

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)

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Key dates for shareholders – proposed calendar of events*

Interim dividend – ordinary shares

- | | |
|--------------------|---------------|
| ▶ Ex-dividend date | 2 March 2006 |
| ▶ Record date | 8 March 2006 |
| ▶ Payment date | 10 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 24 August 2006

Final dividend – ordinary shares

- | | |
|--------------------|------------------|
| ▶ Ex-dividend date | 31 August 2006 |
| ▶ Record date | 6 September 2006 |
| ▶ Payment date | 9 October 2006 |

Due date for IANG quarterly distribution 15 September 2006

Annual General Meeting 15 November 2006

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

Announcement of half year results – 31 December 2006 22 February 2007

** these dates are indicative dates only and are subject to change.*

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1. Introduction

- ▶ The Group produced another record profit result with net profit after tax attributable to holders of ordinary shares of \$461m, which is a 40.5% improvement on 2H05 (\$328m) and 2.0% on 1H05 (\$452m).
- ▶ This result includes an insurance profit before tax of \$469m, compared with \$465m in 2H05 and \$482m in 1H05. This represents an insurance margin of 15.2% compared with 15.5% in 2H05 and 15.6% in 1H05.
- ▶ The result also includes pre-tax income on shareholders' funds investments of \$345m (1H05: \$285m) following another very strong performance in equity markets.
- ▶ The increase in the Group's profitability has enabled it to declare a 12.5% increase in its interim dividend to 13.5 cents per ordinary share. This is consistent with its goal of 10% growth in dividends per share for FY06.
- ▶ The Group's capital position, measured as a multiple of APRA's minimum capital requirements applied to the Group, remains very strong at 2.04x. The Board has resolved to move to return \$200m to shareholders by the end of 2H06.
- ▶ All figures presented in this report for 1H06 are stated using Australian standards issued as equivalents to International Financial Reporting Standards (AIFRS). Comparative information for 1H05 and 2H05 has been restated unless otherwise specified. Reconciliations to the previous basis of reporting are provided in appendix H to this report.

1.1 Operating environment in 1H06 – Australia and New Zealand

- ▶ The operating environment during 1H06 was challenging, with a further escalation of competitive pressure in both the personal and commercial lines markets. Despite this, the Group delivered an insurance margin of 15.2% in 1H06, in line with its original the guidance of the FY06 margin being between 13.5% and 16.3%.
- ▶ The commercial insurance market has continued to experience "soft" conditions. The benefits of tort reform have justified rate reductions in public liability, while the international insurance cycle has been the key factor in most other classes. Industry reports have indicated rate revisions in commercial lines averaging around 9%, with particular segments such as the corporate market and some occupation groups exceeding this average, and the small to medium enterprises (SME) and other occupation groups being below this average. Although there have been reports of instances of weakening in policy terms and conditions, there are no signs that this is endemic. Industry profitability still appears to be at acceptable levels, although relatively lower than the previous year as lower priced premium is earned.
- ▶ The personal lines market has also experienced strong competition, with all major market participants increasing advertising presence. During 1H06 there was a gradual movement towards price-based marketing, indicating increasing pressure on profitability in this segment, even though average price increases have lagged either or both general inflation and claims inflation for a couple of years. However, there are no signs of a "price war" as price changes have been minimal.
- ▶ APRA's statistics on total industry premium revenue (excluding inwards reinsurance) for the year to 30 September 2005 show a reduction year on year of 0.5% from \$22.8bn to \$22.7bn. A further fall is anticipated when the December quarter results are published, given the market conditions noted above. This contrasts with the Group's expectation of a flat market in the year to June 2006 when it reported its 2H05 results.
- ▶ The market conditions in New Zealand have been broadly similar, although industry premium growth in the year to September 2005 was 4.1%, as measured by the Insurance Council of New Zealand.
- ▶ The Group's share of premium, using these statistics, grew marginally in Australia and remained static in New Zealand.

- ▶ The Group's strategy for both commercial and personal lines in these market conditions has been to focus more on defending its profitable business than seeking to grow, by striking a balance between its discipline on risk-based pricing and maintaining its leading market position to form the basis for profitability through the industry cycles it faces.
- ▶ The Group had an additional challenge in its ability to sustain premium growth during 1H06, as it generates approximately 43% of its GWP in New South Wales (NSW) and the Australian Capital Territory (ACT), where economic growth has been very slow relative to the rest of Australia.
- ▶ As a result of all these factors, GWP reduced by 3.7% relative to 1H05.
- ▶ Further information on the Group's performance and response to the market dynamics are contained in the segment commentary in this report.

1.2 *International expansion*

- ▶ In recognition of the maturity of the Australian and New Zealand markets and the Group's leading position in them, in 2002 the Group embarked on a strategy to expand internationally. Since 30 June 2005, the following results have been achieved:
 - Completed the acquisition of Royal & SunAlliance's general insurance operation in Thailand in July 2005. This business, now renamed IAG Insurance (Thailand) Ltd and operating under the NZI brand, has been consolidated for the first time and contributed \$16m in GWP for the half-year to December 2005;
 - Agreed to acquire a strategic stake of 30% in Malaysian insurer AmAssurance Berhad for \$69m. This business generates around \$270m in annual GWP. The Group expects this transaction to be completed by the end of February 2006.
 - Signed a memorandum of understanding with China Pacific Insurance Company to acquire an initial stake of 24.9% in China Pacific Property Insurance Co, Limited, the second largest general insurer in China. Its reported GWP for the ten months to October 2005 was \$2.2bn; and
 - Increased the Group's investment in Thailand's Safety Insurance to 38.3% and made an offer to acquire the balance of the shares. This offer is currently open and puts a value of approximately \$87m on the whole company, which generates approximately \$100m in annual GWP.
- ▶ The current total combined annual GWP generated by these operations is approximately \$3bn. Upon completion of the Group's investments, and calculated on an equity proportion basis, the Group's share of this total combined GWP would represent GWP of approximately \$800m. This post-completion share of GWP will provide the Group with a mix of consolidated revenue, dividend streams, and the reinsurance revenue. The reinsurance revenue from these investments would most likely take the form of quota share business.
- ▶ The Group's share of total combined GWP is likely to rise over the mid-term if regulatory approvals are given permitting the Group to increase its equity holdings in these investments.
- ▶ These investments provide the Group with a foothold to participate in a number of the world's fastest growing insurance markets, leveraging the Group's world-class skills in motor underwriting and claims management. Other opportunities are in the pipeline and the growing recognition in Asia of the Group's expertise in underwriting and claims management provides growing confidence that further deals can be executed which will add value for shareholders.

1.3 Balance sheet strength

- ▶ The Group's profitability over the last few years from strong insurance margins combined with positive gains on equity markets, has led to the accumulation of approximately \$870m of surplus capital as at 31 December 2005. This is based on the excess capital above the Group's internal benchmark of 1.55x APRA's minimum capital requirements as applied to the Group figures.
- ▶ The interim dividend on ordinary shares and the servicing obligations on the Group's reset preference shares will utilise approximately \$230m.
- ▶ Taking into account the Group's expectations on the timing and quantum of settling the Asian transactions announced to date, the earnings prospects of the current operations and the Group's funding position, the Group is announcing its intention to return \$200m of surplus capital to shareholders during 2H06, in addition to the interim dividend.
- ▶ The most efficient form for this additional return to shareholders is yet to be determined. Buy-backs and special dividends are under consideration and alternatives that would utilise some of the Group's surplus franking capacity are also being investigated.
- ▶ The Group continues to maintain its very strong 'AA' (stable) insurer financial strength ratings from S&P for its key wholly-owned insurance entities.
- ▶ The Group has sustained a probability of adequacy (POA) for all insurance liabilities (i.e. including the liability on unexpired premium), above 90%. It increased from 90.2% at June 2005 to 90.5% at December 2005. Within this, the Group's net claims reserves have an estimated POA of 91.8%, a slight reduction from 92.5% at 30 June 2005.

1.4 Outlook

- ▶ During 2H06 the Group expects to:
 - Sustain insurance margins such that the FY06 margin will be between 14% and 16%;
 - Maintain its market share in Australia and New Zealand, providing pricing is at sustainable levels;
 - Continue to work on completing the international investments noted above and pursuing other opportunities in accordance with its stated strategy; and
 - Undertake a return of capital of \$200m to shareholders.
- ▶ The Group's outlook for premium growth is dependent 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; and
 - The rates of growth in premium in the Group's Asian interests will exceed those of the Australian and New Zealand markets 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.
- ▶ The Group's current position within the Australian and New Zealand markets is such that it should be able to sustain returns on equity of approximately 2 – 3% above the insurance industry average. How this translates into insurance margins depends on an individual insurer's mix of business from time to time and that insurer's views on capital required to back its business.

1.5 *Changes in reporting format*

- ▶ The financial information in this report has been prepared to reflect the following changes:
 - The Group is required to prepare financial reports adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for the first time for the year ended 30 June 2006 and has applied them for the half year reporting period ended 31 December 2005; and
 - The Group has opted to re-classify the results of its captive reinsurer, IAG Re, by allocating the profit earned by the captive from reinsuring the Group's consolidated operations back to those businesses on a basis which reflects the profits it earned from those businesses. This has been done by adjusting the reinsurance expense in each business. The Group expects to generate some inwards reinsurance premium in the future from some of the Asian entities in which it acquires significant equity stakes. The results of any such operations will continue to be reported as part of the International Business segment.
- ▶ As a result of these changes, the financial information provided in respect of both 1H05 and 2H05 has been restated. The reconciliations of the originally reported results to the restated financials are available in appendix H of the report. Where information is presented for earlier financial periods (eg in trend graphs), the information has not been restated for AIFRS as the data necessary to do this is not readily available. Further details on the AIFRS adjustments are also provided in the Group's statutory financial statements for 1H06.
- ▶ The financial information for all periods prior to 1H05 has been restated for the change in treatment of the results of the Group's captive insurer.
- ▶ The changes in treatment of the captive results noted above are not reflected in the Group's statutory financial statements. The profit is the same in both formats but there are differences in premium, expenses and investment income on technical reserves, with a consequential minor difference in the reported insurance ratios.

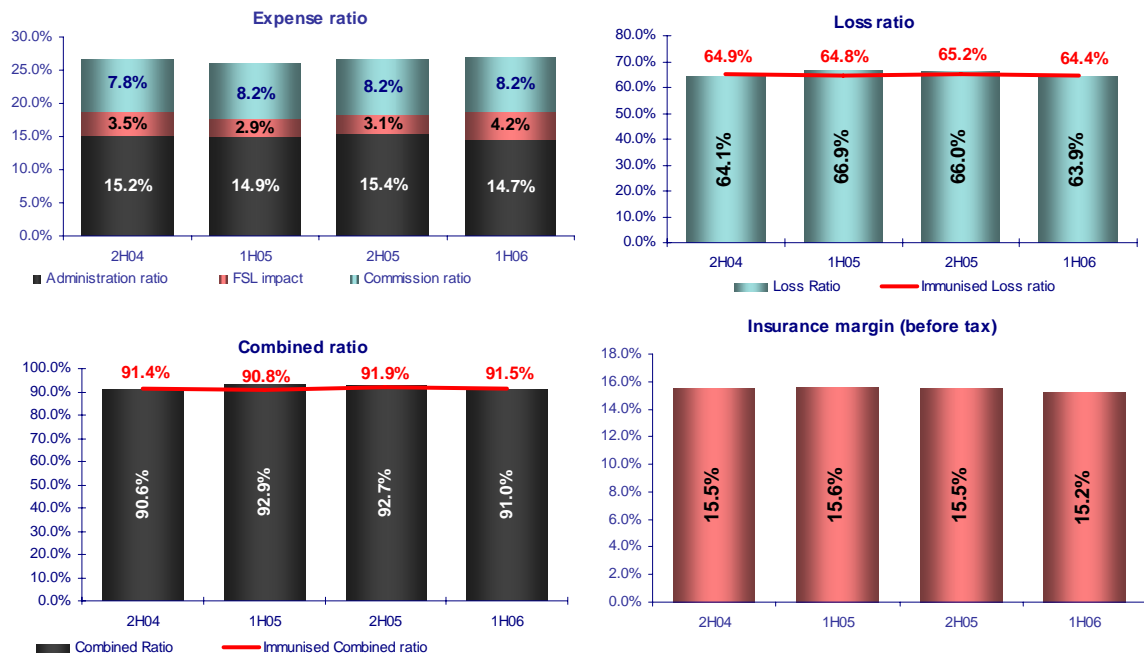
2. Key Elements Of Half-year Results

Insurance Australia Group	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
Financial Performance	A\$m	A\$m	A\$m
Gross written premium	3,328	3,345	3,206
Gross earned premium	3,311	3,250	3,320
Reinsurance expense	(227)	(243)	(235)
Net premium revenue	3,084	3,007	3,085
Net claims expense	(2,063)	(1,985)	(1,970)
Commission expense	(253)	(247)	(254)
Underwriting expense	(549)	(556)	(584)
Underwriting profit	219	219	277
Investment income on technical reserves	263	246	192
Insurance profit	482	465	469
Net corporate expenses	(15)	(20)	(18)
Amortisation	(6)	(7)	(6)
Interest	(28)	(27)	(45)
Profit from fee based businesses	10	(27)	(1)
Investment income on shareholders' funds	285	170	345
NSW Insurance Protection tax	(10)	(10)	(11)
Profit before income tax	718	544	733
Income tax expense	(205)	(152)	(220)
Profit after income tax	513	392	513
Minority interests	(46)	(49)	(52)
Profit attributable to shareholders	467	343	461
Dividends paid on reset preference shares	(15)	(15)	-
Profit attributable to holders of ordinary shares	452	328	461
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%
Administration ratio	17.8%	18.5%	18.9%
Combined ratio	92.9%	92.7%	91.0%
Insurance margin	15.6%	15.5%	15.2%
Financial Results/Ratios			
Profit attributable to holders of ordinary shares (A\$m)	\$452	\$328	\$461
Reported ROE % (Average Equity) to holders of ordinary shares pa	29.2%	20.0%	26.4%
Normalised ROE % (Average Equity) to holders of ordinary shares 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
Probability of adequacy of general insurance claims reserves	> 90%	92.5%	91.8%
MCR multiple – Group	1.85x	2.00x	2.04x

- ▶ GWP for 1H06 is 3.7% lower than the prior comparative period. Of this, 0.2% results from depreciation in the value of the New Zealand dollar relative to the Australian dollar during 1H06. The GWP trends by division are:
 - A fall in GWP in the Australian personal lines business contributed 2.0% of the total reduction since 1H05. This is largely due to reduced volumes but was exacerbated by lower average premiums in its motor and CTP portfolios. This was partly offset by GWP growth in the home portfolio, with increased average premiums driven by increases in sums insured and pricing to take account of claims cost inflation and increases in fire services levy (FSL) rates in NSW and Victoria. Reduced volumes reflect a combination of:
 - Not renewing a large contract with a third party distributor during FY05 due to unacceptable terms;
 - Relatively poor competitive positioning in NSW directly distributed business for part of 1H06 due to both price positioning in some areas (which has been addressed) and competitor activity following negative publicity around the Care & Repair initiative; and
 - An increasing incidence of price cutting on personal lines products distributed by intermediaries as part of the reaction to the current soft market conditions in commercial.
 - The fall in GWP in the Australian commercial lines business contributed 2.0% of the reduction in the Group's GWP relative to 1H05. This is essentially due to the softening of rates compared with prior periods. The Group's experience of rate reductions is lower than that reported generally in the market due to its defensive mix of business; and
 - The International business grew the Group's GWP by 0.3% in Australian dollar terms. This included \$16m from IAG Insurance (Thailand), now trading under the NZI brand since its acquisition in July 2005. GWP in New Zealand remained relatively stable between 1H05 and 1H06 in New Zealand dollar terms, reflecting softening rates in commercial and increased pricing in personal lines, supported by underlying volume growth.
- ▶ The 1H06 NEP was essentially unchanged relative to 1H05 and grew by 2.6% relative to 2H05, reflecting the trends in GWP mentioned above.
- ▶ The loss ratio for 1H06 of 63.9% included a 0.5% (\$16m) benefit from the increase in discount rates applicable to claims reserves, which had a corresponding negative impact on investment income on technical reserves (through capital losses). Excluding this, the immunised loss ratio of 64.4% on an immunised basis, has remained relatively stable compared to 64.8% in 1H05 and 65.2% in 2H05.
- ▶ The expense ratio has increased from 26.0% in 1H05 to 27.1% in 1H06. The commission ratio was stable. The most significant factors in the change in the administration ratio are:
 - Fire services levy assessments that highlighted the levy allowances in premium (which were in accordance with ICA recommendations) were insufficient to fund the levies, which are assessed in arrears. Levies are collected on premium when written but the amount payable is not assessed by the fire brigades authorities until up to 18 months after the premium has been written. These assessments plus an adjustment for higher anticipated assessments in 2006 added \$36m or 1.2% to the administration ratio;
 - A reduction in the quantum of acquisition costs that can be deferred given the reduced premiums. In 1H06, acquisition spending was lower than prior periods, corresponding with GWP trends. Therefore, the administration cost in 1H06 includes the recognition of higher acquisition expenses from prior periods combined with the deferral of lower acquisition expenses in 1H06, resulting in a net expense that added \$35m or 1.1% to the expense ratio relative to 1H05. In prior periods, this resulted in a credit to expenses;
 - Increased marketing expenditure. The advertising spend was up about \$10m; and
 - Delivery of expense savings, partially offsetting these increases in the ratio. During 1H06, \$18m of the targeted annual savings of \$31m in Australian personal lines and \$5m of the targeted annual savings of \$10m in Australian commercial lines division were delivered.

- ▶ Corporate expenses remained at the higher level incurred in 2H05, reflecting the ongoing activity pursuing Asian expansion opportunities.
- ▶ Amortisation relates to intangibles, essentially capitalised IT management contracts.
- ▶ The increase in interest expense of \$18m is mainly attributable to the \$15m in dividends paid to reset preference shareholders now being treated as interest expense under AIFRS. Due to transitional provisions adopted in respect of financial instruments, the prior periods have not been restated for this change in treatment.
- ▶ The interest expense and investment income in respect of reset exchangeable securities (RES) has been offset in "investment income on shareholders' funds", in accordance with AIFRS.
- ▶ The fee based business incurred a net loss of \$1m. Losses were incurred in the Group's Chinese roadside assistance operation as it continues to invest in expansion. This offset the small profit from fee based businesses in the Australian Commercial Lines business.
- ▶ The strong equity market returns were the key driver of the investment returns on shareholders' funds increasing by \$60m from 1H05 to \$345m. The return on shareholders' funds investments was a yield of 13.9% in 1H06 compared to the 1H05 yield of 11.9% (these yields exclude return on the surplus capital fund and are not annualised).
- ▶ The NSW Insurance Protection Tax, levied on shareholders since the HIH failure in 2001, remains in force and costs the Group approximately \$21m per annum.
- ▶ The effective tax rate remains around 30%.
- ▶ Earnings per share increased to 29.06c per ordinary share, essentially in line with the movement in profits – the number of shares on issue only increased by 0.6m or 0.04% during the period.

A. Group Insurance Ratios



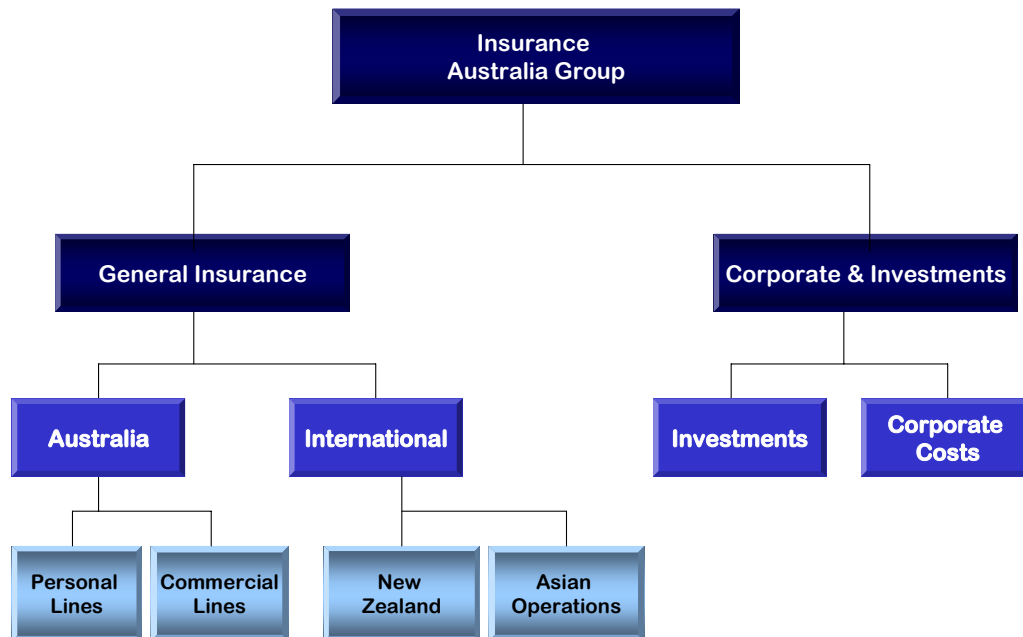
Notes to Graphs:

- Only 1H05 and subsequent periods have been restated for AIFRS.
- The re-allocation of the Group's captive applies to all periods displayed above.
- The immunised loss and combined ratios are determined by assuming constant bond yields within each reporting period.

	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
Reported loss ratio	64.1%	66.9%	66.0%	63.9%
Discount rate effect	0.8%	(2.1%)	(0.8%)	0.5%
Immunised loss ratio	64.9%	64.8%	65.2%	64.4%
Expense ratio	26.5%	26.0%	26.7%	27.1%
Immunised combined ratio	91.4%	90.8%	91.9%	91.5%

- ▶ The Group has sustained very stable results reflecting both its disciplined approach to risk-based underwriting and the diversity of its portfolio within Australia and New Zealand. During 1H06, some savings on the net claims expense – generating a lower loss ratio – were offset by some increased expenses, most notably the fire services levy adjustment noted earlier.
- ▶ The marginal increase in the immunised combined ratio relative to 1H05 and decrease relative to 2H05, as shown in the table above, mask the following underlying experience:
 - In 2H05 the Group experienced \$100m more in gross losses from storms relative to both 1H05 and 1H06, which both experienced similar levels of storm activity;
 - Whilst 1H06 experienced a lower level of storm related losses, the incidence of large commercial property losses increased by \$19m (net of reinsurance) compared to 1H05;
 - Very benign claims experience in New Zealand during 1H06; and
 - Continuing favourable experience relative to reserving assumptions for commercial liability classes while inflation assumptions for future claims for the NSW and ACT CTP portfolios had to be increased, following an upwards trend in average weekly earnings which exceeded the Group's previous assumptions.
- ▶ The average of the yearly insurance margins since listing in August 2000 is 11.9%, although this average needs to be used with caution as only FY05 has been restated for AIFRS.

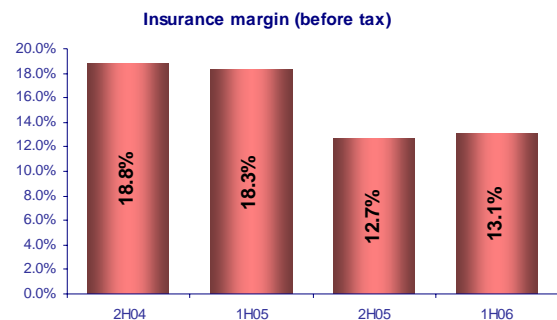
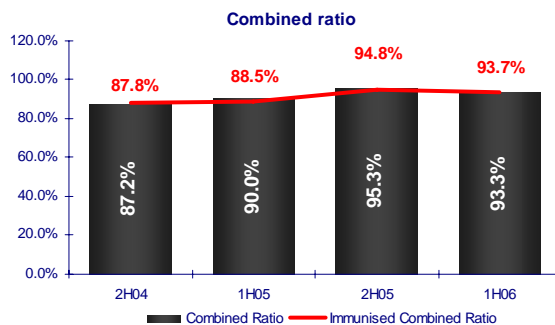
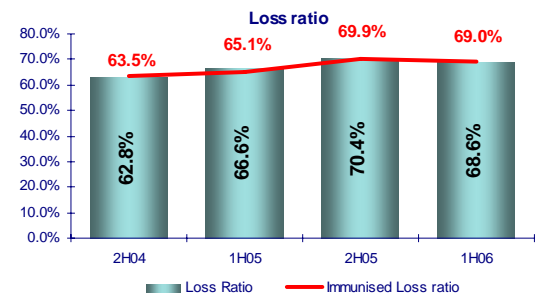
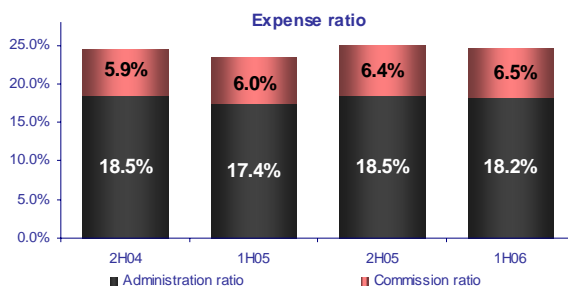
B. Results by Business Area



Insurance Australia Group Limited	Personal Lines	Comm. Lines	Inter national	Corp & Inv't	Half-year ended Dec 05	Half-year ended Dec 04
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	1,936	761	509		3,206	3,328
Gross earned premium	1,973	823	524		3,320	3,311
Reinsurance	(93)	(85)	(57)		(235)	(227)
Net premium revenue	1,880	738	467		3,085	3,084
Net claims expense	(1,289)	(409)	(272)		(1,970)	(2,063)
Commission expense	(122)	(86)	(46)		(254)	(253)
Underwriting expense	(342)	(165)	(77)		(584)	(549)
Underwriting profit	127	78	72		277	219
Investment income on technical reserves	119	59	14		192	263
Insurance profit	246	137	86		469	482
Net corporate expenses				(18)	(18)	(15)
Amortisation				(6)	(6)	(6)
Interest				(45)	(45)	(28)
Profit/(loss) from fee based businesses		1	(3)	1	(1)	10
Investment income on internal funds				345	345	285
NSW Insurance Protection Tax				(11)	(11)	(10)
Profit before income tax	246	138	83	266	733	718
Income tax expense				(220)	(220)	(205)
Profit after income tax					513	513
Minority Interests: IMA & MCGI					(52)	(46)
Profit attributable to shareholders					461	467
Dividends on reset preference shares					-	(15)
Profit attributable to holders of ordinary shares					461	452
Basic earnings per share (cents)					29.06	28.54
Diluted earnings per share (cents)					28.89	28.35

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%



Notes to Graphs:

- Only 1H05 and subsequent periods have been restated for AIFRS.
- The re-allocation of the Group's captive applies to all periods displayed above.
- The immunised loss and combined ratios are determined by assuming constant bond yields within each reporting period.

A. Operational Results

- ▶ Australian Personal Lines delivered a margin of 13.1% for 1H06. This represents an improvement from the 2H05 margin of 12.7% and a decline from the 18.3% margin in 1H05. It reflects a very strong performance from short-tail personal lines offset by the lowest margin experienced on long-tail personal lines (CTP) for a number of years.
- ▶ Reserve strengthening for inflation assumptions on future claims of \$68m for NSW and ACT CTP reduced the margin by 3.6%. This arose from the index of Average Weekly Earnings (AWE) growing at about twice the expected rate during the past year or so.
- ▶ GWP reduced by 2.0% relative to 2H05 and 3.3% compared to 1H05. The volume of risks-in-force reduced by 1.6% from 2H05 and 1.8% from 1H05.
- ▶ The Group has not changed its view that aiming to sustain margins that deliver at least 1.5x WACC is more valuable over time than gaining market share by dropping margins. It will continue to defend its franchise by making pricing adjustments where supported by the profits being generated from the relevant portfolio and working on customer service initiatives to sustain its renewal rates.
- ▶ The reinsurance expense has fluctuated in line with the division's share of the results of the Group's captive.
- ▶ The 1H06 net claims expense includes a favourable adjustment of \$8m (0.4%) of NEP arising from an increase in discount rates applied to claims reserves. This compares with an unfavourable adjustment of \$28m (1.5%) and \$8m (0.4%) for 1H05 and 2H05, respectively. Corresponding capital losses and gains within the technical reserves income virtually negate the effect in the insurance margin in each reporting period.
- ▶ The Group's focus on risk-based underwriting and claims processes continues to be exhibited in the stability of the underlying loss ratio over the last 18 months. The 1H06 loss ratio, immunised for discount rate movements of \$8m, was 69.0%. Key factors to consider when comparing these loss ratios are:
 - The \$68m expensed in 1H06 for increased inflation allowances in CTP NSW and ACT; and
 - The high cost of storms reported in 2H05 relative to both 1H05 and 1H06.
- ▶ The expense ratio of 24.7% is in line with 2H05 (24.9%) and 1.3% higher than 1H05. In dollar terms, there has been an increase of approximately \$10m in each half on an expense base of over \$440m. The increase of \$10m between 2H05 and 1H06 should be considered in the context of:
 - Additional fire services levies of \$14m. The estimates provided as a basis for collecting the levy proved inadequate to fund the final amount levied by the fire brigades authorities, and provisions also needed to be increased for the 2006 levies;
 - Incremental advertising spend of \$10m more than 1H05; and
 - A lower level of acquisition expenses being deferred as a result of the lower volumes of business. This increased net expenses by \$14m relative to 1H05.
- ▶ The realisation of other expense efficiencies enabled the total increase to be contained at \$10m from 2H05. Of the \$31m in annual savings targeted for implementation during FY06, \$18m had been implemented by 31 December 2005.
- ▶ Increased commission is attributable to a combination of the higher profitability of indirectly distributed personal lines and some increases in marketing allowances paid to distributors.

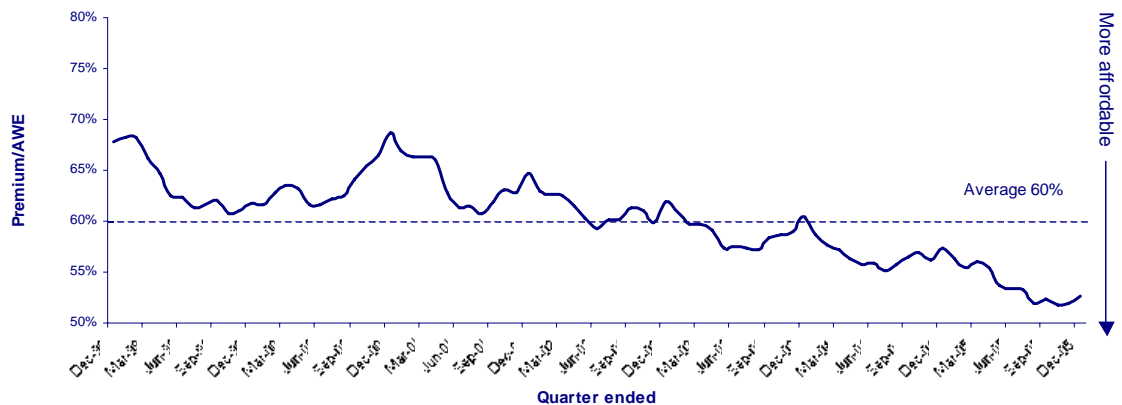
B. Premiums and market share

B.1 Short-tail personal lines - Premiums

- ▶ Business volume for the short-tail personal lines portfolio reduced by 1.5% from 1H05. Over half the volume lost was in intermediated personal lines sold through the CGU brokers/agents and by financial institutions.
- ▶ As noted in the 1H05 report, the Group re-priced some of the third-party branded/distributed personal lines business to ensure the premiums appropriately reflected the risks. This resulted in one contract in particular not being renewed. The underlying policies for approximately \$21m of GWP expired over the past year. The profitability has improved and new partnerships are providing opportunities for profitable growth.
- ▶ Commercial insurance competitors apparently pricing personal lines as an “accommodation class” within commercial insurance offerings as part of their response to the current soft cycle was a further contributing factor in reduced volumes in intermediated personal lines.
- ▶ Ongoing price monitoring undertaken by the Group indicated that competitor prices for motor and home insurance were not moving up in line with increased input costs. For example, it became apparent that some competitors absorbed the increased stamp duty levied on home insurance in NSW from September 2005.
- ▶ As 1H06 progressed, and given the strength of the margins being delivered, price reductions were selectively implemented in the motor portfolio. These adjustments were focused on those areas where margins were strongest and price positioning relative to competitors justified it. The changes were supported by local marketing and have re-generated volume in the targeted areas in recent months.
- ▶ The customer retention rate for the directly distributed motor and home insurance portfolio was close to 90% at 31 December 2005 and has since returned to over 90%.
- ▶ Reliable industry-wide statistics on the total personal lines market remain elusive. However, using available subsets such as Insurance Statistic Australia Limited (ISA) data, the Group estimates it has lost about 1% market share in home insurance and 2% in car insurance over the year to December 2005. This is national data and there are differences by State.
- ▶ The Group’s average premium for home insurance has risen by 5.1% while the increase for motor insurance was 2.0% over the past year. There are variations by State. These movements exclude the cost of fire services levies and stamp duties, both of which have increased in NSW and Victoria during 1H06.
- ▶ When FSL and stamp duties are included, the Group’s average premium for the home portfolio has increased by 12.2% over the last 12 months. This was largely due to inflation in home building costs. The remainder of the increase was driven by:
 - An increase in the proportion of directly distributed home policies with additional optional covers from 41% to 46%;
 - Wetter weather patterns leading to a greater frequency of weather related events. There has been an increase in significant events in Queensland particularly;
 - An increase in fire services levies during the period. These now represent 15% of average premium in NSW and Victoria metropolitan areas, and 19% of average premium in rural Victoria. Stamp duty in NSW also increased during the period from 4% to 9% of average premium.
- ▶ The growth in average motor premium continues to be limited by the declining trends in motor vehicle insured values. This is due to lower prices for new and used cars and, following higher fuel prices, some switching by consumers to smaller motor vehicles. According to figures published by the Federal Chamber of Automobile Industries, sales of large cars are at their lowest in 14 years – down by 15.6% on 2004. Small car sales increased by 18.8% and four wheel drive vehicle sales increased by 4.1% - more than the growth rate of the total new car market which was 3.4% on 2004.

- ▶ The Group has continued its strategy of cross-selling and up-selling into its existing customer base. For example, the number of direct comprehensive car policies with additional options has increased by 72% on the prior comparative period, with one in five of all direct comprehensive car policies now including optional covers, such as car hire while a vehicle is off the road.
- ▶ Motor insurance has continued to become more affordable. As at December 2005 (latest available AWE statistics at September 2005), the average premium in NSW equated to 53% of one week's earnings (based on published NSW average weekly earnings) compared with an average of 60% over the past 7 years.

NRMA Car Insurance (NSW) Affordability Index



Full time adult ordinary time earnings - Gross pay before tax and overtime. Only full-time adult employee jobs. (Source: ABS)

B.2 Long-tail personal lines - Premiums

- ▶ The long-tail personal lines portfolio underwrites CTP business in NSW, the ACT and Queensland with the following market share trends for 1H06:
 - The Group remains the sole provider of CTP in the ACT;
 - During 1H06, the Queensland market share again increased by 0.2% to 2.4%. Volume has increased by 17.3% since 1H05. Renewal rates remain steady at 89%; and
 - Competitor activities in NSW led to a further decrease in market share (based on premium on a rolling 12 month basis) from 39.4% to 37.9% during 1H06. Market share based on motor registrations decreased from 40.1% at June 2005 to 39.6% by 31 December 2005. Weekly data on CTP share as a proportion of registrations shows some market share is being regained recently following advertising of the Group's "at fault" driver cover, a unique feature in the NSW CTP market.
- ▶ Meanwhile, CTP rates in NSW have not changed materially since July 2004 and CTP rates in Queensland continued to reduce as scheme benefits are realised.
- ▶ The 1H06 GWP in the CTP portfolio declined by 6.4% from 1H05 driven by the loss in market share and a 2.1% reduction in average premium since 1H05. This reduction in average premium is due to the improving mix of risks in the portfolio, including a lower proportion of higher risk business.
- ▶ Customers continue to benefit from the continuing improvement in the affordability of CTP, as demonstrated on the following chart, which records the benchmark "Sydney Best Metro Rate" against average weekly earnings (September 2005 is the latest data available).

NSW CTP Affordability Index



B.3 Customer focus/measures

- ▶ Customer retention in directly distributed personal lines was close to 90% at 31 December 2005 and has since returned to over 90%.
- ▶ Direct retail customer satisfaction continues to be maintained at above 80% for all brands and the number of complaints as a percentage of direct personal lines risks in-force has declined in the past six months and continues to be below 0.02%.
- ▶ Claims satisfaction remains between 87% and 89%.
- ▶ The business is now managing its interactions with customers through the Single Customer View tool, which was implemented for the directly distributed business in November 2005 to provide the Group with a more customer centric view. This tool provides consolidated information on each customer and allows personnel to more effectively manage customer product and service requirements, eliminates inefficiencies due to duplication and improves the turnaround time of customer resolution. Some of the functionality provided by the system is:
 - A clearer picture of the Group's customers by giving the ability to view a customer's details and the policies they hold in a single view, particularly when used by frontline and customer support employees;
 - More accurate and faster identification when locating customers on the database;
 - Identification of customers eligible for loyalty discounts and further automation of the application of the appropriate discounts (such as multi-product or linked policy discounts); and
 - Reduction in operational costs generated by issues such as the cost of returned mail and the time it takes to update multiple customer records.

C. Claims experience & frequency

C.1 Short-tail personal lines - Claims

- ▶ Claims experience during the period was in line with expectations and produced a better loss ratio than the same period last year. Claims frequency is slightly better for both the motor and home portfolios than for the same period last year while average claims costs have generally been higher than the previous year.
- ▶ Storm experience was slightly worse in 1H06 than in 1H05, costing \$115m on a gross basis in 1H06 (1H05: \$106m). Queensland's experience was significantly worse than the prior period which reinforces the Group's strategy of maintaining a relatively low exposure to the north east area of Queensland.

- ▶ Overall claims frequency within the motor portfolio has slightly improved over the last 12 months and continues to outperform the market (per ISA statistics). The Group has experienced a slight reduction in NSW, which is believed to be attributable to the rising fuel prices, and improvement in Western Australia following the implementation of risk based price improvements.
- ▶ Car theft numbers decreased during 1H06 but the average cost incurred per claim for stolen vehicles continues to increase bringing the net position in line with prior years.
- ▶ The underlying cost components of claims experienced varying levels of inflation during the last year:
 - ABS data records an increase of 7% in residential building costs and a 2.8% increase in house building materials over the past year;
 - Construction industry wages growth for the year to September 2005 (latest available) was 4.8% (ABS); and
 - Labour content for motor repairs, has increased by 1.14% from July to December 2005.
- ▶ Car parts price increases outweighed price decreases to push the weighted average cost of car parts up by 1.25% during 1H06. This is less than the increase in the "All Groups" CPI for the same period (1.5%), but it is a greater increase than was experienced during 1H05 (0.86%). There is some evidence that this price restraint is the result of strong competition in the parts marketplace, combined with lower import tariffs on car parts. Prices of car parts would be even lower if transport costs had not been pushed up by the increased price of fuel. The Australian dollar remains strong against the currencies of our major parts suppliers. This has helped reduce the impact of higher energy costs.
- ▶ The Group continued to improve its claims processes and supply chain management during 1H06. The major initiative for motor claims was Care & Repair. Under Care & Repair, customers are encouraged to bring their vehicles to a Care & Repair centre or, if the vehicle is not drivable, it is towed to the nearest centre. The claim and repair of the vehicle is then managed by the Group from this point, releasing the customer from this burden.
- ▶ Since 10 July, Care & Repair centres in metropolitan NSW have opened, adding to the centres already operating in Queensland, Western Australia and South Australia. Of these, Hornsby and Northern Beaches operate as a "we come to you or drive in service". Over 36,000 customers have used the NSW centres between opening and 31 January 2006. The Group now uses 408 preferred smash repairers (PSR) in NSW. The customer response to the Care & Repair experience has been very positive.
- ▶ During 1H06, procurement models implemented in the home portfolio were embedded in the claims and assessing process. The models were designed to complement the region specific requirements of the Group's claims and assessing centres while promoting customer service. Cost savings are evident in the improved average claims costs for contents claims. The Group also expects to see improvements in the buildings portfolio with the roll-out of consistent management of builders in March 2006, coupled with the efficiencies gained from using the new system that underpins the interaction with preferred builders.
- ▶ During 1H06, independent surveys showed customer satisfaction levels for motor and home claims have been sustained between 87% and 89%.
- ▶ External complaints as a percentage of claims lodged continue to trend down and is below 0.05% or 1 in 2,000 claims.

C.2 Long-tail personal lines - Claims

- ▶ Claims frequency in the NSW CTP portfolio remained relatively stable, although there is recent evidence of a small reduction in frequency due to improvement in quality of the portfolio. The Queensland portfolio is still showing improving frequency in a quite stable scheme.
- ▶ Claims settlements from the NSW Claims Assessment of Review process (CARs) remain within the Group's reserving estimates.

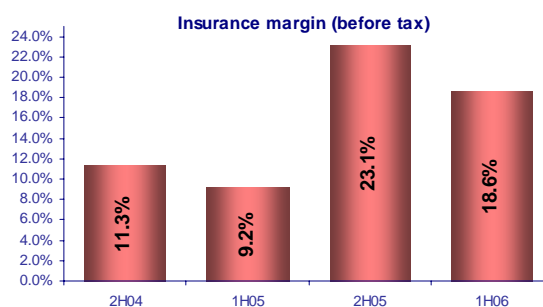
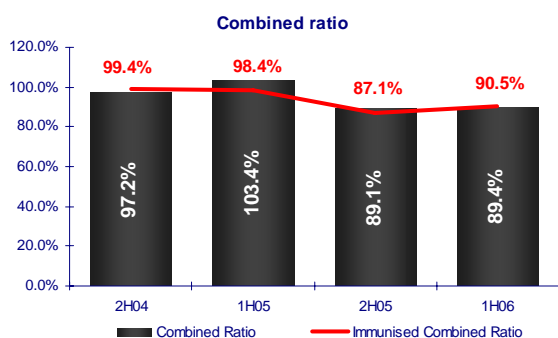
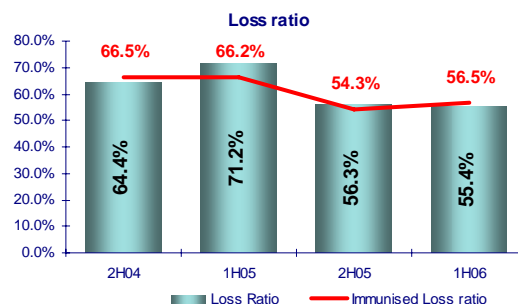
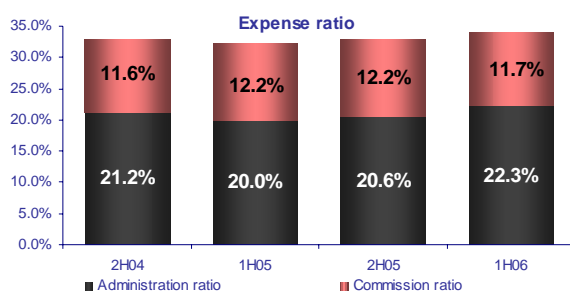
- ▶ The most significant development in the long-tail claims within Australian Personal Lines was the increase in inflation assumptions recognised in the claims reserving for NSW and ACT CTP. The Average Weekly Earnings Index (AWE) as published by the ABS has been a strong indicator of inflation in this portfolio. In the year to September 2005, the latest available information, the AWE in NSW increased by 8.2%. This compares with a historic trend of about 4% per annum and has led to an increase in reserves of \$68m, adding 3.6% to the loss ratio in 1H06.
- ▶ The Group is considering what changes are required in both the NSW and ACT CTP schemes to ensure prices reflect the current experience.

C.2.1 Life-time Care

- ▶ The NSW government announced in December 2005 that it will implement a Life-time Care scheme for catastrophically injured motor vehicle claimants. The government scheme is expected to begin in January 2007.
- ▶ The government scheme will be funded partly by the imposition of an additional levy on the insured from July 2006 and partly funded from the existing premium base of the insurers (which will no longer be needed for medical and care costs of the catastrophically injured relative to the existing CTP scheme).
- ▶ The main features of the Life-time Care scheme are:
 - Drivers deemed at fault in accidents will now be covered and provided some compensation; and
 - Lump sum payments to claimants for medical and care components will be replaced with a Life-time Care scheme.
- ▶ The Group estimates that the government scheme will capture approximately 11 – 13% of NSW CTP revenue, resulting in about a 1% reduction in revenue for the Group. The earnings impact from the loss of revenue is expected to be immaterial.
- ▶ There is likely to be a material capital release over time from this change as a result of the reduced exposure to one of the more volatile and longer tail elements of the claims exposure. However, this cannot be quantified, in terms of time or quantum, until more specific details of the scheme, its administration and transitional arrangements are resolved.

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>	12.2%	12.2%	11.7%
<i>Administration ratio</i>	20.0%	20.6%	22.3%
Combined ratio	103.4%	89.1%	89.4%
Insurance margin (before tax)	9.2%	23.1%	18.6%



Notes to Graphs:

- Only 1H05 and subsequent periods have been restated for AIFRS.
- The re-allocation of the Group's captive applies to all periods displayed above.
- The immunised loss and combined ratios are determined by assuming constant bond yields within each reporting period.

A. Operational Results

- ▶ In spite of the challenging premium environment, Australian Commercial Lines delivered a profit of \$138m and an insurance margin of 18.6%. The profit was in line with the 2H05 profit of \$141m and well ahead of the 1H05 profit of \$79m. This was achieved by focusing on underwriting discipline, risk selection and maximising retention through value add/product extension strategies.
- ▶ The softening commercial market and competitive pressure continued to intensify during the period, which affected both price and volume performance during 1H06. The reported GWP for 1H06 of \$761m was 8.0% lower than 1H05 and 12.2% lower than 2H05.
- ▶ The GWP trend in this business is in line with the Group's ongoing strategy to balance market positioning and maintain underwriting discipline in the current insurance cycle to manage for sustainable, profitable growth in this portfolio.
- ▶ The reductions in volumes and trends were not uniform by class or customer grouping. For example:
 - Premium rates in liability reduced by more than any other class, due to underwriting action to reduce rates reflecting improving experience;
 - Lost volume due to the market pricing being below the level acceptable to the Group. This was most prevalent in property;
 - SME packaged products and commercial motor policy volumes increased;
 - A notable increase in market capacity in professional indemnity, including from both new entrants and existing players, was influential in softening rates in this class; and,
 - Workers' compensation premium income benefited from a strong economy in Western Australia.
- ▶ Maintaining high customer retention is core to managing the portfolio through the softening cycle. Retention rates remained above 80% in 1H06, aided by the execution of initiatives to proactively manage relationships, deliver product diversity and improved processes.

Loss ratio	Half-year ended Jun 04	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05
Reported loss ratio	64.4%	71.2%	56.3%	55.4%
Discount rate adjustment	2.1%	(5.0%)	(2.0%)	1.1%
Immunised loss ratio	66.5%	66.2%	54.3%	56.5%

- ▶ The loss ratio of 55.4% reported for 1H06 included a favourable discount rate adjustment of \$8m, giving an immunised loss ratio of 56.5%.
- ▶ There were a number of factors which had significant effects on the Commercial Lines loss ratio during the period. These were:
 - The long-tail elements of the portfolio performed very well during 1H06. The benefits of tort reform which supported the rate reductions in liability noted above also generated profits in the portfolio. Assumptions adopted in reserving were reviewed as confidence grew that the tort reforms implemented in the past few years have been successful to date in reducing the frequency of small claims in particular. This follows similar experience in 2H05, whereas the 1H05 loss ratio included additional reserving for long-tail classes (asbestos in particular). The loss ratio effect in 1H06 was similar to the experience in 2H05;
 - A higher incidence of large individual losses in the short-tail commercial portfolio compared to the prior corresponding period. The cost to the portfolio of such losses, net of reinsurance recoveries, was \$34m in 1H06 compared with \$15m in 1H05. The difference equates to an additional 2.6% in the 1H06 loss ratio; and
 - The absence of any major losses from weather events.

- ▶ The expense ratio increased to 34.0% in 1H06. An increase in provisions for fire services levies of \$22m in 1H06 added 3.0% to the ratio. Total underwriting and commission expenses, excluding this increase in provision for fire services levies were \$229m in 1H06 relative to \$237m in 1H05.
- ▶ The additional provision for fire services levies arose when notifications from the NSW and Victorian fire brigade authorities identified that the industry recommended rates used by the Group to collect levies within premiums were insufficient to cover the levies being assessed on the Group. There was a far smaller release from over-provisions during 1H05.
- ▶ The reduction in the deferred acquisition costs for the Commercial Lines business added \$21m or 2.8% to the expenses relative to 1H05.
- ▶ Of the targeted annual savings of \$10m announced at the end of FY05, \$5m were implemented during 1H06.

B. Regulations

- ▶ The regulatory focus on the insurance industry has increased. Current regulatory reviews and changes include the following:
 - The ACCC is continuing to monitor insurers' actions to pass on liability price reductions arising from reduced claims costs to consumers. Further movements are anticipated as CGU implements a state based rating methodology. Consistent with the rate reductions in the liability portfolio, the latest APRA statistics showed that tort reforms had delivered reduced claims and premiums. The extent of reduced premium varied by state from 18% in South Australia to 1.5% in Victoria for the 2004 calendar year.
 - Ongoing regulatory implementation and monitoring of the Financial Sector Reforms provisions of the Corporations Act (FSR), which has increased the service standards and has created additional disclosure and procedural requirements. Consultation on Government refinements occurred in 1H06, with the new regulations coming into force from December 2005.
 - The new industry Code of Practice will operate from July 2006, imposing further regulatory requirements. Resources will be in place to redesign, communicate and implement the new code. The major impact will be in product training and accreditation. The Group's authorised representatives, including staff and agents, are required to undertake training as part of its on-line general compliance program. Product and technical process training costs in FY06 will be approximately \$1m, and early estimates suggest an additional \$1 – 2m over the coming two financial years.
 - The Victorian State Emergency Bill will change the tax base for the fire services levy to include a "notional premium" for companies that have deductibles of \$10,000 or more on their property policies. Implementation is expected in July 2006. At this point, the main impact envisaged from this would be the costs related to systems changes in order to correctly calculate and capture data for declaration purposes.

C. Operating improvements/service offerings

C.1 Web-based tools and systems

- ▶ Lead indicators (absent during the last soft market) have been developed to closely monitor portfolio profitability and premium rate movements. The "Rating Strength" report measures actual premiums against technical premiums and the "Rate Monitoring" report measures pure movements in premium rates on renewals. Earlier identification of trends is improving portfolio management and pricing decisions.
- ▶ The investment to enhance its technology systems is an ongoing part of the business strategy to provide more value-add services and products to promote strong customer retention by delivering products more efficiently through its distribution channels.
- ▶ During 1H06, CGU's e-commerce platform "CGU Connect" underwent re-development to improve the service to intermediaries. Some of the enhanced capabilities include:

- A new commercial motor application in the “CGU Connect” product suite. This was rolled out to over 700 intermediaries by November 2005. Additional products currently being developed include commercial strata, farm motor, motor trades and country classic; and
- Development of an instalment billing payment facility for eBusiness policies, which is the major focus for the remainder of the year.
- ▶ The workers’ compensation business upgraded its on-line facility to provide employers with advanced risk management information to assist them with accident prevention and injury management in their workplaces. This on-line platform has been in operation for six months and has proved to be a key new business and retention tool.
- ▶ An ongoing project titled “Renew CGU” is reviewing business processes, seeking opportunities to increase automation and reduce duplication and manual handling.

D. Fee based businesses/managed schemes

- ▶ The premium funding business continued to grow and generate profits. Loans outstanding at 31 December 2005 were \$163m compared to \$133m at 30 June 2005, representing an increase of 22.6%.
- ▶ The Group’s non-risk workers’ compensation business (ie the provision of claims services outsourced for workers’ compensation insurance underwritten by governments) broke even during 1H06, with significant progress made in addressing the issues which caused a loss to be reported in 2H05.
- ▶ The NSW business was successful in the re-licensing process undertaken in calendar 2005 and has a 21% share of the market. The Group is confident that the new fee basis provides a better outcome in terms of timely and appropriate incentives to drive better outcomes for employers, injured workers and the business. This replaces complex fees with significant retrospective elements. A retrospective adjustment in 1H06 largely negated the profits earned by the other states’ operations and the premium funding business.
- ▶ The Victorian business continued to perform strongly.
- ▶ In January 2006, the Group was advised that the South Australian government had resolved to leave only one agent responsible for all outsourced claims management. This is due to take effect from 1 July 2006. Transition plans are being developed and alternative roles being sought for affected staff. The contract profitability was less than \$1m per annum, so the ongoing financial impact is negligible.

E. Discontinued Businesses

E.1 Inwards Reinsurance

- ▶ The commutation strategy for the inwards reinsurance run-off (business ceased in January 2001) continues to progress with a further two commutations finalised in 1H06. All commutations since underwriting ceased five years ago resulted in net savings for the Group.
- ▶ The net provision for the outstanding claims on this portfolio is now approximately \$77m, (2H05 : \$78m).

E.2 Asbestos Liabilities

- ▶ During 1H06, overall asbestos claims experience has been better than that expected in the Group's reserving assumptions. Given the potential volatility in asbestos experience, the Group's provisions have not been adjusted at this stage for this favourable experience and the provisions at June 2005 have been maintained.
- ▶ The survival ratio (net reserves as a multiple of the average of the past three years' claims paid) is 42 times at 31 December 2005, compared with 49 times at 30 June 2005. The 31 December 2005 survival ratio is lower than that reported at 30 June 2005 due to a higher base measure now being used (i.e. three year average at December 2005 is higher than that at June 2005).
- ▶ 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.

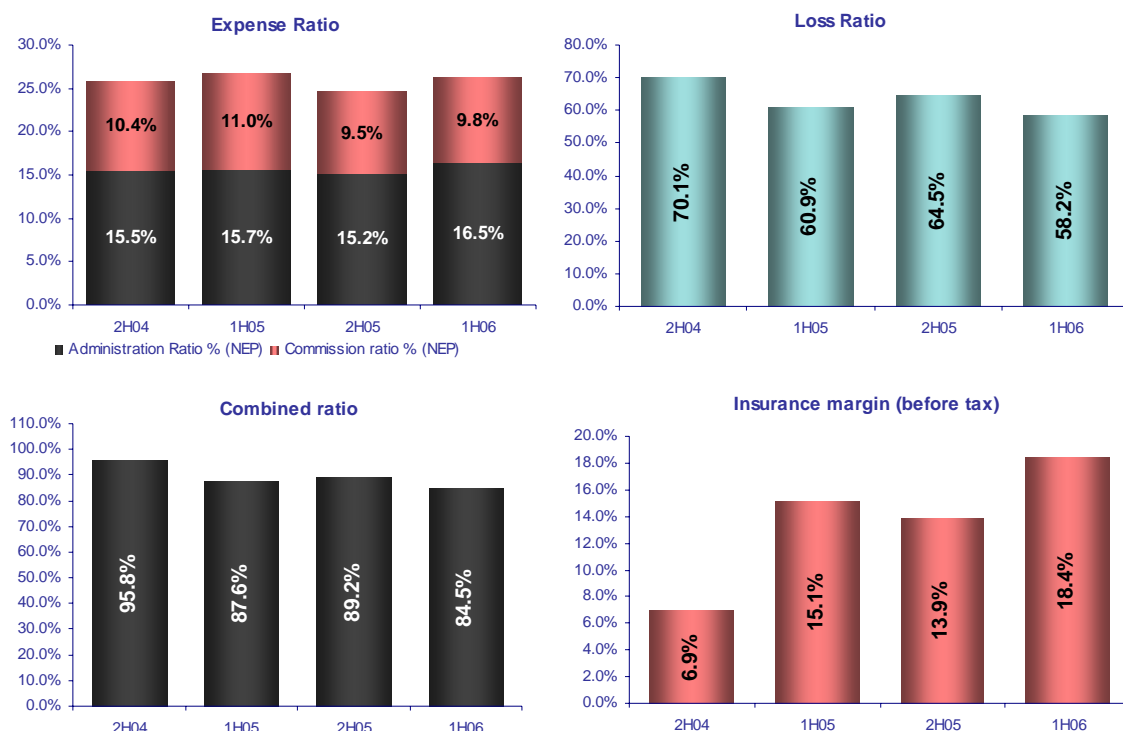
International

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%

This segment contains the results of the Group's operations in New Zealand and Asia.

In prior periods it also included the results generated by the Group's captive reinsurer on reinsuring business from the Group's controlled entities. This element of the captive insurer's activities has now been re-allocated back to those entities. Appendix H contains reconciliations between the current and prior basis of reporting.

Commentary on the New Zealand and Asian operations follows separately.

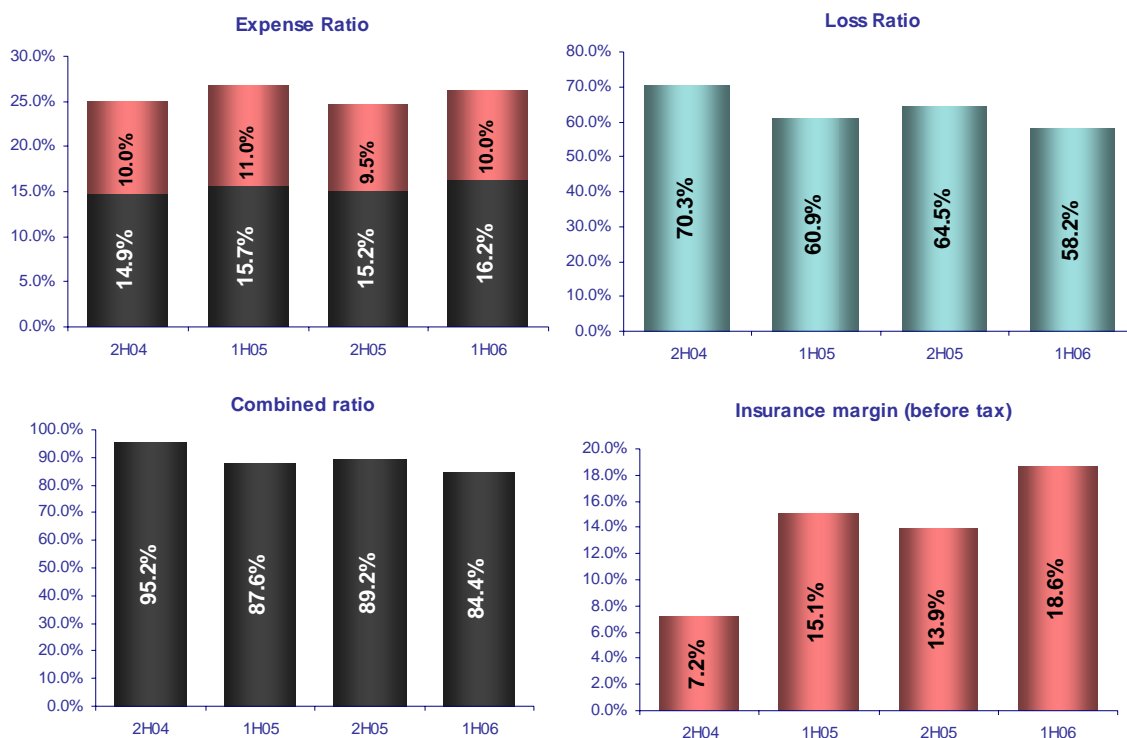


Note to Graphs:

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- The re-allocation of the Group's captive applies to all periods displayed above.

A. International – New Zealand

New Zealand 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	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%



Note to Graphs:

- Only 1H05 and subsequent periods have been restated for AIFRS.
- The re-allocation of the Group's captive applies to all periods displayed above.
- As this business is essentially short-tail, the reported and immunised loss and combined ratios are the same.

- ▶ The New Zealand operations delivered an insurance margin of 18.6% in 1H06. This was a record since the Group has owned the business. While a mild winter was a key factor, there have also been a number of underlying business and process improvements.
- ▶ Consistent with the Australian experience, the New Zealand operating environment produced a challenging landscape for business growth with slowing economic growth and strong competition within the market.
- ▶ Based on the latest data as at September 2005, New Zealand economic growth as measured by real gross domestic product (GDP) decelerated from 4.3% for the year ended September 2004 to 2.7% for the year ended September 2005 and is forecast to remain at this level for the year to March 2006 and decline further for the year to March 2007.
- ▶ The latest statistics from the Insurance Council of New Zealand (ICNZ), showed that, on a rolling year to September 2005, industry GWP growth has decelerated from 2.8% (IAG NZ: 3.4%) to 1.0% (IAG NZ: 0.3%) on December 2004 and June 2005 respectively. The personal lines market grew by 4.2% (IAG NZ: 6.2%) while the commercial lines market grew by 2.9% (IAG NZ: -1.8%) on a rolling 12 month basis to September 2005. The Group continues to maintain its leading position in the NZ market with its market share at 36.5% (2H05: 36.7%) of the market data captured by the ICNZ.
- ▶ In this context, GWP in New Zealand dollar terms fell by 0.2% (NZ\$1m) from 1H05 and 1.3% from 2H05. The decline in Australian dollar terms of 1.0% on 1H05 is higher due to an adverse movement in the New Zealand / Australian dollar exchange rate of 0.9% over the same period.
- ▶ During 1H06, IAG NZ managed to grow GWP in its direct personal lines and corporate partners channel, partially offsetting the decline in the broker channel. The trends in GWP growth for 1H06 compared to 1H05 across the distribution channels are as follows:
 - Direct channel: Representing approximately 38% of IAG NZ's portfolio, this channel grew mainly as a result of price increases, which offset a decrease in volumes. This follows significant repricing of this portfolio to reflect risk-based underwriting, particularly in the home portfolio;
 - Corporate partners channel: Representing approximately 15% of IAG NZ's portfolio, this channel grew both in terms of volume and price, particularly in domestic motor and SME commercial;
 - Broker channel: Representing approximately 45% of the IAG NZ portfolio, this channel reported reduced GWP, despite growing volumes. Price competition was the main factor for the trend in this portfolio; and
 - Mike Henry Travel: This represents approximately 2% of the IAG NZ portfolio. IAG NZ acquired 50.1% of this business in July 2004 and is due to acquire the remaining 49.9% by 1 July 2006.
- ▶ The level of competition in the market is expected to remain intense, particularly in the direct and broker channels for both personal and commercial products. To counteract this, IAG NZ has implemented a number of sales and service initiatives focused on delivering improvements in underwriting and product development, and is partnering with distributors to enhance processing and product delivery to customers.
- ▶ As part of these initiatives, IAG NZ has sought to enhance its position in the specialist markets. Following the acquisition of Clipper Club (Marine insurance) and National Auto Club Underwriters Agency (specialist agency for high performance vehicles) in December 2004:
 - Considerable progress has been made in incorporating Clipper Club competencies into IAG NZ's marine offering to the market. The success of NZI Marine continues to grow with the unit steadily gaining a heightened profile in the market following a re-launch to brokers; and
 - A new operating environment has been developed in National Auto Club. The company has been re-launched as NAC Insurance and has been well received by brokers and finance companies, with the focus going forward being on leveraging the changes made to increase sales.
- ▶ Whilst these initiatives are in niche markets, they do add to the Group's distribution and product diversification capability, further enabling IAG NZ to provide comprehensive insurance solutions for its customers.

- ▶ Net earned premium increased by \$17m or 3.8% (NZD \$23m or 4.8%) on 1H05 was stable relative to 2H05. Part of this is due to the reduction in reinsurance expense, which as a proportion of GWP, has decreased to 9.1% in 1H06 from 9.8%. This has been due to a \$4m saving from the restructure of the reinsurance programme in July 2005. The restructure increased the proportion of risk retained by IAG NZ. To date, the restructure has realised a \$3m net benefit (net of additional claims cost retained).
- ▶ The loss ratio of 58.2% improved by 2.7% and 6.3% on 1H05 and 2H05 respectively, largely reflecting better claims experience in 1H06 compared to the prior periods, where large losses increased the loss ratio by 2.8% and 5.0% for 1H05 and 2H05 respectively. Improved claims processes also assisted in improving the loss ratio.
- ▶ Although the 1H06 expense ratio, 26.2%, is in line with 1H05, the mix between the commission and administration expense ratios has changed following the acquisition of three distribution channel businesses in December 2004 for which IAG NZ was the existing underwriter. This had the effect of moving some expenses from external commission to internal administration.
- ▶ The expense ratio has increased in 1H06 relative to 2H05 (26.2% versus 24.7%). This is because net earned premium has remained flat whilst the operating expense base has increased in line with inflation and has absorbed the cost of the business further investing in its core systems capability.
- ▶ The IAG NZ business is on target to complete the implementation of the Australian personal lines technology platform during calendar 2006, with most of the remaining costs to be incurred in 2H06. Some of these costs will be subject to capitalisation and amortisation.
- ▶ While service and efficiency are always important, IAG NZ recognises their additional importance in times when rates are softening as reliable service and sustainable pricing can be used to help defend the IAG NZ's portfolio from competitors offering prices below what the Group considers appropriate for the risk.
- ▶ Initiatives to improve customer service and efficiency implemented during the period or under way include:
 - The "Customise" programme which is currently being rolled out throughout the direct channel, with the key focus being on increasing the presence of a sales and service culture, and improving customer and staff satisfaction;
 - Increased utilisation of customer feedback, through processes established to apply feedback provided by customers to help determine aspects of service and delivery that may need improvement, and to record all complaints, compliments and general feedback;
 - Implementing new and enhanced IAG NZ and broker products including the new online service offering claims look-up, tracking and submission. The IAG NZ Broker Leaders' Forums were used to introduce these services to brokers during 1H06;
 - Improving claims resolution turnaround time, with the "One Touch" initiative, providing the processes and capability to enable resolution of claims on the first telephone call;
 - Improved efficiency of the motor repair claims process through the establishment of a smash repairer network with digital assessing at repairers' workshops. This results in lower overhead (premises) costs;
 - Implementation of improved supply chain management; and
 - Centralised business support functions in one location for the direct channel, thereby fostering increased processing efficiency.
- ▶ Recognition of the focus on customer service was evidenced by:
 - The customer satisfaction measure continuing on an upward trend with the cumulative YTD result at 85.9%, and significant increases achieved in the overall broker satisfaction results.
 - The "NZI" brand winning the prestigious 'Underwriter of the Year' award for 2005 as voted by members of leading insurance broker organisations. The award was presented by the Insurance Brokers Association of New Zealand (IBANZ) at their annual conference in Christchurch in September 2005. NZI was judged against criteria such as claims efficiency, range, quality of service and client relationships.

B. International – Asian Operations

B.1 IAG South East Asia Operations

- ▶ During 1H06, the Group made significant progress on its stated goal of establishing a foothold in Asia. During 1H06, IAG completed its acquisition of Royal & SunAlliance (Thailand), agreed to a 30% investment in Malaysia's second largest motor vehicle insurer, AmAssurance, and established a regional headquarters in Singapore. A number of the Group's executives are now resident in Singapore, where they will oversee the Asian operations and develop IAG's capability transfer programmes from which it intends to generate incremental value from its South East Asian investments.
- ▶ In February 2006 the Group announced an increased investment in Safety Insurance in Thailand.

B.1.1 Thailand

- ▶ Thailand's general insurance market generates GWP of over A\$2.5bn, with approximately 60% of this in motor insurance. The general insurance market is in a developmental stage, compared to developed economies, however the market is growing at over 10% per annum, with profitability over the last five years showing an upward trend.

B.1.2 IAG Insurance (Thailand)

- ▶ The Group completed its acquisition of Royal & SunAlliance (Thailand) on 4 July, 2005 and this operation's results are consolidated with the Group results for 1H06.
- ▶ In accordance with the terms of the acquisition agreement, this entity has been renamed and is now registered as IAG Insurance (Thailand) Ltd, and is trading under the NZI Insurance brand in Thailand.
- ▶ It currently writes approximately Bht1bn (A\$35m) of GWP per annum, the majority of which is commercial business. The Thai commercial insurance market is expected to experience continued strong growth, particularly construction/infrastructure insurance, where government spending on mega-projects of US\$50bn is projected within seven years.
- ▶ For 1H06 the combined operating ratio of 77.7% comfortably out-performed the acquisition business case.

B.1.3 Safety Insurance Public Company Limited (Safety Insurance)

- ▶ The Group has had a stake in Safety Insurance, since 1998.
- ▶ Safety Insurance, which has been listed on the Stock Exchange of Thailand since 1977, is Thailand's sixth largest general insurer and the sixth largest motor insurer and currently generates approximately A\$100m in GWP per annum. Providing predominantly motor insurance, as well as fire, marine and other general insurance, Safety Insurance distributes its products through insurance agents and brokers, as well as selling direct to customers.
- ▶ The Group through its Thai investment holding company, NHCT Limited, acquired an additional 16.7% interest in Safety Insurance on 10 February 2006, taking its existing 21.6% shareholding to 38.3%.
- ▶ The Group is now seeking to further increase its interest through a general tender offer to all Safety Insurance shareholders. The tender document was published on the Stock Exchange of Thailand on 20 February 2006. The tender is scheduled to close on 27 March 2006. The offer price implies a value of approximately \$87m for 100% of the company.
- ▶ If the Group gains a controlling interest in Safety Insurance, it intends that it continue to operate primarily as a personal lines insurer, while IAG Insurance (Thailand) will continue its focus on commercial insurance.

B.1.4 Malaysia

- ▶ Malaysia will continue to be a focus for IAG, given it is the second fastest growing economy in Asia. The general insurance industry has grown at a compound annual growth rate in excess of 10% since 2000, with improving profitability.

- ▶ In addition to the good growth prospects, it is expected that ongoing regulatory reform will create opportunities for insurers to differentiate themselves within the market. For example, the proposed introduction of risk based capital, and premium rating changes to the current motor and fire tariff system, are expected to provide an opportunity for the Group to work with its partners to leverage the Group's world class underwriting capability in motor insurance.
- ▶ On 9 December 2005, IAG announced it had reached agreement to acquire a stake of 30% in one of Malaysia's largest insurers, AmAssurance Berhad. In addition to owning AmAssurance, IAG's new strategic partner, AMMB Group, is the owner of Malaysia's fourth largest bank, AmBank, and is the largest auto financier in Malaysia. The agreement includes the terms of an option to increase the Group's stake to 49% over time.
- ▶ AmAssurance is the second largest motor vehicle insurer (fourth largest general insurer) and seventh largest life insurer in Malaysia.
- ▶ The final regulatory approval required in Malaysia was received in February 2006 and completion is expected to occur by 3 March 2006.

B.2 China

B.2.1 China Pacific Property Insurance Company Ltd (CPIC Property)

- ▶ On 7 February 2006, the Group announced it had signed an exclusive memorandum of understanding with CPIC Property and its parent company. This marked a key milestone in the Group's negotiations to acquire an interest in CPIC Property.
- ▶ The Group is now working to put in place binding agreements to acquire a 24.9% stake and an option to increase this to 40% as soon as practicable. The price will only be determined following completion of an audit under Hong Kong accounting principles (which are equivalent to IFRS).
- ▶ CPIC Property is the second largest general insurer in China with approximately 12% of the market. It reported approximately \$2.2bn of GWP in the ten months to October 2005, of which more than 57% was motor insurance.

B.2.2 China Automobile Association (CAA)

- ▶ The Group's Chinese roadside assistance operation, CAA, is continuing its pursuit of a strategy of national expansion beyond its base in Beijing to achieve scale benefits, growth and access to markets as well as to leverage its current investment on infrastructure, people and technology.
- ▶ As part of this strategy, CAA has established a national network programme with 30 franchise or affiliation partners across 28 provinces and 34 major cities in China. This extensive geographical reach allows national coverage for the CAA brand and road service network.
- ▶ In the medium to long term, the national network programme will also assist CAA in choosing potential cooperation/acquisition targets and in collecting and developing a national customer database.
- ▶ A new customer management system and GPS (Global Positioning System) for the CAA road service fleet have also been installed to enhance CAA customer service delivery.

- ▶ During the calendar year ending 31 December 2005, CAA has:
 - Handled over 72,200 calls, an increase of more than 50% on calendar 2004;
 - Attended over 38,500 jobs, an increase of more than 16% increase on calendar 2004;
 - Sold over 3,950 insurance policies, an increase of 35%;
 - Increased revenue by over 20% over the past calendar year; and
 - Increased revenue by over 55% during 1H06.
- ▶ CAA also initiated a new public relations strategy designed to position CAA as a leading motoring advocate on road and motor vehicle safety. Specific initiatives to date include the following:
 - The CAA Road Safety Campaign in partnership with Qinghua University, China's leading and most prestigious university. The campaign is designed to raise awareness of road safety in the Beijing community by addressing issues such as a safe colour test; seatbelts and airbags; drink driving; excessive speeding; and child safety; and
 - NCAP China Programme (international accreditation for smash testing facilities) in cooperation with Qinghua University. CAA is contributing up to RMB 30 million (\$5m) in the first phase of the programme. This involves crash testing 10 cars. Over time, it is hoped this programme will assist in increasing the safety and reliability of China's automotive industry and raising automotive standards to world class levels.

Investments

A. Strategy with Investment Portfolios

- ▶ The Group's investment strategy is to invest:
 - Funds supporting its technical reserves in a conservative asset mix of cash, high quality fixed interest securities and synthetic fixed interest investments (overlay);
 - Its core shareholders' funds portfolio across a diversified range of higher growth assets, including equities and hedge funds; and
 - Its surplus cash (i.e. investable shareholders' funds above the level required to maintain its target solvency) in enhanced cash (the mandate allows a maximum of 20% in growth assets) in recognition of the Group's intention to utilise these funds in a combination of returns to shareholders and investing in shareholder accretive opportunities in accordance with the Group's strategy.
- ▶ Within the broad parameters of this investment strategy, the Group has continued to focus on reducing the volatility of the investment portfolio by increasing the diversification across both asset classes and the managers responsible for managing the funds.
- ▶ Additionally, the Group has continued to implement a programme of alpha transfer strategies to diversify the sources of additional return above the various benchmarks.
- ▶ The active management of the Group's investment portfolios is rigorously controlled within both the parameters of the investment strategy and acceptable risk tolerance ranges set by the Board of the Group and overseen by the Group's Asset Liability Committee and the IAG Board's Risk Management & Compliance Committee.

B. Key changes in the portfolios during 1H06

B.1 *Technical reserves funds*

- ▶ As part of the strategy of diversifying sources of active return above the benchmark, an allocation to international fixed interest was seeded in December 2005. The management of this portfolio is outsourced to a leading international bond manager. This exposure is fully hedged back to Australian dollars and is managed with the same high credit quality as the remaining technical reserves portfolio.

B.2 *Shareholders' funds*

- ▶ As at 31 December 2005, three external managers were responsible for managing approximately 17% of the Group's Australian equities holdings, with the balance being managed internally using the Group's "core" and "research fund" strategies. All of the international equities continue to be managed externally.
- ▶ Further allocations to hedge funds were made during 1H06. As at 31 December 2005, the total investment in the Group's hedge funds programme was \$214m, covering a range of diversified global macro and long/short managers. Of this, \$112m was cash held to ensure the Group's exposure to hedge funds remains within the leverage limits set by the Group.

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	B'mark return	Actual return	B'mark return	Actual return	B'mark return
		Half-year ended Dec 04	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Dec 05
		%*	%*	%*	%*	%*	%*
Australian equities	a	17.9	17.1	10.4	8.6	16.0	14.4
Listed property trusts	b	16.3	16.5	1.3	1.4	11.5	11.0
International equities	c	-1.8	-1.9	3.3	2.5	16.7	14.6
Fixed interest (Aust & NZ)	d	3.9	3.8	3.1	2.9	2.6	2.6
Cash	e	2.7	2.7	2.8	2.8	2.9	2.9
Surplus capital portfolio	f	3.5	2.1	3.7	2.8	2.7	2.9
Hedge funds	f & g	-	-	2.7	2.0	4.3	2.9
Total weighted average		7.2	6.9	5.0	4.4	6.4	5.9
Offsetting derivative component of overlay	h	-1.0	-1.0	-0.5	-0.6	-1.0	-1.0
Total (including overlay)		6.2	5.9	4.5	3.8	5.4	4.9

* 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 55 basis points for 1H06. In total, the active return has contributed approximately \$52m pre-tax to the Group's result for 1H06, compared with benchmark returns.
- ▶ A summary of the investment income and net capital gains/losses generated on the technical reserves and shareholders' funds portfolios are set out below. The percentage returns are gross of expenses, while the dollar returns are net of expenses.

Portfolio income (pre-tax) and incl. Derivatives	Half-year ended Dec 04		Half-year ended Jun 05		Half-year ended Dec 05	
	A\$m	Return* (%)	A\$m	Return* (%)	A\$m	Return* (%)
Technical reserves	263	4.1%	246	3.4%	192	2.8%
Shareholders' funds	285	11.7%	170	7.3%	345	11.6%
Total investment income	548	6.2%	416	4.5%	537	5.4%

* These are half-yearly returns.

Note: The shareholders' funds returns in the above table include the return on the surplus capital portfolio.

- ▶ 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 expected duration of the liabilities of the various insurance portfolios within the Group. The contribution from these assets to the Group's insurance result was \$192m for 1H06. The return achieved on these assets in 1H06 was 2.8%, 26 basis points above the benchmark return for the period.

- ▶ The return on the Group's technical reserves portfolios includes the return from the derivatives overlay strategy implemented in 1H05. The active management of these assets which are invested in the share market, after allowing for the fixed interest return foregone and associated costs, generated a net contribution of \$20m (pre-tax) in 1H06.
- ▶ 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 \$345m to the Group's 1H06 result.
- ▶ The return on the Group's Australian equities portfolios was 16.0% for 1H06 and the return on the Group's International equities portfolios was 16.7% for 1H06 in Australian dollar terms (the portfolio is unhedged).
- ▶ Both internally-managed Australian equities strategies, ie the "core" and "research" funds, contributed positively to the Group's result for 1H06. Both are ranked in the top quartile of comparable managers for calendar 2005, according to leading asset consulting firm, Mercer Investment Consulting.

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	Technical Reserves	Share-holders' Funds	Technical Reserves	Share-holders' Funds	Technical Reserves	Share-holders' Funds
	Dec 04	Dec 04	Jun 05	Jun 05	Dec 05	Dec 05
Exposure as at	%	%	%	%	%	%
Australian equities	-	63.9	-	52.9	-	43.1
Listed property trusts	-	2.5	-	2.7	-	2.9
International equities ¹	-	19.0	-	16.9	-	18.1
Fixed interest (Aust & NZ)	99.7	10.1	99.3	5.0	99.3	7.6
Cash	0.3	2.6	0.7	1.7	0.7	1.8
Surplus capital ²	-	1.9	-	16.7	-	18.8
Hedge funds	-	-	-	4.1	-	7.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

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	31 Dec 2004	30 Jun 2005	31 Dec 2005
	A\$bn	A\$bn	A\$bn
Technical reserves ¹	6.7	6.9	6.9
Minority interest – Unitholders' funds ²	0.4	0.4	0.3
Shareholders' funds	2.8	2.9	2.8
Other ³	0.5	0.6	0.8
Total investments - on balance sheet ⁴	10.4	10.8	10.8
Other funds managed on behalf of third parties ²	3.5	3.5	2.3
Total assets under management	13.9	14.3	13.1

Notes:

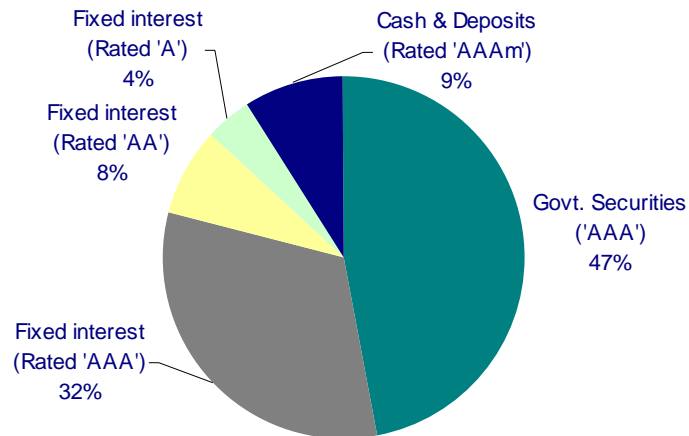
1. *The technical reserves balance as at 31 December 2005 is stated net of GST on outstanding claims and premium debtors.*
2. *These two items in aggregate represent the total funds managed on behalf of external clients. The unitholders' funds shown as a minority interest are those invested in trusts which 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, as these are classified as fixed assets under AIFRS.*

- ▶ The Group's assets under management reduced by \$1.2bn between 2H05 and 1H06 due to the reduction in external wholesale mandates of \$1.5bn. This reduction between 2H05 and 1H06 followed the major restructuring of the investment arrangements for the NSW Workers' Compensation scheme, under which the funds managed for the scheme by the Group were reduced.

E.1 Credit quality of assets under management

- ▶ The credit quality of the Group’s Australian and New Zealand fixed interest and cash portfolios backing the technical reserves is considered to be very strong, with 47% invested in Australian government securities and a further 41% in fixed interest and cash securities that are rated ‘AAA’. The minimum acceptable credit quality is ‘A’ rated.

**Cash & fixed interest credit quality
as at 31 December 2005**



Corporate

Corporate	Half year ended Dec 04	Half year ended Jun 05	Half year ended Dec 05
	A\$m	A\$m	A\$m
Head Office	15	20	18
Fee based business (profit)/loss	(1)	(1)	(1)
Amortisation	6	7	6
Interest	28	27	45
Total corporate expenses	48	52	68

A. Corporate

- ▶ Head office expenses have remained consistent with 2H05 and are slightly higher than 1H05, primarily representing the additional spend associated with the Group's international growth strategy. Head office expenses have been adjusted both in the current and prior periods for AIFRS impacts.
- ▶ The amortisation expense of \$6m for 1H06 relates to intangible assets, essentially capitalised IT management contracts. Prior periods have been restated to exclude goodwill amortisation.
- ▶ Following the adoption of AIFRS from 1 July 2005, goodwill is subject to review at each reporting date with any impairment recognised in the income statement. For 1H06 there are no impairment losses to report.
- ▶ The 1H06 interest expense increased by \$18m on 2H05 to \$45m. This increase represents the inclusion of the reset preference shares (RPS) distributions in interest expense. These dividends are treated as interest payments in 1H06 as the terms of the RPS mean they are now classified debt instruments under AIFRS. The Group has elected to take advantage of a transitional provision within *AASB 1* and accordingly has not restated prior periods on this basis.

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 (AIFRS) for the first time for the year ended 30 June 2006 and has applied them for this half year reporting period ending 31 December 2005. A detailed discussion of the impacts of the change in standards is included in "Note 2 – Explanation of transition to Australian equivalents to International Financial Reporting Standards" of the notes to the 1H06 statutory financial statements.
- ▶ A reconciliation of profit under Australian GAAP to that under AIFRS for 1H05 and 2H05 is set out below. The 1H06 figures were prepared only under AIFRS.

	Notes	Group	
		Half year ended Dec 04	Half year ended Jun 05
		A\$m	A\$m
Profit for the period as reported under Australian GAAP (pre tax & minority interests)		723	535
Reversal of goodwill amortisation	1	46	46
Movement in defined benefit plans	2	(47)	(33)
Adjustment to share based remuneration expense	3	2	1
Capitalisation of software development costs	4	9	15
Reversal of market value movement on property	5	(2)	(6)
Recognition of depreciation on buildings	5	-	(1)
Recognition of lease provision amortisation	6	(2)	(1)
Profit for the period under AIFRS (pre tax & minority interests)		729	556
Restatement of investment income on external funds	7	(11)	(12)
Restated profit for the period under AIFRS (pre tax & minority interests)		718	544

Note 1: Reversal of goodwill amortisation

- ▶ The elimination of the requirement to amortise goodwill under AIFRS resulted in the reversal of the goodwill amortisation expense of \$46m for each of 1H05 and 2H05. There was a corresponding increase in goodwill of \$46m in the balance sheet for each period.

Note 2: Movement in defined benefit plans

- ▶ Under AIFRS, the relevant net position of defined benefit plans is recognised in the balance sheet. The movement in the net position is recognised in the income statement, except for actuarial gains and losses, which are recognised directly in retained earnings. This is the result of an accounting policy selection made by the Group from the options available under AIFRS. Recognising the movement in the net position of the plans for 1H05 resulted in an expense through the AIFRS income statement of \$47m for 1H05 and \$33m for 2H05.

Note 3: Adjustment to share based remuneration expense

- ▶ The Group acquires IAG shares on-market and holds them in trust to satisfy future obligations for share based remuneration rights. The shares are purchased on or near the grant date of the rights at the prevailing market price. Previously, under Australian GAAP, the cost of acquiring the shares was recorded as a prepayment and then expensed in full, generally over the period during which the employees provided related services.

- ▶ Under AIFRS, the fair value at grant date of the equity instruments granted as share based remuneration is expensed over the relevant period rather than the actual cost of acquiring the shares to support the arrangements. The relevant period is from grant date until the equity instruments vest fully to the employee. For equity settled share based payments, an equity reserve is created as the expense is recognised. At each reporting date the total accumulated expense is adjusted through the income statement based on the latest estimate of the number of equity instruments that will vest, considering only employee turnover, and taking into account the expired portion of the vesting period.

Note 4: Capitalisation of software development costs

- ▶ Certain software development expenditure that was previously expensed under the application of Australian GAAP has been capitalised under AIFRS. Only software development expenditure incurred after 1 July 2004, the Group's AIFRS transition date, was eligible for capitalisation under AIFRS.
- ▶ The adjustments relating to software development expenditure were a net reduction in operating expenses of \$9m and \$15m for 1H05 and 2H05, respectively. There was a corresponding increase in intangible assets on the balance sheet for each of those amounts.

Note 5: Property, plant and equipment

- ▶ All of the property within the Group is classified as owner occupied property under AIFRS. Prior to transition to AIFRS, all land and buildings were carried at fair value with movements in fair value recognised in the income statement. Under AIFRS, land and buildings are measured at cost with the cost of the buildings being depreciated over their useful life. The carrying value of land and buildings is subject to impairment testing.
- ▶ For land and buildings held as at 30 June 2004, the fair value at that date is used as the deemed cost, as permitted upon first time adoption of AIFRS. This required reversal of the movement in the market value of the property recognised in the reported profit. For 1H05 this was \$2m and for 2H05 it was \$6m. There was a corresponding decrease in property, plant and equipment on the balance sheet of the same amount. Depreciation of the buildings introduced a charge for FY05 of \$1m.

Note 6: Recognition of lease provision amortisation

- ▶ Certain operating leases for property require that the land and/or building be returned to the lessor in original condition. Under AIFRS, the present value of the estimated future cost of restoring these premises to their original condition are recognised as a lease provision. The amount is capitalised as part of the cost of plant and equipment, and depreciated over the useful lives of the assets. The amortisation expense relating to the lease provision was \$2m in 1H05 and \$1m in 2H05.

Note 7: Restatement of investment income on external funds

- ▶ The profit before tax and minority interests for the comparative periods on pages 5 and 9 differs from the Group's statutory financial statements. This difference arises because this report treats net income attributable to minority interests in unitholders' funds consistently between periods as an expense offsetting the relevant income, rather than as a minority interest for 1H05 and 2H05. The net profit after tax attributable to IAG shareholders is unaffected by this treatment.

Reset preference shares (applied from 1 July 2005)

- ▶ The IAG Group's reset preference shares ("RPS") are classified as debt under AIFRS. This involved a reclassification of \$550m (less issue costs) from contributed equity to interest-bearing liabilities as at 1 July 2005.
- ▶ Due to the Group's election to take advantage of certain AIFRS transitional provisions, which offer exemption from presenting comparative financials, there is no change to the profit in the comparative periods for the RPS. From 1 July 2005, there are three AIFRS transition impacts:
 - Reclassification of the RPS from equity to debt;

- The transaction costs incurred from the issuance of the two tranches of RPS, previously recognised directly in equity, are now capitalised, disclosed together with the related liability, and amortised over the period to the first reset date; and
- Distributions on the RPS made after 1 July 2005 are treated as an interest expense, rather than dividends.

B.2 APRA Stage 2 Reforms

- ▶ APRA released a number of draft standards and guidelines during 2H05 and some of these have been published in final form in February 2006. The Group made submissions on these proposals, which focussed 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.

Balance Sheet, Capital and Dividends

A. Balance Sheet

IAG Group Balance Sheet			
As at	31-Dec-04	30-Jun-05	31-Dec-05
	A\$m	A\$m	A\$m
Assets			
Investments	10,409	10,831	10,808
Premium receivables	1,564	1,710	1,592
Reinsurance recoveries on claims	530	662	645
Other recoveries on claims	386	391	354
Deferred acquisition costs	582	621	601
Deferred reinsurance expense	111	194	143
Goodwill and other intangibles	1,479	1,494	1,538
Other assets	1,092	1,199	1,213
Total assets	16,153	17,102	16,894
Liabilities			
Outstanding claims	6,548	6,840	6,876
Unearned premium	3,497	3,586	3,487
Interest bearing liabilities	788	779	1,295
Other liabilities	989	1,394	1,467
Total liabilities	11,822	12,599	13,125
Net assets	4,331	4,503	3,769
Equity			
Equity attributable to equity holders	3,772	3,917	3,597
Minority interests	559	586	172
Total equity	4,331	4,503	3,769

- ▶ The increase in goodwill and other intangibles is due to an increase in the capitalised software costs under AIFRS and the acquisition of IAG Thailand in July 2005.
- ▶ The "other assets" category represents the aggregate of trade debtors, prepayments, deferred tax assets and property, plant & equipment.
- ▶ The low growth experienced by the business in 1H06 is reflected in very little growth in outstanding claims liability, and a reduction in unearned premium.

- ▶ The increase in interest bearing liabilities is largely due to the reclassification of reset preference shares of \$550m to liabilities on adoption of AIFRS at 31 December 2005. This increase was partially offset by the repayment of \$46m on the NZ senior term notes. There has been in a corresponding decrease in equity attributable to shareholders.
- ▶ The "other liabilities" category has increased due to the reclassification as other liabilities of unitholders' funds held by minority interests in IAG controlled trusts at 31 December 2005 (previously classified as minority interests). This was partially offset by a decrease in reinsurance payable, income tax payable, employee provisions and the restructuring provision as these were paid or utilised.

A.1 Unearned premium, deferred acquisition costs and liability adequacy test

- ▶ The liability adequacy test (LAT) is a new requirement as part of AIFRS. Its purpose is to be an assessment of whether the carrying amount of the unearned premium liability (net of deferred acquisition costs) is adequate to meet the liabilities expected to be incurred on the unexpired risk represented by these balances. AIFRS requires that a risk margin be added to the central estimate of the future liabilities. The test has been conducted using a risk margin that equates to a probability of adequacy of 75%.
- ▶ The test must be performed at the level of a portfolio of contracts which are subject to broadly similar risks and that are managed together as a single portfolio. As such, conduct of the test will vary between different organisations. There is also likely to be some variability caused by both the probability of adequacy used and the underlying assumptions used to set the quantum of the risk margin. Long-tail classes are particularly sensitive to these assumptions because of the relatively larger risk margins on these classes due to the risk inherent in the longer tails.
- ▶ The Group has applied the test at a number of portfolio segments, primarily the reporting segments used in this report, except that the Group's captive and elements of the international segment were considered separately. Due to the way in which the Group's reinsurance programme is structured and managed, the IAG Re segment failed the test by \$3m as at 31 December 2005 (essentially due to an increase in retrocession prices which is not immediately recoverable from the other Group entities). This \$3m is included in the balance sheet as a provision for unexpired risk. The Group's other portfolios of contracts passed the test.
- ▶ The Group acknowledges that individual products may, if they were tested in a LAT environment, be subject to failure which is not identified in the conduct of the test at the portfolio of contracts level. This could arise, for example, where a business strategy has been adopted that forgoes some short term profitability for longer term benefits. Within a diversified portfolio this can be accommodated as has occurred here with surpluses in other segments more than covering the shortfall in the IAG Re liability adequacy test.

B. Capital Management

B.1 Capital adequacy/MCR

Coverage of regulatory capital requirements	IAG Group			Insurance Australia Ltd Group			
	A\$m	31-Dec-04	30-Jun-05	31-Dec-05	31-Dec-04	30-Jun-05	31-Dec-05
Tier 1 capital							
Paid-up ordinary shares		3,263	3,263	3,263	1,286	1,286	1,286
Hybrid equity		539	539	546	-	-	-
Reserves		(4)	(6)	-	-	-	-
Retained earnings		(51)	59	375	2,341	2,365	2,575
Excess technical provisions (net of tax)		328	499	465	308	482	458
Less: deductions ⁽¹⁾		(1,503)	(1,478)	(1,619)	(1,116)	(1,072)	(1,271)
		2,572	2,876	3,030	2,819	3,061	3,048
Tier 2 capital							
Subordinated debt		607	616	628	607	616	628
Capital base		3,179	3,492	3,658	3,426	3,677	3,676
Minimum capital requirements (MCR):							
Australian general insurance businesses		1,537	1,511	1,570	1,614	1,607	1,573
International insurance businesses MCR ⁽²⁾		184	235	223	-	-	-
		1,721	1,746	1,793	1,614	1,607	1,573
MCR multiple		1.85x	2.00x	2.04x	2.12x	2.29x	2.34x

Notes:

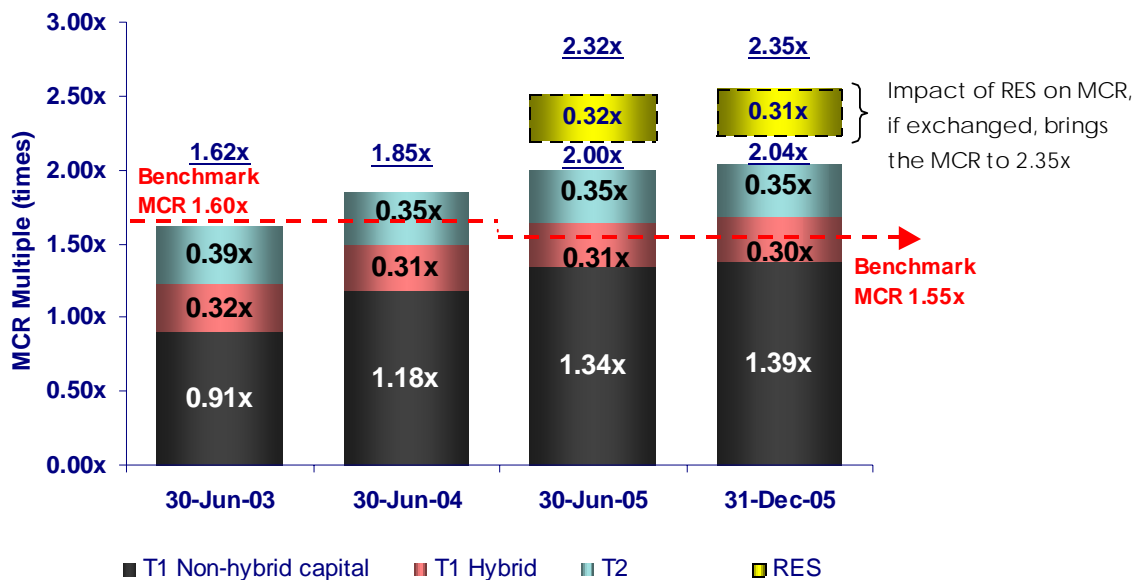
1. Includes goodwill, net deferred tax assets and capitalised software.
2. The MCR and capital base for the International insurance business is calculated on a similar basis to the Australian regulatory requirements and includes the captive reinsurance business and the operations in New Zealand and Thailand.

- ▶ The Group continues to provide MCR information for both the consolidated Australian operations and for the 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 AIFRS balance sheet. The introduction of AIFRS has not had a material effect on the MCR calculation. Reset preference shares, which are now classified as an interest-bearing liability in the AIFRS 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 restated to an AIFRS basis.
- ▶ The IAG Group multiple of 2.04x MCR as at 31 December 2005 remains above the Group's current benchmark multiple of 1.55x MCR.
- ▶ The Group's regulatory capital base, as defined by APRA, has increased from \$3,492m to \$3,658m 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 lower pricing of premium and the increased inflation assumptions in the NSW CTP portfolio.

- ▶ The key elements of the Group's MCR are as follows:

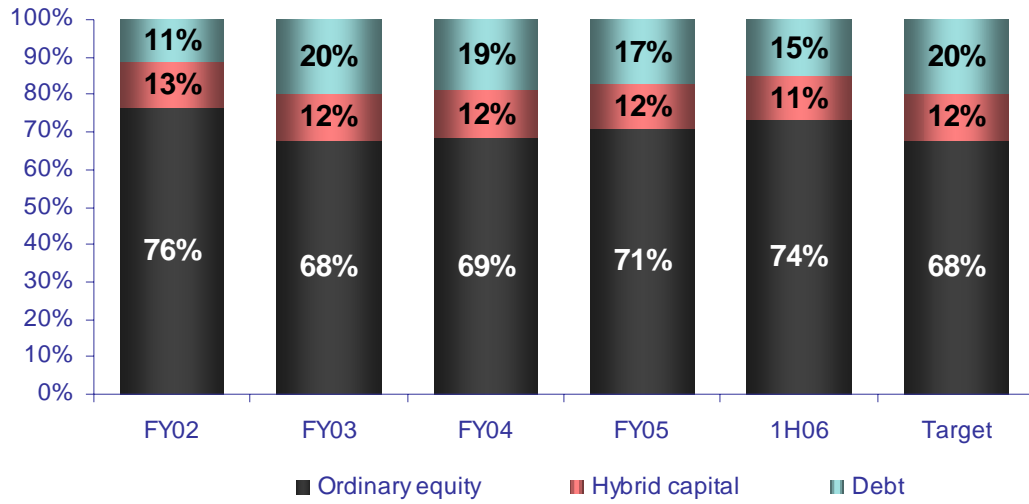
As at	30-Jun-05	31-Dec-05
APRA Capital Charge	A\$m	A\$m
Insurance risk	1,091	1,073
Concentration risk	100	200
Investment risk	555	520
	1,746	1,793

- ▶ The increase in the MCR is essentially due to the increase of \$100m in maximum event retention for the Group from 1 January 2006. This increase is partly offset by the reduction in the insurance risk charge which is in line with the movement of the insurance provisions and a reduction in the investment risk charge due to a decrease in the equity assets held by the Group as a result of allocating investments to the surplus capital fund. This bears a lower capital charge as it is primarily invested in high quality interest bearing securities.
- ▶ The Group's capital as recorded in these schedules does not include the \$550m of contingent capital held by the Group – see section B.5 below.



B.2 Target capital mix

IAG Capital Mix



B.3 Total capitalisation and debt as at 31 December 2005

Total Capitalisation As at	30-Jun-05	31-Dec-05
	A\$m	A\$m
Interest-bearing liabilities:		
Senior	91	46
Subordinated	616	628
Reset preference shares	550	550
Less: Capitalised transaction costs	(21)	(18)
Cross currency swap payable ¹	88	89
Total Interest-bearing liabilities	1,324	1,295
Shareholders' equity		
Equity attributable to holders of ordinary shares	3,263	3,263
Treasury shares	(34)	(45)
Retained profits	142	375
Foreign currency translation reserve	(6)	(3)
Share based remuneration reserve	13	16
Hedging reserves	-	(9)
Total shareholders' equity (excl minority interests)	3,378	3,597
Total capitalisation	4,702	4,892
Interest coverage & debt ratios	6 months to 30 Jun 05	6 months to 31 Dec 05
Earnings before interest and tax (EBIT)	586	778
Earnings before interest, tax, depreciation and amortisation (EBITDA)	632	806
Market capitalisation:		
- Ordinary shares (30.Jun.05: \$6.01 per share, 31.Dec.05: \$5.42 per share)	9,582	8,644
- Reset preference shares (IAGPA & IAGPB)	562	559
Total market capitalisation	10,144	9,203
Total debt/(Total debt+shareholders equity excluding minority interests)	28.2%	26.5%
Total debt/(Total debt+total market capitalisation)	11.5%	12.3%
EBIT interest cover (times) ²	14.0x	17.3x
EBITDA interest cover (times) ²	15.0x	17.9x

Notes:

1. Cross currency swaps are used to hedge the currency exposure from US\$ denominated subordinated debt. The cross currency swaps are revalued to take into account movements in the US\$/A\$ exchange rate and market interest rates and are reported as part of interest paying liabilities.
2. Excludes interest payable on RES which is offset by interest income.
3. For comparative purposes, the RPS have been classified as debt as at 30 June 2005. EBIT has been calculated based on AIFRS for both periods.

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
Long-term debt ¹ :						
NZ\$50m senior fixed rate notes	NZ\$50	46	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		748				
Reset preference shares ⁴						
IAGPA	A\$350	350	5.80%	Jun-07	Perpetual	A -
IAGPB	A\$200	200	4.51%	Jun-08	Perpetual	A -
Total reset preference shares		550				
Reset Exchangeable Securities (IANG) ⁵	A\$550	550	4.79%	Mar-10	Perpetual	A -

Notes:

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 dividend yields shown on the reset preference shares 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 Preference Shares

- ▶ IAGPA and IAGPB were issued and listed on ASX in June 2002 and June 2003, respectively.
- ▶ The current coupon rates, as shown in the table above, were set at issue and are due for reset five years after issue.
- ▶ They are considered as equity for tax purposes and pay a franked dividend. For accounting purposes, the adoption of AIFRS has meant they are treated as debt. Meanwhile, APRA continues to regard them as eligible Tier One capital provided that the proportion of these and other hybrid securities does not exceed the limits set by APRA.

B.5 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 is managed by the Group.
- ▶ The RES and the portfolio of assets which support the securities are set-off in the Group's balance sheet with a net asset being recorded to the extent that the portfolio value is greater than the RES redemption amount. Similarly the interest income on the securities is set-off by the interest distributions on the RES.

- ▶ During 1H06 the Group expensed interest of \$13m, amortised RES borrowing costs of \$1m and generated \$16m 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.
- ▶ The RES are listed on ASX as IANG.
- ▶ The following table sets out the Group's pro-forma capital adequacy position based on the Group's balance sheet as at 31 December 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	3,030	-	480	3,510
Tier 2 Capital	628	-	70	698
Regulatory capital base	3,658	-	550	4,208
Minimum capital requirement (MCR)	1,793	-	-	1,793
MCR Multiple	2.04x	-	-	2.35x

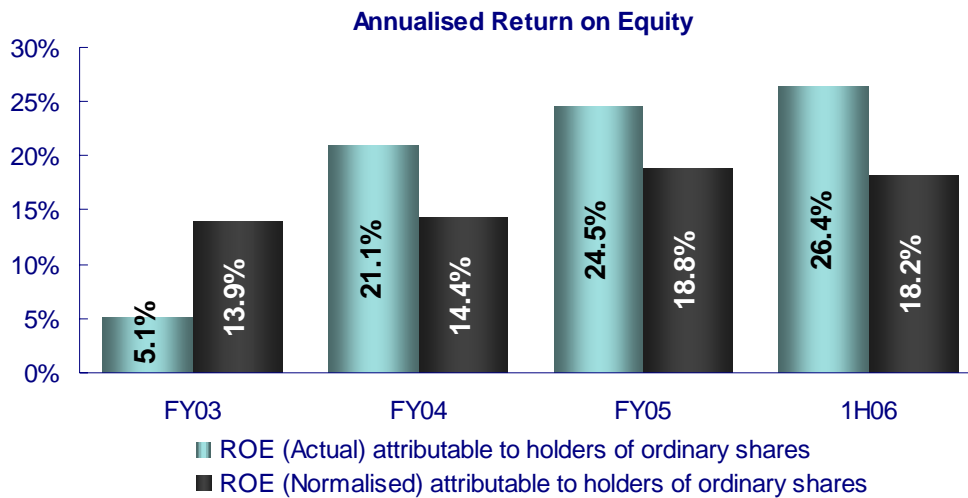
Notes:

1. RES are not recognised in the Group's 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 31 December 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.

B.6 Reinsurance

- ▶ 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%. The decision to increase the retained single event loss was made as the cost of the coverage available in the reinsurance market was such that the transaction proved to be capital inefficient compared with retaining 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 'AAA/AA' and the 2006 programme now stands at 75%. Furthermore, as in 2005, some of the limit is 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.

C. Return on equity



Note: Normalised calculation was based on two adjustments to actual NPAT to holders of ordinary shares:

1. Exclusion of non-recurring items, eg profit on sale of ClearView in FY04.
2. Shareholders' funds return adjusted to be equivalent to the daily average 10-year bond rate for the year, plus 4%.
3. FY05 and 1H06 are stated based on AIFRS accounts (FY05 has been restated accordingly). The earlier years remain on AGAAP.

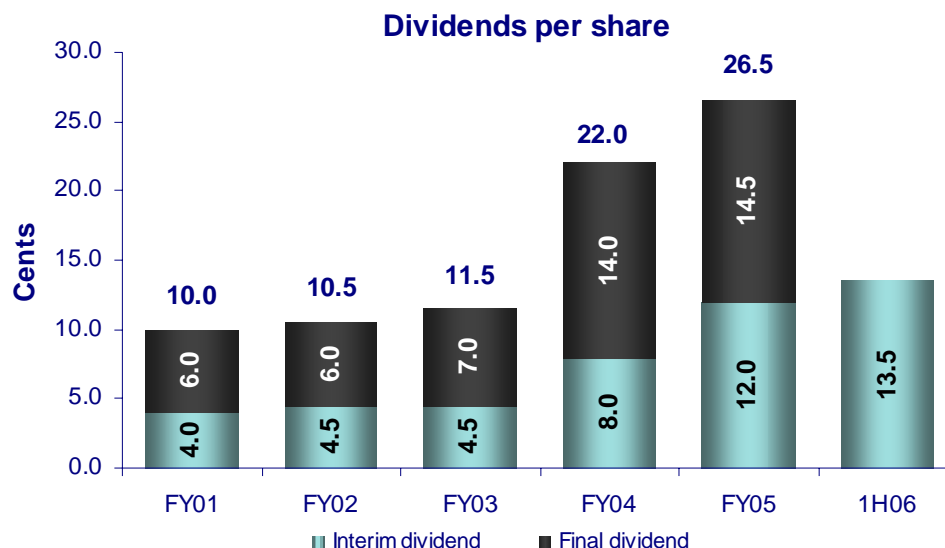
- ▶ The annualised 1H06 return on equity (ROE) to holders of ordinary shares of 26.4% was driven by a combination of sustained margins delivered in the insurance business, record high performance in the Australian equity market and the "alpha" returns generated.
- ▶ The annualised normalised ROE was 18.2%. Normalised ROE is determined by replacing the actual earnings on core shareholders' funds (ie shareholders' funds excluding the surplus capital fund monies) 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 holders of ordinary shares over the cycle is a minimum of 1.5 times WACC. The 1H06 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 12.4% (normalised 14.2%). The normalised ROE has progressively 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 interim dividend of 13.5 cents per ordinary share represents a 12.5% increase on the 1H05 interim dividend of 12.0 cents. It brings the cumulative payout since listing to 62% of cash earnings (i.e. 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, with an interim : final split of approximately 45 : 55.
- ▶ The Group's pace of growth is currently below its historical trend and medium to long-term aspirations, while capital adequacy and profitability remain strong. In this context, it is possible that the dividend pay-out ratio may exceed 70% of normalised earnings in the short-term as the Group remains committed to its goal of sustaining double digit growth in annual dividends over time.
- ▶ Sustaining this level of growth in the longer term will clearly require the Group to succeed in generating significant growth in its business, as it has in the past.
- ▶ The distributable earnings of the parent entity at 31 December 2005 were \$607m. The interim dividend payable on ordinary shares in April 2006 is \$215m. To the extent that shareholders in this dividend participate in the Group's dividend reinvestment plan, it is intended that shares be acquired on-market for this purpose.
- ▶ All dividend payments, and other distributions to which franking applies, made by the Group have been fully franked. At 31 December 2005, the franking balance was \$581m. The interim dividend on ordinary shares will absorb \$92m of this. The remaining \$489m provides the capacity to fully frank \$1,141m 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-05	31-Dec-05
Change in assumption		A\$m	A\$m
<i>Investment sensitivities</i>			
Equity market values:			
Australian equities	+1%	15.6	12.0
Listed property trusts	+1%	0.8	0.8
International equities	+1%	5.0	5.1
Hedge funds	+1%	1.2	2.1
Interest rates			
Investment returns	-1% or 100 bpts change in interest rates	188.4	198.2
Outstanding claims	-1% Change in net discount rate	167.3	170.7

- ▶ The increase in the sensitivity of investments to interest rates relative to the sensitivity of the claims reserves is due to the growth in funds held under the surplus capital mandate (mostly cash and fixed interest).

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-05	31-Dec-05
Change in assumption		A\$m	A\$m
<i>Insurance sensitivities</i>			
Loss ratio - Personal lines	-1%	37.3	37.6
Loss ratio - Commercial lines	-1%	14.6	14.8
Loss ratio - International	-1%	9.2	9.3
Underwriting expenses	-1%	5.6	11.7

Appendix A – Group strategy and sustainable returns

Group strategy

- ▶ The Group's strategy remains unchanged, although the longer term considerations now include investigation of merger and acquisition opportunities beyond Asia.
- ▶ The strategic goals remain to:
 - Deliver top quartile shareholder return;
 - Earn a return on equity of at least 1.5 times the Group's 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 is clear that structuring its business to deliver these goals in a sustainable fashion is more important than delivering on them in every financial year. For example, the Group's ROE fell below 1.5 times WACC in 2003, while the CGU and NZI businesses purchased in January 2003 were being integrated, but these businesses have been key to delivering shareholder value since and, measured over the period since acquisition, have provided substantial shareholder accretion.
- ▶ The Group measures ROE for this purpose using normalised earnings (ie earnings on core shareholders' funds are measured as the 10 year bond rate plus an equity premium) to remove equity market volatility and provide focus on core earnings.
- ▶ Analysis of entities that have delivered top quartile shareholder return measured historically over 10 years, shows that they grow revenue / earnings at about 20% per annum, although not evenly. The outcomes vary only slightly, depending on whether one considers ASX listed entities or international insurers. Delivering performance above the median involves growth in excess of 14% per annum.
- ▶ Historic analysis of revenue growth in the Australian and New Zealand insurance markets shows volatility driven by insurance and economic cycles with longer term averages of 1.5 times to 2.0 times gross domestic product. Economic expectations for Australia and New Zealand do not support annual average growth of 14-20%, so the Group, having considered its options, resolved in 2002 to pursue offshore expansion in general insurance as the Group's market leading positions in Australia and New Zealand severely restrict local acquisitive opportunities.
- ▶ Depending on one's estimate of medium to long term growth in Australia and New Zealand, and assuming no significant acquisitions in the local markets, successful execution of an average growth rate of, say, 16% per annum over the 10 years from 2002 would result in approximately 40% of the Group's revenue being sourced outside Australia and New Zealand.
- ▶ The Group's first priority has been to establish a foothold in Asia for reasons including:
 - The high growth rates anticipated in many Asian markets, both economically and, leveraged to that, insurance penetration;
 - The demand for skills which match those of the Group in personal lines insurance, particularly underwriting in markets that have traditionally had tariff premiums;
 - Potential for insurance industry deregulation and consolidation; and
 - The proximity of Asia and the relationships Australia has in the region.
- ▶ This work is progressing (see section on International business).
- ▶ The Group has also commenced investigation of potential partners in other markets, which would provide opportunities for substantial capital diversification and potential growth and skill sharing. These opportunities may take time to develop, as the Asian opportunities did, so the Group considers it important to start the research now.

- ▶ The Group remains conscious that ceding its 'AA' rating would release capital but, for the present, considers retaining this rating is in the long-term interests of the shareholders in view of the security it provides to lenders, reinsurers, policyholders and shareholders in an industry that is, by its nature, subject to some risk and volatility outside participants' control. Maintaining an 80:20 mix of short-tail to long-tail premium has been adopted as a goal for similar reasons of risk mitigation.

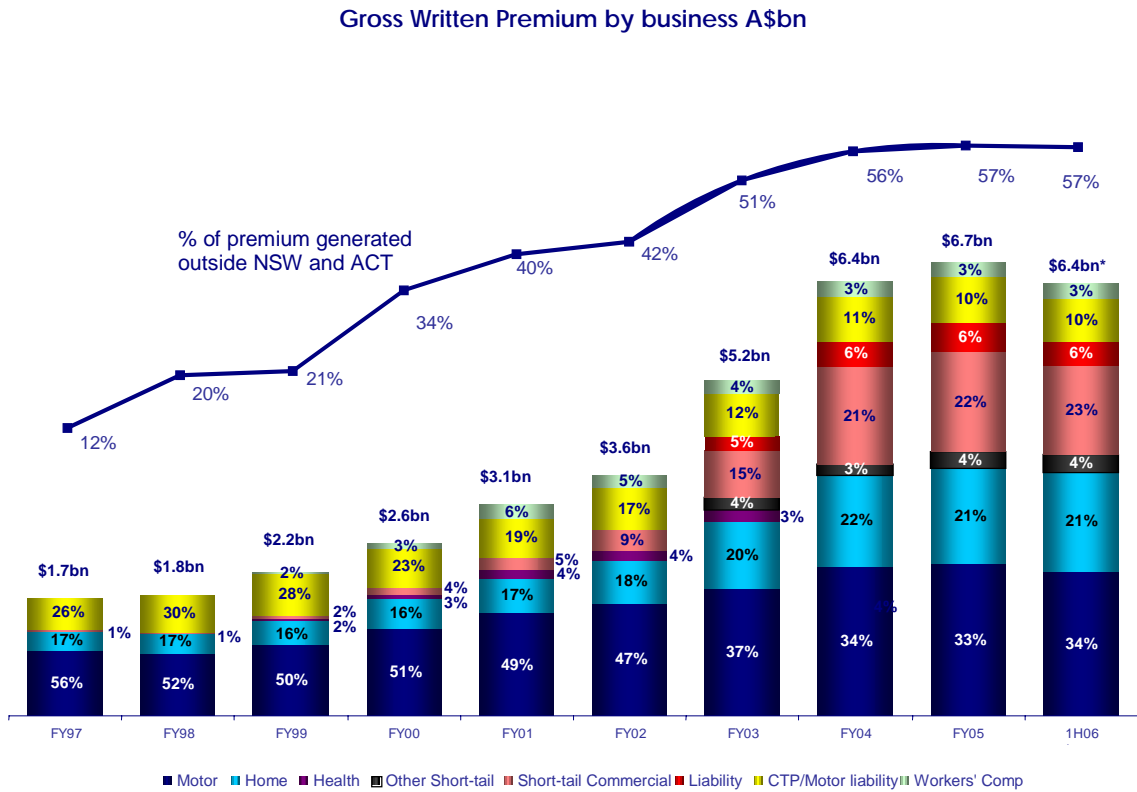
Sustainable returns

- ▶ As with any other industry, general insurance must generate sufficient returns for shareholders and other providers of capital to ensure the ongoing availability of capital. Also competitive forces keep surplus returns from being sustained, unless there are barriers to entry in existence, whether by regulation or indirectly due to industry structure (eg. access to distribution).
- ▶ Affordability of insurance is also important to ensure that an economy is protected from the disruption that occurs when businesses and individuals suffer major losses and are uninsured.
- ▶ In the Group's view, the interplay of these factors in the Australian and New Zealand markets, which are quite mature and relatively open, means that the industry's return on capital will, over 7-10 year cycles, move towards 1.5 times the cost of capital. If one assumes a 10% cost of capital, this equates to a 15% return.
- ▶ An individual insurer's sustainable returns on capital (and the insurance margins underlying it) relative to the market will be influenced by:
 - The insurer's mix of business;
 - The extent of diversification/absence of concentration or aggregation exposure in the insurer's portfolio;
 - The insurer's cost of capital; and
 - The insurer's ability to generate scale benefits in its operating expenses relative to its peers.
- ▶ Given the Group's position relative to the other major market participants in Australia and New Zealand, the Group expects to be able to generate an average of about 2 – 3% above the general insurance market average return on capital.
- ▶ How this translates into insurance margin expectations depends on the capital required to back the classes of business being written and the sustained adequacy of reserves, overlaid by cyclical conditions. However, as noted above, the Group's current position in the Australian and New Zealand markets gives it confidence that, measured over any reasonable timeframe, its returns should exceed the market averages for a similar mix of business.
- ▶ For example, if one assumes an industry average with:
 - An 80 : 20 mix of short-tail : long-tail business;
 - A minimum premium/capital ratio of 40% for short-tail and 100% for long-tail;
 - A target solvency of 1.5 times minimum tangible capital;
 - A cost of capital of 10%;
 - Earnings on capital of 6%; and
 - Tax of 30%,

the industry average insurance margin required to generate 1.5 times the cost of capital would be 12%. The margin required is quite sensitive to the assumptions. For example, changing the target solvency to 1.4 times while keeping the other assumptions constant would generate a required margin of 11.2% and changing the capital earnings assumption to 5% would increase the required margin to 12.8%.
- ▶ In other markets, both the markets themselves and the Group's position in them will be different. What remains constant is the Group's commitment to ensure it participates in a manner which should provide its shareholders with attractive sustainable returns over a prolonged period.

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.



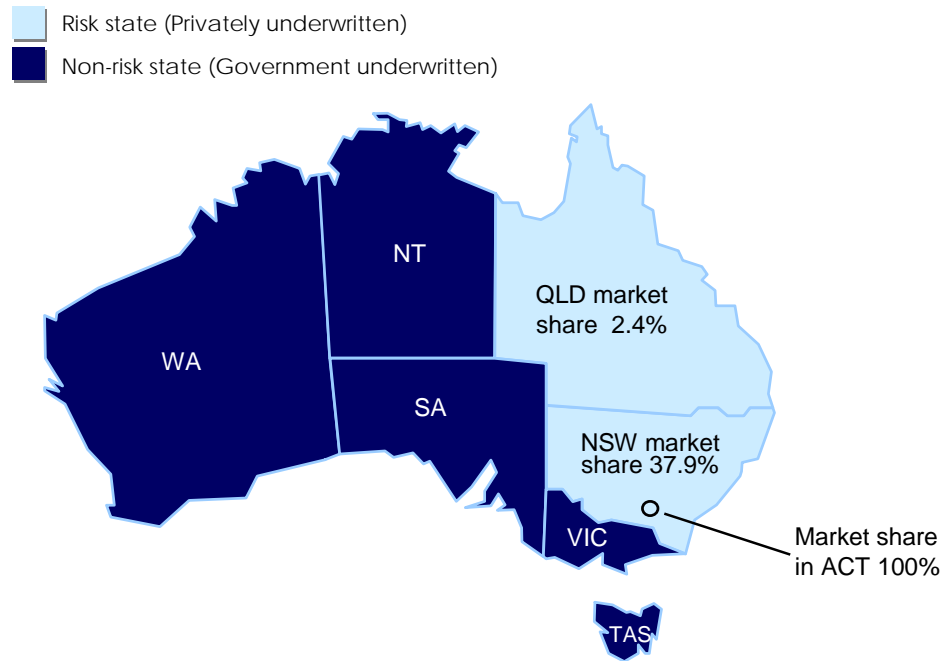
Notes:

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.

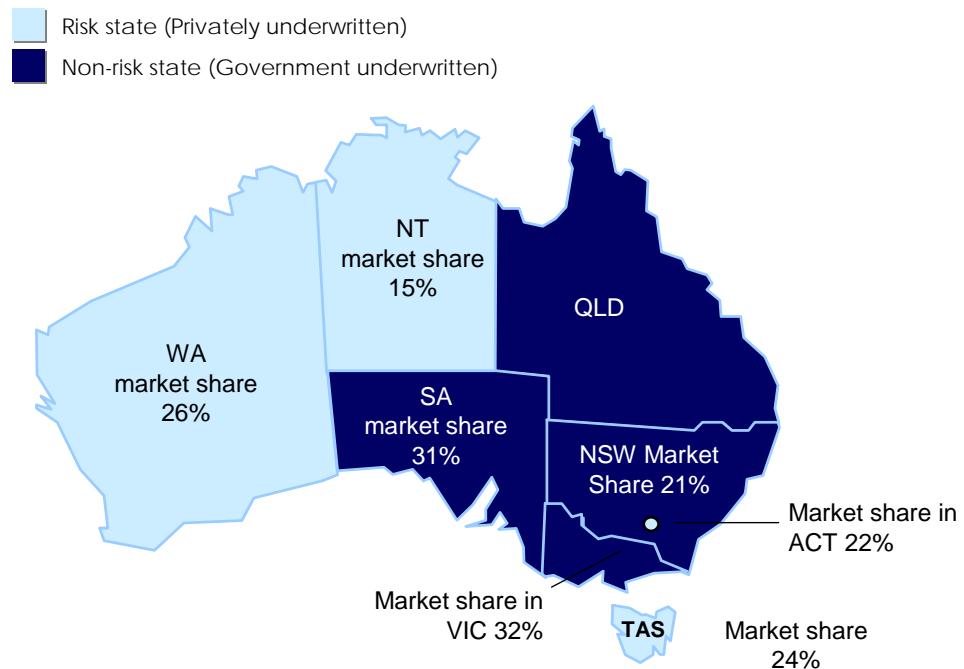
The Group's mix of short-tail and long-tail premium remains at 81:19.

Appendix C – Statutory classes

Compulsory third party motor liability – market share at 31 December 2005



Workers' compensation – market share at 31 December 2005



Appendix D - Key ASX releases

This schedule contains only a summary of the announcements made to the ASX since July FY05. It does not include announcements of changes in Directors' interests nor the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements should further information be required. These are available on www.iag.com.au

13 February 2006

Increased stake in Thailand Safety Insurance

IAG through its Thai investment holding company, NHCT Limited, acquired an additional 16.7% interest in Safety Insurance on Friday 10 February 2006, taking its existing 21.6% shareholding, acquired in October 1998, to 38.3%.

The Group announced it was seeking to further increase its interest through a general tender offer to all Safety Insurance shareholders. The tender document was published on the Stock Exchange of Thailand on 20 February 2006. The outcome of the tender process will be known by the end of March 2006. The offer price implies a value of approximately \$87m for 100% of the company.

8 February 2006

Changes to IAG executive team

IAG announced changes to its executive team including the rotation of responsibilities for some existing executives and the promotion of two senior managers to the executive team.

The key changes include:

- David Issa, currently Group Executive, Technology Services, will take up the role as CEO, Personal Insurance. He will continue to have responsibility for the Group's Technology services.
- Rick Jackson, currently CEO, Personal Insurance, will take on the newly created role CEO, Asset Management, Reinsurance and Group Strategy.
- David Smith, currently CEO, IAG New Zealand, has decided to leave New Zealand and, as a result, IAG. Nick Hawkins, formerly Head of Asset Management and General Manager, Group Finance, will take on the role of CEO, IAG New Zealand.
- Jacki Johnson, currently Head of Risk Management Services, will join the executive team, as CEO, Business Partnerships.

All other executives remain in their current positions and Justin Breheny will join the executive as planned in March as CEO Asia.

7 February 2006

IAG signs memorandum of understanding (MOU) with China Pacific Property Insurance Co, Limited and China Pacific Insurance (Group) Co, Limited

IAG announced it had signed an exclusive MOU setting out key terms of a proposed investment in China Pacific Property Insurance Co, Ltd (CPIC Property), with a view of signing binding agreements as soon as practical.

CPIC Property is the second largest general insurer in China, with a market share of approximately 12%. Under the terms of the MOU, IAG will negotiate with CPIC Property to purchase an initial 24.9% interest, as well as an option to increase its ownership to 40% subject to certain regulatory approvals. The price will be determined following the completion of an audit under Hong Kong accounting principles.

The investment in CPIC Property is in line with IAG strategy to build a portfolio of insurance assets in Asia to supplement its business in its home markets of Australia and New Zealand.

13 January 2006

Progress of approvals for Investment in AmAssurance

IAG announced it had been granted approval from the Malaysian Minister of Finance to acquire an initial stake of 30% in Malaysian insurer, AmAssurance. The only outstanding approval before settlement could proceed was that of Malaysia's Foreign Investment Committee.

22 December 2005

Appointment of New Executive

IAG announced the appointment of a new Executive with the responsibility for managing the Group's expanding Asian operations. It was advised that Mr Justin Breheny would join IAG's executive team as Chief Executive Officer, Asia, and be based in IAG's regional office in Singapore. He would have the responsibility for managing the Group's existing business interests in China, Thailand and Malaysia, while driving the Group's planned regional expansion.

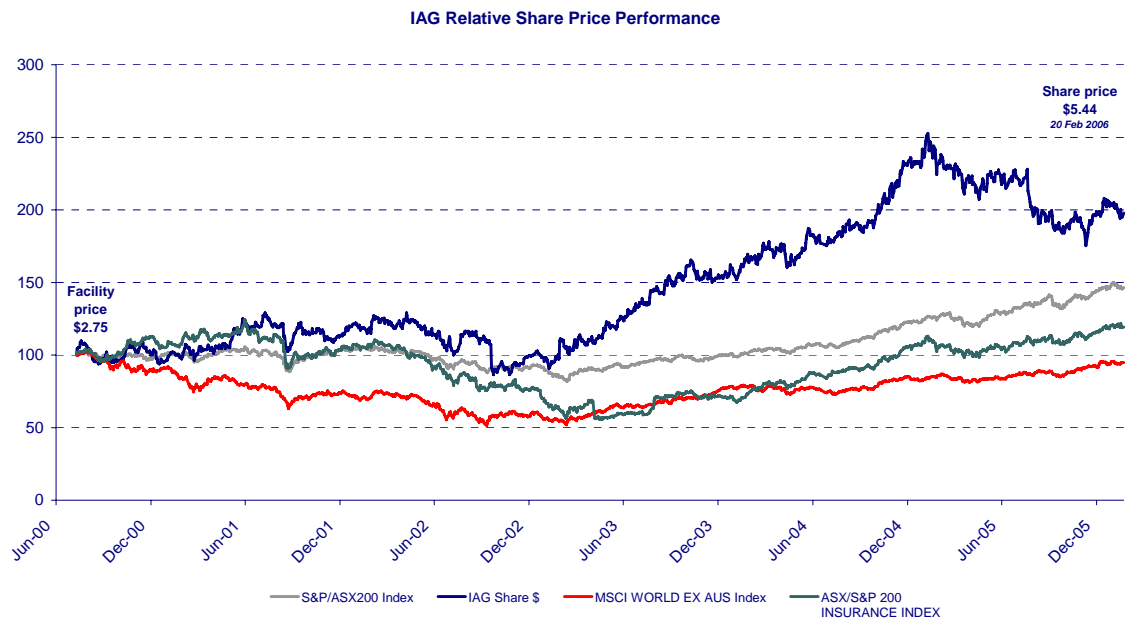
It was advised that Mr Ian Brown would retire as Deputy CEO and Head of International and Reinsurance at the end of December 2005.

- 9 December 2005** **Malaysian Acquisition**
 IAG announced that it had agreed to acquire an initial 30% strategic interest in Malaysian insurer AmAssurance Berhad subject to regulatory approvals. It was advised that the purchase price was A\$69m. AmAssurance generates approximately A\$272m in annual gross written premium.
- 17 November 2005** **Change in substantial holding for Commonwealth Bank of Australia**
 CBA announced it had decreased its holding in IAG ordinary shares from 7.50% voting power to 6.49%.
- 10 November 2005** **Amendment to IAG constitution**
 IAG announced that it had amended its constitution relating to the nomination period for the election of directors, following approval at the Annual General Meeting.
- 9 November 2005** **IAG confirms business momentum, releases 2005 Sustainability Report at AGM**
 IAG confirmed that the Group was on track to achieve full year guidance of an insurance margin between 13.5% and 16.3%. The business was performing in line with expectations, and was boosted by strong equity market performance.
- IAG released its Sustainability Report at the AGM, detailing the Group's performance in relation to a number of indicators, including IAG's efforts to reduce risks most common to its customers and the reduction of its environmental impact.
- Annual General Meeting Poll Results**
 It was confirmed that Mr John Astbury, Mr Geoffrey Cousins and Mr Rowan Ross were re-elected as directors of IAG.
- The motion to increase the maximum aggregate Directors' remuneration was passed. The motion to amend the article 12.7 of the Group's Constitution was passed, and the Company's Remuneration Report for the year ended 30 June 2005 was adopted.
- 28 October 2005** **IAG granted approval to enter discussions to invest in a Malaysian insurer**
 IAG announced that it had received approval from the Malaysian regulator to enter into discussions to invest in AmAssurance Berhad, Malaysia's second largest motor insurer. Having obtained this approval, IAG confirmed it would commence discussions to purchase a minority stake.
- 17 October 2005** **Changes to IAG's Dividend Reinvestment Plan**
 The IAG board approved amendments to the company's Dividend Reinvestment Plan. The principal change relating to DRP rules was the removal of the 200 share minimum participation level.
- 4 October 2005** **Pricing of Shares to be allocated under dividend reinvestment plan.**
 The ordinary shares allocated under dividend reinvestment plan (DRP) will be priced at \$5.3762 per share for the 2005 final dividend. The DRP price was based on an average market price for the ten trading days from 19 September 2005 to 30 September 2005 inclusive.
- Under the DRP, approximately 10.6 million ordinary shares were purchased on-market and allocated to participating shareholders on 17 October 2005.

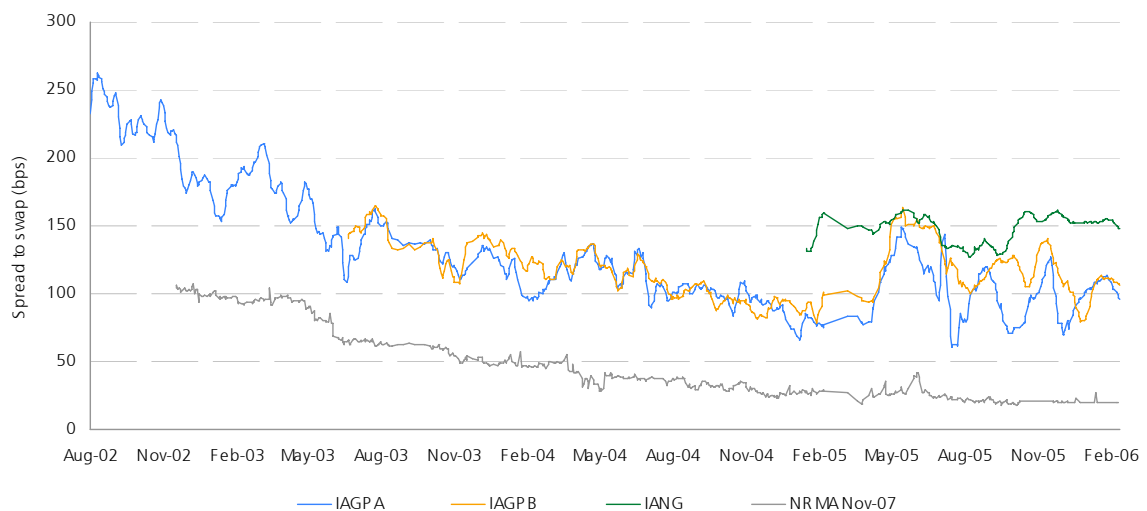
30 September 2005	<p>Warning to IAG shareholders in relation to Mr David Tweed IAG alerted shareholders that a company associated with Mr David Tweed, Direct Share Purchasing Corporation Pty Ltd, had launched another unsolicited offer for IAG shares.</p>
26 September 2005	<p>2005 Annual Report and notice of Annual General Meeting released to the market</p>
22 September 2005	<p>Dividends payable on Reset Preference Shares The Board of IAG declared fully franked dividends on IAGPA at a rate of 5.80% per annum (with \$2.9079 payable per \$100 share) and on IAGPB at a rate of 4.51% per annum (with \$2.2612 payable per \$100 share), payable on 15 December 2005.</p>
14 September 2005	<p>Change in substantial holding for Commonwealth Bank of Australia CBA announced it had increased its holding in IAG ordinary shares from 6.46% voting power to 7.50%.</p>
12 September 2005	<p>Warning to IAG shareholders in relation to Mr David Tweed IAG alerted shareholders that a company associated with Mr David Tweed, National Share Purchasing Corporation Pty Ltd, had launched another unsolicited offer for IAG shares.</p>
19 August 2005	<p>Announcement of Full Year results – 30 June 2005 and declaration of a fully franked final dividend of 14.5 cents per ordinary share payable on 17 October 2005 IAG announced a net profit after tax of \$760 million for the twelve months ended 30 June 2005 (30 June 2004: \$665 million).</p>
28 July 2005	<p>IAG announces changes to Executive Team IAG announced changes to its Executive Team, including the creation of a new role to support international expansion and the planned retirement of the Deputy CEO, Mr Ian Brown. It was advised that the final phase of the restructure of the business along customer lines was underway, and that, Doug Pearce would leave IAG on 31 August 2005.</p>
12 July 2005	<p>Change in substantial holding for Commonwealth Bank of Australia CBA had announced it had increased its holding in IAG ordinary shares from 5.43% voting power to 6.46%.</p>
12 July 2005	<p>Change in substantial holding from Barclays Global Investors Australia Limited Barclays Global Investors Australia Ltd announced it had reduced its holding in IAG ordinary shares by 0.13%, ceasing to be a substantial shareholder.</p>

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 14 March 2006 is 4.7880% per annum, fully franked.
- ▶ The performance of the IAGPA, IAGPB and IANG prices 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 31 December 2005

Rank	Investor	Number of Shares	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	176,335,127	11.07
2	NATIONAL NOMINEES LIMITED	128,385,531	8.06
3	WESTPAC CUSTODIAN NOMINEES LIMITED	91,367,203	5.73
4	CITICORP NOMINEES PTY LIMITED	41,729,074	2.62
5	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	2.22
6	COGENT NOMINEES PTY LIMITED	20,792,138	1.30
7	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<PIPOOLED A/C>	1.11
8	CITICORP NOMINEES PTY LIMITED	<CFS WSLE GEARED SHR FND A/C>	1.06
9	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<BKCUST A/C>	1.03
10	AMP LIFE LIMITED	15,507,244	0.97
11	CITICORP NOMINEES PTY LIMITED	<CFS WSLE 452 AUST SHARE A/C>	0.89
12	QUEENSLAND INVESTMENT CORPORATION	14,202,268	0.89
13	WESTPAC FINANCIAL SERVICES LIMITED	10,651,983	0.67
14	IAG SHARE PLANS NOMINEE PTY LIMITED	<IAG PAR UNALLOCATED A/C>	0.58
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSI ECSA	9,038,744	0.57
16	PSS BOARD	8,086,155	0.51
17	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	0.39
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,242,659	0.39
19	CSS BOARD	5,981,193	0.38
20	ARGO INVESTMENTS LIMITED	5,173,333	0.32
Total Top 20 Holders		649,622,228	40.76

D Reset preference (IAGPA) Shareholders as at 31 December 2005

Rank	Name	Number of Shares	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	457,165	13.06
2	WESTPAC CUSTODIAN NOMINEES LIMITED	249,200	7.12
3	CITIBANK LIMITED	226,500	6.47
4	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<JBENIP A/C>	5.51
5	AMP LIFE LIMITED	135,073	3.86
6	NATIONAL NOMINEES LIMITED	126,937	3.63
7	CITICORP NOMINEES PTY LIMITED	118,775	3.39
8	UBS NOMINEES PTY LTD	<PRIME BROKING A/C>	3.39
9	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	2.20
10	SHARE DIRECT NOMINEES PTY LTD	<NATIONAL NOMINEES A/C>	1.43
11	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	1.29
12	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	1.08
13	ARGO INVESTMENTS LIMITED	30,800	0.88
14	CAMBOOYA PTY LIMITED	30,650	0.88
15	BRENCORP NO 11 PTY LIMITED	22,500	0.64
16	CITICORP NOMINEES PTY LIMITED	<CMIL CWLTH INCOME FUND A/C>	0.57
17	M F CUSTODIANS LTD	19,350	0.55
18	ANZ EXECUTORS AND TRUSTEE COMPANY LIMITED	17,310	0.49
19	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	16,182	0.46
20	PERPETUAL TRUSTEE COMPANY LIMITED	14,331	0.41
Total Top 20 Holders		2,006,303	57.31

E Reset Preference (IAGPB) Shareholders as at 31 December 2005

Rank	Name	Number of Shares	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	491,138	24.56
2	AMP LIFE LIMITED	199,374	9.97
3	SHARE DIRECT NOMINEES PTY LTD	<NATIONAL NOMINEES A/C>	7.50
4	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	6.20
5	CITICORP NOMINEES PTY LIMITED	78,510	3.93
6	UBS NOMINEES PTY LTD	<PRIME BROKING A/C>	3.67
7	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	3.59
8	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	2.84
9	NATIONAL NOMINEES LIMITED	51,910	2.60
10	PERPETUAL TRUSTEE COMPANY LIMITED	36,824	1.84
11	GOLDMAN SACHS JBWERE CAPITAL MARKETS LTD	<HYBRID PORTFOLIO A/C>	1.59
12	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	1.07
13	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	20,770	1.04
14	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<JBENIP A/C>	1.02
15	MRS FAY CLEO MARTIN-WEBER	20,000	1.00
16	FORTIS CLEARING NOMINEES P/L	<SETTLEMENT A/C>	0.91
17	WESTPAC CUSTODIAN NOMINEES LIMITED	17,300	0.87
18	BRENCORP NO 11 PTY LIMITED	16,000	0.80
19	UNIVERSITY OF CANBERRA	10,000	0.50
20	BRENCORP NO 11 PTY LTD	9,000	0.45
Total Top 20 Holders		1,518,546	75.95

F. Reset Exchangeable Securities (IANG) holders as at 31 December 2005

Rank	Name	Number of RES	% of RES Issued
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	784,622	14.27
2	UBS PRIVATE CLIENTS AUSTRALIA NOMINEES PTY LTD	343,737	6.25
3	NATIONAL NOMINEES LIMITED	325,500	5.92
4	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	2.22
5	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	1.32
6	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<AFT>	1.26
7	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	1.26
8	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<ACT>	0.96
9	COGENT NOMINEES PTY LIMITED	50,000	0.91
10	UCA CASH MANGAGEMENT FUND LTD	50,000	0.91
11	CRYTON INVESTMENTS NO 9 PTY LTD	<GARNER NUMBER 1 A/C>	0.87
12	BRENCORP PTY LIMITED	<BRENCORP NO 11 PTY LTD A/C>	0.73
13	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	<GSJBW A/C>	0.66
14	SR CONSOLIDATED PTY LTD	30,300	0.55
15	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	25,678	0.47
16	ARGO INVESTMENTS LIMITED	25,000	0.45
17	CLY CUT PTY LTD	23,464	0.43
18	CAMBOOYA PTY LIMITED	20,250	0.37
19	AUSTRALIAN NATIONAL UNIVERSITY	20,000	0.36
20	MARBEAR HOLDINGS PTY LIMITED	20,000	0.36
Total Top 20 Holders		2,228,810	40.53

Appendix F - 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 37% 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

ASIAN INTERESTS

IAG has interests in four businesses in Asia – 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China; a controlling economic interest in IAG Insurance Thailand (from July 2005); a 30% share of AmAssurance Berhad (from February 2006) and a strategic 38.3% shareholding in Thailand's Safety Insurance. A tender to acquire the remaining shares in Safety Insurance opened for one month in late February 2006.

Our Brands:



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

Appendix G – Glossary

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

AASB:	Australian Accounting Standards Board.
ABS:	Australian Bureau of Statistics.
AIFRS:	Australian equivalents of International Financial Reporting Standards.
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.
Fire services Levy (FSL):	FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying the FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy.
Gross 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.
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.

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.
RPS:	Reset preference shares issued by IAG in two tranches and listed on ASX as IAGPA and IAGPB.
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' Funds:	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.

Appendix H – Reconciliations to previous basis of reporting

The following tables provide reconciliations to the Group's previous basis of reporting for 1H05 and 2H05 for each segment. These adjustments arise from the adoption of AIFRS and the Group's decision to re-classify the results of its captive reinsurer, IAG Re.

The most significant differences relating to the change to AIFRS arise from:

- ▶ 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 that the Group expensed all costs as incurred.

The profit earned by the captive from reinsuring the Group's consolidated operations has been allocated back to those businesses on a basis, which reflects the profits earned from those businesses. This has been done by adjusting the reinsurance expense in each business for 2H04 onwards.

For comparative periods, the aggregate of the Group's three segments differs slightly to the consolidated result due to rounding differences.

Australian Personal Lines

Half-year ended Dec 04	AGAAP excl. Captive	AIFRS Adjustments	Captive Adjustment	AIFRS incl. Captive
	A\$m	A\$m	A\$m	A\$m
Gross written premium	2,002	-	-	2,002
Gross earned premium	1,986	-	-	1,986
Reinsurance expense	(106)	-	23	(83)
Net premium revenue	1,880	-	23	1,903
Net claims expense	(1,262)	(6)	-	(1,268)
Commission expense	(114)	-	-	(114)
Underwriting expense	(322)	(9)	-	(331)
Underwriting profit	182	(15)	23	190
Investment income on technical reserves	158	-	-	158
Insurance profit for personal lines	340	(15)	23	348

Half-year ended Jun 05	AGAAP excl. Captive	AIFRS Adjustments	Captive Adjustment	AIFRS incl. Captive
	A\$m	A\$m	A\$m	A\$m
Gross written premium	1,976	-	-	1,976
Gross earned premium	1,950	-	-	1,950
Reinsurance expense	(109)	-	(17)	(127)
Net premium revenue	1,841	-	(17)	1,823
Net claims expense	(1,279)	(4)	-	(1,283)
Commission expense	(116)	-	-	(116)
Underwriting expense	(337)	(1)	-	(338)
Underwriting profit	109	(5)	(17)	86
Investment income on technical reserves	145	-	-	145
Insurance profit for personal lines	254	(5)	(17)	231

Australian Commercial Lines

Half-year ended Dec 04	AGAAP excl. Captive	AIFRS Adjustments	Captive Adjustment	AIFRS incl. Captive
	A\$m	A\$m	A\$m	A\$m
Gross written premium	827	-	-	827
Gross earned premium	831	-	-	831
Reinsurance expense	(100)	-	5	(95)
Net premium revenue	731	-	5	736
Net claims expense	(518)	(6)	-	(524)
Commission expense	(90)	-	-	(90)
Underwriting expense	(132)	(15)	-	(147)
Underwriting profit	(9)	(21)	5	(25)
Investment income on technical reserves	93	-	-	93
Insurance profit	84	(21)	5	68
Profit from fee based business	11	-	-	11
Total commercial lines result	95	(21)	5	79

Half-year ended Jun 05	AGAAP excl. Captive	AIFRS Adjustments	Captive Adjustment	AIFRS incl. Captive
	A\$m	A\$m	A\$m	A\$m
Gross written premium	867	-	-	867
Gross earned premium	803	-	-	803
Reinsurance expense	(100)	-	17	(83)
Net premium revenue	703	-	17	720
Net claims expense	(401)	(4)	-	(405)
Commission expense	(88)	-	-	(88)
Underwriting expense	(138)	(10)	-	(148)
Underwriting profit	76	(14)	17	79
Investment income on technical reserves	87	-	-	87
Insurance profit	163	(14)	17	166
Profit from fee based business	(25)	-	-	(25)
Total commercial lines result	138	(14)	17	141

International

Half-year ended Dec 04	AGAAP excl. Captive	AIFRS Adjustments	Captive Adjustment	AIFRS incl. Captive
	A\$m	A\$m	A\$m	A\$m
Gross written premium	499	-	-	499
Gross earned premium	494	-	-	494
Reinsurance expense	4	-	(53)	(49)
Net premium revenue	498	-	(53)	445
Net claims expense	(287)	-	16	(271)
Commission expense	(49)	-	-	(49)
Underwriting expense	(80)	-	9	(70)
Underwriting profit	82	-	(28)	55
Investment income on technical reserves	12	-	-	12
Insurance profit	94	-	(28)	67
China Automobile Association	(2)	-	-	(2)
Total international result	92	-	(28)	65

Half-year ended Jun 05	AGAAP excl. Captive	AIFRS Adjustments	Captive Adjustment	AIFRS incl. Captive
	A\$m	A\$m	A\$m	A\$m
Gross written premium	502	-	-	502
Gross earned premium	496	-	-	496
Reinsurance expense	(6)	-	(27)	(34)
Net premium revenue	490	-	(27)	463
Net claims expense	(323)	-	25	(298)
Commission expense	(44)	-	-	(44)
Underwriting expense	(81)	1	10	(70)
Underwriting profit	43	1	7	50
Investment income on technical reserves	21	-	(7)	14
Insurance profit	64	1	0	64
China Automobile Association	(2)	-	-	(2)
Total international result	62	1	0	62