 2009, early results indicate:
 - Portfolio growth in line with target demographics, reflecting a disciplined approach to marketing. The average policyholder is 35 years old, lives in a higher socio-economic suburb and has a car that is less than 5 years old;
 - The majority of customers come from brands outside the IAG Group;
 - Higher than anticipated average premium, owing to customers taking a higher featured option and a skew towards newer, higher value cars; and
 - Lower than anticipated claim frequency.
- In October 2009, The Buzz was externally recognised for its approach to creating with customers by winning the Australian Banking & Finance award for Best Innovation of the Year. Customers continue to engage in future service and product developments, and website functionality has been enhanced twice since launch, to continue to drive a differentiated position.

4.9 FY10 outlook

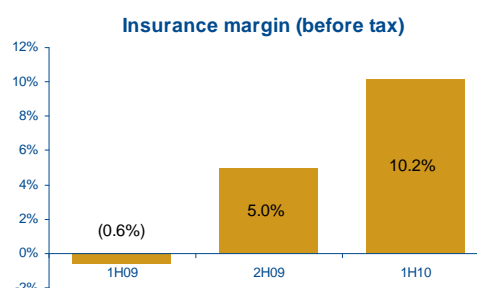
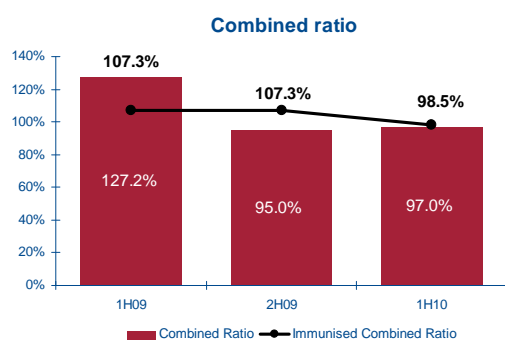
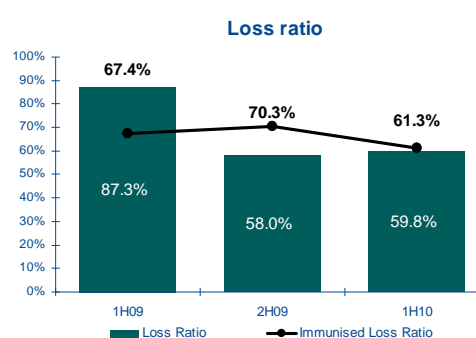
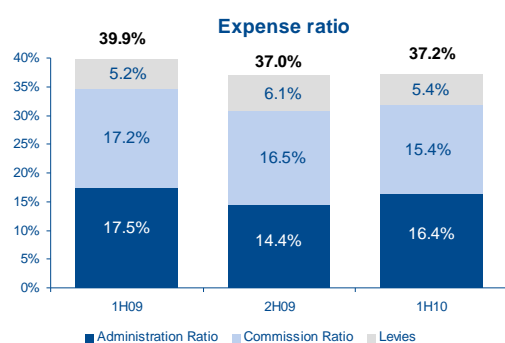
- Australia Direct remains on track to deliver GWP growth in FY10. GWP growth in 2H10 is expected to be at a more subdued pace than 1H10, as the scale of average rate increase eases.
- Australia Direct is also on track to report an increased insurance margin in FY10, compared to FY09. This will be achieved on the back of earned rate increases and benefits from past and ongoing efficiency measures.
- The reported 2H10 insurance margin is expected to be lower than that of 1H10 on the assumption 2H10 will include no benefit from credit spreads and natural peril claim costs in the second half are in line with allowances for that period.
- The market environment over the balance of FY10 is expected to remain competitive, particularly in short tail motor in NSW and Victoria.
- Similar competitor pressure is expected to continue in the NSW CTP market, but the expected emergence of competition in the ACT CTP market is now not anticipated until mid-2010.

5. AUSTRALIA INTERMEDIATED (CGU)

AUSTRALIA INTERMEDIATED FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	1,159	1,198	1,117
Gross earned premium	1,218	1,182	1,182
Reinsurance expense	(90)	(89)	(84)
Net earned premium	1,128	1,093	1,098
Net claims expense	(985)	(634)	(657)
Commission expense	(194)	(180)	(169)
Underwriting expense	(256)	(224)	(239)
Underwriting profit/(loss)	(307)	55	33
Investment income on technical reserves	300	-	79
Insurance profit/(loss)	(7)	55	112
Profit/(loss) from fee based business/share of associates	15	3	10
Total divisional result	8	58	122

Insurance Ratios			
Loss ratio	87.3%	58.0%	59.8%
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%
Combined ratio	127.2%	95.0%	97.0%
Immunised combined ratio	107.3%	107.3%	98.5%
Insurance margin	(0.6%)	5.0%	10.2%

Insurance ratios



5.1 Executive summary

- The improvement in Australia Intermediated's (CGU) underlying performance has continued. This reflects CGU's disciplined long term approach to rebuilding its business, as rate increases target unprofitable portfolios and risks.
- Representing around 29% of the Group's GWP in 1H10, CGU includes all products sold through brokers, authorised representatives, motor dealers and business partners.
- In a slowly hardening but patchy market, reported GWP decreased by \$42m, to \$1,117m. This includes a \$64m reduction attributable to two previously-advised account losses.
- The 1H10 insurance profit of \$112m compares to an insurance loss of \$7m in 1H09, and equates to an insurance margin of 10.2%.
- After allowing for a favourable credit spread movement, an adverse running yield impact and the prior period's \$50m deferred acquisition costs (DAC) writedown, CGU's 1H10 result contains a \$49m improvement in underwriting performance compared to 1H09.
- To sustain this improvement in performance, further efficiency and process advances are being implemented. A number of key initiatives, including a strategic programme of IT investment, commenced in 1H10.
- CGU is on track to deliver a sound improvement in underlying profitability in FY10. The reported margin in 2H10 is expected to be lower than that of 1H10, on the assumption there is no credit spread impact in 2H10 and natural peril claim costs in the second half are in line with allowances for that period.

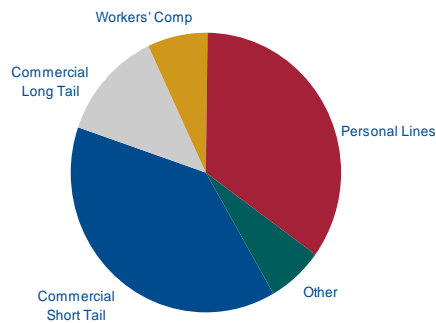
5.2 Market environment

- Recent severe weather events, lower investment earnings and increased claims activity have precipitated gradual rate increases in the market. This slow hardening has not followed previous cycles, where premiums recovered rapidly following a prolonged period of declining rates.
- The level of rate increase has varied across each class of insurance business. Personal lines have seen sustained rate increases, in response to higher natural peril claim costs, however the level of increase in the middle and corporate markets has been at a lower rate.
- There is continued evidence of a reduced appetite for lending-linked consumer spending, which is being felt within the Swann and Financial Institutions & Affinity (FI&A) businesses.
- The workers' compensation market remains competitive, although there is evidence of rate increases in WA and Tasmania on underperforming risks. WorkCover WA raised average recommended premium rates by 9.9% for FY10.

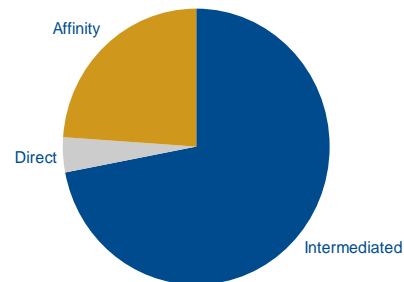
5.3 Premiums

- CGU's 1H10 GWP decreased by \$42m to \$1,117m (1H09: \$1,159m). However, excluding the \$64m decline in GWP attributable to the combined effect of withdrawal from the ING Australia account and the transitioning of the St George/Bank SA home and landlord portfolios to Westpac (which commenced 1 October 2009), an increase in underlying GWP of \$22m, or 1.9%, was recorded.
- The increase in underlying GWP was driven by:
 - An average increase in premiums of 6%;
 - Steady retention rates on targeted risks; and
 - A continued hardening of the market which, although still challenging, provided a more conducive environment for writing new business at profitable rates.

Australia Intermediated - 1H10 GWP by Class



Australia Intermediated - 1H10 GWP by Channel

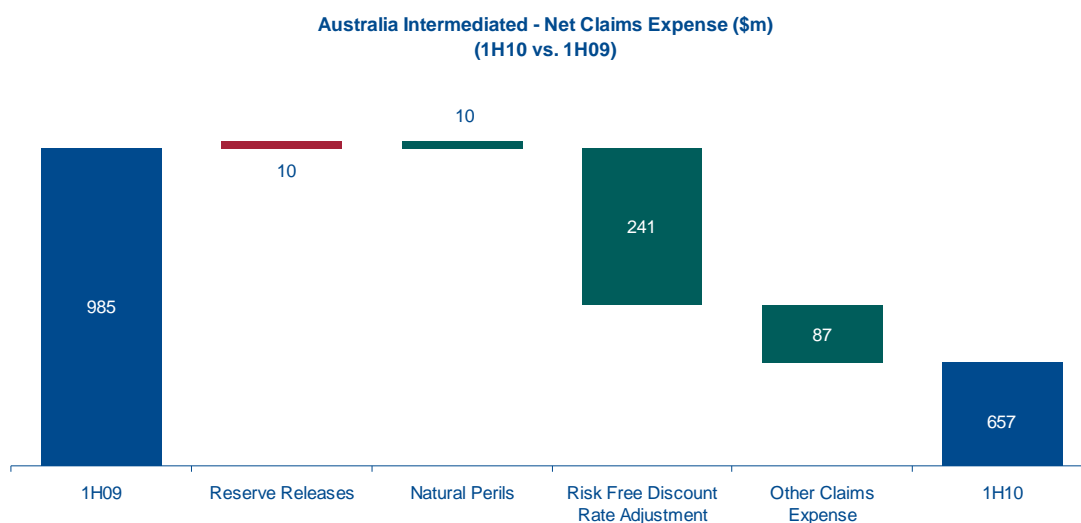


- The four key areas of focus have been:
 - Maintaining risk acceptance and coverage disciplines - ensuring CGU underwriters appropriately assess exposure and coverage on each risk, only accepting risks that are consistent with underwriting guidelines;
 - The lapse of expiring business that is either materially under-priced (and cannot be repriced) or is inconsistent with preferred underwriting criteria;
 - Improving terms on the remainder of renewals; and
 - Improving disciplines on new business - accepting risk consistent with underwriting guidelines and pricing risks at sustainable rates.
- In summarising GWP experience in 1H10 across the various classes, relative to 1H09:
 - Commercial short tail GWP increased by 8%, reflecting the continued implementation of pricing initiatives;
 - Commercial long tail GWP increased marginally (up 1%), where rate increases and more critical risk selection have offset a reduction in liability and professional risks new business;
 - Workers' compensation GWP remained relatively steady, with rating increases (8% to date) offset by volume reductions; and
 - Personal lines GWP experienced a decline of approximately 13%, being largely attributable to withdrawal from the ING Australia account.

5.4 Reinsurance

- CGU's 1H10 reinsurance expense of \$84m is approximately 7% lower than 1H09, primarily reflecting the exit from certain accounts within the FI&A business.

5.5 Claims



- The reported loss ratio of 59.8% is materially lower than the 87.3% recorded in 1H09. This reflects a relative stabilisation in interest rates during 2H09, and the absence of the substantial risk free discount rate adjustment that stemmed from a sharp drop in interest rates in 1H09.
- On an immunised basis, a marked improvement to 61.3% has been recorded, compared to 67.4% in 1H09. The improvement in this ratio demonstrates the impact of a range of operating efficiencies, including:
 - Realisation of product specialisation benefits following the realignment of claim teams;
 - Improved risk selection;
 - Increased focus on recoveries;
 - Improved claim experience on personal lines portfolios; and
 - Savings in claim administration costs.
- Claim frequency (ex-perils) was relatively unchanged during 1H10, although claim cost inflation was slightly higher than anticipated.

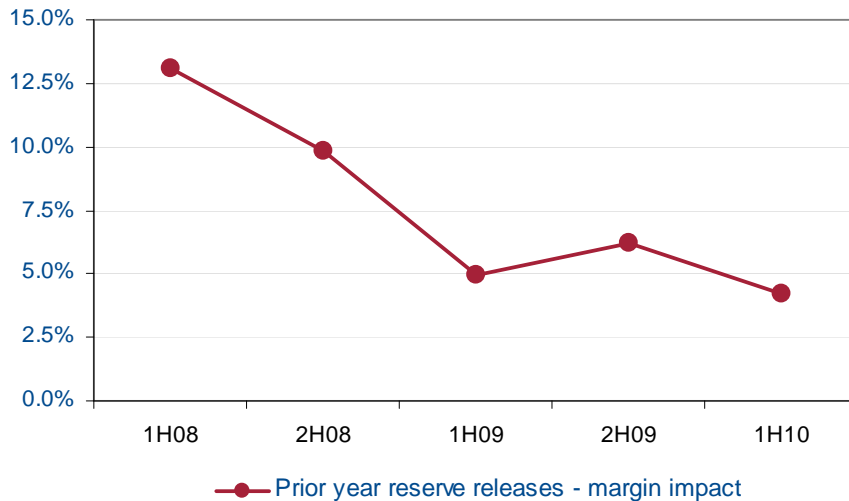
5.5.1 Reserve releases

- Prior period reserve releases of \$46m were \$10m lower than those in 1H09.

AUSTRALIA INTERMEDIATED	1H09	2H09	1H10
RESERVE RELEASES	A\$m	A\$m	A\$m
Reserve releases	56	68	46
Impact on insurance margin	5.0%	6.2%	4.2%

- While still accounting for a greater than 400 bps impact on reported insurance margin in 1H10, the contribution from reserve releases is still expected to reduce over time as the impacts of legislative changes on claim frequency and average claim sizes are now largely incorporated in reserving models.

Australia Intermediated - Reserve Releases Impact on Insurance Margin



5.5.2 Natural perils

- In 1H10, losses from natural perils (net of reinsurance) totalled \$60m, \$10m lower than 1H09 and \$4m lower than related allowances for the half.

AUSTRALIA INTERMEDIATED	1H09	2H09	1H10
NATURAL PERIL COSTS	A\$m	A\$m	A\$m
Natural perils	(70)	(132)	(60)
Natural perils allowance	69	75	64
Impact on insurance profit	(1)	(57)	4
Impact on insurance margin	(0.1%)	(5.2%)	0.4%

- The 1H10 natural peril cost was significantly lower than that of 2H09, which included the Victorian bushfires.

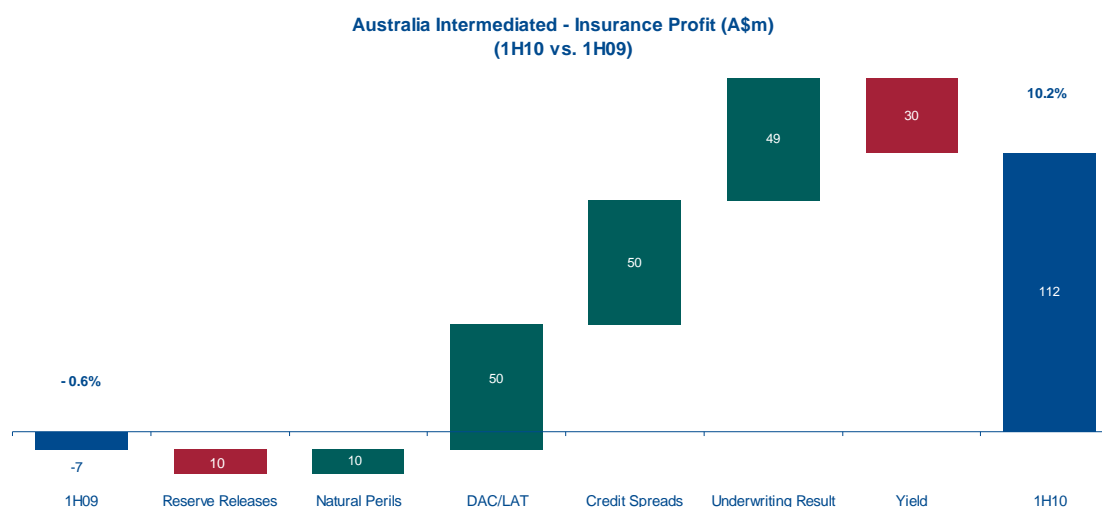
5.6 Expenses

- The 1H10 expense ratio (excluding government levies) of 31.8% compares favourably to the 34.7% reported in 1H09.
- Reported expenses, comprising commission and underwriting costs, have decreased from \$450m in 1H09 to \$408m in 1H10. Much of this is attributable to the absence of the \$50m LAT failure in 1H09, which increased commission expense by \$21m and underwriting expense by \$29m in that half.
- After allowing for the LAT failure in 1H09, which inflated that period's expense ratio by over 400 bps, a slight deterioration in the ratio is evident in 1H10. This is attributable to changed business mix and the cumulative effect of a number of small non-recurring expenses. These one-off costs amounted to approximately \$10m, and included expenses associated with the revision of the NTI agreement with Suncorp and some restructuring costs.

- Management remains focused on process efficiencies and ongoing cost management that will deliver an improved expense ratio over the longer term. CGU is in the early stages of implementing a strategic IT investment programme which will drive efficiencies through system consolidation and common processes where appropriate.

5.7 Insurance profit

- The insurance profit of \$112m equates to an insurance margin of 10.2%, a significant improvement on 1H09 (-0.6%). Adjusting for 1H09's DAC writedown and the favourable movement in credit spreads, a further advance in underwriting performance is evident.



- The business has also absorbed a material adverse running yield effect during 1H10, compared to 1H09, of approximately \$30m, which reduced CGU's insurance margin by around 270 bps.
- The impact from credit spreads has eased. 1H10 included a favourable impact of \$11m on the insurance profit, as spreads narrowed, representing a \$50m turnaround against the loss of \$39m incurred in 1H09.

AUSTRALIA INTERMEDIATED CREDIT SPREADS	1H09 A\$m	2H09 A\$m	1H10 A\$m
Credit spreads	(39)	34	11
Impact on insurance margin	(3.5%)	3.1%	1.0%

- A summary of the impact on the insurance margin of prior period reserve releases, the incidence of natural perils, credit spreads and DAC adjustments is outlined in the table contained in Appendix D.

5.8 Fee based income

- The business generates fee income by acting as an agent under both the NSW and Victorian State government underwritten workers' compensation schemes.
- In 1H10, net income from fee based operations totalled \$10m, \$5m lower than 1H09. 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. Allowing for these, like-for-like net income was \$2m higher than 1H09.
- Net income is expected to decline in 2H10 owing to a 5% 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.

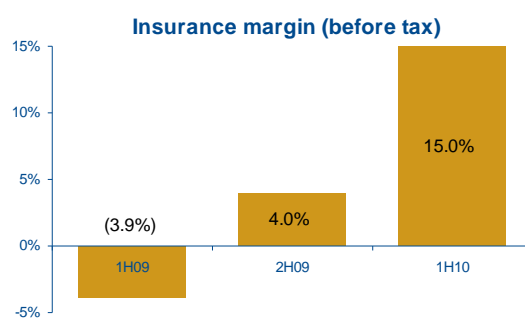
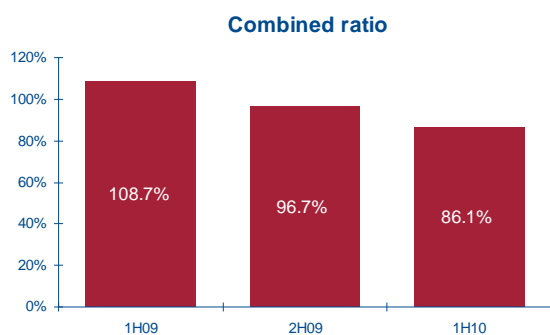
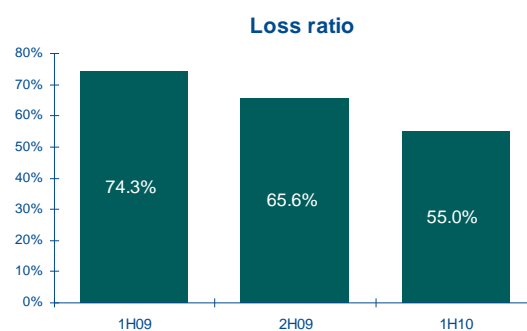
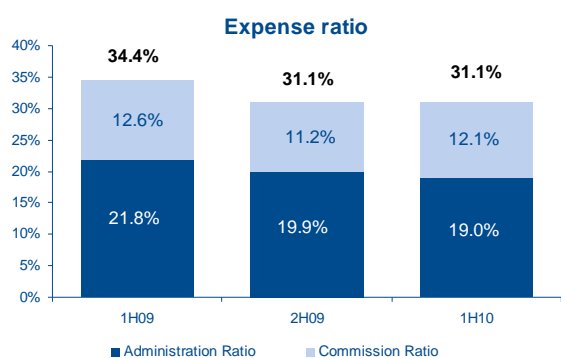
5.9 FY10 outlook

- CGU is on track to deliver a sound improvement in underlying profitability in FY10 including further improvement in operating performance in the second half.
- However, the reported 2H10 insurance margin is expected to be lower than that of 1H10 on the assumption that:
 - There will be no benefit from credit spreads in the second half; and
 - Natural peril claim costs, which are typically higher in the second six months of the year, are in line with 2H10 allowances.
- As previously flagged, a reduction in FY10 GWP is expected from the loss of the ING Australia account and the St George/BankSA home and landlord portfolios. The full year effect is expected to be in excess of \$110m.

6. NEW ZEALAND

NEW ZEALAND FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	482	483	472
Gross earned premium	480	465	491
Reinsurance expense	(44)	(38)	(38)
Net earned premium	436	427	453
Net claims expense	(324)	(280)	(249)
Commission expense	(55)	(48)	(55)
Underwriting expense	(95)	(85)	(86)
Underwriting profit/(loss)	(38)	14	63
Investment income on technical reserves	21	3	5
Insurance profit/(loss)	(17)	17	68
Profit/ (loss) from fee based business	1	-	1
Total divisional result	(16)	17	69
Insurance Ratios			
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%
Insurance margin	(3.9%)	4.0%	15.0%

Insurance ratios



6.1 Executive summary

- IAG's New Zealand operations have built upon the turnaround evident in 2H09 and produced a significantly improved 1H10 performance, assisted by lower natural peril and large loss claim costs.
- IAG New Zealand accounted for over 12% of the Group's GWP in 1H10 and, through the State, NZI and affinity brands, is the largest underwriter in New Zealand with a 35% market share as at December 2009 (Insurance Council of New Zealand). This is in line with the position at 30 June 2009.
- The 1H10 insurance profit of \$68m (an insurance margin of 15.0%) compares favourably with the loss of \$17m registered in 1H09, and is built around a stronger underwriting performance. This reflects the benefits of:
 - Significant rate increases across most portfolios;
 - Improved underwriting discipline and better risk selection;
 - Implemented claim initiatives;
 - A favourable large loss experience; and
 - Improved cost control.
- In addition, the result includes increased prior period reserve releases and a lower incidence of natural peril claims, assisted by benign weather conditions.
- The improved underlying performance evident in 1H10 is expected to be maintained in 2H10. However, a lower reported insurance margin is anticipated in 2H10, with natural peril claims and large losses assumed to revert to more normal levels.
- Changes to the executive team in New Zealand were finalised in 1H10 with new appointments to the roles of Executive General Manager of State Insurance and Chief Financial Officer.

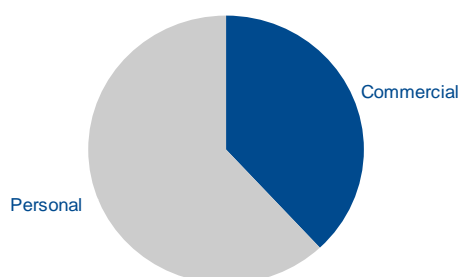
6.2 Market environment

- New Zealand's economy emerged from a 15 month-long recession in the second quarter of FY10, when it recorded a small rise in gross domestic product. More recent data, however, suggests the economic recovery remains fragile and households continue to act cautiously in the face of limited wage growth, lower employment prospects and considerable levels of debt.
- Despite the economic backdrop, resilience of demand for insurance products continues, particularly in the retail segment. Commercial customers, however, continue to be very price sensitive as businesses focus on short term cash flows.
- The commercial market remains competitive, with evidence of selective aggressive pricing to attract new business growth.
- The Insurance (Prudential Supervision) Bill has been introduced to Parliament. Work continues on the implementation of the new regulatory regime for financial services under the Financial Advisers Act 2008 and the Financial Service Providers (Registration and Disputes Resolution) Act. This will align New Zealand's regulatory standards with those of APRA in Australia, under which the IAG New Zealand business already operates.
- The Government has established an Accident Compensation Corporation (ACC) stocktake group to report on the feasibility of opening the ACC to competition. An interim report is expected later in calendar 2010. ACC could represent a source of strong new business potential over the medium term.

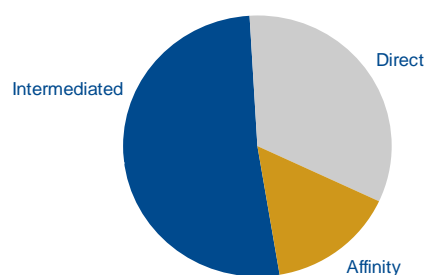
6.3 Premiums

- New Zealand's 1H10 GWP of \$472m was slightly lower than 1H09 in Australian dollar terms (\$482m). In local currency, however, GWP growth was 1%.
- GWP growth in 1H10 was 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 change commenced in 2H09. Excluding this effect, local currency GWP growth in 1H10 would have been approximately 5%. There is no effect on NEP.
- State Insurance has recorded strong GWP growth of 4.7% in 1H10 in local currency terms. Personal lines, which represent approximately 87% of State's GWP, achieved growth of 6% in 1H10. The factors influencing this growth were:
 - Rate increases across the portfolios;
 - Solid retention levels; and
 - Initiatives to enhance the customer experience.
- The much smaller State commercial book experienced a reduction in GWP of 3.6%, with recessionary pressures continuing to produce volume loss in the SME market, albeit to a lesser degree than in 2H09.
- The NZI intermediated business achieved GWP growth of 4.3% in local currency terms. This has primarily been driven by further rate increases offset partially by some volume loss, particularly in commercial lines. A number of initiatives have been implemented to address this trend.
- The Business Partners affinity business, excluding the accounting reporting difference, has achieved local currency GWP growth of 6.7% in 1H10. This is as a result of rate increases and moderate volume growth in the corporate partners' channel, with banks taking market share from other personal lines players.

New Zealand - 1H10 GWP by Class



New Zealand - 1H10 GWP by Channel



6.4 Reinsurance

- New Zealand's reinsurance expense has decreased, from \$44m in 1H09 to \$38m in 1H10, as a result of structural changes in the external reinsurance programme.

6.5 Claims

- The reported loss ratio of 55.0% in 1H10 represents a significant improvement on the 74.3% recorded in 1H09, reflecting increased earned rates and lower claim frequency.



- The reported 1H10 ratio benefited from an \$8m increase in prior period reserve releases, reflecting lower claim cost inflation since the end of FY09.
- Claim performance across all channels has benefited from:
 - Lower working claim frequency and flat average claim cost compared to 1H09 that can be attributed to:
 - Improved operating efficiency, particularly around the processing and settlement of both prior and current year claims; and
 - A range of claim initiatives being embedded in the business, such as increased base excesses, leakage reviews, tighter controls relating to fraud and a focus on recoveries.
 - Relatively benign weather conditions. Natural peril claim costs for 1H10 are \$23m lower than those incurred in 1H09 (\$24m), which included two severe storms in July 2008; and
 - A considerably lower incidence of large losses than 1H09, which was impacted by an unprecedented number of large commercial fires. Improved experience has been influenced by more disciplined underwriting and better risk selection, particularly in NZI commercial lines, and notably the material damage / business interruption product.

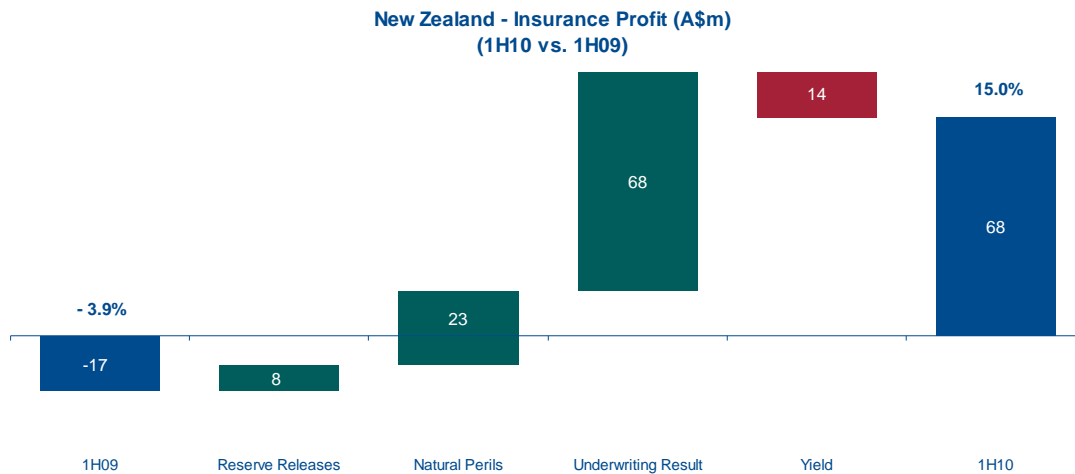
6.6 Expenses

- An ongoing focus on the management of costs has resulted in 1H10 expenses being 8.6% lower than those of 1H09, in local currency terms. This translates to an improved expense ratio of 31.1%, compared to 34.4% in 1H09.
- Reported commission expense is flat at \$55m, but in local currency terms has risen by 5%. This equates to a lower commission ratio of 12.1% (1H09: 12.6%) in the face of higher NEP and changes in the mix of business.
- The 1H10 administration ratio of 19.0% represents a significant improvement on 1H09 (21.8%). This reflects the combination of higher NEP and lower expenditure.

- Reduced underwriting expenses, of \$86m, reflect a reduced headcount, marketing spend being more skewed to the second half, and the absence of one-off project-related IT expenditure incurred in 1H09.

6.7 Insurance profit

- A significant improvement in the reported insurance profit, to \$68m, has been recorded, and compares to a loss of \$17m in 1H09. This equates to an insurance margin of 15.0% in 1H10 and builds on the positive margin of 4.0% reported in 2H09.



- The key driver of the 1H10 margin increase is an improved underwriting result, embracing:
 - A higher earned premium base, resulting from rate increases;
 - Improved underwriting and claim disciplines;
 - Improved cost control; and
 - Lower large loss experience.
- Higher prior period short tail reserve releases and the benefit of benign weather conditions also contributed to the result.
- Excluding natural perils (net of allowances) and reserve releases, the adjusted insurance margin for 1H10 is 8.6%. On a similar basis, this compares to -1.6% in 1H09 and 3.5% in 2H09.

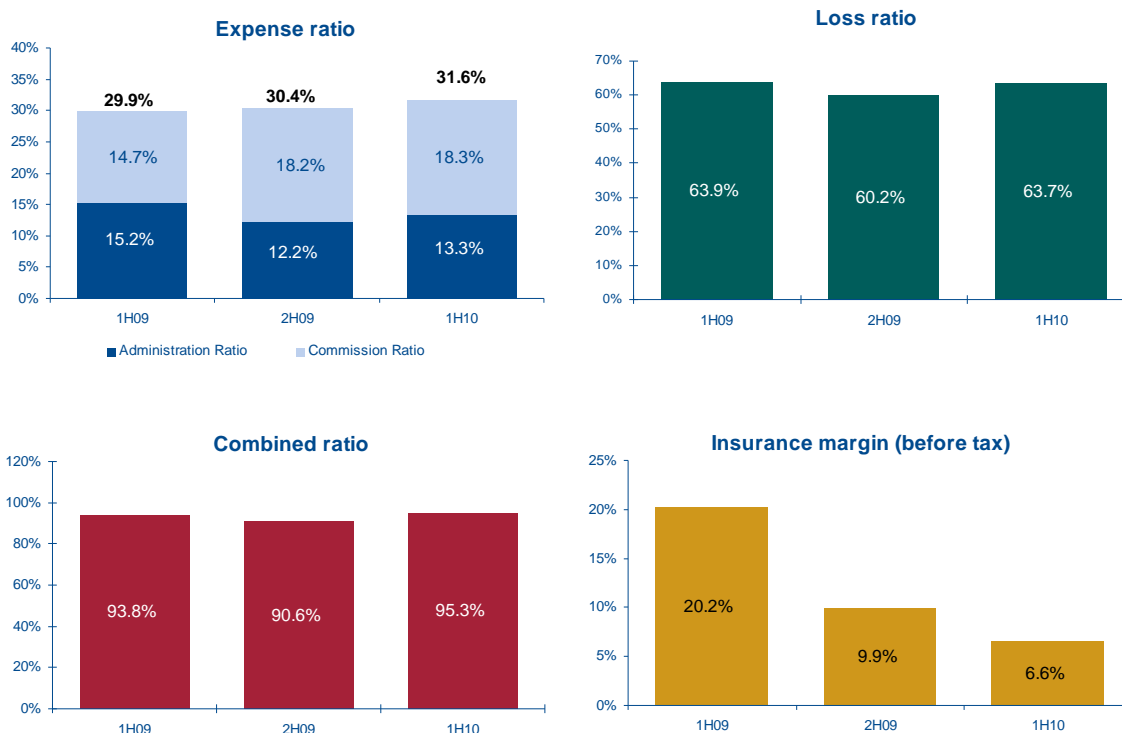
6.8 FY10 outlook

- The outlook for the remainder of FY10 is for maintenance of the improvement in underlying performance evident in 1H10. However, the reported insurance margin in 2H10 is likely to be lower than 1H10, reflecting the combination of:
 - Continued moderate growth in GWP and net earned premium as implemented rate increases roll through the book, assisted by new business initiatives to support customer retention;
 - Claim levels reverting to a more normal run rate, including both natural peril events and large losses; and
 - An increase in underwriting expenditure in line with increased strategic project and marketing activity.
- State Insurance will continue to benefit from implemented rate increases and initiatives to support retention. Growth of the newly launched State Business brand will also be a key focus.
- In the NZI book, a balanced approach to rate and volume considerations is being employed.
- The outlook for the Business Partners affinity business is stable, with further rate increases across the portfolio planned in 2H10 supported by marketing campaigns.

7. UNITED KINGDOM (UK)

UK RETAINED BUSINESS FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	389	398	406
Gross earned premium	404	377	379
Reinsurance expense	(22)	(15)	(18)
Net earned premium	382	362	361
Net claims expense	(244)	(218)	(230)
Commission expense	(56)	(66)	(66)
Underwriting expense	(58)	(44)	(48)
Underwriting profit/(loss)	24	34	17
Investment income on technical reserves	53	2	7
Insurance profit/(loss)	77	36	24
Profit/ (loss) from fee based business	(2)	(4)	(2)
Share of profit/ (loss) from associates	-	(2)	-
Total divisional result	75	30	22
Insurance Ratios			
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%
Insurance margin	20.2%	9.9%	6.6%

Insurance ratios



7.1 Executive summary

- IAG's UK business accounted for 10.5% of the Group's GWP in 1H10, 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), a distribution business that specialises in providing insurance to people aged over 50; and
 - Lloyd's Syndicate 1208, which has been in run-off since 2002.
- Against a challenging market environment in 1H10, the retained UK business has reported:
 - Strong local currency GWP growth, driven by rate increases and volume gain in target specialist classes; and
 - A lower insurance margin of 6.6%, reflecting a strengthening of prior year bodily injury claim reserves and a lower running yield effect within investment income. Excluding net reserve strengthening, the 1H10 margin is 10.0%.
- It remains the expectation that the UK's reported FY10 insurance margin will be lower than that of FY09, owing to reduced reserve releases from Syndicate 1208 in run-off and prior period bodily injury claim deterioration. However, a stronger second half performance is expected, attributable to the improved rating environment.

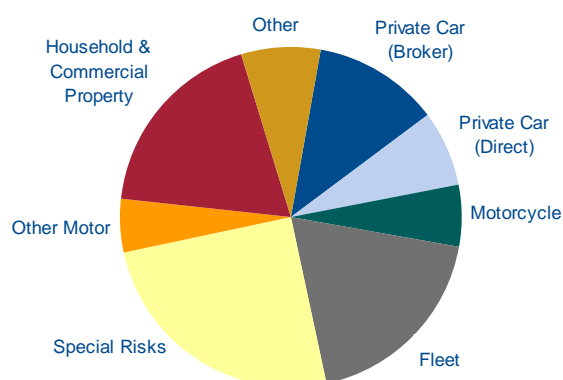
7.2 Market environment

- The UK operating environment remains a challenging one. GDP fell by 3.2% in calendar 2009, with the prospect of only a modest recovery in 2010.
- The economic downturn, coupled with historically low interest rates and the decline in reserve releases, is contributing to premium rate hardening within the motor and household insurance markets, particularly in the private car sector.
- Growth within the commercial market is closely linked to GDP. As such, the market is estimated to have contracted by approximately 3%. However, average premium rates across both fleet and commercial vehicle are now rising.
- Aggregators retain a significant market presence in the retail motor sector, generating in excess of 50% of new private motor business, although their pace of growth is flattening. Industry specialists predict some consolidation in the aggregator sector. The aggregator channel is, however, expected to remain the key source of new business for private car insurance.
- Growth in private motor GWP has been driven by rate increases, which are moving across the market and, in many instances, were in excess of 10% in 2009.
- New car registrations have reduced due to the economic climate but car ownership in the UK continues to grow. The used car market is more buoyant and new car sales have been helped by the introduction of the government's vehicle discount and scrappage scheme.
- Significant increases continue to occur in personal injury claims, led by accident management companies and lawyers acting as claim farmers. Increases in fraudulent and credit hire claims are also being experienced.

7.3 Premiums

- Reported GWP attributable to the ongoing business increased by 4.4% to \$406m in 1H10, compared to 1H09.
- In local currency terms, strong GWP growth was recorded, rising by approximately 24% to £216m, compared to £175m in 1H09. The increase in GWP represents the combined effect of:
 - Average rate increases of approximately 10% across the different business classes, with increases of up to 15% applied to segments such as broker private car and volume van;
 - A strong performance in the specialist areas of fleet and special risks, which have recorded local currency GWP growth of 15% compared to 1H09;
 - 5% year-on-year rate increases in the highly competitive motorcycle segment, at the expense of some market share; and
 - Increased property business.

Equity Red Star - 1H10 GWP by Class



- ERS has continued with its strategy of establishing satellite offices to meet the tailored solutions required by locally-based brokers and expand the talent pool available for underwriting. ERS now has five satellite offices following the opening of Manchester in 1H10.
- 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 aggregator distribution and a firm stance on rating have led to an increase in the churn rate.
- ERS's biannual broker research shows its overall satisfaction rating remains high and has improved marginally over 2H09.

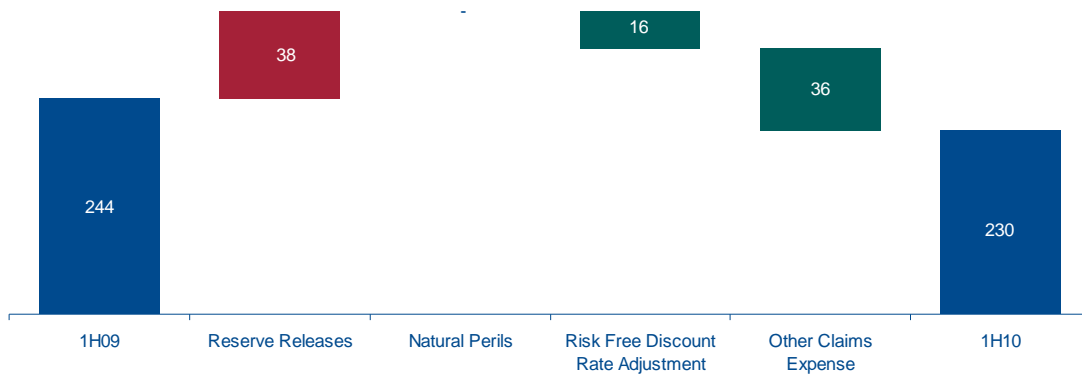
7.4 Reinsurance

- The reported 1H10 reinsurance expense decreased to \$18m (1H09: \$22m). In local currency terms, actual spend increased slightly on the back of higher premium income.

7.5 Claims

- The retained UK business' loss ratio was 63.7% in 1H10, compared to 63.9% in 1H09.
- The 1H10 net claims expense includes a net strengthening of prior period reserves of \$12m, compared to net releases of \$26m in 1H09. This movement stems from the combined effect of:
 - A deterioration in bodily injury motor claims for the 2007 and prior underwriting years, which is in line with recent industry experience; and
 - A substantial reduction in releases flowing from Syndicate 1208, which remains in run-off.
- The current underwriting year has experienced below average claim costs across the book. This is in part due to improvements in claim processing, together with an improved mix of business following underwriting enhancements.

UK Retained Business - Net Claims Expense (A\$m)
(1H10 vs. 1H09)



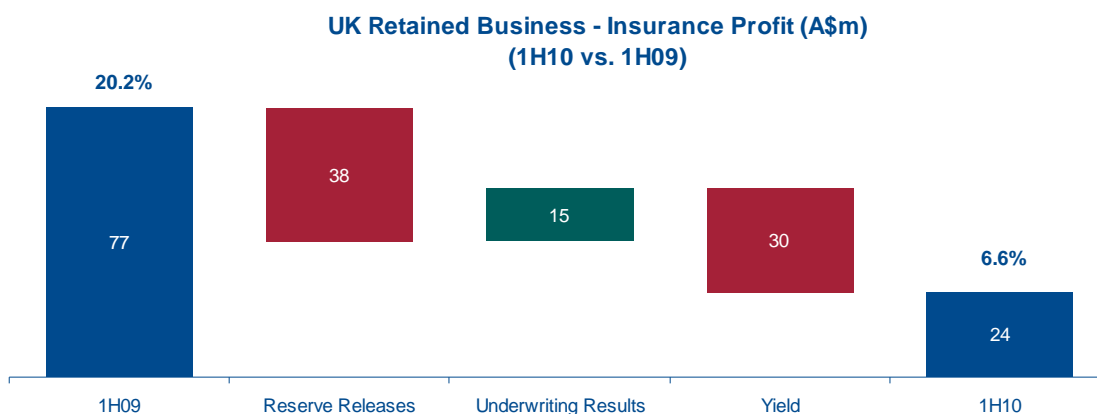
- Following actions to remediate claim leakage, both numbers and values of accidental damage claims have significantly reduced.
- Claim inflation continues to be in the range of 3-4%. This is a mix of low inflation on own property damage and higher inflation on both third party damage and injury.
- Emerging trends that ERS is monitoring closely are the increase in frequency of low value bodily injury claims, including an increase in the number of claimants, as well as fraud and credit hire claims. ERS is continuing to develop the skills and capabilities of its claim teams to adequately address these trends.

7.6 Expenses

- The expense ratio increased from 29.9% in 1H09 to 31.6% in 1H10. This reflects the combined effect of:
 - A 25% increase in the commission expense, in local currency terms, owing to increased business volumes and changed mix, with increased household and affinity volumes attracting a higher commission rate. This has resulted in a higher reported commission ratio of 18.3% (1H09: 14.7%); and
 - An improvement in the administration ratio to 13.3%, from 15.2% in 1H09, reflecting improved efficiency as higher business volumes are handled with negligible change in headcount.
- The commission expense is stated net of profit commission received by the Group's managing agent from third party names in the ERS Syndicate 218. 1H10 profit commission was similar to the \$2m received in 1H09.

7.7 Insurance profit

- The insurance profit achieved by the retained UK operations was \$24m, compared to \$77m in 1H09. This amounts to an insurance margin of 6.6% in 1H10 (1H09: 20.2%).



- The lower reported margin embraces an improved underlying underwriting performance, which has been offset by:
 - A strengthening of bodily injury claim reserves in respect of prior underwriting years;
 - A much more modest release from Syndicate 1208 compared to the previous corresponding period; and
 - A decrease in investment income, largely owing to lower interest rates and lower funds under management.
- Excluding the net strengthening of reserves of \$12m in 1H10, the adjusted margin is 10.0% (1H09: 13.4%).

7.8 Fee based business

- Net fee based income, from EDBL, Barnett & Barnett, IDL and managing agent fee income, was a small loss of \$2m in 1H10, similar to 1H09.
- EDBL's performance is improving, largely driven by well performing affinity partnerships. New business sales are being derived from a portfolio of affinity schemes, including Alliance & Leicester, first direct, HSBC, Think Money, Renault and Santander. The three-year affinity motor deal secured with Santander in June 2009 is exceeding sales projections by a considerable margin. EDBL continues to introduce high quality volumes to ERS.
- A simplification of the EDBL business, in terms of the systems, products and number of sites, is well underway. This has included the consolidation of the main EDBL operations to one site at Colchester, and the concentration of core operational systems and services that will deliver further cost savings.
- The Barnett & Barnett broking business has performed well and contributed a profit of approximately \$0.6m to the 1H10 result (1H09: \$0.4m).
- IDL passed the significant milestone of 100,000 policyholders in mid-November. Financial performance continues to improve, with the business expected to post a modest profit in FY10.

7.9 FY10 outlook

- ERS plans to continue to focus on its specialist books, primarily fleet and special risks, while retaining the quality element of private car.
- Further GWP growth is expected in 2H10, but at a more moderate pace than 1H10, as result of:
 - Continuing rate increases, albeit at a lower level than achieved in the past 12 months;
 - The maintenance of underwriting discipline, particularly in sectors where insurance margins still need to be improved (motorcycle, volume van);
 - The leveraging and deepening of key broker and major client relationships; and
 - The addition of further affinity partners.
- Retention rates in personal lines are expected to remain under pressure given the increasingly price sensitive consumer mindset.
- It remains the expectation that the UK's reported FY10 insurance margin will be lower than that of FY09, owing to reduced reserve releases from Syndicate 1208 in run-off and the strengthening of prior year bodily injury claim reserves. However, a stronger second half performance is expected, attributable to the improved rating environment.
- Subject to contract, EDBL has been appointed preferred partner to manage the Honda car and bike insurance schemes in the UK. The bike business will be launched on 1 March 2010 and the car business will follow in late April.

7.10 Discontinued Business

UK DISCONTINUED BUSINESS FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	143	14	-
Gross earned premium	122	20	-
Reinsurance expense	(7)	(5)	-
Net earned premium	115	15	-
Net claims expense	(118)	(12)	-
Commission expense	-	-	-
Underwriting expense	(22)	(4)	-
Underwriting loss	(25)	(1)	-
Investment income on technical reserves	2	-	-
Insurance loss	(23)	(1)	-
Loss from fee based business	(3)	(4)	-
Total divisional result	(26)	(5)	-
Insurance Ratios			
Loss ratio	102.6%	80.0%	-
Expense ratio	19.1%	26.7%	-
Combined ratio	121.7%	106.7%	-
Insurance margin	(20.0%)	(6.7%)	-

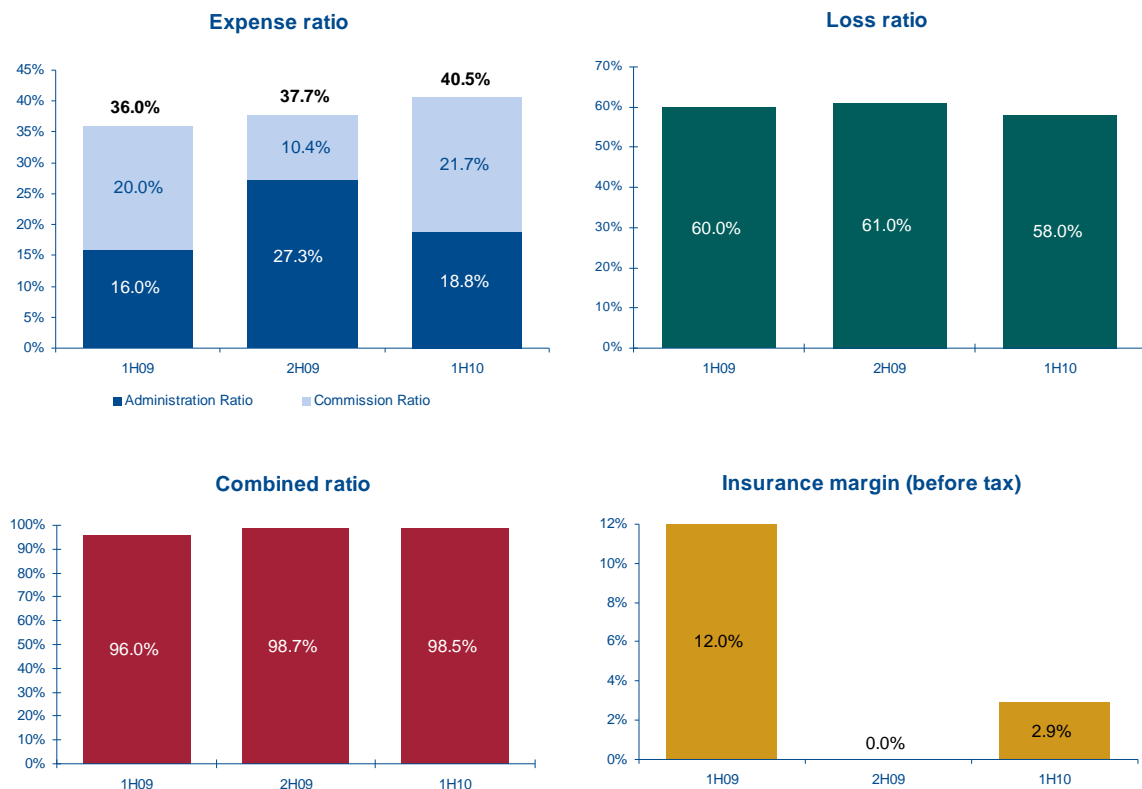
- The discontinued UK business comprises the branch network, Hastings Direct, its associated underwriter Advantage, and the internet-based operations that trade under the Insure brand. The branch network was sold at the beginning of January 2009, with completion of sale of the other assets occurring on 3 February 2009.

8. ASIA

ASIA FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	92	101	89
Gross earned premium	94	97	86
Reinsurance expense	(19)	(20)	(17)
Net earned premium	75	77	69
Net claims expense	(45)	(47)	(40)
Commission expense	(15)	(8)	(15)
Underwriting expense	(12)	(21)	(13)
Underwriting profit/(loss)	3	1	1
Investment income on technical reserves	6	(1)	1
Insurance profit/(loss)	9	-	2
Profit/ (loss) from fee based business	(1)	(1)	-
Share of profit/ (loss) from associates	3	5	2
Total divisional result	11	4	4
Insurance Ratios			
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%	0.0%	2.9%

Asia

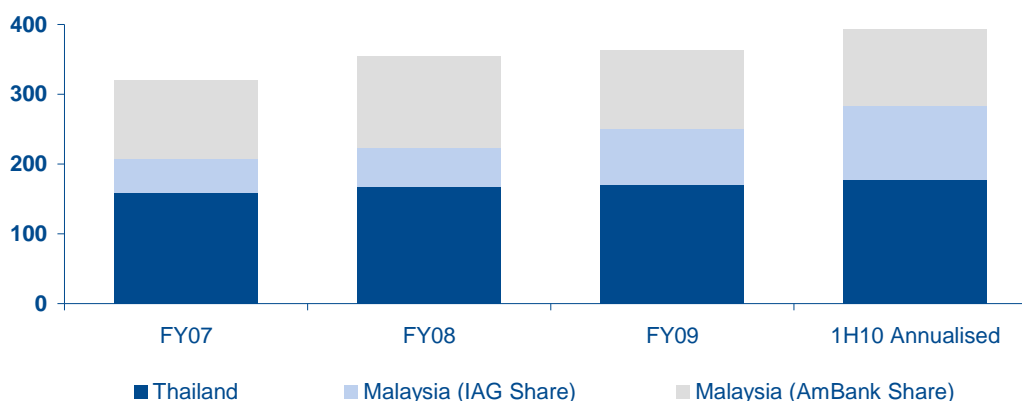
Insurance ratios



8.1 Executive summary

- 1H10 has seen strong operational performances from the established businesses within the Asia division, and further significant progress in the division's strategy to establish a strong portfolio of assets in selected Asian markets.
- Whilst representing only 2.3% of consolidated Group GWP for 1H10, the Asia division remains an important part of the Group's future growth strategy. The Group currently participates in a gross regional annualised GWP pool of nearly \$400m.

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 rates at 31 December 2009 to aid comparability.

- Established businesses in Thailand and Malaysia have produced strong operational performances, ahead of their respective markets. Reported financial results have, however, been influenced by the following factors:
 - The absence of the one-off benefit from the introduction of DAC accounting to Safety Insurance in Thailand in FY09; and
 - The negative impact from the significant appreciation in the Australian dollar against local currencies which has occurred in 1H10.
- The Asia division's contribution to Group profit for 1H10 was \$4m. Excluding DAC benefits in FY09, this compares to \$3m in 1H09.
- During the half the Group completed its investment in SBI General Insurance Company (SBI General), a 26%-owned joint venture with the State Bank of India, which is expected to commence trading towards the end of 2H10.
- In addition, IAG's 49%-owned Malaysian associate, AmG Insurance, continues to pursue acquisition of 100% of the general insurance business of Malaysian Assurance Alliance Berhad (MAA) which, if completed, would make AmG a top three general insurer in Malaysia by GWP.
- During 1H10, the division revised its approach to the allocation of business development and support costs. These are now allocated between the consolidated businesses and share of associates, rather than entirely 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.
- Key priorities for the remainder of FY10 are to continue to drive the underlying performance of the existing businesses and to focus on the launch of SBI General in India.

8.2 Thailand

8.2.1 Operations

- IAG's controlled operations in Thailand comprise:
 - Safety Insurance - Thailand's fifth largest motor insurer; and
 - NZI Thailand - a commercial insurer.
- In November 2009, the Asia division applied for regulatory approval to merge Safety Insurance and NZI Thailand. Subject to that approval, both Thai businesses will operate under a single licence (Safety Insurance), but retain the use of both brands. Regulatory approval is expected in 2H10. Some additional expense reductions are expected over the longer term, as operational synergies are realised from the full integration of the two businesses.

8.2.2 Market environment

- While the Thai economy has improved in the final quarter of calendar 2009, driven by strong external demand and a return to growth by the manufacturing sector, the political situation remains a key risk for business activity.
- A consumer recovery is underway with consumer confidence climbing during the last months of the year as the employment outlook has improved. In turn this has led to significant improvement in passenger car sales, which have increased by nearly 40% in 1H10, compared to 1H09.
- The Thai general insurance market grew by 3.2% in local currency terms for the first ten months of calendar 2009.
- The Thai investment market has also shown signs of recovery with the SET (Stock Exchange of Thailand) increasing by over 20% during 1H10.

8.2.3 Premiums

- In local currency terms, 1H10 GWP increased by 5.5% compared to 1H09, and by 2.3% relative to 2H09. However, owing to the significant appreciation of the Australian dollar against the Thai baht during the period, reported 1H10 GWP of \$89m has declined by 3.3% relative to 1H09 and by 11.9% compared to 2H09.
- Safety Insurance grew GWP by 8.2% relative to 1H09 and by 6.6% compared to 2H09, in local currency terms. GWP growth has been driven by various initiatives during the half, including continued branch expansion in selected metropolitan and regional areas and specific product initiatives which have captured new business via car leasing groups. These initiatives have countered the negative effect of external economic factors.
- NZI Thailand's GWP decreased by 3.6% relative to 1H09 and by 10.8% compared to 2H09, in local currency terms. The decline in GWP is a direct result of a recent strategic restructure of the business which has included the shedding of unprofitable business and an increased focus on price adequacy and risk selection.

8.2.4 Reinsurance

- Reinsurance expense in 1H10 decreased to \$17m, from \$19m in 1H09, reflecting a reduced cession of business to reinsurers.

8.2.5 Claims

- The 1H10 loss ratio of 58.0% has improved relative to 1H09 (60.0%) and 2H09 (61.0%). This has been driven largely by lower frequency in the personal lines classes and recent favourable experience in the more volatile commercial side of the business.
- Deliberate actions have been taken over the past two years which have reduced the longer term loss ratio from approximately 65% in FY07 and FY08, including:
 - More stringent underwriting criteria and pricing initiatives by both Safety Insurance and NZI Thailand, resulting in the exit by NZI Thailand from specific unprofitable segments; and
 - A better spread of risks as a result of the expansion of the Safety Insurance distribution network beyond Bangkok and into the regional areas of Thailand.

8.2.6 Expenses

- The 1H10 reported expense ratio of 40.5% is higher than 1H09 (36.0%) and 2H09 (37.7%), owing to the influence of the following factors:
 - The absence of the one-off benefit from the introduction of DAC accounting to Safety Insurance in FY09, which lowered reported expenses by \$8m in 1H09 and \$4m in 2H09; and
 - A partial offset from the revised allocation methodology for business development and support costs. If applied in FY09, the new methodology would have reduced expenses allocated to the consolidated Thai operations by approximately \$2m in 1H09 and \$4m in 2H09. The reported Thai result in 1H10 has borne \$5m of business development and support costs.
- On a like-for-like basis, the 1H10 expense ratio has improved markedly against that of 1H09. The improvement reflects operating expense reductions flowing from the restructure of NZI Thailand, which has included the merger of shared service functions with Safety Insurance.

8.2.7 Insurance profit

- The Asia division reported an insurance profit of \$2m in 1H10, equivalent to an insurance margin of 2.9%. This compares to a breakeven outcome in 2H09 and an insurance margin of 12% in 1H09.
- Stripping out the effect of changes to DAC accounting and expense allocation, the 1H10 outcome is similar to that of 1H09 and superior to that of 2H09. This reflects the combination of:
 - Lower expense levels, following the restructuring of NZI Thailand; and
 - An improved loss ratio.

8.3 Malaysia

8.3.1 Operations

- IAG owns a 49% interest in AmG Insurance, a joint venture established in 2005 with AmBank Group, Malaysia's fifth largest bank. AmG Insurance is the seventh largest general insurer and the third largest motor insurer in Malaysia.
- In November 2009, AmG agreed to acquire 100% of the general insurance business of Malaysian Assurance Alliance Berhad (MAA). If completed, the transaction, which remains subject to relevant approvals and satisfactory completion of final due diligence, would make AmG a top three general insurer in Malaysia by GWP.
- The proposed MAA transaction does not include the acquisition of a 4.9% interest in MAA's takaful (Islamic insurance) business, as originally announced. Opportunities to participate in the takaful market continue to be explored.

8.3.2 Market environment

- The Malaysian economy has begun to show signs of recovery although only a mild improvement is expected in 2010. Consumers remain cautious, but confidence levels are improving slowly.
- For the 12 months to September 2009, the Malaysian general insurance industry grew GWP by 4.9%, in local currency terms.
- New passenger car sales remain weak, with limited expectation of a near term recovery. Total vehicle sales fell 10.6% year-on-year in the 12 months to November 2009.
- Claim experience for bodily injury products continues to raise challenges for the industry, however this product area, which is necessarily underwritten as part of participating in the motor insurance market, represented only 5% of AmG's GWP in 1H10. The government has announced its intention to introduce reform, although details are yet to be published.

8.3.3 Operating performance

- AmG Insurance grew GWP during 1H10 by 11% relative to 1H09 and by 13% compared to 2H09, in local currency terms. This is a strong result, given the current economic environment, and was driven by growth across the majority of AmG's products, but predominantly those of a motor-related nature. The growth has been facilitated by the strong distribution network of AmBank Group and IAG's successful capability transfer programme.
- The business continues to actively implement operational initiatives that are driving performance gains.
- A strong investment performance has boosted AmG's insurance result, aided by an 18% increase in the local equities market during 1H10.
- The Group's interest in AmG's results is reported as share of profit from associates. On a like-for-like basis, the contribution from AmG has increased over prior periods, however the reported profit for 1H10 of \$2m compares with \$3m in 1H09. This reflects the combined effect of:
 - The dial-up of IAG's interest in AmG Insurance, from 30% to 49%, on 1 December 2008;
 - An improved operating performance;

- A significant appreciation in the Australian dollar against the Malaysian ringgit, trimming reported results; and
- Inclusion of an extra \$4m of business development and support costs in the associates line, compared to prior periods, under the division's revised expense allocation methodology.

8.4 India

- In December 2009, following completion of IAG's \$126m investment (5.4bn Indian rupees), the third and final regulatory approval was received for the general insurance joint venture established with State Bank of India, SBI General Insurance Company (SBI General).
- IAG has a 26% stake in SBI General, and it remains the Group's expectation that, at its current ownership level, no further capital will be required for four years. IAG has an option to increase its shareholding to 49% subject to a change occurring in the Indian foreign direct investment limit.
- The joint venture is expected to commence operations towards the end of 2H10.
- IAG has a team of specialists in distribution, claims, underwriting, actuarial, reinsurance and IT working in Mumbai on the establishment of the joint venture. In addition, SBI General has appointed IAG personnel to the deputy CEO role plus key positions in underwriting and claims. IAG also has two Board positions.
- The joint venture has selected its general insurance IT solution provider with systems implementation expected in the latter part of 2H10.
- In the initial 12 months of operation, the joint venture will concentrate on corporate and SME markets, while gradually building a presence in high volume personal lines products.
- The general insurance market in India is forecast to grow by 15-20% per annum over the next decade, driven by increasing insurance penetration rates, rising incomes and GDP growth.

8.5 China

- China Automobile Association (CAA) reported a small profit in 1H10 compared to losses in both 1H09 and 2H09. A significant restructuring of the business has been undertaken with favourable trends emerging from these initiatives over recent months. The division continues to review strategic options for this business.
- China remains an attractive general insurance market underpinned by strong forecast growth in GWP and motor vehicles. The Group remains committed to exploring opportunities in China as part of its long term growth strategy but is taking a cautious approach to entry options. Good progress continues to be made with a number of potential insurance partners across China.

8.6 FY10 outlook

- The improved underlying performance of the existing businesses is expected to continue for the remainder of FY10.
- The launch of the SBI General business in India will be a major milestone in the Asia division's contribution to the Group's growth strategy.

9. CORPORATE AND OTHER

CORPORATE & OTHER FINANCIAL PERFORMANCE	1H09 A\$m	2H09 A\$m	1H10 A\$m
Gross written premium	7	(3)	-
Gross earned premium	16	7	1
Reinsurance expense	(3)	(1)	2
Net earned premium	13	6	3
Net claims expense	(12)	(1)	(1)
Commission expense	(3)	(1)	-
Underwriting expense	(5)	(1)	(1)
Underwriting profit/(loss)	(7)	3	1
Investment income on technical reserves	1	(1)	-
Insurance profit/(loss)	(6)	2	1
Net corporate expenses	(77)	55	8
Interest	(46)	(41)	(43)
Investment income on shareholders' funds	(72)	33	91
Amortisation and impairment	(30)	(35)	(12)

9.1 Composition

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

9.2 External reinsurance

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

9.3 Corporate expenses

- All corporate expenses are allocated to business operations with effect from FY09, with the exception of those of a material one-off or unusual nature.
- Net corporate expenses in 1H10 amounted to a profit of \$8m in 1H10, and primarily related to finalisation of issues associated with the divestment of the non-core UK assets in 2H09.
- The net corporate expense loss of \$77m identified in 1H09 comprised \$115m of losses on sale of the non-core mass market distribution operations in the UK, including restructuring costs, partially offset by a \$38m profit on sale of IAG's interest in the life insurance business of its Malaysian joint venture.

9.4 Interest expense

- The Group's interest expense of \$43m in 1H10 was lower than that in 1H09, of \$46m, owing to the buyback of sterling denominated subordinated debt in 2H09.

9.5 Investment income on shareholders' funds

- Investment income on shareholders' funds amounted to a profit of \$91m compared to a loss of \$72m in 1H09. The improved 1H10 outcome reflects:
 - Improved equity market returns; offset by
 - Reversal of the \$96m exchange right previously recognised in respect of the Reset Exchangeable Securities (RES), reflecting amendments to the RES that have resulted in it becoming an on-balance sheet Tier 1 instrument.
- In 1H09 a \$25m revaluation profit in respect of the RES exchange right was recognised.

9.6 Amortisation

- The 1H10 amortisation charge of \$12m is broadly in line with the previously indicated FY10 charge of \$26m. The charge is lower than that for 1H09, of \$30m, and reflects the absence of amortisation associated with the non-core UK business divested at the beginning of 2H09.

10. REINSURANCE

10.1 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, counter-party and regulatory exposures are captured within a single Group entity.
- IAG's international business units continue to place some reinsurances directly with the external market. However, IAG Re Labuan, the Group's offshore captive reinsurer, underwrites close to 100% of New Zealand treaty business and a substantial amount from the UK and Asia.

10.2 Market environment

- Following the global financial crisis, consolidation of the reinsurance sector has begun to emerge. This has the potential to impact capacity, risk appetite and price in the future and will be monitored closely.
- The signs of a hardening reinsurance market, first seen in December 2008, have abated. During the 2010 renewal, IAG observed modest rate increases for natural perils.

10.3 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 multi-year arrangement that reduces the Maximum Event Retention (MER) of the Group below \$200m. For the 2010 calendar year, the MER for a first event is \$135m in Australia, \$108m for New Zealand and \$53m for the UK.
- The Group purchases a 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. These retentions may also be reduced by any recovery from the group aggregate cover.
- The Group has a property catastrophe aggregate cover of \$150m excess of \$150m, operating on a calendar year basis. This provides protection for accumulated losses arising from events larger than \$15m, across IAG's operations, capped at a maximum of \$50m per event.
- The Group has a customised event definition in its catastrophe reinsurance contract wordings which ensures that covers provide appropriate protection to the Group, both in terms of geographical exposure and event duration. IAG's reinsurance protections have been extended to provide cover for flood.

10.4 Other covers

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

10.5 Counter-party risk

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

11. INVESTMENTS

11.1 Investment philosophy

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

11.2 Changes to investment strategies

- As at 31 December 2009, the Group's overall investment allocation was conservatively positioned with over 92% of total investments in fixed interest and cash. Technical reserves were almost entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was 76%.
- As previously indicated, within shareholders' funds it is the Group's intent to move towards the upper end of its long term target of 30-50% invested in growth assets over the next 12 months. This reflects both a recovery in underlying equity markets and recognition that market conditions are sufficiently improved to justify an increased exposure to growth assets.
- Excluding the \$550m of investment assets attributable to the Reset Exchangeable Securities (RES), which were held in fixed interest and cash at 31 December 2009, the proportion of shareholders' funds held in growth assets was approximately 28% at period end, up from 22% at 30 June 2009.
- In increasing its weighting to growth assets, the Group plans to utilise alternative assets that have growth asset return characteristics but less volatility than listed equities. Global convertible bonds are one such category, and in 1H10 a small initial exposure was established using two specialist managers in this field. The Group expects to add to this alternative asset class within shareholders' funds in a modest incremental manner.
- In technical reserves, no material deviation from the current strategy is planned, in the face of an expected near-term attractive active return performance. As credit spreads return to historical norms, additional ways to achieve targeted active returns will be considered.

11.3 Group investment assets

- The Group's investments totalled \$11.5bn as at 31 December 2009, excluding investments held in joint ventures and associates. This compares to \$10.6bn at 30 June 2009.
- A significant portion of the increase in investment assets held in respect of shareholders' funds relates to inclusion, from December 2009, of \$550m of fixed interest assets previously backing the RES, following amendments which brought that capital instrument onto the Group's balance sheet.

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

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

11.4 Asset allocation

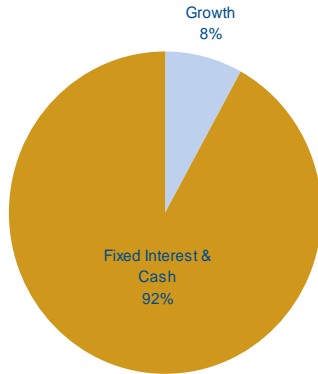
- This table represents the Group's allocation to each asset class, as at the dates shown.

ASSET ALLOCATION AS AT:	1H09	2H09	1H10
Shareholders' funds	%	%	%
Australian equities	21.7	15.4	14.4
International equities and other	11.0	6.2	9.5
Fixed interest and cash	67.3	78.4	76.1
Total	100.0	100.0	100.0
Technical reserves	%	%	
Australian equities	-	-	-
International equities and other	0.5	0.5	0.4
Fixed interest and cash	99.5	99.5	99.6
Total	100.0	100.0	100.0
Total shareholders' funds and technical reserves	%	%	%
Australian equities	4.8	3.8	4.6
International equities and other	2.8	1.9	3.3
Fixed interest and cash	92.4	94.3	92.1
Total	100.0	100.0	100.0

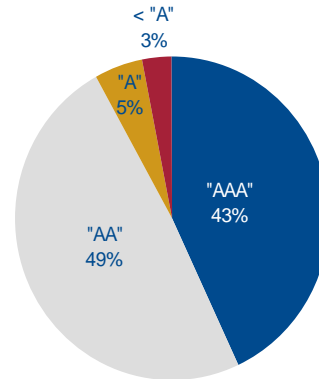
- As at 31 December 2009, the Group had increased its weighting to growth assets relative to fixed interest and cash held in its shareholders' funds to 24:76, compared with 22:78 as at 30 June 2009. Excluding the RES investment assets, the mix is approximately 28:72.

11.5 Credit quality of assets

Group Investment Asset Allocation - \$11.5bn



Group Fixed Interest & Cash - \$10.6bn



- The credit quality of the Group's investment book remains high, with 92% of the fixed interest and cash portfolio rated 'AA' or better. All credit assets are performing and meeting interest and principal repayment obligations.

11.6 Sensitivity analysis

- As at 31 December 2009 the sensitivity of the Group's net profit before tax to investment market movements was as set out below:

SENSITIVITY OF NET PROFIT BEFORE TAX AS AT 31 DECEMBER 2009	Change in Assumption	
	+1% \$m	-1% \$m
Equity market values:		
Australian equities	5	(5)
International equities and other	3	(3)
Interest rates:		
Technical provisions	(179)	190
Shareholders' funds	(18)	19
Total investment returns	(197)	209
Outstanding claims	169	(185)

- Interest rate sensitivities are measured against the Commonwealth Government of Australia bond yield curve.

11.7 Investment performance

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

INVESTMENT RETURNS ¹ (INCL. DERIVATIVES)	1H09		2H09		1H10	
	A\$m	% ²	A\$m	% ²	A\$m	% ²
Technical reserves	732	8.9	48	0.6	210	2.7
Shareholders' funds	(97)	(4.1)	31	1.2	187	5.2
RES revaluation	25	-	2	-	(96)	-
Total investment income	660	6.0	81	0.8	301	2.6

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.

- Improved investment returns were achieved on both technical reserves and shareholders' funds, compared to 2H09, reflecting the combined effect of:
 - A modest improvement in interest rates; and
 - A significant recovery in equity markets around the world.
- Reported investment income on shareholders' funds includes a \$96m reversal of the cumulative revaluation gain previously recognised in respect of the exchange right embedded in the RES. Following securityholder approval of the amendments to this instrument, which result in it being on-balance sheet regulatory capital, the requirement to recognise an exchange right value ceases.

12. BALANCE SHEET, CAPITAL AND DIVIDENDS

12.1 Balance sheet

GROUP BALANCE SHEET	1H09 A\$m	2H09 A\$m	1H10 A\$m
Assets			
Cash and cash equivalents	275	344	387
Investments	10,314	10,563	11,540
Investments in joint ventures and associates	138	122	255
Premium receivable	1,973	2,126	1,896
Trade and other receivables	1,087	887	743
Reinsurance recoveries on claims	707	654	530
Other recoveries on claims	311	393	379
Deferred acquisition costs	723	733	688
Deferred reinsurance expense	360	268	370
Intangible assets	449	398	361
Goodwill	1,904	1,880	1,834
Other assets	911	947	774
Assets held for sale	653	-	-
Total assets	19,805	19,315	19,757
Liabilities			
Outstanding claims	8,154	7,816	7,576
Unearned premium	3,970	4,072	4,033
Interest bearing liabilities	1,360	1,053	1,586
Trade and other payables	704	818	728
Other liabilities	870	720	794
Liabilities held for sale	612	-	-
Total liabilities	15,670	14,479	14,717
Net assets	4,135	4,836	5,040
Equity			
Equity attributable to holders of ordinary shares	3,986	4,671	4,886
Non-controlling interests	149	165	154
Total equity	4,135	4,836	5,040

- The total assets of the Group as at 31 December 2009 were \$19,757m compared to \$19,315m at 30 June 2009. The increase primarily reflects the recent amendments to the RES, which resulted in \$550m of related investments being brought on balance sheet.
- 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 31 December 2009 were \$14,717m compared to \$14,479m at 30 June 2009. The increase is mainly attributable to the net effect of:
 - The \$550m RES being included in interest bearing liabilities; and
 - A \$240m 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.

- 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 increase in IAG shareholders' equity (excluding non-controlling interests), from \$4,671m at 30 June 2009 to \$4,886m at 31 December 2009, largely reflects:
 - 1H10 reported earnings attributable to shareholders of \$329m; less
 - Dividends of \$124m that were declared and paid during the period.

12.2 Capital management

12.2.1 Capital adequacy

- The Group retains a target minimum capital requirement (MCR) multiple of 1.45 to 1.50 as a long term benchmark.
- Given the significant financial market uncertainty and volatility prevailing at that time, in February 2009 the Board determined to pursue a range of capital initiatives which resulted in an increase in the Group's MCR multiple above this level.
- At 31 December 2009 the Group's MCR multiple stood at 2.03. 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.

12.2.2 Minimum Capital Requirement (MCR) position

- The Group's regulatory capital and its MCR position are set out below.

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

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.

- The Group's regulatory capital has increased from \$3,573m as at 30 June 2009 to \$4,208m at 31 December 2009. The major factors contributing to the movement were:
 - Eligibility of the \$550m RES as Tier 1 capital following the recent amendments made to its governing terms and conditions; and
 - The increase in retained earnings during the period.

- The Group's minimum capital requirement increased to \$2,070m as at 31 December 2009, from \$1,997m as at 30 June 2009. The major factors contributing to this net movement were:
 - Higher investment risk charges associated with the Group's increased weighting towards growth assets within shareholders' funds;
 - An increase in the Group's maximum event retention with effect from 1 January 2010; and
 - Lower insurance risk charges driven by the \$240m reduction in outstanding claims.

12.2.3 Interest bearing liabilities

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

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

¹ Cross-currency swaps are used to hedge the US\$240m subordinated debt issue.

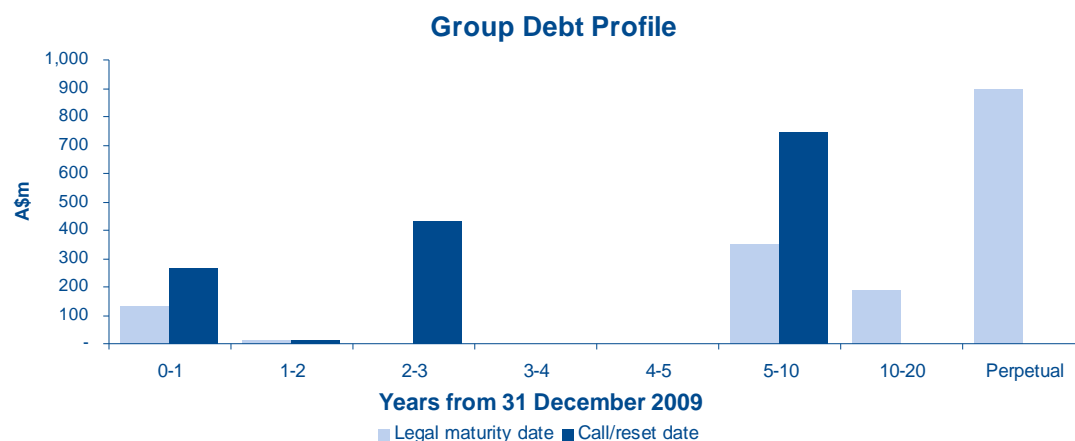
- As at 31 December 2009, the maturity profile of the Group's debt and hybrid capital was as follows:

MATURITY PROFILE OF GROUP DEBT & HYBRID CAPITAL	Principal amount		Yield (net of swaps)	Call, reset or maturity date	S&P rating	
	m	A\$m	%			
US\$240m subordinated fixed rate notes ¹	US\$240	403	6.93%	Fixed	Apr-10	'A+'
NZ\$100m subordinated fixed rate notes	NZ\$100	81	9.11%	Fixed	Nov-12	'A+'
£107m subordinated fixed rate notes	£107	191	5.66%	Fixed	Dec-16	'A-'
Total Debt		675				
Reset Preference Shares (IAGPA) ²	A\$350	350	5.63%	Fixed	Jun-12	'A-'
Reset Exchangeable Securities (IANG) ³	A\$550	550	5.78%	Variable	Dec-19	'A-'
Other		14	Various	Various		

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

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

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



- Amendments to the RES were approved on 9 December 2009. In accordance with the amended terms and conditions, the RES were brought onto the Group's balance sheet with the corresponding \$550m of assets being included in investments. The amended RES now qualify as Tier 1 capital for regulatory and rating purposes.

12.2.4 Capital mix

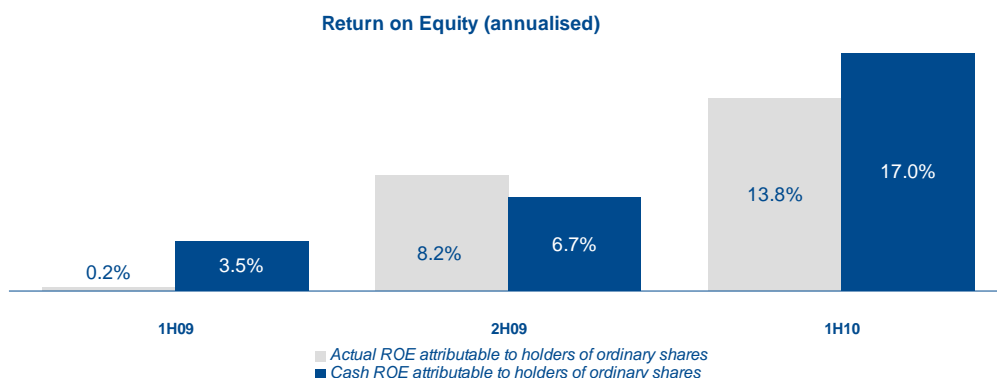
- During FY09 the Group reviewed its measures around capital mix and moved to one based on net tangible equity, i.e. after deduction of goodwill and intangibles. This provides better alignment with the treatment of these items in regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the longer term:
 - Ordinary equity (net of goodwill and intangibles) 60-70%; and
 - Debt and hybrids 30-40%.
- At 31 December 2009, the Group's capital mix was around the mid-point of the targeted range, with debt and hybrids representing 35.8% of 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
Debt to total tangible capitalisation	43.3%	29.2%	35.8%

12.2.5 Credit ratings

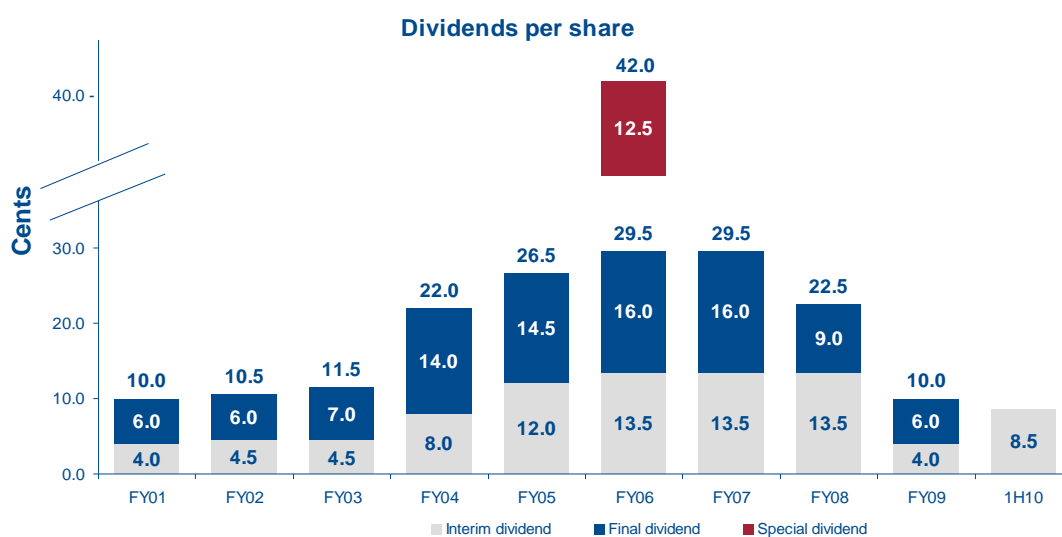
- On 8 December 2009, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' ratings on IAG's core operating companies and its 'A+' rating on IAG (the ultimate parent entity). The outlook on all entities remains stable.

12.3 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%.

12.4 Dividends



- Under its revised dividend policy, which was announced in July 2008, it is the Group's intention to pay dividends equivalent to approximately 50-70% of reported cash earnings in any given financial year.
- From FY10 onwards, the definition of cash earnings has been refined so that it is aligned with the Group's cash ROE definition. Cash earnings are defined as:
 - Net profit after tax attributable to IAG shareholders;
 - Plus amortisation of acquired identifiable intangibles; and
 - Excluding any unusual items.

- The Board has determined to pay an interim dividend of 8.5 cents per ordinary share (1H09: 4.0 cents). This equates to a payout ratio of approximately 44% for the first half. The interim dividend is payable on 12 April 2010 to shareholders registered as at 5pm on 10 March 2010.

CASH EARNINGS	1H10 A\$m
Net profit after tax	329
Intangible amortisation and impairment	12
Unusual items (net of tax):	
- Reversal of RES exchange right	96
- Tax benefit on RES restructure	(22)
- Net corporate expenses	(10)
Cash earnings	405

- The dividend reinvestment plan (DRP) will be operational for the interim dividend. The issue price per share for the 1H10 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 \$710m as at 31 December 2009 and the Group's franking balance was \$363m at this date, after allowance for payment of the interim dividend.
- After payment of the interim dividend the franking balance is capable of fully franking a further \$848m of distributions.

APPENDIX A – GROUP STRATEGY

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

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:

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

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

Region	Business Type	Businesses
AUSTRALIA	DIRECT INSURANCE	NIRMA INSURANCE, NRMA INSURANCE, SGIC, SGIO, RACV ¹
	INTERMEDIATED INSURANCE	CGU, Swire Insurance
	ONLINE INSURANCE	thebuzz ²
	DIRECT INSURANCE	STATE
	INTERMEDIATED INSURANCE	N4
ASIA	DIRECT INSURANCE	AmAssurance ³ , Safety Insurance ⁴ , SBI General Insurance ⁵
	INTERMEDIATED INSURANCE	N4
	OTHER	CAA (China Accident and Health Insurance Company)
UNITED KINGDOM	INTERMEDIATED INSURANCE	equity, equity DIRECT BROKING, BARNETT & BARNETT

ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)

¹ IAG’s short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.

² RACV has a 30% interest in The Buzz.

³ IAG owns 49% of Malaysian-based AmG Insurance, which is part of AmAssurance. The remaining 51% is owned by AmBank Group.

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 – A SNAPSHOT OF IAG

Australia Direct

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

Short tail insurance

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

Long tail insurance

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

Australia Intermediated

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

Short tail insurance

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

Long tail insurance

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

The Buzz

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

Short tail insurance

- Car insurance

New Zealand

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

Short tail insurance

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

Long tail insurance

- Personal liability
- Income protection
- Commercial liability

United Kingdom

In the UK, IAG has a specialist motor underwriting operation, Equity Red Star (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:

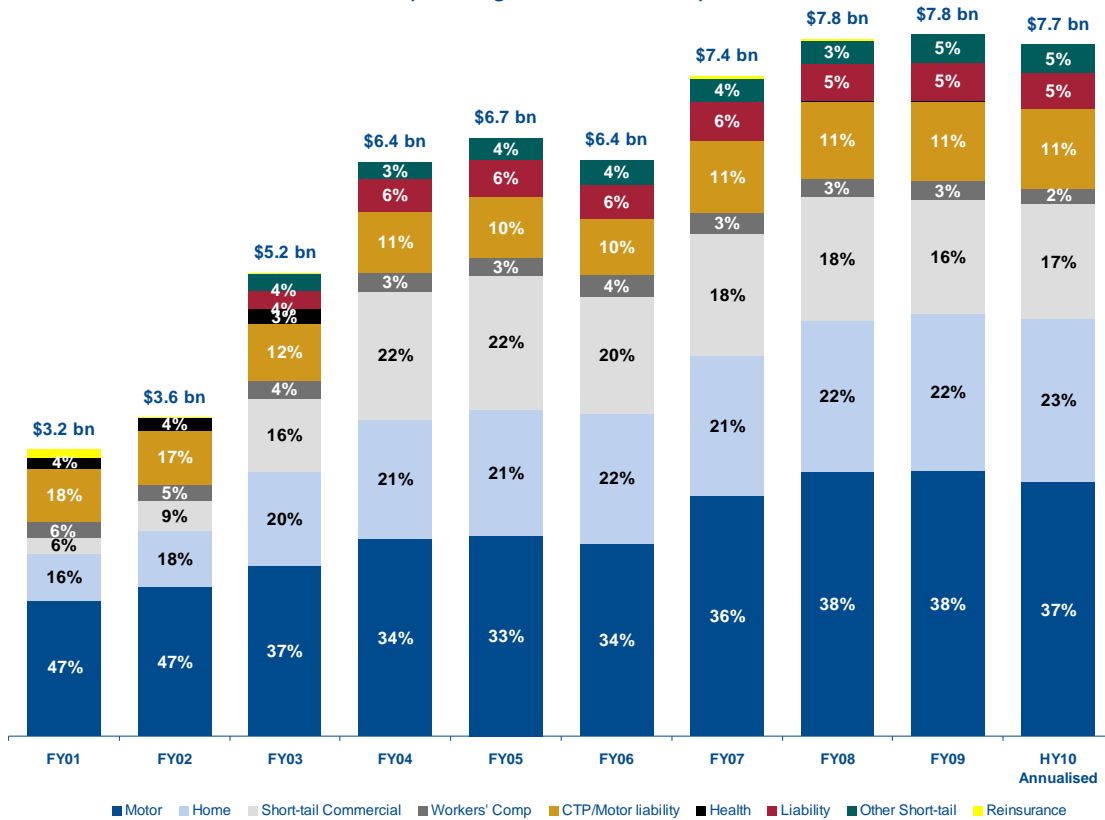
- Controlling economic interests in NZI and Safety Insurance in Thailand;
- A 49% share of AmG Insurance, a general insurance joint venture in Malaysia;
- A 26% interest in SBI General Insurance Company, a general insurance joint venture in India which is expected to commence trading in 2010; and
- 100%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

APPENDIX C – PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

Group Gross Written Premium - growth and product split

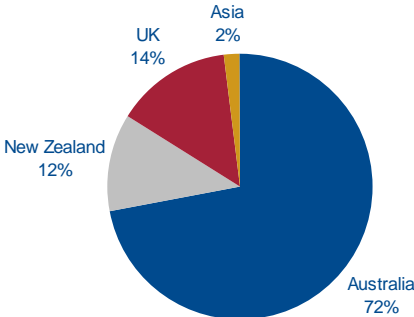
This graph shows a history of the Group's growth in Gross Written Premium (GWP) and the increased diversification since the Group's public listing in 2000.

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

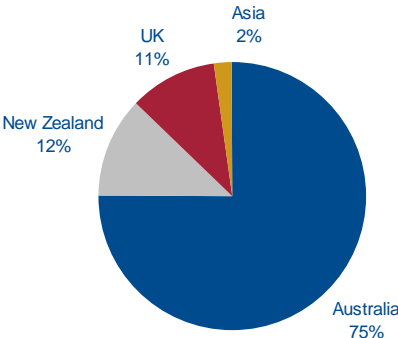


Group Gross Written Premium – Region split

IAG Group GWP by Region - 1H09

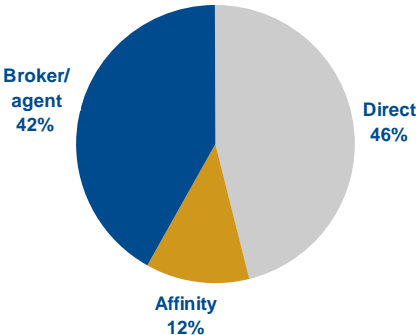


IAG Group GWP by Region - 1H10

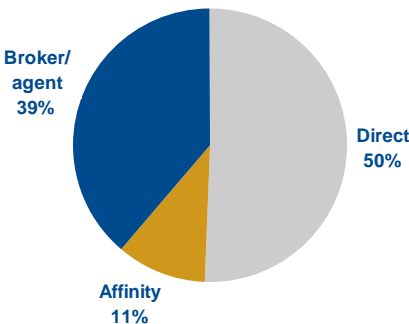


Group Gross Written Premium – Channel split

IAG Group GWP by Channel - 1H09



IAG Group GWP by Channel - 1H10



APPENDIX D – INSURANCE MARGIN IMPACTS

Group

INSURANCE AUSTRALIA GROUP	1H09	2H09	1H10
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	85	130	80
Natural perils	(176)	(275)	(121)
Natural perils allowance	153	161	166
Credit spreads	(86)	73	28
DAC/LAT	(42)	4	-
Impact on Group insurance profit	(66)	93	153
Reserve releases	2.3%	3.7%	2.2%
Natural perils	(4.8%)	(7.7%)	(3.3%)
Natural perils allowance	4.1%	4.5%	4.6%
Credit spreads	(2.3%)	2.1%	0.8%
DAC/LAT	(1.1%)	0.1%	-
Impact on Group insurance margin	(1.8%)	2.7%	4.3%

Australia Direct

AUSTRALIA DIRECT	1H09	2H09	1H10
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	39	75	35
Natural perils	(82)	(139)	(60)
Natural perils allowance	72	72	81
Credit spreads	(47)	39	17
Impact on Australia Direct insurance profit	(18)	47	73
Reserve releases	2.5%	4.8%	2.1%
Natural perils	(5.3%)	(8.9%)	(3.6%)
Natural perils allowance	4.7%	4.6%	4.9%
Credit spreads	(3.1%)	2.5%	1.0%
Impact on Australia Direct insurance margin	(1.2%)	3.0%	4.4%

Australia Intermediated

AUSTRALIA INTERMEDIATED	1H09	2H09	1H10
INSURANCE MARGIN IMPACTS	A\$m	A\$m	A\$m
Reserve releases	56	68	46
Natural perils	(70)	(132)	(60)
Natural perils allowance	69	75	64
Credit spreads	(39)	34	11
DAC/LAT	(50)	-	-
Impact on Australia Intermediated insurance profit	(34)	45	61
Reserve releases	5.0%	6.2%	4.2%
Natural perils	(6.2%)	(12.1%)	(5.5%)
Natural perils allowance	6.1%	6.9%	5.8%
Credit spreads	(3.5%)	3.1%	1.0%
DAC/LAT	(4.4%)	-	-
Impact on Australia Intermediated insurance margin	(3.0%)	4.1%	5.5%

APPENDIX E – KEY ASX RELEASES

This schedule contains a summary of the announcements made to the ASX since 1 July 2009. 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>.

11-Aug-09 CGU and Vero continue NTI JV

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

21-Aug-09 Investor Report Full Year to 30 June 2009

IAG announced a net profit after tax of \$181m for the year ended 30 June 2009. This embraced an improved insurance margin of 7.1%, underlying GWP growth of approximately 4% and a net pre-tax loss of \$22m from one-off items including the loss on sale associated with the exit from the non-core mass market distribution operations in the UK. The Board declared a fully franked final dividend of 6 cents per share.

14-Sep-09 Dividend Reinvestment Plan - Pricing of Shares

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$3.6199 per share for the final dividend payable on 2 October 2009.

23-Sep-09 Annual Report

IAG's 2009 Annual Report and notice of Annual General Meeting was released to the market.

9-Oct-09 Presentation by IAG CEO to JP Morgan Australasia Conference

IAG Managing Director and Chief Executive Officer, Mr Michael Wilkins, presented to the JP Morgan Australasia Conference, providing an update on the Group's performance to investors in Edinburgh.

23-Oct-09 Changes Proposed to Reset Exchangeable Securities

IAG announced a proposal from its subsidiary, IAG Finance (New Zealand) Limited, to amend its contingent capital issue, the A\$550m Reset Exchangeable Securities (RES), into an on-balance sheet Tier 1 eligible instrument.

30-Oct-09 Investor Strategy Briefing

IAG Managing Director and Chief Executive Officer, Mr Michael Wilkins, together with all members of the IAG senior executive team, presented an in-depth briefing on the Group's strategy and the strategic priorities and actions within each business division.

30-Oct-09 IAG on Track to Deliver Full Year Guidance

IAG confirmed that, based on operating conditions experienced in the opening quarter, it would expect to deliver an insurance margin at the upper end of its 9-11% guidance for FY10.

10-Nov-09 IAG Annual General Meeting

At the company's annual general meeting, IAG announced the appointment of Mr Brian Schwartz as Deputy Chairman and the intention that he would succeed Mr James Strong as Chairman at the end of FY10.

The following motions were passed:

- The re-election of Ms Yasmin Allen and Mr Phillip Colebatch as IAG directors;
- Refreshment of the company's capacity to issue shares;
- Adoption of the company's Remuneration Report for the financial year ended 30 June 2009; and
- The allocation of share rights to the Managing Director and Chief Executive Officer, Mr Michael Wilkins.

4-Dec-09 IAG Completes Investment in Indian Joint Venture

IAG announced completion of its investment in a 26% interest in SBI General Insurance Company, the Indian general insurance joint venture formed with State Bank of India, for consideration of approximately A\$126m.

9-Dec-09 Approval of Changes to Reset Exchangeable Securities

IAG subsidiary, IAG Finance (New Zealand) Limited, announced approval of the amendments to the A\$550m Reset Exchangeable Securities (RES) at the RES Holder Meeting, converting the RES into an on-balance sheet Tier 1 eligible instrument.

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.

APPENDIX F – GLOSSARY

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

APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange Limited.
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 incurred and underwriting expenses, 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 that acquisition costs incurred in obtaining and recording general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DRP	Dividend Reinvestment Plan. This plan permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
Expense ratio	The ratio of underwriting expenses to net earned premium. Expenses are split into administration and commission, with rates calculated on the same basis.
Fire services levy (FSL)	FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying the FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy.

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

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