

A CLEAR DIRECTION ▶ ▶

ANNUAL REVIEW 2009

Insurance Australia Group Limited ABN 60 090 739 923



OUR PERFORMANCE

\$7,842m

GROSS WRITTEN PREMIUM (GWP)
Increased from \$7,793m in the previous year. GWP is the total amount of insurance premiums we sold to customers.

7.1%

INSURANCE MARGIN
Up from last year's 5.4%.¹ Insurance margin represents our insurance profit as a percentage of our net earned premium.

\$181m

NET PROFIT AFTER TAX
An increase from last year's loss of \$261m. The net result, after allowing for income taxes and the share of profit owing to minority shareholders.

10cps

TOTAL DIVIDENDS
Comprises an interim dividend of 4 cents per ordinary share (cps) and a final dividend of 6cps fully franked. Dividends are payments made to holders of IAG's ordinary shares.

84%

EMPLOYEE ENGAGEMENT
Exceeded the global financial services companies' benchmark. This is a measure of our employees' engagement across the Group, drawn from an annual survey.

84

CUSTOMER SATISFACTION
Remained level with the previous year. This is an index score of customer satisfaction across claims and sales and service in our largest business of Australia Direct Insurance.

\$8m

COMMUNITY INVESTMENT
Reduced from last year's \$12m, as our focus was refined. This investment includes sponsorships, donations and employee volunteer hours, across the Australian and New Zealand communities.

56,927t

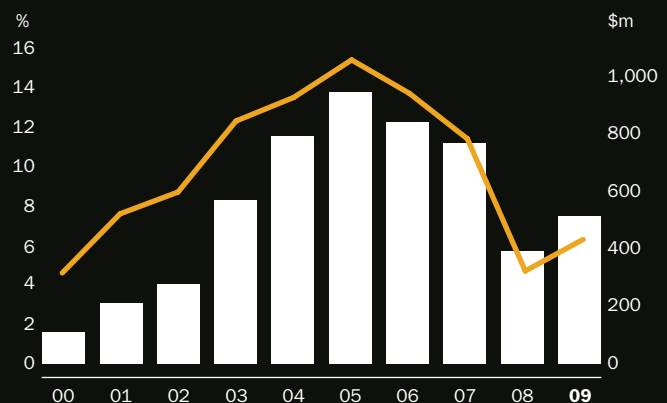
CO₂ EQUIVALENT EMISSIONS
An 11.8% improvement from last year. This reduction in IAG's CO₂ equivalent emissions in Australia and New Zealand brings us closer to our goal to be carbon neutral by 2012.

¹ The FY08 insurance result has been reclassified to provide comparable figures for the segment reporting adopted in FY09. This includes reallocation of corporate expenses and reinsurance to the operating divisions.

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INSURANCE PROFIT for the year ended 30 June

— Insurance margin (%) ■ Insurance profit (\$m)



**2009 WAS A YEAR OF
REBUILDING FOR IAG >**

**WE REFINED OUR STRATEGY
AND STRENGTHENED THE
FUNDAMENTALS OF OUR
BUSINESS TO DELIVER
AN IMPROVED FINANCIAL
PERFORMANCE >**

**WE ARE LOOKING TO THE
FUTURE WITH RENEWED
CLARITY AND CONFIDENCE.
OUR DIRECTION IS CLEAR >**

SIGNIFICANT MANAGEMENT AND OPERATIONAL CHANGES MADE DURING THE YEAR HAVE DELIVERED ENCOURAGING RESULTS IN 2009. AGAINST CHALLENGING GLOBAL FINANCIAL AND LOCAL INDUSTRY CONDITIONS, IAG HAS REBUILT THE FUNDAMENTALS OF THE BUSINESS AND IS WELL POSITIONED TO RESTORE FURTHER VALUE AND PROFITABILITY >

CHAIRMAN'S REVIEW

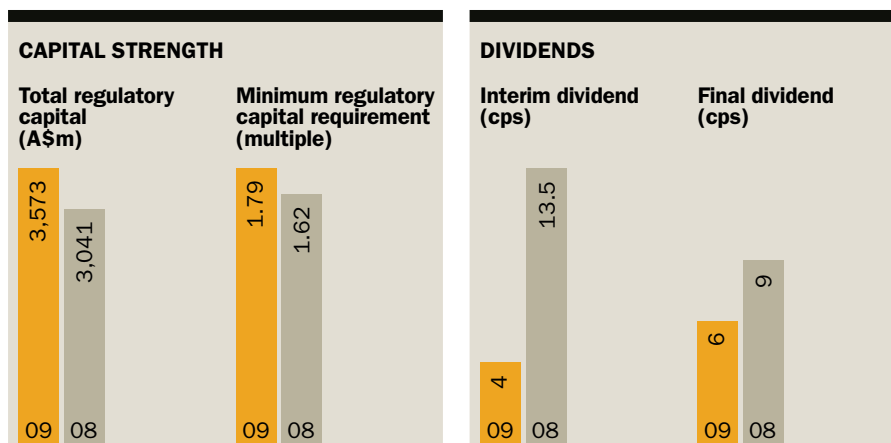
A YEAR OF PROGRESS

I am pleased to report IAG has delivered an encouraging improvement in its financial performance during the 2009 financial year, despite the adverse influence of unprecedented volatility in financial markets, including a steep decline in interest rates, and high claim costs from natural perils.

The Group's revenue, measured by gross written premium, increased during the year from \$7,793 million to \$7,842 million. The insurance margin was 7.1%, up from 5.4%, and net profit after tax was \$181 million, compared with a net loss of \$261 million recorded in the previous year.

The improvement in these results reflects the early benefits of the Group's refined strategy, which we announced in July last year.





In line with that strategy, we have refocused on our core businesses in Australia and New Zealand, ensuring we are selecting and pricing risk appropriately, containing costs and delivering superior customer experiences.

In the United Kingdom (UK), in December 2008 we announced the sale of the non-core, underperforming parts of the business. We are now concentrating on our specialist UK motor underwriter, Equity Red Star, which is trading profitably.

In Asia, we continue to invest for future growth opportunities, such as our joint venture with the State Bank of India which we announced in November 2008.

The operating model of the Group has been simplified and now better aligns our businesses with customer needs. That has enabled substantial cost savings and increased efficiency.

At the time the Group outlined its refined strategy, we could not have anticipated the full impact of the deteriorating global economic environment. This has contributed to a significant reduction in the pre-tax returns generated on our shareholders' funds to a loss of \$39 million this year, compared to a profit of \$24 million the previous year.

In addition, we could not have predicted the devastating consequences for our customers from some of Australia's worst natural perils on record, including the devastating fires which swept across Victoria in February 2009.

The fact that the Group's results improved despite the adverse influence of these events is an indication that our underlying business is moving in the right direction.

None of the initiatives implemented during the year has been easy, and we acknowledge that IAG still has some way to go to deliver its long term financial targets. However, we are confident we now have the right strategy and team to make this possible.

I would like to thank chief executive officer Michael Wilkins and the executive team for their leadership throughout this challenging period.

CAPITAL MANAGEMENT

Given the unprecedented volatility in equity markets, we took measures to strengthen IAG's capital position during the year by raising more than \$530 million from our institutional and retail shareholders. The success of these initiatives is a sign of market support for our strategy.

At 30 June 2009, IAG had 1.79 times the minimum level of capital required by the Australian Prudential Regulation Authority (APRA). We also maintain the highest financial strength ratings from Standard & Poor's of any Australian-based insurer, with 'AA-' ratings for each of our key wholly owned insurers.

In addition, during the year we maintained a conservative investment approach. More than 94% of the Group's \$10.6 billion investment portfolio was invested in fixed interest and cash at 30 June 2009, of which 94% was invested with counterparties rated 'AA' or better.

DIVIDENDS

A fully franked final dividend of 6 cents per ordinary share (cps) will be paid on 2 October 2009. This brings the total dividend for the year to 10cps, fully franked.

This represents a payout ratio of 71.5% of cash earnings, which is slightly above the target of approximately 50%–70% outlined in the dividend policy introduced by the board this year.

BOARD AND EXECUTIVE REMUNERATION

There was no increase to the overall fees received by directors during the 2009 financial year and, mindful of the current economic conditions, no increase is planned for the 2010 financial year. Similarly, there will be no increase to the fixed pay for the CEO and executive team in the 2010 financial year.

The board has also made a number of changes to executive remuneration during the year, including setting a maximum value for short term incentives; and adjusting the performance hurdles for long term incentives under the Executive Performance Rights Plan to a better match of comparable companies. Under this plan, performance will be benchmarked to that of the Top 50 ASX Industrials and to achieve the full incentive the performance of the Group must rank in the top quartile.

The board will complete a further review of our remuneration practices to ensure we remain in step with community expectations, are able to meet new regulatory requirements announced by APRA and maintain a strong link between executive incentives and shareholder returns.

Detailed information on IAG's board and executive remuneration can be found in the remuneration report contained in the 2009 annual report.

BOARD RENEWAL

Whilst driving the change program to take the Group in new directions as detailed in this report, the board is undertaking a review of its own composition and succession planning.

That process includes the engagement of professional advisors and external benchmarking.

Future board plans will be outlined by the time of the annual general meeting of shareholders in November.

OUTLOOK

The 2009 financial year has been a challenging but productive year. Despite external volatility, the renewed strategy committed to last year is starting to deliver results.

Our management team and all employees have risen to the challenges we have faced to move IAG towards a more efficient and profitable business and the board is grateful for their sustained efforts in often difficult circumstances.

By focusing on the basics and the underlying business, we have been able to deliver encouraging results in the 2009 financial year. I am confident that the improvements evident in our underlying performance will continue in the year ahead and deliver stronger returns for shareholders.

James Strong
Chairman

2009 HAS BEEN A REBUILDING YEAR FOR IAG. WE HAVE REFOCUSSED, SIMPLIFIED AND STRENGTHENED OUR BUSINESS. THESE ACTIONS HAVE CONTRIBUTED TO AN IMPROVED FINANCIAL PERFORMANCE AND, IMPORTANTLY, WE NOW HAVE A CLEAR DIRECTION TO CONTINUE TO BUILD VALUE ACROSS OUR ICONIC BRANDS AND FRANCHISES ›

MOVING FORWARD

CHIEF EXECUTIVE OFFICER'S REVIEW

When I consider the year in review, I am very proud of how much IAG has achieved in a short period of time.

At the outset of the financial year, we acknowledged the Group had been underperforming. In response, we refined our corporate strategy and set clear priorities to rebuild profitability. That required us to take a number of tough decisions and make significant changes across the entire organisation.

This program of internal change was made even more challenging as it was undertaken during a year of demanding external conditions. This included unprecedented global economic volatility and losses from a number of natural perils, including one of Australia's worst natural disasters on record, the devastating fires across Victoria.

I am pleased to report that our refined strategy has delivered the initial signs of success through an improved financial performance in the 2009 financial year, despite being adversely impacted by a number of factors.

FINANCIAL PERFORMANCE IN 2009

The Group reported a net profit after tax of \$181 million, compared to a net loss of \$261 million in the previous year.

Gross written premium, or revenue, increased during the year from \$7,793 million to \$7,842 million. When excluding the businesses we divested during the year, along with foreign exchange movements, gross written premium grew 4%.

In addition, the Group's insurance profit was up 31% to \$515 million compared to the previous year. This represents an improved insurance margin of 7.1%, up from 5.4% last year.

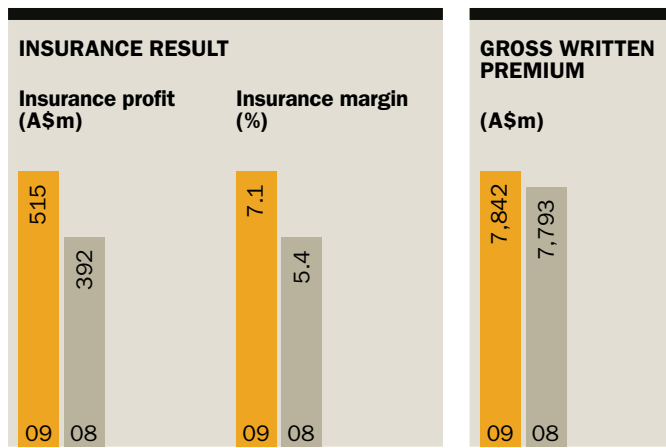
Our largest business, Australia Direct Insurance—which includes NRMA Insurance, SGIC and SGIO—contributed significantly to the Group's result. A combination of increased business volume and average premium rates across its portfolio, as well as reduced costs, helped this business increase its insurance margin to 12.0% for the year, up from 10.7%.

In addition, a number of cost reduction initiatives were undertaken during the year. This has delivered \$130 million in annualised pre-tax savings across our Australian operations, with the full benefit to be felt in 2010.

Profitability in our Australian intermediated insurance business, CGU, was significantly hampered during the year by the challenging market conditions. This business recorded an insurance margin of 2.2% for the year, compared to 6.0% the previous year. While we are seeing the initial signs of a turnaround in CGU's underlying performance, the recovery has not been as quick as expected.

Our operations in New Zealand delivered a break-even insurance result, after a return to profitability in the second half.

In both CGU and New Zealand, we have taken actions to improve underwriting discipline and ensure premiums adequately reflect risk. The results of these actions are expected to be evident in improved profitability in the coming year.



In the UK, we sold our poorly performing mass market distribution businesses in early calendar 2009, and are now focused on our profitable specialist motor underwriter, Equity Red Star. I am pleased with the performance of this business, which has delivered a sound insurance margin of 15.2% in the 2009 financial year.

Our Asian businesses also performed well, delivering a pre-tax profit of \$15 million compared with a loss of \$15 million in the previous year. Contributory factors were tighter underwriting, rate increases, improved cost control and the one off benefit of adopting deferred acquisition accounting in Thailand.

We are excited about the potential longer term contribution from the Asia division, particularly having signed a joint venture agreement in November 2008 to start a general insurance business with the largest bank in India, the State Bank of India. This new business is expected to start trading next calendar year, once all regulatory approvals are secured.

While the improvements to the Group's financial results are very encouraging, two key external factors—the global economic recession and natural perils—adversely affected our performance.

GLOBAL ECONOMIC RECESSION

There is no doubt the performance of our industry, like most industries around the world, has been affected by the global economic recession. However, the insurance industry in Australia has fared comparatively well, as our regulatory framework, in particular the risk-based capital regime, has ensured participants have remained strongly capitalised.

For IAG, the primary impacts have been from lower investment yields and falling equity markets.

Lower yields reduced our insurance profit by \$50 million during the year. In addition, our shareholders' funds returned a pre-tax loss of \$39 million this year compared to a profit of \$24 million the previous year.

To lessen these adverse impacts, we adopted a more conservative investment approach. We reduced the amount of our total portfolio invested in equities to 6%, and increased the portion invested in fixed interest or cash to 94%. We also ensured the credit quality of our investments was high, with 94% of our fixed interest and cash investments held with counterparties rated 'AA' or better.

During the year, we proactively strengthened our capital position. An institutional placement and share purchase plan in the second half of the year raised in excess of \$530 million of new capital. We used \$224 million of these funds to repurchase some of our subordinated debt at a 30% discount to face value, resulting in a pre-tax profit of more than \$90 million during the year.

Through these measures we have improved our overall capital mix and given IAG greater financial strength and added flexibility in the event of a prolonged economic downturn.

At 30 June 2009, the level of capital held by IAG was 1.79 times the minimum level required by our industry regulator, APRA.

In a further confirmation of our continued financial strength, we retained our 'very strong' category 'AA-' rating from Standard & Poor's for our major wholly owned general insurers, the highest rating for an Australian general insurer.

NATURAL PERILS

Claim costs from natural perils—such as storms and bushfires—were high during the year, at \$451 million, although around 10% lower than the previous year. This cost exceeded our budgeted allowance for natural perils, primarily due to the cost incurred from the devastating fires across Victoria in February 2009.

These fires resulted in the tragic loss and dislocation of many lives and extensive destruction of property. IAG's reinsurance program capped our claim costs relating to the fires at \$126 million. However, the Insurance Council of Australia estimates that the total insurable cost was around \$1.2 billion, and if you consider the level of underinsurance in the affected area, the cost to the community was even higher.

In addition to the fires, many of our customers experienced severe storms and flooding throughout the year. In New Zealand, major storms across the country in July 2008 led to claim costs of around \$23 million for IAG. Similarly in Australia, severe storms ripped through Brisbane in November 2008, incurring approximately \$52 million in costs. We also incurred costs of \$56 million following further downpours and flooding across northern NSW and Queensland between March and May 2009.

While the recovery effort from some of the natural perils during the year is far from over for the people affected, I am extremely proud of the response of our employees. The dedication and commitment of our people during these often stressful and traumatic circumstances brings alive our long and deep heritage of being there for customers in their times of greatest need.

Although the cost to insurers from natural perils is high, managing the impact is part of our day-to-day business. We mitigate the effect of these events on our financial results in the following ways:

- We budget for natural perils. This means we estimate the claim costs and reflect the risk in premiums to ensure we can adequately cover the cost of anticipated perils. This year we exceeded our budgeted allowance primarily due to the Victorian fires.
- We have extensive, high quality reinsurance covers. This means the cost to the Group from catastrophic events is capped, with reinsurers covering claim costs above the cap.
- We help communities prepare and adapt for the threat of a natural peril, thereby minimising potential damage to their property and reducing claim costs.
- We have operational procedures in place to respond quickly to natural perils. This helps our affected customers get on with their lives as quickly as possible.

The external conditions we have faced during the year have only added impetus to the importance of getting the fundamentals of our business right.

STRATEGY PROGRESSING TO PLAN

Despite the challenging operating environment, I am pleased with the progress we've made against the refined strategy we adopted in July 2008, and the role this has played in restoring the profitability of the Group.

At the beginning of the year, we set four clear priorities, which were to:

- Improve our performance in our home markets of Australia and New Zealand;
- Pursue selective international growth options—in Asia and other specialist opportunities;
- Implement a devolved operating model—this means streamlining our operating model, by creating a portfolio of end-to-end businesses and devolving responsibility and accountability as close as possible to our customers; and
- Drive operational performance and execution.

The key activities we delivered to meet these priorities are summarised across the bottom of this page.

I do not underestimate the effort of all our people across every part of the Group to achieve the significant amount of activity which these priorities have demanded.

In particular, by September 2008, we had a new operating model up and running, along with the majority of the cost savings initiatives which have flowed through in the financial results for the year.

By December 2008, we had announced the sale of our poorly performing assets in the UK, signed an agreement to start a new business in India, and increased our interest in our Malaysian general insurance joint venture.

We had our full complement of new executives in place by February 2009 and had launched our new internet based business, The Buzz, by May 2009.

This progress has helped to rebuild the core foundations of our business so we can continue to improve the Group's financial performance and, importantly, its profitability. However, we have certainly not finished the job.

While the improvement in this year's financial result reflects the initial benefits of our efforts, we still have a lot of work to do to meet our long term financial targets of delivering top quartile shareholder returns and a return on equity of more than 1.5 times the weighted average cost of capital through the cycle.

BUILDING LONG TERM PERFORMANCE

While we were heavily focused on actions to immediately improve our financial performance during the year, we have also refined our approach to ensure we can sustain our profitability over the long term.

This has meant evolving the way we respond to the needs of our customers, employees, and the communities and environment in which we operate. We believe that we need to take a balanced approach to responding across each of these dimensions if we are to ensure the long term success of our business.

While details of how we have performed against our non-financial indicators are contained in the business sustainability pages of this report, I am pleased to highlight that we have improved against many measures.

WE SAID WE WOULD >

IMPROVE OUR PERFORMANCE IN OUR HOME MARKETS OF AUSTRALIA AND NEW ZEALAND >

IN JULY 2008, IAG OUTLINED A REFINED CORPORATE STRATEGY DESIGNED TO IMPROVE PERFORMANCE AND DELIVER SHAREHOLDER VALUE. AS PART OF THAT STRATEGY, WE OUTLINED FOUR PRIORITIES. THIS IS WHAT THE GROUP DELIVERED AGAINST THOSE PRIORITIES >

Our largest business, Australian Direct Insurance, increased GWP by 9.1% and insurance profit by 18% over last year.

We introduced new products and marketing campaigns, increased premiums where required, improved underwriting discipline and reduced costs.

We launched a new online business, The Buzz, providing an additional channel for our customers to interact with us.

Initiatives were implemented to achieve a \$130 million per annum run-rate of pre-tax cost savings across our Australian operations.

PROGRESS AGAINST STRATEGY

Delivering superior customer experiences

Customer retention across our Australian and New Zealand businesses remained high during the year, and the satisfaction score among Australia Direct Insurance customers was in line with the previous year at 84.

One of the keys to continuing to improve these measures is to be able to adapt to the changing expectations of our customers and to deliver superior products and services.

During the year, we continued to invest in our brands. Under the NRMA Insurance brand, we introduced new offerings, such as a third party fire and theft option and several extra features including variable excess options for motor insurance customers; more bundled discount options; and a tailored home insurance offering for renters. I'm extremely pleased we also introduced flood insurance which addresses the longstanding difficulties associated with this cover for home owners.

Similarly, CGU invested in a new brand campaign and introduced customer initiatives, including the CGU Privilege Card, the entry-level Fundamentals Home Insurance product, and an all-in-one insurance package, CGU Padlock. CGU's retention levels have remained high at around 80%.

In New Zealand, State launched its new online presence, while a new technology platform in Business Partners has improved the customer experience.

Another exciting milestone was the launch of our new online insurance business, The Buzz. This provides car insurance customers the option of interacting with us online through the entire life cycle of their insurance policy—from buying a policy through to making a claim.

These initiatives are examples of the innovation we are now pursuing to stay relevant to our customers, providing them with choices not only in what they buy but also in how they buy it.

Driving employee engagement

The level of employee engagement within IAG was high at 84%. This meets the global high performing companies' benchmark, and exceeds the benchmark for global financial services companies, as set by our survey provider Towers Watson.

This is particularly pleasing given our employees have undergone a period of significant change, which has regrettably led to a number of roles becoming

redundant. We have also taken a decision to freeze remuneration for the senior leadership team in an effort to contain costs.

Without skilled and engaged employees, it is impossible to build a stronger and more sustainable company. We've continued to work hard to attract and retain the best people, and have developed a new framework to identify, assess and grow the future leaders of our company. Driven by our executive team and board, this targeted program is addressing succession for all of our top tier roles.

Addressing community needs

As an insurer, we have a role to play in identifying and mitigating risk in the community, so our proactive involvement is important. This is an area where we can make a real difference, by sharing our knowledge and experience in crime prevention, road safety and adapting to a world in which severe weather events are likely to increase.

This year our community investment has been more focused, driven by the operating brands which are closest to the communities they serve.

PURSUE SELECTIVE INTERNATIONAL GROWTH OPTIONS—IN ASIA AND OTHER SPECIALIST OPPORTUNITIES >

We increased our stake in our Malaysian general insurance joint venture, AmG Insurance.

We finalised our agreement with India's largest bank, the State Bank of India, to form a general insurance joint venture. This is on track to begin trading in calendar year 2010.

Our poorly performing UK mass market distribution businesses were sold in early calendar 2009, allowing us to focus on and grow our profitable specialist motor underwriter, Equity Red Star.

IMPLEMENT A DEVOLVED OPERATING MODEL >

Our new operating model was up and running by September 2008.

Under the new model, we created end-to-end businesses with the autonomy to manage their own brands and customers, putting control closer to the customer, to deliver superior experiences and performance.

Our corporate office now acts as a 'portfolio manager', ensuring capital and resources are allocated to deliver the best value.

DRIVE OPERATIONAL PERFORMANCE AND EXECUTION >

We simplified and strengthened the executive management team through a number of new appointments.

We refined and began to embed our values.

We invested in employee programs to drive engagement, improve internal performance and identify and grow the future leaders of the company.

We have adopted a 'balanced scorecard' methodology to drive individual performance and ensure every employee is aligned to common goals.

Chief Executive Officer's Review continued

For example, we invested \$7.6 million in the Australian community through initiatives including our CommunityHelp Grants program, and we continued our long term involvement with a number of community partners and sponsorships, including the NRMA CareFlight helicopter rescue service. We also invested resources to help tackle underinsurance in the community by lobbying to reduce the burden of tax charged on insurance policies.

Reducing impacts on the environment

The severe effect of natural perils on our business is well documented. Given that scientific evidence points to the role that climate change is playing in increasing the severity and frequency of these natural perils, it makes sense for the Group to reduce its own environmental impact and help our customers do the same.

During the year, the Group's CO₂ equivalent emissions continued to fall, reducing by 12% from the previous year. This reduction supports our goal to become carbon neutral by 2012.

We continued to support Earth Hour and in New Zealand we recently relocated to one of the country's most environmentally sustainable buildings.

We also continued to assist our customers and suppliers reduce their emissions, providing tools to guide customers in purchasing decisions and developing products which reward people for sustainable behaviour, such as motor insurance discounts for fuel efficient cars.

Through a combination of immediate actions to get the fundamentals right, and bringing future events into today's decisions, we have positioned the Group well to continue to improve performance.

OUTLOOK

This year we have rebuilt the foundations to strengthen our business. As a result, we expect to see a stronger performance in the coming year.

We expect gross written premium to grow in the range of 1% to 3% and for our insurance margin to improve to within a range of 9% to 11%.¹

We are keenly aware that we are responsible for some of Australia and New Zealand's

premier insurance brands and we intend to meet our commitment to continually improve these assets.

In Asia, we look forward to our new Indian general insurance joint venture commencing trade and further improvement in our existing operations, and we're confident the business we have retained in the UK will continue its unbroken track record of profitability.

We'll also continue to pursue other selective growth opportunities which will incrementally drive value.

I do not underestimate the challenges that exist to meet our objectives in the coming year. However, I am confident that we have the right people, led by a strong executive team, and are pursuing a sound business strategy which will deliver improved results for shareholders.

Michael Wilkins
Managing Director and Chief Executive Officer

OUR DIRECTION IS CLEAR. WE HAVE REBUILT THE FOUNDATIONS AND NOW AIM TO DELIVER FURTHER IMPROVEMENTS >

OUR STRATEGY

To deliver superior performance by actively managing our portfolio of general insurance businesses and driving operational performance and execution.

OUR FINANCIAL TARGETS FOR FY10

Gross written premium growth of 1%–3%
Insurance margin in the range of 9%–11%¹

OUR LONG TERM FINANCIAL TARGETS

Over the cycle, we aim to deliver:

- Top quartile shareholder return.
- Return on equity of more than 1.5 times the weighted average cost of capital.

OUR STRATEGIC PRIORITIES FOR FY10

To improve performance in our home markets of Australia and New Zealand by:

- Accelerating performance in Australia Direct Insurance: gain and use better customer insights and more effective marketing; improve risk selection and underwriting; and improve efficiency.
- Rebuilding the fundamentals in Australia Intermediated Insurance (CGU): drive increased profitability through ongoing price reviews and improved underwriting; extract efficiencies; increase presence in corporate market; and upgrade technology platforms.
- Improving performance in New Zealand: improve risk-based pricing capability in State and Business Partners; focus on risk selection and underwriting expertise in NZI; and improve branding and marketing capabilities across all businesses.

To pursue selective general insurance growth opportunities by:

- Strengthening our specialist underwriter in the UK.
- Growing our presence in select Asian markets—commencing our joint venture in India; strengthening our existing businesses in Thailand and Malaysia; and reviewing joint venture opportunities in China.
- Reviewing other select, niche opportunities which incrementally drive value.

To drive operational performance and accountability.

LOOKING FURTHER AFIELD

¹ Subject to losses from natural perils being within the budgeted allowance of \$350m, and no material movement in foreign exchange rates or investment markets.

As the unprecedented global economic downturn deepened during the year, we took proactive steps to further strengthen our capital position, and adopted a conservative investment approach.

We raised more than \$530 million and enhanced our capital mix, and currently hold a level of capital that exceeds our long term benchmark.

WE SEE THIS AS A PRUDENT MEANS OF PROVIDING THE GROUP WITH ADDITIONAL FINANCIAL FLEXIBILITY IN AN ENVIRONMENT WHERE CONDITIONS REMAIN CHALLENGING.

In addition, we have acted to minimise the volatility of our investment returns. We've done this by reducing our exposure to equity markets and investing the majority of our \$10.6 billion investment portfolio in high credit quality fixed interest and cash investments.

We'll continue to explore ways to actively manage our capital and enhance investment returns to deliver value for our shareholders >

NICK HAWKINS
CHIEF FINANCIAL OFFICER



Finding and keeping the right talent is critical, especially when competing for the professional and specialised skills needed to manage our businesses as they grow and evolve. Market leading skills in insurance disciplines such as underwriting, claims management and product development are areas of key importance.

ENSURING WE HAVE THE RIGHT PEOPLE, IN THE RIGHT ROLES, FOCUSING ON THE RIGHT TASKS IS A CRITICAL STRATEGIC OBJECTIVE FOR IAG.

To assist us in achieving this objective, we are focused on effectively managing our approach to succession and talent management, where we identify, assess and grow our people.

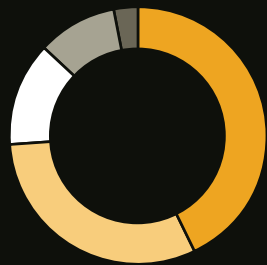
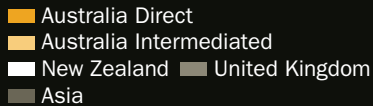
We strongly believe that investing in a structured approach to grooming our future leaders and aligning development programs to our strategy will add value to the individuals and also create sustainable value for our shareholders >

LEONA MURPHY
GROUP EXECUTIVE, CORPORATE OFFICE

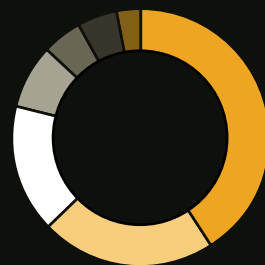
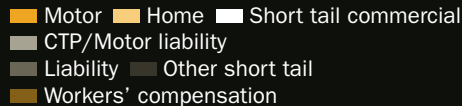


IAG HAS A PORTFOLIO OF GENERAL INSURANCE BUSINESSES, WITH LEADING AND ESTABLISHED BRANDS ACROSS ITS HOME MARKETS OF AUSTRALIA AND NEW ZEALAND, A SPECIALIST UNDERWRITER IN THE UNITED KINGDOM AND A GROWING PRESENCE IN ASIA >

PORTFOLIO MIX BY REGION



PORTFOLIO MIX BY PRODUCT



AT A GLANCE

As at 30 June 2009

33.6m

IAG had more than 33.6m active risks in force.

\$1,225b

IAG insured property valued at more than \$1,225b.

12,655

IAG employed 12,655 people on a full time equivalent basis.

\$7.8b

IAG sold \$7,842m worth of premiums (GWP) to customers during the year.

\$13.7m

IAG paid around \$5b in claims during the year. That's approximately \$13.7m a day.

ACROSS AUSTRALIA, IAG INSURES:

**5.5m
cars**

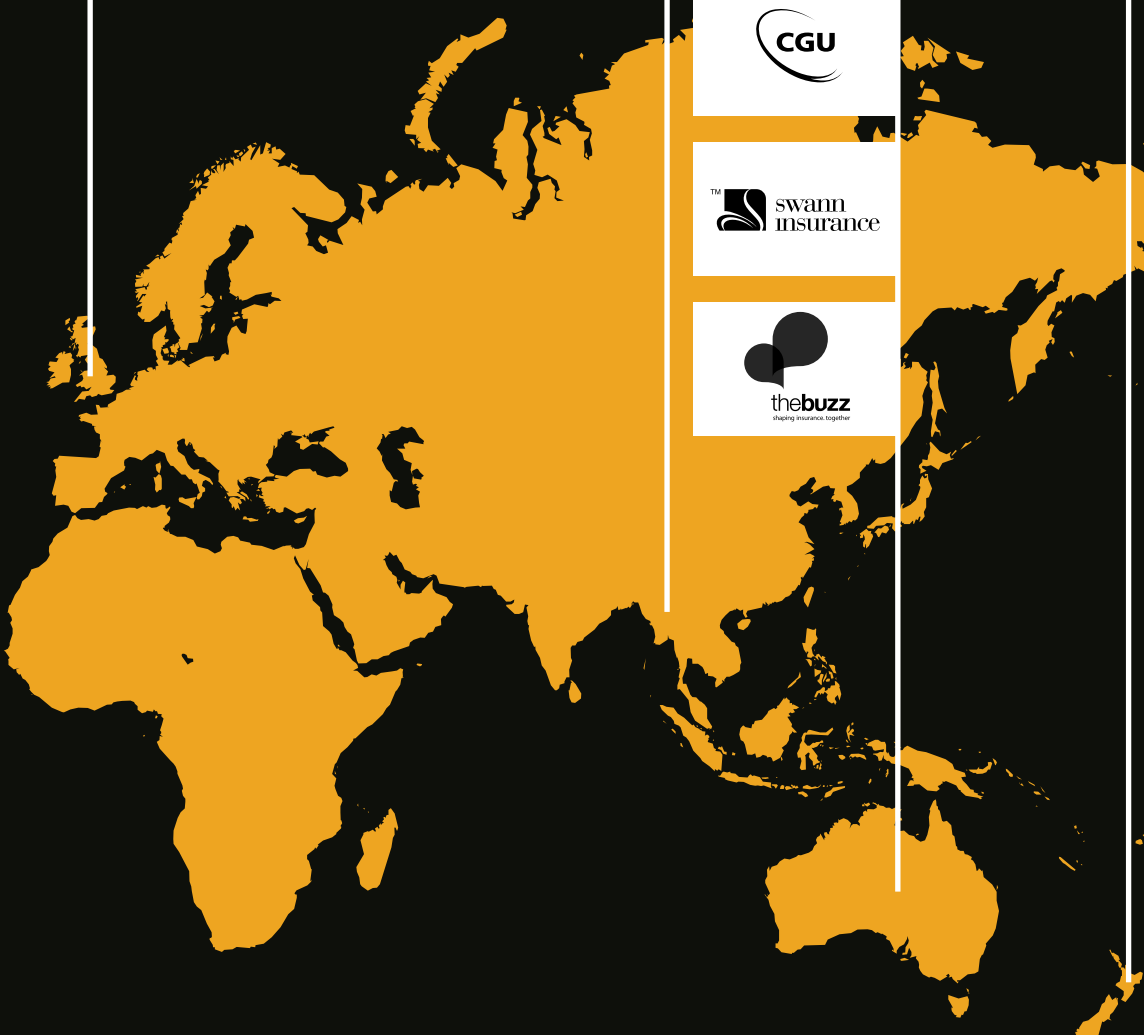
**2.2m
homes**

**73,400
farms**

**145,000
employers**

**207,500
businesses**

OUR BUSINESS



100% owned unless indicated. ¹ 98% voting rights. ² 49% ownership of AmG Insurance, which is part of AmAssurance.

³ RACV is via a distribution relationship and underwriting joint venture with RACV Ltd.

**AUSTRALIA
DIRECT INSURANCE**

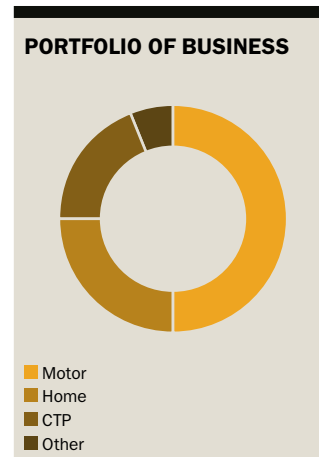
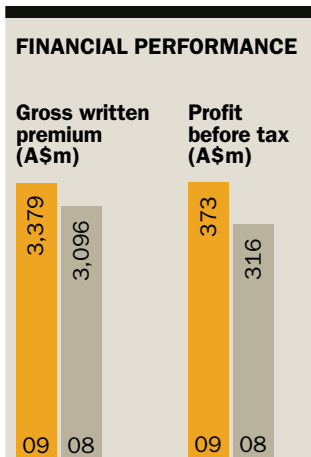


A flood solution has long eluded the insurance industry and we think we have launched the best and fairest flood product for NRMA Insurance customers. The vast majority are automatically covered, while those in high risk areas can choose to remove or retain flood insurance, without losing any of their current cover.

THE CUSTOMER IS CENTRAL TO EVERYTHING WE DO. WE'RE FOCUSED ON: SUPERIOR CUSTOMER INSIGHTS, INDUSTRY LEADING RISK SELECTION AND OPERATIONAL EXCELLENCE, AT THE LOWEST POSSIBLE COST.

Demand for insurance will come under pressure as system growth slows and unemployment rises, but in uncertain times there is often a 'flight to quality', where customers choose trusted brands. New products and customer initiatives will also help to offset external factors >

**ANDY CORNISH
CEO, AUSTRALIA DIRECT INSURANCE**



Having joined Australia Direct Insurance in February 2009, I'd like to start my first report to you by saying what a great privilege it is to steward an organisation with such talented people, powerful brands and community heritage.

These strengths were brought into sharp focus when bushfires devastated the Victorian community, and storms hit NSW and Queensland. Our people mobilised with the sole purpose of helping customers recover from these catastrophes. The response was as good as anything I've seen, anywhere in the world, in my 30 years in the insurance industry.

This dedication and customer focus were important drivers of the strong performance this year. Gross written premium was up by 9.1% to \$3.4 billion, with growth in all state markets. Insurance profit was \$373 million, up from \$316 million in the previous year, resulting in an improved margin of 12%. Our business achieved its share of the targeted cost savings of \$130 million pre-tax per annum, with both expense and claims management initiatives reducing the cost base.

Similarly, a new marketing campaign, improvements to our websites and new products have also contributed to the results.

Our 'Unworry' campaign has resulted in improvements in our brand health, suggesting it has struck a chord with customers in the current economic climate. At the same time, we have made changes to our internet sites so that it's faster and easier for customers to interact with us.

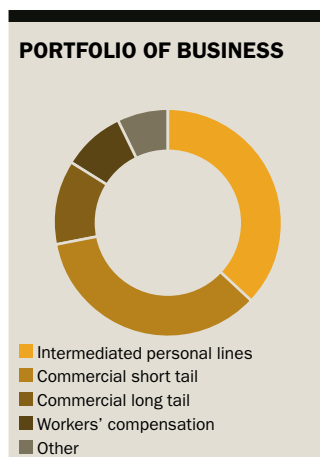
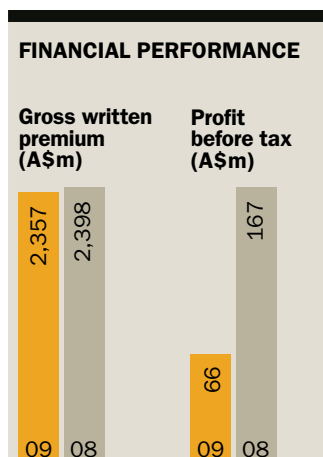
We also launched a number of products, including third party fire and theft motor in NSW, Queensland and Western Australia, variable excesses on comprehensive motor, a new motor insurance product, Comprehensive Plus, and a home contents option for renters.

Perhaps the most significant product improvement was the launch of flood insurance in NSW, the ACT and Tasmania. Around 98% of our customers in these states will now be automatically covered for flood, at minimal cost. For the remaining 2% of customers in the high risk areas, they will be charged a premium that reflects how likely and how seriously they could be impacted by flooding. These customers have choice—they can remove flood from their home insurance to reduce their overall premium, while still retaining the same cover they previously had.

Flood is still an option for customers in South Australia and Western Australia, and we're hoping to launch flood insurance in Queensland and Victoria when the flood data is available for these states.

Looking ahead, the challenge is to continue to accelerate our performance. Overall, during the 2010 financial year, we expect to deliver solid gross written premium growth and improve our insurance margin.

AUSTRALIA INTERMEDIATED INSURANCE (CGU)



CGU's underlying performance improved during the year, driven by better underwriting discipline and efficiency improvements that are being implemented as part of the Goal2013 strategy initiated 12 months ago. While this is certainly encouraging, challenging economic and market conditions affected our headline result, and we acknowledge there is still significant work to be done.

A major component of the strategy recognises the importance of our intermediaries and business partners in delivering a sustainable business. During the year we realigned our business model around end customers and introduced some key customer initiatives to more clearly differentiate CGU's offering. For the first time in a number of years, we invested in our brand, running a national advertising campaign to raise the awareness of our products and services and drive new business. We also introduced a range of new products to meet customer needs, including the entry-level Fundamentals Home Insurance policy, CGU Padlock for commercial investment property owners, and the Pinnacle Corporate directors' and officers' policy.

To achieve our goal of sustainable profit growth we have begun to move away from, or re-price, unprofitable portfolios and risks. As we implemented targeted rate increases over the period, new business has been more difficult to win. However, achieving our profit targets requires a disciplined approach to pricing. Growth for growth's sake in the long term is not sensible in any trading environment, let alone the challenging market conditions we currently operate in. We believe the responsible thing to do is to put profit first and growth second, so we are pleased that despite the rate increases, retention rates for the year were in line with historical levels.

The progress made over the past year is creating the foundation for a successful business. The ongoing dedication of our people and support of our intermediaries and business partners have been invaluable in this past year particularly, and I would like to thank them. Steady improvement in underlying performance is expected during the 2010 financial year. We will continue to focus on our core competencies of underwriting, claims and account management and look for every opportunity to drive improved business performance both for us and our customers.

Over the year, we continued to lay the foundations for sustainable and profitable business growth with a clear customer focus. On a day-to-day basis, this has meant taking our business right back to basics and focusing on underwriting, claims and account management.

WE BELIEVE THIS FOCUS ON CORE STRENGTHS AND OUR UNIQUE PARTNERING APPROACH TO SERVICING CUSTOMERS WILL FURTHER DIFFERENTIATE CGU IN THE FUTURE.

We are making sure the insurance we write is based on sustainable pricing and underwriting principles and that we work with our intermediaries and business partners to grow our businesses together ▶

DUNCAN WEST
CEO, CGU



NEW ZEALAND

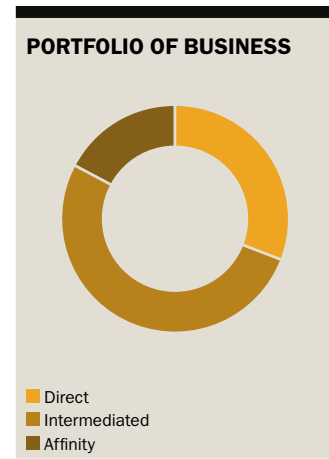
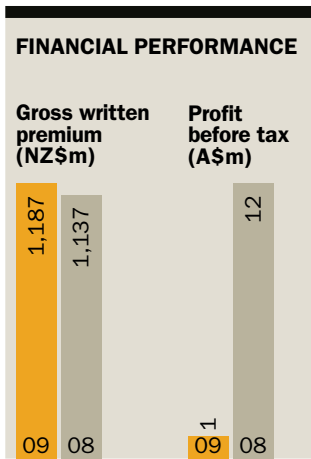


We had a challenging start to the year with a large North Island storm closely followed by a severe New Zealand-wide storm in the first month.

THERE IS NO DOUBT THE COST OF CLAIMS IN NEW ZEALAND IS RISING AND, AS A RESULT, PREMIUMS ARE INCREASING TO REFLECT THIS.

We've undertaken a number of initiatives and corrective actions, which supported an improvement to our financial performance in the second half of the year ▶

IAN FOY
CEO, NEW ZEALAND



During the year, we implemented significant premium increases across most portfolios, better risk selection and pricing, and tightened commercial underwriting disciplines. As a result, our performance has shown some improvement in the second half, despite the challenging economic climate.

This is reflected in our results with gross written premium up by 4.4% in local currency terms in the 2009 financial year. This growth was driven across all businesses, with State delivering 5.5% growth in gross written premium, 4.9% for NZI and moderate growth for Business Partners.

After disappointing losses in the first half of the year, we delivered a small profit in the second half to end the year at break even. A focused effort to manage controllable expenses kept our costs down.

In our direct business, under the State brand, the technology platform launched last year is now enabling more granular risk selection and risk-based pricing. Communication tool-kits and proactive media activities were developed to help staff and customers understand the reasons for price increases.

State online, which was launched in January for private motor vehicle insurance, allows customers to obtain a quote and buy car insurance in three simple steps. Early results indicate that this will be a successful sales channel for State.

In our intermediated business, the NZI brand—which is New Zealand's oldest insurance brand—celebrated its 150th anniversary. NZI has continued to lead the market with active

re-pricing of its business, with a particular focus on responsible rate increases in the poor performing zones and distributor channels. Retention initiatives were developed to support brokers in educating customers about pricing increases. An innovative technology system that offers brokers full life-cycle policy management capability was also launched in a trial phase.

Significantly, NZI was again awarded the Insurer of the Year from the Insurance Brokers Association, and has now held this award for three of the last four years.

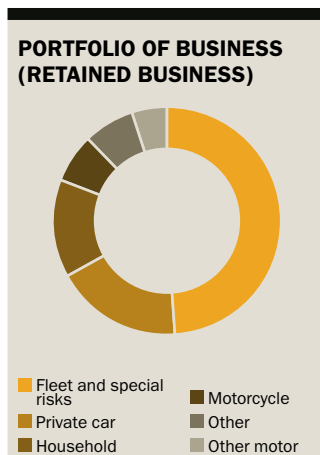
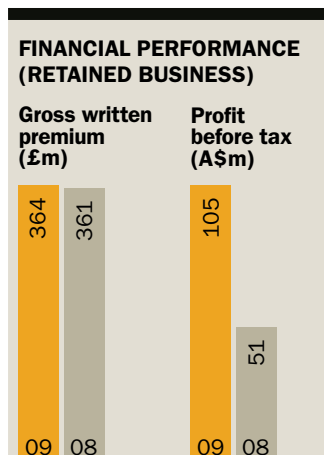
Our Corporate Partners channel developed a market-leading technology application, which integrates a banking partner's customer management system with our core insurance system to simplify the sales process, reduce customers' waiting times and allow banking staff to sell and service insurance more efficiently.

A financial year-end highlight—and visible proof of our sustainability commitment—was the relocation of 700 of our people into the NZI Centre, Auckland's newest green building.

Looking ahead, the challenge is to manage through the headwind of the recession in New Zealand and continue to build on the momentum we generated in the second half of 2009 to deliver a stronger performance in the 2010 financial year.

Our gross written premium growth and insurance margin are expected to improve as benefits are realised from hardening insurance rates and focused business initiatives.

UNITED KINGDOM



During the year, we successfully completed our planned exit from the highly competitive mass market distribution sector through the sale of Equity Insurance Brokers and Open + Direct branch networks to Swinton Group and the divestment of Hastings Insurance Services and Advantage via a management buyout.

These divestments marked a significant milestone for IAG's operations in the UK as we were able to return our strategic focus back to the profitable core specialist underwriting markets through our retained business, Equity Red Star. In addition, we maintained our specialist commercial broking through Barnett & Barnett and important affinity relationships with Equity Direct Broking.

A sharpened focus on these remaining businesses provides a solid platform for future growth through our expertise in specialist underwriting, niche and profitable markets and a reputation for service with high profile brands.

Recognised as one of the UK's leading motor insurers, Equity Red Star continued its impressive record of unbroken profitability in the 2009 financial year, achieving an insurance margin of 15.2%.

To achieve this, we capitalised on our specialist fleet, motorcycle, haulage, classic car and motor breakdown niche lines. At the same time, Barnett & Barnett grew gross written premium, and expects to continue this growth over the next few years through a balanced mixture of acquisition and organic growth in the commercial risk market.

Equity Direct Broking enjoys affinity relationships with a number of household names such as Santander, Renault, Harley-Davidson and First Direct. Its reputation for delivering an end-to-end service in this sector is supporting Equity Direct's ability to attract strong brands as key partners to assist the delivery of additional revenue.

We will continue focusing on our proven strengths in specialist markets, leveraging our recognised expertise and traditional hard work to drive the business forward.

While there will be challenges ahead, there is no doubt that our operations have room to grow further in our home markets and the strategy we have adopted will bring additional success.

We have exited the UK's highly competitive mass market sector, allowing us to sharpen our focus to our core, profitable underwriter, Equity Red Star.

THIS HAS PROVIDED A SOLID PLATFORM TO BUILD FOR THE FUTURE THROUGH AN EXPERTISE IN SPECIALIST UNDERWRITING, NICHE AND PROFITABLE MARKETS AND A REPUTATION FOR SERVICE WITH HIGH PROFILE BRANDS.

We are pleased that our retained business has continued its record of unbroken profitability during the 2009 financial year >

NEIL UTLEY
CEO, UNITED KINGDOM



ASIA

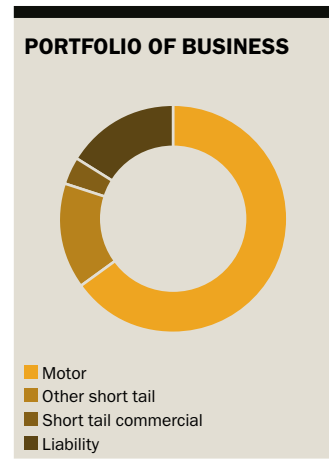


Our long term strategy for Asia remains unchanged. We are focused on building a stable of high growth insurance assets in selected Asian markets—Thailand, Malaysia, India and China.

STRONG OPERATIONAL PERFORMANCE DURING THE YEAR IN OUR EXISTING BUSINESSES IN THAILAND AND MALAYSIA SUPPORTED OUR EXPANSION ACTIVITIES.

The signing of our new Indian joint venture with the State Bank of India in November 2008 was a strategic highlight for the year and is expected to provide strong growth and returns during the coming decades >

JUSTIN BREHENY
CEO, ASIA



The Asia division generated a total profit before tax of \$15 million for the 2009 financial year, which was a significant improvement over the \$15 million loss recorded the previous year. The net profit contribution reflects the continuing investment both in our current operating businesses and in developing new opportunities in selected markets, as well as the one off benefit of adopting deferred acquisition accounting in Thailand.

The operating environments for our current insurance operations in Thailand and Malaysia have been challenging, as these high growth markets have not escaped the impacts of the current global economic crisis. This has been reflected through significant falls in car sales and consumer confidence in both markets.

However, despite difficult economic conditions, our Thailand operations increased gross written premium by 2% in local currency terms during the year, predominantly through selective branch expansion outside the competitive Bangkok region. These businesses also achieved an insurance profit of \$9 million, compared with a loss of \$11 million last year. This equates to an improved insurance margin of 5.9% compared with negative 8% last year. This year's result was underpinned by a significant improvement in core underwriting performance.

The gross written premium for our 49% owned business in Malaysia increased by 2.6% in local currency terms during the year. The contribution to Group profit from this business has grown from a nominal profit in the 2008 financial year to an \$8 million profit this year.

2009 was a significant year strategically, with major developments in India and Malaysia:

- We signed a joint venture agreement in November 2008 to establish a general insurance business in India with the State Bank of India for which the first of three regulatory approvals has been received.
- We increased our interest to 49% in the general insurance business in Malaysia, renamed AmG Insurance.

Despite the current economic conditions we believe the outlook for the Asia division remains positive.

The strong operational performance of our existing businesses in Thailand and Malaysia, along with the expansion opportunities afforded by the new joint venture in India and increased shareholding in Malaysia, means that we are well placed to take advantage of the growing Asian market.

THE BUZZ



The Buzz was launched as IAG's internet insurer on 15 May 2009, initially focusing on car insurance in Australia. RACV will have a 30% interest in The Buzz subject to a joint venture agreement being finalised by the end of calendar 2009.

The aim is for The Buzz to be known as Australia's pre-eminent end-to-end online insurer. We will do this by:

- delivering a lower cost operating model; and
- meeting the needs of customers.

In the lead up to launching The Buzz, we engaged the broader community in the design process in, what we believe was, an industry first. We did this by holding customer insight sessions, followed by the creation of an online insurance community through the website www.myinsuranceideas.com.au. This site allowed us to poll and survey customers as the design progressed and our blog was an important vehicle for customers to generate and submit ideas. More than 3,500 members of the community generated over 1,000 ideas.

Through this co-creation with the community, we developed a customer driven competitive advantage based on the following principles:

- *flexible products*—car insurance with choice, flexibility and control for the customer on cover, excess and agreed value;

- *simple and efficient claims process*—online lodgement and tracking, eGlass and internet connectivity to our hire car partner;
- *competent, knowledgeable staff*—a highly trained and engaged team driven by innovation and customer feedback. The small customer service team is focused on allowing the customers to communicate with us through online chat;
- *making purchasing simple on a fast, user friendly secure website*—quote available in under 60 seconds, with an independently assessed usability score of 82%.¹ Key focus on security, engaging design, plain language and ease;
- *access to help when it is needed*—the business operates 24 hours a day, seven days a week with an online question and answer section; and
- *competitive, transparent pricing*—each part of the insurance cover transparently priced, allowing the customer to have more control over the price they will pay, as they can pick and choose types of cover, level of excess and the insured value of their car.

We are excited by the positive response to this business in its first few months and look forward to reporting to you on our results in next year's annual review.

The Buzz, www.thebuzzinsurance.com.au, is an innovative, new online car insurance business, launched by IAG in May 2009.

OUR CUSTOMERS INTERACT WITH US ENTIRELY ONLINE, THROUGH THE FULL LIFE CYCLE OF THEIR INSURANCE POLICY—FROM BUYING A POLICY THROUGH TO MAKING A CLAIM. THE BUZZ IS ALSO THE FIRST CAR INSURER TO BE BUILT WHOLLY FROM THE FEEDBACK OF AUSTRALIAN INTERNET CONSUMERS.

This initiative is an example of the innovation IAG is now pursuing to stay relevant to customers, providing them with choices not only in what they buy but also in how they choose to interact with the product >

JACKI JOHNSON
CEO, THE BUZZ



¹ Hyro Report April 2009. Heuristic usability assessment.

BUSINESS SUSTAINABILITY

ABOUT THIS TABLE
IAG HAS MEASURED THE PERFORMANCE OF ITS NON-FINANCIAL INDICATORS AGAINST THE GLOBAL REPORTING INITIATIVE (GRI) SINCE 2004. THIS TABLE SUMMARISES OUR PERFORMANCE ACROSS FOUR OF OUR FIVE KEY DIMENSIONS—CUSTOMER, WORKFORCE, COMMUNITY AND ENVIRONMENT. DETAILS OF OUR ECONOMIC PERFORMANCE CAN BE FOUND ON PAGE 24.



MORE INFORMATION ABOUT BUSINESS SUSTAINABILITY AT IAG, INCLUDING THE DEFINITIONS OF TERMS USED ON THESE PAGES, CAN BE FOUND AT WWW.IAG.COM.AU/SUSTAINABLE

BUSINESS SUSTAINABILITY ¹		2009		2008	
Indicator	Australia	New Zealand	Australia	New Zealand	
Customer					
Business volume	11.5m	2.3m	11.6m	2.3m	
Customer satisfaction	84	90%	84	87%	
Workforce					
Full time employees	82%	88%	83%	90%	
Part time employees	18%	12%	17%	10%	
Total head count	9,396	2,006	9,909	2,072	
Staff turnover	19.7%	15.2%	20.3%	25.5%	
Staff absenteeism	4.5%	3.9%	4.7%	4.2%	
Employees represented by unions	12.2%	48.7%	13.4%	47.9%	
Engagement survey response rate	79%	87%	78%	83%	
Engagement survey score ²	85%	84%	61%	51%	
Male to female annual salary ratio ³	A\$1.37:1	NZ\$1.31:1	A\$1.37:1	NZ\$1.30:1	
Women in senior management positions	27%	24%	34%	20%	
Women in executive positions	22%	25%	25%	25%	
Lost time injury frequency rate	2.6	1.3	3.6	0.9	
Community					
Community investment	A\$7.6m	NZ\$0.5m	A\$11.6m	NZ\$0.7m	
Environment					
Recycled waste (tonnes)	1,119	93	740	114	
CO ₂ e emissions (tonnes CO ₂ e)	53,527	3,400	60,984	3,557	
Greenhouse gas emissions profile ⁴					
Australia (tonnes CO ₂ e)		New Zealand (tonnes CO ₂ e)			
09		09			
08		08			
				<ul style="list-style-type: none"> Paper (Scope 3) Air travel (Scope 3)⁵ Electricity (Scope 2) Tool of trade fuel (Scope 1) 	

1 Pages 18–21 present a summary of IAG's performance against business sustainability measures, which has been independently assured by Net Balance Management Group. The assurance statement can be viewed at www.iag.com.au and additional information about IAG's business sustainability performance is available at www.iag.com.au/sustainable.

2 IAG commissioned Towers Watson to conduct its 2009 employee engagement survey. This change in provider, from Hewitt CSI in 2008, means it is not possible to provide a year-on-year comparison of these results.

3 IAG has proportionally more males than females in senior management positions, which is reflected in this indicator.

4 The categorisation and terminology of Scope 1, Scope 2 and Scope 3 emissions in this table is from the World Business Council for Sustainable Development and WRI Greenhouse Gas Protocol. Under the protocol, organisational reporting of Scope 1 and Scope 2 emissions is required, while Scope 3 emissions reporting is optional.

5 For air travel, a CO₂ equivalent emission factor including radiative force has been applied to both current and prior year figures.

AS WE STRENGTHEN IAG, WE HAVE A CLEAR FOCUS ON ENSURING THE SUSTAINABILITY OF ALL FACETS OF OUR BUSINESS. THIS INCLUDES OUR FINANCIAL VIABILITY, RELATIONSHIPS WITH OUR CUSTOMERS, EMPLOYEE ENGAGEMENT, COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY AND MANAGEMENT OF ENVIRONMENTAL RISKS AND IMPACTS. WE ARE TAKING A LONGER TERM VIEW ACROSS OUR ENTIRE BUSINESS, ASSESSING FUTURE RISKS AND EMERGING TRENDS, AND MAKING SURE THAT THESE INFORM TODAY'S DECISION MAKING. WE ARE DETERMINED TO ENSURE THAT THE SUCCESS OF OUR BUSINESS MEANS A STRONG VIABLE FUTURE FOR THE BENEFIT OF OUR SHAREHOLDERS, OUR CUSTOMERS, OUR PEOPLE AND THE COMMUNITIES IN WHICH WE OPERATE >

WE'RE IN IT FOR THE LONG HAUL

NEW MARKETING CAMPAIGNS, PRODUCT IMPROVEMENTS AND WEBSITE ENHANCEMENTS DEMONSTRATE THE GROUP'S UNWAVERING COMMITMENT TO DELIVER SUPERIOR CUSTOMER EXPERIENCES.

3.6% ▲

INCREASE IN BUSINESS VOLUMES WITHIN OUR AUSTRALIA DIRECT INSURANCE BUSINESS.



Our focus during the 2009 financial year has been to build a stronger and more sustainable business.

Our business involves managing risks, including those associated with weather events. Natural weather events have a direct link to IAG's claim costs and with climate change driving an increase in the frequency and severity of weather related events, the implications for IAG are direct and significant. While climate change and the environment will always be important, business sustainability is about balancing and recognising the interdependency between each of the five dimensions —economic, customer, workforce, community and environment.

During a period of rebuilding, our performance across all areas associated with business sustainability has been solid. In broad terms we have maintained our performance this year, despite difficult internal and external factors.

ECONOMIC

In these challenging economic times, we have forged ahead, made improvements and worked hard to strengthen our brands and capital position. Maintaining a conservative investment strategy, securing the appropriate reinsurance cover and applying a disciplined approach to underwriting have been key. A five year summary of our economic performance can be found on page 24.

CUSTOMERS

To ensure the ongoing sustainability of our customer franchise, we need to meet and exceed our customers' and intermediaries' expectations, making every interaction our customers have with us a positive one. We need to differentiate ourselves in their eyes, giving them reasons to choose our brands for their insurance needs.

During the year, we maintained business volumes and customer satisfaction levels in our Australian and New Zealand operations, despite significant internal and external changes.

In our Australian Direct Insurance business (operating under the NRMA Insurance, SGIC and SGIO brands), we launched a range of new products to provide more options to customers, including third party fire and theft cover. We have a tailored home insurance policy for renters, a unique flood insurance option and bundled discount options for loyal customers. We also launched a number of environmentally sustainable insurance products for commercial customers in New Zealand.

CGU, our Australian intermediated insurer, has responded to demand from our distribution network for new products to meet changing customer needs. For example, to help deal with the issue of underinsurance, the CGU RightCover product helps small to medium sized businesses check that they are adequately insured.

BUSINESS SUSTAINABILITY

As well as launching new products across the business, we are also offering new ways for customers to interact with us. In response to consumer feedback, we launched The Buzz, a dedicated internet business which takes the entire process from buying car insurance to making a claim, online.

Despite these initiatives, we know that the sustainability of our relationship with customers is largely determined by how we respond to claims. Being there when our customers need us most is why we exist.

Australia experienced a number of significant events throughout the year and we responded quickly to support our customers. Within 24 hours of the devastating Victorian bushfires this year, we provided a dedicated 24/7 emergency hotline for our customers, and CGU's people were on the ground at the relief centres throughout the state providing face-to-face assistance to customers. In the days and weeks following the bushfires, we were able to support our customers by arranging temporary accommodation and providing them with emergency financial assistance.

WORKFORCE

Without skilled and engaged employees, it is impossible to build a sustainable organisation. It is our workforce which delivers on the promises we make to our customers, shareholders and the community and we work hard to attract and retain the best people to drive the future success of the company.

While the size of our workforce fell during the year as a result of our refined operating structure, our performance in employee measures was positive. Employee engagement is at 84% for the Group, absenteeism is static and turnover has decreased. The number of women in senior roles has fallen slightly, but our approach to workforce diversity—such as flexible work arrangements and 12 weeks' paid parental leave—remains industry best practice.

We believe it is important to have the right people with the right skills in the right roles. That's why we are continuing to invest in our people to ensure they have the necessary skills and support to implement our strategy and provide value to shareholders.

One example of this is our new performance management system in New Zealand—My Performance. This system is being used to help employees recognise what they need to do to contribute to the ongoing profitability of the Group, and rewarding them for their contribution.

At a Group level, we're focused on succession management, and have developed a Group framework that assists us to identify, assess and grow our future leaders. Driven by our executive team and board, this targeted program is addressing succession for all of our top tier roles.

COMMUNITY

Insurance is the ultimate community product and relies on sharing risk across the community. As an insurer, we have a

role to play in identifying and mitigating risk in the community, so our proactive involvement is important. It's an area where we can make a real difference. By sharing our knowledge, we can help to prevent crime, improve road safety and minimise damage caused by severe weather events.

This year our community investment has been more focused, driven by the operating brands which are closest to the communities they serve.

For example, we helped promote the government's New Year Safe Driving Campaign in Thailand, partnered with the Queensland Fire and Rescue Service to support a safe home program, and hosted the State Driver Reviver program in New Zealand to encourage holiday drivers to take a break during their road journey. We also continued our sponsorship of FarmSafe Australia to develop and implement educational and practical tools to help reduce injuries and prevent loss of life on farms.

In the UK, we launched ALERT (Automated Live Event Recording Technology), which enables fleet managers to monitor unsafe driver behaviour to reduce both collisions and premiums. In Australia, we also continued our long term involvement with a number of community partners, including the Volunteer Rescue Association, which in 2008/09 responded to almost 650 storm recovery and motor vehicle incidents, as well as the NRMA Insurance Community Grants program.

OUR COMMITMENT TO THE COMMUNITY IS MOST VISIBLE IN THE WAY WE HELP IN TIMES OF EMERGENCY.

\$54m

BY THE END OF MARCH 2009, CGU HAD PAID MORE THAN \$54 MILLION TO SETTLE CLAIMS RELATED TO THE DEVASTATING VICTORIAN FIRES.

NZI Centre, IAG's new
5 Star Green Star building
in Auckland, New Zealand

AT 84%, IAG EMPLOYEES' ENGAGEMENT SCORE EXCEEDED THE BENCHMARK FOR GLOBAL FINANCIAL SERVICES COMPANIES, AS SET BY OUR SURVEY PROVIDER TOWERS WATSON.

90%

ENCOURAGINGLY, 90% OF IAG EMPLOYEES BELIEVE IN THE GOALS OF THE BUSINESS AND THE VALUES OF THE DIVISION THEY WORK FOR.



IAG employee, Giselle Nassar

IN NEW ZEALAND, WE RELOCATED TO A NEW BUILDING WITH A 5 GREEN STAR DESIGN RATING AND THE COUNTRY'S FIRST 5 GREEN STAR OFFICE INTERIORS RATING. THROUGHOUT THE YEAR THE CARBON EMISSIONS GENERATED BY OUR AUSTRALIAN AND NEW ZEALAND BUSINESSES FELL.

11.8% ▼

FALL IN EMISSIONS GENERATED BY IAG BUSINESSES THROUGHOUT THE YEAR.

Our commitment to the community is most visible in the way we help communities in times of emergency, and the role we play in supporting communities rebuild and reduce their risk so they are better able to withstand catastrophic events in the future. Beyond the support for our own customers, in the aftermath of the Victorian bushfires we lodged submissions with the 2009 Victorian Bushfires Royal Commission to highlight a range of measures designed to help communities become more resilient to catastrophes. For example, we recommended further changes to strengthen building codes, continued review of land planning practices in bushfire prone areas, more equitable funding of essential fire-fighting services, and educational programs to reduce the impact of underinsurance and non-insurance on the community.

ENVIRONMENT

Managing the impact of natural perils is core business for IAG.

There have been a number of particularly significant events during the past financial year—including the tragic bushfires in Victoria, and a series of severe weather events in Queensland and northern NSW. These events have led to significant losses for our customers and the community and reinforce the need for our continuing focus in this area.

How we manage these environmental impacts directly links to our financial performance. By managing our own environmental footprint, we can reduce our carbon emissions and reduce our cost base; by integrating the impacts of climate change into our underwriting, we ensure that we are able to price weather related risk appropriately; and by helping communities to prepare and adapt for the threats of more extreme weather events,

we are helping them to reduce the potential impact of these events on their lives.

We've continued to provide tools to assist customers in purchasing decisions, for example, the Greensafe Car Profiler provided by NRMA Insurance. We are also continuing to support education programs run at the grassroots level in the community through the NRMA Insurance CommunityHelp Grants program.

Our carbon footprint continued to fall during the year, due to significant reductions in electricity consumption, as well as a fall in air travel and print paper consumption, all of which bring us closer to our goal to be carbon neutral by 2012. Our UK operations are signatories to Climatewise, an initiative of The Prince of Wales's Corporate Leaders Group on Climate Change, which focuses on responding to the risks and opportunities posed by climate change. We have continued to support Earth Hour and are the first insurer in New Zealand to occupy one of the country's most environmentally friendly buildings. We also expect to achieve green star ratings for our CGU Melbourne headquarters and our offices in Parramatta in western Sydney.

We are encouraging our customers to reduce their emissions by developing products which reward people for sustainable behaviour such as the continued roll-out of motor insurance discounts for fuel-efficient cars.

OUTLOOK

We are proud that our approach to business sustainability has once again earned IAG recognition in the Dow Jones Sustainability Indexes and the FTSE4Good Index, and are committed to continued improvement across all of our business sustainability levers in the 2010 financial year.



CGU commercial claims expert, Alana Falls, visits Kinglake in Victoria. Photo courtesy of Insurance & Risk Professional

THE BOARD

1. JAMES STRONG

AO
Chairman and independent non-executive director

Appointed Chairman in August 2001. Member of the IAG Nomination, Remuneration & Sustainability Committee. Chairman of Woolworths Limited and the Australia Council for the Arts. Director of Qantas Airways Limited and the Australian Grand Prix Corporation.

4. HUGH FLETCHER

BSc/BCom, MCom (Hons), MBA
Independent non-executive director

Appointed in September 2007. Member of the IAG Audit, Risk Management & Compliance Committee. Non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited, Rubicon Limited, Vector Limited and IAG New Zealand Limited, and Councillor of the University of Auckland.

7. BRIAN SCHWARTZ

FCA, AM
Independent non-executive director

Appointed in January 2005. Chairman of the IAG Nomination, Remuneration & Sustainability Committee. Non-executive director of Brambles Limited and Westfield Group Limited and consultant to Investec Bank (Australia) Ltd. Deputy chairman of the board of Football Federation Australia Limited and member of the Federal Government's Australian Multicultural Advisory Council.

2. MICHAEL WILKINS

BCom, MBA, DLI, FCA
Managing Director and Chief Executive Officer

Appointed Managing Director and Chief Executive Officer in May 2008 after joining as Chief Operating Officer and director in November 2007. Director of the Insurance Council of Australia and non-executive director of Maple-Brown Abbott Limited.

5. PHILLIP COLEBATCH

BSc, BE (Hons), SM, DBA
Independent non-executive director

Appointed in January 2007. Member of the IAG Nomination, Remuneration & Sustainability Committee. Non-executive director of Lend Lease Corporation Limited and Man Group plc.

8. PHILIP TWYMAN

BSc, MBA, FIA, FIAA, FAICD
Independent non-executive director

Appointed in July 2008. Director of Perpetual Limited, Medibank Private Limited, Swiss Re (Australia), ANZ Lenders Mortgage Insurance Limited and Tokio Marine Management (Australasia) Pty Ltd.

3. YASMIN ALLEN

BCom, FAICD
Independent non-executive director

Appointed in November 2004. Chairman of the IAG Audit, Risk Management & Compliance Committee and member of the IAG Nomination, Remuneration & Sustainability Committee. Director of Macquarie Specialised Asset Management (chairman of its Audit Committee) and Salvation Army Advisory Board.

6. ANNA HYNES

BSc (Hons), MBA
Independent non-executive director

Appointed in September 2007. Member of the IAG Audit, Risk Management & Compliance Committee. Previously a non-executive director of Promina Group Limited and Country Road Limited.

OUR APPROACH TO REMUNERATION IS AIMED AT ENSURING IAG CAN ATTRACT AND RETAIN THE BEST PEOPLE AND REWARD PERFORMANCE ALIGNED WITH RETURNS DELIVERED TO OUR SHAREHOLDERS.

There was no increase to the overall fees received by directors during the 2009 financial year and, mindful of the current economic conditions, no increase is planned for the 2010 financial year. Similarly, there will be no increase to the fixed pay for the CEO and executive team in the 2010 financial year.

The board has also made a number of changes to executive remuneration during the year, including setting a maximum value for short term incentives; and adjusting the performance hurdles for long term incentives under the Executive Performance Rights Plan to a better match of comparable companies. Under this plan, performance will be benchmarked to that of the Top 50 ASX Industrials and to achieve the full incentive the performance of the Group must rank in the top quartile.

Detailed information on IAG's board and executive remuneration can be found in the remuneration report contained in the 2009 annual report.



DIRECTOR AND EXECUTIVE REMUNERATION

The tables below provide an extract from our 2009 remuneration report which is contained in the IAG annual report, available at www.iag.com.au. The remuneration report details the remuneration received/receivable during the year by IAG's directors and executives having the greatest authority and responsibility for planning, directing and controlling the activities of IAG, otherwise known as key management personnel (KMP). For KMP appointed during the year, information relates to the period from their appointment as KMP to 30 June.

INDEPENDENT NON-EXECUTIVE DIRECTORS	SHORT TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOY- MENT BENEFITS \$000	TERM- INATION BENEFITS \$000	SHARE BASED PAYMENT IAG board fees received as IAG shares \$000	TOTAL \$000
	IAG board fees received as cash \$000	Other board and committee fees \$000	Super-annuation \$000	Retire-ment benefits \$000				
James Strong	231	195	52	-	-	-	225	703
Yasmin Allen	128	87	14	-	-	-	30	259
Phillip Colebatch	75	115	15	-	-	-	75	280
Hugh Fletcher	77	109	16	-	-	-	73	275
Anna Hynes	120	24	16	-	-	-	30	190
Brian Schwartz	108	39	14	-	-	-	45	206
Philip Twyman, appointed 9 July 2008	125	20	15	-	-	-	22	182
Directors who retired during the year								
Neil Hamilton, retired 31 August 2008	3	7	3	248	-	-	23	284
Rowan Ross, retired 31 August 2008	13	9	3	232	-	-	13	270

EXECUTIVES	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS Super-annuation \$000	OTHER LONG TERM EMPLOY- MENT BENEFITS Long service leave accruals \$000	TERM- INATION BENEFITS \$000	SUB TOTAL (EX- CLUDES SHARE BASED PAY- MENT) \$000	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)		TOTAL \$000
	Base salary \$000	Short term incentives \$000	Other \$000					Value of deferred short term incentives \$000	Value of rights/shares granted \$000	
Michael Wilkins Managing Director and Chief Executive Officer	1,842	1,110	-	65	15	-	3,032	82	744	3,858
Justin Breheny Chief Executive Officer, Asia	746	413	-	94	12	-	1,265	145	500	1,910
Andy Cornish Chief Executive Officer, Direct Insurance, KMP since 2 February 2009	378	200	343	10	1	-	932	27	71	1,030
Ian Foy Chief Executive Officer, New Zealand, KMP since 5 August 2008	396	134	-	73	-	-	603	46	178	827
Nicholas Hawkins Chief Financial Officer	771	374	10	66	31	-	1,252	127	467	1,846
Jacki Johnson Chief Executive Officer, The Buzz	786	413	-	47	27	-	1,273	162	445	1,880
Leona Murphy Group Executive, Corporate Office	634	327	-	50	6	-	1,017	43	212	1,272
Neil Utley Managing Director, UK	994	562	-	140	-	-	1,696	190	541	2,427
Duncan West Chief Executive Officer, CGU	881	463	-	50	7	-	1,401	39	296	1,736
Executives who ceased as key management personnel										
Gary Dransfield Former Chief Executive Officer, Direct Insurance, KMP only for the period from 9 July 2008 to 2 February 2009	314	200	-	29	11	-	554	-	-	554
Tony Coleman Former Chief Risk Officer and Group Actuary, KMP until 29 August 2008	124	100	-	14	19	887	1,144	134	334	1,612
Christine McLoughlin Former Group Executive, Strategy, People & Reputation, KMP until 30 September 2008	161	337	-	21	(15)	815	1,319	100	293	1,712
Jan van der Schalk Former Chief Executive Officer, Asset Management and Reinsurance, KMP until 29 August 2008	63	69	-	13	20	820	985	69	278	1,332
George Venardos Former Group Chief Financial Officer, KMP until 29 August 2008	96	111	-	16	14	979	1,216	149	383	1,748

FIVE YEAR FINANCIAL SUMMARY

	2009	2008 ¹	2007	2006	2005
	\$m	\$m	\$m	\$m	\$m
Gross written premium	7,842	7,793	7,381	6,435	6,673
Premium revenue	7,718	7,765	7,207	6,537	6,561
Outward reinsurance premium expense	(485)	(470)	(464)	(405)	(417)
Net premium revenue	7,233	7,295	6,743	6,132	6,144
Net claims expense	(5,370)	(5,155)	(4,474)	(3,900)	(4,090)
Underwriting expenses	(2,128)	(2,180)	(1,862)	(1,699)	(1,624)
Underwriting profit/(loss)	(265)	(40)	407	533	430
Net investment income on assets backing insurance liabilities	780	432	360	310	516
Insurance profit	515	392	767	843	946
Net investment income from equity holders' and external funds ²	(29)	41	320	537	500
Other income	494	487	463	218	179
Share of net profit/(loss) of associates	8	(3)	5	2	–
Finance costs	(87)	(101)	(119)	(86)	(69)
Corporate and administration expenses	(524)	(545)	(455)	(265)	(258)
Amortisation expenses and impairment charges of intangible assets and goodwill ³	(65)	(407)	(73)	(14)	(13)
Profit/(loss) before income tax	312	(136)	908	1,235	1,285
Income tax expense	(65)	(90)	(279)	(373)	(357)
Net profit/(loss)	247	(226)	629	862	928
Net profit attributable to minority interests	(66)	(35)	(77)	(103)	(117)
Net profit/(loss) attributable to equity holders of Insurance Australia Group Limited	181	(261)	552	759	811
Ordinary equity holders' equity (\$ million)	4,671	4,204	4,660	3,491	3,378
Total assets (\$ million)	19,315	19,380	21,637	16,972	17,102
Premium growth					
Gross written premium	0.6%	5.6%	14.7%	(3.6%)	3.8%
Net premium	(0.8%)	8.2%	10.0%	(0.2%)	4.8%
Key ratios					
Loss ratio	74.2%	70.7%	66.4%	63.6%	66.6%
Expense ratio	29.4%	29.9%	27.6%	27.7%	26.4%
Combined ratio	103.6%	100.6%	94.0%	91.3%	93.0%
Insurance margin ⁴	7.1%	5.4%	11.4%	13.7%	15.4%
Share information					
Dividends per ordinary share—fully franked (cents)	10.00	22.50	29.50	42.00	26.50
Basic earnings per ordinary share (cents)	9.32	(14.11)	32.79	47.66	49.31
Ordinary share price at 30 June (\$) (ASX: IAG)	3.51	3.47	5.70	5.35	6.01
Reset preference share price at 30 June (\$) (ASX: IAGPA)	100.50	85.00	99.80	101.80	103.90
Reset exchangeable securities price at 30 June (\$) (ASX: IANG)	74.75	81.89	100.09	100.00	99.00
Issued ordinary shares (million shares)	2,071	1,878	1,794	1,595	1,594
Issued reset preference shares (million shares)	4	4	6	6	6
Market capitalisation (ordinary shares) at 30 June (\$ million)	7,269	6,517	10,226	8,533	9,582
Net tangible asset backing per ordinary share (\$)	1.16	0.93	0.90	1.22	1.18

1 The financial information for the 2008 year has been reclassified to provide comparable figures for the segment reporting adopted in 2009. This includes reallocation of corporate expenses and reinsurance to the operating divisions. All financial information prior to 2008 was prepared under IAG's previous classification.

2 This included an unrealised gain on embedded derivatives of \$69 million for 2008.

3 This included impairment charges for acquired identifiable intangible assets and goodwill of \$342 million for 2008.

4 Insurance margin is a ratio of insurance profit over net premium revenue.

SHAREHOLDER INFORMATION

ONLINE INFORMATION

To view the 2009 annual report and other important information about IAG, and to manage your shareholding online, visit IAG's website at www.iag.com.au. You can also register to receive email news alerts when IAG makes important announcements.

ANNUAL GENERAL MEETING 2009

IAG's AGM will be held on Tuesday, 10 November 2009 at 10am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000. Details of the meeting, including how to vote, are contained in our notice of meeting which has been mailed to shareholders and is available online at www.iag.com.au.

KEY DATES FOR 2009 AND 2010*

Financial year end	30 June 2009
Full year results and dividend announced	21 August 2009
Final dividend for ordinary shares	
– Record date	2 September 2009
– Payment date	2 October 2009
Annual general meeting	10 November 2009
Half year end	31 December 2009
Half year results and dividend announced	25 February 2010
Interim dividend for ordinary shares	
– Record date	10 March 2010
– Payment date	12 April 2010

* Please note dates are subject to change. Any changes will be published via a notice to the ASX.

KEY CONTACT DETAILS

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Website www.iag.com.au
Email investor.relations@iag.com.au

**A CLEAR
DIRECTION ▶▶**

ANNUAL REVIEW 2009

Insurance Australia Group Limited ABN 60 000 730 523

ABOUT THIS REPORT

IAG's annual review contains a summary of the Group's performance for the 2009 financial year. More detailed financial information is contained in IAG's annual report (pictured below) which is available in hard copy by contacting our Share Registry or can be viewed online at www.iag.com.au.

**THE YEAR IN
NUMBERS ▶▶**

ANNUAL REPORT 2009

Insurance Australia Group Limited ABN 60 000 730 523

IAG
Insurance Australia Group

OUR MAJOR BRANDS



Australia



New Zealand



United Kingdom



Asia



100% owned unless indicated. ¹ RACV is via a distribution relationship and underwriting joint venture with RACV Ltd.
² 98% voting rights. ³ 49% ownership of AmG Insurance, which is part of AmAssurance.



RECYCLED CONTENT



CERTIFICATION

We are committed to minimising our impact on the environment. This report is printed on environmentally responsible paper.

Tudor RP is FSC Recycled Certified and Australian made. It contains 100% pre and post consumer waste fibre sourced from printers' waste, converted waste and office waste.

No chlorine bleaching occurs in the recycling process. Australian Paper is ISO 140001 certified.

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they use vegetable based oils such as linseed, canola or soy instead of petroleum based oils. Vegetable based oils are, unlike petroleum, a renewable source, and are biodegradable. Organic inks send little or no volatile organic compounds into the air, and produce less toxic waste.

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AUSTRALIAN MADE



ENVIRONMENTAL MANAGEMENT SYSTEMS



BLEACHING PROCESS



FOREST MANAGEMENT