

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
HALF YEAR REPORT 31 DECEMBER 2010
APPENDIX 4D

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RESULTS FOR ANNOUNCEMENT TO MARKET

	Up / Down	% Change	\$m
Revenue from ordinary activities	Up	21.4 %	5,548
Profit/(loss) from ordinary activities after tax attributable to shareholders	Down	51.0 %	161
Net profit/(loss) attributable to shareholders	Down	51.0 %	161

DIVIDENDS - ORDINARY SHARES

	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Interim dividend	9.0 cents	9.0 cents

The record date of the dividend is 9 March 2011. The dividend is to be paid on 11 April 2011. The Company's dividend reinvestment plan (DRP) will operate by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 9 March 2011. The DRP issue price will be based on a volume weighted average price over a ten day trading period from 14 to 25 March 2011 , inclusive.

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

* Defined terms in the Dividend Reinvestment Plan booklet.

This report is to be read in conjunction with the annual report of the Insurance Australia Group for the year ended 30 June 2010 and any public announcements made by the Insurance Australia Group since 30 June 2010 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

OTHER INFORMATION

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

	OWNERSHIP INTEREST
Joint venture	
NTI Limited	50.00
Associates	
AmG Insurance Berhad	49.00
First Rescue and Emergency (NZ) Limited	50.00
Loyalty New Zealand Limited	25.00
Sureplan New Zealand Limited	30.00
AR Hub Pty Ltd	33.33
Arista Insurance Limited	29.35
InsuranceWide.com Services Limited	35.00
Photosecure (NZ) limited	50.00
SBI General Insurance Company Limited	26.00
Accident & Health International Underwriting Pty Limited	50.00

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

APPENDIX 4D COMPLIANCE MATRIX

		INSURANCE AUSTRALIA GROUP LIMITED APPENDIX 4D	PAGE NUMBER	NOTE NUMBER
1	Details of the reporting period and the previous corresponding period	All financial data headings		
2	Key information in relation to the following. This information must be identified as "Results for announcement to the market".	"Results for announcement to the market" page 1 Appendix 4D		
2.1	The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.			
2.2	The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.			
2.3	The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.			
2.4	The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.			
2.5	The record date for determining entitlements to the dividends (if any).			
2.6	A brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.			
3	Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Half year financial report 31 December 2010: Notes to the financial statements - Net tangible assets	P.16	NOTE 10
4	Details of entities over which control has been gained or lost during the period, including the following.	Attachment A: Half year financial report 31 December 2010: Notes to the financial statements - Acquisition and disposals of businesses	P.15	NOTE 7
4.1	Name of the entity.			
4.2	The date of the gain or loss of control.			
4.3	Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.			
5	Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Attachment A: Half year financial report 31 December 2010: Notes to the financial statements - Dividends note	P.14	NOTE 5
6	Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Attachment A: Half year financial report 31 December 2010: Notes to the financial statements - Dividends note	P.14	NOTE 5
7	Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.	"Other information" page 2 Appendix 4D		

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

ATTACHMENT A
INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES
HALF YEAR FINANCIAL REPORT - 31 DECEMBER 2010

INSURANCE AUSTRALIA GROUP LIMITED

AND SUBSIDIARIES

ABN 60 090 739 923

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

The directors present their report together with the consolidated financial report of Insurance Australia Group Limited (IAG, Company or Parent) and its subsidiaries (Group or Consolidated entity) for the half year ended 31 December 2010 and the auditor's review report thereon.

DIRECTORS

The Company's directors in office at any time during or since the end of the half year are as follows.

Brian Schwartz (director since 1 January 2005), Yasmin Allen (director since 10 November 2004), Peter Bush (director since 7 December 2010), Phillip Colebatch (director since 1 January 2007), Hugh Fletcher (director since 1 September 2007), Anna Hynes (director since 1 September 2007), Philip Twyman (director since 9 July 2008), Michael Wilkins (director since 26 November 2007) and James Strong (director from 2 August 2001 to 26 August 2010).

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

The Group's net profit after tax for the half year was \$205 million (2009 - \$387 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the equity holders of the Company was \$161 million (2009 - \$329 million).

IAG's Australian and New Zealand businesses have continued to perform well, reflecting improvements in underwriting disciplines and expense management. In a period of significant natural peril activity, related claim costs were similar to the prior reporting period ended 31 December 2009 owing to reinsurance recoveries. Collectively the Australasian businesses produced an insurance margin of 17.8% (2009 - 14.4%).

This performance was offset, however, by a greater than expected insurance loss of \$121 million in the United Kingdom (UK). This outcome was driven by bodily injury claim inflation exceeding previously held expectations and rate increases in non-private motor classes taking longer to achieve than originally anticipated. The adverse development cover (ADC) has provided considerable protection during the current reporting period. In addition, there was a write down of the UK intangible assets and goodwill of \$150 million (2009 - \$Nil).

The Group has reported an insurance margin of 12.7% (2009 - 13.4%).

The Group's insurance result was also impacted by:

- prior period reserve releases of \$103 million (2009 - \$80 million);
- natural peril claim costs of \$134 million net of reinsurance recoveries (2009 - \$121 million); and
- a negligible impact from credit spreads (2009 - benefit of \$28 million).

Underlying gross written premium (GWP) growth of 3.2% was achieved in the half year. GWP of \$3,936 million increased by 1.9% despite adverse currency movements in both New Zealand and the UK.

Reported return on equity in the half year was 7.2% and cash return on equity was 16.0%. This compares to the Group's long term target of a cash return on equity equivalent to 1.5 times the weighted average cost of capital, which broadly equates to 15%.

The IAG Board has determined to pay an interim dividend of 9.0 cents per ordinary share (fully franked) (2009 - 8.5 cents per ordinary share), equating to a cash payout ratio of approximately 52%. It remains the Group's policy to pay out 50%-70% of full year cash earnings.

A. AUSTRALIA DIRECT

- The Group's largest business grew GWP by 7.9% and delivered an insurance margin of 19.4%. This reflects improved underwriting disciplines and expense management as well as higher reserve releases.
- An increase in net natural peril claim costs was contained by reinsurance recoveries.

B. AUSTRALIA INTERMEDIATED (CGU)

- The steady improvement in underlying performance has continued, with a reported insurance margin of 14.3%.
- CGU's result includes a significant contribution from reserve releases and was also influenced by lower net natural peril claim costs following reinsurance recoveries.

C. NEW ZEALAND

- IAG's New Zealand (NZ) business has continued to perform well with an insurance margin of 19.8%.
- The result includes modest net natural peril claim costs following substantial reinsurance recoveries, notably in respect of the Christchurch earthquake.

D. UNITED KINGDOM

- The UK business continues to be impacted by the bodily injury claim inflation affecting the broader industry.
- While the programme of remedial actions has delivered early results, the financial improvements have been slower than expected, resulting in a negative insurance margin of 41.3%.

E. ASIA

- The Group's established businesses in Asia have performed well.
- The division continues to bear significant business development costs which it is self-funding.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 31 December 2010 were \$20,782 million compared to \$20,446 million at 30 June 2010. The increase is mainly attributable to:

- a \$798 million increase in reinsurance and other recoveries on outstanding claims following the Christchurch earthquake and additional UK recoveries, partially offset by;
- a \$270 million decrease in premium and trade receivables due to a combination of the seasonality of premium debtors and the receipt of recoveries on the Melbourne and Perth storm events that occurred in March 2010; and
- the impact of a stronger Australian dollar.

The total liabilities of the Group as at 31 December 2010 were \$16,124 million compared to \$15,790 million at 30 June 2010. The increase is mainly attributable to:

- a \$594 million increase in outstanding claims driven by the gross provisions held for claims arising from the Christchurch earthquake and a further reserve strengthening in the UK, partially offset by;
- a \$204 million decrease in trade payables primarily due to the settlement of a UK reinsurance arrangement; and
- the impact of a stronger Australian dollar.

The increase in total equity, from \$4,656 million at 30 June 2010 to \$4,658 million at 31 December 2010, largely reflects:

- net comprehensive income attributable to equity holders of \$123 million, partially offset by;
- 2010 final dividend payment of \$94 million.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the half year ended 31 December 2010 were \$316 million compared to \$610 million for the prior period. The decrease is mainly attributable to:

- increased tax payments as a result of improved profitability; and
- payment for the ADC purchased in the prior financial year in relation to the UK business.

C. CAPITAL MANAGEMENT

The Group's capital position remained strong during the period with a minimum capital requirement (MCR) multiple of 1.81 at 31 December 2010.

Further information on the Group's result and review of operations can be found in the 31 December 2010 Investor Report on IAG's website, www.iag.com.au.

LIKELY DEVELOPMENTS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult. The Group announced revised insurance margin guidance for the full financial year ending 30 June 2011 of 8%-10%, lower than the guidance held at the outset of the financial year of 10.5%-12.5%. Forecast underlying GWP growth of 3%-5% is unchanged.

This revised insurance margin guidance assumes:

- full year losses from natural perils of \$540 million, following a number of extreme weather and natural peril events in Australia and New Zealand in January and February 2011;
- continued strong underlying performance from the Australian and New Zealand operations;
- a further loss in the second half from the UK business, but lower than that recorded in the first half;
- an increased reinsurance expense in the second half, following purchase of a new UK reinsurance arrangement and estimated catastrophe cover reinstatement costs;
- full year net reserve releases not exceeding the prior financial year's release of \$228 million (excluding the one-off UK strengthening in the second half of the prior financial year); and
- no material movement in foreign exchange rates or investment markets in the second half.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in note 5.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

P Bush was appointed as a non-executive director to the IAG Board on 7 December 2010.

There were changes in the executive team during the financial period:

- as part of the executive team changes announced on 27 July 2010, IR Foy, JS Johnson and LC Murphy were appointed to the Chief Executive Officer, UK, Chief Executive Officer, NZ and Chief Executive Officer, The Buzz roles respectively;
- N Utley left the Group; and
- P Harmer was appointed as Chief Executive Officer, CGU on 8 November 2010 to replace DG West who resigned.

EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the half year are set out in note 11. These include:

- the IAG Board determination to pay an interim dividend; and
- severe weather and other natural peril events.

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

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half year ended 31 December 2010.

Signed at Sydney this 24th day of February 2011 in accordance with a resolution of the directors.



.....
Director



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

To the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2010 there have been:

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

KPMG

KPMG

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

Brian Greig
Partner

Sydney
24 February 2011

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

BALANCE SHEET AS AT 31 DECEMBER 2010

	NOTE	CONSOLIDATED
	31 December	30 June
	2010	2010
	\$m	\$m
ASSETS		
Cash held for operational purposes	413	416
Investments	11,810	11,734
Premium receivable	1,876	2,046
Inventories	1	1
Trade and other receivables	984	1,084
Defined benefit superannuation asset	2	-
Current tax assets	2	5
Reinsurance and other recoveries receivable on outstanding claims	1,869	1,071
Prepayments	18	36
Deferred levies and charges	139	137
Deferred outwards reinsurance expense	423	258
Deferred acquisition costs	634	688
Deferred tax assets	171	302
Property and equipment	288	302
Investment in joint ventures and associates	299	283
Intangible assets	211	301
Goodwill	1,642	1,782
Total assets	<u>20,782</u>	<u>20,446</u>
LIABILITIES		
Trade and other payables	837	1,041
Reinsurance premiums payable	371	239
Restructuring provision	8	22
Current tax liabilities	128	84
Unearned premium liability	4,117	4,207
Non-controlling interests in unitholders' funds	140	122
Lease provision	38	39
Employee benefits provision	230	298
Deferred tax liabilities	28	35
Outstanding claims liability	8,847	8,253
Interest bearing liabilities	6 <u>1,380</u>	<u>1,450</u>
Total liabilities	<u>16,124</u>	<u>15,790</u>
Net assets	<u>4,658</u>	<u>4,656</u>
EQUITY		
Share capital	5,353	5,353
Treasury shares held in trust	(58)	(58)
Reserves	(92)	(34)
Retained earnings	(692)	(775)
Parent interest	4,511	4,486
Non-controlling interests	147	170
Total equity	<u>4,658</u>	<u>4,656</u>

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED	SHARE CAPITAL	TREASURY SHARES HELD IN TRUST	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE BASED REMUNERATION RESERVE	HEDGING RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
31 December 2010								
Balance at the beginning of the financial period	5,353	(58)	(61)	27	-	(775)	170	4,656
Profit/(loss) for the period	-	-	-	-	-	161	44	205
Other comprehensive income/(expense)	-	-	(55)	-	-	17	-	(38)
Total comprehensive income/(expense) for the period	-	-	(55)	-	-	178	44	167
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS								
Shares acquired and held in trust	-	(14)	-	-	-	-	-	(14)
Share based payment expense recognised	-	-	-	9	-	-	-	9
Share based remuneration vested	-	14	-	(12)	-	(2)	-	-
Non-controlling interest in acquisition during the period	-	-	-	-	-	-	2	2
Dividends determined and paid	-	-	-	-	-	(94)	(69)	(163)
Dividends received on treasury shares held in trust	-	-	-	-	-	1	-	1
Balance at the end of the financial period	5,353	(58)	(116)	24	-	(692)	147	4,658
31 December 2009								
Balance at the beginning of the financial period	5,326	(55)	(58)	48	(1)	(589)	165	4,836
Profit/(loss) for the period	-	-	-	-	-	329	58	387
Other comprehensive income/(expense)	-	-	(14)	-	2	3	-	(9)
Total comprehensive income/(expense) for the period	-	-	(14)	-	2	332	58	378
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS								
Shares issued under dividend reinvestment plan	27	-	-	-	-	-	-	27
Shares acquired and held in trust	-	(23)	-	-	-	-	-	(23)
Share based payment expense recognised	-	-	-	15	-	-	-	15
Share based remuneration vested	-	10	-	(12)	-	2	-	-
Share based remuneration lapsed	-	-	-	(17)	-	17	-	-
Non-controlling interests in acquisition during the period	-	-	-	-	-	-	(12)	(12)
Dividends determined and paid	-	-	-	-	-	(124)	(57)	(181)
Balance at the end of the financial period	5,353	(68)	(72)	34	1	(362)	154	5,040

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	31 December 2010	31 December 2009
	\$m	\$m
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium received	4,108	4,093
Reinsurance and other recoveries received	439	378
Claim costs paid	(2,898)	(2,816)
Outwards reinsurance premium expense paid	(261)	(217)
Dividends received	17	11
Interest and trust distributions received	294	267
Finance costs paid	(48)	(50)
Income taxes refunded	-	49
Income taxes paid	(93)	(84)
Other operating receipts	597	613
Other operating payments	(1,839)	(1,634)
Net cash flows from operating activities	<u>316</u>	<u>610</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net outlay for investment in associates and subsidiaries	(29)	(126)
Proceeds from disposal of investments and property and equipment	4,525	7,594
Outlays for investments and property and equipment acquired	(4,386)	(7,477)
Net cash flows from investing activities	<u>110</u>	<u>(9)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Outlays for purchase of treasury shares	(14)	(23)
Proceeds from issue of trust units	48	77
Outlays for redemption of trust units	(30)	(39)
Proceeds from borrowings	-	12
Repayment of borrowings	(4)	-
Dividends paid to IAG equity holders ^(a)	(94)	(124)
Dividends paid to non-controlling interests	(69)	(57)
Proceeds from issue of shares	-	27
Dividends received on treasury shares	1	-
Net cash flows from financing activities	<u>(162)</u>	<u>(127)</u>
Net movement in cash held	264	474
Effects of exchange rate changes on balances of cash held in foreign currencies	(26)	(20)
Cash and cash equivalents at the beginning of the financial period	<u>1,053</u>	<u>1,282</u>
Cash and cash equivalents at the end of the financial period ^(b)	<u>1,291</u>	<u>1,736</u>

(a) Includes dividends settled with shares purchased on market under the Dividend Reinvestment Plan.

(b) Includes \$413 million (2009 - \$387million) of cash held for operational purposes and \$878 million of cash and short term money held for investment (2009 - \$1,349 million).

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. This half year financial report is for the half year ended 31 December 2010 and includes the consolidated financial statements for the Company and its subsidiaries (Group or Consolidated entity).

This general purpose half year financial report was authorised by the board of directors for issue on 24 February 2011.

This half year financial report does not include all of the notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by the Company since 30 June 2010 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

A. STATEMENT OF COMPLIANCE

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

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

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

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The accounting policies adopted in the preparation of this financial report have been consistently applied by all entities in the Consolidated entity and are the same as the previous year unless otherwise noted. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report. The principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

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

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

I. Australian accounting standards issued but not yet effective

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

None of these standards have been early adopted and applied in the current reporting period. These standards will be adopted in the year commencing 1 July after the operative date. For example, AASB 2009-12 will be operative in the financial year commencing 1 July 2011.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2013	C
AASB 2009-11	Amendments to Australian Accounting Standards - Accounting standards arising from AASB 9	1 January 2013	D
AASB 2009-12	Amendments to Australian Accounting Standards	1 January 2011	B
AASB 2010-4	Further amendments to Australian Accounting Standards arising from the annual improvement project	1 January 2011	B
AASB 2010-5	Amendment to Australian Accounting Standards	1 January 2011	A
AASB 2010-6	Amendment to Australian Accounting Standards - Disclosures on transfers of financial assets	1 July 2011	A
AASB 2010-7	Amendment to Australian Accounting Standards arising from AASB 9	1 January 2013	D

Table notes

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

II. Changes in accounting policies

There have been no changes in accounting policies which have a material financial impact during the current half year reporting period.

III. Reclassifications of comparatives

No items have been reclassified from the Consolidated entity's prior half year financial report to conform to the current period's presentation.

IV. Rounding

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

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

- other:
 - intangible assets and goodwill impairment testing;
 - acquired intangible assets initial measurement and determination of useful life;
 - income tax and related assets and liabilities;
 - share based remuneration; and
 - defined benefit superannuation arrangements.

The accounting judgements made during the half year that did not involve estimations are considered to have had no significant impact on the amounts recognised in the financial report (31 December 2009 and 30 June 2010–none), including determination of the existence of control when entities are not wholly owned, the selection of valuation models for complex financial instruments (such as the recognition of the identifiable intangible assets acquired in a business combination) and the probability of recovering carry forward tax losses.

NOTE 3. SEGMENT REPORTING

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

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

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

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

The reportable segments comprise the following business divisions.

A. AUSTRALIA DIRECT INSURANCE

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

B. AUSTRALIA INTERMEDIATED INSURANCE

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

C. NEW ZEALAND INSURANCE

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

D. UNITED KINGDOM INSURANCE

This segment comprises the general insurance underwriting and broker distribution services operating through subsidiaries in the United Kingdom. The underwriting business, Equity Red Star operates through a Lloyd's syndicate.

E. ASIA INSURANCE

This segment comprises primarily the direct insurance business underwritten through subsidiaries in Thailand and the share of the operating result from the investment in associates in Malaysia and India (an associate company which commenced underwriting insurance contracts in March 2010). The businesses offer personal and commercial insurance products through local brands.

F. CORPORATE AND OTHER

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

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

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

CONSOLIDATED	AUSTRALIA DIRECT INSURANCE \$m	AUSTRALIA INTERMEDIATED INSURANCE \$m	NEW ZEALAND INSURANCE \$m	UNITED KINGDOM INSURANCE \$m	ASIA INSURANCE \$m	CORPORATE AND OTHER \$m	TOTAL \$m
31 December 2010							
External revenue	<u>2,233</u>	<u>1,406</u>	<u>1,141</u>	<u>484</u>	<u>135</u>	<u>149</u>	<u>5,548</u>
Total revenue	<u>2,233</u>	<u>1,406</u>	<u>1,141</u>	<u>484</u>	<u>135</u>	<u>149</u>	<u>5,548</u>
Underwriting profit/(loss) ^(a)	<u>261</u>	<u>101</u>	<u>86</u>	<u>(124)</u>	<u>(3)</u>	<u>-</u>	<u>321</u>
Investment income net of investment fees - technical reserves	<u>89</u>	<u>53</u>	<u>4</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>149</u>
Insurance profit/(loss)	<u>350</u>	<u>154</u>	<u>90</u>	<u>(121)</u>	<u>(3)</u>	<u>-</u>	<u>470</u>
Investment income net of investment fees - equity holders' funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147</u>	<u>147</u>
Share of net profit/(loss) of associates	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>
Finance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44)</u>	<u>(44)</u>
Other net operating result	<u>-</u>	<u>15</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>(162)</u>	<u>(145)</u>
Profit/(loss) before income tax	<u>350</u>	<u>168</u>	<u>90</u>	<u>(119)</u>	<u>(2)</u>	<u>(59)</u>	<u>428</u>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(223)</u>
Profit/(loss) for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205</u>
Acquisitions of property and equipment, intangibles and other non-current segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>27</u>
Depreciation expense	<u>15</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>3</u>	<u>24</u>
Amortisation and impairment charges on acquired intangibles and goodwill ^(b)	<u>5</u>	<u>4</u>	<u>1</u>	<u>161</u>	<u>-</u>	<u>-</u>	<u>171</u>
Total depreciation and amortisation expense	<u>20</u>	<u>5</u>	<u>4</u>	<u>162</u>	<u>1</u>	<u>3</u>	<u>195</u>
Other non cash expenses	<u>15</u>	<u>7</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>3</u>	<u>28</u>

(a) The liability adequacy test at 31 December 2010 resulted in a surplus for each portfolio of contracts except for the United Kingdom insurance portfolio (31 December 2009 – surplus for each portfolio of contracts). An impairment charge of \$40 million has been recognised in the underwriting results of the United Kingdom insurance segment primarily due to bodily injury claim inflation exceeding expectations.

(b) During the current reporting period, the following which related to the United Kingdom insurance segment were impaired (31 December 2009 - \$Nil):

- Equity distribution channel—Affinity relationship:
An impairment charge of \$60 million was recognised due to the adverse impact on gross written volume of exiting certain broker relationships and poor short to medium term profitability.
- Goodwill:
An impairment charge of \$90 million in the UK cash generating unit was recognised as remediation actions are taking longer than originally anticipated to return the business to underwriting profitability together with further reductions to anticipated short to medium term volume and profitability assumptions.

CONSOLIDATED	AUSTRALIA DIRECT INSURANCE \$m	AUSTRALIA INTERMEDIATED INSURANCE \$m	NEW ZEALAND INSURANCE \$m	UNITED KINGDOM INSURANCE \$m	ASIA INSURANCE \$m	CORPORATE AND OTHER \$m	TOTAL \$m
31 December 2009							
External revenue	<u>2,035</u>	<u>1,381</u>	<u>503</u>	<u>440</u>	<u>103</u>	<u>109</u>	<u>4,571</u>
Total revenue	<u>2,035</u>	<u>1,381</u>	<u>503</u>	<u>440</u>	<u>103</u>	<u>109</u>	<u>4,571</u>
Underwriting profit/(loss)	163	33	63	17	1	1	278
Investment income net of investment fees - technical reserves	<u>118</u>	<u>79</u>	<u>5</u>	<u>7</u>	<u>1</u>	-	<u>210</u>
Insurance profit/(loss)	281	112	68	24	2	1	488
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	91	91
Share of net profit/(loss) of associates	-	-	-	-	2	-	2
Finance costs	-	-	-	-	-	(43)	(43)
Other net operating result	-	10	1	(2)	-	(4)	5
Profit/(loss) before income tax	<u>281</u>	<u>122</u>	<u>69</u>	<u>22</u>	<u>4</u>	<u>45</u>	543
Income tax expense							<u>(156)</u>
Profit/(loss) for the period							<u>387</u>
Acquisitions of property and equipment, intangibles and other non-current segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70</u>	<u>70</u>
Depreciation expense	18	1	3	3	1	3	29
Amortisation on acquired intangibles	3	-	5	12	-	1	21
Total depreciation and amortisation expense	<u>21</u>	<u>1</u>	<u>8</u>	<u>15</u>	<u>1</u>	<u>4</u>	<u>50</u>
Other non cash expenses	<u>19</u>	<u>8</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>36</u>

NOTE 4. EARNINGS PER SHARE

	CONSOLIDATED	
	31 December 2010	31 December 2009
	cents	cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share*	<u>7.79</u>	<u>15.96</u>
Diluted earnings per ordinary share	<u>7.75</u>	<u>15.87</u>
* The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 Earnings per Share. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the current half year would be reduced to 7.75 cents (31 December 2009 - 15.87 cents).		

	CONSOLIDATED	
	31 December 2010	31 December 2009
	\$m	\$m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the period	205	387
(Profit)/loss attributable to non-controlling interests	<u>(44)</u>	<u>(58)</u>
Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	<u>161</u>	<u>329</u>

	CONSOLIDATED	
	31 December 2010	31 December 2009
	Number of shares in millions	Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Ordinary shares on issue	2,079	2,075
Treasury shares held in trust	<u>(11)</u>	<u>(12)</u>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,068	2,063
Weighted average number of dilutive potential ordinary shares relating to		
Unvested share based remuneration rights supported by treasury shares held in trust	<u>11</u>	<u>12</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>2,079</u>	<u>2,075</u>

The following matter is relevant to the determination of the weighted average number of ordinary shares:

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

NOTE 5. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT \$m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
31 December 2010					
2010 final dividend	4.5	<u>94</u>	6 October 2010	30%	100%
30 June 2010					
2010 interim dividend	8.5	177	12 April 2010	30%	100%
2009 final dividend	6.0	<u>124</u>	2 October 2009	30%	100%
		<u>301</u>			

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

The dividends recognised in the current reporting period include \$1 million (30 June 2010 - \$Nil) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

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

The DRP for the 2010 final dividend payable on 6 October 2010 was settled with the on market purchase of 5.2 million ordinary shares priced at \$3.7093 per share (based on the average market price for the five trading days from 13 September 2010 to 17 September 2010 inclusive, with no discount applied) to existing shareholders with dividend entitlements.

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

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

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

	CENTS PER SHARE	TOTAL AMOUNT \$m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2011 interim dividend	9.0	<u>187</u>	11 April 2011	30%	100%

On 24 February 2011 the IAG Board determined the interim dividend will be payable to shareholders as at 5pm on 11 April 2011.

The Company's DRP will operate by issuing ordinary shares to participants by acquiring shares on market with an issue price per share of the average market price as defined in DRP terms with no discount applied. The last election notice for participation in the DRP in relation to this interim dividend is 9 March 2011.

NOTE 6. INTEREST BEARING LIABILITIES

	CONSOLIDATED	
	31 December 2010 \$m	30 June 2010 \$m
A. COMPOSITION		
I. Capital nature		
a. TIER 1 REGULATORY CAPITAL		
Reset preference shares	350	350
Reset exchangeable securities	550	550
b. TIER 2 REGULATORY CAPITAL		
GBP subordinated term notes	153	183
NZD subordinated term notes	76	81
GBP subordinated exchangeable term notes	239	277
II. Operational nature		
Other interest bearing liabilities	15	14
Less: capitalised transaction costs	<u>(3)</u>	<u>(5)</u>
	<u>1,380</u>	<u>1,450</u>

There have been no significant changes to terms and conditions of the interest bearing liabilities since 30 June 2010.

NOTE 7. ACQUISITIONS AND DISPOSALS OF BUSINESSES

There have been no significant changes to the Group structure since 30 June 2010, other than the following:

A. OTHER ACQUISITIONS

I. During the half year ended 31 December 2010

a. ACCIDENT & HEALTH INTERNATIONAL UNDERWRITING PTY LIMITED

On 1 July 2010, the Group entered into an arrangement to acquire 50% of the ownership of Accident & Health International Underwriting Pty Limited (AHI). AHI is an underwriting agency in Australia that has been in operation since 1998 and currently underwrites personal accident, medical expenses and travel insurance.

NOTE 8. CONTINGENCIES

There have been no material changes in the contingent liabilities or contingent assets since 30 June 2010.

NOTE 9. RELATED PARTY DISCLOSURES

The Group currently operates under a devolved model but there are shared services through the use of dedicated units (such as head office finance providing accounting and processing services to operational entities) and entities (such as dedicated entities that provide employee services, technology development services, and reinsurance services) which provide services across the Group. All such intragroup transactions are charged to the relevant entities on either normal commercial terms and conditions, a direct and actual cost recovery basis or time allocation basis. All transactions that have occurred among the subsidiaries within the Group have been eliminated for consolidation purposes.

NOTE 10. NET TANGIBLE ASSETS

	CONSOLIDATED	
	31 December 2010	30 June 2010
	\$	\$
Net tangible assets per ordinary share	<u>1.28</u>	<u>1.16</u>

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

NOTE 11. EVENTS SUBSEQUENT TO REPORTING DATE

As the following events occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the current half year ended 31 December 2010.

A. INTERIM DIVIDEND

On 24 February 2011, the IAG Board determined to pay an interim dividend of 9.0 cents per share, 100% franked. The dividend will be paid on 11 April 2011.

B. SEVERE WEATHER AND OTHER NATURAL PERIL EVENTS

Since the beginning of January 2011, the Group has incurred estimated natural peril claim costs, net of reinsurance, of around \$300 million from a sequence of major weather and other natural peril events in Australia, which will be included in the Group's second half result. These events include:

- severe storms and flooding in south-east Queensland and northern New South Wales (January 2011);
- severe weather and flooding in Victoria (January 2011);
- Tropical Cyclone Yasi in northern Queensland (February 2011);
- severe storms in Melbourne (February 2011); and
- bushfires in Perth (February 2011).

In addition, on 22 February 2011, a major earthquake occurred in Christchurch which will have a maximum of \$40 million financial impact to the Group.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 11, are in accordance with the Corporations Act 2001 including:
 - giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2010 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A; and
 - complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 24th day of February 2011 in accordance with a resolution of the directors.



..... Director



INDEPENDENT AUDITOR'S REVIEW REPORT OF INSURANCE AUSTRALIA GROUP LIMITED REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited (Company), which comprises the consolidated balance sheet as at 31 December 2010, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

DIRECTORS' RESPONSIBILITY FOR THE HALF YEAR FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

INDEPENDENCE

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

CONCLUSION

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

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

KPMG

Brian Greig
Partner

Sydney
24 February 2011