

INVESTOR REPORT 1H11

24 FEBRUARY 2011



DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:

- ASX code for Ordinary Shares: **IAG** (Shares on issue, 31 December 2010: 2,079,034,021)
- 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** (£142.4m outstanding at 31 December 2010)

KEY DATES

Interim dividend – ordinary shares

- Ex-dividend date 3 March 2011
- Record date 9 March 2011
- Payment date 11 April 2011

Payment date for IANG quarterly distribution 15 March 2011

Payment date for IAGPA and IANG distributions 15 June 2011

Announcement of full year results to 30 June 2011 25 August 2011

Final dividend – ordinary shares

- Ex-dividend date 1 September 2011*
- Record date 7 September 2011*
- Payment date 5 October 2011*

Payment date for IANG quarterly distribution 15 September 2011

Annual General Meeting 26 October 2011

Payment date for IAGPA and IANG distributions 15 December 2011

Announcement of half year results to 31 December 2011 23 February 2012*

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

CONTACT DETAILS

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

Website: www.iag.com.au

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

Or by mail to:

GPO Box 4709

Melbourne VIC 3001

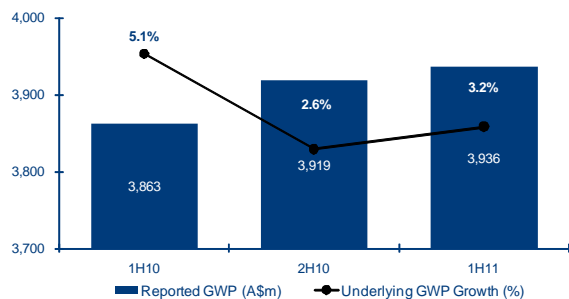
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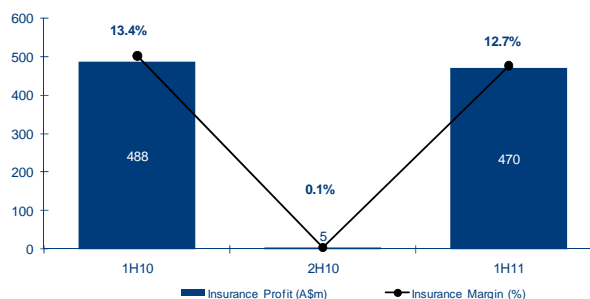
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1H11 GROUP RESULTS

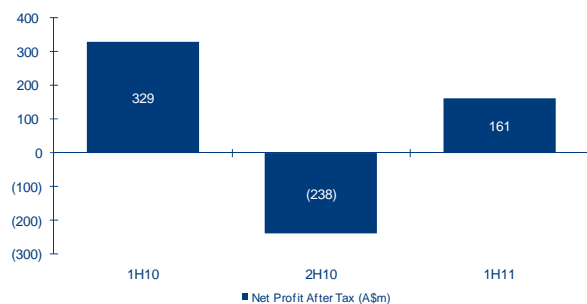
REPORTED GWP & UNDERLYING GWP GROWTH



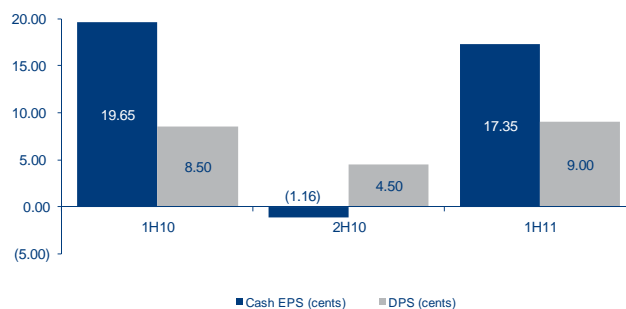
INSURANCE PROFIT & MARGIN



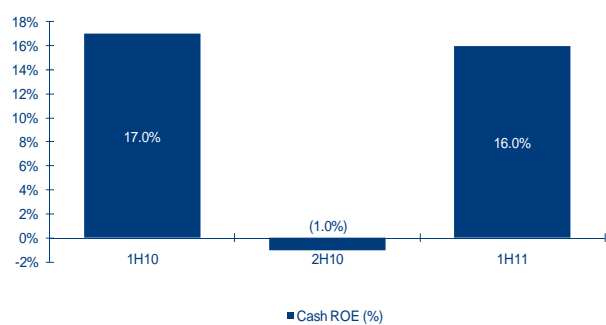
NET PROFIT AFTER TAX



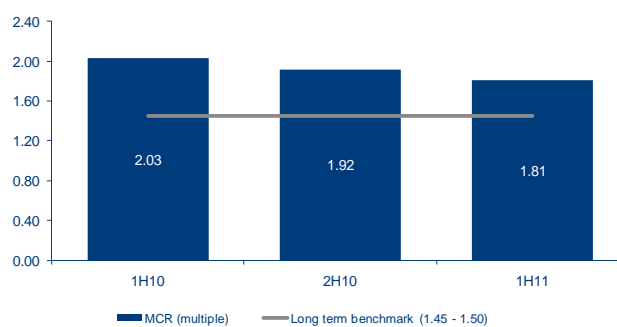
CASH EPS & DPS



CASH ROE



MINIMUM CAPITAL RATIO



KEY POINTS

1H11 OVERVIEW

For 1H11 the Group has reported:

- Underlying gross written premium (GWP) growth of 3.2%; and
- An insurance margin of 12.7%.

These results reflect:

- A strong collective performance from IAG's Australian and New Zealand businesses, which represent over 90% of Group GWP. Australia Direct and New Zealand have performed well, and Australia Intermediated (CGU) continues to demonstrate improvement in its underlying performance; and
- A greater than expected loss from the UK operation, reflecting higher than anticipated bodily injury claim inflation which continues to affect the UK motor insurance industry. This loss includes a \$40m liability adequacy test (LAT) expense. Remediation actions are showing early signs of improvement and are being accelerated.

An interim fully franked dividend of 9.0 cents per share has been determined.

At 31 December 2010 the Group retains a strong capital position, with a Minimum Capital Requirement (MCR) multiple at that date of 1.81.

1H11 insurance margin of 12.7%

FY11 OUTLOOK

The Group's revised insurance margin guidance for FY11 is 8-10%. Underlying GWP growth guidance is unaltered, at 3-5%.

The revised FY11 insurance margin guidance assumes:

- Full year losses from natural perils of \$540m (originally \$435m), 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 2H11 from the UK business, but lower than that recorded in 1H11;
- An increased reinsurance expense in 2H11, following purchase of a new UK reinsurance arrangement and estimated catastrophe cover reinstatement costs;
- Full year net reserve releases not exceeding FY10's \$228m; and
- No material movement in foreign exchange rates or investment markets in 2H11.

FY11 insurance margin guidance of 8-10%, incorporating increased natural peril assumption

1. EXECUTIVE SUMMARY

1H11 OVERVIEW

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 1H10 owing to reinsurance recoveries. Collectively the Australasian businesses produced an insurance margin of 17.8% (1H10: 14.4%).

This performance was offset, however, by a greater than expected insurance loss of \$121m in the UK. This outcome was driven by an elevated level of bodily injury claim inflation, which exceeded previously held expectations and which is continuing to impact the local industry. The result was also influenced by rate increases in non-private motor classes taking longer to achieve than originally anticipated. The adverse development cover (ADC), in respect of underwriting years ended on or before 31 December 2009, has provided considerable protection during the half.

The Group has reported an insurance margin of 12.7% for the six month period ended 31 December 2010.

The Group results include:

- Reserve releases of \$103m, compared to \$80m in 1H10;
- Natural peril claim costs of \$134m net of reinsurance recoveries, compared to \$121m; and
- A negligible impact from credit spreads, compared to a benefit of \$28m.

Underlying GWP growth of 3.2% was achieved in 1H11. Relative to 1H10, reported GWP of \$3,936m increased by 1.9%, despite adverse currency movements in both New Zealand and the UK.

Encouraging volume growth was recorded by Australia Direct, while Australia Intermediated returned to top line growth. GWP in the UK was lower than expected, with achieved rate increases failing to fully counter volume losses.

Net profit after tax for 1H11 was \$161m, compared to a profit of \$329m in 1H10. The decrease is attributable to a writedown of UK intangibles of \$150m and the non-recognition of tax benefits in respect of the UK operating loss.

Reported ROE in 1H11 was 7.2%, and cash ROE was 16.0%.

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

IAG's Australian and New Zealand performance has continued to improve, offset by further bodily injury-related losses in the UK

1. EXECUTIVE SUMMARY

DIVISIONAL HIGHLIGHTS

DIVISIONAL INSURANCE MARGINS

	1H10	2H10	1H11
	%	%	%
Australia Direct	16.9	16.9	19.4
Australia Intermediated (CGU)	10.2	2.6	14.3
New Zealand	15.0	14.3	19.8
Total Australia and New Zealand	14.4	11.9	17.8
UK	6.6	(209.4)	(41.3)
Asia	2.9	0.0	(3.8)
Total Margin	13.4	0.1	12.7

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

Australia Intermediated (CGU) has continued to steadily improve its underlying performance despite difficult market conditions. The reported insurance margin of 14.3% includes a significant contribution from reserve releases and was also influenced by lower net natural peril claim costs following reinsurance recoveries.

IAG's **New Zealand** operation has continued to perform well, building on the performance of FY10. An insurance margin of 19.8% reflected modest net natural peril claim costs following substantial reinsurance recoveries, notably in respect of the Christchurch earthquake in September 2010.

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 signs of improvement, the financial impact has been slower than expected.

Established businesses in **Asia**, in Thailand and Malaysia, have performed well. The division continues to bear significant business development costs which it is self-funding. A full launch of the Indian joint venture is expected in 2H11.

CAPITAL

The Group's capital position remains strong with an MCR ratio of 1.81 as at 31 December 2010.

It remains the Group's intention to consider capital management initiatives before the conclusion of calendar year 2011.

At 31 December 2010, IAG's key wholly-owned operating insurance subsidiaries held 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG retains an 'A+' rating.

The Group's debt to total tangible capitalisation at 31 December 2010 stood at approximately 33%, within the Group's targeted range of 30-40%.

The Group's probability of adequacy for the outstanding claims liability remains at least 90%, as at 31 December 2010.

Australia and New Zealand performed well in 1H11

Strong capital position maintained

1. EXECUTIVE SUMMARY

OUTLOOK

The Group's insurance margin guidance for FY11 is 8-10%. This is lower than the guidance held at the outset of the financial year (10.5-12.5%), and reflects:

- An increase in assumed net natural peril claim costs to \$540m, from \$435m, following the succession of severe weather and peril events experienced in Australia and New Zealand in January and February 2011;
- A weaker than originally anticipated operating performance in the UK; and
- An increased reinsurance expense in 2H11, including approximately \$40m for a new UK reinsurance arrangement in respect of the underwriting year ended 31 December 2010, as well as anticipated catastrophe cover reinstatement costs.

This outlook embraces the following divisional expectations for 2H11:

- Modest GWP growth from **Australia Direct** and a lower reported insurance margin than 1H11;
- Improved underlying performance from **Australia Intermediated** compared to 2H10 and on a year-on-year basis;
- A lower reported margin in **New Zealand** as net natural peril claim costs bear the impact of the Christchurch earthquake in February;
- A reduced loss from the **UK** business, compared to 1H11, as the programme of remedial action takes greater effect; and
- A strong performance from established businesses in **Asia**.

In addition, FY11 guidance assumes:

- Full year net reserve releases not exceeding FY10's \$228m (excluding the one-off UK strengthening in 2H10); and
- No material movement in foreign exchange rates or investment markets in 2H11.

Since the beginning of January 2011, the Group has incurred substantial net natural peril claim costs from a sequence of major weather and other natural peril events in Australia and New Zealand. This is reflected in the Group's revised FY11 net natural peril cost assumption of \$540m. Related 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);
- Bushfires in Perth (February 2011); and
- A major earthquake in Christchurch (February 2011).

Underlying GWP growth guidance for FY11 remains unchanged at 3-5%.

FY11 insurance margin guidance revised to 8-10%, including natural peril claim cost assumption of \$540m

2. GROUP RESULTS

FINANCIAL PERFORMANCE

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Gross written premium	3,863	3,919	3,936
Gross earned premium	3,872	3,749	3,938
Reinsurance expense	(229)	(327)	(228)
Net earned premium	3,643	3,422	3,710
Net claims expense	(2,335)	(2,737)	(2,359)
Commission expense	(341)	(317)	(336)
Underwriting expense	(689)	(707)	(694)
Underwriting profit/(loss)	278	(339)	321
Investment income on technical reserves	210	344	149
Insurance profit	488	5	470
Net corporate expense	8	(4)	-
Interest	(43)	(45)	(44)
Profit/(loss) from fee based business/share of associates	11	(1)	17
Investment income on shareholders' funds	91	5	147
Profit/(loss) before income tax and amortisation	555	(40)	590
Income tax expense	(156)	(56)	(223)
Profit/(loss) after income tax (before amortisation)	399	(96)	367
Non-controlling interests	(58)	(41)	(44)
Profit/(loss) attributable to IAG shareholders (before amortisation)	341	(137)	323
Amortisation and impairment	(12)	(101)	(162)
Profit/(loss) attributable to IAG shareholders	329	(238)	161
Insurance Ratios			
Loss ratio	64.1%	80.0%	63.6%
Immunised loss ratio	65.0%	78.0%	66.4%
Expense ratio	28.3%	30.0%	27.8%
Commission ratio	9.4%	9.3%	9.1%
Administration ratio	18.9%	20.7%	18.7%
Combined ratio	92.4%	110.0%	91.4%
Immunised combined ratio	93.3%	108.0%	94.2%
Insurance margin	13.4%	0.1%	12.7%
Key Financial Metrics			
Reported ROE (average equity) (% pa)	13.8%	(10.2%)	7.2%
Cash ROE (average equity) (% pa)	17.0%	(1.0%)	16.0%
Basic EPS (cents)	15.96	(11.56)	7.79
Cash EPS (cents)	19.65	(1.16)	17.35
DPS (cents)	8.50	4.50	9.00
Probability of adequacy	90%	90%	90%
MCR multiple	2.03	1.92	1.81

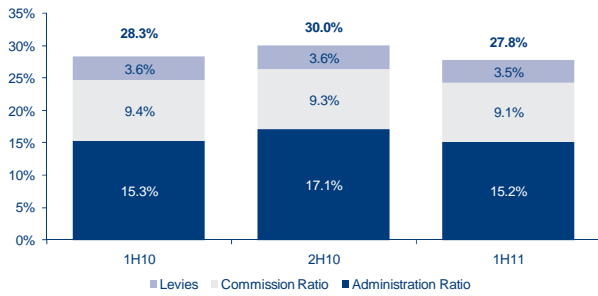
KEY FOREIGN EXCHANGE RATES APPLIED

	(spot rate)			(average rate)	
	1H10	2H10	1H11	1H10	1H11
New Zealand dollar	0.8101	0.8136	0.7598	0.8047	0.7803
British pound	1.7935	1.7664	1.5197	1.8798	1.6556
Thai baht	0.0335	0.0362	0.0328	0.0341	0.0343

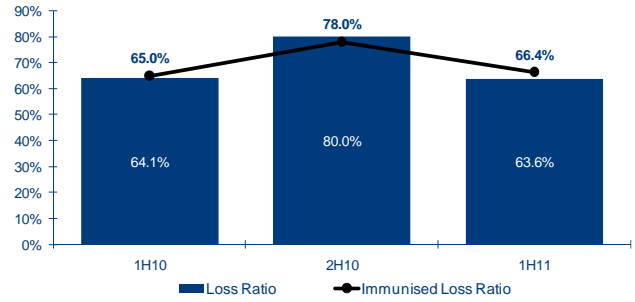
2. GROUP RESULTS

INSURANCE RATIOS

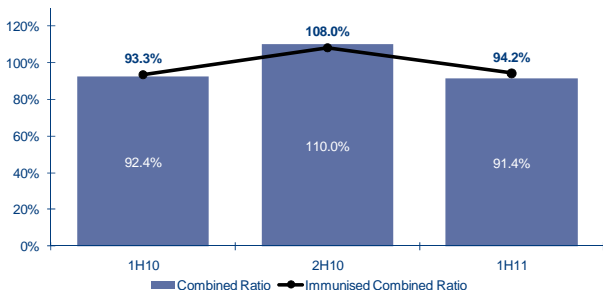
EXPENSE RATIO



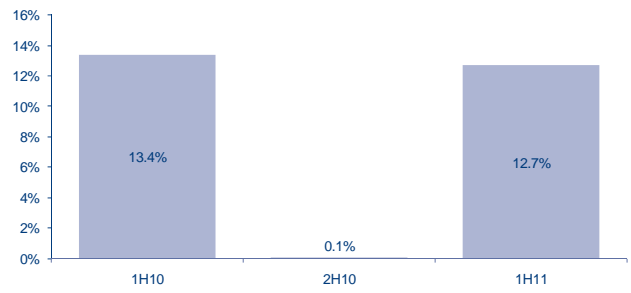
LOSS RATIO



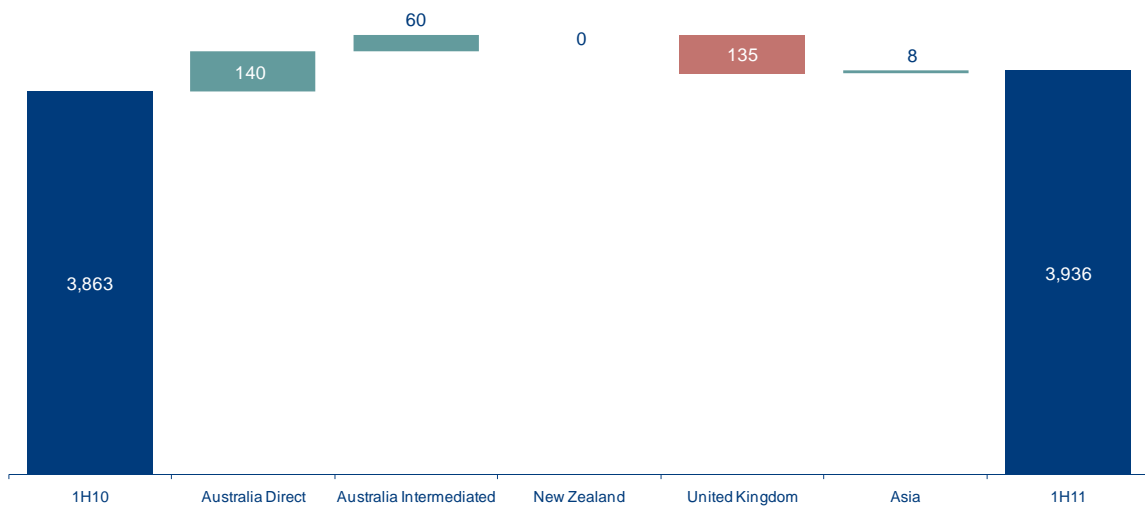
COMBINED RATIO



INSURANCE MARGIN (BEFORE TAX)



GWP – 1H11 VS. 1H10 (A\$M)



2. GROUP RESULTS

PREMIUMS

Group GWP was \$3,936m, an increase of 1.9% over 1H10. After allowance for foreign currency movements this equates to underlying GWP growth of 3.2%.

Comparing 1H11 GWP with 1H10:

- Australia Direct rose by 7.9% to \$1,919m, with growth relatively evenly split between volume and price, and double digit growth registered by both home and compulsory third party (CTP);
- Australia Intermediated (CGU) increased by 5.4% to \$1,177m, with growth skewed towards personal lines and commercial short tail products and derived from a combination of rate increases and new business;
- New Zealand reported flat GWP of \$472m, although in local currency terms this increased by 3%. The effect of rate increases was partially offset by lower volumes;
- The UK reported a 33% reduction in GWP to \$271m (24% in local currency terms). This reflects lower volumes not being offset by rate increases to the extent expected; and
- In Asia, reported GWP of \$97m increased by 9%, driven by increased affinity motor volumes.

Underlying GWP growth of 3.2% over 1H10

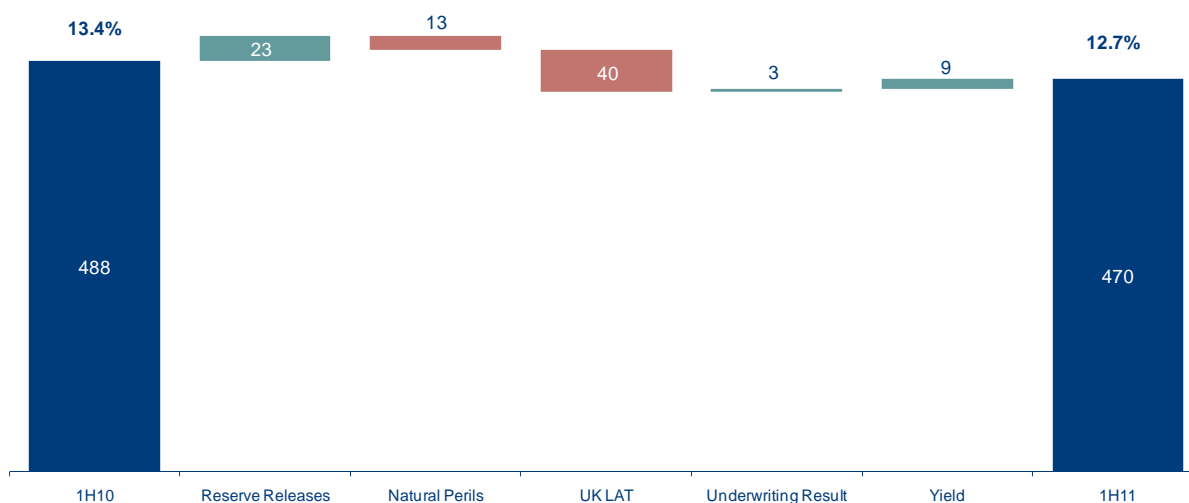
INSURANCE MARGIN

The Group has reported a 1H11 insurance margin of 12.7%, compared to 13.4% in 1H10.

The combined Australasian businesses reported a higher insurance margin of 17.8% (1H10: 14.4%), with Australia Direct and New Zealand both performing well, and CGU showing improvement in both reported and underlying performance.

Improved margin in Australasia, offset by UK loss

INSURANCE MARGIN – 1H11 VS. 1H10



2. GROUP RESULTS

In contrast, the UK business reported a negative insurance margin of over 40%, as bodily injury claim inflation continued to impact reported financial performance. This result includes a \$40m liability adequacy test (LAT) expense, \$18m of prior period reserve strengthening and \$11m of natural peril claim costs associated with extreme winter weather. Significant reinsurance protection was realised in respect of underwriting years ending on or before 31 December 2009.

The Group insurance profit of \$470m (1H10: \$488m) was struck on slightly higher net natural peril claim costs. These costs were reduced by reinsurance recoveries on a number of major events in the half, most notably the Christchurch earthquake in September 2010. Total net reserve releases increased by \$23m, half-on-half.

REINSURANCE EXPENSE

The Group's reinsurance expense of \$228m was flat against 1H10 (\$229m), but a significant reduction compared to 2H10 (\$327m).

In June 2010, the Group took out an adverse development cover (ADC) to provide protection against further claim deterioration in the UK motor book, for the underwriting years ended 31 December 2009 and prior. A related one-off expense was included in the Group's 2H10 results.

The Group renewed its main catastrophe reinsurance protection for 12 months effective 1 January 2011, with rate increases of around 10% on a like-for-like basis.

Catastrophe cover renewed at 1 January 2011

CLAIMS

The Group's reported loss ratio of 63.6% is similar to that of 1H10 (64.1%). The net claims expense of \$2,359m in 1H11, relative to 1H10 (\$2,335m), includes:

- A \$70m decrease from the discount rate adjustment, reflecting increased interest rates;
- A \$23m increase in net reserve releases;
- A \$13m increase in natural peril claim costs, after reinsurance recoveries;
- Increased claims in line with business growth, notably in Australia Direct; and
- Ongoing bodily injury claim inflation in the UK.

Reported loss ratio of 63.6%

RESERVE RELEASES

	1H10	2H10	1H11
	A\$m	A\$m	A\$m
Reserve releases ¹	80	148	103
Impact on insurance margin	2.2%	4.3%	2.8%

¹ Excluding one-off UK strengthening in 2H10.

2. GROUP RESULTS

RESERVE RELEASES

The 1H11 net claims expense was reduced by \$103m of prior period reserve releases (1H10: \$80m). This includes \$18m of net reserve strengthening in the UK (1H10: \$12m).

The majority of 1H11's reserve releases was sourced from the central estimate, with a substantial portion derived from favourable experience in the following portfolios:

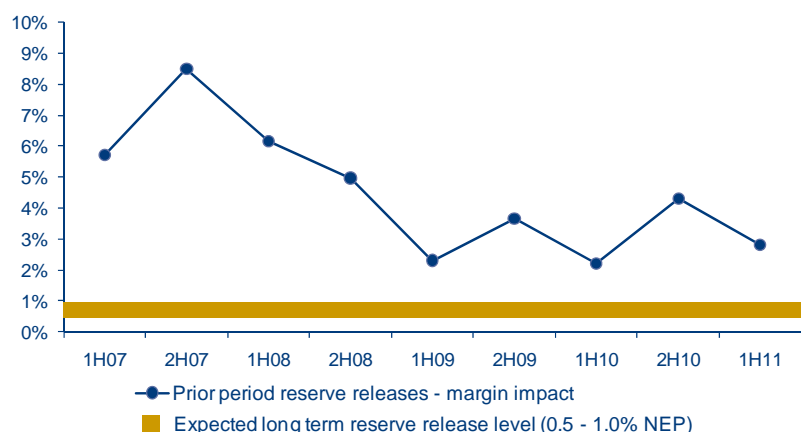
- NSW CTP in Australia Direct; and
- Workers' compensation and professional risks in CGU.

The Group believes that reserve releases in the range of 0.5% to 1.0% of net earned premium (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.

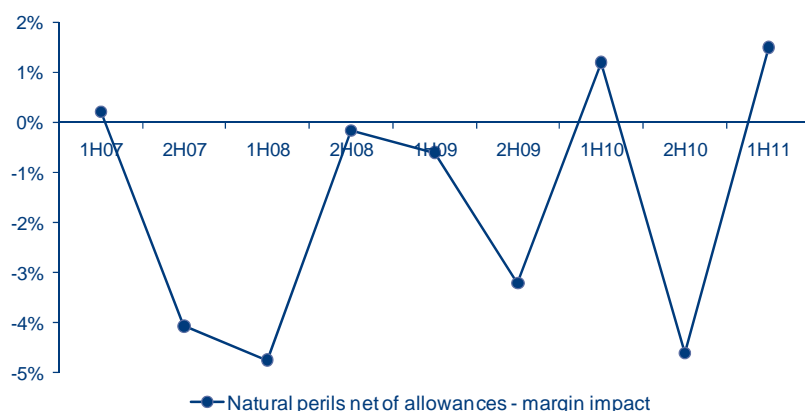
It remains the Group's expectation that full year prior period reserve releases in FY11 will not exceed the \$228m (excluding the one-off UK strengthening in 2H10) which was reported in FY10.

Reserve releases remain higher than long term expectations

RESERVE RELEASES – IMPACT ON INSURANCE MARGIN



NATURAL PERILS – IMPACT ON INSURANCE MARGIN



2. GROUP RESULTS

NATURAL PERILS

The 1H11 net claims expense included \$134m (1H10: \$121m) of losses from natural perils, compared to allowances of \$188m (1H10: \$166m). This outcome accords with the \$120-140m guidance for 1H11 natural peril claim costs provided on 13 January 2011.

Natural peril claim costs were reduced by reinsurance covers that were active during the period. The net effect of natural perils (after allowances) was a positive impact on reported insurance margin of 1.5% (1H10: 1.2%).

The most significant natural peril event in 1H11 was the Christchurch earthquake which occurred on 4 September 2010, registering 7.1 on the Richter Scale. The cost of this event was completely covered by the Group's reinsurance arrangements.

Natural peril claim cost reduced by reinsurance recoveries in 1H11

NATURAL PERILS – CLAIM COSTS AND ALLOWANCES

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Natural peril claim costs	(121)	(342)	(134)
Natural peril allowances	166	184	188
Impact on insurance profit	45	(158)	54
Impact on insurance margin	1.2%	(4.6%)	1.5%

1H11 NATURAL PERIL COSTS BY EVENT (NET OF REINSURANCE)

	Net Cost A\$m
Severe weather and flooding - South East Australia (September 2010) ¹	-
Earthquake - Christchurch (September 2010) ¹	-
Heavy snow and wind - New Zealand (September 2010) ¹	-
Severe thunderstorms - Australia (October 2010)	11
Severe storms - South & East Australia (November 2010) ¹	-
Severe storms and wind - South & East Australia (December 2010) ¹	-
Severe storms - Brisbane & South East Australia (December 2010) ²	21
Tropical Cyclone Tasha and monsoonal rain - North & East Australia (December 2010)	20
Severe winter weather - UK (December 2010)	11
Other events	71
Total	134

¹ Covered by reinsurance.

² Partially covered by reinsurance.

EXPENSES

The Group's reported expense ratio improved slightly to 27.8% (1H10: 28.3%). Improvements were registered by each of Australia Direct, CGU and New Zealand, with a marked deterioration in the UK, relative to 1H10.

Excluding government levies, the Group's administration ratio improved slightly, from 15.3% in 1H10 to 15.2% in 1H11.

2. GROUP RESULTS

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for 1H11 was \$149m, compared to \$210m in 1H10. Allowing for the movement in the discount rate adjustment following an increase in interest rates, the Group continued to generate approximately 100bps of return above the risk free (3-year government bond) rate, across the entire technical reserves portfolio. The average duration of the Group's claim liability remains approximately three years.

Credit spread volatility continued to ease. The 1H11 insurance profit included a negligible favourable impact from the further narrowing of spreads (1H10: \$28m).

NET CORPORATE EXPENSES

There were no net corporate expenses, of a one-off or unusual nature, during 1H11.

Net corporate expenses in 1H10 amounted to a profit of \$8m and related to the finalisation of issues associated with the FY09 divestment of non-core UK assets.

INTEREST

The Group's interest expense of \$44m in 1H11 was marginally higher than that of 1H10 (\$43m). This reflects the combined effect of:

- The \$550m Reset Exchangeable Securities (RES) instrument being brought on to the balance sheet from December 2009; and
- The change in debt mix in 2H10, with the repaid US\$ note facility replaced by a lower coupon sterling denominated exchangeable loan note issue.

PROFIT/(LOSS) FROM FEE BASED BUSINESS/SHARE OF ASSOCIATES

The combined contribution of \$17m (1H10: \$11m) from fee based business and share of associates comprises:

- \$17m (1H10: \$9m) of fee based income; and
- \$0m (1H10: \$2m) from share of associates.

The increase in profit from fee based business is largely explained by higher performance fees and prior period income within CGU.

The Group's Malaysian joint venture, AmG Insurance, represents a large portion of the share of profit from associates. While AmG's underlying performance remained strong, its contribution to earnings was adversely impacted by an increased allocation of regional support and development costs.

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds amounted to a profit of \$147m, compared to \$91m in 1H10. The improved 1H11 outcome reflects:

- The absence of the \$96m exchange right reversal in respect of the Reset Exchangeable Securities (RES), as identified in 1H10 on amendment of the RES to an on-balance sheet Tier 1 instrument; offset by
- Lower equity market returns, although a substantial improvement over 2H10.

In line with its previously stated intent, the Group continued to increase its weighting to growth assets (equities and alternatives) within shareholders' funds over the course of 1H11, to approximately 40% at 31 December 2010.

Negligible credit spread impact in 1H11

Higher performance fees and prior period income in CGU

Increased shareholders' funds income owing to absence of RES adjustment

2. GROUP RESULTS

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

	1H10	2H10	1H11
	A\$m	A\$m	A\$m
Shareholders' funds investment income	187	5	147
RES revaluation	(96)	-	-
Total investment income on shareholders' funds	91	5	147

TAX EXPENSE

The Group reported a tax expense of \$223m in 1H11 (1H10: \$156m). This represents an effective tax rate (pre-amortisation) of 37.8%.

The primary factor in reconciling back to the prevailing 30% corporate tax rate in Australia is the non-recognition for accounting purposes of any future tax benefit in respect of the UK operating losses. As at 31 December 2010, unrecognised tax losses in respect of the UK stood at \$205m (£135m).

High tax rate owing to non-recognition of benefit in respect of UK operating losses

NON-CONTROLLING INTERESTS

The non-controlling interest in the Group's profit of \$44m compares to \$58m reported in 1H10. The decrease reflects higher net natural peril claim costs within the 70%-owned Insurance Manufacturers of Australia Pty Limited (IMA), which forms part of Australia Direct.

AMORTISATION

The 1H11 amortisation charge of \$162m is significantly higher than 1H10 owing to a \$150m impairment of goodwill and intangibles associated with the UK business. This follows the delay in the recovery of the UK business to profitability following further bodily injury claim inflation in that market.

Amortisation includes \$150m impairment of UK intangibles

EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H11 was 7.79 cents per share (cps), compared to 15.96cps in 1H10. On a diluted basis, EPS was 7.75cps (1H10: 15.87cps). Basic EPS was calculated on weighted average capital on issue in 1H11 of 2,068m shares (excluding treasury shares).

ORDINARY ISSUED CAPITAL

	Shares (m)
Balance at the beginning of the financial year	2,079
Balance at the end of the half year	2,079
Average weighted shares on issue¹	2,068

¹ Basic EPS calculated after exclusion of treasury shares held in trust.

Cash EPS was 17.35cps, compared to 19.65cps in 1H10, a decrease of nearly 12%. Cash earnings are used for the purposes of targeted ROE and dividend payout policy, and are defined as:

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles; and
- Excluding any unusual items.

Cash EPS of 17.35 cents, down 12%

2. GROUP RESULTS

Unusual items in 1H11 were confined to the future tax benefit on the UK loss in the period, which is expected to be recovered as profitability is restored in that business. In accordance with accounting standard requirements, this tax benefit has not been recognised in the reported 1H11 result.

CASH EARNINGS

	1H11 A\$m
Net profit after tax	161
Intangible amortisation and impairment	162
Unusual items:	
- UK tax benefits not recognised	36
Cash earnings	359
Dividend payable	187
Cash payout ratio	52.1%

DIVIDENDS

The Group's policy is to pay dividends equivalent to approximately 50–70% of reported cash earnings in any given financial year.

The Board has determined to pay a fully franked interim dividend of 9.0 cents per ordinary share (1H10: 8.5 cents). This equates to a payout ratio of approximately 52% of cash earnings for the half.

The interim dividend is payable on 11 April 2011 to shareholders registered as at 5pm on 9 March 2011.

The dividend reinvestment plan (DRP) will operate for the interim dividend. The issue price per share for the 1H11 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 \$661m as at 31 December 2010. At this date, and after allowance for payment of the interim dividend, the Group's franking balance was \$334m, giving it the capacity to fully frank a further \$778m of distributions.

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%.

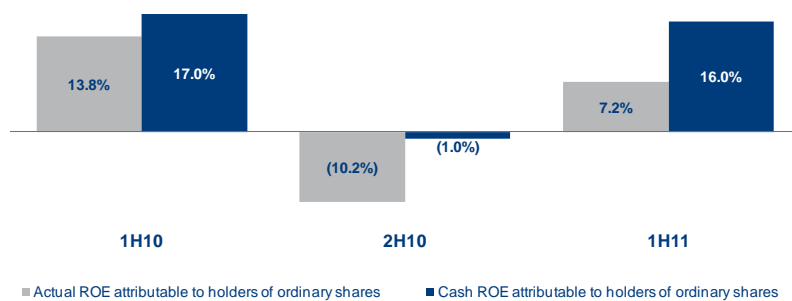
During 1H11 the Group exceeded its cash ROE target, recording a return of 16.0% on an annualised basis.

6% increase in interim dividend, equates to payout of approximately 52% of cash earnings

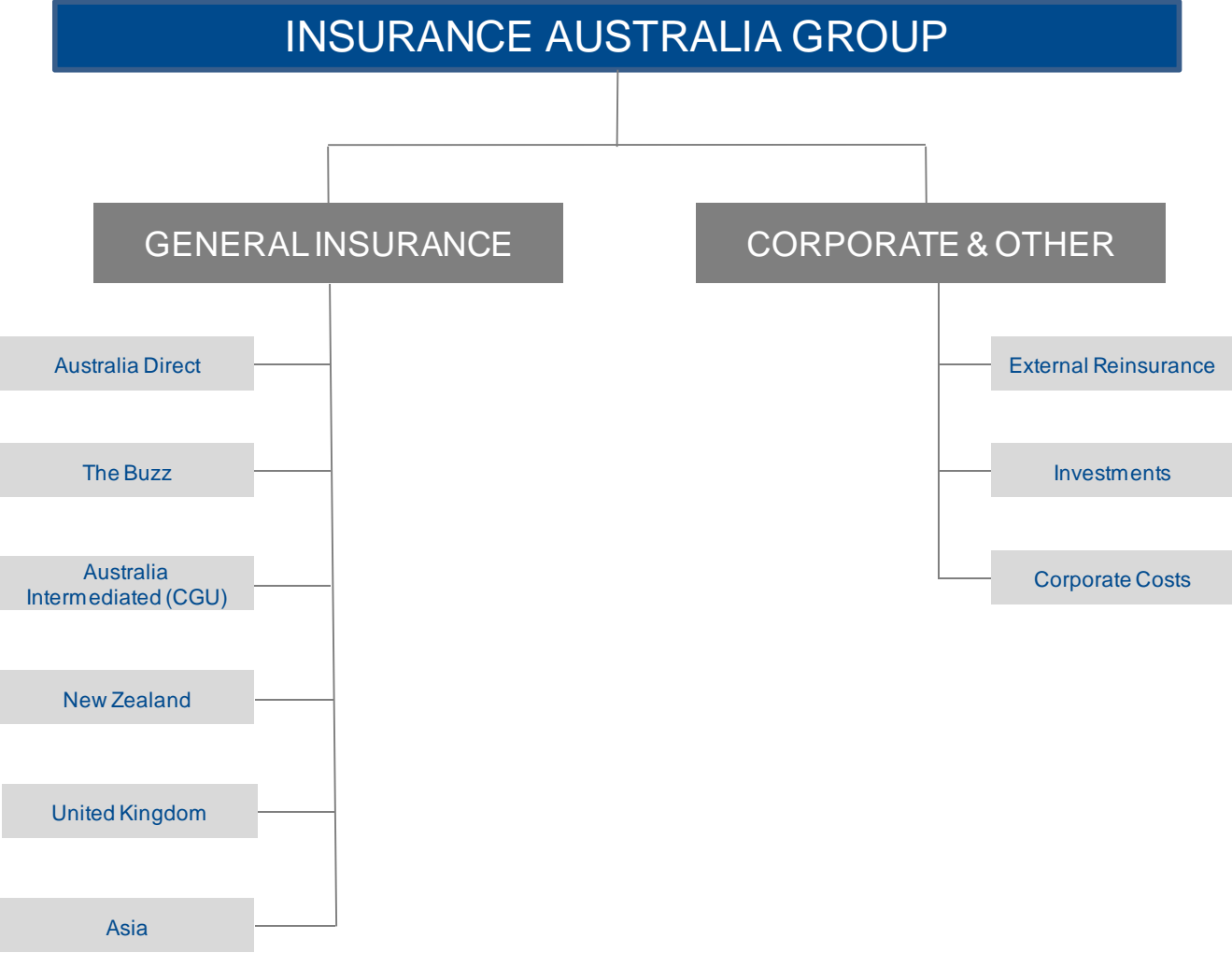
Cash ROE of 16.0%, exceeds Group target

2. GROUP RESULTS

RETURN ON EQUITY (ANNUALISED)



3. DIVISIONAL OVERVIEW



3. DIVISIONAL OVERVIEW

1H11 DIVISIONAL FINANCIAL PERFORMANCE

	Australia Direct A\$m	Australia Intermediated A\$m	New Zealand A\$m	UK A\$m	Asia A\$m	Corporate & Other A\$m	Total A\$m
Gross written premium	1,919	1,177	472	271	97	-	3,936
Gross earned premium	1,877	1,170	484	309	95	3	3,938
Reinsurance expense	(71)	(94)	(29)	(16)	(17)	(1)	(228)
Net earned premium	1,806	1,076	455	293	78	2	3,710
Net claims expense	(1,201)	(591)	(237)	(277)	(52)	(1)	(2,359)
Commission expense	(37)	(159)	(54)	(70)	(15)	(1)	(336)
Underwriting expense	(307)	(225)	(78)	(70)	(14)	-	(694)
Underwriting profit/(loss)	261	101	86	(124)	(3)	-	321
Investment income on tech reserves	89	53	4	3	-	-	149
Insurance profit/(loss)	350	154	90	(121)	(3)	-	470
Profit/(loss) from fee based business/ share of associates	-	14	-	2	1	-	17
Total divisional results	350	168	90	(119)	(2)	-	487
Insurance Ratios							
Loss ratio	66.5%	54.9%	52.1%	94.5%	66.7%		63.6%
Expense ratio	19.0%	35.7%	29.0%	47.8%	37.1%		27.8%
Commission ratio	2.0%	14.8%	11.9%	23.9%	19.2%		9.1%
Administration ratio	17.0%	20.9%	17.1%	23.9%	17.9%		18.7%
Combined ratio	85.5%	90.6%	81.1%	142.3%	103.8%		91.4%
Insurance margin	19.4%	14.3%	19.8%	(41.3%)	(3.8%)		12.7%

INSURANCE MARGIN – 1H11 VS. 1H10



4. AUSTRALIA DIRECT

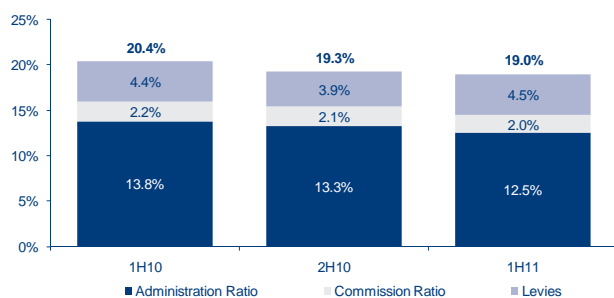
FINANCIAL PERFORMANCE

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Gross written premium	1,779	1,874	1,919
Gross earned premium	1,733	1,778	1,877
Reinsurance expense	(74)	(73)	(71)
Net earned premium	1,659	1,705	1,806
Net claims expense	(1,158)	(1,280)	(1,201)
Commission expense	(36)	(35)	(37)
Underwriting expense	(302)	(294)	(307)
Underwriting profit	163	96	261
Investment income on technical reserves	118	192	89
Insurance profit	281	288	350

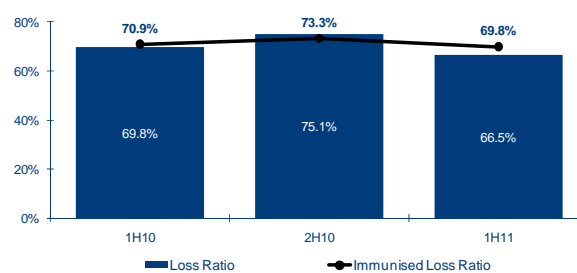
Insurance Ratios			
Loss ratio	69.8%	75.1%	66.5%
Immunised loss ratio	70.9%	73.3%	69.8%
Expense ratio	20.4%	19.3%	19.0%
Commission ratio	2.2%	2.1%	2.0%
Administration ratio	18.2%	17.2%	17.0%
Combined ratio	90.2%	94.4%	85.5%
Immunised combined ratio	91.3%	92.6%	88.8%
Insurance margin	16.9%	16.9%	19.4%

INSURANCE RATIOS

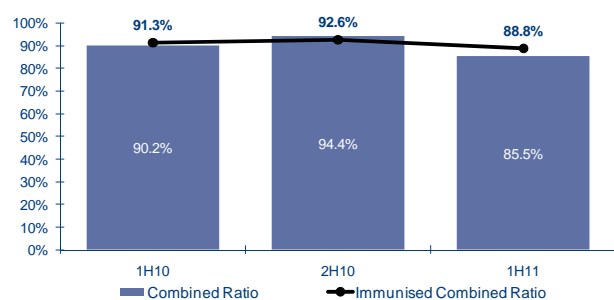
EXPENSE RATIO



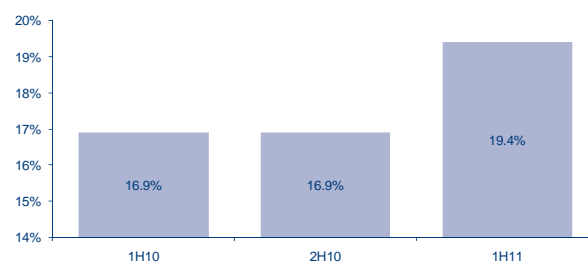
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



4. AUSTRALIA DIRECT

EXECUTIVE SUMMARY

Australia Direct is IAG's largest business, concentrating on direct personal lines insurance products, including compulsory third party (CTP). Australia Direct contributed nearly 49% of the Group's GWP in 1H11 and continued to perform well.

GWP grew by 7.9%, over 1H10, due to encouraging volume growth and moderate rate increases. GWP has increased in all States and products, with the exception of Queensland CTP.

Australia Direct generated an insurance profit of \$350m, compared to \$281m in 1H10. This equates to an insurance margin of 19.4% (1H10: 16.9%).

The higher reported margin is the result of improved underwriting and expense disciplines, as well as higher reserve releases. While net natural peril claim costs were slightly higher than 1H10, they benefited from reinsurance recoveries during the half.

Further GWP growth is anticipated in 2H11, driven by increased volumes and product initiatives, but at a more subdued pace than 1H11 as the overall scale of average rate increase continues to ease.

Australia Direct expects to report a lower insurance margin in 2H11. This assumes a higher net natural peril claim cost than 1H11, particularly after the severe weather conditions experienced in Australia in January and February 2011.

MARKET ENVIRONMENT

Continued favourable economic conditions across Australia (low unemployment, low inflation, employment growth) will add to consumer and business confidence and will support household spending. The outlook is for dwelling investment to continue growing, consistent with the competitive interest rate environment, positive employment outlook and increased construction activity arising from the strength of population growth in recent years.

The overall demand for insurance continues to increase as the impact of the Global Financial Crisis (GFC) recedes, demand for motor vehicles increases and severe weather events raise consumer awareness about the need for insurance, particularly home and contents.

Competition in personal lines insurance is continuing to increase, particularly in motor, with:

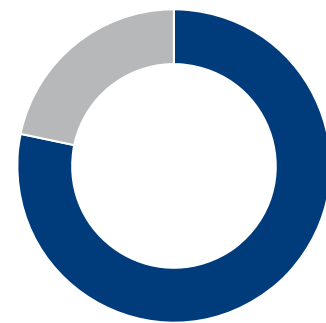
- High levels of marketing activity;
- New entrants continuing to enter the market, with either:
 - Strong brands not traditionally associated with insurance; or
 - Low cost product offerings;
- Use of non-insurance benefits to market insurance, such as frequent flyer points, roadside assistance and fuel discounts;
- Fragmentation of the market into smaller, niche segments;
- More sophisticated pricing; and
- Increased emphasis on e-commerce.

There are a number of proposed regulatory changes and reviews underway, which may impact the general insurance industry. These include:

- NSW legislation to prohibit the re-registration of all repairable written-off vehicles in an attempt to reduce car re-birthing. The start date of this reform was 31 January 2011;
- Replacement of the insurance-based Victorian Fire Services Levy in favour of a levy based on property, potentially from July 2012;

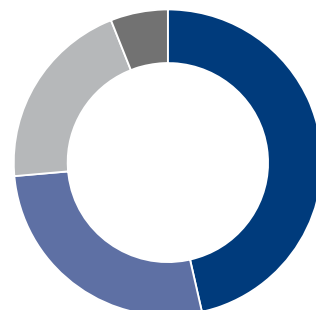
Australia Direct continues to perform well

1H11 GWP BY TAIL



- Short Tail
- Long Tail

1H11 GWP BY CLASS



- Motor
- Home
- CTP
- Other

4. AUSTRALIA DIRECT

- Amendments to the Insurance Contracts Act that will enable insurers to communicate electronically with customers; and
- Potential changes arising from:
 - A Treasury options paper that could extend unfair contract legislation to insurance contracts; and
 - An ASIC review of claims handling and dispute resolution.

In January 2011, the Queensland Government announced a Commission of Inquiry into the Queensland floods, the terms of reference for which include the handling of claims by insurance companies. This may address the need for a common definition for flood, the adequacy of flood mapping data and the provision of flood products.

PREMIUMS

Australia Direct's premium growth during 1H11 maintained the momentum evident over the preceding 24 months. Total GWP for 1H11 of \$1,919m was up 7.9% on 1H10.

Approximately half of the GWP growth compared to 1H10 was derived from volume gain, with the balance attributable to price. With the exception of Queensland CTP, premium growth was achieved in all States and products following a range of marketing and product initiatives. GWP growth in excess of 10% was recorded in both the home and NSW CTP portfolios.

In November 2010, the business launched its 'Experience the Difference' brand refresh campaign, which is expected to build on the strong brand position already achieved through the 'Unworry' campaign.

Australia Direct's online capability continues to be developed and initiatives introduced over the past 12 months have contributed strongly to overall GWP growth.

Short tail GWP in 1H11 was 6.5% higher than 1H10. While motor GWP in 1H11 was 3.3% higher than that achieved in 1H10, home continued to register strong GWP growth of 11.1% on 1H10.

Average short tail premiums in 1H11 were 2.4% higher than 1H10. Overall short tail volume growth was 4.3% compared to 1H10, largely sourced from home.

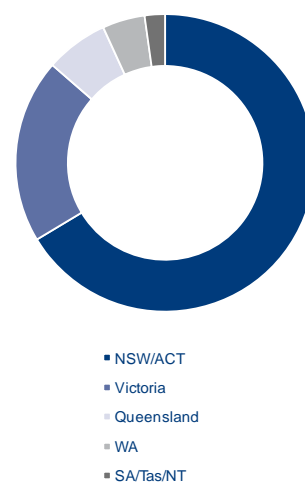
CTP registered a 13.4% increase in GWP over 1H10. This reflects increased average rates (following scheme changes) and some volume growth in NSW.

Total CTP policies in force grew by 4.1% compared to 1H10. Growth in the NSW market was slightly offset by lower volumes in Queensland, following the scheme changes implemented in that market on 1 October 2010.

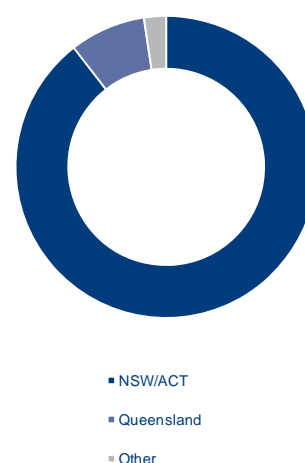
Australia Direct's share of NSW CTP registrations (on a 12-month rolling average basis) remained constant relative to FY10, at around 40%. On a similar basis, Queensland market share stood at approximately 6%, but has trended down since the aforementioned October 2010 scheme changes.

Due renewal levels have remained comparatively stable, at 89% for motor, 94% for home and 79% for CTP.

1H11 GWP BY STATE



1H11 LONG TAIL GWP BY STATE



4. AUSTRALIA DIRECT

GWP GROWTH BY CLASS

	1H10	2H10	1H11
Motor	3.7%	3.3%	3.3%
Home	11.8%	15.2%	11.1%
Total Short Tail¹	6.3%	7.3%	6.5%
Long Tail ¹	13.2%	12.3%	13.4%
Total GWP²	7.8%	8.4%	7.9%

¹ Excluding Retail Business Insurance and The Buzz.

² Including Retail Business Insurance and The Buzz.

REINSURANCE EXPENSE

The reinsurance expense of \$71m in 1H11 was slightly lower than that in 1H10. This reflects an increase in retained natural peril costs, partly offset by the higher cost of reinsurance due to overall portfolio growth.

CLAIMS

The reported loss ratio of 66.5% for 1H11 compares to 69.8% in 1H10, with higher interest rates resulting in an increased discount rate adjustment of over \$40m. On an immunised basis the loss ratio is 69.8% (1H10: 70.9%).

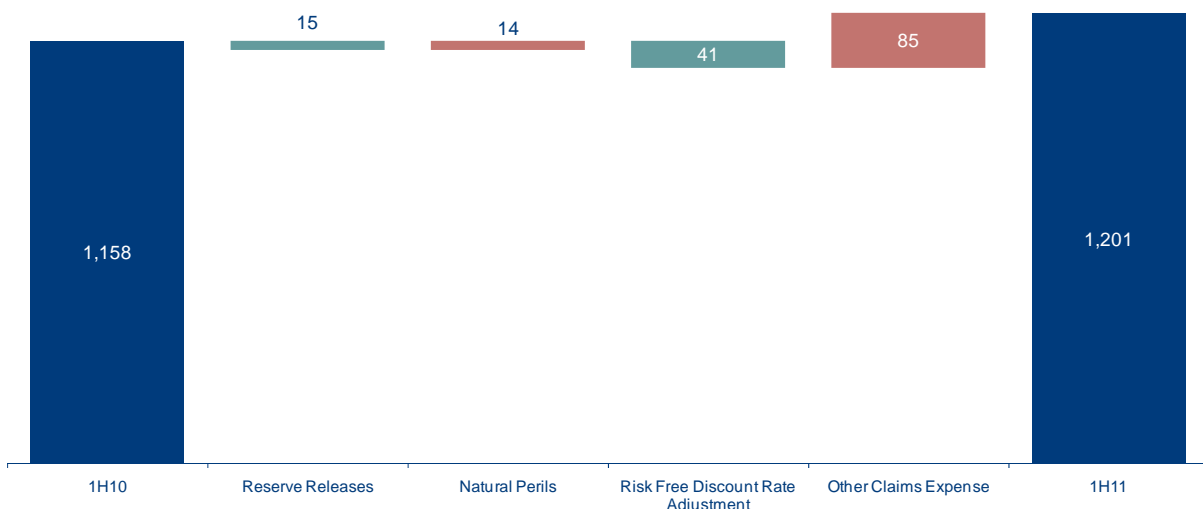
1H11 included a number of sizeable natural peril claim events, in particular significant storm activity in NSW, Queensland and Victoria late in the half. However, the impact on Australia Direct's reported results was reduced through recoveries under the aggregate cover component of the Group's catastrophe reinsurance programme.

The 1H11 loss ratio is considerably lower than the 75.1% recorded in 2H10, a period which bore natural peril costs from the Melbourne and Perth severe storm events in March 2010.

The increase in 'other claims expense' largely reflects increased claim volumes associated with general business growth.

Lower reported loss ratio, influenced by discount rate movements

NET CLAIMS EXPENSE – 1H11 VS. 1H10 (A\$M)



4. AUSTRALIA DIRECT

RESERVE RELEASES

Reserve releases of \$50m in 1H11 were \$15m higher than those in 1H10, but \$22m below 2H10. 1H11 releases were sourced largely from NSW CTP portfolios.

RESERVE RELEASES

	1H10	2H10	1H11
	A\$m	A\$m	A\$m
Reserve releases	35	72	50
Impact on insurance margin	2.1%	4.2%	2.8%

NATURAL PERILS

Losses from natural perils (net of reinsurance recoveries) totalled \$74m, \$17m lower than allowances for the half and \$14m higher than costs incurred in 1H10. The impact of significant storm activity in NSW, Queensland and Victoria late in the half was offset by recoveries under the Group's aggregate reinsurance cover.

Higher natural peril claim costs are anticipated in 2H11, following the sequence of major events experienced in the opening two months of 2011.

A substantially higher net natural peril impact was borne in 2H10, compared to 1H11, reflecting the severe storm events in Melbourne and Perth in March 2010.

Natural peril claim costs cushioned by reinsurance recoveries

NATURAL PERILS – CLAIM COSTS AND ALLOWANCES

	1H10	2H10	1H11
	A\$m	A\$m	A\$m
Natural perils	(60)	(161)	(74)
Natural perils allowance	81	80	91
Impact on insurance profit	21	(81)	17
Impact on insurance margin	1.3%	(4.7%)	0.9%

CLAIM EXPERIENCE

Excluding natural perils, the 1H11 short tail claim experience was characterised by:

- Stable frequency, compared to 1H10 and 2H10;
- No material change in average motor repair costs;
- An increase in average motor comprehensive claim cost, by 5.4% over 1H10, driven by an increase in total loss claims. There was also some post event motor-related inflation in Victoria and WA, as a result of the severe storm activity experienced in March 2010; and
- An increase in home average claim cost by 12.5% relative to 1H10 due to a number of severe fire claims.

CTP claim costs continue to be managed closely, given gradual increases in frequency and scheme costs relative to FY10.

Stable frequency within short tail non-peril claim experience

4. AUSTRALIA DIRECT

In NSW CTP, legislative changes introduced in October 2008 extended benefits available through the at-fault Accident Notification Form from \$500 to \$5,000 for very small claims. There has also been an increase in the number of claims reported and an increase in legal representation costs, which are adversely impacting the average claims size. As a result, NSW CTP premium rates were increased from 1 July 2010 by 7% and a further filing has been approved which will result in an additional 4% increase from 1 April 2011.

Superimposed inflation in all markets currently appears to be manageable.

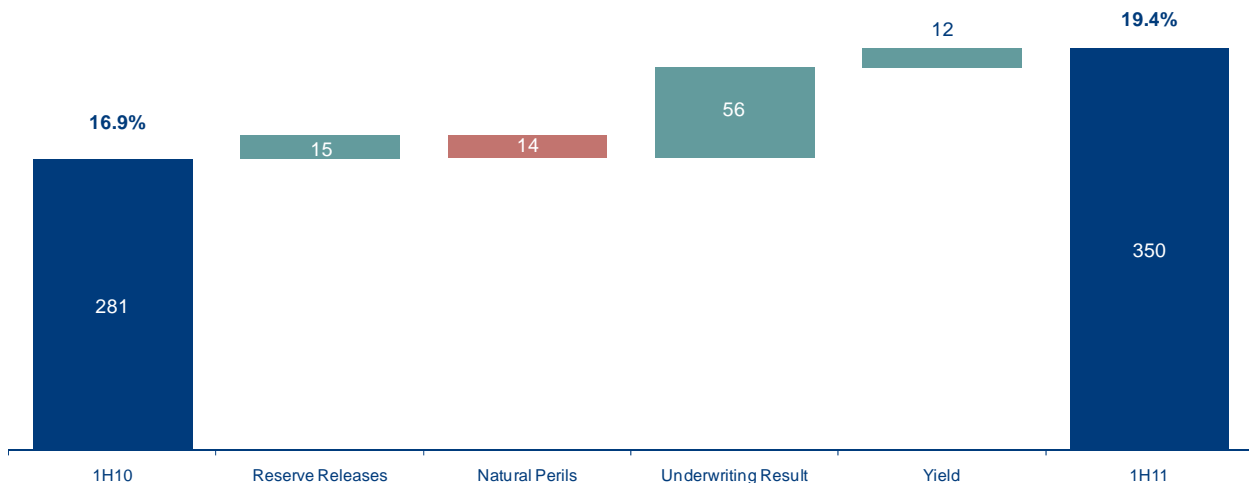
EXPENSES

Australia Direct's expense ratio improved over the course of 1H11, as a result of the combined effect of earned rate increases and a range of cost saving initiatives across the business. The total expense ratio of 19.0% for 1H11 compares with 20.4% in 1H10.

Excluding government levies, Australia Direct's administration expense ratio improved to 12.5% in 1H11, from 13.8% in 1H10.

**Improved expense ratio,
driven by earned rate
increases and cost initiatives**

INSURANCE PROFIT – 1H11 VS. 1H10 (A\$M)



INSURANCE PROFIT

Australia Direct's insurance profit of \$350m for 1H11 compares to \$281m reported in 1H10. This represents an improved insurance margin of 19.4% (1H10:16.9%) and reflects a strong underwriting performance, underpinned by earned premium growth and increased efficiencies.

The improved margin was assisted by a \$15m increase in reserve releases, which was largely offset by a \$14m increase in net natural peril costs, relative to 1H10. An improved investment yield included negligible impact from credit spreads.

**Strong underwriting
performance driving higher
margin**

4. AUSTRALIA DIRECT

THE BUZZ

The Buzz is IAG's pure online insurance business in Australia. Its operating results are included within those for Australia Direct. Given the business is still in the start-up phase its results have had a modest negative impact in 1H11.

The online insurance market is highly competitive, with increased marketing spend keeping search-related costs high. Online searches for 'car insurance' and 'home and contents insurance' continue to register strong growth, having risen by 70-80% since the beginning of 2008.

At the end of FY10 The Buzz built on its initial car insurance offer by launching a suite of home and landlord insurance products.

Customers have indicated a high level of satisfaction, with The Buzz rating above industry average.

On 1 November 2010 Leona Murphy replaced Jacki Johnson as CEO of The Buzz.

FY11 OUTLOOK

In 2H11, Australia Direct anticipates further GWP growth, in part derived from a wide range of product initiatives and associated volume growth. It is, however, expected to be at a more subdued pace than 1H11, as the overall scale of average rate increases continues to ease.

Australia Direct expects to generate a lower insurance margin in 2H11, compared to 1H11. While performance will be underpinned by further earned premium growth and a continued focus on expense control, net natural peril claim costs are expected to be higher following the significant events experienced in January and February 2011.

The business continues to focus on improving underwriting quality via risk selection, in an environment where personal lines competition is intensifying. Australia Direct takes all competitive threats seriously and is well positioned to defend its strong market position.

Premium rates for NSW CTP are anticipated to increase in 2011, driven by rising claim costs as a result of past legislative changes for very small claims. A further price increase of 4% has been approved from 1 April 2011.

The Buzz is IAG's pure online insurance business in Australia

More modest GWP growth and a lower margin expected in 2H11

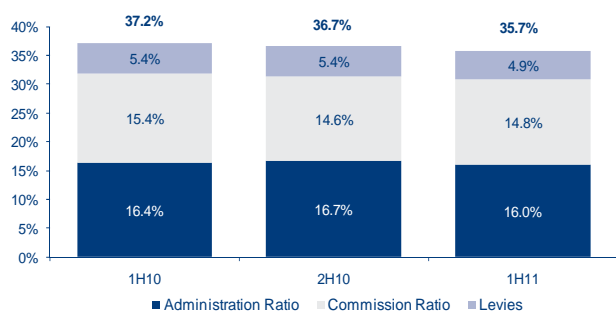
5. AUSTRALIA INTERMEDIATED (CGU)

FINANCIAL PERFORMANCE

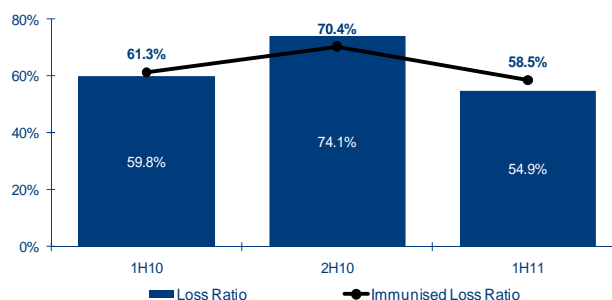
	1H10 A\$m	2H10 A\$m	1H11 A\$m
Gross written premium	1,117	1,147	1,177
Gross earned premium	1,182	1,117	1,170
Reinsurance expense	(84)	(93)	(94)
Net earned premium	1,098	1,024	1,076
Net claims expense	(657)	(759)	(591)
Commission expense	(169)	(150)	(159)
Underwriting expense	(239)	(226)	(225)
Underwriting profit/(loss)	33	(111)	101
Investment income on technical reserves	79	138	53
Insurance profit	112	27	154
Profit/(loss) from fee based business/share of associates	10	(1)	14
Total divisional result	122	26	168
Insurance Ratios			
Loss ratio	59.8%	74.1%	54.9%
Immunised loss ratio	61.3%	70.4%	58.5%
Expense ratio	37.2%	36.7%	35.7%
Commission ratio	15.4%	14.6%	14.8%
Administration ratio	21.8%	22.1%	20.9%
Combined ratio	97.0%	110.8%	90.6%
Immunised combined ratio	98.5%	107.1%	94.2%
Insurance margin	10.2%	2.6%	14.3%

INSURANCE RATIOS

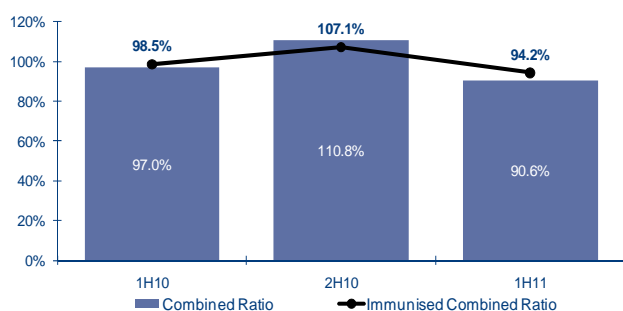
EXPENSE RATIO



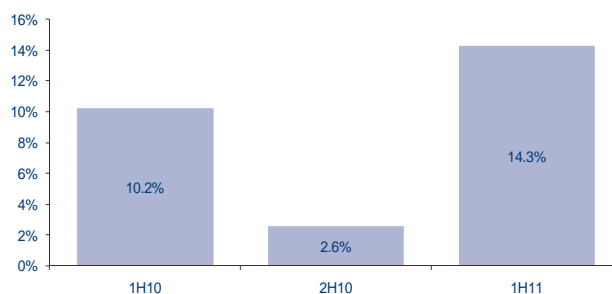
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



5. AUSTRALIA INTERMEDIATED (CGU)

EXECUTIVE SUMMARY

Australia Intermediated (CGU) represented approximately 30% of the Group's GWP in 1H11, and comprises all products sold in Australia through brokers, authorised representatives, motor dealers and business partners.

The improvement in CGU's underlying performance has continued. This was achieved despite highly competitive market conditions, reflecting ongoing excess industry capacity.

Reported GWP increased by 5.4%, to \$1,177m, compared to 1H10. While the performance of individual portfolios was mixed, an overall average rate increase approaching 5% was achieved.

CGU delivered a total divisional result of \$168m in 1H11 (1H10: \$122m), comprising an insurance profit of \$154m and \$14m from fee based business. This equates to a reported insurance margin of 14.3%, compared to 10.2% in 1H10.

The reported margin was assisted by higher prior year reserve releases and lower net natural peril claim costs, relative to 1H10. Adjusting for these factors, further improvement in underlying performance is evident. This reflects the ongoing focus on rebuilding the business' fundamentals as CGU continues to strategically invest in people, technology and processes.

CGU remains on track to deliver another year of improvement in underlying performance. Reported earnings in 2H11 are, however, expected to be impacted by higher net natural peril claim costs than 1H11, including those associated with the severe weather conditions experienced in Australia in January and February 2011.

In November 2010 Peter Harmer was appointed CEO of CGU.

MARKET ENVIRONMENT

Continued favourable economic conditions across Australia (low unemployment, low inflation, employment growth) are adding to consumer and business confidence, and are expected to support the demand for commercial insurance products.

Intermediated market conditions, however, have been challenging and are expected to remain so, with new market entrants and increased capacity, notably in the corporate and SME segments, continuing to dampen growth expectations.

Commercial lines pricing is relatively flat across most sectors with excess capacity continuing to temper rate increases. This is especially evident at the top end of the corporate sector where competition remains fierce.

Whilst new entrants and evolving distribution channels mean competition also remains strong in personal lines, rate increases continue to be achieved.

In workers' compensation competition remains very strong in risk States, where favourable claims experience is driving discounting below recommended rates in most segments.

In January 2011, the Queensland Government announced a Commission of Inquiry into the Queensland floods, the terms of reference for which include the handling of claims by insurance companies. This may address the need for a common definition for flood, the adequacy of flood mapping data and the provision of flood products.

Continued improvement in underlying performance

Challenging market conditions expected to continue

5. AUSTRALIA INTERMEDIATED (CGU)

PREMIUMS

GWP in 1H11 increased by \$60m, or 5.4%, to \$1,177m (1H10: \$1,117m).

Overall premium growth came from a combination of new business and rate increases. These increases have, however, varied widely according to individual portfolio, but on average approached 5%. Strong relationships have seen retention rates hold up well and remain in line with recent historical experience.

GWP growth (relative to 1H10) essentially came from commercial short tail and personal lines, whilst other portfolios were relatively flat:

- Commercial short tail GWP included increases achieved across most product lines;
- In personal lines, GWP growth was dominated by motor and consumer credit;
- Commercial long tail GWP was flat, reflecting both the exit from home warranty and growth in liability; and
- Workers' compensation recorded a marginal reduction in GWP. While gazetted rates dropped 14%, strong relationships combined with disciplined underwriting minimised the overall impact.

Australia Intermediated has committed to the ongoing promotion of its brands. CGU has signed a major sponsorship with 2010 Australian Football League (AFL) premierships-winning team, Collingwood, and the Swann brand has become an increasingly visible sponsor of the Australian MotoGP.

REINSURANCE EXPENSE

CGU's reinsurance programme was broadly unchanged during the period. The 1H11 reinsurance expense of \$94m compares to \$84m in 1H10.

Higher reinsurance costs reflect:

- Higher commercial short tail premium written in the period; and
- An increase in use of reinsurance to support the growth of corporate business, in particular the property portfolio.

CLAIMS

CGU's reported loss ratio of 54.9% in 1H11 compares to 59.8% in 1H10. On an immunised basis, the ratio improved from 61.3% in 1H10 to 58.5% in 1H11.

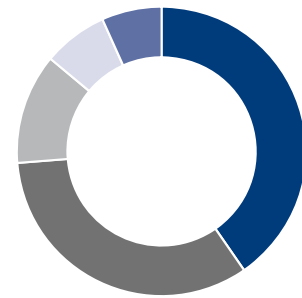
Influences on the reported loss ratio improvement were:

- Increased reserve releases;
- A lower net natural peril claim impact;
- An increased discount rate adjustment stemming from higher interest rates; and
- Ongoing benefits from claims management initiatives.

Underlying claim frequency was relatively flat, while average claim costs increased slightly following the effect of the significant hailstorms in Melbourne and Perth in 2H10.

GWP growth driven by modest rate increases and new business

1H11 GWP BY CLASS

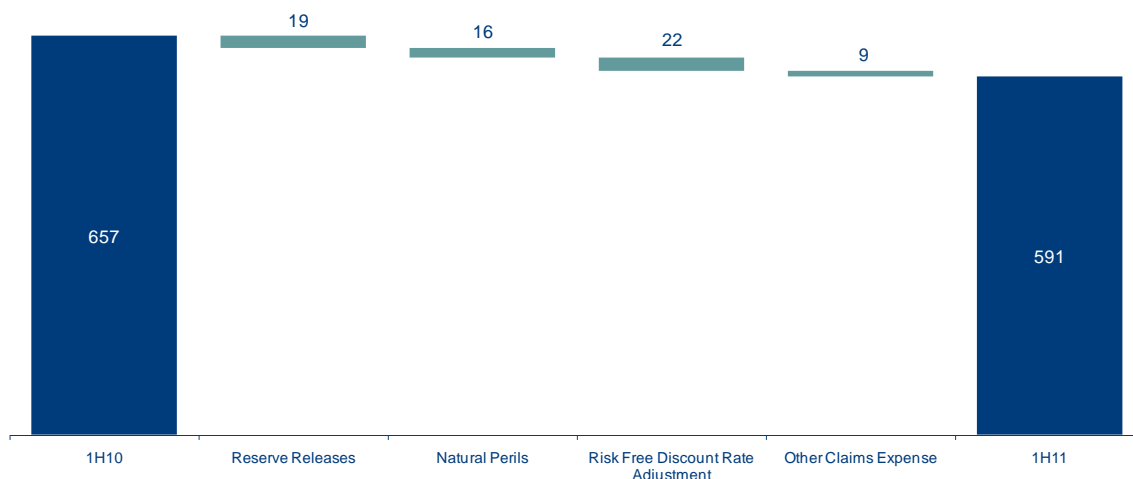


- Commercial Short Tail
- Personal Lines
- Commercial Long Tail
- Other
- Workers' Compensation

Improved loss ratio from combination of factors

5. AUSTRALIA INTERMEDIATED (CGU)

NET CLAIMS EXPENSE – 1H11 VS. 1H10 (A\$M)



RESERVE RELEASES

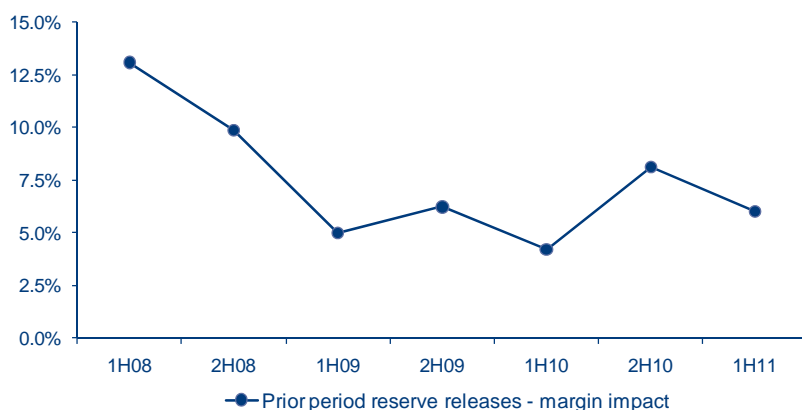
Prior period reserve releases of \$65m were \$19m higher than those reported in 1H10 (\$46m).

Reserve releases were driven by favourable experience on the workers' compensation and professional risk portfolios.

While still accounting for an approximately 600bps impact on reported insurance margin in 1H11, it remains the expectation that the contribution from reserve releases will reduce over the longer term.

It remains the long term expectation that reserve releases will fall

RESERVE RELEASES – MARGIN IMPACT



RESERVE RELEASES

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Reserve releases	46	83	65
Impact on insurance margin	4.2%	8.1%	6.0%

5. AUSTRALIA INTERMEDIATED (CGU)

NATURAL PERILS

Losses from natural perils in 1H11 (net of reinsurance) totalled \$44m. This is \$28m lower than related allowances for the half, and \$16m lower than net natural peril claim costs incurred in 1H10.

1H11 included a number of sizeable natural peril claim events, but the impact on CGU's reported results was reduced through recoveries under the aggregate cover component of the Group's catastrophe reinsurance programme. These events included significant storm activity in NSW, Queensland and Victoria late in the half.

1H11 net natural peril claim costs were significantly lower than those recorded in 2H10, which bore the cost of the severe storms in Melbourne and Perth in March 2010.

Higher net natural peril costs are anticipated in 2H11, following the sequence of major events experienced in the opening two months of the half.

Natural peril claim costs reduced by reinsurance recoveries

NATURAL PERILS – CLAIM COSTS AND ALLOWANCES

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Natural perils	(60)	(176)	(44)
Natural perils allowance	64	83	72
Impact on insurance profit	4	(93)	28
Impact on insurance margin	0.4%	(9.1%)	2.6%

EXPENSES

Reported expenses, comprising commission and underwriting costs, decreased from \$408m in 1H10 to \$384m in 1H11. This translates to an improved expense ratio of 35.7%, compared to 37.2% in 1H10. Part of the improvement can be attributed to Fire Service Levy refunds received in 1H11.

CGU has continued to focus on tight cost management. Some of the savings realised have been reinvested into a range of initiatives, including:

- New internal training programmes focused on strengthening core insurance capabilities across the business; and
- Continuation of the strategic investment programme to improve technology and processes.

Focus on tight cost management

INSURANCE PROFIT

CGU has reported a 37% increase in insurance profit to \$154m, compared to 1H10 (\$112m). This represents an improved insurance margin of 14.3% (1H10: 10.2%). After adjusting for the impact of natural perils and prior period reserve releases, some further improvement in underlying performance is evident.

Lower net earned premium, following the exit from some unprofitable relationships, has been more than offset by:

- Lower net natural peril claim costs following reinsurance recoveries;
- Higher reserve releases; and
- Cost savings realised from efficiency initiatives implemented over the past 18 months.

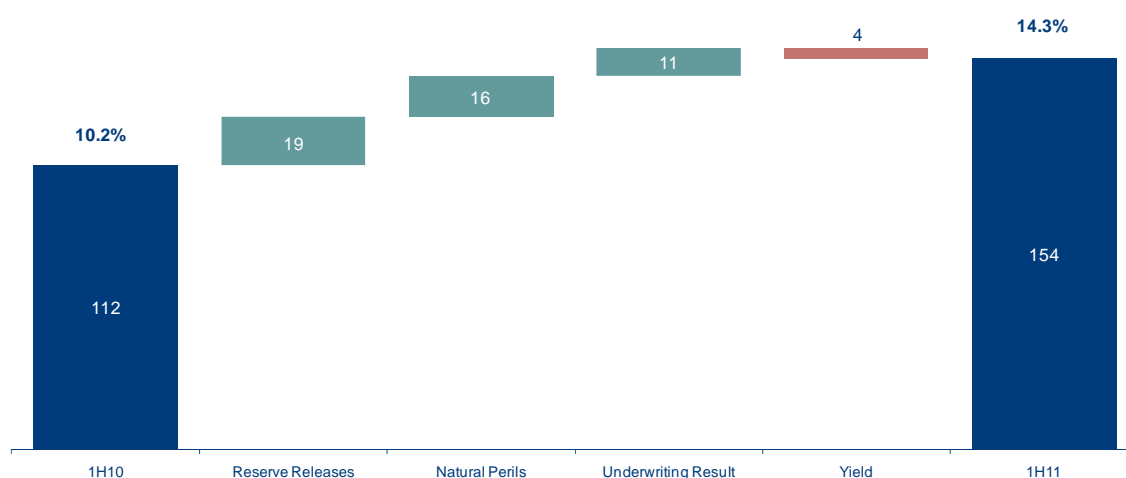
Improved reported margin, supported by higher reserve releases

5. AUSTRALIA INTERMEDIATED (CGU)

The result is significantly higher than the margin of 2.6% reported in 2H10, a period which incurred the significant adverse impact of the March 2010 extreme weather events in Melbourne and Perth.

In line with the Group's experience, a very modest favourable impact from the further narrowing of credit spreads occurred during 1H11.

INSURANCE PROFIT – 1H11 VS. 1H10 (A\$M)



FEE BASED INCOME

CGU generates fee income by acting as an agent under both the NSW and Victorian State government underwritten workers' compensation schemes.

In 1H11, net income from fee based operations totalled \$14m, which was \$4m higher than 1H10.

While the standard fees covering expenses are reasonably predictable, a significant portion of the fee based business result relates to performance fees and prior year experience adjustments which, by their very nature, are volatile.

Excluding performance fees and prior year adjustments, like-for-like net income was marginally below 1H10. This was despite the loss of 5% market share in NSW workers' compensation as a result of the reallocation of some policies at the smaller end of the market.

FY11 OUTLOOK

An improvement in underlying performance is expected in FY11, relative to FY10, as the momentum from CGU's turnaround strategy continues.

Overall market conditions, however, are expected to remain highly competitive over the balance of FY11, with excess industry capacity continuing to restrict the ability to achieve rate increases.

Further premium growth is anticipated in 2H11, derived largely from short tail rate increases, stable retention levels and new business growth, mirroring the experience of 1H11.

Higher prior period fee income

Improved underlying performance expected in FY11

5. AUSTRALIA INTERMEDIATED (CGU)

From 1 January 2011, CGU commenced underwriting premium in respect of Accident and Health International (A&HI). CGU recently acquired a 50% stake in A&HI, which is an underwriting agency providing specialist personal accident, medical expenses and travel insurance to businesses.

Increased impact from natural peril-related claims is expected in 2H11, given the extreme weather conditions experienced across Australia at the beginning of calendar 2011. As a result, CGU anticipates reporting a lower 2H11 insurance margin than 1H11.

CGU will build on the foundations laid over the past three years, by focusing on:

- Opportunities for profitable organic growth, as well as bolt-on acquisition opportunities such as A&HI;
- Active portfolio management, resulting in ongoing improvement in underwriting performance; and
- Continued emphasis on driving efficiencies across the business.

6. NEW ZEALAND

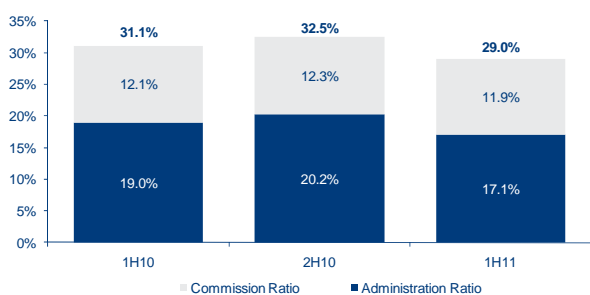
FINANCIAL PERFORMANCE

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Gross written premium	472	489	472
Gross earned premium	491	477	484
Reinsurance expense	(38)	(37)	(29)
Net earned premium	453	440	455
Net claims expense	(249)	(245)	(237)
Commission expense	(55)	(54)	(54)
Underwriting expense	(86)	(89)	(78)
Underwriting profit	63	52	86
Investment income on technical reserves	5	11	4
Insurance profit	68	63	90
Profit from fee based business	1	-	-
Total divisional result	69	63	90

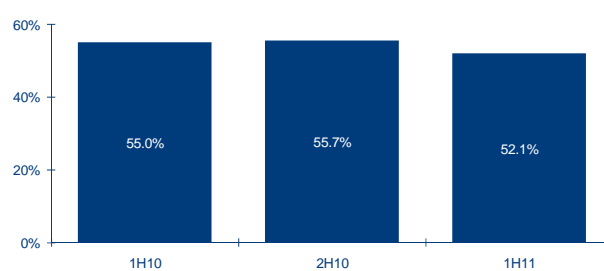
Insurance Ratios			
Loss ratio	55.0%	55.7%	52.1%
Expense ratio	31.1%	32.5%	29.0%
Commission ratio	12.1%	12.3%	11.9%
Administration ratio	19.0%	20.2%	17.1%
Combined ratio	86.1%	88.2%	81.1%
Insurance margin	15.0%	14.3%	19.8%

INSURANCE RATIOS

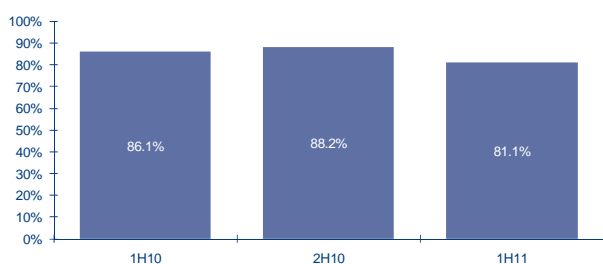
EXPENSE RATIO



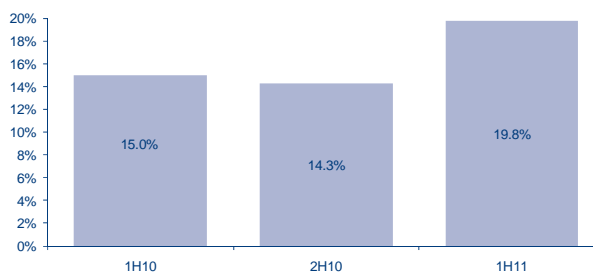
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



6. NEW ZEALAND

EXECUTIVE SUMMARY

IGAG's New Zealand operations accounted for 12% of the Group's GWP in 1H11 and, through the State, NZI and Business Partners affinity brands, IAG remains the largest underwriter in New Zealand.

Significant natural peril events occurred in September 2010, most notably the earthquake centred on Christchurch. However, owing to recoveries under the Group's catastrophe reinsurance programme, there is no related claim cost within the reported divisional result.

Reported GWP was flat against 1H10, but grew by 3% in local currency.

The strong underlying performance of FY10 continued into 1H11, resulting in an insurance profit of \$90m (1H10: \$68m) and an insurance margin of 19.8% (1H10: 15.0%). The drivers of this performance were:

- Continued favourable working and large loss experience as a result of improved underwriting and claims disciplines;
- Reduced administration expenditure; and
- Modest natural peril claim costs due to reinsurance recoveries.

GWP growth is expected to improve in 2H11, as rate increases occur in the wake of the Christchurch earthquakes. The insurance margin for the second half is, however, expected to be lower as a result of the anticipated net natural peril claim cost arising from the second Christchurch earthquake, in February 2011.

With effect from 1 November 2010, Jacki Johnson, previously CEO of The Buzz, assumed the role of CEO New Zealand.

MARKET ENVIRONMENT

The earthquakes centred on Christchurch are expected to continue to place pressure on industry resources for some time, and in particular on demand for labour and construction materials.

Rates from reinsurers are expected to harden over time as a result of the earthquakes and this is expected to flow through to prices in the market. Premium rises are likely to affect New Zealand as a whole, not just the Christchurch region.

The New Zealand economy is continuing its slow recovery. Interest rates are expected to rise in the immediate future, owing to the uncertainty created by the Christchurch earthquakes.

An increase in the Goods and Service Tax (GST), from 12.5% to 15%, took effect from 1 October 2010. Many businesses saw a surge in demand before October and reduced demand thereafter. However, little impact on the insurance industry is expected.

The Insurance (Prudential Supervision) Act 2010 was passed into law on 7 September 2010. The Act establishes a licensing regime for persons carrying on an insurance business in New Zealand, with the supervisory functions performed by the RBNZ. The new regulatory regime is similar to that already in place in Australia and is expected to have limited impact on IAG's New Zealand business as existing governance frameworks are broadly compliant.

In December 2010, the government made an in-principle decision to allow private insurers to compete with the Accident Compensation Corporation (ACC) for a share of New Zealand's workplace insurance market. Consultation with the public is occurring in early 2011, with final decisions and legislation on introducing choice planned after the next election (which will be held on 26 November 2011).

Strong 1H11 performance in New Zealand

Expected post-earthquake impacts on rates and industry resources

6. NEW ZEALAND

PREMIUMS

New Zealand's reported 1H11 GWP of \$472m was flat compared to 1H10 (\$472m), but grew by 3% in local currency terms. Local currency GWP growth was more subdued after allowing for the changed accounting treatment of a large customer portfolio in Business Partners (to a system that reports GWP on a monthly, rather than annual basis) which affected the comparable period.

The subdued GWP growth reflects the combined effect of:

- Increased competition in the market (both in price and marketing activity); and
- Reduced volumes due to improved underwriting risk selection and pricing disciplines.

GWP for the NZI intermediated business was marginally lower in local currency terms compared to 1H10, with volume loss partially offset by moderate rate increases, in an environment of continued strong market competition. Retention levels have been steadily increasing while new business levels have declined slightly. Following the Christchurch earthquakes, rates are expected to increase, particularly in the commercial book.

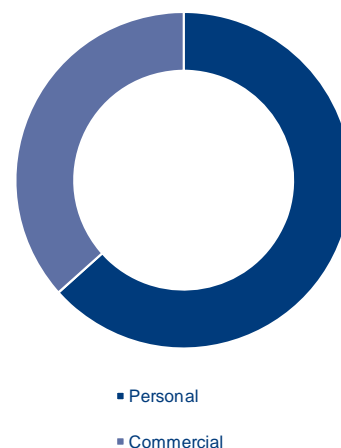
State Insurance (State) achieved modest GWP growth in 1H11 in local currency terms. Growth in personal lines, which represents approximately 87% of State's GWP, was influenced by rate increases across the portfolios and an increase in retention levels, partially offset by lower new business volumes. The much smaller State commercial book experienced an increase in GWP of 0.5%, from rate increases and improved retention.

Excluding the impact of the accounting treatment change in 1H10, the Business Partners affinity business achieved GWP growth of nearly 2% in local currency terms. This is as a result of rate increases in the corporate partners' channel, partially offset by lower GWP in the travel and consumer credit & warranty channels which is largely attributable to the exiting of some unprofitable accounts.

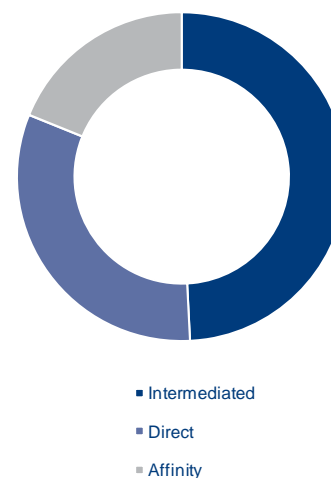
REINSURANCE EXPENSE

New Zealand's reinsurance expense for 1H11 is \$9m lower than 1H10, at \$29m. This reflects an improved granularity of risk data contributing to a reduction in reinsurance premium for the FY11 programme compared to FY10.

1H11 GWP BY CLASS



1H11 GWP BY CHANNEL



6. NEW ZEALAND

CLAIMS

The 1H11 net claims expense of \$237m equates to a loss ratio of 52.1%, compared to 55.0% in 1H10. The key drivers of this improvement are:

- Favourable working claims experience, with a decrease in frequency reflecting the impact of increased excesses implemented in FY10; and
- A lower incidence of large losses (claims >NZ\$100,000).

Both the improved working claims and large loss experience reflect the benefits of better risk selection and underwriting disciplines. A countervailing force has been an increase in average claim costs.

Prior year reserve releases, of \$7m, were slightly lower than those in 1H10, and net natural peril claim costs were slightly higher, but of a modest scale.

Two natural perils of substance occurred in September 2010:

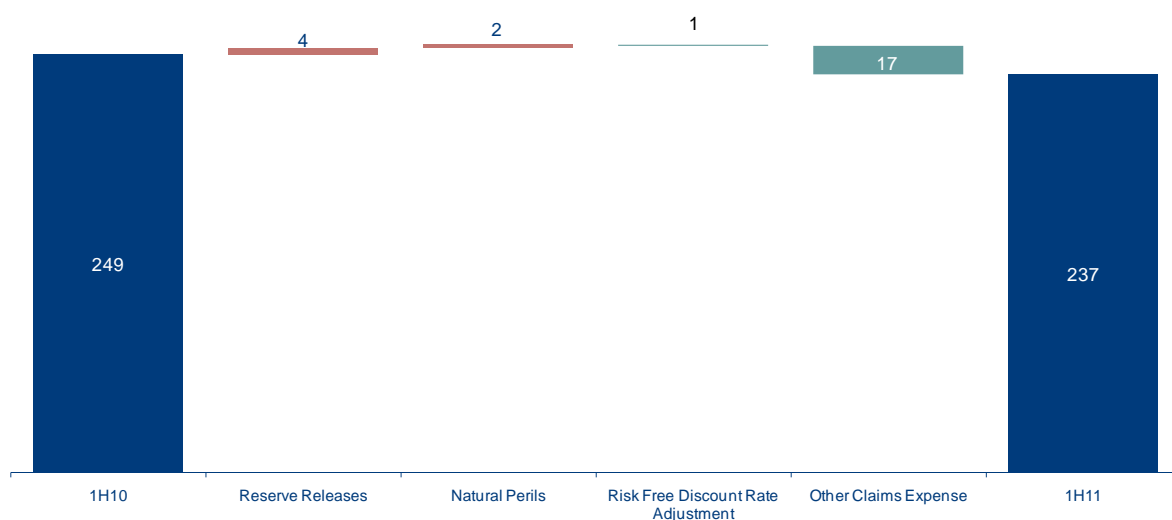
- The Christchurch earthquake on 4 September 2010, which included an initial tremor of 7.1 on the Richter Scale and numerous aftershocks; and
- A New Zealand-wide storm in late September, including significant snow in the south island causing a roof collapse at the Invercargill stadium.

While the New Zealand business held significant local retentions for these events, the cost at the Group level was fully recoverable under IAG's catastrophe reinsurance programme.

The Group's gross exposure to earthquakes is also limited by the cover provided by the New Zealand Earthquake Commission (EQC). This statutory body provides the first layer of household cover in the event of earthquake, capped at NZ\$100,000 plus GST per dwelling and NZ\$20,000 plus GST for contents. The EQC also pays the value of damaged land immediately surrounding a dwelling, or the repair cost, whichever is lower. The EQC's cover does not extend to commercial property or other risks.

Lower loss ratio assisted by modest natural peril impact after reinsurance recoveries

NET CLAIMS EXPENSE – 1H11 VS. 1H10 (A\$M)



6. NEW ZEALAND

EXPENSES

Total reported expenses in 1H11 reduced by approximately 6%, compared to 1H10, and by 3% in local currency terms. The business reported an improved expense ratio of 29.0%, down from 31.1% in 1H10.

Commission expense, at \$54m, was slightly lower than 1H10, and reflects a change in business mix following the exit from an unprofitable travel partnership at the end of 1H10. This produced a commission ratio of 11.9% for 1H11 (1H10: 12.1%).

The 1H11 administration ratio of 17.1% represents an improvement on 1H10 (19.0%) and reflects the combination of relatively flat NEP and lower expenditure.

Underwriting expenses of \$78m are \$8m lower than 1H10, driven by lower IT expenditure, including a significant reduction in project-related amortisation.

Improved expense ratio and discretionary cost control

INSURANCE PROFIT

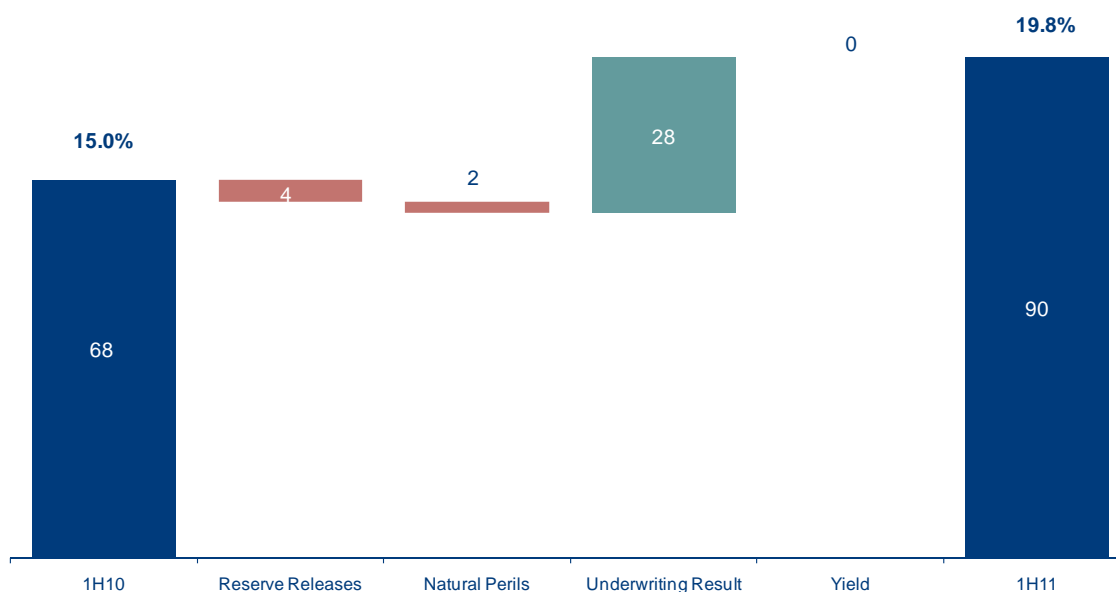
The New Zealand business has continued to build on the strong performance of FY10 to report an insurance profit of \$90m, equivalent to an insurance margin of 19.8% (1H10: 15.0%).

The key factors behind the strong reported 1H11 margin are:

- Improved underwriting and claim disciplines;
- Reduced administration expenditure; and
- Modest net natural peril claim costs, following reinsurance recoveries.

Strong insurance margin of 19.8%, higher than expected long term level

INSURANCE PROFIT – 1H11 VS. 1H10 (A\$M)



6. NEW ZEALAND

FY11 OUTLOOK

The market conditions experienced over the last 12 months are expected to improve, as a result of the Christchurch earthquakes.

GWP growth is expected to improve in 2H11, especially in the NZI intermediated business, as rate increases are implemented.

A lower insurance margin is expected in 2H11 owing to the net natural peril claim cost arising from the second Christchurch earthquake in February 2011. In addition, the 2H11 margin is expected to reflect:

- The slowing of GWP growth over the last 12 months resulting in flat earned premium for 2H11, compared to 2H10; and
- A modest increase in underwriting expense driven by the timing of technology and marketing spend.

A partially offsetting factor is expected to be a continuation of the favourable working and large loss experience as a result of improved underwriting and claims disciplines.

**Lower 2H11 margin expected,
following second earthquake**

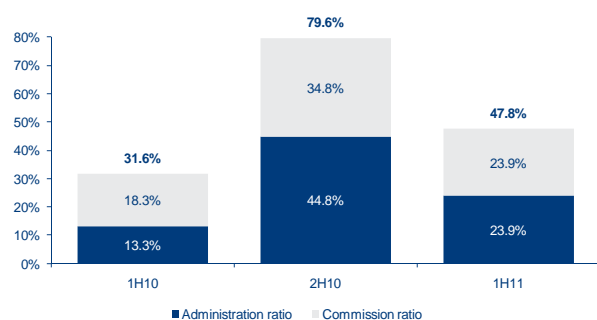
7. UNITED KINGDOM (UK)

FINANCIAL PERFORMANCE

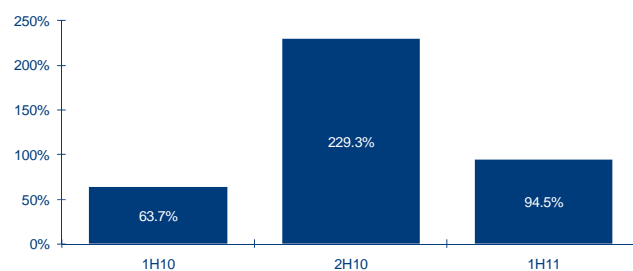
	1H10 A\$m	2H10 A\$m	1H11 A\$m
Gross written premium	406	306	271
Gross earned premium	379	284	309
Reinsurance expense	(18)	(103)	(16)
Net earned premium	361	181	293
Net claims expense	(230)	(415)	(277)
Commission expense	(66)	(63)	(70)
Underwriting expense	(48)	(81)	(70)
Underwriting profit/(loss)	17	(378)	(124)
Investment income on technical reserves	7	(1)	3
Insurance profit/(loss)	24	(379)	(121)
Profit/(loss) from fee based business/share from associates	(2)	(1)	2
Total divisional result	22	(380)	(119)
Insurance Ratios			
Loss ratio	63.7%	229.3%	94.5%
Expense ratio	31.6%	79.6%	47.8%
Commission ratio	18.3%	34.8%	23.9%
Administration ratio	13.3%	44.8%	23.9%
Combined ratio	95.3%	308.9%	142.3%
Insurance margin	6.6%	(209.4%)	(41.3%)

INSURANCE RATIOS

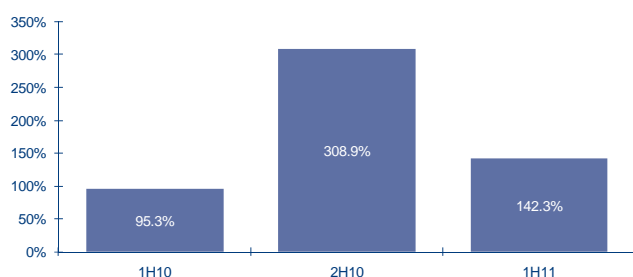
EXPENSE RATIO



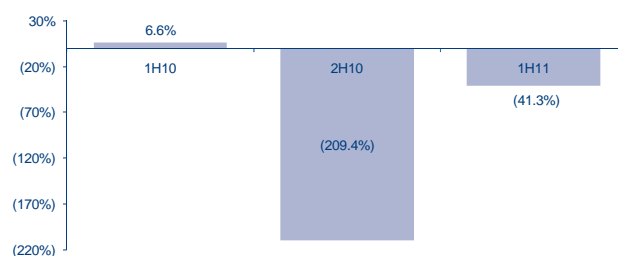
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



7. UNITED KINGDOM (UK)

EXECUTIVE SUMMARY

IAG's business in the United Kingdom (UK) accounted for nearly 7% of the Group's GWP in 1H11, 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) which targets the retired household insurance market; and
- Lloyd's Syndicate 1208, which has been in run-off since 2002.

The UK business continued to perform poorly and produced a worse than expected insurance loss of \$121m in 1H11. While a comprehensive programme of actions to restore longer term profitability is well-advanced, the 1H11 outcome reflects:

- The ongoing market issue of bodily injury claim inflation, at a level more severe than that previously anticipated, which resulted in:
 - Recognition of a \$40m liability adequacy test (LAT) expense; and
 - An \$18m strengthening of prior period reserves;
- Planned rate increases in non-private motor classes taking longer to realise than initially estimated; and
- The impact of the extremely harsh winter weather, resulting in an increase in net natural peril claim costs of \$11m.

The adverse development cover (ADC) taken out in June 2010, for the underwriting years up to 31 December 2009, has provided considerable protection during the half.

Remediation actions, including rate increases and the exiting of unprofitable broker and aggregator relationships, have delivered early signs of improvement, particularly in private motor. These actions are being stepped up, notably in the areas of portfolio-wide rate increases and the exiting of unprofitable business areas, in order to return the business to underwriting profitability.

A further operating loss is anticipated in 2H11, but at a lower level than 1H11. The 2H11 result will also include an approximately \$40m reinsurance expense in respect of a new cover taken out in respect of the underwriting year ended 31 December 2010.

Ian Foy became CEO of the UK business with effect from 1 September 2010, and since that time has materially strengthened the local management team. Mr Foy had been CEO of IAG's New Zealand business since 2008 and has extensive insurance industry experience, including a long period in the UK intermediated market.

MARKET ENVIRONMENT

The UK economy registered modest growth in 1H11, however, weakness in household and government spending highlights risks ahead. The Coalition government plans to cut spending by around £81bn over the next four years, with the loss of almost half a million public sector jobs.

The Bank of England has kept interest rates at a record low of 0.5% to shore up the economic recovery, however inflationary pressures are building.

The previously announced increases in Value Added Tax (VAT), from 17.5% to 20%, and Insurance Premium Tax (IPT), from 5% to 6%, took effect from 4 January 2011.

Bodily injury claim issues continue to affect financial performance

Challenging economic backdrop persists

7. UNITED KINGDOM (UK)

New car registrations in 2010 increased by 1.8% on 2009, with fleet volumes up 10% but private volumes down by over 5% following the end of the Government's Scrappage Incentive Scheme. The Society of Motor Manufacturers and Traders predicts a 5% decline in registrations in 2011 in the face of an expected continuation of tough market conditions.

The increase in bodily injury claims continues to be driven by the 'claim farming' activities of personal injury lawyers, with industry research by The Actuarial Profession's third party motor insurance working party recently suggesting injury claim inflation of around 30%, including an increase in frequency of 9%.

Having been commissioned by the UK government to tackle the growth of 'compensation culture', Lord Young published his report 'Common Sense, Common Safety' in October 2010. Among the key recommendations is the suggestion to extend the simplified Road Traffic Accident Personal Injury Scheme to include other personal injury claims. This would provide a simple three-stage procedure for lower value claims, accessible via the internet, with fixed costs for each stage. The report also calls for restrictions on advertising for 'no win, no fee' compensation claims.

The UK Government has also sought views on Lord Justice Jackson's proposals for reforming conditional fee agreements and other aspects of civil litigation funding and costs. This consultation ended on 14 February 2011.

Alongside bodily injury claim issues, the Association of British Insurers (ABI) has indicated that, during 2009, UK insurers identified 122,000 non-life insurance claims as fraudulent, with a total value of £840m, up by 14% on 2008. Half of these, by number, were fraudulent motor claims.

Such pressures on profitability have resulted in the majority of market participants committing to significant premium rate increases. Although the rate of these increases appears to be slowing, there is strong evidence that rate increases will continue into 2011. The average cost of a comprehensive car insurance policy rose by 6.4% in the fourth quarter of calendar 2010, according to the AA British Insurance Premium Index, giving an annual increase in excess of 33%.

As rates increase, it is expected that this will encourage more consumers to use comparison services to shop for their car insurance. Datamonitor estimates that aggregator-instigated sales will account for 63% of new business private motor premium by 2012.

Meanwhile, affinity programmes are growing in importance for private motor insurance distributors as consumers have become comfortable with buying financial products from non-financial institutions.

Solvency II, the updated set of European Union regulatory requirements, is scheduled to come into effect at the start of 2013. It is likely that Solvency II will increase the solvency capital requirements and the management costs for motor insurers, putting more pressure on returns on capital and premium rates.

REMEDIATION PROGRAMME

As outlined in June 2010, UK management is implementing a comprehensive remediation programme to return the business to an acceptable level of profitability in the longer term.

Progress to date encompasses:

- Substantial rate increases of up to 20% applied to both broker and direct private car volumes;

Comprehensive remediation programme well-advanced

7. UNITED KINGDOM (UK)

- Lower than originally anticipated rate increases in other key business classes, notably special risks and fleet, of the order of 5-10%, reflecting challenging market conditions;
- Exit from the vast majority of third party aggregator-sourced volumes, with the previously indicated exception of motorcycle;
- The shedding of unprofitable broker relationships, with around 8% of ERS's 2,900 broker relationships cancelled and a number of others identified for specific underwriting action;
- A significant strengthening of management resources, with a number of key senior appointments in place by the beginning of 2H11. These include the roles of Active Underwriter and Claims Director, and a number of actuarial appointments;
- Enhancement of management information systems to improve granularity of portfolio analysis and performance; and
- Rigorous review and transformation of claims settlement and reserving practices.

While these remediation actions have delivered early signs of improvement, further steps are being taken, notably:

- Significant additional portfolio-wide rate increases over the next 12 months; and
- The exit of other poorly performing areas, by both business class and distribution partner.

In addition, in light of the further deterioration in bodily injury claim inflation, the Group has entered into a reinsurance arrangement in respect of the underwriting year ended 31 December 2010, providing protection against \$100m of claims deterioration, commencing approximately \$25m above the currently reserved position.

PREMIUMS

Reported GWP for 1H11 decreased by approximately 33% to \$271m, compared to 1H10. The decline against 2H10 was a more modest 11%. In local currency terms, the equivalent figures were 24% and 9%.

The reduction in reported GWP was greater than originally anticipated, reflecting the combined effect of:

- Lower volumes stemming from the deliberate exit from aggregator-originated sources and the cancellation of certain broker relationships; and
- Achieving rate increases, but at a lower level than anticipated in key portfolios such as fleet and special risks.

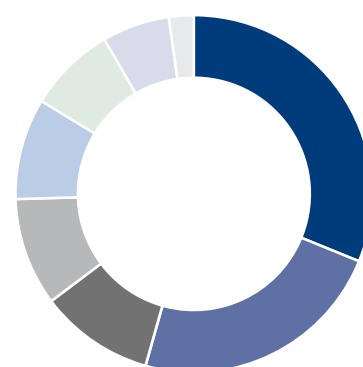
The proportion of GWP derived from private car volumes has decreased. There has also been a considerable change in the source of this business compared to 1H10, with:

- External broker-sourced volumes dropping by nearly 50%, reflecting the exit from aggregator business and unprofitable broker relationships; and
- Higher quality volumes sourced from EDBL increasing by over 40%. This reflects increased premium rates, firm retention levels and new business growth from recently-acquired affinity relationships.

It is anticipated that a further reduction in reported GWP will occur in 2H11, as volume loss associated with specific remedial actions is only partially offset by rate increases.

Volume-driven decline in GWP, partially offset by rate rises

1H11 GWP BY CLASS



- Special Risks
- Fleet
- Household & Commercial Property
- Private Car - Direct
- Motorcycle
- Private Car - Broker
- Other Motor
- Other

7. UNITED KINGDOM (UK)

REINSURANCE EXPENSE

The reported 1H11 reinsurance expense of \$16m is slightly lower than 1H10 (\$18m), but similar in local currency terms. The 1H11 expense is considerably lower than that of 2H10, which included the one-off cost for the ADC taken out in June 2010.

CLAIMS

The UK business' loss ratio of 94.5% in 1H11 represents a significant deterioration over 1H10 (63.7%), and reflects the adverse impact of the ongoing industry issue of bodily injury claim inflation.

Reserving assumptions held at 30 June 2010 have been revised to reflect worse than expected claim inflation since that date. Loss ratios for the 2010 underwriting year are showing an improvement relative to 2009, across the majority of business classes.

The 1H11 net claims expense of \$277m also includes:

- An \$18m strengthening of prior year reserves; and
- \$11m of natural peril costs associated with the extremely harsh winter weather experienced in the UK in the closing months of calendar 2010.

The ADC has provided considerable protection to the 1H11 result, with residual available cover standing at approximately \$50m, as at 31 December 2010.

The 2H10 loss ratio of nearly 230% included \$275m of net reserve strengthening in respect of bodily injury claims. This formed the majority of the one-off charge recognised in that half.

EXPENSES

Total expenses increased slightly to \$140m in 1H11, compared to 1H10. On the back of a 19% drop in reported NEP, this resulted in the expense ratio deteriorating to 47.8% in 1H11 (1H10: 31.6%).

The most significant contributory factor to the increase in total expenditure is recognition of a \$40m LAT expense, addressing the inadequacy of unearned premium liability in the face of further bodily injury-led claim inflation. This has been apportioned between commission (\$23m) and underwriting (\$17m) expenses.

Commission expense increased to \$70m (1H10: \$66m). Excluding the LAT expense, underlying commission payable was relatively flat, in local currency terms.

The underwriting expense increased from \$48m in 1H10 to \$70m in 1H11. Excluding the LAT effect, the increase amounts to approximately 19% in local currency terms and is explained by:

- One-off costs related to the remediation programme; and
- A revised allocation (implemented in 2H10) of certain overheads previously reported as claim handling expenses.

There was a small decrease in the underlying underwriting expense in local currency terms, after allowance for the items identified above.

Further deterioration from bodily injury claims

Expenses inflated by \$40m LAT impact

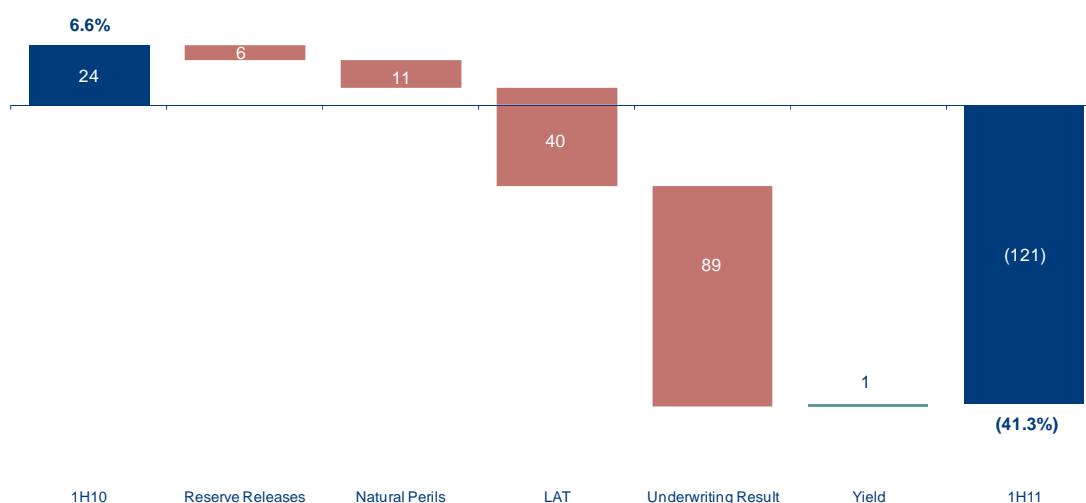
7. UNITED KINGDOM (UK)

INSURANCE PROFIT

As a result of the ongoing deterioration in bodily injury claim experience, the UK business reported a negative insurance margin of 41.3% in 1H11, compared to a positive margin of 6.6% in 1H10.

Negative margin of 41.3% driven by bodily injury claims

INSURANCE PROFIT – 1H11 VS. 1H10 (A\$M)



FEE BASED INCOME

Net fee based income, from EDBL, Barnett & Barnett, IDL and managing agency fee income, amounted to a profit of \$2m in 1H11, compared to a loss of \$2m in 1H10. These businesses performed to expectations.

EDBL continues to grow and delivered an improved breakeven performance by:

- Increasing sales from its major affinity partners, including Santander, first direct, Honda, Renault and Nissan;
- Significantly decreasing the proportion of new business sales derived from the aggregator channel;
- Maintaining strong renewal performance;
- Implementing initiatives to increase income and reduce expenditure, such as the offering of add-on products by direct debit and the launch of e-documents; and
- Maintaining a stable cost base that has supported business growth.

The Barnett & Barnett and IDL broking businesses contributed a small profit in 1H11. In October 2010, Barnett & Barnett acquired NBJ, a complementary commercial insurance broker, which is expected to deliver a positive contribution to earnings in FY11.

Fee based operations have performed to expectations

7. UNITED KINGDOM (UK)

FY11 OUTLOOK

It is now anticipated that the UK will report a further insurance loss in 2H11, but at a reduced level compared to 1H11. This compares to previously expressed expectations of modest profitability in FY11.

The 2H11 result will also include an approximately \$40m reinsurance expense in respect of the new cover for the underwriting year ended 31 December 2010.

Local currency GWP in FY11 is expected to decline, as the volume effect of specific remedial actions, including those to exit aggregator-sourced business and shed unprofitable broker relationships, are not fully countered by realised rate increases.

While considerable progress has been made with the programme of remedial actions, and there are some early signs of associated improvement in operating performance, there remains much to do.

Particular attention is being paid to the realisation of further substantial rate increases across most portfolios within the book, while continuing to identify and exit unprofitable business areas or distribution relationships.

The claims environment is expected to remain challenging.

IAG continues to work closely with both the Financial Services Authority (FSA) & Lloyd's to keep them informed on progress with the UK business' remediation programme.

Reduced loss expected in 2H11

8. ASIA

FINANCIAL PERFORMANCE

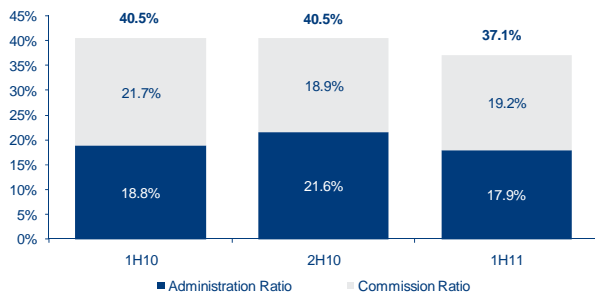
	1H10 A\$m	2H10 A\$m	1H11 A\$m
Gross written premium	89	96	97
Gross earned premium	86	90	95
Reinsurance expense	(17)	(16)	(17)
Net earned premium	69	74	78
Net claims expense	(40)	(48)	(52)
Commission expense	(15)	(14)	(15)
Underwriting expense	(13)	(16)	(14)
Underwriting profit/(loss)	1	(4)	(3)
Investment income on technical reserves	1	4	-
Insurance profit/(loss)	2	-	(3)
Share of profit from associates	2	1	1
Total divisional result	4	1	(2)

Insurance Ratios¹			
Loss ratio	58.0%	64.9%	66.7%
Expense ratio	40.5%	40.5%	37.1%
Commission ratio	21.7%	18.9%	19.2%
Administration ratio	18.8%	21.6%	17.9%
Combined ratio	98.5%	105.4%	103.8%
Insurance margin	2.9%	-	(3.8%)

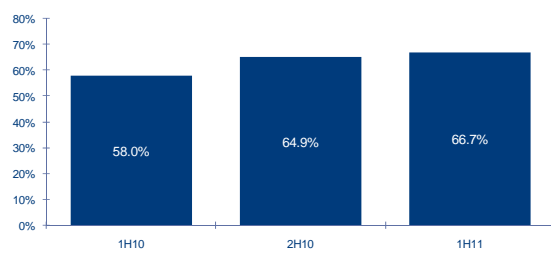
¹ Insurance ratios include divisional expense overlays and are not a true representation of the underlying consolidated business (Thailand).

INSURANCE RATIOS¹

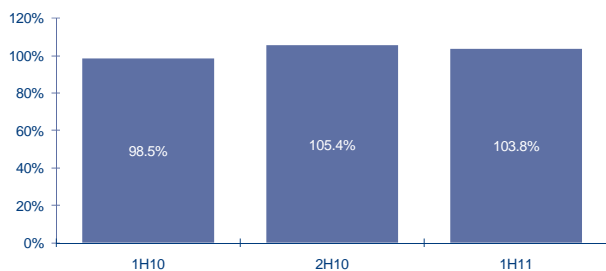
EXPENSE RATIO



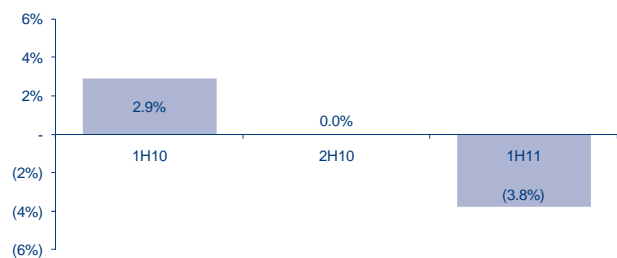
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



8. ASIA

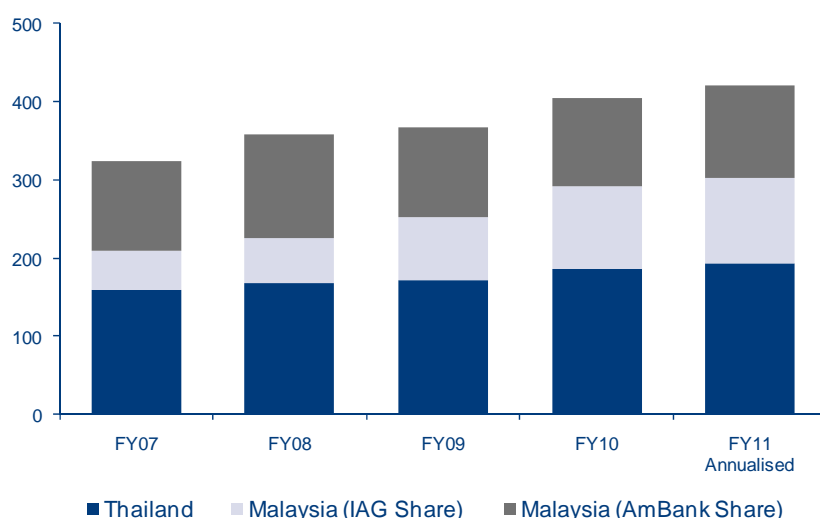
EXECUTIVE SUMMARY

The established businesses in Asia, in Thailand and Malaysia, performed well at the underlying level. The division's reported result, however, continues to reflect the inclusion of regional support and development costs as it progresses its strategy of accessing high growth markets in Asia.

While Asia represented only 2.5% of reported Group GWP for 1H11, as only Thailand is consolidated, the division remains an important part of the Group's future growth strategy. The division currently participates in a gross regional GWP pool of in excess of \$420m per annum.

Sound operational performances from established businesses

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 rate at the most recent reporting date to aid comparability.

Prior to regional support and development costs, the Asia division recorded a profit of \$7m in 1H11, compared to a \$13m profit in 1H10. This outcome was affected by:

- Two flood events in Thailand;
- Initial losses from the India start-up operation, as anticipated; and
- Lower investment income on technical reserves.

After regional support and development costs of \$9m (1H10: \$9m), the Asia division recorded a loss of \$2m in 1H11 compared to a \$4m profit in 1H10.

The Group continues to expand its footprint in this high growth region, with:

- The full launch of SBI General Insurance Company (SBI General), a 26%-owned joint venture with State Bank of India, expected in 2H11;
- Further progress in advancing investment prospects in China;
- Ongoing pursuit of growth options in established markets; and
- Initial assessment of other select Asian markets and opportunities underway.

As at 31 December 2010, IAG's combined investment in Asia stood at approximately \$400m.

8. ASIA

THAILAND

OPERATIONS

IAG's controlled operations in Thailand comprise:

- Safety Insurance (Safety) – Thailand's fifth largest motor insurer; and
- NZI Thailand (NZI) – a commercial insurer.

MARKET ENVIRONMENT

The general outlook for Thailand remains attractive. The Thai economy has rebounded strongly following the GFC, which significantly affected Thailand's major trading partners, as well as the dampening effect of the political unrest in April and May 2010.

GDP growth for calendar 2010 was above 7% and is expected to be around 6% for 2011. The Bank of Thailand predicts a modest negative impact on GDP growth in 2011 from the extensive floods experienced towards the end of calendar 2010.

Both consumer and business confidence have improved significantly over the period, while a broad-based recovery in car sales is continuing.

The Thai general insurance market grew by 10% in local currency terms for calendar year 2010, and is forecast to grow by 4-5% in 2011. With relatively low levels of insurance penetration and strong expected GDP growth, Thailand continues to offer good long term growth prospects.

OPERATING PERFORMANCE

In local currency terms, Thai GWP in 1H11 increased by 8% compared to 1H10. Reported 1H11 GWP of \$97m represents an increase of approximately 9%.

Safety's GWP grew strongly early in the half, reflecting further penetration of a car manufacturer's affinity scheme and broad geographical coverage, but was then tempered by the impact of widespread flooding. For NZI, GWP was similar to prior periods.

The combined Thai businesses continued to perform soundly, with a lower underlying insurance margin of 5.0% (1H10: 8.6%) specifically influenced by:

- The impact of two flood events in Thailand, the central and eastern floods in October 2010 and the southern floods in November 2010, which had a combined impact of nearly \$3m; and
- Lower investment income on technical reserves.

The combined businesses' 1H11 loss ratio of 64.4% was higher than 1H10 (60.4%), owing to the effect of:

- Claims in respect of the flood events, which increased the loss ratio by nearly 3%; and
- The more volatile commercial side of the business (NZI) experiencing a number of large individual claims.

There was an improvement in the underlying expense ratio in 1H11, driven by strong cost control.

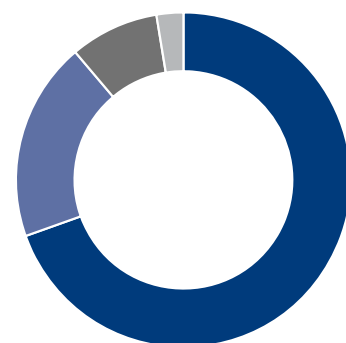
Lower reported investment income includes unrealised losses on interest bearing investments.

Thai business is sole consolidated operation in Asia

Long term growth outlook remains attractive

Underlying Thai margin remains sound

THAILAND – 1H11 GWP BY CLASS



- Motor
- Other Short Tail
- Liability
- Short Tail Commercial

8. ASIA

After allocated regional support and development costs, Thailand contributed a loss of \$3m to the divisional result for 1H11 (1H10: \$2m profit). Allocated regional support and development costs included in the reported underwriting expense amounted to \$4m (1H10: \$5m).

THAILAND FINANCIAL PERFORMANCE

	1H10		2H10		1H11	
	Bm ¹	A\$m ²	Bm ¹	A\$m ²	Bm ¹	A\$m ²
Gross written premium	2,598	89	2,809	96	2,813	97
Net earned premium	1,952	69	2,068	74	2,182	78
Net claims expense	(1,179)	(40)	(1,284)	(48)	(1,406)	(52)
Commission & underwriting expenses	(650)	(23)	(649)	(24)	(691)	(25)
Investment income on technical reserves	44	1	68	4	24	-
Insurance profit	167	7	203	6	109	1
Allocated support & development costs		(5)		(6)		(4)
Reported insurance profit/(loss)		2		-		(3)
Insurance Ratios						
Loss ratio	60.4%		62.1%		64.4%	
Expense ratio	33.3%		31.4%		31.7%	
Combined ratio	93.7%		93.5%		96.1%	
Insurance margin	8.6%		9.8%		5.0%	

¹ Excludes captive reinsurance result and allocated regional support and development costs.

² Includes captive reinsurance result and allocated regional support and development costs.

MALAYSIA

OPERATIONS

IAG owns a 49% interest in AmG Insurance, the general insurance arm of AmBank Group, which controls Malaysia's fifth largest bank branch network. This joint venture was established in 2006. At the end of calendar 2010, AmG Insurance was the sixth largest general insurer in Malaysia and the country's third largest motor insurer.

AmG is no longer in discussion over the proposed acquisition of the general insurance business of Malaysian Assurance Alliance Berhad (MAA).

AmG is a 49%-owned JV with AmBank

MARKET ENVIRONMENT

The Malaysian economy grew by nearly 7% in calendar 2010 and is projected to grow by over 6% in 2011. Forecast growth is underpinned by strong domestic demand and a positive reform environment supported by the release of the government's new economic policy.

New car sales have demonstrated a strong recovery and, after an increase of about 20% in the first six months of the year, are expected to show a significant rise for the whole of 2010.

Malaysia's general insurance market grew by around 10% in calendar 2010 in local currency terms. With solid GDP growth, a strengthening regulatory environment and significant development in insurance penetration still to come, Malaysia continues to offer good long term growth prospects. The industry is currently going through a period of consolidation, following a number of recent transactions.

The Malaysian government continues to work with stakeholders to implement significant reforms to the Third Party Bodily Injury (TPBI) scheme. Due to the

Positive economic and industry growth outlook

8. ASIA

complexity of issues, satisfactory resolution may take some time. AmG's TPBI book remained stable during the period. This product area, which is necessarily underwritten as part of participating in the motor insurance market, represented only 6% of AmG's GWP for 1H11.

OPERATING PERFORMANCE

AmG Insurance delivered a strong underlying performance in 1H11. The business continues to benefit from the strong distribution network of the AmBank Group and IAG's successful capability transfer programme. An IAG employee currently occupies the role of CEO and has led significant strategic change in the business, both from a product offering and process perspective. IAG employees also occupy other key roles.

GWP during 1H11 grew by nearly 1% relative to 1H10, in local currency terms. This small improvement housed the following elements:

- Growth of over 11% in motor (approximately 80% of GWP in 1H11);
- Lower extended warranty product volumes, following a substantial reduction in their distribution through the bank channel; and
- A reassessment and non-renewal of some commercial products and risks.

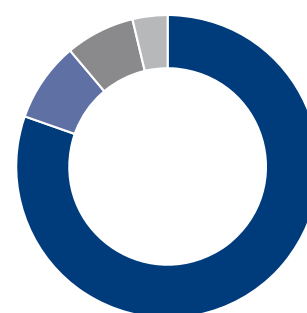
The 1H11 insurance margin of 14.3% remains strong (1H10: 13.9%). This incorporates a loss ratio of 70%, which is relatively stable compared to the previous financial year. A strategic refresh of significant claims processes has occurred, to reduce unnecessary leakage.

The overall investment return for 1H11 was again strong and in line with FY10 performance, with the local investment market continuing its upward trend.

The reported contribution from AmG of \$1m in 1H11 (1H10: \$2m) is after allocated regional support and development costs of \$5m (1H10: \$4m).

Strong underlying performance from AmG

AMG – 1H11 GWP BY CLASS



- Motor
- Other
- Fire
- Personal Accident

AMG FINANCIAL PERFORMANCE

	1H10 ¹		2H10 ¹		1H11 ¹	
	RMm	A\$m	RMm	A\$m	RMm	A\$m
Gross written premium	325		324		327	
Net earned premium	251		258		273	
Net claims expense	(173)		(186)		(192)	
Commission & underwriting expenses	(63)		(63)		(65)	
Investment income on technical reserves	20		18		23	
Insurance profit	35		27		39	
Net profit after tax	36		26		38	
Net profit after tax - IAG's share (49%)	17	6	13	4	19	6
Allocated support & development costs		(4)		(3)		(5)
Reported share of profit from associate		2		1		1
Insurance Ratios						
Loss ratio	68.9%		72.1%		70.3%	
Expense ratio	25.1%		24.4%		23.8%	
Combined ratio	94.0%		96.5%		94.1%	
Insurance margin	13.9%		10.5%		14.3%	

¹ Figures represent AmG's results for six months ended 31 December 2009, 30 June 2010 and 31 December 2010 (AmG reports on a 31 March year end basis).

8. ASIA

INDIA

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India, India's largest bank. The interest was acquired in November 2009 for \$126m (5.4bn Indian rupees).

IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit. It remains the Group's expectation that, at its current ownership level, no further capital will be required for approximately four years from commencement.

SBI General is a start-up operation and commenced limited underwriting towards the end of FY10. Significant progress has been made in the development of a tailored IT system which is expected to enable a full launch during the first half of calendar 2011.

SBI General has now recruited over 350 staff. During FY11 the number of IAG personnel based in India is being reduced as some of the near term capability transfer programmes finish and the business moves towards establishment. IAG appointees occupy a number of key positions, including Deputy CEO. IAG also has two Board positions.

The joint venture plans to build a balanced portfolio, with a presence in corporate, retail and SME markets across India.

The general insurance market in India grew by 23% in the six months to 30 September 2010 and is forecast to grow by 15-20% per annum over the next decade. While public sector insurers continue to dominate the market, with nearly 60% market share by GWP (down from 80% in 2005), the private sector continues to make inroads. Aggregate private sector growth for the six months to 30 September 2010 was 26%, compared to 21% for the public sector. The regulatory framework continues to incorporate reforms conducive for growth in the insurance industry.

During 1H11, SBI General generated modest GWP and contributed a small loss to the divisional result (contained within regional support and development costs).

CHINA

China remains an attractive general insurance market underpinned by strong forecast growth in GWP and motor vehicle numbers. IAG remains committed to exploring opportunities in China and good progress has been made in dialogue with a number of potential insurance partners.

China Automobile Association (CAA) contributed a breakeven result in 1H11, on a par with 1H10.

REGIONAL SUPPORT AND DEVELOPMENT COSTS

As IAG broadens its operational footprint in Asia, regional support and development costs are borne within the division's reported results. These costs cover a wide range of activities, including the divisional level management, on-the-ground capability transfer teams, and the costs of developing opportunities in new and existing markets.

The regional support and development costs are self-funded within the division and, for reporting purposes, are allocated between the consolidated businesses and share of associates. Total regional support and development costs for 1H11 are \$9m, similar to prior periods, and include establishment costs for the Indian joint venture.

SBI General full launch in 2H11

IAG continues to explore insurance opportunities in China

Self-funded business development costs

8. ASIA

REGIONAL SUPPORT & DEVELOPMENT COSTS - ALLOCATION

	1H10	2H10	1H11
	\$m	\$m	\$m
Thailand (Safety Insurance / NZI)	5	6	4
Malaysia (AmG Insurance)	4	3	5
Total regional support & development costs	9	9	9

FY11 OUTLOOK

It is anticipated that underlying performance in the Thai and Malaysian businesses will be strong in 2H11.

The completion of systems implementation at SBI General, and subsequent full launch, is a key focus area for FY11. This is expected to occur during 2H11.

The division will continue to pursue dialogue with potential insurance partners in China.

While the division's immediate growth strategy is based on the selected markets of Thailand, Malaysia, India and China, additional markets and opportunities therein have begun to be assessed.

In the near term, regional support and development costs are not expected to be significantly different from those currently incurred. The Asia division will continue to self-fund such costs.

Full launch of SBI General a key focus in 2H11

9. REINSURANCE

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.

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, the Group captures counter-party and regulatory exposures within a single entity.

IAG's international business units continue to place some reinsurance directly with the external market. However, the Group's international captive reinsurers underwrite close to 100% of New Zealand treaty business and a substantial amount from the UK and Asia.

MARKET ENVIRONMENT

Whilst the global reinsurance market appears to be benefiting from surplus capacity and a benign North American hurricane season, Australasia experienced an increase in natural peril events during 2010 which has affected reinsurance pricing. During the 2011 renewal, IAG observed moderate rate increases for natural perils after allowing for aggregate growth.

CATASTROPHE COVER

The Group's main catastrophe reinsurance protection was renewed for 12 months effective 1 January 2011, and provides cover for losses up to \$4.1bn. Applicable rate increases were around 10%. The Group retains the first \$250m of each loss under this cover. This catastrophe protection covers all territories and operates on an excess of loss basis.

From 1 January 2011, IAG entered into a further three-year arrangement (concluding 31 December 2013) to reduce the Maximum Event Retention (MER) of the Group below \$250m. At the outset of calendar 2011, the MER for a first event was \$150m in Australia, \$115m for New Zealand and \$53m for the UK. The Group also purchases second and third event covers.

In addition, 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.

Owing to the sequence of significant natural peril events in Australia and New Zealand in January and February 2011, the maximum net cost for a subsequent event stood at \$75m, as at 24 February 2011.

The Group has a customised event definition in its catastrophe reinsurance contract wording which ensures that covers provide appropriate protection to the Group, both in terms of geographical exposure and event duration. IAG's reinsurance protections were extended in 2010 to provide cover for flood where it is offered in the original policy.

Reinsurance is a key part of IAG's overall approach to capital management

Moderate local peril rate increases

Comprehensive catastrophe cover in place, on calendar year basis

9. REINSURANCE

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances which protect the Group in all territories in which it underwrites.

The casualty reinsurances were renewed at 30 June 2010 with marginal price reductions and a strengthening of coverage. 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.

During the course of 2010, a separate reinsurance structure was purchased as part of the strategy to manage the reserve deterioration experienced in the UK in respect of bodily injury claims. This reinsurance provides the Group with protection against adverse development of the UK motor portfolio for the calendar underwriting years 2009 and prior.

In addition, the Group has recently purchased a similar cover specific to the UK underwriting year ended 31 December 2010. A related expense of approximately \$40m will be recognised in 2H11.

COUNTER-PARTY RISK

The counter-party credit profiles for the current key reinsurances of the Group are:

- 85% of limits placed with 'A+' or better rated entities for the property catastrophe programme; and
- 100% of limits placed with 'A+' or better rated entities for the casualty programme.

Casualty reinsurances renewed at 30 June 2010 with small price reductions and stronger cover

Strong counter-party risk profile

10. INVESTMENTS

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;
- 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 maximise return, consistent with the Group's risk appetite and flexibility requirements;
- To invest Group assets such that the contribution of investment risk to IAG's earnings volatility should not dominate the contribution from insurance risk;
- To generate cost-effective and consistent added value to technical reserves and shareholders' funds in accordance with agreed benchmarks and within strict risk tolerance parameters; and
- To maintain highly liquid portfolios, invested in accordance with Group policies.

INVESTMENT STRATEGIES

The Group's overall investment allocation remains relatively conservatively positioned, with 87% of total investments in fixed interest and cash at 31 December 2010. Technical reserves were almost entirely invested in fixed interest and cash, with an equivalent figure of 60% for shareholders' funds.

Since 30 June 2010, the Group has continued to move to a less conservative position within its shareholders' funds investment mix, reflecting stronger equity markets and opportunities to invest in other growth asset categories. It remains the Group's intent to move closer towards a 50% weighting for growth assets within shareholders' funds, subject to continued improvement in the outlook for markets.

In increasing the growth assets allocation in shareholders' funds, it is the Group's strategy to use alternative assets that have growth asset return characteristics while offering lower overall portfolio volatility than listed equities. In 1H11 the Group increased its exposure to growth assets, including a higher allocation to global convertible bonds. Collectively, the Group's exposure to alternative assets is now over 15% of shareholders' funds.

In technical reserves, no material deviation from the current strategy is planned, given the attractive returns on high-grade credit currently still available.

GROUP INVESTMENT ASSETS

The Group's investments totalled \$11.8bn as at 31 December 2010, excluding investments held in joint ventures and associates. This compares with \$11.7bn at 30 June 2010 and \$11.5bn at 31 December 2009.

INVESTMENT ASSETS

	1H10 A\$bn	2H10 A\$bn	1H11 A\$bn
Technical reserves	7.9	8.4	8.1
Shareholders' funds	3.6	3.3	3.7
Total investment assets	11.5	11.7	11.8
Other funds managed on behalf of third parties	0.5	0.5	0.5

Technical reserves invested in duration-matched fixed interest securities

Increasing use of alternative asset classes in shareholders' funds

10. INVESTMENTS

ASSET ALLOCATION

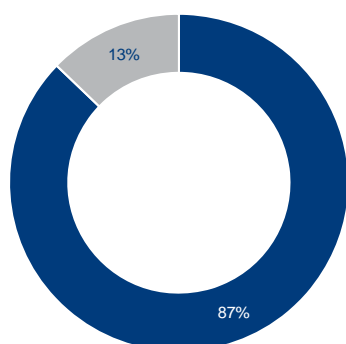
Since 30 June 2010, the most significant change in asset allocation has been the increased exposure to growth assets (equities and alternatives) within shareholders' funds. Over the course of the six months to 31 December 2010, growth assets have risen to 40% of shareholders' funds, in line with previously expressed intent.

Growth asset weighting in shareholders' funds increased to 40%

ASSET ALLOCATION

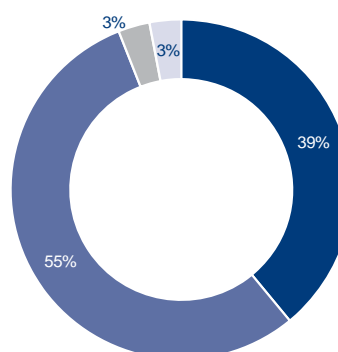
	1H10	2H10	1H11
	%	%	%
Shareholders' funds			
Australian equities	14.4	19.4	19.8
International equities	4.5	5.5	5.0
Alternatives	5.0	12.2	15.4
Fixed interest and cash	76.1	62.9	59.8
Total	100.0	100.0	100.0
Technical reserves	%	%	%
Australian equities	-	-	-
International equities	-	-	-
Alternatives	0.4	0.2	0.2
Fixed interest and cash	99.6	99.8	99.8
Total	100.0	100.0	100.0
Total shareholders' funds & technical reserves	%	%	%
Australian equities	4.6	5.4	6.2
International equities	1.4	1.5	1.6
Alternatives	1.9	3.5	5.0
Fixed interest and cash	92.1	89.6	87.2
Total	100.0	100.0	100.0

GROUP ASSET ALLOCATION – 31 DECEMBER 2010



■ Fixed Interest and Cash
■ Growth

CREDIT QUALITY – 31 DECEMBER 2010



■ "AAA"
■ "AA"
■ "A"
■ < "A"

10. INVESTMENTS

CREDIT QUALITY OF ASSETS

The credit quality of the Group's investment book remains high, with 94% of the fixed interest and cash portfolio rated 'AA' or better. All credit assets are performing and meeting interest and principal repayment obligations.

SENSITIVITY ANALYSIS

As at 31 December 2010 the sensitivity of the Group's net profit before tax to investment market movements was as set out in the table below.

SENSITIVITY OF NET PROFIT BEFORE TAX – AS AT 31 DECEMBER 2010

	Change in Assumption	
	+1% A\$m	-1% A\$m
Equity market values:		
Australian equities	7	(7)
International equities ¹	5	(5)
Interest rates:		
Assets backing technical provisions	(234)	251
Assets backing shareholders' funds ¹	(27)	29
Total investment returns	(261)	280

¹ Includes indirect sensitivities relating to alternative asset classes.

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 (INCLUDING DERIVATIVES)¹

	1H10		2H10		1H11	
	A\$m	% ²	A\$m	% ²	A\$m	% ²
Technical reserves	210	2.7	344	4.1	149	1.8
Shareholders' funds	187	5.2	5	0.2	147	4.0
RES revaluation	(96)	-	-	-	-	-
Total investment income	301	2.6	349	3.0	296	2.5

¹ Returns are accounting yields, being investment income based on average exchange rates divided by closing funds under management.

² Half year returns have not been annualised.

Investment returns on technical reserves were lower during 1H11 than previous periods, reflecting rising yields as interest rates increased on the back of the continued economic recovery.

Investment returns on shareholders' funds have shown considerable improvement on the previous six months, reflecting the recovery in equity markets and the additional allocation to alternative investments, particularly convertible bonds, which have performed strongly over the period.

Shareholders' funds income in 1H10 included a \$96m loss on reversal of the exchange right gain embedded in the Reset Exchangeable Securities (RES).

11. BALANCE SHEET & CAPITAL

BALANCE SHEET

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Assets			
Cash and cash equivalents	387	416	413
Investments	11,540	11,734	11,810
Investments in joint ventures and associates	255	283	299
Premium receivable	1,896	2,046	1,876
Trade and other receivables	743	1,084	984
Reinsurance recoverables on claims	530	663	1,441
Other recoverables on claims	379	408	428
Deferred acquisition costs	688	688	634
Deferred reinsurance expense	370	258	423
Intangible assets	361	301	211
Goodwill	1,834	1,782	1,642
Other assets	774	783	621
Total assets	19,757	20,446	20,782
Liabilities			
Outstanding claims	7,576	8,253	8,847
Unearned premium	4,033	4,207	4,117
Interest bearing liabilities	1,586	1,450	1,380
Trade and other payables	728	1,041	837
Other liabilities	794	839	943
Total liabilities	14,717	15,790	16,124
Net assets	5,040	4,656	4,658
Equity			
Equity attributable to holders of ordinary shares	4,886	4,486	4,511
Non-controlling interests	154	170	147
Total equity	5,040	4,656	4,658

The total assets of the Group as at 31 December 2010 were \$20,782m compared to \$20,446m at 30 June 2010. The increase primarily reflects higher reinsurance recoverables.

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 2010 were \$16,124m, compared to \$15,790m at 30 June 2010. The movement is primarily attributable to increased claim liabilities.

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.

11. BALANCE SHEET & CAPITAL

IAG shareholders' equity (excluding non-controlling interests) increased slightly to \$4,511m, from \$4,486m at 30 June 2010. This largely reflects:

- A 1H11 reported profit attributable to shareholders of \$161m;
- Dividends of \$94m that were declared and paid during the period; and
- An adverse foreign currency translation reserve movement of \$55m.

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 31 December 2010 stood at \$1,853m, down from \$2,083m at 30 June 2010, and comprises \$1,642m of goodwill (FY10: \$1,782m) and \$211m of other intangible assets (FY10: \$301m).

The most significant divisional movement over the half was the reduction in goodwill and intangibles in respect of the UK. This includes a \$150m impairment identified in 1H11, as well as an adverse foreign exchange translation effect.

UK goodwill and intangibles reduced by \$150m writedown

GOODWILL & INTANGIBLES – BY DIVISION

	FY10 A\$m	1H11 A\$m
Australia Direct	599	599
Australia Intermediated	595	603
New Zealand	293	274
United Kingdom	542	328
Asia	54	49
Total goodwill & intangibles	2,083	1,853

CAPITAL

CAPITAL ADEQUACY

The Group retains a target minimum capital requirement (MCR) multiple of 1.45 to 1.50 as a long term benchmark. At 31 December 2010 the Group's MCR multiple stood at 1.81.

The Group's regulatory capital has increased from \$4,140m as at 30 June 2010 to \$4,184m at 31 December 2010.

The Group's minimum capital requirement increased to \$2,315m as at 31 December 2010, from \$2,154m as at 30 June 2010. This movement reflects the combined effect of:

- Higher investment risk charges associated with the Group's increased weighting towards growth assets within shareholders' funds; and
- An increase in catastrophe concentration risk, reflecting an increase in the Group's MER with renewal of its catastrophe reinsurance programme effective 1 January 2011.

It remains the Group's intention to consider capital management initiatives before the conclusion of calendar year 2011.

Strong capital position maintained

11. BALANCE SHEET & CAPITAL

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Tier 1 capital			
Paid-up ordinary shares	5,353	5,353	5,353
Non-controlling interests	154	170	147
Treasury shares	(34)	(31)	(35)
Hybrid equity ¹	496	475	496
Reserves	(37)	(34)	(91)
Retained earnings	(362)	(775)	(692)
Excess technical provisions (net of tax)	482	522	454
Less: deductions ²	(2,789)	(2,513)	(2,326)
Total Tier 1 capital	3,263	3,167	3,306
Tier 2 capital			
Hybrid equity in excess of Tier 1 limit ¹	404	425	404
Subordinated debt ³	537	536	465
Other	4	12	9
Total Tier 2 capital	945	973	878
Capital base	4,208	4,140	4,184
Minimum Capital Requirement (MCR):			
Insurance risk	1,242	1,344	1,315
Investment risk	693	790	850
Catastrophe concentration risk	135	20	150
Total MCR	2,070	2,154	2,315
MCR multiple	2.03	1.92	1.81

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.

INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities have decreased from \$1,450m at 30 June 2010 to \$1,380m at 31 December 2010. This movement largely reflects exchange rate movements applicable to subordinated debt issues.

Debt reduction reflects FX movements

11. BALANCE SHEET & CAPITAL

INTEREST BEARING LIABILITIES

	1H10 A\$m	2H10 A\$m	1H11 A\$m
Subordinated debt	540	541	468
Cross-currency swap payable	135	-	-
Reset Preference Shares	350	350	350
Reset Exchangeable Securities	550	550	550
Capitalised transaction costs	(3)	(5)	(3)
Other	14	14	15
Total interest bearing liabilities	1,586	1,450	1,380

GROUP DEBT & HYBRID CAPITAL

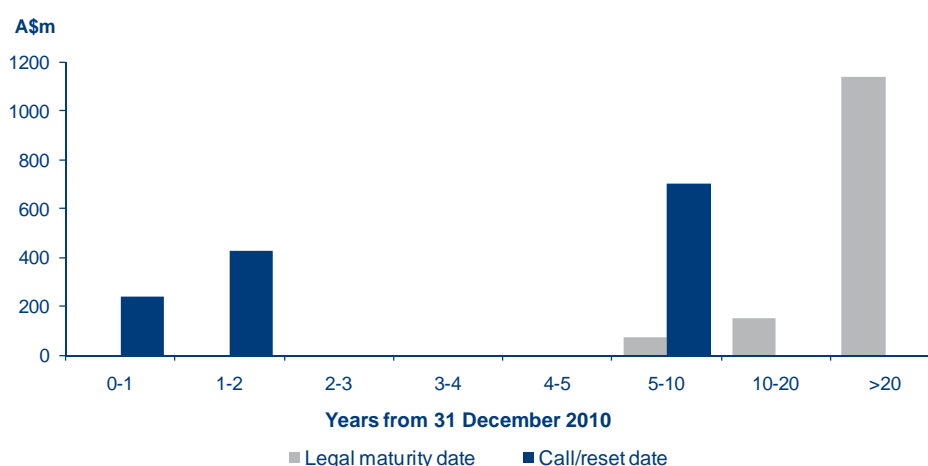
	Principal amount m	A\$m	Yield (net of swaps) %	Call, reset or Rate maturity date	S&P rating
£157m subordinated exchangeable term notes	£157	239	3.53%	Variable Oct-11	'A'
NZ\$100m subordinated fixed rate notes	NZ\$100	76	9.11%	Fixed Nov-12	'A+'
£100m subordinated fixed rate notes ¹	£100	153	5.63%	Fixed Dec-16	'A-'
Total Debt		468			
Reset Preference Shares (IAGPA) ²	A\$350	350	5.63%	Fixed Jun-12	'A-'
Reset Exchangeable Securities (IANG) ³	A\$550	550	6.67%	Variable Dec-19	'A-'

¹ IAG has bought back (but not cancelled) approximately £42m of the total outstanding notes on issue of £142.4m, as at 31 December 2010.

² Dividend yield on the Reset Preference Shares is a cash yield, excluding attached franking credits. The 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.

GROUP DEBT MATURITY PROFILE



11. BALANCE SHEET & CAPITAL

CAPITAL MIX

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with 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 2010, the Group's capital mix was within the targeted range, with debt and hybrids representing 33% of total tangible capitalisation.

Capital mix within targeted range

CAPITAL MIX

CAPITAL MIX	1H10 A\$m	2H10 A\$m	1H11 A\$m
Shareholder equity	5,040	4,656	4,658
Intangibles and goodwill	(2,195)	(2,083)	(1,853)
Tangible shareholder equity	2,845	2,573	2,805
Interest bearing liabilities	1,586	1,450	1,380
Total tangible capitalisation	4,431	4,023	4,185

CREDIT RATINGS

On 12 August 2010, 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.

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).

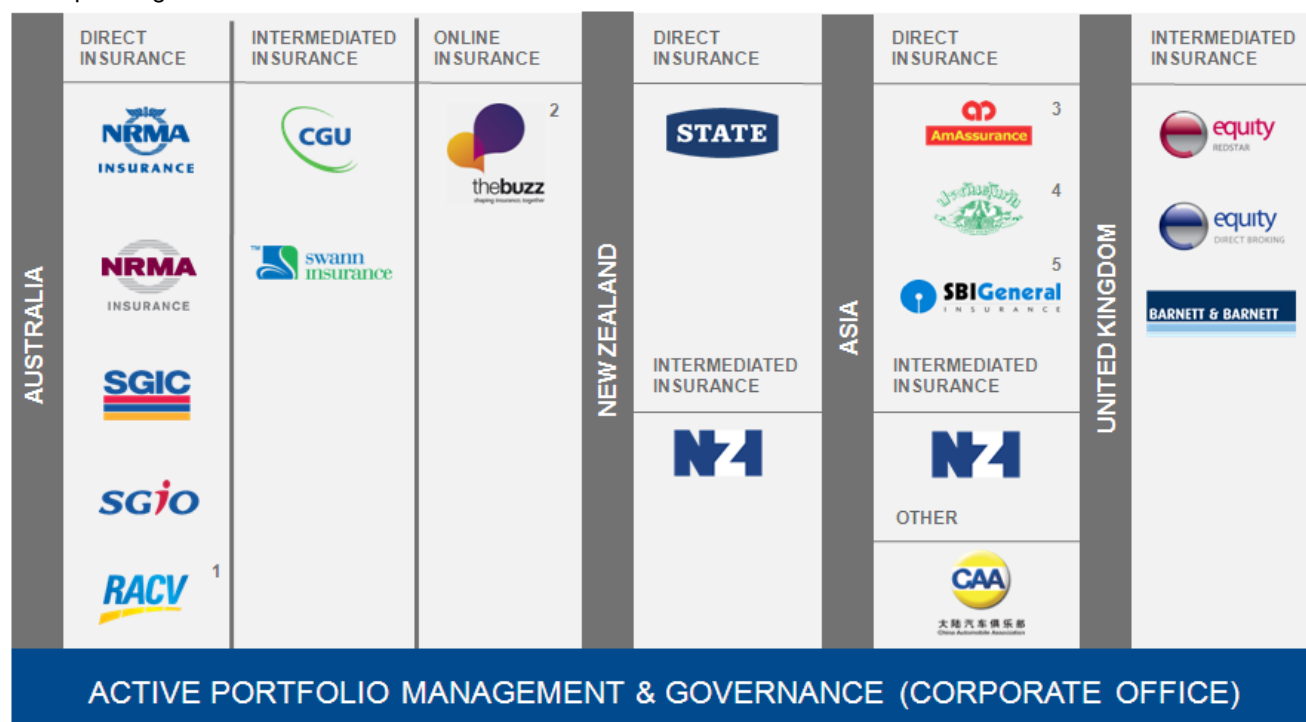
The aim is to achieve these targets through the cycle, given the nature and volatility of insurance. The clear focus is on profitable growth.

The Group's strategic priorities are to:

- Deliver a strong performance in 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 are 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:



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. If one of IMA's shareholders were to experience a change of control, the other has a pre-emptive right to acquire that shareholder's interest in IMA at market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA's reinsurance of NRMA-branded products in NSW and the ACT.

² RACV has a 30% interest in The Buzz.

³ IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad, which trades under the AmAssurance brand.

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 – IAG SNAPSHOT

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

THE BUZZ

The Buzz was launched in May 2009 as a standalone Australian online insurer initially focusing on car insurance. A home product was launched in June 2010.

Short tail insurance

- Car insurance
- Home and contents

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, operating 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

NEW ZEALAND

The New Zealand business is the country's leading provider of general insurance, direct to consumers under the State brand and indirectly, through insurance brokers and agents, under the NZI brand. The New Zealand business also distributes personal and simplified commercial insurance products through third party corporate brands, 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). ERS commenced operations in 1946, and is 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.

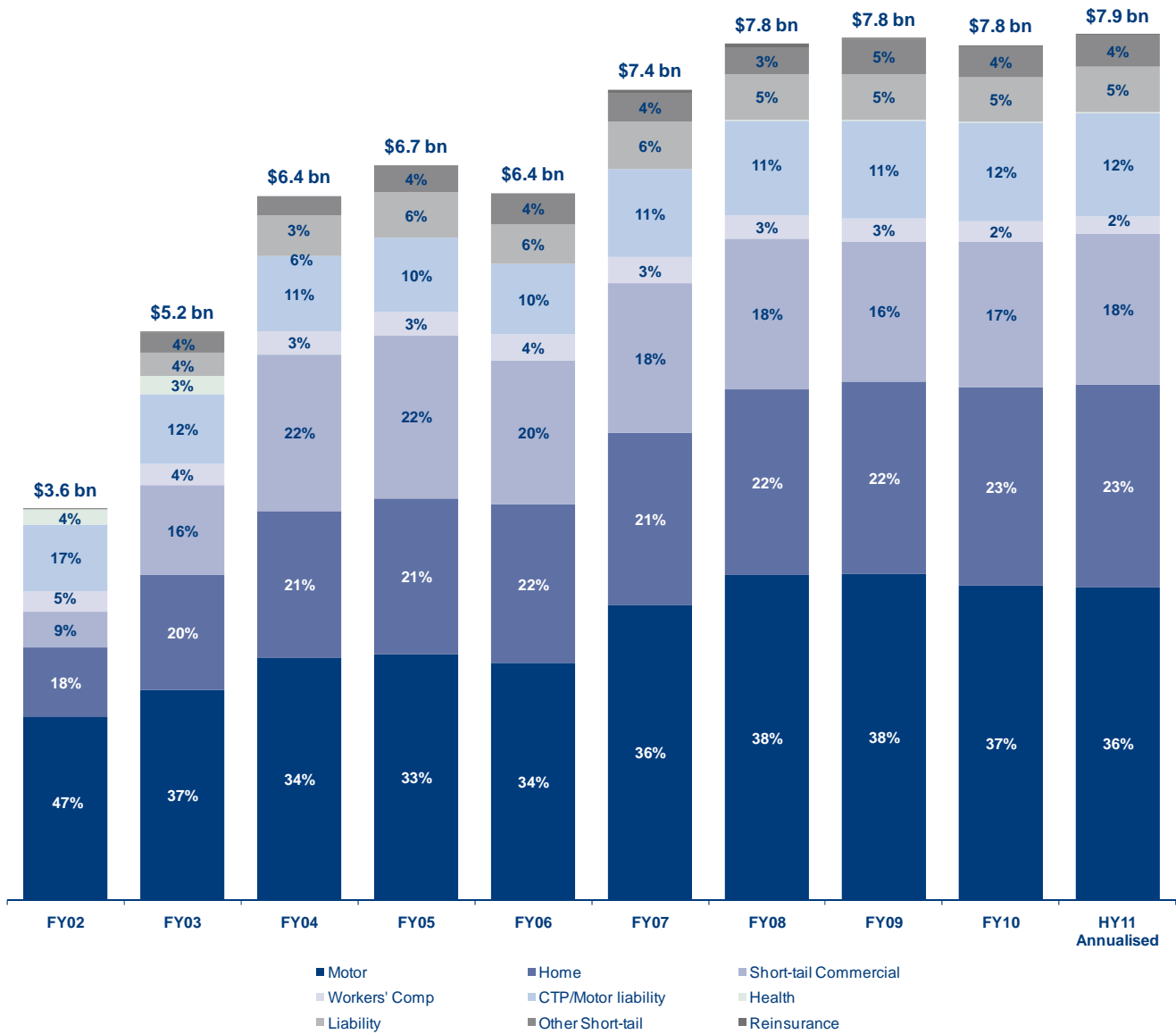
ASIA

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 Berhad, a general insurance joint venture in Malaysia;
- A 26% interest in SBI General Insurance Company, a general insurance joint venture in India which commenced trading in 2010; and
- 100% of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China.

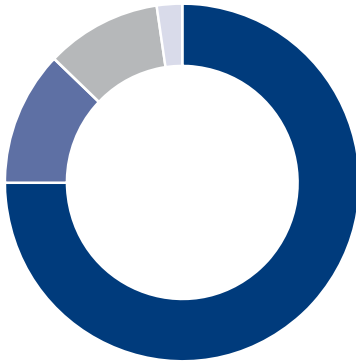
APPENDIX C – GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY BUSINESS CLASS (A\$BN)



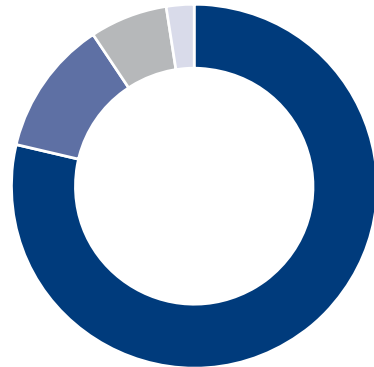
APPENDIX C – GEOGRAPHICAL AND PRODUCT DIVERSIFICATION

IAG GROUP GWP BY REGION – 1H10



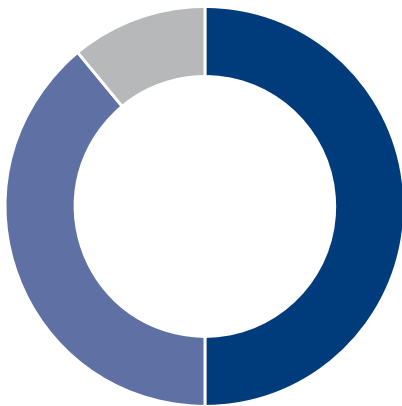
- Australia
- New Zealand
- UK
- Asia

IAG GROUP GWP BY REGION – 1H11



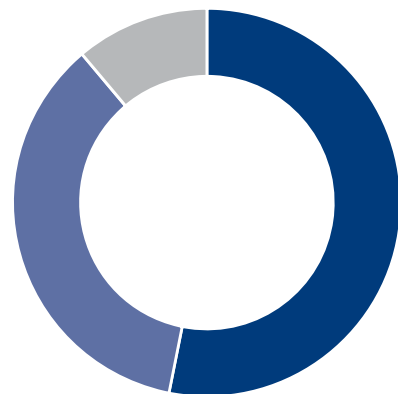
- Australia
- New Zealand
- UK
- Asia

IAG GROUP GWP BY CHANNEL – 1H10



- Direct
- Broker/agent
- Affinity

IAG GROUP GWP BY CHANNEL – 1H11



- Direct
- Broker/agent
- Affinity

APPENDIX D – KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 30 June 2010 is set out below. It does not include announcements of changes in Directors' interests, or the issue of shares upon exercise of share rights by employees. 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>.

- 27-JUL-10 IAG ANNOUNCES EXPECTED FY10 RESULT, DIVIDEND AND CHANGES TO EXECUTIVE TEAM**
- IAG announced it expected to report an insurance margin for the year ended 30 June 2010 of 7.0% and to determine a fully franked, final dividend of 4.5 cents per share. In addition, the Group announced changes to its executive team, centred on its UK and New Zealand operations.
- 26-AUG-10 IAG ANNOUNCES FY10 RESULT AND CONFIRMS IMPROVED OUTLOOK FOR FY11**
- IAG announced an insurance profit of \$493m for the year ended 30 June 2010, representing an insurance margin of 7.0%. The Board determined to pay a fully franked final dividend of 4.5 cents per share. Insurance margin guidance of 10.5-12.5% for FY11 was reaffirmed.
- 6-SEP-10 IAG UPDATE ON CHRISTCHURCH EARTHQUAKE**
- IAG provided an update on the earthquake which struck Christchurch on 4 September 2010, confirming that the Group's financial exposure to the entire event will be covered by reinsurance.
- 20-SEP-10 ANNUAL REPORT, ANNUAL REVIEW AND NOTICE OF ANNUAL GENERAL MEETING**
- IAG's 2010 Annual Report, Annual Review and notice of Annual General Meeting were released to the market.
- 20-SEP-10 DIVIDEND REINVESTMENT PLAN PRICING**
- IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$3.7093 per share for the dividend payable on 6 October 2010.
- 20-OCT-10 IAG APPOINTS PETER HARMER AS NEW CEO OF CGU**
- IAG announced the appointment of Mr Peter Harmer as CEO of CGU following the resignation of Mr Duncan West for family reasons.
- 27-OCT-10 ANNUAL GENERAL MEETING**
- At the company's annual general meeting, IAG confirmed it was on track to meet its FY11 guidance of an insurance margin of 10.5-12.5% and underlying gross written premium growth of 3-5%.
- 7-DEC-10 IAG ANNOUNCES BOARD APPOINTMENT**
- IAG announced that Mr Peter Bush had been appointed to the IAG Board as a Non-executive Director.
- 13-JAN-11 IAG UPDATE ON SEVERE WEATHER IN QUEENSLAND**
- IAG provided an update on the severe weather conditions experienced in Queensland, confirming an expected related claim cost of \$10-30m in December, taking expected natural peril claim costs, after reinsurance recoveries, to an estimated \$120-140m for the six months ended 31 December 2010. The Group stated it was too early to quantify any financial impact from the ongoing extreme weather experienced in early January 2011.
- 4-FEB-11 IAG UPDATE ON REINSURANCE AND SEVERE WEATHER EVENTS**
- IAG provided an update on its calendar 2011 catastrophe reinsurance programme, together with the estimated impact of recent severe weather events, including Tropical Cyclone Yasi.

14-FEB-11 IAG MARKET UPDATE

IAG provided an update on its expected result for the six months to 31 December 2010, as well as its claims experience related to recent severe weather and natural peril events in Australia and its expectations for the Group's full year result. IAG said it expected to report a first half insurance profit of \$470m, representing an insurance margin of 12.7%, while recent peril events were expected to cost approximately \$300m, after reinsurance recoveries, which would be reflected in the Group's 2H11 result. Full year margin guidance was lowered to 9-11%, from 10.5-12.5%.

23-FEB-11 IAG REVISES FY11 GUIDANCE FOLLOWING CHRISTCHURCH EARTHQUAKE

IAG provided an update on the earthquake which struck Christchurch on 22 February 2011, confirming that the Group's maximum financial exposure to the event would be \$40m, following reinsurance recoveries. As a result, the Group revised its FY11 insurance margin guidance to a range of 8-10%, inclusive of the estimated cost of catastrophe reinsurance cover reinstatements.

APPENDIX E – GLOSSARY

The following is a glossary of the terms used in this report, including those 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, commission expense and underwriting expense, expressed 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 in Australia.
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 acquisition costs incurred in obtaining and recording general insurance contracts to be 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 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 expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios 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/(loss)	Underwriting profit/(loss) plus investment income on assets backing technical reserves.

APPENDIX E – GLOSSARY

Liability adequacy test (LAT)	Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future net claims and other expenses arising from the unearned premium. If the unearned premium liability is considered deficient then the entire shortfall is recognised in the income statement, 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 claim duration 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 expense.
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 (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% PoS.
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) are 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 are quoted as IAGPA on ASX and issued by IAG.
Risk free rate	The risk free rate is 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 (SME) 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 and the net 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 and other acquisition expenses.
Underwriting profit/(loss)	Net earned premium less net claims expense, commission expenses and underwriting expenses.

APPENDIX E – GLOSSARY

Unearned premium

Premium applicable to the unexpired portion of a policy's earned premium liability, which 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.