



Financial results Half year ended 31 December 2005

Michael Hawker, Chief Executive Officer
George Venardos, Chief Financial Officer

23 February 2006



Insurance Australia Group Limited
ABN 60 090 739 923

Good morning. Welcome to the Insurance Australia Group results briefing on our results for the six months ended 31 December 2005.

Copies of all the materials we are using here this morning are already on our website and an archive of this presentation will be published later today.

As usual, we'd like to complete the presentation before taking questions from those of you here with us in person this morning and from those on the phone lines.

Before handing over to Mike Hawker, I'd like to draw your attention to the fact that these results have been prepared using the Australian equivalents of International Reporting Standards ('AIFRS'). The comparative information for the 2005 financial year has been restated under AIFRS. Information for financial periods prior to FY05 have not been restated as the information is not readily available. The materials lodged with ASX today include reconciliations between the old and new bases.

Agenda



Results and operating conditions
Dividends
Capital position
International expansion

Michael Hawker

Changes in basis of reporting
Segmental analysis
Capital – Reinsurance & MCR

George Venardos

Outlook

Michael Hawker

Conclusion & questions



All amounts for 1H05 & subsequent periods restated under AIFRS
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Michael Hawker



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Record interim profit and dividend with capital return



- Net profit to holders of ordinary shares increased to \$461m
 - A record half-year result
 - Increased by 2% relative to 1H05 and 40.5% on 2H05
- Continuing to generate strong margins coupled with record returns from the equity markets
- Insurance margin of 15.2%, in line with guidance
 - Maintained underwriting discipline despite increased competition
 - Several factors influencing claims but relatively benign overall
 - Administration costs contained
- Increased earnings on shareholders' funds of \$345m (pre-tax)
- Interim dividend increased by 12.5% from 12.0cps to 13.5cps
- Surplus capital being utilised – dividends, Asian expansion and a \$200m capital return



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Good morning.

I am pleased to be reporting another record profit this period based on a combination of sustaining margins in our insurance operations and another very strong period for equity market returns. The reported profit for shareholders of \$461m is 2% and 40.5% higher than the equivalent half-year profits to December 2004 and June 2005, respectively.

The insurance margin of 15.2% is within the original guidance range provided to the market. It compares with a margin of 15.6% for 1H05, as restated under AIFRS.

Key to delivering this result has been adhering to our strategy of being focused on not sacrificing underwriting discipline to sustain growth even though competitive pressures increased markedly during 1H06.

Claims experience was mixed but relatively benign overall. Key features were:

- Continued improvement in commercial liability classes;
- Inflationary pressures in NSW and ACT CTP caused by higher than expected increases in AWE (average weekly earnings);
- An increased incidence of large commercial property fire losses; and
- Lower storm claims costs.

Containing costs at such a challenging time in the market is crucial and this was achieved. The whole of the increase of \$35m in administration expenses from 1H05 can be explained by increased provisions required for fire services levies.

Delivering another strong profit has enabled the Group to declare an interim dividend on ordinary shares of 13.5 cents per share. This is up 12.5% on last year's interim dividend of 12cps and means we are on-track to increase the dividends by 10% from FY05, in accordance with the guidance provided to the market.

The Group has continued to generate surplus capital and now has approximately \$870m. While some of this is ear-marked for the interim dividend and the Asian investments already announced to the market, the strength of the capital position has led the Board to resolve to return \$200m of capital to shareholders by the end of this financial year in line with our ongoing strategy to both expand and generate increasing returns to shareholders.

Financial results overview



Financial Results/Ratios	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
NEP (A\$m)	\$3,084	\$3,007	\$3,085
Profit attributable to holders of ordinary shares (A\$m)	\$452	\$328	\$461
Reported ROE % (Average Equity) to holders on ordinary equity pa	29.2%	20.0%	26.4%
Normalised ROE % (Average Equity) to holders on ordinary equity pa	21.2%	16.5%	18.2%
Net cash flow from operations (A\$m)	\$431	\$466	\$164
Basic EPS (cents)	28.54	20.77	29.06
Diluted EPS (cents)	28.35	20.65	28.89
DPS	12.00	14.50	13.50
Group insurance ratios			
Loss ratio	66.9%	66.0%	63.9%
Expense ratio	26.0%	26.7%	27.1%
Commission ratio	8.2%	8.2%	8.2%
Fire services levy (FSL)	2.9%	3.1%	4.2%
Administration expense ratio (excl FSL)	14.9%	15.4%	14.7%
Combined ratio	92.9%	92.7%	91.0%
Insurance margin (before tax)	15.6%	15.5%	15.2%
Probability of adequacy of general insurance claims reserves	> 90%	92.5%	91.8%
MCR multiple - Group	1.85x	2.00x	2.04x



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I'd like to draw your attention to a few lines on this page.

The difference between the reported **ROE** (return on equity) of 26.4% for 1H06 and the normalised ROE of 18.2% is attributable to the very strong equity returns on the core shareholders' funds.

Net cash flow from operations is about \$260m lower than 1H05. The key factors were:

- An increase of about \$60m in each of reinsurance premiums, tax paid and operating costs. The increased net operating payments include the cash outflows from provisions established in 2H05 for restructuring, superannuation contributions and extra fire services levies;
- About \$40m extra in claim payments, net of reinsurance. This is a timing issue – the most significant element of the increase is settling claims relating to major weather events in 2H05.

The **administration ratio** increasing to 27.1% masks underlying savings in expenses. In dollar terms, the Group's administration expenses increased by \$35m on 1H05 to \$584m. This can all be attributed to fire services levies, a cost we can neither accurately predict or control due to the way in which these charges are levied on insurers by the NSW and Victorian governments.

Inflation in wages, rent and consumables were covered by expense savings being realised.

The MCR multiple improved to 2.04x whilst maintaining a very strong claims reserving position at a 91.8% probability of adequacy. It is worth noting that all insurance liabilities are reserved to a probability of adequacy greater than 90%.

Leading market shares retained



Australian Premiums	Y/e Sept-04 \$'m	Y/e Sept-05 \$'m	Growth
Industry gross premium revenue	22,809	22,701	-0.5%
IAG gross written premium	5,594	5,637	0.8%
IAG share of the market	24.5%	24.8%	0.3%

Industry data per APRA Quarterly Statistics, excluding inwards reinsurance

New Zealand Premiums	Y/e Sept-04 A\$m	Y/e Sept-05 A\$m	Growth
Industry gross premium revenue	2,873	2,992	4.1%
IAG NZ gross written premium	1,049	1,091	4.0%
IAG share of the market	36.5%	36.5%	-

Industry data: Insurance Council of New Zealand

- IAG growth in Australia was 1.3% ahead of the market to September 2005
- IAG grew in line with the market in New Zealand
- Overall market share materially unchanged



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I'd now like to spend a little time on the market conditions for premium in the domestic markets and then address the Group's performance within that.

The information on this slide is the same as that on a slide I used when reporting on the FY05 results except that it now includes another six months of information. The APRA data to March 2005 showed that industry gross premium revenue had risen by 1.7% in the year to that date and I spoke about our expectation that growth in FY06 would be flat.

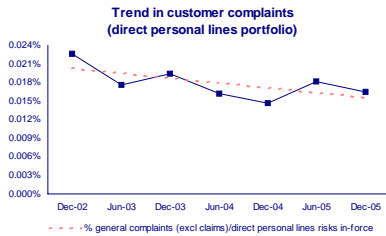
The APRA data shown on this slide shows that industry premium actually fell by 0.5% for the year to September 2005. As it has been well-telegraphed that the December renewal period has not included rate rises of note, I believe it is now safe to say that our expectation of industry premium growth in Australia merely stalling for the year to June 2006 will prove to have been optimistic!

What can also be seen on this slide is that IAG's premium in Australia grew 0.8% or 1.3% more than the market in the year to September 2005 and we delivered growth in line with the market in New Zealand at about 4% in the same period, meaning the Group has retained its leading market shares in both these markets.

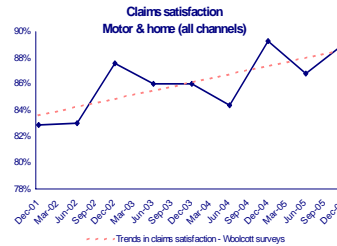
Customer service levels maintained



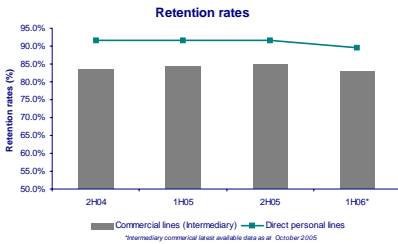
Customer complaints continue to trend below 0.02% in largest portfolio



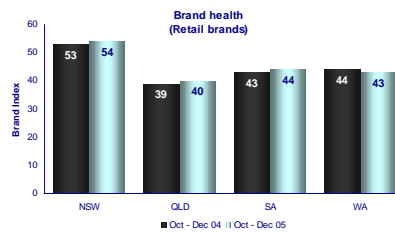
Continued improvement in delivering on claims and service



Sustaining high customer retention levels in key portfolios



Health of retail brands remains strong



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These results speak for themselves. Customer satisfaction, retention rates and brand health all remain strong.

The downwards trend in customer complaints as a percentage of policies in force in our directly distributed personal lines books continued, as did the trend up in claims satisfaction, ie they are both trending in the right direction.

Renewal rates in both the commercial book and the directly distributed motor and home books moderated slightly during 1H06. However, in the circumstances, this was to be expected and we are already working on reversing that trend in personal lines and believe that our consistent approach to pricing will see it rise again in commercial lines once the cycle turns.

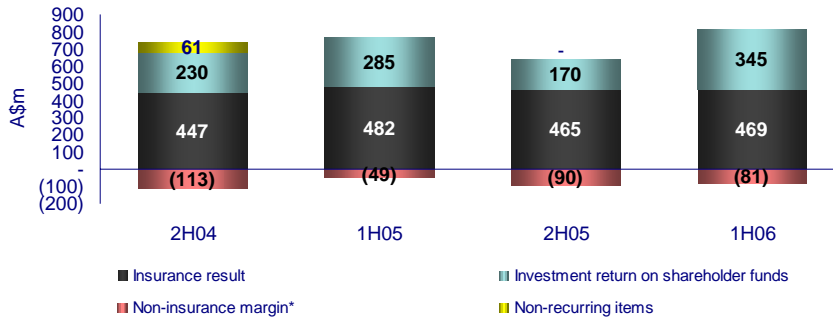
The health of our key retail brands remains strong, with improvements recorded in New South Wales, Queensland and South Australia compared with a year ago.

At the core of our business are our people who continue to strive to deliver great customer service. Based on these results, they have a good track record of delivering that.

Consistent earnings contribution from insurance business



Components of pre-tax profit (excl minority interests)



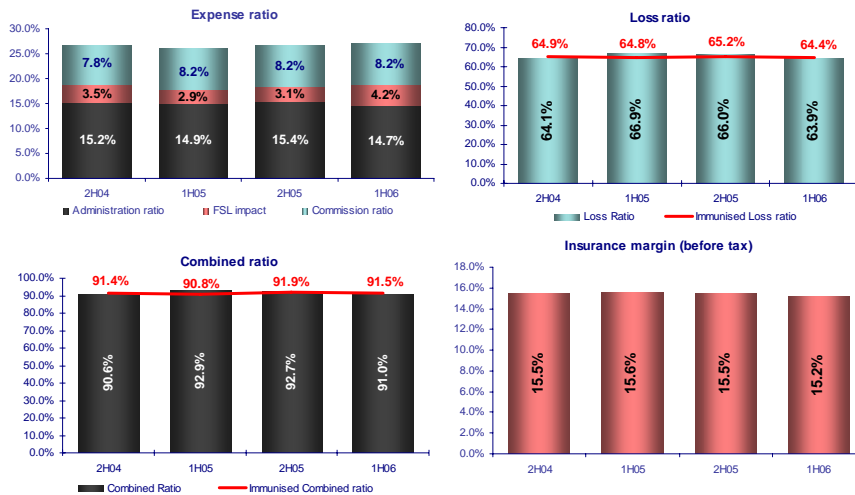
* Non-insurance margin includes net corporate expenses, NSW insurance protection tax & fee based businesses.



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Now turning back to the financials: This chart demonstrates that the core operating earnings of the Group (in dark grey on this chart) continue to deliver very strong results and that the volatility in reported earnings is really contained in the mark to market of the shareholders' funds investment portfolio.

Stability of key insurance ratios



Notes:

1. Only 1H05 and subsequent periods have been restated for AIFRS; and
2. The immunised combined ratio is determined by assuming constant bond yields within each reporting period.



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This consistency of the earnings from core operations is even more visible on these charts. I used to refer to the trends on these graphs all going in the right direction. What I'm pleased to point out now is that the ratios have now been very stable for two years at very satisfactory levels.

Delivering these consistent results is a testament to the scale and diversity of the Group's operations in Australia and New Zealand. The inevitable variability in experience, for example due to weather related events or scheme changes, can be more readily absorbed by other areas. During 1H06, for instance:

- Some of the storm and fire costs in personal lines and commercial lines in Australia were offset by benign weather experience in claims for the New Zealand business; and
- Continued favourable development of commercial liability contrasts with additional allowances for future claims costs in the CTP portfolio driven by higher than anticipated growth in average weekly earnings.

The affect of having to book additional provisions for fire services levies, to which I referred earlier, is clear on the chart at the top left-hand side. When FSL is excluded from the expense ratio, it can be seen that the ratio of the remaining expenses has actually come back to 14.7%, particularly pleasing in an environment where overall premium rates have been flat to down.

The red line on the charts for the loss ratio and the combined ratio shows what we refer to as the immunised ratios. These are derived by assuming that the bond yields current at the beginning of each period remain constant. This gives a clearer picture of the underlying trend in claims experience.

There is no equivalent line on the insurance margin as our approach to investing our technical reserves means that the change in the claims expense due to differing discount rates is largely cancelled out by the capital profits/losses recorded on the investments held to back the technical reserves.

It is this consistency that has enabled us to increase our minimum expectation for the FY06 insurance margin from 13.5% to 14.0%.

Increased investment income



Portfolio income (pre-tax) and incl. derivatives	1H05		2H05		1H06	
	A\$m	Return (%)	A\$m	Return (%)	A\$m	Return (%)
Technical reserves	263	8.1%	246	6.8%	192	5.6%
Shareholders' funds	285	23.4%	170	14.6%	345	23.2%
Total investment income	548	12.4%	416	9.0%	537	10.8%

All yields are annualised

- Technical reserves return of 5.6%
 - Includes active return of 26 bpts, primarily from the equity overlay
- Yield of 23.2% on shareholders' funds includes active return of 124 bpts
 - Return reflects mix of Australian equities (+16.0%), international equities (+33.4%), fixed interest (+4.8%) and cash (+5.8%)
- The overall gross return of 10.8% includes active return of 55 bpts or approximately \$52m (pre-tax)
- Active returns delivered each year since listing in 2000

The returns shown excludes the investment income earned on the portfolio backing the RES in 1H06 (\$16m) and 2H05 (\$14m).



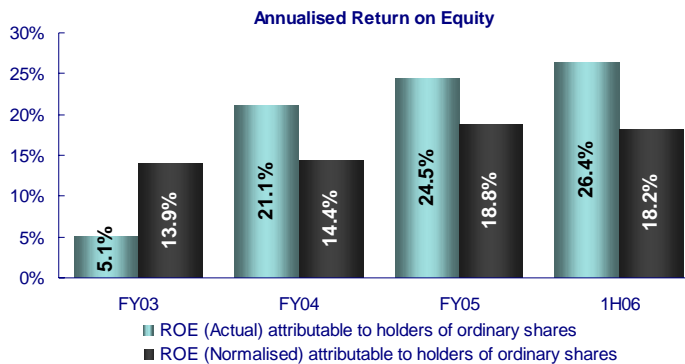
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The Group's technical reserves return of 2.8% for the half-year (or 5.6% annualised) is essentially determined by the cash and bond yields. However, it is pleasing to note that the team delivered 26 basis points in active return, primarily from our equity overlay

The Group has benefited from the growth in equity market values during 1H06. Both the market returns and the active returns delivered by our fund managers were very strong. The active return was 124 basis points during 1H06.

The yield on the shareholders' funds portfolios of 11.6% (or 23.2% annualised) is lower than the market yields on equities due to the substantial portion of the shareholders' funds invested according to our surplus capital fund. The surplus capital fund is invested under an enhanced cash mandate (maximum of 20% in growth assets) on which the yield was 2.7% (or 5.4% annualised) for 1H06.

Reported ROE enhanced by equity markets – normalised ROE sustained



- Equity market returns delivered further growth in reported ROE in 1H06
- Surplus capital (invested in enhanced cash mandate) reduced normalised ROE relative to FY05
 - Now in process of being utilised or paid to shareholders



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The Group continues to generate high returns on equity.

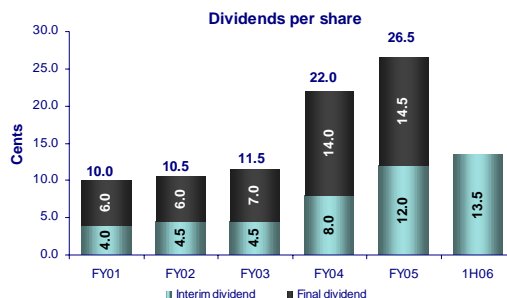
The reported ROE for 1H06, on an annualised basis was 26.4%. Normalising* this to remove the volatility of equity returns on the core shareholders' funds portfolio, the annualised ROE was 18.2%.

The normalised return is lower in 1H06 than in FY05 due to the surplus capital being carried. This increases the denominator in the calculation and also earns a return below that being earned by the capital allocated to the business.

The average ROE reported since listing in August 2000 is 12.4%. This rises to 14.2% on a normalised basis.

- ❖ The Group normalises the return on equity by replacing the actual yield on the core shareholders' funds portfolios with a rate determined by adding a 4% equity risk premium to the 10 year bond rate. The surplus capital fund portfolio yield is not normalised as it is not intended to be held for the long-term.

Double digit dividend growth – 12.5%



All earnings pre-goodwill amortisation and post RPS dividends

- Dividends for 1H06 represent:
 - 47% of reported earnings
 - 68% of normalised earnings
- Since listing, the cumulative dividend payout is 62% of cash earnings



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The Group's guidance on the total dividend on ordinary shares for FY06 was that it was confident that it could be increased by 10%. We are on track to do that and have declared an interim dividend of 13.5 cents per ordinary share which will be funded from our surplus capital.

This represents 68% of the normalised earnings for 1H06. This is near the top end of our dividend policy which is to pay 50 - 70% of normalised earnings, usually in a 45:55 split between interim and final.

Since listing, the cumulative payout ratio is 62% of earnings before goodwill amortisation for holders of ordinary shares.

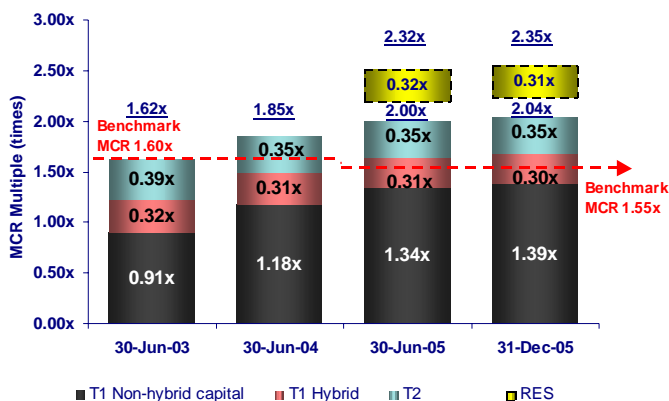
We considered it appropriate to move towards the top end of the payout ratio in this period following consideration of a number of factors including:

- The Group's current surplus capital position; and
- The Group's expectation that it will return to higher growth.

The dividend is due to be paid on 10 April.

The Group's capacity to continue to generate increases in annual dividend of about 10% per annum beyond the next year or two will be dependent on successfully progressing our ambitions for profitable growth.

Increased regulatory capital coverage



- The Group's capital, expressed as an MCR multiple, is 2.04 times
- The excess above 1.55x MCR is approximately \$870m
- A further 0.31x MCR is available to the Group from its contingent capital



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The extent of the surplus capital can be seen in the graph of the Group's MCR multiple (ie the multiple that the Group's regulatory capital is to the minimum expected as determined by applying APRA capital principles to the Group's consolidated balance sheet).

The MCR multiple at 31 December is 2.04 times, compared with 2.00 times at 30 June 2005 and the Group's current benchmark level of 1.55 times. This translates into approximately \$870m of surplus capital.

These figures exclude the Group's contingent capital of \$550m which is represented by the yellow section on these charts. This capital has already been raised in the form of off-balance sheet debt and is at call for conversion into Tier One quality capital.

This very strong capital position supports our AA (stable) ratings and Standard & Poor's has confirmed that the capital return announced today will not endanger these ratings.

Capital return



- Surplus capital of approximately \$870m at 1H06, before paying the interim dividend on ordinary shares of \$215m
- Continuing philosophy of returning surplus capital to shareholders
 - History of buy-backs (three in five years)
- Surplus capital being held for pending Asian investments, particularly China
 - Imminent completion of AmAssurance
 - Tender for further stake in Safety Insurance is open
 - Working to finalise agreement with China Pacific Property Insurance
- Core operations expected to continue to generate surplus capital
- Decision to return \$200m of capital to shareholders in 2H06
 - Form of return yet to be determined



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When presenting on the Group's 2005 results, I referred to the strong surplus capital position and the Group's desire to temporarily pull back from our history of regular returns of surplus capital in anticipation of being able to execute on Asian expansion and not wishing to spend funds returning capital only to need to raise the capital again within a very short timeframe.

As it turned out, while we have announced progress on three transactions, none of these was settled before balance date.

The deal with AmAssurance is due to settle on 3 March (Foreign Investment Committee approval was received on 16 February) and the tender for shares in Safety Insurance is underway. The aggregate cost of these two investments will be less than \$150m.

We don't expect to be able to reach the stage of paying for our stake in China Pacific Property Insurance before 30 June 2006.

Given this timeframe, our surplus franking credit position and our expectation of continued solid returns from our Australian and New Zealand operations, we concluded that we would move to return \$200m to shareholders before 30 June 2006.

What form of capital return will be most efficient and effective has not yet been determined. Clearly special dividends and buy-backs are part of these considerations.

We will update the market once the Board makes its determination.

Acquiring stakes in profitable Asian insurers with total GWP of over \$3bn



Est. total GWP ¹	Insurance industry growth pa
\$2,628m	14%
\$35m	11%
\$96m	11%
\$275m	10%
\$3,034m	

Notes:
1) Estimated GWP based on local accounting policies

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I now want to provide some context for the progress we've made in executing our strategic goal of establishing a foothold in the Asian general insurance markets. While our Australian and New Zealand businesses are our core operations, the maturity of these markets and our leading positions within them, provide us with little scope for significant growth. Having identified this, we announced to the market four years ago that we were looking to the Asian region for a source of additional growth in the future.

Over the past four years, we've been involved in a number of potential deals which did not come to fruition for a range of reasons including price, misaligned objectives and our perception of cultural fit with the potential partner. In recent months we've been pleased that a number of transactions have progressed to the point of being announced to the market.

- In July 2005, the Group acquired a small general insurer in Thailand, formerly owned by Royal & SunAlliance Insurance Group. This company, now renamed IAG Insurance (Thailand) and operating under the NZI brand, is primarily a commercial insurer writing about \$35m in GWP per annum;
- This is our second investment in Thailand, having had a strategic stake in Safety Insurance since 1998. We increased our voting stake in Safety Insurance just two weeks ago to 38.3% and currently have a tender in the market for the remaining shares. This offer is due to close on 27 March. Safety Insurance's business, which is currently writing close to \$100m per annum of GWP, is complementary to NZI's in that it is primarily a personal lines insurer;
- In early December we announced that we had agreed to acquire an initial 30% stake in Malaysia's second largest motor insurer, AmAssurance Berhad. This business is, based on the latest figures to hand, generating over \$270m per annum of GWP. The final regulatory approval for this transaction was received last week and completion is expected by the end of next week; and
- On 7 February, we announced the signing of an MOU (memorandum of understanding) to acquire an initial stake of 24.9% of China Pacific Property Insurance Company, China's second largest insurer which reported GWP of \$2.2bn in the 10 months to October 2005.

All of these operations are reporting profits in their local markets.

Completion of these transactions will provide the Group with significant stakes in profitable companies generating over \$3bn of GWP annually. And, this is in markets that are currently experiencing GWP growth of between 10% and 14% per annum.

IAG's initial equity interest equates to over \$800m of GWP – 12.7% growth



	Estimated annual GWP \$m	Current equity share %	IAG share of GWP \$m	Transactions as percentage of IAG GWP
Finalised transactions				
IAG Thailand (NZI)	35	100.0	35	
Safety Insurance	96	38.3	37	
AmAssurance	275	30.0	83	
	406		155	2.4%
Transactions in progress				
CPPIC	2,628	24.9	657	
Safety Insurance		>50.0	>11	
	2,628		657	10.2%
Grand total	3,034		812	12.7%

- Settlement of AmAssurance is imminent and the tender for remaining shares in Safety Insurance is open
- Each of these businesses is reporting underwriting profits in its local market
- IAG share expected to improve through organic growth in these businesses and IAG's options to increase its initial equity holdings



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On this slide we present what these transactions mean in terms IAG's growth.

The top half of the table reflects the transactions which are finalised – including the AmAssurance transaction which we are about to settle. Together our stakes in these companies add 2.4% to the GWP on which we will be earning income.

The second half of the table deals with the other transactions which are currently being progressed, ie the acquisition of 24.9% of CPPIC and further increasing our stake in Safety Insurance. For presentation purposes, we have assumed our share of Safety will end up at a minimum of 50%.

Apart from Thai business, we won't be a controlling shareholder of the other operations so we won't be consolidating the related premium but it will form the basis of adding value to IAG's shareholders in the form of dividends, reinsurance premiums and growth in the value of our stake in these businesses.

Both the AmAssurance deal and the MOU for CPPIC include terms providing for IAG to increase its stake beyond the initial stakes, subject to certain conditions and regulatory approvals. This, combined with the anticipated growth in these insurance markets on the back of economic growth rates that outstrip both Australia and New Zealand and increasing insurance penetration as the populations become more affluent, means the initial figure of \$800m can be expected to grow quite quickly.

Further opportunities in Asia continue to be identified and investigated.

George Venardos



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Changes in basis of reporting



- Required to report under Australian equivalents of International Financial Reporting Standards (AIFRS) for FY06
- All information relating to FY05 has been restated
 - Earlier periods not being restated as information not readily available
- Reconciliations in financial statements and appendix to investor report
- The most significant differences to the previous reporting basis arise from the treatment of
 - Reset preference shares as debt
 - Goodwill
 - Surpluses in superannuation funds
 - Software development costs
- The profits the Group's captive has earned from reinsuring the risks of the consolidated group have been allocated back to those businesses



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As you are all aware, we are obliged to prepare our 2006 financial statements on the basis of AIFRS.

We have restated the financial statements for 2005 on the same basis. To supplement the reconciliations provided in the statutory financial statements, there are reconciliations by reporting segment in the investor report for the 2005 financial year.

As foreshadowed when we announced our June 2005 results, the net impact on the reported profits was immaterial. The most significant changes were:

- Reclassification of the Group's reset preference shares as debt rather than equity
- Only recording a write-down in goodwill when the goodwill is impaired. There is no longer any regular amortisation;
- Recognising the movement in the financial position of the defined benefit superannuation plan rather than cash contributions; and
- Capitalising and amortising software development – previously the requirements meant the Group expensed all costs as incurred.

Within the segment reporting we have made a further change. Following feedback from investors on how to treat the results of our captive, we decided that it would be best to allocate the profits and losses earned by the captive back to the other businesses based on the profits earned by the captive from those businesses. This has been effected by adjusting the reinsurance expense in each business by the relevant share of the captive's results. These adjustments are also set out in the appendix to the investor report. As this treatment differs from the usual consolidation treatment set out in the statutory financial statements, there are now minor differences between the two reports.

Australian Personal Lines



Australian Personal Lines	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
	A\$m	A\$m	A\$m
Gross written premium	2,002	1,976	1,936
Gross earned premium	1,986	1,950	1,973
Reinsurance expense	(83)	(127)	(93)
Net premium revenue	1,903	1,823	1,880
Net claims expense	(1,268)	(1,283)	(1,289)
Commission expense	(114)	(116)	(122)
Underwriting expense	(331)	(338)	(342)
Underwriting profit	190	86	127
Investment income on technical reserves	158	145	119
Insurance profit	348	231	246
Insurance ratios			
Loss ratio	66.6%	70.4%	68.6%
Expense ratio	23.4%	24.9%	24.7%
<i>Commission ratio</i>	6.0%	6.4%	6.5%
<i>Administration ratio</i>	17.4%	18.5%	18.2%
Combined ratio	90.0%	95.3%	93.3%
Insurance margin (before tax)	18.3%	12.7%	13.1%



SGIO

SGIC



STATE

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Turning to the segments, Australian Personal Lines (APL) delivered a margin of 13.1% for the half which is up 0.4% on the 2H05 but well down on the 1H05 margin of 18.3%. This reflects a very strong performance from short-tail personal lines which was offset by a historically low margin from CTP.

GWP was down 2% from 2H05 and 3.3% relative to 1H05. The overall reduction in personal lines GWP was \$40m relative to 2H05. Within this:

- The direct short-tail books increased by \$3m in the period.
- The indirect personal lines book was down by \$21m which is related to the reduction experienced in our commercial book; and
- Our CTP book reduced by \$22m.

The reinsurance expense fluctuated in line with the division's share of recoveries delivered by our captive, IAG Re. The lower expense in 1H05 and 1H06, relative to 2H05, reflects the recovery of profits earned by the captive in those periods. The recoveries relate to cumulative attritional losses from weather events that triggered claims under our aggregate stop loss programme.

- The net claims expense for 1H06 includes an \$8m favourable adjustment arising from the increase in discount rates used for the half-year, in contrast to 1H05 which included a negative adjustment of \$28m.
- The investment return on technical reserves reduced in line with the increase in bond yields during the period.
- The administration expense ratio improved despite the fact that it includes an adjustment for prior period Fire Services Levy (FSL) of \$14m which was notified by the NSW and Victorian Governments.
- It also includes incremental advertising costs of \$10m more than 1H05.
- The realisation of other expense efficiencies enabled the total increase in administration expenses to be contained at \$4m over the 2H05.
- \$31m of expense efficiencies were targeted for implementation during the FY06. By 31 December 2005, \$18m had been implemented and the business is on track to deliver the balance by 30 June 2006.
- Claims frequency was slightly better for both motor and home than it was for 1H05.

During the period wages growth, parts prices and building costs have all acted to increase claims costs. At the same time we have introduced our SCV system enhancements, new procurement models for home insurance, jewellery, carpet, computers, white and brown goods and building damage including glass.

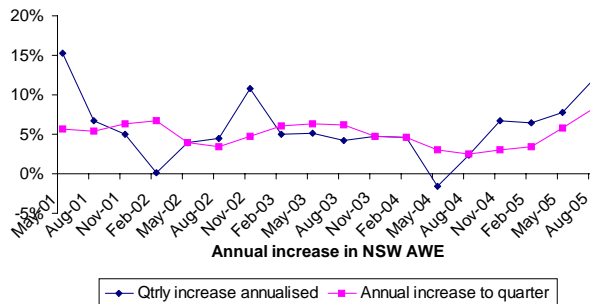
This has led to an improvement in our average claims costs for contents and home building claims etc.

We have also established our new motor claims model for NSW and, after some interesting challenges, it is performing in line with the other states where it has been operating successfully for up to 3 years.

Recent customer feedback has been very positive as we continue to roll out further refinements to improve the consistency of the customer experience.

- In summary, the lower result from CTP has been offset by strong margins from our core short tail personal lines business.

CTP affordability and AWE inflation



- Measured using the 'Sydney best metro' rate over five years
 - Premium up by 1.6%
 - NSW AWE up by 28.4%
 - Annual CTP premium down to 35.3% of a week's AWE from 41.8%
- AWE acceleration raising concern about future claims payment inflation



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Based on the latest available statistics our share of NSW premium has dropped 1.5% to 37.9% over the year to 31 December 2005. During the same period our share of NSW CTP as measured in terms of motor registrations dropped by only 0.5%.

In other words, during the past 12 months the quality of our mix of business has continued to improve due to the disproportionate reduction in our share of higher risk business.

CTP rates in NSW have not increased since July of 2003. The affordability of CTP in NSW has improved to a point where the annual CTP premium is down to 35% of AWE.

The chart at the top of this slide shows the most significant development for this class of business during the period. The Average Weekly Earnings index (AWE) as published by the ABS has been a reliable forward indicator of future claims costs in this book of business for many years. In the year to September 2005, the latest available information, AWE in NSW increased by 8.2%. This compares with an historic trend of around 4% pa.

- The blue line takes the increase for each quarter and annualises it (i.e. multiplies the increase for the quarter by four); and
- The pink line is a rolling twelve-month increase in the index.

The impact of this AWE trend, particularly the last 2 data points, has led to an increase in our reserves of \$68m which reduced the insurance margin for APL in the period by 3.6%.

While there is some volatility in the data and the data may revert to the levels experienced for the past two to three years, the Group decided that it would be prudent to assume that the increased level of AWE may continue for some time.

There has been no notable change in average claims costs to date and settlements under the CARs process remain within our allowances. This change is focused on ensuring that there is an adequate reserve set aside to meet future claim settlement costs.

As mentioned in our reports on prior periods, the claims frequency in the NSW CTP scheme reduced over a number of years and the savings from the reducing frequency had out-weighted the inflation encountered in average claim payments.

Claims frequency has now effectively reached a plateau with any savings being out-weighted by inflationary pressures.

At this stage, no major increase in the benchmark premium is anticipated but the data will need to be closely monitored.

Note:

Long Term Care has a new name, Life Time Care (LTC).

LTC will take 11-13% of revenue of the scheme. This equates to a 1% reduction in revenue for IAG Group. We also expect material capital releases to come from this change.

Australian Commercial Lines



Australian Commercial Lines	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
	A\$m	A\$m	A\$m
Gross written premium	827	867	761
Gross earned premium	831	803	823
Reinsurance expense	(95)	(83)	(85)
Net premium revenue	736	720	738
Net claims expense	(524)	(405)	(409)
Commission expense	(90)	(88)	(86)
Underwriting expense	(147)	(148)	(165)
Underwriting profit	(25)	79	78
Investment income on technical reserves	93	87	59
Insurance profit	68	166	137
Profit from fee based business	11	(25)	1
Total commercial line result	79	141	138
Insurance ratios			
Loss ratio	71.2%	56.3%	55.4%
Expense ratio	32.2%	32.8%	34.0%
<i>Commission ratio</i>	<i>12.2%</i>	<i>12.2%</i>	<i>11.7%</i>
<i>Administration ratio</i>	<i>20.0%</i>	<i>20.6%</i>	<i>22.3%</i>
Combined ratio	103.4%	89.1%	89.4%
Insurance margin (before tax)	9.2%	23.1%	18.6%



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In spite of the challenging premium environment Australian Commercial Lines delivered an insurance profit of \$138m and an insurance margin of 18.6%. The profit is in line with the 2H05 and well ahead of the 1H05 result of 9.2%. The 1H06 GWP of \$761m is 8.0% lower than the 2H05 and 12.2% lower than 1H05.

The softening cycle and competitive pressure continued to intensify during the period which accentuated the need for innovation and product diversity. Within this, we managed to maintain our renewal rates above 80%.

This GWP trend is in line with our ongoing strategy to balance market positioning and maintain underwriting discipline. The key tactic of maintaining high levels of customer retention has enabled us to sustain profitability during the half-year. In support of this approach, incentives are based on retention and profitability rather than growth and underwriting authorities have been restricted to ensure key risks or pricing decisions are reviewed before cover is issued.

As I said earlier, retention remained over 80% aided by the execution of initiatives to manage relationships, deliver product diversity and improve processes.

As you would expect the market has not been uniform with rates softening in the different classes for different reasons.

- Premium rates in liability reduced by more than any other class but profitability is still acceptable based on our projections.
- Most of our volume was lost due to the market pricing in property and construction classes being below our acceptable levels.
- We also saw notable increases in market capacity for professional indemnity which was instrumental in softening rates for this class.
- In contrast, our workers compensation book in WA benefited from the strong economy in that state.

If you exclude FSL from total expenses, our underwriting and administration costs were \$230m in 1H06 vs \$237m in 1H05. This one off impact of prior period FSL added \$22m or 3% to the expense ratio for the period. New measures have now been put in place to reduce the potential impact of this type of notification in the future.

When we look at expense management opportunities there is no doubt that the commercial business we purchased from Aviva in 2003 had significantly underinvested in technology and automation. As a result, the business presents a number of opportunities to increase automation and reduce duplication and manual handling.

The single biggest initiative in the next 12 months will be the rollout of national operating procedures for all major processes. We expect to see further improvements in the cost base as the various initiatives are implemented.

The most notable component of the claims expense was further releases from liability claims reserves as the benefits of tort reform continue to emerge. There were no large losses from weather events in the period but the benefits of this were muted by an increase in individual large losses.

During 1H06 overall asbestos claims experience improved at a rate better than expected in the Group's reserving assumptions. Given the potential volatility in asbestos experience, the Group's provisions have not been adjusted and the level of provision has been maintained.

The survival ratio at 31 December 2005 is 42 times the average of the past three years claims paid.

International businesses



International operations	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
	A\$m	A\$m	A\$m
Gross written premium	499	502	509
Gross earned premium	494	496	524
Reinsurance expense	(49)	(34)	(57)
Net premium revenue	445	462	467
Net claims expense	(271)	(298)	(272)
Commission expense	(49)	(44)	(46)
Underwriting expense	(70)	(70)	(77)
Underwriting profit	55	50	72
Investment income on technical reserves	12	14	14
Insurance profit	67	64	86
China Automobile Association	(2)	(2)	(3)
Total international result	65	62	83
Insurance ratios			
Loss ratio	60.9%	64.5%	58.2%
Expense ratio	26.7%	24.7%	26.3%
<i>Commission ratio</i>	11.0%	9.5%	9.8%
<i>Administration ratio</i>	15.7%	15.2%	16.5%
Combined ratio	87.6%	89.2%	84.5%
Insurance margin (before tax)	15.1%	13.9%	18.4%



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At this stage the results of the International segment include IAG NZ and IAG Thailand which is trading as NZI.

IAG Thailand wrote GWP of \$16m in 1H06 with a COR of 77.7%, which is well ahead of the business case that supported this acquisition.

Subject to gaining control of Safety Insurance through the current tender, the 2H06 consolidated results will also include Safety Insurance. This is a business in which we have been a minority shareholder since 1998. The business currently writes around \$100m of GWP per annum with a COR which is consistently well under 100%.

The minority position in our Malaysian investment AMMB Insurance will be equity accounted going forward.

A record performance from IAG NZ



New Zealand Operations	Half-year ended	Half-year ended	Half-year ended
	Dec 04	Jun 05	Dec 05
	A\$m	A\$m	A\$m
Gross written premium	499	502	494
Gross earned premium	494	496	507
Reinsurance expense	(49)	(34)	(45)
Net premium revenue	445	462	462
Net claims expense	(271)	(298)	(269)
Commission expense	(49)	(44)	(46)
Underwriting expense	(70)	(70)	(75)
Underwriting profit	55	50	72
Investment income on technical reserves	12	14	14
Insurance profit	67	64	86
Insurance ratios			
Loss ratio	60.9%	64.5%	58.2%
Expense ratio	26.7%	24.7%	26.2%
<i>Commission ratio</i>	11.0%	9.5%	10.0%
<i>Administration ratio</i>	15.7%	15.2%	16.2%
Combined ratio	87.6%	89.2%	84.4%
Insurance margin (before tax)	15.1%	13.9%	18.6%



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The IAG NZ result is a record during our period of ownership and is also a result which, like the prior periods, is well ahead of the business case that supported the two acquisitions that make up this business, ie State and NZI.

These results were achieved despite the operating environment which produced a challenging landscape for business growth, strong competition amongst consolidated players and increasing capital capacity from foreign players.

The business performed well across the board with the direct channel, corporate partners and the broker channel all well positioned in the trade off between growth and profitability.

During the 1H06 IAG NZ managed to grow GWP in its direct personal lines and corporate partners channel which offset the reduction in the broker channel experienced in the soft cycle.

The loss ratio of 58.2% improved by 2.7% relative to 1H05 largely reflecting better claims experience and improved claims processes which were implemented during the period.

The increase in the administration ratio from 1H05 is due to a number of factors which include:

- the acquisition of three distribution businesses in 1H04 where we were the existing underwriter. This had the effect of moving expenses between external commission and administration expenses; and
- NEP has remained flat while the operating expense has had to absorb inflation and the cost of the business's further investment in core capability.

The NZ business is on track to complete the rollout of the Australian Personal Lines technology platform for policy administration and claims in the 1H07. Most of the remaining costs for the rollout will be incurred in the 2H06 and most of these costs will be capitalised and amortised in line with current IFRS requirements.

The NZ business also undertook a significant repricing of the home building insurance book which generated improved profitability in what has been an unprofitable product over an extended period.

Reinsurance



- Catastrophe event limit cover purchased was retained at \$3.5bn
- Maximum event retention increased to \$200m from \$100m
 - Cost of cover in the market too expensive relative to the capital the Group considers necessary to back it
 - Moves the exposure to a little over 3% of NEP for one event
 - Cover for a second event in place with a \$175m deductible
- Reinsurer counterparty credit profile has improved
 - 75% of catastrophe programme provided by 'AAA'/'AA' rated reinsurers (previously 70%)
 - Some of the programme continues to be 'collateralised' providing further comfort
- Reinsurance recoveries, including IBNR/IBNER, are \$645m



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The Group's catastrophe cover was renewed effective 1 January 2006.

The catastrophe event limit cover purchased was retained at \$3.5bn. Although exposure across Australia and New Zealand grew by 8%, this growth was largely in areas which did not add to the Group's "peak" risks.

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 \$2bn.

The \$3.5bn of cover on the same APRA basis is equivalent to a return period of 1 in 430 years.

From 1 January 2006, the retained catastrophe loss for a first event was increased from \$100m to \$200m, dropping to \$175m for a second event.

The \$200m limit moves the income statement volatility from under 2% of net earned premium to approximately 3.5% of NEP.

The decision to increase the retained single event loss was made after careful consideration of the cost of cover available in the reinsurance market.

The best price offered was well above our view of a fair price for the risk.

In the end it proved to be capital efficient to retain the risk against the Group's capital.

The counter-party credit profile of the catastrophe programme has improved: The expiring programme obtained cover for 70% of the limit from parties rated S&P 'AA' or above the 2006 programme now stands at 75% 'AA' or above.

Furthermore, as in 2005, some of the limit was 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.

Capital strength – surplus capital



Coverage of regulatory capital requirements		IAG Group		
A\$m	31-Dec-04	30-Jun-05	31-Dec-05	
Tier 1 capital				
Paid-up ordinary shares	3,263	3,263	3,263	
Hybrid equity	539	539	539	
Reserves	(4)	(6)	-	
Retained earnings	(51)	59	376	
Excess technical provisions (net of tax)	328	499	465	
Less: deductions ⁽¹⁾	(1,503)	(1,478)	(1,619)	
	2,572	2,876	3,024	
Tier 2 capital				
Subordinated debt	607	616	628	
Capital base	3,179	3,492	3,652	
Minimum capital requirements (MCR)				
Australian general insurance businesses	1,537	1,511	1,570	
International insurance businesses MCR ⁽²⁾	184	235	223	
	1,721	1,746	1,793	
MCR multiple	1.85x	2.00x	2.04x	

1. Includes goodwill, net deferred tax assets and capitalised software.
2. The MCR and capital base for the international insurance business is calculated on a similar basis to the Australian regulatory requirements and includes the captive reinsurance business and the operations in New Zealand and Thailand.

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This slide sets out MCR information for both the consolidated Australian operations and for the whole Group. The calculation is based on applying in principle the APRA standards for individual entities to the consolidated position, pending the publication by APRA of a standard to determine prudential capital at a consolidated level.

The data for the calculation is sourced from the Australian IFRS balance sheet. The introduction of IFRS has not had a material effect on the MCR calculation. Reset preference shares which are now classified as an interest-bearing liability in the Australian IFRS balance sheet continue to be treated as Tier 1 capital for regulatory purposes.

The other noticeable AIFRS adjustments are in relation to goodwill and capitalised software which are recognised as a benefit in the retained earnings. However, this benefit was offset by an increase in the deductions made in determining the capital base.

The comparatives for December 2004 and June 2005 have not been reinstated to an AIFRS basis.

The Group regulatory capital base, as defined by APRA, has increased from \$3,492m to \$3,652m during 1H06 due to:

- Strong earnings after tax for the period (net of final dividend paid in October 2005);
- Reduction in net future income tax benefits, primarily due to unrealised gains from strong investment performance;
- An increase in the Australian dollar value of the US dollar denominated term subordinated debt (recognised as lower Tier 2 capital); and
- A reduction in excess technical provisions. This was mainly due to an increase in the premium liability relative to the unearned premium balance caused by the increased inflation assumptions in the NSW CTP portfolio.

The regulatory capital required has increased from \$1746m to \$1793m as a result of the increase in the maximum event retention to \$200m from \$100m offset in part by a lower investment risk charge due to the lower holdings of equities.

The probability of adequacy for all insurance liabilities, i.e. including the liability on unexpired premium, increased from 90.2% at 30 June 2005 to 90.5% at 31 December

Outlook



Insurance Australia Group Limited
ABN 60 090 739 923

I'd now like to hand back to Michael Hawker to discuss our outlook.

Outlook



- During 2H06, the Group expects
 - To deliver an insurance margin in the range of 14 – 16% for FY06
 - Maintain A & NZ market shares, provided pricing is at sustainable levels
 - Progress completing the international investments already announced and pursue other opportunities in accordance with its stated strategy
 - Return \$200m of surplus capital to shareholders by 30 June 2006
- Beyond FY06, the Group expects to
 - Experience premium growth in Australia and New Zealand that is more in line with long-term experience of market growth in insurance
 - Deliver returns on equity from the A & NZ business that exceed the insurance market average by 2 – 3%
 - Generate value for shareholders from its Asian platform for growth



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During 2H06 the Group expects to:

- Sustain insurance margins such that the full year margin will be between 14% and 16%;
- Maintain its Australian and New Zealand market shares, provided that pricing is at sustainable levels;
- Progress completion of the international investments noted above and continue to investigate other opportunities in accordance with its stated strategy; and
- Return \$200m of surplus capital to shareholders.

The Group's outlook for premium growth is dependant on the timing of the completion of the Asian investments outlined above as these have a material bearing on its growth prospects. At a macro level, the Group expects:

- The Australian and New Zealand insurance markets will continue the historic trends of growing at 1.5 – 2.0 times GDP measured over cycles. The point at which premium rates rise will depend on a number of external factors in the local economy and international insurance markets;
- The Group's current position within the Australian and New Zealand markets is such that it should be able to sustain returns of approximately 2 – 3% above the industry average. How this translates into insurance margins depends on an individual insurer's mix of business from time to time and that insurers' views on capital required to back its business;
- The growth rates in premium in the Group's Asian interests will exceed those of the Australian and New Zealand markets based on both the higher economic growth rates in the region and the increasing penetration of general insurance in these markets as the populations accumulate more wealth; and

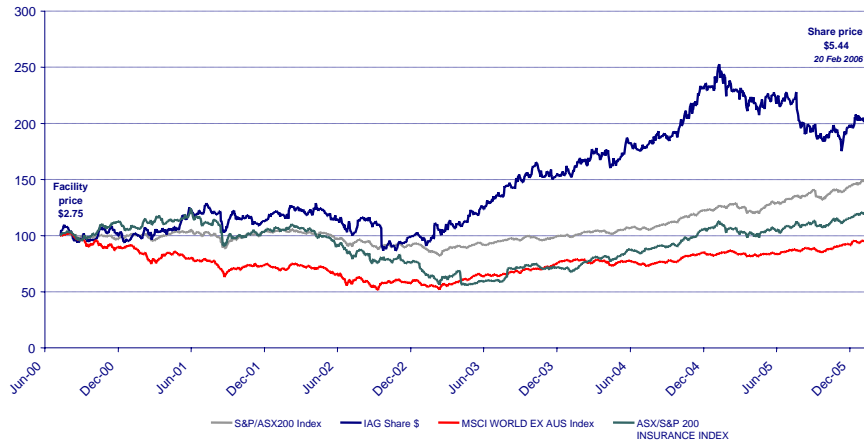
We expect our returns on equity from the Australian and New Zealand business will exceed the insurance market averages by 2 – 3%.

The Group believes its Asian interests will provide a solid base for growth in earnings and value for shareholders.

Share price performance since listing



IAG Relative Share Price Performance



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Questions



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