

KEY FIGURES ▶▶

➤ **\$3,922m** ➤ **\$227m** ➤ **6.2%** ➤ **\$4m** ➤ **4cps**

GROSS WRITTEN PREMIUM (GWP)

Up 1.8% on the previous corresponding period, driven by strong growth in our largest business, Australia Direct.

When considering only the Group's ongoing portfolio of businesses (excluding the divested businesses), underlying GWP growth was almost 4%.

INSURANCE PROFIT

Up from \$190 million in the previous corresponding period, due to the actions we are taking to get our business back on track, including increased underwriting discipline, and measures to improve efficiency and reduce costs.

INSURANCE MARGIN

Up from 5.1% in the previous corresponding period. When removing the impact of external factors, such as widening credit spreads, impairment charges related to the steep decline in interest rates, and natural peril claim costs exceeding our allowances, we would have delivered an insurance margin of 10.3%.

NET PROFIT AFTER TAX

This represents a substantial turnaround from the \$371 million loss recorded in the second half of the 2008 financial year, but was lower than the previous first half. The result was impacted by negative investment returns on shareholders' funds due to weak investment markets, as well as one off costs of \$115 million from the sale and restructuring of our underperforming, non-core businesses during the period.

DIVIDEND

The interim dividend at four cents per ordinary share, fully franked, will be paid on 8 April 2009 to shareholders registered as at 11 March 2009.

This is consistent with the Group's revised dividend policy to pay out 50–70% of cash earnings.

Similar to last year, a dividend reinvestment plan will be offered.

USEFUL INFORMATION ▶▶

IAG SHARE REGISTRY

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IAG REGISTERED OFFICE

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ONLINE INFORMATION

To view other information about IAG and to manage your shareholding online, visit www.iag.com.au

You can also register to receive email news alerts when IAG makes important announcements.

OUR MAJOR BRANDS ▶▶



100% owned unless indicated

1 RACV is via a distribution relationship and underwriting joint venture with RACV Ltd.

2 98% voting rights. 3 49% ownership of AmG Insurance, which is part of AmAssurance.

THE YEAR SO FAR ▶▶▶

INTERIM REPORT 2009

Insurance Australia Group Limited ABN 60 090 739 923



HOW WE'VE PERFORMED ▶▶

FINANCIAL PERFORMANCE

	Six months ended 31 Dec 2007 \$m	Six months ended 31 Dec 2008 \$m
Gross premium revenue	3,851	3,922
Net premium revenue	3,709	3,683
Net claims expense	(2,644)	(3,088)
Underwriting loss	(34)	(505)
Investment income on technical reserves	224	732
Insurance profit	190	227
Profit from fee based business/share from associates	29	13
Investment income on shareholders' funds	76	(72)
Net profit attributable to holders of ordinary shares	110	4

FINANCIAL POSITION

	As at 30 Jun 2008 \$m	As at 31 Dec 2008 \$m
Cash and investments	10,783	10,727
Other assets	6,137	6,725
Goodwill and intangibles	2,460	2,353
Total assets	19,380	19,805
Claims provisions and unearned premium	11,924	12,124 ¹
Borrowings and other liabilities	3,105	3,546 ¹
Total liabilities	15,029	15,670
Net assets	4,351	4,135
Equity attributable to IAG shareholders	4,204	3,986
Minority interests	147	149
Total equity	4,351	4,135

1 \$423 million 'Claims provisions and unearned premium' has been presented as 'Borrowings and other liabilities' as they are classified as held for sale as at 31 December 2008.

WORK IN PROGRESS ▶▶

Insurance Australia Group Limited (IAG) delivered an improved underlying performance during the first half of the 2009 financial year, demonstrating that we are making solid progress against the priorities outlined in July 2008.

IAG's insurance profit was up 19% to \$227 million compared to the previous corresponding period, representing an improved insurance margin of 6.2%, up from 5.1%.

This underlying improvement has been driven by:

- premium revenue (gross written premium) growth of 1.8%;
- disciplined underwriting;
- a stronger performance from our largest business, Australia Direct; and
- the initial benefits from our efficiency programme, which is on track to deliver \$130 million in annual pre-tax savings in our Australian operations.

Our net profit after tax of \$4 million was significantly impacted by a \$148 million reduction in investment

income on shareholders' funds compared to the previous corresponding period due to weak investment markets, and one off costs associated with the divestment of underperforming businesses during the half.

We expect further improvement in our underlying performance over the remainder of the 2009 financial year, as a result of our strengthened executive team, efficiency programme, disciplined underwriting and exit from our poorly performing mass market operations in the UK.

Our priorities are to continue to improve the performance of our home markets of Australia and New Zealand, finalise our previously flagged growth opportunities in Asia, and drive operational performance, execution and accountability across the Group.

We are encouraged by the Group's results for the first half and remain confident that the operational and strategic changes we have made are delivering stronger returns and will continue to improve the performance of your company.

JAMES STRONG
Chairman

MICHAEL WILKINS
Managing Director &
Chief Executive Officer

**IN 2008/09 WE SAID:
WE WOULD MOVE
TO A SIMPLER**

**OPERATING MODEL.
WE CREATED END-TO-END
BUSINESSES WITH THE
AUTONOMY TO MANAGE
THEIR OWN BRANDS AND
CUSTOMERS, PUTTING
CONTROL CLOSER TO
THE END-CONSUMER,
TO DELIVER SUPERIOR
EXPERIENCES AND
PERFORMANCE.**

**CURRENT STATUS:
▶▶▶ DELIVERED.**

**IN 2008/09 WE SAID:
WE WOULD PURSUE
SELECT GROWTH
OPPORTUNITIES IN ASIA.
WE FINALISED OUR
GENERAL INSURANCE JOINT
VENTURE AGREEMENT
WITH THE STATE BANK
OF INDIA AND INCREASED
OUR INTEREST IN THE
GENERAL INSURANCE ARM
OF AMASSURANCE (AmG),
A LEADING MALAYSIAN
INSURER.**

**CURRENT STATUS:
▶▶▶ ON TRACK.**

**IN 2008/09 WE SAID:
WE WOULD DELIVER
\$130 MILLION IN ANNUAL
BEFORE TAX RUN-RATE
SAVINGS IN AUSTRALIA.
WE IMPLEMENTED AN
EFFICIENCY PROGRAMME
WITH SIGNIFICANT COST
SAVING INITIATIVES.**

**CURRENT STATUS:
▶▶▶ DELIVERED.**

**IN 2008/09 WE SAID:
WE WOULD
STRENGTHEN OUR
EXECUTIVE TEAM.
WE APPOINTED A NEW
EXECUTIVE TEAM WITH
EXTENSIVE FINANCIAL
SERVICES AND
INSURANCE EXPERIENCE.**

**CURRENT STATUS:
▶▶▶ DELIVERED.**

**IN 2008/09 WE SAID: WE WOULD REFINES
OUR CORPORATE STRATEGY TO IMPROVE
THE PERFORMANCE OF THE BUSINESS BY
GETTING THE FUNDAMENTALS RIGHT AND
FOCUSING ON THE MARKETS WHERE WE
HAVE A COMPETITIVE ADVANTAGE.**

**THE FIRST HALF OF 2008/09 WAS A PERIOD
OF SIGNIFICANT ACTIVITY FOR THE GROUP
AS WE DELIVERED ON THE PRIORITIES
OUTLINED IN OUR REFINED CORPORATE
STRATEGY, PRESENTED IN JULY 2008.**

CURRENT STATUS: ▶▶▶ DELIVERED.

**IN 2008/09 WE SAID:
WE WOULD MAINTAIN A
STRONG CAPITAL POSITION.
AS AT 31 DECEMBER
2008, THE GROUP HELD A
LEVEL OF CAPITAL WHICH
WAS 1.51 TIMES THE
REGULATED MINIMUM
CAPITAL REQUIREMENT
(MCR). STANDARD &
POOR'S ALSO REAFFIRMED
ITS RATINGS FOR IAG'S
KEY WHOLLY OWNED
INSURERS OF 'AA-'
(STABLE) – THE HIGHEST
OF ANY AUSTRALIAN-
BASED GENERAL INSURER.**

**CURRENT STATUS:
▶▶▶ DELIVERED.**

As a prudent measure in these challenging market conditions, and to provide the Group with an enhanced capital structure and increased financial flexibility, we announced we would raise approximately \$500 million in additional capital during February and March 2009. This is further strengthening our MCR multiple.

**IN 2008/09 WE SAID: OUR
FULL YEAR GUIDANCE FOR
UNDERLYING GWP GROWTH
WAS 3-5% AND REPORTED
GWP GROWTH WAS 0-2%.
OUR FULL YEAR GUIDANCE
FOR OUR INSURANCE
MARGIN WAS 1.0%+.
WE ARE MEETING
GWP GUIDANCE.
IN FEBRUARY 2009, WE
REVISED OUR INSURANCE
MARGIN GUIDANCE TO
6%+ FOR THE FULL YEAR.¹
THIS IS IN RECOGNITION
OF THE ADVERSE
IMPACTS OF VOLATILE
INVESTMENT MARKETS
AND ACCOUNTING
IMPAIRMENTS DUE
LARGELY TO THE STEEP
DECLINE IN INTEREST
RATES IN THE FIRST HALF.
IT ALSO REFLECTS THE
UNEXPECTED INCREASE
IN NATURAL PERIL CLAIM
COSTS IN THE WAKE OF
THE RECENT BUSHFIRES
IN VICTORIA, AUSTRALIA.**

**CURRENT STATUS:
▶▶▶ GWP GUIDANCE
ON TRACK. REVISED
INSURANCE MARGIN
GUIDANCE SET.**

**IN 2008/09 WE SAID:
WE WOULD FOCUS ON
DRIVING PERFORMANCE
AND RETURNS IN
OUR HOME MARKETS
OF AUSTRALIA AND
NEW ZEALAND.
WE IMPLEMENTED NEW
BRAND CAMPAIGNS,
INTRODUCED INNOVATIVE
PRODUCTS, INCREASED
PREMIUMS WHERE
REQUIRED, AND
REDUCED COSTS.**

**CURRENT STATUS:
▶▶▶ ON TRACK.**

Australia Direct is performing strongly, and delivered 8.8% GWP growth compared with the previous corresponding period.

We are focused on driving the same improved performance in our CGU (Australia Intermediated) and New Zealand businesses. Key initiatives include maintaining underwriting discipline and taking appropriate actions to ensure premiums reflect claim costs.

**IN 2008/09 WE SAID:
WE WOULD SCALE BACK
OPERATIONS IN THE UK,
FOCUSING ON MORE
PROFITABLE, SPECIALIST
MARKETS.**

**WE SOLD OUR POORLY
PERFORMING UK MASS
MARKET DISTRIBUTION
BUSINESSES. THE FOCUS
IS NOW ON THE RETAINED
BUSINESS, EQUITY RED
STAR, WHICH HAS A
37 YEAR TRACK RECORD
OF PROFITABILITY AND
DELIVERED A STRONG
UNDERLYING INSURANCE
MARGIN OF 13.4% IN
THE FIRST HALF.**

**CURRENT STATUS:
▶▶▶ DELIVERED.**

¹ Subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond \$150 million in excess of full year allowances (\$314 million), no material changes in investment markets including credit spreads and no further liability adequacy test adjustments.