

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

Directory

Stock Exchange Listings of the Group

Australian Stock Exchange Limited

ASX code for ordinary shares: **IAG**

ASX codes for reset preference shares: **IAGPA** (Listed June 2002) and **IAGPB** (Listed June 2003)

ASX code for Reset Exchangeable Securities: **IANG** (Listed January 2005)

Investor Information/Administration

Computershare Investor Services Pty Limited

452 Johnston Street, Abbotsford VIC 3067

Or by mail to

GPO Box 4709

Melbourne VIC 3001

Telephone: 1300 360 688

Email: iag@computershare.com.au

Facsimile: (03) 9473 2470

Website: www.iag.com.au

Investor Relations

Email: investor.relations@iag.com.au

Ms Anne O'Driscoll

Group Company Secretary & Head of Investor Relations

Telephone: (02) 9292 3169

Facsimile: (02) 9292 3109

Email: anne.o'driscoll@iag.com.au

Registered Office

Level 26, 388 George Street

SYDNEY NSW 2000

Telephone: (02) 9292 9222

Key dates for shareholders - proposed

Final dividend – ordinary shares

- Ex-dividend date 8 September 2005

- Record date 14 September 2005

- Payment date 17 October 2005

Due date for IANG quarterly distribution 15 September 2005

Annual General Meeting 9 November 2005

Due date for IAGPA, IAGPB and IANG distributions 15 December 2005

Announcement of half year results - 31 December 2005 23 February 2006

Interim dividend – ordinary shares*

- Ex-dividend date 8 March 2006

- Record date 15 March 2006

- Payment date 17 April 2006

Due date for IANG quarterly distribution 15 March 2006

Due date for IAGPA, IAGPB and IANG distributions 15 June 2006

Announcement of annual results to 30 June 2006 17 August 2006

Annual General Meeting 15 November 2006

**These dates are indicative dates only & are subject to change.*

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Introduction

Consolidated Financial Results	Full-year ended Jun 03	Full-year ended Jun 04	Full-year ended Jun 05
	A\$m	A\$m	A\$m
Gross written premium	5,150	6,427	6,673
Gross earned premium	4,885	6,265	6,561
Reinsurance expense	(249)	(402)	(417)
Net premium revenue	4,636	5,863	6,144
Net claims expense	(3,363)	(3,815)	(4,069)
Net commission expense	(264)	(454)	(501)
Underwriting expense	(810)	(1,046)	(1,090)
Underwriting profit	199	548	484
Investment income on technical reserves	372	244	516
Insurance profit	571	792	1,000
Net corporate expenses	(39)	(27)	(32)
Amortisation	(81)	(118)	(105)
Interest	(47)	(57)	(69)
Profit from fee based businesses	10	22	(17)
Financial services	3	15	-
Investment income on shareholders' funds	(120)	434	479
Investment income on external funds	20	50	22
NSW Insurance Protection Tax	(20)	(20)	(20)
Non-recurring items - sale of ClearView	-	61	-
Profit before income tax	297	1,152	1,258
Income tax expense	(80)	(346)	(379)
Profit after income tax	217	806	879
Outside equity interests	(64)	(141)	(119)
Profit attributable to all shareholders	153	665	760
Dividends paid to reset preference shareholders	(21)	(29)	(29)
Profit attributable to ordinary shareholders	132	636	731

Financial Results/Ratios	Full-year ended Jun 03	Full-year ended Jun 04	Full-year ended Jun 05
GWP (A\$m)	\$5,150	\$6,427	\$6,673
Profit attributable to all shareholders (A\$m)	\$153	\$665	\$760
Reported ROE % (Average Equity) to ordinary shareholders pa	5.1%	21.1%	23.1%
Normalised ROE % (Average Equity) to ordinary shareholders pa	12.9%	15.1%	17.3%
Net cash flow from operations (A\$m)	\$825	\$1,169	\$897
Basic EPS (cents)	8.65	37.87	45.89
Diluted EPS (cents)	8.61	37.74	45.83
DPS	11.50	22.00	26.50
Group insurance ratios			
Loss ratio	72.5%	65.1%	66.2%
Expense ratio	23.2%	25.6%	25.9%
Administration expense ratio	17.5%	17.9%	17.7%
Commission ratio	5.7%	7.7%	8.2%
Combined ratio	95.7%	90.7%	92.1%
Insurance margin (before tax)	12.3%	13.5%	16.3%
Minimum probability of adequacy of general insurance claims reserves / actual for FY05	90.0%	90.0%	92.5%
MCR multiple - Australian licensed entities	2.03x	2.29x	2.29x
MCR multiple - Group	1.62x	1.75x	2.00x

Results

- ▶ The Group produced the strongest result in its history with a net profit after tax for all shareholders of \$760m for the 2005 financial year. This result represents an underlying growth of 25.0% on the FY04 result of \$608m (excluding the non-recurring post-tax profit of \$57m on the sale of ClearView in January 2004).
- ▶ The record result was achieved in an environment of decelerating premium growth in the Australian and New Zealand markets due to premiums reducing to reflect improved claims outcomes and competitive activity. The Group's business volume grew by 152,000 or 1.1%.
- ▶ As well as continued strong insurance margin performance in all divisions within the business, the Group benefited from high returns in equity markets. As a result, actual and normalised return on ordinary equity in FY05 was 23.1% and 17.3%, respectively, and comfortably exceeded the Group's long-term target of generating returns of at least 1.5x WACC (~15%).
- ▶ The Group's insurance margin of 16.3% (FY04: 13.5%) reflects a strong performance by each segment. The Australian Personal Lines business margin retreated slightly to 16.0% (FY04: 16.5%) while the Australian Commercial Lines and International businesses both delivered increased margins: Australian Commercial Lines increased to 17.2% (FY04: 9.6%) while the International business margin increased to 16.1% (FY04: 7.5%).
- ▶ There were a number of constituent factors which contributed to the Group's increased margin including:
 - The first full year of integration benefits from the CGU and NZI acquisitions;
 - Reduced liability reserving, including recognition of benefits from tort reform; and
 - Ongoing benefits from continued application of tighter underwriting controls and risk selection.
- ▶ The positive factors outweighed the strain on the insurance margin from:
 - Gross incurred claims from storm activity of \$340m for FY05 relative to \$250m on an equivalent basis for FY04. Most of the claims were incurred in 2H05; and
 - Increased advertising and reduced average premiums in parts of the business.
- ▶ A reduction in the effective discount rate applicable to insurance liabilities increased the claims expense by \$88m for FY05, adding 1.4% to both the loss ratio and combined ratio. The FY04 discount movement generated a \$123m reduction in claims expense or a 2.1% benefit to the ratios. The underlying (immunised) combined ratio has improved to 90.7% from 92.8%. On an immunised basis, the underwriting profit for FY05 was up 35% to \$572m (FY04: \$425m).
- ▶ The administration ratio for FY05 was 17.7% relative to 17.9% for FY04. Excluding the expense for fire service levies, the underlying administration ratio for FY05 improved by 0.4%. In an environment of reducing premium rates in many classes of business and ongoing wages inflation, this is a very strong result.
- ▶ The fee-based businesses reported a loss of \$17m (FY04: profit of \$22m) following significant adjustments required to prior year fees accrued for the NSW workers' compensation business. Actions have been taken to prevent a recurrence of such over-estimation. The loss also includes \$5m from increased expenditure in the Group's Chinese road service operations, which are growing quickly.

- ▶ Investment market performance plus market out performance generated by the Group's asset managers ('alpha' returns) produced record investment returns:
 - Technical reserves returned \$516m, which included capital gains of \$93m;
 - Investment income on shareholders' funds of \$465m, representing a gross yield of 19.8% before expenses; and
 - Investment returns this year also include the \$14m of interest earned on the portfolio held specifically to back the Group's \$550m of Reset Exchangeable Securities (RES) (issued in January 2005).
- ▶ Interest expense has increased to reflect the interest paid and accrued on the RES.
- ▶ The amortisation expense (for goodwill and other intangibles) of \$105m is lower than FY04 as some intangible assets had been fully amortised by that date. The level of amortisation in future periods is expected to reduce significantly as goodwill will not be subject to amortisation under A-IFRS. Impairment testing will be undertaken in future reporting periods.
- ▶ In respect of the NSW Insurance Protection Tax, the NSW Government has neither implemented an expiry date nor the ability to pass the tax onto policyholders. This tax was enacted following the HIH collapse as a levy on insurer shareholders. The outcome of a review of this tax by the NSW Government is due to be received at the end of the year.
- ▶ The record profit – operating and total – has supported the increase in the full year dividend from 22.0 cents to 26.5 cents per share. This comfortably delivers on the Group's desire to increase annual dividends by at least 10% - actual increase of 20.5%.
- ▶ The Group has the capacity to frank up to \$1,036m of distributions after allowing for payment of the final dividend for FY05 now declared.

Balance sheet strength

- ▶ The result has been achieved while maintaining a very prudent level of reserving, very strong 'AA' (stable) insurer financial strength ratings from S&P for key wholly-owned insurance entities and having a Group multiple of APRA minimum capital requirement ('MCR') of 2.00x at balance date.
- ▶ The Group's net claims reserves had an estimated probability of adequacy (POA) of 92.5% at 30 June 2005. The POA for all insurance liabilities, i.e. including the liability on unexpired premium, was 90.2%. The risk margins are 25.6% of the net claims liability. This is at the conservative end of the market practice range based on available information.
- ▶ In the five years since listing on 8 August 2000, the Group's return on equity for ordinary shareholders has averaged 10.7%.

Outlook

- ▶ The operating environment for the Group will be more challenging in FY06 but the Group has the capacity and intention to again deliver a quality insurance margin and return on equity and generate surplus capital.
- ▶ In terms of gross written premium outlook, business volumes should continue to grow but the overall quantum of premium growth will be driven by a range of factors including:
 - Economic growth in the regions to which the Group is most sensitive, particularly the NSW economy where growth at present is the lowest it has been for over a decade (Gross State Product per ABS);

- Claims cost trends where there are a number of factors acting to increase or reduce claims inflation in the Group's operations. Apart from the usual influences of CPI and AWE movements, these include:
 - Improved claims experience in a number of classes, eg NSW and Queensland CTP and public liability, which is leading to reductions in the premium rates necessary to service the capital backing these products;
 - Inflation in building costs;
 - Deflation in motor vehicle prices in both the new and used car markets;
 - Increasing frequency of severe storms; and
 - Increased benefits for injured workers under Western Australian workers' compensation;
 - Consolidation of the RSA Thailand business acquired in July 2005 that writes about \$35m of premium per annum; and
 - Increasingly aggressive price competition for business by local and overseas competitors.
- ▶ The Group is targeting gross written premium growth of at least 2% from its existing operations. This is in the context of market premiums being expected to remain flat. It will remain focused on ensuring it continues to price for long-term sustainable returns. If competitor activity takes prices below sustainable levels, this will imply growth for the business towards the lower end of this growth range.
- ▶ The Group's outlook for claims and administration expenses includes consideration of factors such as:
- Ongoing AWE and CPI inflationary effects;
 - A return to normal superannuation contributions to the Group's main superannuation fund in Australia whose surplus provided a superannuation holiday for over five years to May 2005. The estimated contribution for FY06 is in the order of \$85m;
 - Cost savings of \$31m in Australian Personal Lines and \$10m in Australian Commercial Lines from operational changes and efficiencies implemented;
 - Allowances for increased claims costs from storms and some reversion of the reduced claims frequency in motor and CTP in recent periods; and
 - No further large reserve releases from improved performance in liability classes within Australian Commercial Lines.
- ▶ Taking these matters into account, the Group's FY06 insurance margin is expected to moderate slightly but still remain above the FY04 margin of 13.5%, subject, of course, to not incurring claims costs significantly in excess of expectations, eg as a result of a number of significant storms beyond budget allowances.
- ▶ The fee-based businesses should return to generating net profits of \$15 – 20m per annum.
- ▶ The Group continues to generate surplus capital and is seeking shareholder accretive acquisition opportunities in which to invest. The Group will look to return surplus capital to shareholders if suitable investments do not eventuate within a reasonable timeframe.

Half-Year Results

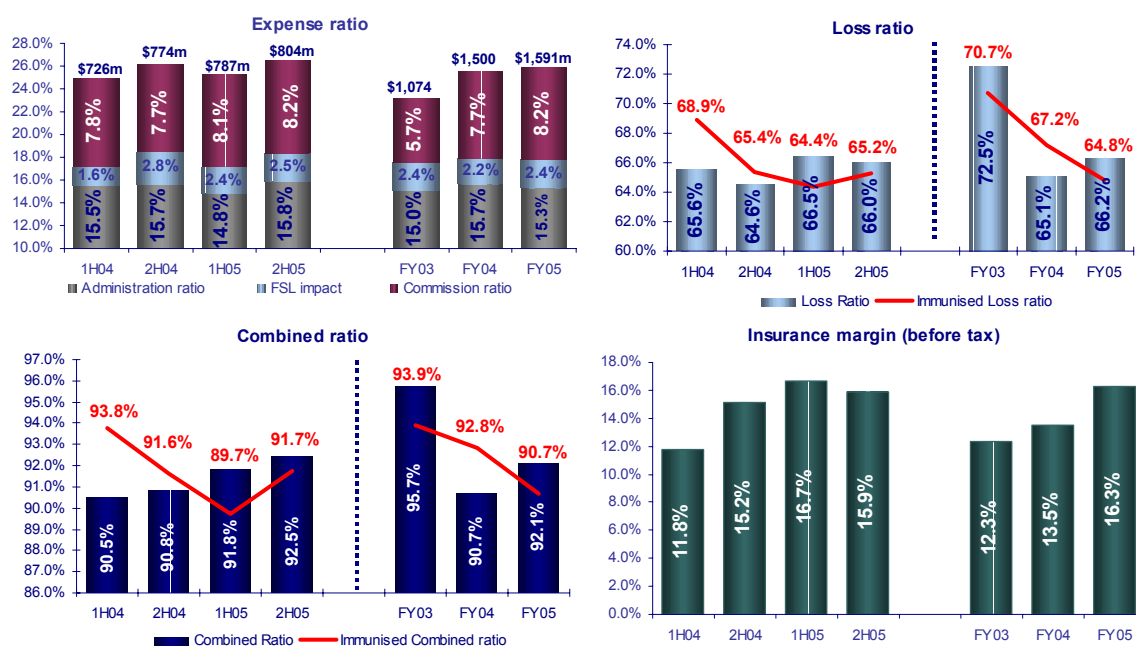
Insurance Australia Group Financial Performance	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05
	A\$m	A\$m	A\$m
Gross written premium	3,285	3,328	3,345
Gross earned premium	3,149	3,311	3,249
Reinsurance expense	(198)	(202)	(214)
Net premium revenue	2,951	3,109	3,035
Net claims expense	(1,906)	(2,067)	(2,003)
Commission expense	(226)	(253)	(248)
Underwriting expense	(548)	(534)	(556)
Underwriting profit	271	255	228
Investment income on technical reserves	177	263	253
Insurance profit	448	518	481
Net corporate expenses	(13)	(13)	(19)
Amortisation	(64)	(52)	(53)
Interest	(28)	(28)	(41)
Profit from fee based businesses	2	10	(27)
Financial services	-	-	-
Investment income on shareholders' funds	230	287	192
Investment income on external funds	42	11	12
NSW Insurance Protection tax	(10)	(10)	(10)
Non-recurring items - sale of ClearView	61	-	-
Profit before income tax	668	723	535
Income tax expense	(210)	(219)	(160)
Profit after income tax	458	504	375
Outside equity interests	(95)	(58)	(61)
Profit attributable to shareholders	363	446	314
Dividends paid to reset preference shares	(15)	(15)	(15)
Profit attributable to ordinary shareholders	348	431	300
Insurance Ratios			
Loss ratio	64.6%	66.5%	66.0%
Expense ratio	26.2%	25.3%	26.5%
Commission ratio	7.7%	8.1%	8.2%
Administration ratio	18.5%	17.2%	18.3%
Combined ratio	90.8%	91.8%	92.5%
Insurance margin	15.2%	16.7%	15.9%

A. Key Elements of Results, including half-year comparisons

- ▶ The record full-year net profit after tax to ordinary shareholders of \$731m includes an unprecedented performance in 1H05 (insurance margin of 16.7%) benefiting from favourable operating conditions and a lower, but still very strong performance, in 2H05 (15.9%) despite increased storm and competitor activity.
- ▶ The net profit after tax attributable to ordinary shareholders for 2H05 of \$300m was lower than 1H05 result by \$131m due to the net effect of the following:
 - 2H05 experienced \$100m more in gross losses from storms, compared to relatively favourable weather conditions in 1H05. This added 3.3% to the loss ratio;
 - Counter to the negative impact of the storm losses were benefits of lower claims frequency flowing through the commercial lines result in 2H05;
 - A loss in 'non-risk' workers' compensation business, following reversal of prior-periods' fee income; and
 - An annualised return on shareholders' funds of 14.6% in 2H05 compared with 23.4% in 1H05.
- ▶ Gross written premium (GWP) growth slowed, with full-year growth of 3.8%. This includes a \$49m (0.7%) benefit from the appreciation in the New Zealand dollar during FY05. Meanwhile, the GWP in 2H05 remained stable compared to 1H05 and grew by 1.8% against 2H04. The GWP trends by division are:
 - Personal lines grew by 2.0% for the full year, weighted to 1H05, with growth driven by higher customer renewal rates and increases in the sums insured in the home portfolio, offset by lower average premiums in motor and CTP;
 - Softening in commercial rates was mitigated by growth in the commercial lines business generating a net GWP growth of 5.0% for FY05. 2H05 grew by 4.8% and 2.6% on 1H05 and 2H04, respectively; and
 - The underlying growth in the New Zealand (NZ) business was 4.1% (9.5% in Australian dollar terms).
- ▶ The FY05 NEP growth of 4.8% is marginally below the Group's target of 5-7%. The 2H05 NEP grew by 2.8% on 2H04 and was lower than 1H05 by 2.4%. These trends reflect the reducing average premiums referred to above.
- ▶ Business volumes grew by 1.1% from FY04. This was generated by continued strong retention rates but lower new business volumes due to the continued focus on risk pricing in an environment of intensified competition.
- ▶ The decrease in bond yields had a positive impact on investment income on technical reserves (through capital gains) and this was offset by a corresponding negative impact on claims reserves of \$23m or 0.8% on the 2H05 combined ratio. The combined ratio in 1H05 also incurred a negative discount rate adjustment of \$65m or 2.1% whilst, 2H04 benefited from a positive discount rate adjustment of \$25m or 0.8%. Excluding the impact of changes in the discount rates, the combined ratio in 2H05 was 91.7% compared to 89.7% and 91.6% for 1H05 and 2H04 respectively.
- ▶ The administration ratio in 2H05 increased by 1.1% to 18.3%. The increase of \$22m in administration costs was due to:
 - Increase in advertising spend;
 - Restructuring costs relating to Australian personal lines distribution and the NSW metropolitan motor repair model;

- Cessation of the Group's superannuation contribution holiday earlier than anticipated. Going forward, the full year expense is anticipated to be around \$85m, compared with \$8m in FY05 and no expense in prior comparative periods;
 - Increased IT spend to enhance underwriting and claims models to support new products and improved claims processes; and
 - Increase in accruals relating to staff incentive schemes following the strong Group result.
- ▶ The Group's largest portfolio, Australian Personal Lines, produced a strong insurance margin of 13.8% in 2H05, despite incurring increased claims from storm activity. This compared to 18.1% in 1H05, which benefited from relatively benign weather conditions. The underlying improvement in the short-tail portfolio, particularly the indirect business, was offset by a return to more sustainable margins in the long-tail personal lines portfolio in New South Wales (NSW) CTP.
 - ▶ The Australian Commercial Lines business is the second largest portfolio in the Group. The margin from this business in 2H05 of 23.2% includes a net reserve release of \$57m as a result of lower claims frequency and costs in liability classes and compares to 11.5% in 1H05, which had a net strengthening in reserves of \$37m. Excluding these reserve movements and adjusting for changes in discount rates, the underlying insurance margin remained above 15% in both halves, reflecting disciplined adherence to technical pricing and focus on customer retention in the softening rate environment.
 - ▶ The International business insurance margin in 2H05 of 13.2% compared to 18.9% in 1H05. The lower margin in 2H05 was attributable to a higher level of storm activity in both New Zealand and Australia. While the Captive retained \$54m of storm losses from the divisions within the Group, it also recognised \$70m in reinsurance recoverables from covers held for attritional losses arising from storm related losses incurred by other divisions within the Group.
 - ▶ The RES were issued in 2H05 and account for the \$13m increase in interest expense in that period.
 - ▶ The shareholders' funds income in 2H05 includes the income on the portfolio backing the RES and \$178m on the balance of the portfolio compared with \$287m in 1H05 when market yields were higher.
 - ▶ The adjustment of prior period incentive fees on management of 'non-risk' workers' compensation schemes occurred in 2H05.
 - ▶ The effective tax rate remained relatively consistent in FY04 and FY05 at around 30%. The only exception is 2H04 with a tax rate of 31.4%, which included an unfavourable prior year adjustment of \$17m to tax provisions and deferred tax assets relating to legacy issues in CGU. The Group has now completed its transition into tax consolidation.

B. Group Insurance Ratios



*Notes:

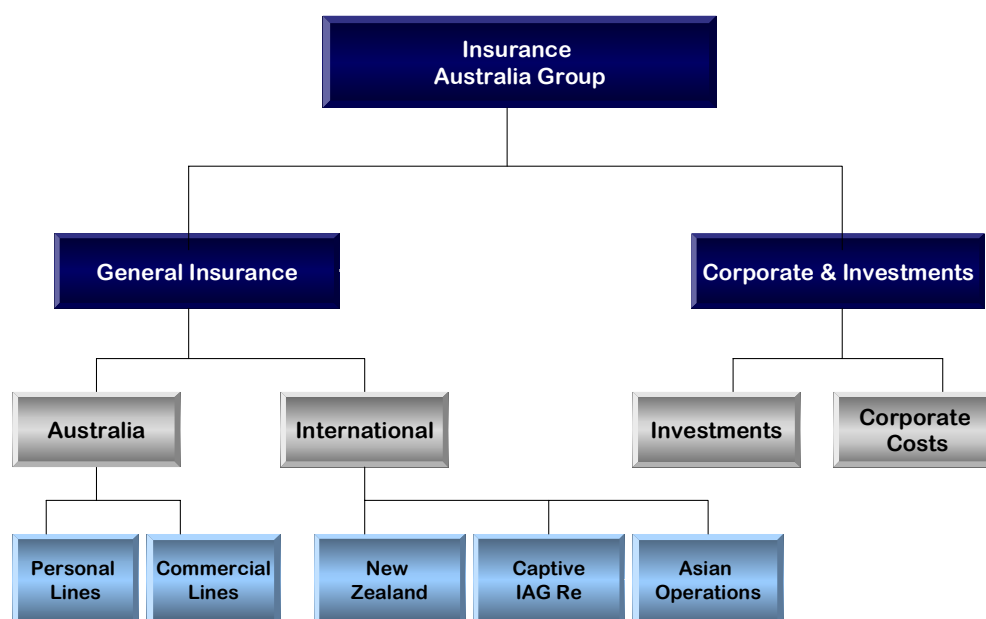
Commission ratio negligible in prior periods
Commission ratio includes commissions paid to RACV, previously treated as a direct underwriting expense.

	1H04	2H04	1H05	2H05	FY03	FY04	FY05
Reported loss ratio	65.6%	64.6%	66.5%	66.0%	72.5%	65.1%	66.2%
Discount rate effect	3.3%	0.8%	(2.1%)	(0.8%)	(1.8%)	2.1%	(1.4%)
Immunised loss ratio	68.9%	65.4%	64.4%	65.2%	70.7%	67.2%	64.8%
Expense ratio	24.9%	26.2%	25.3%	26.5%	23.2%	25.6%	25.9%
Immunised COR	93.8%	91.6%	89.7%	91.7%	93.9%	92.8%	90.7%

- ▶ The sustained improvement in the Group's insurance margin performance has been a result of the ability to effectively manage expenses, particularly the largest component of cost in the business, being claims expenses. The underlying loss ratio was 64.8% for FY05 compared to 67.2% in FY04. On a half-year basis, the 2H05 loss ratio of 65.2% is higher than 1H05, essentially due to the very high level of storms claims during 2H05.
- ▶ The Group derives the underlying performance by immunising the underwriting profit for the discount rate adjustments. In 2H05 the underwriting profit was reduced by \$23m by adverse discount rate adjustments, equating to a 0.8% increase in the loss ratio and combined ratio (COR). This compares to an adverse discount rate adjustment of \$65m in 1H05 and a benefit of \$25m in 2H04. Excluding the discount rate adjustments, the combined ratio for 2H05 was 91.7%.
- ▶ The Group's commission ratio increased to 8.2% in FY05 from 7.7% with increases in all divisions of the business. The increasing trend in the commission ratio is mainly due to changes in the mix of business and commission rates linked to better performing portfolios.

- ▶ Excluding the fire services levy expense from both premium and expenses would reduce the FY05 administration ratio by 2.4% to 15.3%, an improvement of 0.4% from FY04. The fire service levy ratio is now back to the FY03 level following refunds processed in FY04. There is some volatility in the half-year ratios due to the timing of assessments.
- ▶ The trends in the Group's key ratios continue to reflect the Group's approach to manage the growth in the business for sustainable quality results over the cycle.
- ▶ The Group insurance margin performance for FY05 of 16.3% reflects an underlying improvement in all constituent elements relative to FY04. The Group considers margins will slowly moderate in coming periods. The average of the yearly insurance margins since listing is 11.7%.

C. Results by Business Area



Insurance Australia Group Limited	Personal Lines	Commercial Lines	Inter national	Corp & Inv't	Full-year ended Jun 05	Full-year ended Jun 04
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	3,978	1,694	1,001		6,673	6,427
Gross earned premium	3,936	1,635	990		6,561	6,265
Reinsurance	(215)	(200)	(2)		(417)	(402)
Net premium revenue	3,721	1,435	988		6,144	5,863
Net claims expense	(2,541)	(919)	(610)		(4,069)	(3,815)
Commission expense	(230)	(178)	(93)		(501)	(454)
Underwriting expense	(659)	(270)	(161)		(1,090)	(1,046)
Underwriting profit	291	68	125		484	548
Investment income on technical reserves	303	179	34		516	244
Insurance profit	594	247	159		1,000	792
Net corporate expenses				(32)	(32)	(27)
Amortisation				(105)	(105)	(118)
Interest				(69)	(69)	(57)
Profit/(loss) from fee based businesses		(14)	(5)	2	(17)	22
Financial services				-	-	15
Investment income on internal funds				479	479	434
Investment income on external funds				22	22	50
NSW Insurance Protection Tax				(20)	(20)	(20)
Non-recurring items				-	-	61
Profit before income tax	594	233	154	277	1,258	1,152
Income tax expense				(379)	(379)	(346)
Profit after income tax	594	233	154	(102)	879	806
OEI: External funds					(22)	(50)
OEI: IMA & MCGI					(97)	(91)
Profit attributable to shareholders					760	665
Dividends on reset preference shares					(29)	(29)
Profit attributable to ordinary shareholders					731	636
Basic earnings per share (cents)					45.89	37.87
Diluted earnings per share (cents)					45.83	37.74

Australian Personal Lines

Australian Personal Lines	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05	Full-year ended Jun 04	Full-year ended Jun 05
	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	1,980	2,002	1,976	3,900	3,978
Gross earned premium	1,921	1,986	1,950	3,794	3,936
Reinsurance expense	(102)	(106)	(109)	(192)	(215)
Net premium revenue	1,819	1,880	1,841	3,602	3,721
Net claims expense	(1,152)	(1,262)	(1,279)	(2,325)	(2,541)
Commission expense	(108)	(114)	(116)	(213)	(230)
Underwriting expense	(339)	(322)	(337)	(632)	(659)
Underwriting profit	220	182	109	432	291
Investment income on technical reserves	109	158	145	162	303
Insurance profit	329	340	254	594	594
Insurance ratios					
Loss ratio	63.4%	67.1%	69.5%	64.5%	68.3%
Expense ratio	24.5%	23.2%	24.6%	23.4%	23.9%
<i>Commission ratio</i>	5.9%	6.1%	6.3%	5.9%	6.2%
<i>Administration ratio</i>	18.6%	17.1%	18.3%	17.5%	17.7%
Combined ratio	87.9%	90.3%	94.1%	87.9%	92.2%
Insurance margin (before tax)	18.1%	18.1%	13.8%	16.5%	16.0%



- ▶ The Australian personal lines division continues to be the largest contributor to the Group's GWP and insurance result driven by solid performances by each of its key products of motor, home and NSW CTP, all of which hold the leading position in their markets.
- ▶ Whilst competition intensified during the period, the Group remains disciplined in applying its strategic approach of focusing on underwriting fundamentals; targeting selective areas of the market; enhancing product features; and improving customer service to maintain its risk-mix at an optimal level to produce sustainable growth and returns over the long-term.
- ▶ By managing its mix of business, claims processes, the realisation of synergies for the full-year from the CGU acquisition and further optimising reinsurance programme restructure and purchasing, this division has again been able to deliver strong margins despite increased storm experience during FY05.

A. Operational Results

- ▶ The GWP growth for the year was 2%. The main driver of the growth was continued strong retention rates and penetration into the existing portfolio through cross selling, up-selling (selling additional optional covers) and increases in sums insured in the home portfolio. This avenue of growth is of high quality as it is linked to low claims frequency. This growth was balanced by ongoing focus on disciplined underwriting principles in an increasingly competitive market.
- ▶ Retention of quality business is a key driver of sustainable profitable growth. The key portfolios of direct motor and home, which in combination represent around 60% of the division's GWP, have consistently achieved above 90% renewal rates over the past three years.
- ▶ The Group continues to pursue strategies for growth by further penetrating its existing customer base. For example, multi-policy discount (MPD) provides customers an incentive to purchase a range of their personal lines insurance products from the Group by offering discounts on multiple product holdings. Currently one in two of the Group's New South Wales (NSW) motor policyholders hold multiple products. The discounts are funded by the fact that, in general, customers with multiple products represent better risks, with lower claims costs. Overall, new business is about 21% of the personal lines portfolio and will continue to be sourced from increases in market size (new dwellings and increased vehicles on-road) and targeted marketing of particular segments.
- ▶ Balancing the risk-mix of the portfolio to achieve quality growth is a constant focus and has influenced the trend in volume. While the volume of risks in force in personal lines has grown by only 0.8% over the year, the mix has continued to improve. This is in line with the Group's philosophy of being prepared to cede some marginal growth to ensure sustainable levels of profit. This trade-off is based on a detailed analysis of incremental value. Recent examples of this include:
 - Re-pricing some of the third-party branded/distributed personal lines business to ensure that the rate of return for the Group more appropriately reflects the risks being underwritten. This business, acquired from CGU, has been migrated gradually to revised terms and has resulted in non-renewal of some risks but increased profits.
 - Accepting some loss of market share in NSW CTP in recent months (39.4% to 39.1% during the year) following price-based advertising by competitors. This small contraction in market share has led to an improved mix of risk in this portfolio where there is an element of community pricing. For example, while the volume of business written increased between May 2004 and May 2005, the number of risks assumed in May 2005 that relate to the following higher risk profiles fell as follows:

Maximum malus	-5%
Third-party property - damage only	-3.9%
No vehicle insurance	-2.0%
Recent at fault claim	-12.8%
- ▶ The FY05 margin of 16.0% is a marginal reduction on the 16.5% reported for FY04. This result includes:
 - An improvement of around 1% in the short-tail margin; and
 - A reduction in the long-tail margin reflecting the expiry of reserves related to business written prior to 2000 (ie. reserves relating to this period are now relatively immaterial). Those earlier accident years had higher average claims (and premiums). The stability of the NSW CTP scheme means reserves being set for new business are now closer to reserves being released on tail claims.

- ▶ The combined ratio of 92.2% for FY05 includes approximately 1% (\$37m) in respect of reduced discount rates applicable to claims reserves while the FY04 ratio of 87.9% included a release (due to higher discount rates) of 1.8%. Thus, on an immunised basis, (FY05: 91.2% versus FY04: 89.7%) the combined ratio has increased by 1.5%. This can be attributed to the combined effects of:
 - An increase of approximately \$45m in storm costs (net of reinsurance recoveries) between FY04 and FY05;
 - Reduced net reserve releases from CTP;
 - Increased expenditure on advertising;
 - Expenses incurred in respect of restructuring the direct distribution network and establishing the Care & Repair model in metropolitan NSW; and
 - Expenses incurred in developing new customer systems for front-line staff, ongoing enhancements to underwriting and rating systems and support for the new landlords insurance product.
- ▶ These incremental expenses - in both claims and underwriting – were weighted to 2H05. In that period, they exceeded the ongoing improvements arising from portfolio mix and more efficient operations.
- ▶ The FY04 expenses included some integration expenses relating to CGU and NZI and more favourable adjustments on fire service levy assessments (final assessments are not received until up to 18 months after levies are estimated and collected).
- ▶ The business incurred \$113m of storm costs during 2H05 (net of reinsurance recoveries), mainly from hailstorms in late January and major storms in early February in NSW and Victoria (VIC). These losses were in part compensated for in the financial performance of the Group's captive – (*refer to International – Section B*).
- ▶ The increase in the commission ratio for FY05 of 6.2% (FY04: 5.9%) reflects higher commission due to profit share commission linked to risk-selection and performance of the portfolio. This broker remuneration structure assists in aligning brokers' interests with the Group's focus on risk-selection. In addition, increased marketing allowances were paid to distributors.

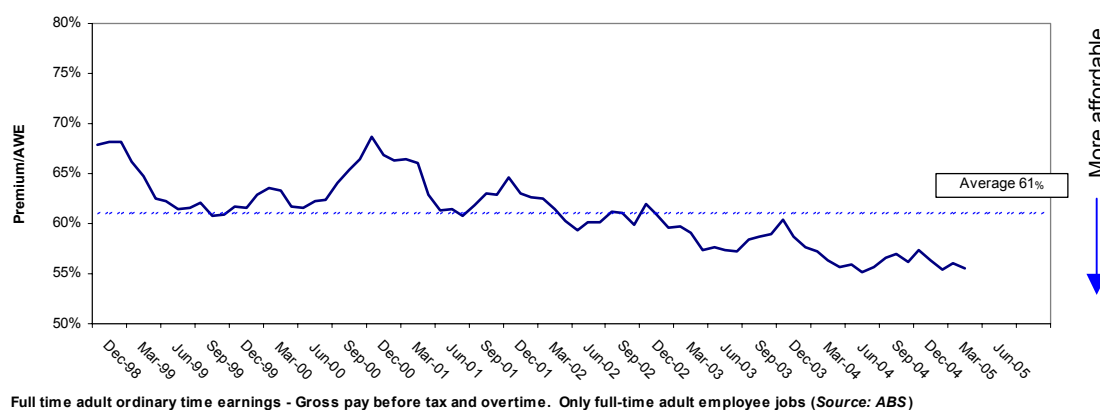
B. Premiums and market share

B.1 Short-tail personal lines

- ▶ In an increasingly competitive market, pursuing a long-term strategy for growth has been key to the Group's sustained market leading position over the last few years. The focus is on retaining growth for the long-term by focussing more on value and service than on price. This involves acquiring business at the right price for the risk, further penetration into the existing customer base, product innovation and providing improving customer service at the time of acquisition through to paying claims and renewals (providing a platform for cross-sell and up-sell opportunities).
- ▶ Industry trends, including increasing competition in the market and slowing growth in housing, have reduced growth during the period.

- ▶ In short-tail personal lines the Group's penetration of the total potential home and motor markets remained stable during FY05, with the shares in private motor and home at 29.5%¹ and 25.2%², respectively. In NSW, the Group's shares for motor and home remain above 40% and 30%, respectively. These shares are supported by continued strong renewal rates, particularly in the direct motor and home portfolios where renewal rates remain above 90%.
- ▶ Direct home, the second largest portfolio in the division, has continued to deliver steady growth with almost 2.5m risks in force. This growth has been fostered by strategies such as multi-policy discount, with over 68% of policyholders in the direct home portfolio owning a motor policy. More recently, success of new offerings, including Landlords insurance (launched in December 2004) and [Home@50](#) (launched in July 2004), have also been major contributors to growth in risks in force in this portfolio.
- ▶ Average premiums per policy in home have continued to rise by 3 - 9%, influenced by:
 - Inflation in building and contents costs. This drives up both repair costs and the need for customers to increase sums insured to ensure adequate levels of cover;
 - Ongoing increases in allowances for storm costs due to the increased frequency of severe storms; and
 - An increase of 12% in the take-up rate of optional covers (eg. accidental damage and domestic workers' compensation). These covers allow customers to choose options relevant to their needs while also improving the risk-mix in the portfolio.
- ▶ The average premium in motor has been stable over the past two years due to lower sums insured values from falling vehicle values and fewer high risk policies. Improved foreign exchange rates and the recent reductions in import tariffs reduced new car values and correspondingly reduced values for second-hand vehicles. Over the 6 months to December 2004, the average price of new cars has fallen by 2.2% and the average price of used cars has fallen by 4.9%.
- ▶ Meanwhile, the low rate of increase in average premiums continues to increase the affordability of motor insurance. As at May 2005, the average premium in NSW equated to 56% of one week's earnings (based on published NSW average weekly earnings), compared with an average of 61% over the past 6.5 years.

Affordability of NRMA Car Insurance (NSW)

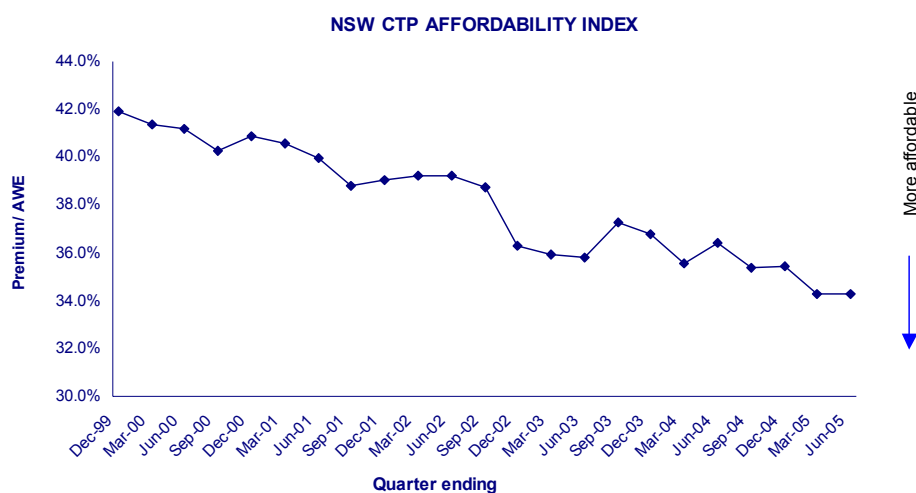


¹ Based on the number of IAG motor (excluding motor cycle) risks in-force as a proportion of total car registrations for passenger & light commercial only (Source: Cars database NMVTRC).

² Based on the number of IAG home insurance risks in-force as a proportion of number of domestic households and buildings. (Source: HIA and ABS statistics).

B.2 Long-tail personal lines

- ▶ The long-tail personal lines portfolio underwrites CTP business in NSW, the Australian Capital Territory (ACT) and Queensland (QLD) with the following market share trends for FY05:
 - The Group remains the sole provider of CTP in the ACT;
 - The QLD market share has increased by 0.2% to 2.2%; and
 - Competitor activities in NSW have led to only a marginal decrease in market share to 39.1% from 39.4%, although risks in force grew. As noted earlier, the risk-mix in the portfolio has improved as the lost CTP business was mainly in the riskier segments (i.e. under 25 year olds, owner/drivers without comprehensive insurance or with a recent at-fault claim).
- ▶ The Group is monitoring the product holdings of those customers who have not renewed their CTP insurance. The analysis to date shows that there is no significant impact on their product holdings in other portfolios as the majority of these customers did not hold either home or comprehensive motor policies. Any higher quality business identified as at risk can be proactively managed.
- ▶ GWP in the CTP portfolio remained stable between 1H05 and 2H05, but has declined marginally by around 1% over the year. Whilst the market share trends had an impact, the main driver was the fall in average premium by 3.5% since FY04. The reduction in average premium is due to the improving experience in the portfolio, including a reduction in higher risk business.
- ▶ Customers continue to benefit from decreasing trends in real average premium prices. The graph below shows the increasing affordability of the CTP product over time.



B.3 New products/areas of customer focus

- ▶ During FY05, the Group launched its landlords insurance product in the direct market. This is tailored for the owners of tenanted domestic properties. In addition to covering the building and owner's contents, it has additional coverage such as rent default and malicious damage by tenants or their guests. This product is proving very popular, with new business already exceeding 3,000 risks per month and carrying an average premium of \$342.

- ▶ Sales of the Home@50 offering launched in FY04 also continued to grow strongly.
- ▶ During FY05 using the existing motor relationships, particularly under the Swann brand, and the products from the direct business, the Group has successfully gained a significant foothold in the attractive new vehicles market. Marketing to attract a greater share of new vehicles commenced recently in the direct business. New vehicles tend to have a better claims frequency due to the more advanced safety features and better driver profiles.
- ▶ During 2H05, preparations were completed to roll-out Care & Repair Centres to metropolitan NSW. This is a proven model that has been in use in metropolitan Western Australia, South Australia and Queensland for the past two years, where it has generated improved claims satisfaction for customers. Under this model, the Group's staff are the primary interface between the customers and the repairers contracted by the Group to repair customers' vehicles. The first Care & Repair Centres in Sydney opened in mid-July and a further 10 centres will be operational by the end of August. Extending this model to metropolitan NSW will facilitate further improvements in speed and quality of service to customers and should provide a sustainable basis for competitive prices for customers.
- ▶ Over the course of FY05, the division has aligned its structure to enhance delivery of personal lines products and services to meet the needs of its customers. As a part of the restructuring process, the division has identified opportunities to streamline its operations and is on track to deliver benefits of approximately \$31m per annum in FY06. Some of the initiatives include:
 - Transformation of the Group's face-to-face channels, which commenced with the announcement of the agency/franchising model in 2H05. This change is expected to increase the productivity and efficiency of the outlets through factors such as being owner-operated and the capacity to co-locate with other businesses; and
 - Customer service enhancements, which are underway to more effectively identify and address customer needs. These include a combination of customer forums, improved desk-top software, more targeted/tailored product and service options and more staff training.

C. Claims experience & frequency

C.1 Short-tail personal lines

- ▶ The business experienced storm frequency above long-term averages in NSW and VIC in FY05. This experience was concentrated in 2H05. The most severe storms were those in NSW and Victoria in early February with a gross incurred cost of \$70m for the division.
- ▶ Excluding storm claims, frequency in home insurance has continued to reduce, especially for burglary claims.
- ▶ Motor claims frequency, excluding storm, remained in line with FY04 with small variations in trends between the states. For example, windscreen claims frequency is up nationally following the increased take up of additional windscreen cover as a policy option while theft frequency has again reduced marginally. The key driver of costs, motor collision frequency, has remained quite stable at the lower rates that have evolved in recent periods. This is attributed to a combination of broader demographic issues, improved car and road safety and the Group's portfolio mix.

- ▶ Input costs for claims experienced varying levels of inflation during FY05:
 - ABS data records increases of 11.1% in residential building costs and 4.5% in house building materials;
 - Construction industry wages growth for the year to March 2005 (latest available) was 5.6%;
 - Labour content for motor repairs, representing about 50% of total repair costs, increased by 4%; and
 - New car parts, representing around 30% of motor repair costs, increased by 1% (as measured on a weighted basis for parts used). This containment of parts prices was possible because import tariff rates were reduced on 1 January 2005 and foreign exchange rates for the Australian Dollar have generally remained strong. It remains to be seen whether Australia's free trade agreements with the USA and Thailand will deliver cheaper parts in the long-term.
- ▶ The Group continued to refine its claims processes and supply chain management during FY05:
 - 77% of all collision repairs lodged in NSW and Victoria were performed by Preferred Smash Repairers (PSRs);
 - Preferred supplier arrangements for motor parts and services continued to be extended. An additional 23 suppliers were added in 2H05. These arrangements cover supplies such as glass, radiators, mechanical and towing;
 - A reusable parts programme, which was successfully trialed, is now in transition to 'business as usual'. This process involves the supply of parts that have been appropriately tested and cleaned ready for re-use. It provides both cost efficiency and improved environmental outcomes by reducing waste. The Group's New Zealand business has successfully operated a similar programme for a number of years; and
 - Within the home portfolio, there have also been ongoing enhancements to, and extension of, the supply chain programmes for home claims. Current arrangements cover replacement of computers, carpets, white and brown goods, glass and jewellery. There are also arrangements for electrical repairs, building repairs and store credits.
- ▶ In the event of a claim, both staff and suppliers are urged to give priority to first ensuring customer safety and then to service the claim, with speed and quality as this is a key part of the customer proposition. Recently, the Group has improved its 'event management' processes so that total loss claims on homes and cars can often be settled within 24 hours.
- ▶ This focus on claims service has generated further improvements in claims satisfaction during FY05. Over the year as a whole, independent surveys of customer satisfaction for motor and home claims have been sustained between 85 - 90%, respectively (the proportion of customers rating the service as 'good' or better).
- ▶ Complaints lodged as a percentage of claims lodged continues to trend down and is around 0.3%.

C.2 Long-tail personal lines

C.2.1 CTP – New South Wales

- ▶ The NSW CTP scheme continues to perform well. Frequency appears to have stabilised after a number of years in which it fell. This new lower frequency level has been a key driver of reducing premiums since the scheme was last restructured in 1999.
- ▶ The reducing frequency also generated reserve releases in prior periods. The portfolio is now largely in equilibrium with reserve releases on prior period claims largely equating to reserves being set aside for newly incurred claims.
- ▶ The Group's performance on key measures such as claim frequency and claim cost outcomes continues to lead the industry averages.

C.2.2 CTP – Australian Capital Territory

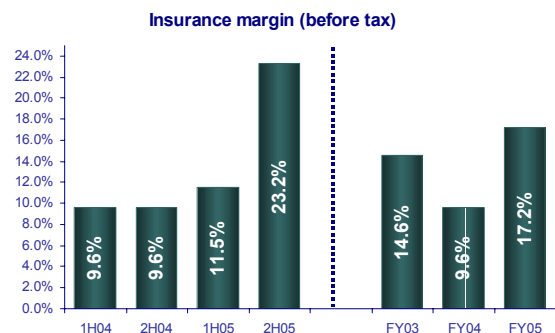
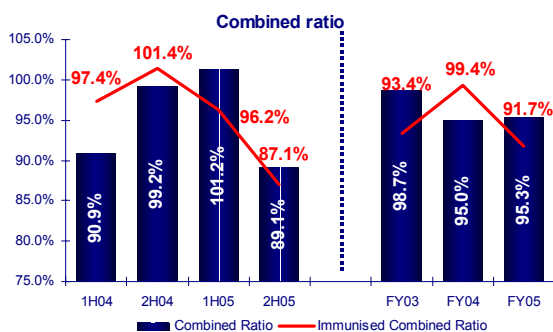
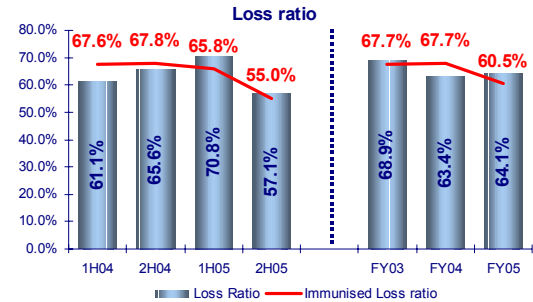
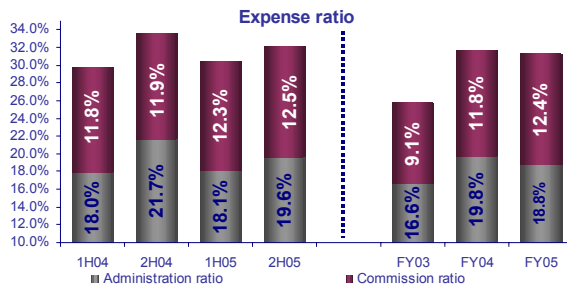
- ▶ The structure of the CTP scheme in ACT is generating higher average claims sizes and, thus premiums, relative to the other states in which the Group underwrites CTP. This situation appears to have been exacerbated by the recent Civil Liability Reform legislation.
- ▶ The ACT process has changed such that there is now significantly more administration in managing a claim. The Group has been liaising with the ACT Government (Dept of Urban Services) with a view to reviewing and improving the efficiency of current legislation.

C.2.3 CTP – Queensland

- ▶ The Queensland CTP portfolio continues to perform to expectations with continuing strong growth, but off a very small base. With a market share of 2.2%, it is still an immaterial element of the overall long-tail personal lines portfolio.

Australian Commercial Lines

Australian Commercial Lines	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05	Full-year ended Jun 04	Full-year ended Jun 05
	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	845	827	867	1,613	1,694
Gross earned premium	779	831	803	1,572	1,635
Reinsurance expense	(113)	(100)	(100)	(217)	(200)
Net premium revenue	666	731	703	1,355	1,435
Net claims expense	(437)	(518)	(401)	(858)	(919)
Commission expense	(79)	(90)	(88)	(160)	(178)
Underwriting expense	(144)	(132)	(138)	(268)	(270)
Underwriting profit	6	(9)	76	69	68
Investment income on technical reserves	58	93	87	61	179
Insurance profit	64	84	163	130	247
Profit from fee based business	1	11	(25)	21	(14)
Total commercial line result	65	95	138	151	233
Insurance ratios					
Loss ratio	65.6%	70.8%	57.1%	63.4%	64.1%
Expense ratio	33.6%	30.4%	32.1%	31.6%	31.2%
<i>Commission ratio</i>	11.9%	12.3%	12.5%	11.8%	12.4%
<i>Administration ratio</i>	21.7%	18.1%	19.6%	19.8%	18.8%
Combined ratio	99.2%	101.2%	89.1%	95.0%	95.3%
Insurance margin (before tax)	9.6%	11.5%	23.2%	9.6%	17.2%



A. Operational Results

- ▶ The Group's Australian Commercial Lines business produced a very strong result for FY05 with increased revenue and margins. This has been achieved in a challenging market.
- ▶ The commercial business accounted for 25.9% of the Group's 2H05 GWP and contributed 29.0% of the Group's insurance profit for 2H05.
- ▶ GWP for FY05 increased by 5% while risks in force grew by 7%. GWP for 2H05 was 2.5% higher than 2H04. While this reflects reduced premium rates in many areas, the quantum of the reduction is considerably lower than broadly reported in the market. This is attributable to a combination of:
 - The Group's bias towards SME business, particularly rural and regional business. Close to half the premium base is generated from business with premiums of less than \$5,000. It has a relatively small portfolio of corporate risks – the segment of the market currently experiencing the most acute pressure on rates;
 - Targeted growth in niche areas where prospective margins remain strong; and
 - Leveraging the Group's high levels of technical expertise and relationship management to generate strong renewal rates with premiums that continue to meet the Group's technical rate hurdles (i.e. the book retains pricing above what is required to service the capital).
- ▶ The need to maintain underwriting discipline in a softening market has seen the Group's market share in workers' compensation (risk business) reduce slightly over the past 18 months. The Group's focus will remain on underwriting risk at the correct price and leveraging its competitive advantages.
- ▶ Reinsurance expense as a proportion of GWP has fallen by 1.7% to 11.8% in FY05. This reflects a restructure of the reinsurance arrangements at the beginning of FY05, which saw a reduced emphasis on facultative reinsurance and a greater reliance on the Group's surplus reinsurance treaties.
- ▶ The loss ratio of 57.1% for 2H05 included an adverse discount rate adjustment of \$15m, giving an immunised loss ratio of 55.0%. Also included in the loss ratio for the period were claims reserve releases of \$57m, primarily from the public liability and workers' compensation classes. These releases reflect the recognition of tort law reform on both prior period reserves and the current year's claims experience and there has been a corresponding reduction in the Group's commercial public liability rates by at least 10% over the past 12 months. The increase in lodgements of asbestos related claims noted in 1H05 did not continue in 2H05 and further reserve strengthening was not required. Excluding these reserving adjustments, the underlying immunised loss ratio was 63.0%, compared to 60.7% in 1H05.

Loss Ratio	2H04	1H05	2H05	FY04	FY05
Reported Loss Ratio	65.6%	70.8%	57.1%	63.4%	64.1%
Discount Rate Adjustment	2.2%	(5.0%)	(2.1%)	4.4%	(3.6%)
Immunised Loss Ratio	67.8%	65.8%	55.0%	67.7%	60.5%
Impact of Claims Strengthening / Release	(2.3%)	(5.1%)	8.1%	(0.7%)	1.4%
Adjusted Immunised Loss Ratio	65.5%	60.7%	63.0%	67.0%	61.9%

- ▶ The increase in the underlying immunised loss ratio in 1H05 to 2H05 was driven by a return to a more typical claims experience. 1H05 was characterised by an unusually low incidence of large losses. Major commercial claims events in FY05 included the SA bushfire in January 2005 (gross loss: \$18m) and the major storms across Australia in February (gross loss: \$14m).
- ▶ The increase in the commission ratio from FY04 to FY05 is largely because FY04 included reversal of prior period profit commissions which were not eventually payable. It also included more exchange commission on facultative reinsurance. The FY05 commission ratio of 12.4% is a more accurate reflection of the level of commissions paid on the current mix of business than the reported ratio for FY04.
- ▶ Containing administration expenses to \$270m (FY04:\$268m) when growing the business demonstrates the benefit of both the integration of CGU and a detailed review of processes and expenses to improve efficiency. There was also a small contribution of \$4m from the elimination of fire services levy in WA effective 1 January 2004. Overall, in spite of reducing premium rates, the administration ratio reduced to 18.8% from 19.8%.
- ▶ The insurance margin of 23.2% for 2H05 was significantly higher than prior periods and whilst this is due, in part, to reserve releases, it was underpinned by the strong performance of the core business. Adjusting for the reserve releases and strengthening, the underlying insurance margin remains strong at 15.1% for 2H05 and 15.8% for FY05 reflecting the fact that, despite rate reductions, policy terms and conditions remain strong and premium rates remain at a profitable level.
- ▶ The business continues to be subject to increasing regulatory change which includes:
 - Ongoing regulatory implementation and monitoring of the FSR Provisions of the Corporations Act, which has increased the service standards, has resulted in additional disclosure and procedural requirements;
 - Legislative reform of Insurance Contracts Act dealt only with the operation of s.54 and s.40 in relation to claims-made policies and was not extended to include all general insurance policies. In general, the industry is not supportive of the proposed amendments;
 - The ACCC continues to focus on insurers' actions to pass on liability price reductions to consumers arising from reduced claim costs; and
 - The report on the ASIC enquiry into broker remuneration was released in June 2005 and found no systematic abuses present. However, the management of conflicts of interest and disclosure of remuneration by brokers will continue to be scrutinised by ASIC.

B. Operating improvements/service offerings

B.1 Web-based tools and systems

- ▶ The Group recognises the advantages to its customers and itself of having good e-business capability and continues to invest in improving its capacity in this area. The benefits include lower operating costs and faster access by brokers.
- ▶ During FY05 CGU's e-commerce platform "CGU Connect" was expanded to include the business pack product and commercial motor is expected to be included during FY06. Over \$375m of the Group's premium is now channelled through CGU e-commerce platforms.

- ▶ Both the workers' compensation and premium funding businesses have recently developed on-line quoting capacity, which will be launched in the near term.
- ▶ The "Workers' Compensation on-line" facility has been substantially upgraded to provide employers with advanced risk management information to assist them in accident prevention and injury management in their workplaces. For smaller businesses, the Group's "Risk Radar" management tool can be used for similar purposes.
- ▶ The Group's Safety and Risk team also released a number of on-line training courses for customers covering OH&S, industrial relations and first aid.
- ▶ The "Risk Radar" was awarded the "Triple Bottom Line" award by the United Nations Association of Australia on World Environment Day 2005.

B.2 Systems Integration

- ▶ The states in which the Group underwrites workers' compensation on its own account (Western Australia, Tasmania, Australian Capital Territory and the Northern Territory) have all been operating on one systems platform throughout 2H05 (state based variations still exist due to the different legislation). This is facilitating operational efficiencies and will also assist in the provision of better data analysis for the business and its customers.

C. Fee based businesses/managed schemes

- ▶ The combined operations of premium funding and the Group's management of Government underwritten workers' compensation schemes generated a net loss of \$14m (FY04: profit of \$21m) due to significant provisions required in the NSW business due to the inadvertent overstatement of fee income relating to prior periods.
- ▶ The premium funding business continued to grow and generate profits. Loans outstanding at 30 June 2005 were \$128m compared to \$90m at 30 June 2004.
- ▶ The Victorian and South Australian workers' compensation businesses generated profits including performance bonuses. Detailed reviews have clarified that the issues that led to the misstatements in NSW do not exist in the other states.
- ▶ The overstatement of income in NSW occurred over a number of years and was exacerbated by different IT systems and processes from the three acquisitions in recent years and complex formulae and measures required by the regulator not being correctly/consistently understood and measured across the operation.
- ▶ As a result, the business has been restructured under new management to ensure a stronger focus on the key performance drivers of a workers' compensation business. A detailed plan is being implemented to ensure processes are aligned across the business and training, reporting and accountability are improved. This will improve both operational outcomes for the customers (both employers and injured workers) and the business and ensure mechanisms are operating to highlight, and react to, potential issues on a timely basis.
- ▶ A response was provided to the NSW Workers' Compensation tender in June 2005 and transitioning to the new licence conditions will require substantial system changes for which preparatory work has already commenced.

D. Discontinued Businesses

D.1 Inwards Reinsurance

- ▶ The commutation strategy for the inwards reinsurance run-off (business ceased in January 2001) continues to progress with five commutations finalised in FY05. These resulted in net savings to the Group.

- ▶ As at 30 June 2005, contracts with reserves of \$7m were subject to discussions on commutations and these are expected to be completed in FY06.
- ▶ The net provision for the outstanding claims on this portfolio is now approximately \$78m, a reduction of 25% during FY05.

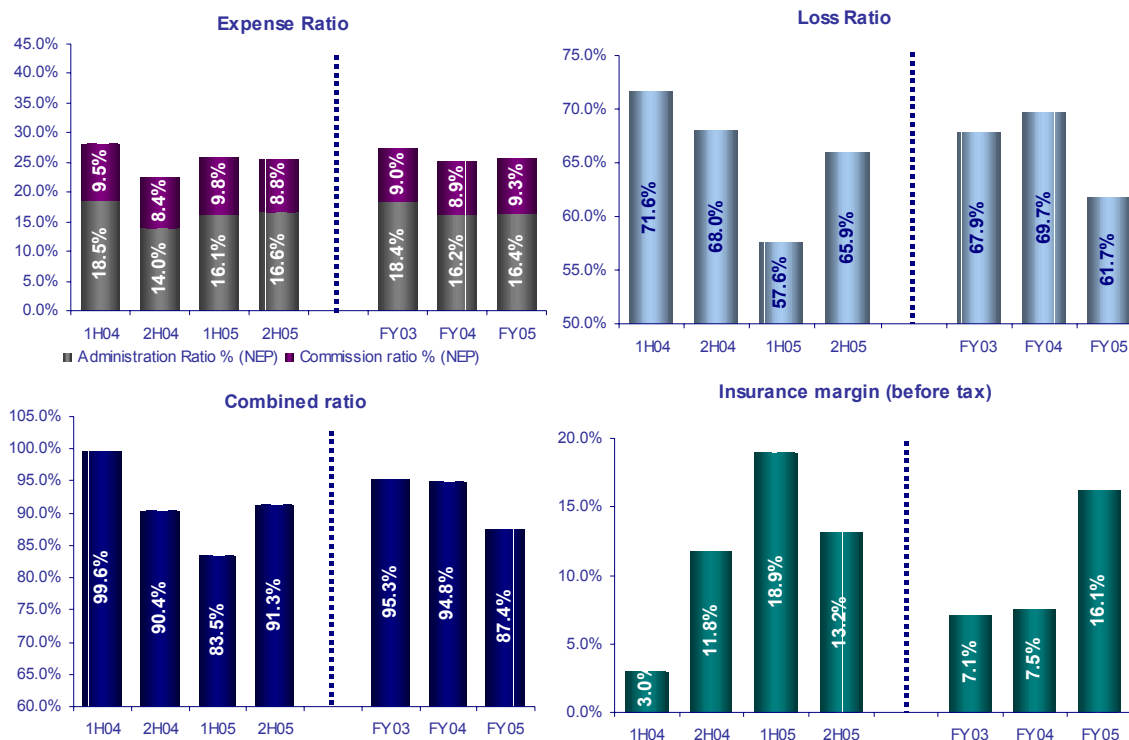
D.2 Asbestos

- ▶ Throughout 1H05, there was an increased focus on asbestos issues in the community and the Group saw an increase in the numbers of claims reported. Accordingly, the Group increased its reserves in 1H05 to reflect a higher volume and expected cost for such claims. This led to an increase in the survival ratio (net reserves as a multiple of the average of the past three years' claims paid) to 54 times at 31 December 2004 from 50 times at 30 June 2004.
- ▶ During 2H05, claims lodged reduced from 1H05 levels to be in line with expectations. The survival ratio at 30 June 2005 was 49 times.
- ▶ The survival ratio is provided as an indicator of the Group's reserving for this particular liability due to its very long tail. However, it should be used with caution as different exposures and portfolio mixes may make comparisons unreliable.

International General Insurance

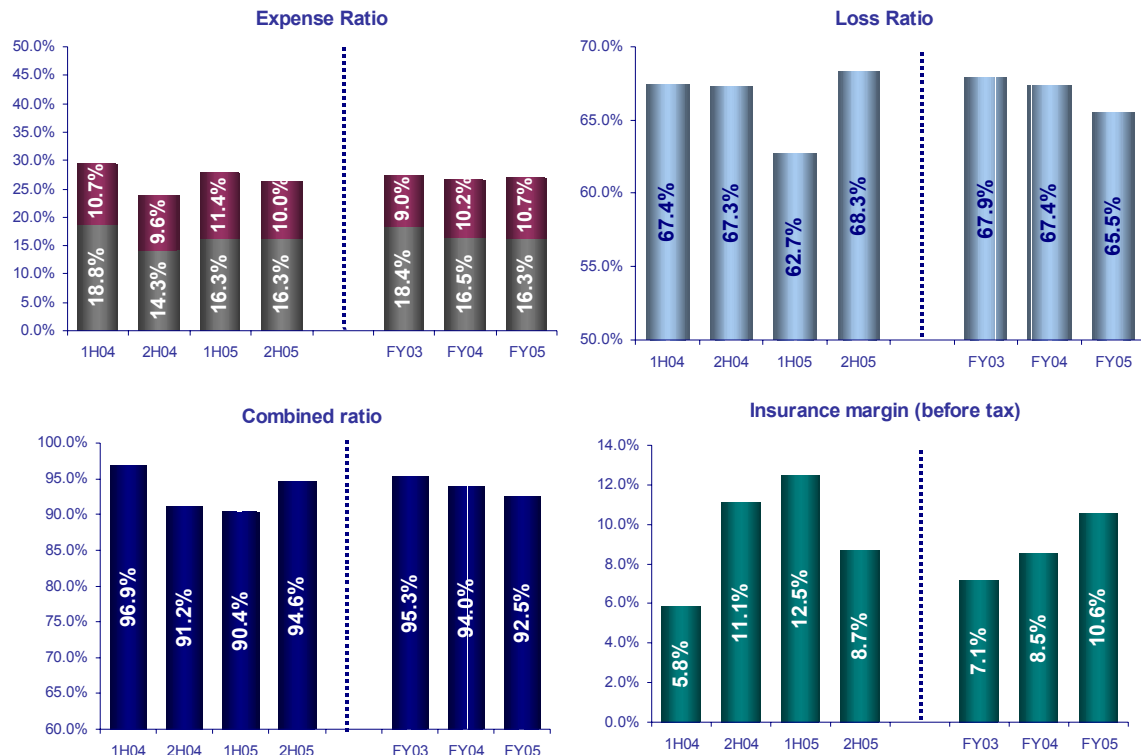
International operations	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05	Full-year ended Jun 04	Full-year ended Jun 05
	A\$m	A\$m			
Gross written premium	460	499	502	914	1,001
Gross earned premium	449	494	496	899	990
Reinsurance expense	17	4	(6)	7	(2)
Net premium revenue	466	498	490	906	988
Net claims expense	(317)	(287)	(323)	(632)	(610)
Commission expense	(39)	(49)	(44)	(81)	(93)
Underwriting expense	(65)	(80)	(81)	(146)	(161)
Underwriting profit	45	82	43	47	125
Investment income on technical reserves	10	12	21	21	34
Insurance profit	55	94	64	68	159
China Automobile Association	-	(2)	(2)	-	(5)
Total international result	55	92	63	68	154
Insurance ratios					
Loss ratio	68.0%	57.6%	65.9%	69.7%	61.7%
Expense ratio	22.4%	25.9%	25.4%	25.1%	25.6%
<i>Commission ratio</i>	8.4%	9.8%	8.8%	8.9%	9.3%
<i>Administration ratio</i>	14.0%	16.1%	16.6%	16.2%	16.4%
Combined ratio	90.4%	83.5%	91.3%	94.8%	87.4%
Insurance margin (before tax)	11.8%	18.9%	13.2%	7.5%	16.1%

The International business' consolidated insurance operations in FY05 included IAG New Zealand and the Group's captive. The Group's Asian interests are also included in this segment. Separate commentary follows on each sub-segment.



A. International – New Zealand

New Zealand Operations	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05	Full-year ended Jun 04	Full-year ended Jun 05
	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	460	499	502	914	1,001
Gross earned premium	449	494	496	899	990
Reinsurance expense	(45)	(62)	(60)	(104)	(122)
Net premium revenue	404	432	436	794	868
Net claims expense	(272)	(271)	(298)	(535)	(569)
Commission expense	(39)	(49)	(44)	(81)	(93)
Underwriting expense	(58)	(70)	(71)	(131)	(141)
Underwriting profit	35	42	24	47	65
Investment income on technical reserves	9	12	14	20	27
Insurance profit	45	54	38	68	92
Insurance ratios					
Loss ratio	67.3%	62.7%	68.3%	67.4%	65.5%
Expense ratio	23.9%	27.7%	26.2%	26.6%	27.0%
<i>Commission ratio</i>	9.6%	11.4%	10.0%	10.2%	10.7%
<i>Administration ratio</i>	14.3%	16.3%	16.3%	16.5%	16.3%
Combined ratio	91.2%	90.4%	94.6%	94.0%	92.5%
Insurance margin (before tax)	11.1%	12.5%	8.7%	8.5%	10.6%



- ▶ The increase in gross written premium of 9.5% was boosted by the impact of the New Zealand dollar appreciation of 5.4% during FY05. The underlying growth for the full year of 4.1% reflects the challenging market conditions of rate softening in the commercial market and intense competitive pressures in the personal lines market. Based on the latest statistics from the Insurance Council of New Zealand (ICNZ), the Group maintained its 37% market share. Overseas-based insurers underwriting business in the NZ market and certain NZ based insurers are not included in the ICNZ market share statistics (the value of premium written by these insurers is not available).
- ▶ Consistent with the Australian businesses' approach to maintaining growth and market position in an increasingly competitive market, the IAG NZ business continued to focus on disciplined underwriting. This involves the use of risk-based pricing and prudent commercial judgement for assessing risk. The business continued to achieve strong retention rates across its portfolios.
- ▶ The New Zealand business achieved improved margins despite incurring a significantly higher incidence of claims from large weather related events, including \$23m in 2H05. This was absorbed by a variety of factors, including better outcomes from improved loss experience in the commercial portfolios.
- ▶ During FY05, the IAG NZ business acquired three small distribution channels. These included 100% ownership in Clipper Club Marine Underwriters Limited (specialist distributor of marine insurance) and National Auto Club Underwriters Agency (NZ) Limited (specialist agency for high performance vehicles). These acquisitions, for which IAG NZ was the existing underwriter, were completed in December 2004. In addition, IAG NZ acquired 50.1% of Mike Henry Travel Insurance Limited in July 2004. The underwriting for the travel business transferred to IAG NZ effective October 2004. IAG NZ will acquire the remaining 49.9% by 1 July 2006.
- ▶ As a result of consolidating these entities, the commission previously paid to Clipper Club and National Auto Club is classified as part of the Group's administration costs in FY05. This has the effect of increasing the administration ratio in FY05 by 0.4%, offset by a corresponding reduction in the commission ratio.
- ▶ The FY05 administration ratio of 16.3%, restated for consistent comparison to FY04, is 15.9%. This is an improvement of 0.6% on FY04. This improvement is attributable to lower IT development costs following the decision to cease developing a standalone NZ system. Whilst IAG NZ will bear the costs of the implementation of the Australian Personal Lines technology platform, existing Group resources will be used to complete the implementation and only \$3m of third party costs are expected to be incurred.
- ▶ Meanwhile, on a half-year comparison, the administration ratio for 2H05 has improved on 1H05 but is higher than 14.3% in 2H04, which benefited from a deferred acquisition cost adjustment to align NZI's methodology with the Group's following its acquisition.
- ▶ The changing dynamics in the New Zealand broker market continues to drive the increasing trend in the commission ratio:
 - Consolidation of the broker market cluster groups attracting higher commission rates; and
 - Contingent commissions for the international brokers were progressively removed during the period and replaced by increased base commissions.
- ▶ In order to counteract the increasing trend in commission costs, the Group is re-engineering processes to reduce non-commission expenses. Several optimisation projects are underway that address this. As an example, some smaller and non-complex commercial business in the broker channel was transferred to the direct channel where it can be more cost-effectively managed. In a similar vein, the IAG NZ direct commercial business is in the process of launching "Ezybiz" to provide smaller businesses simple insurance solutions.

- ▶ During FY05 the business maintained a high overall customer satisfaction score of 85% with significant increases achieved in the overall broker satisfaction results. This result also supports the strong customer retention rates experienced across its portfolios.
- ▶ As part of an ongoing strategy, IAG NZ continues to pursue a number of activities with customers and brokers to ensure it understands customers' perceptions of the business' level of service and what changes are sought. In FY05 these included:
 - A variety of customer forums conducted across the business, bringing a range of customers from the direct, commercial, corporate partner, agents and broker channels face to face with the senior management team to discuss areas for improvement and enhancement;
 - IAG NZ's broker channel hosted two Top Broker conferences to discuss the future direction and impact of climate change; and
 - IAG NZ Broker Leaders' Forums held throughout New Zealand in November 2004 and June 2005. These provided the business with an opportunity to meet with brokers and to introduce them to new and enhanced IAG NZ broker products such as NZI-branded marine insurance and the "Australian Desk" (a facility to provide cover in Australia for New Zealand companies). Nearly 550 brokers nationwide attended these recent forums.

B. International – Captive

- ▶ The Captive is the primary reinsurer for the Group's businesses. The risks to it are aggregated by the Captive and either retained in the Captive or ceded to the open market.
- ▶ The Captive runs its own pricing and risk assessment models and charges the business units based on its view of sustainable/rational rates-on-line for the risks.
- ▶ FY05 was an exceptional year for the Captive, generating an insurance margin of 64.1% (FY04 loss of 7.4%) in the absence of any major catastrophes in 1H05 and the recognition of reinsurance recoverables in 2H05 on cumulative attritional storm losses offset by the storm losses incurred by the Group that were retained in the Captive.
- ▶ The increase in weather related events in FY05 compared to FY04 was concentrated in 2H05, which bore almost 70% of the major storm losses for the year. In 2H05 the Captive retained \$54m of storm losses as a result of:
 - \$6m from storms in early February 2005 in New South Wales (NSW) and Victoria (VIC); and
 - \$49m from minor storms under an aggregate stop loss contract with the Australian short-tail personal lines business.
- ▶ Offsetting these claims, the Captive generated reinsurance recoverables of \$70m from cumulative attritional storm losses incurred within the Group.
- ▶ Although the Captive's risk exposure is carefully managed in the context of its capital base, the nature of the Captive's operations means its annual results are inherently volatile.
- ▶ The Captive only writes premium with the IAG Group of companies.

C. International – Asian Operations

- ▶ The Group added another business to its portfolio of Asian businesses, which now comprises:
 - Controlling ownership of China Automobile Association (CAA), a company providing road service in Beijing;
 - A 22% ownership stake in Thailand's Safety Insurance; and
 - A controlling economic interest in Royal & SunAlliance (Thailand) since July 2005.

C.1 China Automobile Association

- ▶ Since June 2004, six managers relocated to China to lead the next phase of expansion of the Group's Chinese operations by expanding the road service operations and related services, as well as providing a local base for investigation of other opportunities in the region. This investment in people and development generated the net expenditure for the period and was in line with plan.
- ▶ CAA is currently pursuing a strategy of national expansion. This allows CAA to achieve scale benefits, growth and access to markets by leveraging its current investment on infrastructure, people and technology.
- ▶ More importantly, the national strategy paves the way for the fulfilment of the following priorities:
 - To become the leading road-service provider in China by market share and brand recognition;
 - To successfully build and test platforms for distribution which may be leveraged for insurance and other financial products; and
 - To develop best-in-class capabilities in both direct and indirect distribution, road service and insurance agency sales.
- ▶ CAA has partially implemented this strategy through the appointment of a new management team, continued refinement of its operating model, investment in a national IT and telephony platform, training and development of staff, establishment of a national network of road service providers and preliminary investigations of potential acquisitions/alliances. It has recently formed alliances with China Construction Bank, one of China's largest national banks and is in negotiations with a major car manufacturer to supply road service to their customers in the future.
- ▶ Compared to the previous financial year, CAA has achieved strong growth demonstrated by:
 - 20% increase in total revenue (FY05: A\$2m);
 - 35% increase in total premium from insurance policies sold on behalf of PICC, PingAn and CPIC, China's three largest insurance companies;
 - 26% increase in insurance customers;
 - 26% increase in commission from insurance agency sales;
 - Assisted over 36,800 road rescue customers;
 - Overall road rescue customer satisfaction rate of 96%; and
 - CAA brand aided awareness at 74%.

C.2 Asian insurance

- ▶ The major development in the Group's Asian insurance interests in FY05 was the announcement in June 2005 that the Group had agreed to acquire a controlling interest in a Thai general insurer, Royal & SunAlliance (Thailand). Royal & SunAlliance (Thailand) writes both personal and commercial business and generates around A\$35m in gross written premium per annum.
- ▶ Based in Bangkok with 125 employees, the business was established in 1984 through a joint venture between UK insurer Royal & SunAlliance and three Thai business groups.
- ▶ The acquisition was completed in July 2005 and was funded using surplus capital. Existing management will continue to run the business with review and input from relevant IAG personnel. The business will use the NZI brand in future.
- ▶ The results will be included in FY06.
- ▶ This acquisition is another step in establishing a greater foothold into the Asian market.
- ▶ The Group's other Thai Insurance investment – a minority holding in Safety Insurance – continued to perform well.

Financial Services

- ▶ The Group's financial services operation, ClearView Retirement Solutions, was sold in January 2004 for \$218m plus a potential earn-out of up to \$50m, subject to business performance to June 2009.
- ▶ The earn-out provision is based on the growth in the embedded value of the business year on year. There is no amount payable at this stage.

Investments

A. Strategy with Investment Portfolios

- ▶ The Group has a strategy of investing:
 - the funds supporting its technical reserves in a conservative asset mix of cash, high quality fixed interest securities and synthetic fixed interest investments (overlay); and
 - its shareholders' funds across a diversified range of higher growth assets, including equities and hedge funds.
- ▶ An initiative implemented during FY05 has been to invest part of the shareholders' funds above the Group's benchmark MCR multiple (the "surplus capital" portfolio) in a highly liquid mix of cash and fixed interest securities (80 – 100%) and Australian equities.
- ▶ Within the broad parameters of this investment strategy, the Group has been continually focussed on reducing the volatility of the investment portfolio by increasing the diversification across both asset classes and the managers responsible for managing the funds.
- ▶ The Group believes in actively managing the investment portfolios to target returns in excess of the relevant benchmarks. This active management is rigorously controlled within both the parameters of the investment strategy and acceptable risk tolerance ranges set by the Board of the Group.
- ▶ Included within this strategy of actively managing the portfolios is an overlay position in the technical reserves. Physical equities are held and then swapped back to the fixed interest market risk through the use of derivatives. The aim of this strategy is to capture active return on equities while still maintaining the market exposure to fixed interest.

B. Key changes in the portfolios during FY05

B.1 *Technical reserves funds*

- ▶ The funding of derivatives overlay strategy, first implemented in June 2004, was completed in 1H05 and maintained for the balance of FY05.
- ▶ The active management of the additional assets invested in the sharemarket, after allowing for the fixed interest return foregone and associated costs, generated a net contribution of \$16m (pre-tax) in 2H05 (\$23m for FY05).

B.2 *Shareholders' funds*

- ▶ The process of achieving greater diversification in the strategic asset allocation of the shareholders' funds continued with additional funds being transferred from the internally-managed "core" Australian equities style to the second internally-managed research-driven Australian equities style during 2H05. Both the "core" Australian equities and the "research fund" portfolios contributed positively to the active return above the benchmark.
- ▶ The "research fund" portfolio was the top performing fund over FY05 relative to its peers, according to leading asset consulting firm, Mercer Investment Consulting.

- ▶ External Australian equities managers were appointed and funded during 2005. As at 30 June 2005, three external managers were responsible for managing approximately 16.5% of the Group's Australian equities holdings. All of the international equities continue to be managed externally.
- ▶ As part of the diversification strategy, an initial allocation to a range of diversified global macro hedge fund managers was seeded during 2H05. As at 30 June 2005, the total investment in the Group's global macro hedge funds programme was \$121m.

C. Investment Performance

- ▶ The following table sets out the investment returns achieved on the Group's portfolios broken down by asset class:

Asset Class	See Note	Actual return 2H04	B'mark return 2H04	Actual return 1H05	B'mark return 1H05	Actual return 2H05	B'mark return 2H05
		%*	%*	%*	%*	%*	%*
Australian equities	a	9.9	9.0	17.9	17.1	10.4	8.6
Listed property trusts	b	7.0	6.6	16.3	16.5	1.3	1.4
International equities	c	12.4	12.0	(1.8)	(1.9)	3.3	2.5
Fixed interest	d	2.8	2.5	3.9	3.8	3.1	2.9
Cash	e	2.8	2.8	2.7	2.7	2.8	2.8
Surplus capital portfolio	f	-	-	3.5	2.1	3.7	2.8
Global macro hedge funds	f & g					2.7	2.0
Total weighted average		4.8	4.4	7.2	6.9	5.0	4.4
Offsetting derivative component of overlay	h	(0.1)	(0.1)	(1.0)	(1.0)	(0.5)	(0.6)
Total (incl overlay)		4.7	4.3	6.2	5.9	4.5	3.8

*These are half-yearly returns.

Notes:

- The benchmark is a combination of the S&P/ASX200 Accumulation Index, the S&P/ASX200 Accumulation Index (ex-IAG and ex LPTs) and the S&P/ASX300 Accumulation Index (ex-IAG ex LPTs).
- The benchmark is the S&P/ASX200 Property Accumulation Index.
- The benchmark is the MSCI World Index (ex-Australia) net dividends reinvested, in Australian dollars.
- Tailored benchmarks based on the liability profile of each of the Group's insurance portfolios, discounted to the Australian or New Zealand government yield curves, are used.
- The benchmark is a combination of UBS Bank Bill index (Aust) and UBS Bank Bill index (NZ) in Australian dollars.
- The benchmark is the cash benchmark, the UBS Bank Bills Index.
- The initial allocation to global macro hedge funds was made in February 2005.
- The performance has been measured as contribution to total fund. It represents only the derivatives component of the overlay and has been more than offset by the total return achieved on the physical equities component of the overlay.

- ▶ The Group's portfolios outperformed the return on the benchmark by 0.76% for 2H05 and 1.03% for FY05. In total, the active return has contributed an additional \$100m pre-tax (approximately) to the Group's result for the financial year, compared with benchmark returns.

- ▶ A summary of the investment income and net capital gains/losses generated on the technical reserves and shareholders' funds portfolio is set out below. The percentage returns are gross of expenses, while the dollar returns are net of expenses. The 2H05 and FY05 returns shown below exclude the \$14m income on the portfolio held to back the RES:

Portfolio income (pre-tax) and incl. Derivatives	FY04		1H05		2H05		FY05	
	\$Am	Return (%)	A\$m	Return* (%)	A\$m	Return* (%)	A\$m	Return (%)
Technical reserves	244	3.8%	263	4.1%	253	3.4%	516	7.6%
Shareholders' funds	434	19.1%	287	11.7%	178	7.3%	465	19.8%
Total investment income	678	8.1%	550	6.2%	431	4.5%	981	11.0%

* These are half-yearly returns.

- ▶ The technical reserves portfolios remain predominantly exposed to the Australian and New Zealand fixed interest sectors in line with tailored benchmarks that reflect the underlying currency and duration of the liabilities of the various insurance portfolios within the Group. The contribution from these assets to the Group's insurance result was \$253m for 2H05. The return achieved on these assets over 2H05 was 3.4%, 0.5% above the benchmark return for the period. The return for FY05 was 7.6%, 0.8% above the corresponding benchmark return.
- ▶ The Group's shareholders' funds are invested across a range of diversified asset classes and managers. Australian equities represent the largest component followed by international equities. The shareholders' funds contributed \$178m to the Group's 2H05 results.
- ▶ International sharemarkets returned 2.5% for 2H05 (0.06% for FY05) in Australian dollar terms (i.e. unhedged). Individual market returns suffered when converted to AUD terms because of the appreciation in the Australian currency which rose from US\$0.70 to US\$0.76 over the year.

D. Asset Class Exposure

- ▶ This table represents the Group's effective exposure (i.e. after allowance for derivatives) to each asset class, as at the dates shown.

Asset class exposure as at	Technical Reserves	Shareholders' Funds	Technical Reserves	Shareholders' Funds	Technical Reserves	Shareholders' Funds
	30 Jun 2004	30 Jun 2004	31 Dec 2004	31 Dec 2004	30 Jun 2005	30 Jun 2005
	%	%	%	%	%	%
Australian equities	-	68.0	-	63.9	-	52.9
Listed property trusts	-	2.4	-	2.5	-	2.7
International equities ¹	-	21.0	-	19.0	-	16.9
Fixed interest	99.7	7.2	99.7	10.1	99.3	5.0
Cash	0.3	1.4	0.3	2.6	0.7	1.7
Surplus capital ²	-	-	-	1.9	-	16.7
Global macro hedge funds	-	-	-	-	-	4.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note:

1. Includes private equity.
2. The surplus capital portfolio is predominantly invested in cash and fixed interest.

E. Group Assets Under Management

Assets under management as at	30 Jun 2004	31 Dec 2004	30 Jun 2005
	A\$bn	A\$bn	A\$bn
Technical reserves ¹	6.5	6.7	6.9
Outside equity interest – Unitholders' funds ²	0.5	0.4	0.4
Shareholders' funds	2.5	2.8	2.9
Other ³	0.6	0.5	0.6
Total investments - on balance sheet⁴	10.1	10.4	10.8
External wholesale mandates ²	3.3	3.5	3.5
Total assets under management	13.4	13.9	14.3

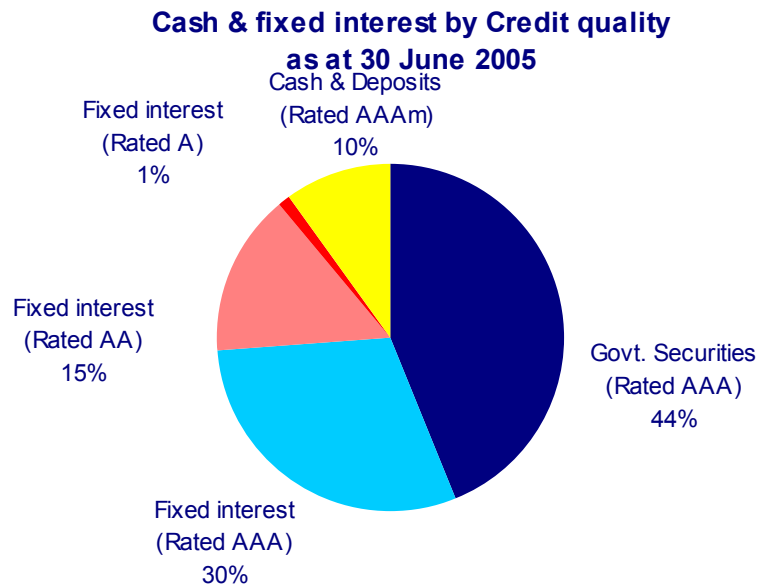
Notes

1. The technical reserves balance as at 30 June 2005 is stated net of GST on outstanding claims and premium debtors of \$0.2bn.
2. These two items in aggregate represent the total external mandates. The unitholders' funds are shown separately as the trusts in which they are invested are controlled entities of the Group and consolidated in the Group's balance sheet.
3. The balance classified as 'Other' represents items that are not under investment management, which include cash in corporate treasury and investments in related entities.
4. The prior period balances have been adjusted to exclude the investment in properties occupied by the business, in preparation for the transition to IFRS.

- ▶ The growth in the Group's assets under management from 1H05 to 2H05 was primarily driven by a combination of:
 - A general increase in the technical reserves as the business continues to grow; and
 - Market value gains in the shareholders' funds and the Group's continued profitability during the half-year, offset by dividend payments to shareholders.
- ▶ The technical reserve split between the business segments as at 30 June 2005 is:
 - Personal lines 61%;
 - Commercial lines 33%; and
 - International 6%.
- ▶ Funds under management for external parties remained stable during FY05 due to the combination of the following movements:
 - Reduction of \$0.6bn due to the decision by a major external client to diversify its mix of investment managers; and
 - An increase of \$0.6bn from the issue of RES by the Group in January 2005.

E.1 Credit quality of assets under management

- ▶ The credit quality of the Group's fixed interest and cash portfolio is considered to be very strong, with 44% invested in Australian government securities and a further 40% in fixed interest or cash securities that are rated 'AAA'. The minimum acceptable credit quality is 'A' rated. The portfolio comprises predominantly highly liquid securities and seeks to match the duration of the insurance liabilities.



Corporate

Corporate	Half-year ended Jun 04	Half year ended Dec 04	Half year ended Jun 05	Full year ended Jun 04	Full year ended Jun 05
	A\$m	A\$m	A\$m	A\$m	A\$m
Head Office	13	13	19	27	32
Fee based business (profit)/loss	(1)	(1)	(1)	(1)	(2)
Amortisation	64	52	53	118	105
Interest	28	28	41	57	69
Total corporate expenses	104	92	112	201	204

A. Corporate

- ▶ Corporate expenses increased by \$3m in FY05 to \$204m. This marginal increase is attributable to higher interest and head office expenses, offset by lower amortisation expense.
- ▶ Head office expenses grew by \$6m in 2H05 to \$19m, essentially due to costs associated with the Group's international growth strategy.
- ▶ The Group continues to reduce the cost of servicing its large shareholder base through improving the efficiency of its processes. The total cost per shareholder is now approximately \$15 per annum. During FY05 the number of shareholders with returned mail was reduced by over 20,000 and the number of un-presented cheques reduced by approximately 200,000. The number of shareholders opting to receive either an electronic version of the annual report – or none – has enabled a 20% reduction in the print volumes for the 2005 annual report.
- ▶ The goodwill amortisation expense of \$105m for FY05 represents the charge on the remaining intangible assets. FY05 amortisation is \$13m lower than FY04 due to accelerated goodwill amortisation in 2H04.
- ▶ Following the adoption of A-IFRS from 1 July 2005, there will no longer be regular goodwill amortisation charges. However, goodwill will be subject to review at each reporting date and any impairment will be recognised in the statement of financial performance.
- ▶ The FY05 interest expense increased by \$14m on FY04 to \$69m. This increase is driven by seven months of interest expense of \$12m and amortisation of borrowing costs of \$2m on RES (Reset Exchangeable Securities). Offsetting this interest expense to RES security holders is income on the funds held to back those securities, which is included in investment income. The net positive impact to the Group is less than \$1m for the period since the RES were issued in 2H05.
- ▶ The Group's term debt funding has an average fixed interest rate of approximately 6.7%.

B. Changes In Financial Legislative Requirements

B.1 International Financial Reporting Standards

- ▶ IAG is required to prepare financial reports using Australian equivalents to International Financial Reporting Standards (A-IFRS) for the first time for the year ended 30 June 2006 and will apply them in the half year reporting for the period ending 31 December 2005. A detailed discussion of the impacts of the change in standards is included in “Note 40 – Events subsequent to reporting date” of the notes to the FY05 statutory financial statements.
- ▶ A reconciliation of the impact on retained earnings at 1 July 2005 is included below for the consolidated entity, as well as a reconciliation of net profit under Australian GAAP to that under A-IFRS for the year ended 30 June 2005:

Reconciliation of opening retained earnings	\$m	Note
Total equity under Australian GAAP	4,440	
Adjustments applicable from 1 July 2004		
Adjustments to retained earnings		
Write-back of goodwill amortisation	92	1
Recognition of defined benefit plans	(32)	2
Share based payment expense	5	3
Capitalisation of software development costs	24	4
Valuation of property	(9)	5
Adjustments to other reserves		
Recognition of share based payment reserve	11	3
Consolidation of share remuneration trusts	(34)	6
Adjustments applicable from 1 July 2005		
Adjustments to retained earnings		
Valuation of investments	1	7
Reset preference shares transaction costs	5	9
Reset preference shares distribution accrual	(1)	10
Adjustments to other reserves		
Reset preference shares reclassification	(550)	8
Hedge accounting	7	11
Total equity under A-IFRS	3,959	
Reconciliation of net profit (Aust GAAP to A-IFRS)	\$m	
Net profit before tax as reported under Australian GAAP	1,258	
Write-back of goodwill amortisation	92	
Movement in defined benefit plans	(79)	
Share based payment expense	3	
Capitalisation of software development costs	24	
Valuation of property	(9)	
Net profit before tax under A-IFRS	1,289	

1. Write-back of goodwill amortisation

- ▶ The carrying value of goodwill as at 1 July 2004 will be carried forward under A-IFRS together with additional goodwill recognised from that date, subject to impairment testing. The elimination of the requirement to amortise goodwill under A-IFRS will increase future reported profits, subject to any impairment charge that may be required at a reporting date. The Group had a goodwill amortisation expense for the year to 30 June 2005 of \$92m.

2. Recognition of defined benefit plans

- ▶ Recognition of the defined benefit plans under A-IFRS as at 1 July 2005 requires an adjustment of \$32m to retained earnings to recognise the net liability position at that date.
- ▶ The movement in the net position for FY05 will be recognised through an expense of \$79m in the A-IFRS statement of financial performance and the recognition of a \$10m debit to retained earnings.

3. Share based payment expense

- ▶ The requirement to determine the fair value of share based remuneration and recognise this expense over the period from grant date to vesting date will result in an initial reduction in the overall expense recognised for the Group in relation to share based payments. This is due to the difference between amortising the cost of shares acquired to back the rights granted (Australian GAAP) and expensing the fair value of the rights granted (A-IFRS). In both cases, the expense is amortised over approximately three years. The change in annual expense is not expected to be material.

4. Capitalisation of software development costs

- ▶ Software development expenditure incurred after 1 July 2004, is considered eligible for capitalisation under A-IFRS. The first capitalisation of software development expenditure will be for the year to 30 June 2005 amounting to \$24m. The Group's Australian GAAP accounting policy had resulted in all software development costs being expensed as incurred.

5. Valuation of property

- ▶ The Group has elected to apply the cost approach to the measurement of property under A-IFRS. The fair value of the property held at 30 June 2004 of \$66m will be the deemed cost of that property moving forward. The \$9m adjustment is for the reversal of the movement in market value of the property recognised in the FY05 result and the commencement of depreciation of the buildings.

6. Consolidation of share remuneration trusts

- ▶ Equity remuneration trusts used to manage the Group's share based arrangements will be consolidated by the IAG Group under A-IFRS. The major assets of these trusts are IAG shares which, under consolidation principles, cannot be counted as an asset. Accordingly, these shares will be recognised as negative equity (referred to as treasury shares). Treasury shares will be measured at cost (total amount paid to acquire the shares) and will be shown as a deduction from equity. The relevant shares held by the trusts as at 30 June 2005 were acquired on different dates at a total cost of \$34m.

7. Valuation of investments

- ▶ Under A-IFRS the Group will continue to measure all investments at fair value with movements passing through profit or loss. This is essentially a continuation of current practice with small adjustments for disposal costs (A-IFRS uses gross market value, not net market value) and a change in market price determination (from last sale price to bid price). The net adjustment for the change is a \$1m increase in investments with a corresponding adjustment to retained earnings as at 1 July 2005.

8. Reset Preference Shares reclassification

- ▶ The Group's ASX listed reset preference shares (RPS), trading as IAGPA and IAGPB, are currently presented as equity under Australian GAAP. The RPS will be reclassified as debt under A-IFRS and will be measured at amortised cost.

9. Reset Preference Shares transaction costs

- ▶ Transaction costs incurred on the issue of the two tranches of RPS, totalling \$11m, were recognised directly in equity under Australian GAAP as a reduction in the proceeds of the instruments. When the RPS are reclassified as debt under A-IFRS those transaction costs will be treated as having been capitalised and should be amortised over the period to the first reset date. This requires an adjustment to recognise the capitalisation of the costs as an asset, offset by a reduction representing the amortised portion of the transaction costs.

10. Reset Preference Shares distributions

- ▶ Under A-IFRS distributions on the RPS will be treated as interest rather than dividends and so have a negative impact on reported profit. The interest distributions will be recognised on an accruals basis, which is different to the current policy of recognising a provision for the distributions only when the dividends are declared.

11. Hedge accounting

- ▶ The Group uses a variety of derivatives to manage risk exposures. All derivatives will be recognised on the balance sheet measured at fair value. Movements in the fair value will be recorded through profit or loss as they occur, except where hedge accounting is applied.
- ▶ While the Group has a number of economic hedges in place, only a small number of these transactions have been selected for hedge accounting under A-IFRS. The adjustment required to recognise the application of cash flow hedge accounting under A-IFRS for these transactions generates a \$7m increase in the measurement of the derivative recognised on the statement of financial position with a corresponding credit to an equity reserve.

B.2 APRA Stage 2 Reforms

- ▶ APRA released a number of draft standards and guidelines during 2H05. The Group has made submissions on these proposals which focus on matters of detail rather than the general intent of the standards. Should the detail be unchanged the Group, and the industry, may incur some additional regulatory cost burden in complying with the extensive documentation and reporting proposed.

Financial Position, Dividends and Capital

A. Statement of Financial Position

IAG Group Balance Sheet As at	30 Jun 04	31 Dec 04	30 Jun 05
	A\$m	A\$m	A\$m
Assets			
Investments	10,117	10,416	10,834
Premium receivables	1,606	1,564	1,710
Reinsurance recoveries on claims	560	530	662
Other recoveries on claims	355	386	391
Deferred acquisition costs	558	582	621
Goodwill and other intangibles	1,473	1,424	1,378
Other assets	1,622	1,381	1,551
Total assets	16,291	16,283	17,147
Liabilities			
Outstanding claims	6,327	6,548	6,840
Unearned premium	3,472	3,497	3,586
Interest bearing liabilities	793	794	793
Other liabilities	1,475	1,139	1,488
Total liabilities	12,067	11,978	12,707
Net assets	4,224	4,305	4,440
Equity			
Equity attributable to shareholders	3,538	3,747	3,855
Outside equity interests	686	558	585
Total equity	4,224	4,305	4,440

- The main movements in the balance sheet by category are:
- A net increase in investments mainly due to the market value gains on its shareholders' funds and cash generated from the business, offset by dividend payments to shareholders and noteholders;
 - The "other" assets category represents the aggregate of trade debtors, prepayments, deferred tax assets and plant & equipment. The movement in this balance is a result of:
 - An abnormally high trade debtors balance at June 2004 due to a significant investment debtor in the cash management trust as at 30 June 2004; and
 - Prepayments being seasonally lower at 31 December compared to the 30 June;
 - The increase in the outstanding claims balance is due to the combination of a lower discount rate on claims and general business growth;
 - The "other" liabilities balance is consistent year on year but lower at December due mainly to seasonal accruals; and
 - The movements in outside equity interests are mainly due to fluctuations in the level of investments held for external parties within the Group's wholesale investment trusts.

B. Capital Management

B.1 Capital adequacy/MCR

Coverage of regulatory capital requirements	IAG Group			Insurance Australia Ltd Group			
	A\$m	30 Jun 04	31 Dec 04	30 Jun 05	30 Jun 04	31 Dec 04	30 Jun 05
Tier 1 capital							
Paid-up ordinary shares		3,263	3,263	3,263	1,286	1,286	1,286
Hybrid equity		539	539	539	-	-	-
Reserves		(5)	(4)	(6)	-	-	-
Retained earnings ⁽¹⁾		(259)	(51)	59	2,308	2,341	2,365
Excess technical provisions (net of tax)		375	328	499	326	308	482
Less: deductions		(1,663)	(1,503)	(1,478)	(1,158)	(1,116)	(1,072)
		2,250	2,572	2,876	2,762	2,819	3,061
Tier 2 capital							
Term subordinated notes		644	607	614	644	607	614
Capital base		2,894	3,179	3,490	3,406	3,426	3,675
Minimum capital requirements (MCR):							
Australian general insurance businesses		1,475	1,537	1,511	1,485	1,614	1,607
International insurance businesses MCR ⁽¹⁾		179	184	235	-	-	-
		1,654	1,721	1,746	1,485	1,614	1,607
MCR multiple		1.75x	1.85x	2.00x	2.29x	2.12x	2.29x

Notes:

1. The MCR and capital base for International insurance businesses is calculated on a similar basis to the Australian regulatory requirements and includes the captive reinsurance business and the operations in New Zealand.

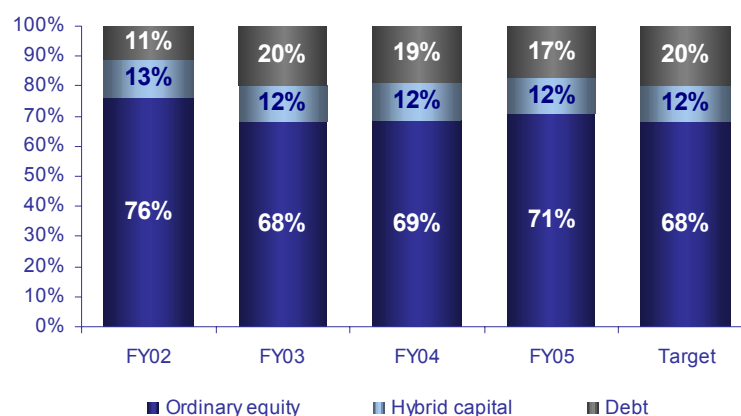
- ▶ The Group continues to provide MCR information for both the consolidated Australian operations and for the whole Group. The data is based on applying, in principle, the APRA standards for individual entities to the relevant consolidated results, pending APRA finalising a standard to determine prudential capital requirements at a consolidated level.
- ▶ The Group multiple of 2.00x MCR as at 30 June 2005 remains considerably above the Group's current benchmark multiple of 1.55x MCR. This benchmark is set by reference to the Group's economic capital requirements based on detailed modelling and the Group's risk appetite. It was reduced from 1.60x to 1.55x following the issue of \$550m of contingent capital, in the form of the RES, in January 2005.
- ▶ The Group's regulatory capital base, as defined by APRA, has increased from \$3,179m to \$3,490m during 2H05 due to:
 - Strong earnings before amortisation of goodwill and after tax for the period (gross of final dividends paid during the year);
 - An increase in "excess technical provisions" of \$171m (net of tax);
 - A reduction in net future income tax benefits primarily due to an increase in unrealised gains from strong investment performance; and
 - The impact of foreign exchange movements on the US\$ denominated term subordinated debt (recognised as Lower Tier 2 capital).

- ▶ The increase in “excess technical reserves” reported is attributable to a number of factors, the most significant of which is a re-assessment of the Group’s measurement of risk margins to reflect emerging market practice. Information made available in the market place confirmed the Group’s opinion that the factors it applied in deriving the risk margins were considerably higher than market equivalents. This re-assessment identified that less margin was needed to generate the 75% level of probability of adequacy for all insurance liabilities (premium and claims) required by APRA. Accordingly the difference between the level of reserves being carried and the APRA 75% minimum expanded. The Group’s approach to setting central estimates was not changed.
- ▶ On the current basis, the Group has a probability of adequacy in its claims reserves of 92.5% and 90.2% on total insurance liabilities (outstanding claims and premium liability).
- ▶ The Group believes the assumptions used in deriving the probability of adequacy remain at the conservative end of market practice. The Group’s risk margins represent 25.6% of the Group’s net claims liability.
- ▶ The other factors contributing to the movement in excess technical reserves since December 2004 are:
 - Reversing the seasonal adjustment applied by the Group’s actuaries that increases the premium liability each December to allow for higher expected storm frequency early in the calendar year; and
 - Movements in the level of deferred reinsurance expense for future business that is excluded from the capital base by APRA.
- ▶ The key elements of the Group’s MCR are as follows:

As at	30 Jun 04	31 Dec 04	30 Jun 05
	A\$m	A\$m	A\$m
Insurance risk	1,061	1,072	1,091
Concentration risk	100	100	100
Investment risk	493	549	555
	1,654	1,721	1,746

B.2 Target capital mix

IAG Capital Mix



- ▶ The Group’s balance sheet capital mix has more equity than targeted due to the Group’s current level of surplus capital.

B.3 Total capitalisation and debt as at 30 June 2005

Total Capitalisation As at	31 Dec 04	30 Jun 05
	A\$m	A\$m
Short-term debt	46	46
Long-term debt:		
Senior	45	45
Subordinated	607	616
Cross currency swap payable ¹	95	86
Total long-term debt	748	747
Total debt	793	793
Shareholders' equity		
Equity attributable to ordinary shareholders	3,263	3,263
Retained profits	(51)	59
Foreign currency translation reserve	(4)	(6)
Reset preference shares	539	539
Total shareholders' equity (excl OEI)	3,747	3,855
Total capitalisation	4,540	4,648
Interest coverage & debt ratios	Half-year	Full-year
Earnings before interest and tax (EBIT)	751	1,313
Earnings before interest, tax, depreciation and amortisation (EBITDA)	822	1,457
Market capitalisation:		
- Ordinary shares (31.Dec.05: \$6.43 per share, 30.Jun.05: \$6.01 per share)	10,248	9,582
- Reset preference shares (IAGPA & IAGPB)	566	562
Total market capitalisation	10,814	10,143
Total debt/(Total debt+shareholders equity excluding OEI)	17.5%	17.1%
Total debt/(Total debt+total market capitalisation)	6.8%	7.3%
EBIT interest cover (times) ²	27x	24x
EBITDA interest cover (times) ²	29x	26x

¹ Cross currency swaps have been entered into to hedge the currency exposure from US\$ denominated subordinated debt. The principal of the cross currency swaps is revalued to take into account movements in the US\$/A\$ exchange rate and is reported as part of interest paying liabilities.

² Excludes interest payable on RES which is offset by interest income.

Maturity profile of Group debt and reset preference shares	Currency principal amount \$ m	A\$ equivalent principal amount \$ m	Yield (net of interest rate and cross currency swaps)	Interest rate & dividend repricing date	Maturity Date	S&P rating
Short-term debt:						
NZ\$50m senior fixed rate notes	NZ\$50	46	7.06%	Aug-05	Aug-05	AA
Long-term debt¹:						
NZ\$50m senior fixed rate notes	NZ\$50	45	7.36%	Aug-08	Aug-08	AA
A\$50m subordinated floating rate notes	A\$50	50	5.78%	Nov-07	Nov-12	AA -
A\$250m subordinated fixed rate notes	A\$249	249	6.41%	Nov-07	Nov-12	AA -
US\$240m subordinated fixed rate notes ²	US\$240	401	6.93%	Apr-10	Apr-15	AA -
A\$1.715m subordinated convertible loan ³	A\$2	2	6.67%	Perpetual	Perpetual	Not rated
Total debt		793				
Reset preference shares⁴						
IAGPA	A\$350	350	5.80%	Jun-07	Perpetual	A -
IAGPB	A\$200	200	4.51%	Jun-08	Perpetual	A -
Reset Exchangeable Securities (IANG) ⁵	A\$550	550	4.81%	Mar-10	Perpetual	A -

¹ All long-term debt has been issued as either fixed notes, or hedged to fixed rate with interest rate swaps. The yields shown are pre-tax.

² The A\$ equivalent is shown net of the related cross currency swaps.

³ Fixed rate loan from the minority shareholder of Mutual Community General Insurance Pty Limited.

⁴ The dividends shown on the reset preference yields are the cash yields excluding the value to investors of the attached franking credits.

⁵ The reset exchangeable securities pay a floating rate quarterly interest payment. The interest yield shown is the cash yield for the current interest period excluding the value to investors of the attached franking credits.

B.4 Reset Exchangeable Securities (RES)

- ▶ RES are perpetual reset exchangeable notes with quarterly, floating rate interest payments that are expected to be fully franked. They were issued in January 2005 and are a form of contingent capital as the Group may, at any time, exchange RES for preference shares that will pay non-cumulative, quarterly preferred floating rate dividends that are expected to be fully franked. Preference shares, if issued, are expected to qualify as regulatory Tier 1 capital according to their terms. The Group can, in certain circumstances, also convert either RES or the preference shares to ordinary shares.
- ▶ The notes are backed by a portfolio of high quality, short dated, fixed interest securities, which are managed by the Group.
- ▶ RES and the portfolio of assets which support the securities and the RES interest distributions are set-off in the Group's statement of financial position with a net asset being recorded to the extent that the portfolio value is greater than the RES redemption amount.
- ▶ The following table sets out the Group's pro-forma capital adequacy position based on the Group's statement of financial position as at 30 June 2005, adjusted as if preference shares were issued in exchange for all RES on issue as at that date:

A\$m	Pro-forma adjustments			
	Group	RES on issue ¹	Exchange ²	Pro-forma
Tier 1 Capital	2,876	-	415	3,291
Tier 2 Capital	614	-	135	749
Regulatory capital base	3,490	-	550	4,040
Minimum capital requirement (MCR)	1,746	-	-	1,746 ⁴
MCR Multiple	2.00x	-	0.32x³	2.32x

Notes:

1. RES are not recognised in the Group capital adequacy position as they are not eligible to be treated as regulatory capital until such time as preference shares are issued.
2. These amounts reflect the composition of the Group's capital adequacy position as at 30 June 2005.
3. Assuming there has been no change in the Group's capital adequacy position at the time of exchange and all RES transaction costs have been amortised previously.
4. Assuming that the \$550 million in investment assets have minimal investment charge and no material impact on the Group's MCR.

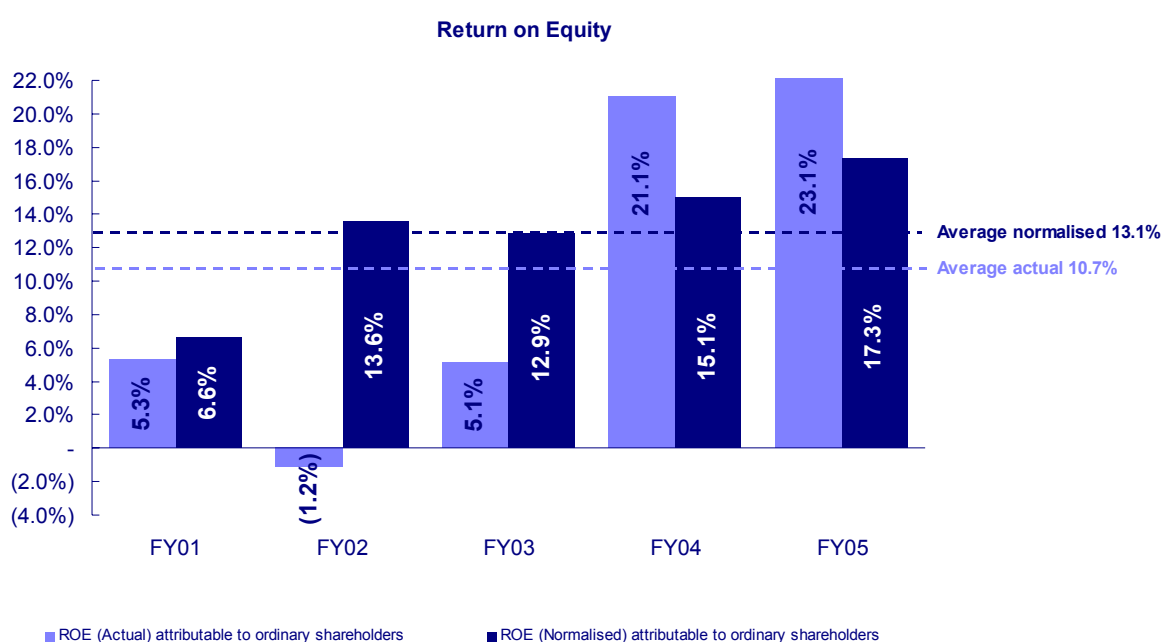
- ▶ During 2H05 the Group expensed interest of \$12m and amortisation of RES borrowing costs of \$2m and generated \$14m of income on the portfolio. The interest payable on the notes is less than the interest earned on the portfolio in large part because the interest payable on the notes is net of an allowance for franking credits that attach to the interest distributions.

B.5 Reinsurance

- ▶ The Group's catastrophe cover was renewed effective 1 January 2005. Salient points are:
 - An increase in the catastrophe event limit purchased from \$3.0bn to \$3.5bn – this increase reflects the growth of exposure (13% Australia, 5% New Zealand) over the course of the past 12 months;
 - Retained catastrophe loss for a first event remains at \$100m, dropping to \$75m for a second event. Given the Group's growth of exposures, this represents a percentage reduction in retained loss and is well within the Group's current tolerable limit for income statement volatility from a single event, with the \$100m limit constituting less than 2% of net earned premium;

- The counter-party credit profile of the catastrophe programme has improved: the expiring programme obtained cover for 66% of the limit from parties rated S&P 'AAA/AA' – this now stands at 70%. Furthermore, some of the limit is now purchased on a 'collateralised' basis, where reinsurers have deposited funds equivalent to their participation in a trust fund. This is superior protection relative to that generally available in the reinsurance market; and
 - Based on the APRA minimum purchase requirement of a 1 in 250 years return period, the Group's minimum required cover for regulatory purposes is equal to \$1.25bn. The \$3.5bn of cover on the same APRA basis is equivalent to a return period of 1 in 625 years.
- ▶ The Group's CTP liability and NZ surplus covers were renewed effective 1 July 2005. There were no significant changes in premiums for the covers purchased.

C. Return on equity



Note: Normalised calculation was based on two adjustments to actual NPAT to ordinary shareholders:

1. Exclusion of non-recurring items, eg profit on sale of ClearView in FY04.
2. Shareholders' fund return adjusted to be equivalent to the daily average 10-year bond rate for the year, plus 4%.

- ▶ The FY05 return on equity (ROE) to ordinary shareholders of 23.1% was driven by a combination of strong margins delivered in the insurance business, record high performance in the Australian equity market and the 'alpha' returns generated.
- ▶ The normalised ROE was 17.3%. Normalised ROE is determined by replacing the actual earnings on shareholders' funds with the earnings that would have been generated using the 10-year bond rate plus 4%. The tax expense is adjusted accordingly. This normalised profit is also used in applying the Group's dividend policy.

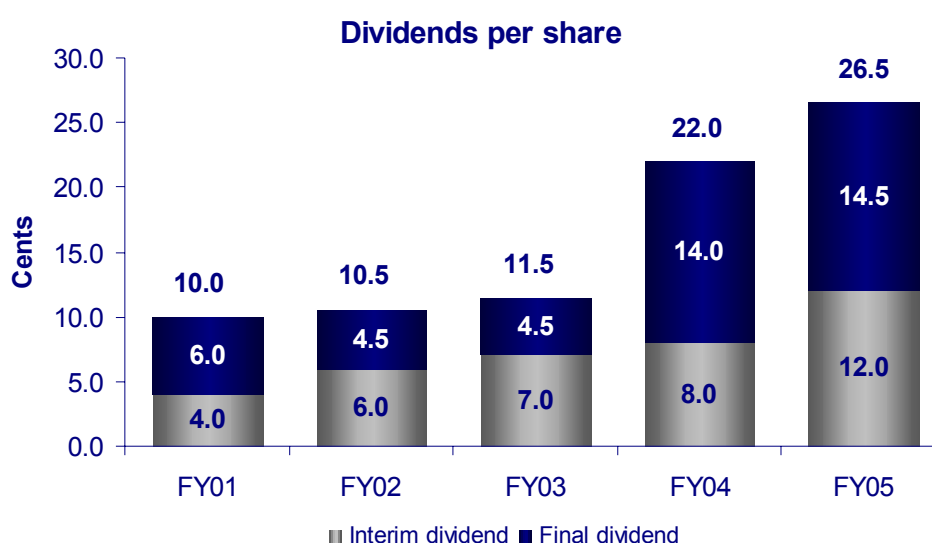
- ▶ The Group's target return on equity to ordinary shareholders over the cycle is a minimum of 1.5 times WACC. The FY05 ROE, both actual and normalised, is comfortably above this target. However, it needs to be considered in terms of cycles and the general insurance industry has experienced very favourable cyclical conditions in recent times. Over the period since listing early in FY01, the Group's average reported ROE is 10.7% (normalised 13.1%). The normalised ROE has continually improved since listing. This is indicative of the consistent improvement in the underlying business, which is supporting the increasing return to shareholders necessary to cushion the impact of the volatility that occurs in the market over investment, economic and insurance cycles.

D. Dividends

D.1 Dividend policy and distributable earnings

- ▶ The Group's final dividend of 14.5 cents per share brings the total dividend for FY05 to 26.5 cents per share. This is a 20% increase on the FY04 dividend of 22.0 cents per share. It brings the cumulative payout since listing to 63% of cash earnings (ie. pre-goodwill amortisation and post RPS dividends).
- ▶ The Group's dividend policy remains unchanged with a target of sustainable dividend growth using a payout ratio of 50-70% of normalised profits (which are calculated before goodwill amortisation), with an interim : final split of approximately 45 : 55.
- ▶ The Group continues to target double digit growth in annual dividends going forward.
- ▶ The distributable earnings of the parent entity at 30 June 2005 were \$638m. The final dividend payable in October 2005 is \$231m.
- ▶ All dividend payments, and other distributions to which franking applies, made by the Group have been fully franked. At 30 June 2005, the franking balance was \$543m. The final dividend will absorb \$99m of this. The remaining \$444m provides the capacity to fully frank \$1,036m of distributions.

D.2 Dividend on ordinary shares



E. Sensitivity analysis

E.1 Investment market sensitivities

- ▶ The following table indicates the impact of an immediate change in the market value of equities and changes in interest rates on the Group's net profit before tax at the specific dates.

Sensitivity on NPBT As at		30-Jun-04	30-Jun-05
	Change in assumption	A\$m	A\$m
Investment sensitivities			
Equity market values:			
Australian equities	+1%	17.0	15.6
Listed property trusts	+1%	0.6	0.8
International equities	+1%	5.2	5.0
Global macro hedge funds	+1%	n/a	1.2
Interest rates			
Investment returns	-1% or 100 bpts change in interest rates	159.3	188.4
Outstanding claims	-1% change in net discount rate	146.7	167.3

- ▶ The duration of the fixed interest portfolio was effectively matched to the duration of the technical reserves as at 30 June 2005. The difference in the sensitivity between interest rates and outstanding claims in the above table largely reflects the accounting treatment of unearned premiums as a cash liability whereas the Group generally invests on the basis of its ultimate expected economic duration.

E.2 Operational sensitivities

- ▶ This table indicates the effect of a 1% change in key elements of the insurance operational performance on the Group's annual profit before tax for the respective periods.

Sensitivity on NPBT		30 Jun 04	30 Jun 05
	Change in assumption	A\$m	A\$m
Insurance sensitivities			
Loss ratio - Personal lines	-1%	36.0	37.2
Loss ratio - Commercial lines	-1%	13.6	14.3
Loss ratio - International	-1%	9.1	9.9
Underwriting expenses	-1%	10.5	10.9

Appendix A – Strategy

The Group's strategic goals are as follows:

- ▶ Top quartile total shareholder return;
- ▶ Return on equity of at least 1.5 times weighted average cost of capital;
- ▶ Establish an Asian foothold;
- ▶ Maintain an 80:20 mix of short-tail:long-tail premiums; and
- ▶ Maintain a 'AA' category rating.

The Group considers that these goals, when taken as a whole, are a fair representation of its strategic direction and risk appetite for the foreseeable future. The goals following top quartile total shareholder return ('TSR') should be regarded as inter-dependent components supporting the delivery of top quartile TSR.

A.1 Top quartile shareholder return

Top quartile TSR (within the S&P/ASX100) remains as the Group's overall strategic goal. It is recognised that this is a tough goal, but is one the Group considers appropriate.

A.2 ROE of at least 1.5 times WACC

The Group targets a return for ordinary shareholders ('ROE') that is at least 1.5 times the Group weighted average cost of capital ('WACC'). The return on the shareholders' funds portfolio will continue to be normalised in measuring performance against this goal.

As at 30 June 2005, the WACC was assessed for this purpose as approximately 10%. The WACC is sensitive to the assumptions adopted for beta and equity risk premium and the treatment adopted for imputation credits. Therefore, in other contexts, a quite different WACC could emerge and it will, of course, fluctuate with movements in long-term interest rates.

The Group believes that a normalised return in excess of 1.6 times WACC is unlikely to be sustainable. This is consistent with the Group's regularly publicised view that sustained returns, in excess of what is needed to ensure that shareholders receive an adequate return and continue to make capital available, are likely to result in increased competition and pricing pressure. Existing competitors, new entrants or consumer activism could drive this, as general insurance is a necessary community product and needs to remain available and affordable.

A.3 Establish an Asian foothold

In view of the Group's leading market shares in the largest general insurance revenue streams in Australia and New Zealand, its acquisitive growth opportunities in these markets are very limited. Accordingly, the Group began investigating offshore growth prospects and, after extensive research, concluded that Asia currently provides the best fit for the Group to focus on for a range of acquisitive growth opportunities.

Other geographical areas will continue to be reviewed for potential on a periodic basis.

The Group is very conscious of the additional risks posed by significant international expansion beyond New Zealand. Extensive risk assessments are undertaken on each acquisition/investment opportunity recognised as having potential to add value for the Group.

A.4 Maintain an 80:20 mix of short-tail:long-tail premiums

The goal of maintaining an 80:20 mix of short-tail:long-tail premiums is indicative of the Group wishing to keep risks managed to a tolerable level.

Opportunities may arise at times that skew the mix of business away from this goal. If such an event were to occur, the Group would increase its focus on executing other opportunities to re-direct the mix back to the target within a reasonable timeframe.

The Group remains committed to delivering underwriting profits and achieving these is inherent in the delivery of returns of at least 1.5 times WACC.

A.5 Maintain a 'AA' category rating

The Group continues to consider that the conservative levels of capital dictated by targeting 'AA' category ratings are an appropriate reflection of the Group's current risk appetite.

In determining the economic capital requirements of the Group, the modelling performed takes into account the financial metrics used for 'AA' insurer financial strength ratings as well as a risk of statutory insolvency of no more than 1-in-750 years and the metrics for determining prudential solvency under APRA standards.

The Group's key wholly-owned insurance operations currently hold 'AA' insurer financial strength ratings (with 'Stable' outlook) from Standard & Poor's. These are currently the highest ratings of any Australian-based financial institution.

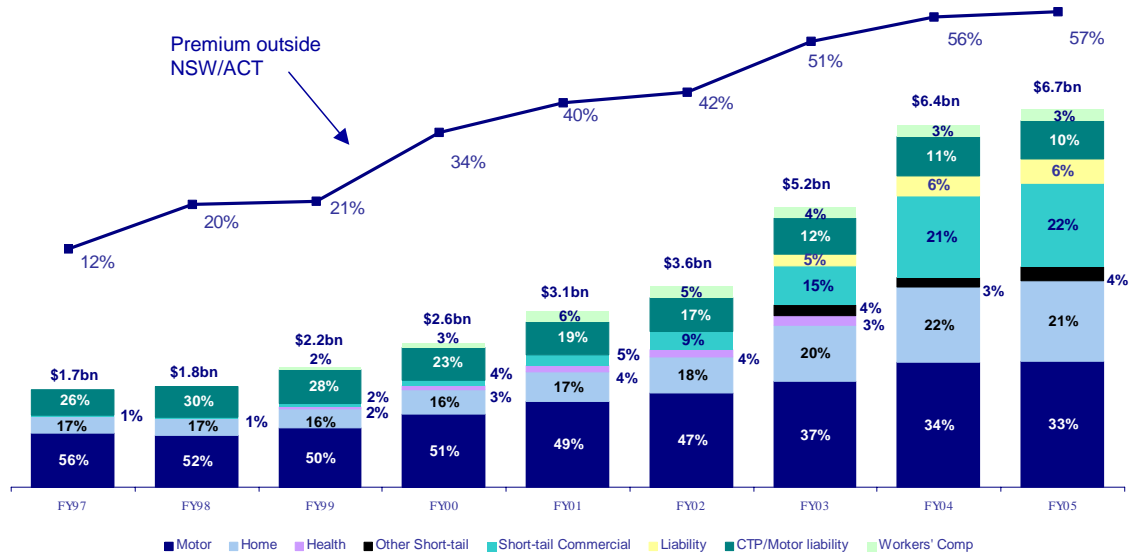
Corporate Goal Scorecard

Goals	Progress
Top quartile shareholder return	Measured from listing on 8 August 2000 until 30 June 2005, IAG's TSR is at the 82 nd percentile of entities in the S&P ASX 100 index.
Return on equity of at least 1.5 times weighted average cost of capital	Achieved return on equity greater than 1.5 times weighted average cost of capital.
Establish an Asian foothold	Added a small general insurance business to the Group's portfolio of Asian assets and continued to pursue further opportunities.
Maintain an 80:20 mix of short-tail long-tail premiums	80:20 mix of short-tail : long-tail premiums maintained.
Maintain a 'AA' category rating	The Group maintained its very strong 'AA' insurer financial strength ratings from Standard & Poor's for its wholly-owned licensed insurers, the highest rating of any Australian financial institution.

Appendix B - Product and Geographical Diversification

This graph shows a history of the Group's growth in gross written premium and the increased diversification over an eight-year period.

Gross Written Premium by business A\$bn

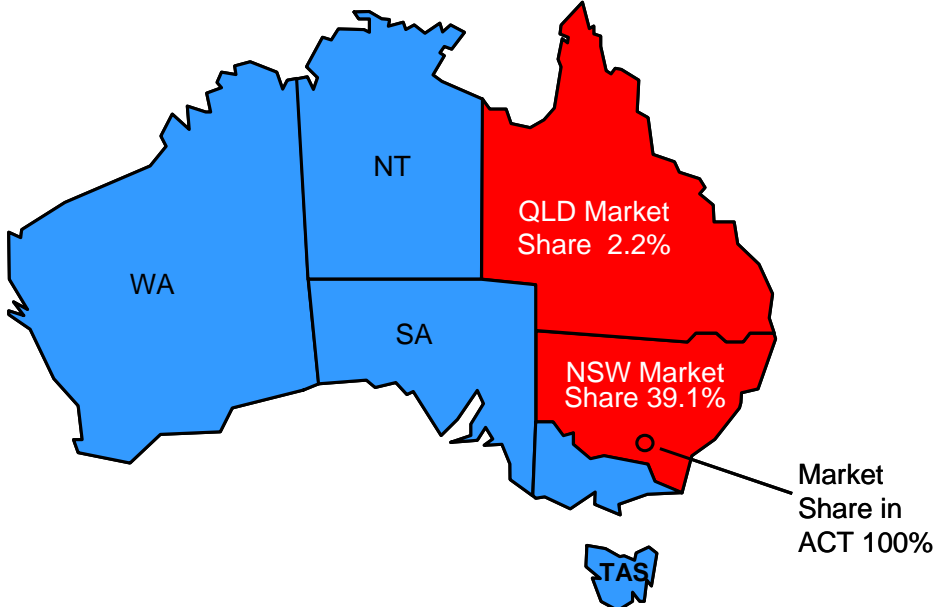


- Notes:**
1. Includes GWP of all businesses except Inwards Reinsurance, which is in run-off.
 2. The health insurance business was sold in July 2003.
 3. Other short-tail primarily consists of other accident, extended warranty and consumer credit businesses.

Appendix C – Statutory classes

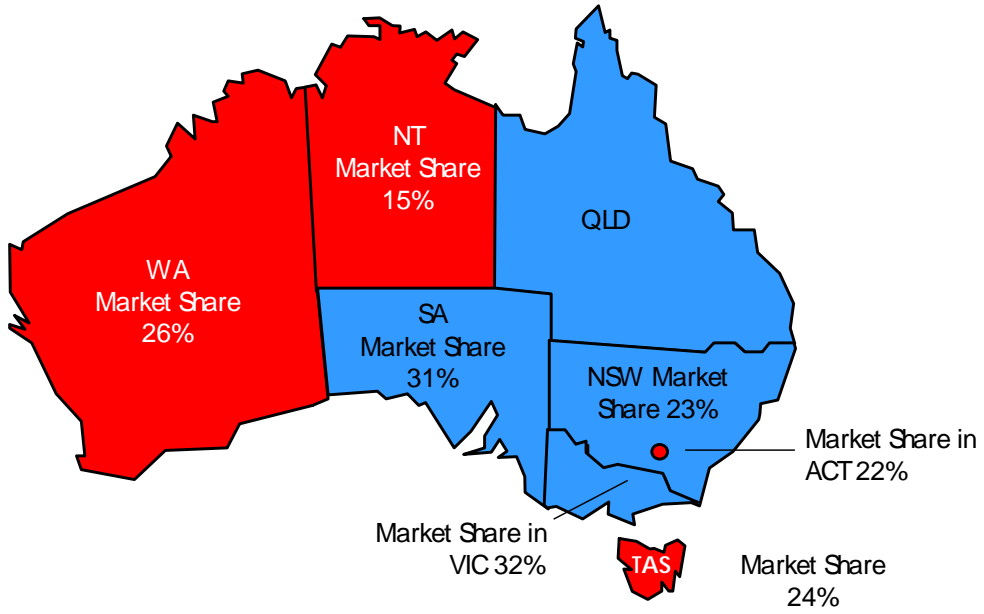
Compulsory third party motor liability

- Risk state (Privately underwritten)
- Non-risk state (Government underwritten)



Workers' compensation

- Risk state (Privately underwritten)
- Non-risk state (Government underwritten)



Appendix D - Key ASX Releases

This schedule contains only a summary of the announcements made to the ASX since FY05 commenced. It does not include announcements of changes in Directors' interests. Reference should be made to a copy of the ASX announcements should further information be required. These are available on www.iag.com.au

- 28 June 2005** **IAG issue shares on exercise of employee performance share rights**
IAG issued 67,543 ordinary shares upon exercise of employee share rights.
- 20 June 2005** **Closing Date for Receipt of Nominations for Election of Directors**
The Annual General Meeting of IAG will be held on Wednesday, 9 November 2005. In accordance with a waiver from Listing Rule 14.3, the closing date for receipt of nominations for election as directors at the 2005 annual general meeting will be 7 September 2005.
- 14 June 2005** **Thailand Acquisition**
IAG announced that it had agreed to acquire an interest in a second Thai general insurer, Royal & SunAlliance (Thailand) Limited. The asset generates approximately A\$35 in annual gross written premium.
- 30 May 2005** **Warning to IAG shareholders in relation to Mr David Tweed**
An IAG media release has alerted IAG shareholders that a company associated with Mr David Tweed, National Share Purchasing Corporation Pty Ltd, may be preparing to launch another unsolicited offer for IAG shares.
- 6 May 2005** **IAG issues shares on exercise of employee performance share rights**
IAG issued 7,500 ordinary shares on exercise of employee share rights.
- 27 April 2005** **IAG issues shares on exercise of employee performance share rights**
IAG issued 215,837 ordinary shares on exercise of employee share rights.
- 18 April 2005** **Change to IAG's Dividend Payment Method**
From October 2005 IAG will only pay all future dividend payments for its Australian resident shareholder into shareholders' nominated Australian bank or financial institution accounts by direct credit, or into the dividend reinvestment plan.
- 13 April 2005** **Dividends Payable for Reset Preference Shares RPS1 (IAGPA) and RPS2 (IAGPB).**
IAG declared fully franked dividends on IAGPA at a rate of 5.8% per annum and on IAGPB at a rate of 4.51% per annum payable on 15 June 2005.

- 4 April 2005** **Pricing of shares to be allocated under DRP**
The ordinary shares allocated under the dividend reinvestment plan (DRP) will be priced at \$6.2948 per share for the 2005 interim dividend. The DRP price was based on an average market price for the eight trading days from 21 March 2005 to 1 April 2005 inclusive.
- Under the DRP, approximately 7.9 million ordinary shares will be purchased on-market and allocated to participating shareholders on 18 April 2005.
- 29 March 2005** **IAG issues shares on exercise of employee performance share rights**
IAG issued 20,000 ordinary shares on exercise of employee share rights.
- 29 March 2005** **IAG issues shares on exercise of employee performance share rights**
IAG issued 82,500 ordinary shares on exercise of employee share rights.
- 24 February 2005** **Announcement of Half Year Results – 31 December 2004 and declaration of fully franked interim dividend of 12 cents per ordinary share.**
IAG announced a net profit after tax of \$446 million for the six months ended 31 December 2004 (31 December 2003: \$302 million).
- 23 February 2005** **IAG statement regarding Whitlam retirement case**
The NSW Supreme Court today ruled that former Chairman Mr Nicholas Whitlam is entitled to some amounts in addition to the retirement benefit already paid. These comprise interest that would have accrued during the time the payment was delayed, superannuation, and interest on the superannuation amount.
- The Board of IAG believes it acted in accordance with the interests of the company and its shareholders in deferring the payment until the outcome of a Special General Meeting was known, and until ASIC proceedings against Mr Whitlam concluded.
- 23 February 2005** **IAG issues shares on exercise of employee performance share rights**
IAG issued 75,000 ordinary shares on exercise of employee share rights.
- 17 February 2005** **Speculation Re Asian Expansion**
IAG has confirmed that it has no update to provide the market on this topic. IAG has made it clear through a number of previous market communications that Asia is a focus for potential acquisitions to provide additional earnings growth for the medium to long term.
- 27 January 2005** **IAG issues shares on exercise of employee performance share rights**
IAG issued 923,000 ordinary shares on exercise of employee share rights.

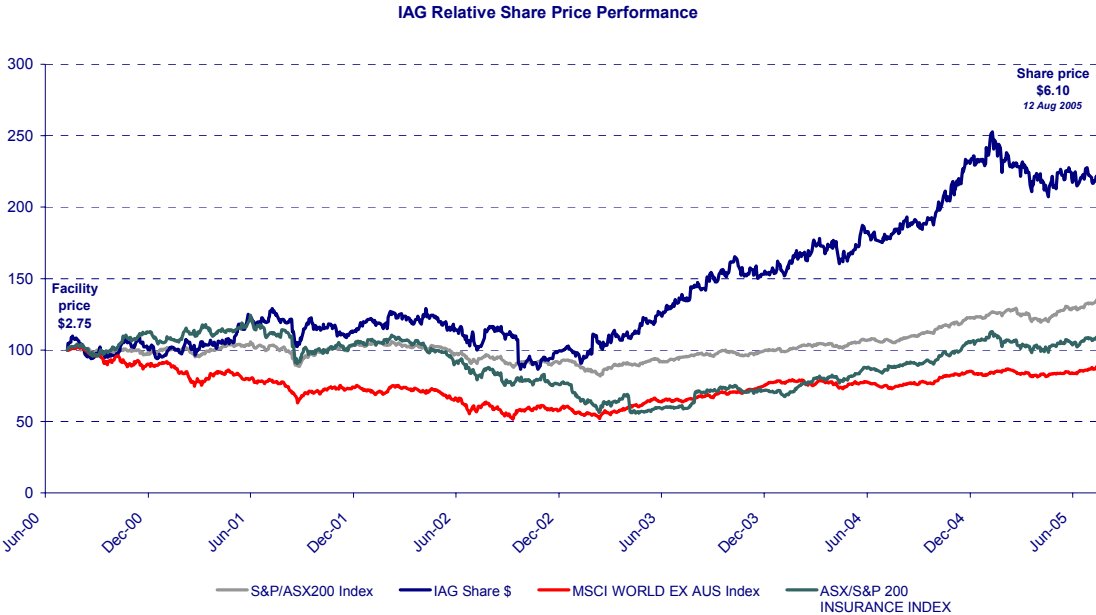
- 11 January 2005** **IAG issues 5.5m Reset Exchangeable Securities**
IAG announced that the offer of Reset Exchangeable Securities (RES) closed oversubscribed on 7 January 2005. Over-subscriptions of \$50 million were accepted.
- 5.5m RES were issued by the New Zealand branch of IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG, raising a total of \$550 million.
- It was advised that RES would begin trading on a deferred settlement basis on the ASX on 12 January 2005, with trading to commence on a normal basis on 19 January 2005. The interest rate for the first payment (to be made 15 March 2005) would be 4.69% per annum, expected to be fully franked.
- 24 December 2004** **IAG issues shares on exercise of employee performance share rights**
IAG issued 63,800 ordinary shares on exercise of employee share rights.
- 10 December 2004** **IAG issues replacement prospectus – Reset Exchangeable Securities**
- 29 November 2004** **Initial Margin Confirmed for Reset Exchangeable Securities**
IAG announced that the initial margin for the offer of Reset Exchangeable Securities (RES) was set at 1.20%, with the offer scheduled to open on 30 November 2004.
- 29 November 2004** **IAG issues shares on exercise of employee performance share rights**
IAG issued 212,500 ordinary shares on exercise of employee share rights.
- 22 November 2004** **IAG announced issue of Reset Exchangeable Securities (RES)**
IAG announced an initiative to raise up to A\$500m Reset Exchangeable Securities (RES) as a part of the group's commitment to actively manage and enhance its capital structure. RES deliver secure contingent access to Tier 1 capital and allow a release of capital into operations and/or to shareholders.
- It was advised that RES would be quoted on the ASX and assigned an 'A-' credit rating by S&P. RES holders would be entitled to receive non-cumulative, franked, quarterly, floating-rate interest payments. The interest payments would be dependent on the performance of the underlying "AAAF" S&P rated portfolio of high quality, short-dated, fixed-interest securities and subject to certain payment to be determined through a bookbuild tests. The interest rate for RES would be set at an indicative margin between 1.00%-1.30% over the 90 day BBSW and adjusted for franking. RES would be held off-balance sheet.
- 10 November 2004** **IAG released results of Annual General Meeting**
IAG confirmed that Ms Dominique Fisher and Ms Anne Keating retired as directors of IAG at the conclusion of the company's AGM in line with the Group's tenure policy for Non-executive Directors. It was also confirmed that Ms Yasmin Allen and Mr Brian Schwartz were elected as directors of IAG.

- 10 November 2004** **IAG confirms business momentum and launches its first Sustainability Report at AGM**
 IAG confirmed that during the first three months of the current year the Group's policy growth was strong, customer retention and satisfaction remained high, and the Group remained on track to achieve key targets for the full year.
- IAG launched the Group's first Sustainability Report during the AGM. The Sustainability Report details the Group's performance in relation to a number of indicators, including IAG's efforts to reduce risks most common to its customers and to reduce its environmental impact.
- 9 November 2004** **Dividends payable on Reset Preference Shares**
 The Board of IAG declared fully franked dividends in respect of RPS 1 and RPS 2. The Record date was 29 November 2004 and Payment date was 15 December 2004.
- The RPS 1 dividend rate per annum was 5.80%, with \$2.9079 payable per \$100 share.
- The RPS 2 dividend rate per annum was 4.51%, with \$2.2612 payable per \$100 share.
- 28 October 2004** **IAG issues shares on exercise of employee performance share rights**
 IAG issued 63,700 ordinary shares on exercise of employee share rights.
- 6 October 2004** **IAG denies Merger proposal with QBE Insurance**
 IAG announced that there was no merger proposal between itself and QBE Insurance following speculation in the media.
- 5 October 2004** **Pricing of shares to be allocated under Dividend Reinvestment Plan (DRP)**
 IAG advised that ordinary shares to be allocated under the company's DRP would be priced at \$5.2047 per share for the 2004 final dividend. Under the DRP, around 12.07 million ordinary shares were allocated to participating shareholders.
- 30 September 2004** **2004 Annual Report and notice of Annual General Meeting released to the market**
- 29 September 2004** **IAG issues shares on exercise of employee performance share rights**
 IAG issued 65,000 ordinary shares on exercise of employee share rights.
- 31 August 2004** **IAG issues shares on exercise of employee performance share rights**
 IAG issued 15,000 ordinary shares on exercise of employee share rights.
- 27 August 2004** **IAG issues shares on exercise of employee performance share rights**
 IAG issued 610,140 ordinary shares on exercise of employee share rights.

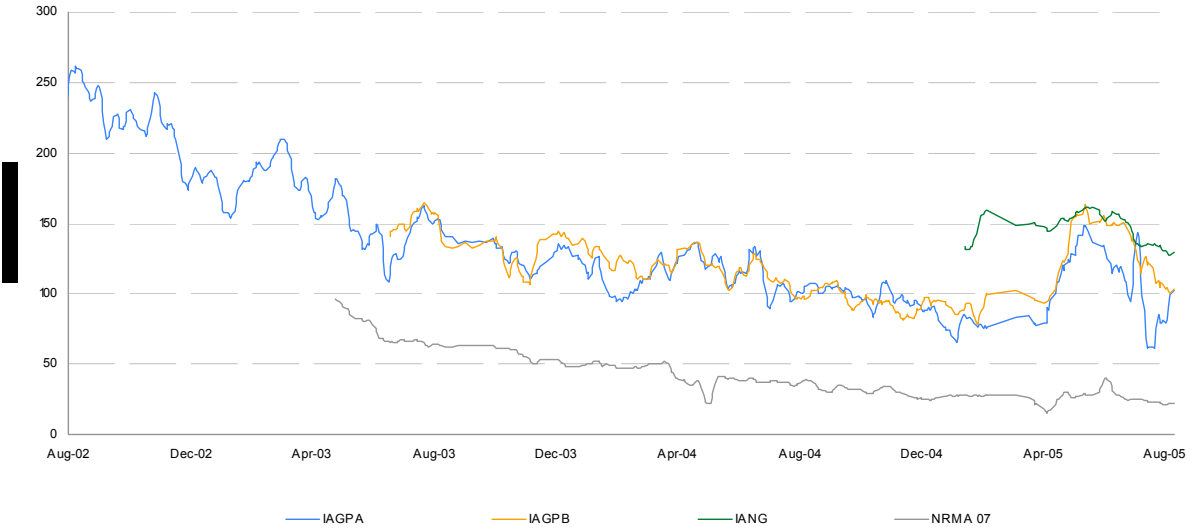
- 19 August 2004** **Announcement of annual results – 30 June 2004 and declaration of a fully franked final dividend of 14.0 cents per ordinary share payable on 18 October 2004.**
- 27 July 2004** **IAG issues shares on exercise of employee performance share rights**
IAG issued 1,080,000 ordinary shares on exercise of employee share rights.
- 20 July 2004** **IAG reorganises Australian insurance business along customer lines**
IAG announced a new structure for its Australian insurance operations more closely aligned to its core products – personal insurance and commercial classes.
- 15 July 2004** **IAG settles with US insurer following successful arbitration**
IAG accepted a settlement that will involve the Group receiving payment of US\$25m. The settlement approximates the amount carried in the Group's accounts and had no material impact on the Group's profit for the six months ended 30 June 2004.
- 8 July 2004** **Variation to Dividend Reinvestment Plan**
With effect from 15 September 2004, the issue price of DRP shares will be calculated to 4 decimal places.
- 8 July 2004** **Closing Date for Receipt of Nominations for Election of Directors at the 2004 Annual General Meeting**
IAG has been granted a waiver from Listing Rule 14.3. As such, the closing date for receipt of nominations for election as directors at the 2004 Annual General Meeting will be 6 September 2004.
- 8 July 2004** **IAG confirms small acquisition in New Zealand**
IAG confirmed that one of its New Zealand subsidiaries has acquired a 50% stake in Mike Henry Travel Insurance Limited ('MHTI').
- IAG noted its intention to take over the underwriting of travel insurance policies issued by MHTI with effect from the final quarter of the 2004 calendar year. This acquisition is not significant to the results or financial position of IAG.

Appendix E - Share Price Trends & Top 20 Registered Holdings

A. Performance of IAG ordinary share price relative to benchmark indices



B. Spread to Swap performance of Reset Preference shares & Subordinated Debt & Reset Exchangeable Securities



- ▶ The first issue reset preference shares (IAGPA) listed on 5 June 2002. The shares are expected to pay a six-monthly fully franked dividend, currently fixed at 5.80% per annum.
- ▶ The second issue of reset preference shares (IAGPB) listed on 23 June 2003. They are expected to pay a six-monthly fully franked dividend, currently fixed at 4.51% per annum.
- ▶ The RES (IANG) listed on 12 January 2005. Interest is payable quarterly. The rate for the quarter to 15 September 2005 is 4.8125% per annum, fully franked.
- ▶ The performance of the IAGPA, IAGPB and IANG prices and the IANG can be expected to be more directly influenced by the interest rate environment than the performance of IAG's business or the equity markets and the timing of payment of dividends.
- ▶ The NRMA07 spread to swap represents the '10 non call 5' year domestic subordinated note issued in November 2002 and maturing on 28 November 2012.

C. Ordinary Shareholders (IAG) as at 30 June 2005

Rank	Investor	# Shares	% of Issued Capital
1	JP MORGAN NOMINEES AUSTRALIA LIMITED	187,297,162	11.75
2	WESTPAC CUSTODIAN NOMINEES LIMITED	134,589,216	8.44
3	NATIONAL NOMINEES LIMITED	123,697,501	7.76
4	CITICORP NOMINEES PTY LIMITED	30,756,487	1.93
5	CITICORP NOMINEES PTY LIMITED (CFS WSLE GEARED SHR FUND A/C)	21,434,732	1.34
6	QUEENSLAND INVESTMENT CORPORATION (C/- NATIONAL NOMINEES LIMITED)	19,358,972	1.21
7	COGENT NOMINEES PTY LIMITED	18,591,327	1.17
8	CITICORP NOMINEES PTY LIMITED	17,477,960	1.10
9	ANZ NOMINEES LIMITED (CASH INCOME A/C)	16,905,493	1.06
10	AMP LIFE LIMITED	15,789,625	0.99
11	WESTPAC FINANCIAL SERVICES LIMITED (C/- WESTPAC CUSTODIAN NOMINEES LIMITED)	14,101,838	0.88
12	ANZ NOMINEES LIMITED (CASH INCOME A/C)	12,893,605	0.81
13	CITICORP NOMINEES PTY LIMITED (CFS IMPUTATION FUND A/C)	11,637,498	0.73
14	CITICORP NOMINEES PTY LIMITED (CFS WSLE AUST SHR FND A/C)	10,849,866	0.68
15	CITICORP NOMINEES PTY LIMITED (CFS WSLE INDUSTRIAL SHR A/C)	9,155,423	0.57
16	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED (BKCUST A/C)	9,135,424	0.57
17	IAG SHARE PLAN NOMINEE PTY LTD (PAR AUSTRALIA A/C)	7,382,732	0.46
18	GOVERNMENT SUPERANNUATION OFFICE (STATE SUPER FUND A/C)	6,332,638	0.40
19	VICTORIAN WORKCOVER AUTHORITY (C/- NATIONAL NOMINEES LIMITED)	5,191,697	0.33
20	ANZ NOMINEES LIMITED (INCOME REINVEST PLAN A/C)	5,160,132	0.32

D. Reset Preference (IAGPA) Shareholders as at 30 June 2005

Rank	Investor	# Shares	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	454,977	13.00
2	WESTPAC CUSTODIAN NOMINEES LIMITED	249,700	7.13
3	CITIBANK LIMITED	226,500	6.47
4	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED (JBENIP A/C)	187,938	5.37
5	AMP LIFE LIMITED	135,892	3.88
6	NATIONAL NOMINEES LIMITED	126,937	3.63
7	UBS NOMINEES PTY LTD (PRIME BROKING A/C)	118,663	3.39
8	CITICORP NOMINEES PTY LIMITED	117,500	3.36
9	COGENT NOMINEES PTY LIMITED (SMP ACCOUNTS)	86,034	2.46
10	SHARE DIRECT NOMINEES PTY LTD (NATIONAL NOMINEES A/C)	50,000	1.43
11	PERPETUAL TRUSTEE COMPANY LIMITED	37,965	1.08
12	ANZ NOMINEES LIMITED	34,500	0.99
13	CITICORP NOMINEES PTY LIMITED (CFSIL CWLTH SPEC 5 A/C)	33,868	0.97
14	ARGO INVESTMENTS LIMITED	30,800	0.88
15	CAMBOOYA PTY LIMITED	30,650	0.88
16	BRENCORP NO 11 PTY LIMITED	22,500	0.64
17	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	20,733	0.59
18	CITICORP NOMINEES PTY LIMITED (CMIL CWLTH INCOME FUND A/C)	20,000	0.57
19	ANZ EXECUTORS AND TRUSTEE COMPANY LIMITED (C/- ANZ NOMINEES LIMITED)	17,586	0.50
20	ASSET CUSTODIAN NOMINEES (AUST) PTY LTD	14,891	0.43

E. Reset Preference (IAGPB) Shareholders as at 30 June 2005

Rank	Investor	# Shares	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	475,032	23.75
2	SHARE DIRECT NOMINEES PTY LTD (NATIONAL NOMINEES A/C)	150,000	7.5
3	COGENT NOMINEES PTY LIMITED (SMP ACCOUNTS)	148,041	7.4
4	AMP LIFE LIMITED	132,602	6.63
5	PERPETUAL TRUSTEE COMPANY LIMITED	84,316	4.22
6	UBS NOMINEES PTY LTD (PRIME BROKING A/C)	72,436	3.62
7	CITICORP NOMINEES PTY LIMITED	72,330	3.62
8	ANZ NOMINEES LIMITED	65,177	3.26
9	NATIONAL NOMINEES LIMITED	58,135	2.91
10	CITICORP NOMINEES PTY LIMITED (CFSIL CWLTH SPEC 5 A/C)	44,352	2.22
11	ANZ EXECUTORS AND TRUSTEE COMPANY LIMITED (C/- ANZ NOMINEES LIMITED)	37,857	1.89
12	JB WERE CAPITAL MARKETS LIMITED	31,744	1.59
13	WESTPAC CUSTODIAN NOMINEES LIMITED	25,485	1.27
14	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	25,034	1.25
15	SHARE DIRECT NOMINEES PTY LTD (GLOBAL MARKETS ACCOUNT)	21,726	1.09
16	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED (MLCI A/C)	20,900	1.05
17	MRS FAY CLEO MARTIN-WEBER	20,000	1
18	BRENCORP NO 11 PTY LIMITED	16,000	0.8
19	FORTIS CLEARING NOMINEES P/L (SETTLEMENT A/C)	14,237	0.71
20	UNIVERSITY OF CANBERRA	10,000	0.5

F. Reset Exchangeable Securities (IANG) holders as at 30 June 2005

Rank	Investor	# Securities	% of Issued Capital
1	JP MORGAN NOMINEES AUSTRALIA LIMITED	774,332	14.08
2	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	405,255	7.37
3	NATIONAL NOMINEES LIMITED	336,871	6.12
4	ANZ NOMINEES LIMITED	153,852	2.8
5	SUNCORP CUSTODIAN SERVICES PTY LIMITED (AFT)	69,344	1.26
6	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED (MLCI A/C)	60,822	1.11
7	SUNCORP CUSTODIAN SERVICES PTY LIMITED (ACT)	52,845	0.96
8	CITICORP NOMINEES PTY LIMITED (CFSIL CWLTH SPEC 5 A/C)	52,720	0.96
9	UCA CASH MANAGEMENT FUND LTD	50,000	0.91
10	CRYTON INVESTMENTS NO 9 PTY TD (GARNER NUMBER 1 A/C)	48,000	0.87
11	COGENT NOMINEES PTY LIMITED	40,520	0.74
12	BRENCORP PTY LIMITED (BRENCORP NO 11 PTY LTD A/C)	40,000	0.73
13	EQUITY TRUSTEES LIMITED (EQT HIGH INC WHOLESALE A/C)	33,000	0.6
14	GOLDMAN SACHS JB WERE CAPITAL MARKETS LTD (CREDIT TRADING A/C)	31,500	0.57
15	SR CONSOLIDATED PTY LTD	30,300	0.55
16	ARGO INVESTMENTS LIMITED	25,000	0.45
17	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	24,308	0.44
18	ANZ NOMINEES LIMITED (CASH INCOME A/C)	21,299	0.39
19	WESTPAC CUSTODIAN NOMINEES LIMITED	20,794	0.38
20	CAMBOOYA PTY LIMITED	20,250	0.37

Appendix E - A Snapshot of IAG

Australian Personal Insurance Operations

Our Australian personal insurance business develops, underwrites and distributes personal insurance products, and manages claims and assessing services. It is the largest insurance underwriting and claims and assessing operation in Australia and represents approximately 61% of our business.

Our personal insurance products are sold primarily under our NRMA Insurance brand in NSW, ACT, Queensland and Tasmania. SGIO is our primary brand in Western Australia, and SGIC in South Australia. In Victoria, we distribute home, motor and other insurance products through RACV. Products are distributed through our branches, call centres and representatives. In addition, we sell a range of personal insurance nationally under the Swann Insurance brand.

Personal Insurance products distributed nationally by CGU are generally sold by intermediaries (insurance brokers and agents) and business partners (financial institutions and alliances).

Short-tail Insurance

- ▶ Motor vehicle
- ▶ Home and contents
- ▶ Niche insurance, such as pleasure craft, veteran and classic car, caravan, and travel insurance.

Long-tail Insurance

- ▶ Compulsory third party.

Australian Commercial Insurance Operations

Our Australian commercial insurance business develops, underwrites and distributes insurance products for businesses.

Our commercial insurance products are sold primarily under our CGU Insurance brand through a network of more than 1,000 intermediaries (insurance brokers and agents).

We are a leading provider of workers' compensation services in Australia and operate in every State and Territory where there is a private involvement. In NSW, Victoria and South Australia we collect premiums and manage claims on behalf of the Government. In Western Australia, Tasmania, ACT and the Northern Territory, we underwrite policies and manage claims. Comprehensive risk management services are available to all our employer customers.

Commercial insurance packages are also sold directly under the retail brands NRMA insurance, SGIO and SGIC. These are largely targeted at sole operators and smaller businesses.

Short-tail Insurance

- ▶ Commercial property
- ▶ Commercial motor and fleet motor
- ▶ Construction and engineering
- ▶ Farm, crop and livestock
- ▶ Marine

Long-tail Insurance

- ▶ Public and products liability
- ▶ Professional indemnity
- ▶ Directors' and officers'
- ▶ Home warranty
- ▶ Workers' compensation

International

NEW ZEALAND

Our New Zealand business is the leading insurance provider in the country in the direct channel and a leading insurer in the intermediated channel.

We hold approximately 35% of the New Zealand market, and are strongly positioned in all geographic markets.

We provide insurance products directly to customers under our State brand and through insurance brokers and agents under our NZI brand. Our personal lines and simplified commercial products are also distributed through agents and under the third party brands by our corporate partners, who include large financial institutions.

Short-tail Insurance

- ▶ Motor vehicle
- ▶ Home and contents
- ▶ Commercial property
- ▶ Commercial motor and fleet motor
- ▶ Construction and engineering
- ▶ Niche insurance, such as pleasure craft, boat, caravan, and travel.
- ▶ Rural and horticultural
- ▶ Marine

Long-tail Insurance

- ▶ Surgical
- ▶ Personal liability
- ▶ Income protection
- ▶ Commercial liability

CAPTIVE REINSURER

The Group purchases most of its reinsurance protections through its captive reinsurer (IAG Re Limited). The results of that business are reflected in the Group's international operations.

ASIAN INTERESTS

IAG has interests in three businesses in Asia – 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China; a controlling economic interest in RSA Thailand (from July 2005); and a strategic 22% shareholding in Thailand's Safety Insurance.

Our Brands:



1. Not owned by IAG 2. Owned in joint ventures (approximately 50% held by IAG)

Appendix F – Glossary

The following is a glossary of the terms used in this report including terms commonly used in the insurance industry.

ABS:	Australian Bureau of Statistics.
APRA:	Australian Prudential Regulation Authority.
Business Volume:	this measures the volume of business at a point in time. The basis of the measure depends on the class of business. In personal lines class of business, the relevant volume measure is risks in force. Meanwhile, in commercial classes the volume measure is “policies in force”. The difference in the definition is required to capture the distinct nature of IAG’s business mix.
Combined Ratio:	represents the total of Net Claims Expense incurred and Underwriting Expenses, as a percentage of Net Earned Premium. It is equivalent to the sum of the Loss Ratio and Expense Ratio.
CTP:	compulsory third party insurance, which is liability cover that motorists are obliged to purchase.
Exchange Right:	the right that IAG has to Exchange RES for Preference Shares at any time according to clause 8 of the RES Terms.
Expense Ratio:	the ratio of Underwriting Expenses to Net Earned Premium. Expenses are split into administration and commission, with rates calculated on the same basis.
Gross Written Premium (GWP):	the total premiums relating to insurance policies underwritten by an insurer or reinsurer during a specified period, before deduction of Reinsurance premiums.
Group:	IAG and its controlled entities.
IFRS:	International Financial Reporting Standards and A-IFRS are the Australian equivalent standards.
Insurance Margin:	the ratio of Insurance Profit to Net Earned Premium.
Insurance Profit:	Underwriting Result plus investment income on Technical Reserves.
ISA:	Insurance Statistics Australia Limited
Long-tail:	classes of insurance (such as CTP and workers’ compensation insurance) with an average period between the time when premiums are received and final settlement of claims which is generally greater than 12 months.
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 minus Recoveries.
Net Earned Premium (NEP):	Gross Written Premium plus/minus the decrease/increase in unearned premium less the reinsurance expense applicable to that period/premium.
NMVTRC:	National Motor Vehicle Theft Reduction Council
Probability of Adequacy (POA):	is 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. APRA’s prudential standard GPS 210 requires general insurers to maintain a minimum probability of adequacy of claims reserves of 75% for the purpose of assessing solvency under the insurance Act 1973 (as amended).

RACV:	Royal Automobile Club of Victoria (RACV) Limited.
Recoveries:	the amount of claims recovered from reinsurers, third parties or salvage.
Reinsurance:	the practise whereby one party (the Reinsurer), in consideration for a premium paid to it, agrees to cover certain pre-agreed liabilities of another party (the Reinsured) arising from insurance policies issued by that Reinsured.
RES:	Reset Exchangeable Securities issued by IAG Finance (New Zealand) Limited and quoted on ASX as IANG. The issuer is a wholly owned subsidiary of IAG.
Risks in Force:	risk refers to the subject matter than 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' Fund:	the investment portfolio other than Technical Reserves. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations.
Short-tail:	classes of insurance (such as motor, home and small-to-medium enterprise commercial) with an average period between the time when premiums are earned and final settlement of claims which is generally less than 12 months.
S&P:	Standard & Poor's Rating Services or Standard & Poor's Investment Services.
Technical Reserves:	the investments held to back provisions for outstanding claims (including incurred but not reported and incurred but not enough recorded) and 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, commission expenses and other acquisition expenses.
Underwriting profit/(loss):	see Underwriting Result.
Underwriting Result:	Net Earned Premium less Net Claims Expense less Underwriting Expenses.
Unearned Premium:	the portion of premium written applicable to the unexpired portion of a policy.
WACC:	weighted average cost of capital.