

6 April 2009

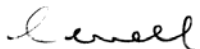
Manager, Company Announcement Office  
ASX Limited  
Level 4, Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**INSURANCE AUSTRALIA GROUP LIMITED ('IAG')  
INTERIM REPORT 2009**

In accordance with Listing Rule 3.17, please find enclosed the IAG Interim Report 2009, which will be sent to shareholders who have elected to receive the report from today.

Yours sincerely



Glenn Revell  
**Company Secretary**

Insurance Australia  
Group Limited  
ABN 60 090 739 923

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Sydney NSW 2000  
Australia

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[www.iag.com.au](http://www.iag.com.au)

## KEY FIGURES ▶▶

▶▶ **\$3,922m**

### 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%.

▶▶ **\$227m**

### 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.

▶▶ **6.2%**

### 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%.

▶▶ **\$4m**

### 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.

▶▶ **4cps**

### 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.

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.



## OUR MAJOR BRANDS ▶▶

## USEFUL INFORMATION ▶▶

**IAG SHARE REGISTRY**  
Computershare Investor Services Pty Limited  
Telephone: 1300 360 688  
or +61 3 9415 4210  
Email: iag@computershare.com.au

**IAG REGISTERED OFFICE**  
Insurance Australia Group Limited  
Level 26, 388 George Street  
Sydney NSW 2000 Australia  
Telephone: +61 2 9292 9222

**ONLINE INFORMATION**  
To view other information about IAG and to manage your shareholding online, visit [www.iag.com.au](http://www.iag.com.au)  
You can also register to receive email news alerts when IAG makes important announcements.

# 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)
<b>Net profit attributable to holders of ordinary shares</b>	<b>110</b>	<b>4</b>

### 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
<b>Total assets</b>	<b>19,380</b>	<b>19,805</b>
Claims provisions and unearned premium	11,924	12,124 <sup>1</sup>
Borrowings and other liabilities	3,105	3,546 <sup>1</sup>
<b>Total liabilities</b>	<b>15,029</b>	<b>15,670</b>
<b>Net assets</b>	<b>4,351</b>	<b>4,135</b>
Equity attributable to IAG shareholders	4,204	3,986
Minority interests	147	149
<b>Total equity</b>	<b>4,351</b>	<b>4,135</b>

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 REFINE  
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.<sup>1</sup> 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.**

<sup>1</sup> 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.