

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
Directory

Stock Exchange Listings of the Group

ASX Limited:

ASX code for Ordinary Shares: **IAG** (Shares on issue: 1,852,984,748)

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)

London Stock Exchange:

LSE code: 70QG for

Insurance Australia Group Limited £250m Fixed/Floating Rate Subordinated Notes due 2026

Investor Information/Administration

Computershare Investor Services Pty Limited
452 Johnston Street, Abbotsford VIC 3067

Telephone: 1300 360 688

Email: iag@computershare.com.au

Facsimile: +61 3 9473 2470

Website: www.iag.com.au

Or by mail to:

GPO Box 4709

Melbourne VIC 3001

Investor Relations

Email: investor.relations@iag.com.au

Mr Michael Woods

Head of Investor Relations

Telephone: +61 2 9292 3156

Facsimile: +61 2 9292 3109

Email: michael.woods@iag.com.au

Registered Office

Level 26, 388 George Street
Sydney NSW 2000

Telephone: +61 2 9292 9222

*Key dates for shareholders - proposed calendar of events**

Interim dividend - ordinary shares

Ex-dividend date	5 March 2008
Record date	12 March 2008
Payment date	14 April 2008

Payment date for IANG quarterly distribution	17 March 2008
Payment date for IAGPA, IAGPB and IANG distributions	16 June 2008
Announcement of full-year results to 30 June 2008	22 August 2008

Final dividend - ordinary shares

Ex-dividend date	28 August 2008
Record date	3 September 2008
Payment date	3 October 2008

Payment date for IANG quarterly distribution	15 September 2008
Annual General Meeting	11 November 2008
Payment date for IAGPA, IAGPB and IANG distributions	15 December 2008
Announcement of half-year results to 31 December 2008	27 February 2009

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

Table of Contents

1.	Introduction	1
1.1	Operating environment and result overview	2
1.2	Capital management	3
1.3	Outlook	4
2.	Consolidated Group Half -Year Results	7
2.1	Insurance ratios	8
2.2	Premiums	8
2.3	Reinsurance expense.....	8
2.4	Claims expense.....	8
2.5	Insurance operating expenses	9
2.6	Corporate expenses	9
2.7	Interest	9
2.8	Profits from fee based business	9
2.9	Investment returns.....	10
2.10	Tax expense.....	10
2.11	Amortisation	10
2.12	Difference in reporting treatment	10
3.	Australian General Insurance	11
3.1	Direct Personal Insurance	13
3.2	Business Partnerships.....	18
3.3	CGU Insurance.....	21
3.4	Discontinued business.....	25
4.	International	26
4.1	International - UK.....	28
4.2	International - New Zealand.....	35
4.3	International - Asian operations	39
4.4	International - Asian reinsurance operations	44
5.	Investments	46
5.1	Investment policy.....	46
5.2	Investment philosophy.....	46
5.3	Changes to investment strategies	46
5.4	Investment performance.....	47
5.5	Asset allocation	49
5.6	Group assets under management	50
5.7	Credit quality of assets under management	50
6	Corporate	52
7	Balance Sheet, Capital and Dividends	53
7.1	Balance sheet.....	53
7.2	Capital management	55
7.3	Return on equity	62
7.4	Dividends.....	63
7.5	Sensitivity analysis	64
	Appendix A - Group purpose and strategy	65
	Appendix B - A snapshot of IAG.....	66
	Appendix C - Share price trends and top 20 registered holdings	68
	Appendix D - Key ASX releases.....	70
	Appendix E - Product and geographical diversification	76
	Appendix F - Glossary.....	79

1. INTRODUCTION

INSURANCE AUSTRALIA GROUP FINANCIAL PERFORMANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	3,324	4,057	3,851
Gross earned premium	3,369	3,838	3,923
Reinsurance expense	(214)	(250)	(214)
Net premium revenue	3,155	3,588	3,709
Net claims expense	(2,033)	(2,441)	(2,644)
Commission expense	(259)	(306)	(331)
Underwriting expense	(619)	(678)	(741)
Underwriting profit/(loss)	244	163	(7)
Investment income on technical reserves	176	184	224
Insurance profit	420	347	217
Net corporate expenses	(30)	(39)	(27)
Interest	(50)	(69)	(58)
Profit/(loss) from fee based business / share from associates	29	54	29
Investment income on shareholders' funds	166	135	76
Profit before income tax and amortisation	535	428	237
Income tax expense	(146)	(133)	(78)
Profit after income tax (before amortisation)	389	295	159
Minority interests	(37)	(40)	(17)
Profit attributable to IAG shareholders (before amortisation)	352	255	142
Amortisation	(7)	(48)	(32)
Profit attributable to IAG shareholders	345	207	110
Insurance Ratios			
Loss ratio	64.4%	68.0%	71.3%
Expense ratio	27.8%	27.4%	28.9%
Commission ratio	8.2%	8.5%	8.9%
Administration ratio	19.6%	18.9%	20.0%
Combined ratio	92.2%	95.5%	100.2%
Insurance margin	13.3%	9.7%	5.9%
Key Financial Metrics			
Reported ROE % (Avg Equity) pa	19.5%	9.2%	4.7%
Normalised Cash ROE % (Avg Equity) pa	17.2%	9.7%	6.6%
EBITDA (A\$m)	610	555	341
Net cash flow from operations (A\$m)	199	202	73
Basic EPS (cents)	21.42	11.79	6.07
Cash EPS (cents)	21.90	14.52	7.84
DPS (cents)	13.50	16.00	13.50
Probability of adequacy of general insurance claims reserves	90.0%	90.0%	90.0%
MCR multiple - Group	2.39x	1.67x	1.87x

1.1 Operating environment and result overview

The Group's profitability for the half has been disappointing (net profit after tax of \$110m compared with \$345m in 1H07), being adversely impacted by a number of factors:

- ▶ Continued soft cycle conditions, particularly in commercial insurance and UK motor;
- ▶ Substantially higher storm costs of \$326m (before tax) compared with \$125m in 1H07 and much higher than the Group's storm allowances of \$153m;
- ▶ Investment returns on shareholders' funds fell by \$90m from \$166m in 1H07 due to a combination of market conditions and relative underperformance; and
- ▶ A negative impact of \$55m before tax due to widening credit spreads. These are expected to be recovered as the portfolio matures.

Accordingly, the reported result is largely reflective of market conditions and not of the underlying profitability of the Group.

With unfavourable conditions such as these, it is important that the Group positions itself to benefit from the inevitable upturn in the market. Consequently, the Group has made a number of decisions designed to improve both profitability and competitive positioning:

- ▶ Strengthened the management team with three new Group Executives joining the organisation in key roles - Chief Operating Officer, CEO CGU and Group Executive Business Services;
- ▶ The Group continued its focus on productivity improvements during the period:
 - The UK synergies programme has progressed as planned and remains on track to have annual savings of £25m per annum in after tax benefits in place by June 2008;
 - The restructuring of the New Zealand business announced in October 2007 was completed and the Group expects to deliver the targeted 1-2% improvement in the insurance margin from 2H08; and
 - The Group's Corporate Office was reorganised and a separate shared services division created. The Australian business cost base is now under review.
- ▶ Continued to address legacy issues in the Hastings/Advantage business in the UK.
- ▶ Increased reinsurance protections to reduce volatility in reported earnings in the event that the current level of storm and related weather activity continues;
- ▶ Continued pricing discipline and seeking increases where they reflect underlying claim trends whilst maintaining the Group's competitive positioning; and
- ▶ Increased the investment in advertising and customer service capability.

In addition, the Group has continued to progress many of its initiatives announced in October 2007. These are covered in more detail in the segmental analysis later in this report.

The Group's GWP showed strong growth of 15.9%, increasing \$527m to \$3,851m compared with 1H07. This increase was driven in large part from the full period contribution of the UK acquisitions (representing \$502m of that growth).

However, this masks solid growth in both the Australian Personal Lines and New Zealand business units, offset by reductions in the Australian commercial insurance businesses. Highlights include:

- ▶ Total Australian Personal Lines GWP grew 4.3%¹, a combination of both volume and rate increases;
- ▶ Australian Direct Personal Insurance GWP grew 4.6%¹ and is believed to have increased its market share nationally; and
- ▶ Australian Commercial Lines increased rates on a number of short-tail portfolios and whilst overall GWP fell 5.9%, profitability and retention levels remained strong.

¹ 1H08 v 1H07 and adjusted for LTCS

The results also demonstrate the success of the Group's strategy of diversifying its income streams geographically. Approximately 70% of the Group's premiums are now sourced from Australia, compared with 81% a year ago. Whilst market conditions are unfavourable at present, this improved portfolio mix should enable more sustainable profitability going forward.

Similarly, the Group's insurance margin also reflects this diversification together with the adverse conditions noted above.

The insurance margin for 1H08 was 5.9%, compared with 13.3% in 1H07. The key driver of this fall is increased frequency of weather related events adversely impacting almost every business. This has driven a general deterioration in claim costs but is particularly related to large events:

- ▶ Sydney December 2007 hailstorms;
- ▶ UK floods; and
- ▶ New Zealand storm (North Island) and earthquake.

Both the Australian and New Zealand portfolios have experienced an increase in claims frequency and average claims costs in the underlying portfolios, which is being addressed with rate increases.

This margin would have been lower had there not been favourable experience in the long-tail classes. Reserve releases for 1H08 totalled \$228m, a substantial reduction from 2H07 with CTP experience now tracking closer to pricing expectations.

As previously stated, the quantum of these releases is not sustainable and thus it is pleasing that absent the unusually high storm activity, the underlying margins in a number of the Group's businesses have been strong.

Notably, the insurance margin from Equity Insurance was 12.9% for 1H08, substantially above the expected margin of 10% per annum across the cycle.

This is offset by poor, albeit improving, margins from Advantage resulting in an overall UK insurance margin of 4.0%. Active management of Advantage's portfolio has been a continual management focus over the past six months, resulting in a 5% improvement in its loss ratio from 108.0% in 2H07 to 103.2% in 1H08. Work continues and the business is anticipated to make a positive margin contribution in FY09.

Credit spreads also contributed to the weak insurance margin, representing a 1.5% reduction to the 1H08 results. The cause of this reduction is the mark-to-market loss in the Group's technical reserves backing insurance liabilities as a result of widening credit spreads. Given the very high credit quality of the portfolio, the Group expects to recover this loss as the assets mature.

The Group's return on equity (ROE) for 1H08 was 4.7% or 6.6% normalised². This compares with 19.5% and 17.2%, respectively for 1H07.

Cash earnings per share³ (EPS) was 7.84 cents per share, compared with 21.90 cents per share for 1H07.

Net cash flows from operating activities was \$73m for 1H08, compared with \$199m for 1H07 and were impacted by claims paid in relation to the June 2007 Storms.

1.2 Capital management

The Group continues to hold a very strong balance sheet and has maintained all its key capital ratios:

- ▶ MCR ratio of 1.87x, ahead of the Group's current benchmark of 1.55x, and compares to 1.67x at 30 June 2007;

² Normalised for investment returns and adding back amortisation of intangible assets

³ EPS plus amortisation of intangible items

- ▶ This excludes the Group's fully funded contingent capital of \$550m, which continues to be held off balance sheet. In the event that the Group exercised its exchange rights into on balance sheet regulatory capital, the MCR ratio would increase to 2.17x;
- ▶ Probability of adequacy on outstanding claims maintained at 90%;
- ▶ 'AA-' rated by Standard & Poor's⁴; and
- ▶ GWP short-tail: long-tail mix of 82:18, broadly in line with the Group's target of 80:20.

Similarly, and in line with the Group's previously stated approach, the Group's counter-party credit risk (both investment and reinsurance) remains very low. As an example, reinsurance recoverables represent only 3.5% of total assets at December 2007.

At 31 December 2007, the Group's net assets were \$4,920m, compared with \$4,832m at 30 June 2007.

Excluding minority interests, the net assets attributable to ordinary equity holders totalled \$4,774m, having increased from 30 June 2007 by the 1H08 net profit after tax.

Total interest bearing liabilities of \$1,723m, represent 26.5% of the Group's total capitalisation (excluding minority interests), a significant reduction from the 30.2% at 30 June 2007. As at 29 February 2008, the Group had less than \$70m of debt falling due for repayment before 31 December 2008.

1.3 Outlook

Overall, the Group's key markets are expected to continue to be both competitive and challenging in the near term.

The Group's expectations for FY08 are unchanged from the ranges previously stated. Namely, GWP to grow between 7-9%⁵ and produce an insurance margin of between 9-11%⁵. However, recent events mean the Group now expects to be at the low end of this range for both GWP and insurance margin.

To minimise the downside risk to this forecast, the Group has also reduced its exposure to catastrophe events by purchasing additional reinsurance covers, which reduce the maximum event retention (MER) to:

- ▶ \$93m for an Australian event;
- ▶ \$81m for a New Zealand event; and
- ▶ \$79m for a United Kingdom event.

From 1 July 2008, these retentions increase by \$25m upon the expiry of one treaty.

The Group will continue to execute its acquisition growth strategy where it adds shareholder value, is prudent to do so and is in line with its strict acquisition criteria.

The Group continues to explore a number of productivity initiatives and, as already noted, has already implemented a rationalisation of the Group's Corporate Head Office and the creation of an Australian Shared Services business unit. It is anticipated that these initiatives will continue with further savings to come from the Australian business units.

Overall, the Group believes these actions are beginning to take hold and provide a basis for the associated profit improvements, which will begin to emerge in 2H08 and FY09.

⁴ Refers to the Group's rating

⁵ Subject to no material movement in foreign exchange rates, large losses beyond allowances or a further widening of credit spreads. The sensitivity of the insurance margin to a widening of credit spreads as at 31 December 2007 was approximately \$10.5 million for a 10bps movement in yield

The interim dividend has been maintained at 13.5 cents per share, fully franked. It will be paid on 14 April 2008 to shareholders registered as at 12 March 2008.

The Board has decided to issue new shares to participants in the Group's dividend reinvestment plan (DRP). The Issue Price per Share will be the Average Market Price less a 1.5% discount (see section 7.4 Dividends).

After the payment of the dividend, the Group will have franking credits of \$423m available to support future fully franked distributions.

A summary of the outlook by business segment together with a brief commentary is shown below and should be read in conjunction with the detailed commentary later in this report.

	October 2007 briefing FY08 guidance		1H08 results announcement FY08 guidance	
	GWP growth	Insurance margin	GWP growth	Insurance margin
Direct Personal Insurance	2 - 4%	17 - 20%	2 - 4%	12 - 14%
Business Partnerships	4 - 6%	6 - 8%	4 - 6%	1 - 3%
CGU Commercial Lines	(4 - 2)%	14 - 17%	(5 - 3)%	15 - 17%
CGU Broker & Agent	(3 - 1)%	(5 - 3)%	(3 - 1)%	(6 - 4)%
New Zealand	5 - 7%	4 - 6%	1 - 3%	2 - 4%
Asia	9 - 11%	2 - 4%	6 - 8%	1 - 3%
United Kingdom	54 - 57%	5 - 7%	57 - 60%	5 - 7%
Asian Reinsurance	not material	not material	not material	(22 - 20)%
IAG Group	7 - 9%	11 - 13%	7 - 9%	9 - 11%

1.3.1 Australian Personal Lines

Pricing behaviour in the Australian Personal Lines short-tail business remains extremely competitive but rational.

This is not expected to change with price increases implemented in both the indirect and direct portfolios. The Group anticipates these will be ongoing to compensate for the increased frequency and severity of weather events.

The Group is also investing in its brands and customer service while reviewing its cost base to identify productivity savings.

1.3.2 Australian Commercial Lines

For Australian Commercial Lines the Group expects current market conditions to continue for at least the next 12 months as positive long-tail experience supports price reductions in the industry. Weather events and further equity market volatility may hasten the end of this soft cycle.

As foreshadowed in August, the Group has taken a leading position on increasing rates across selected short-tail classes to balance premium growth with appropriate underwriting profitability.

Over 1H08 the average premiums were flat across the portfolio, compared with a reduction of 3% in the prior comparative period. However, the risk of continued soft conditions has led the Group to revise its premium contraction guidance from that given in October 2007.

1.3.3 New Zealand

New Zealand industry conditions are improving with homeowners remaining the most challenging product.

Price increases of 5% have already been introduced for commercial lines and combined with a number of productivity initiatives undertaken in 1H08, the Group expects to see the business return to sustainable margins, including an improvement in the expense ratio of 1-2% from 2H08.

1.3.4 United Kingdom

The UK business has already increased rates across most classes of business to compensate for the recent storm activity, as have many of its competitors.

This, coupled with the improving underwriting performance of Advantage and the further realisation of claims synergies (which remain on track), is expected to result in the UK having a strong competitive position and an insurance margin run-rate of at least 10% by end of FY08.

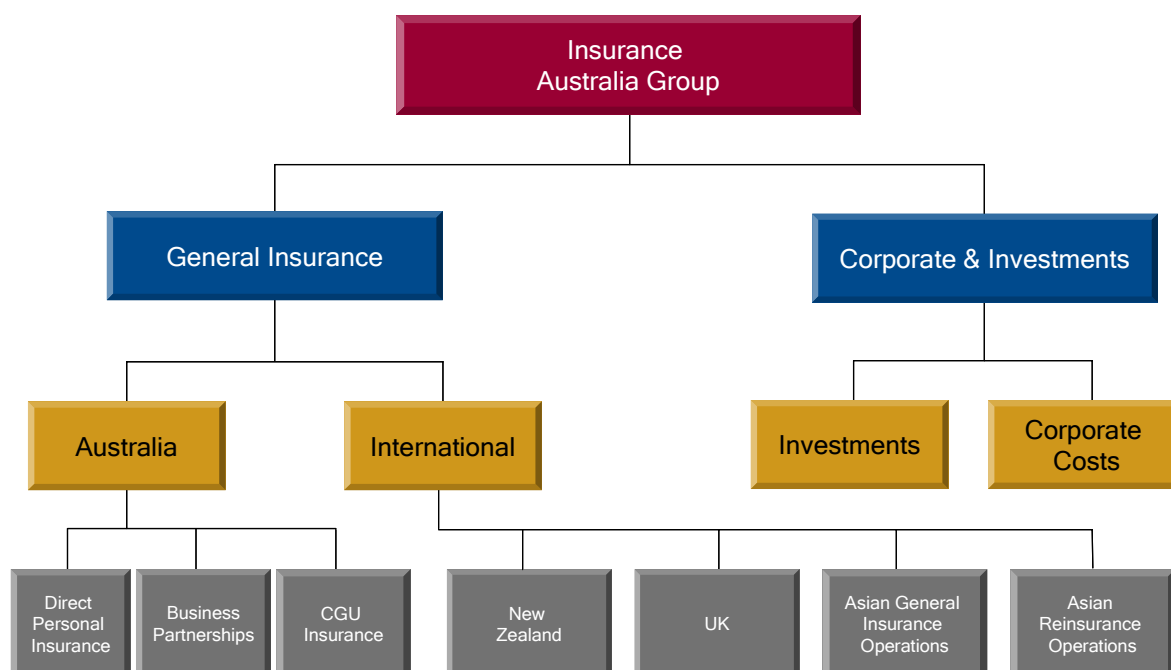
1.3.5 Asia

The Asian business unit continues to invest in its portfolio, growing both existing investments and seeking new ones in the region.

The Thai business recorded growth of 6% in local currency terms (12% in A\$ terms). This was driven by a combination of both volume and premium rate increases as well as an expanded branch network.

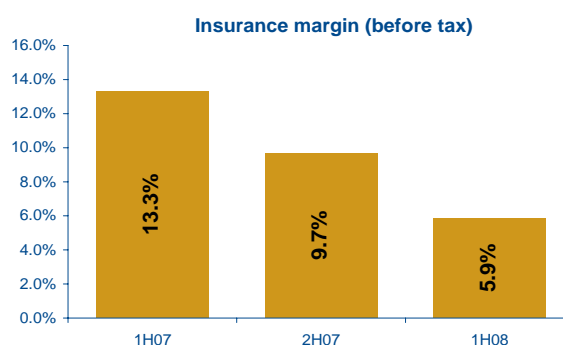
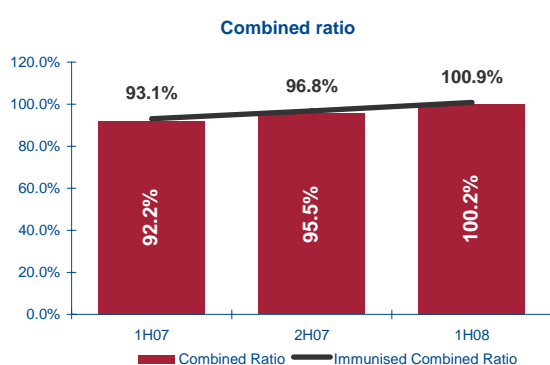
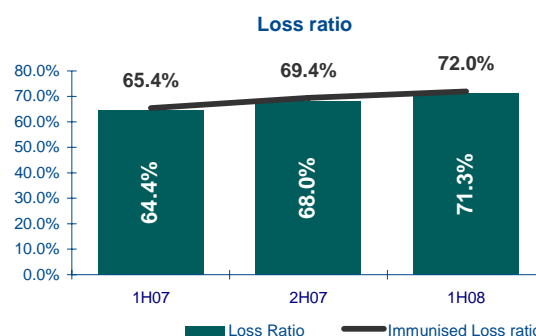
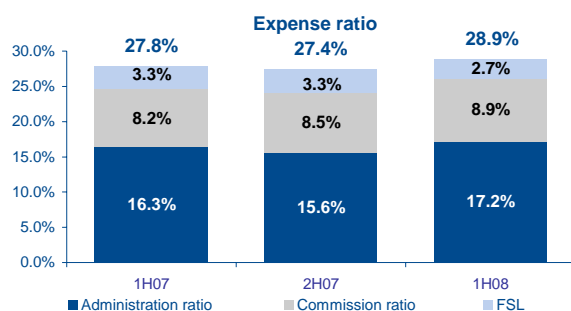
The Asian team continues to work closely with its partners in AmAssurance to introduce new products and services as well as support the existing motor book. This resulted in a top line growth of 21.7% in local currency terms (14.4% in A\$ terms). A key focus in the coming year is increasing the Group's equity position in AmAssurance.

2. CONSOLIDATED GROUP HALF-YEAR RESULTS



INSURANCE AUSTRALIA GROUP LIMITED	1H07	1H08	1H08	1H08	1H08
	A\$m	Australia A\$m	International A\$m	Corp & Inv't A\$m	Total A\$m
Gross written premium	3,324	2,683	1,168	-	3,851
Gross earned premium	3,369	2,757	1,166	-	3,923
Reinsurance	(214)	(149)	(65)	-	(214)
Net premium revenue	3,155	2,608	1,101	-	3,709
Net claims expense	(2,033)	(1,791)	(853)	-	(2,644)
Commission expense	(259)	(206)	(125)	-	(331)
Underwriting expense	(619)	(516)	(225)	-	(741)
Underwriting profit	244	95	(102)	-	(7)
Investment income on technical reserves	176	160	64	-	224
Insurance profit	420	255	(38)	-	217
Net corporate expenses	(30)	-	(2)	(25)	(27)
Interest	(50)	-	-	(58)	(58)
Profit/(loss) from fee based business / share from associates	29	32	(3)	-	29
Investment income on shareholders' funds	166	-	-	76	76
Profit before income tax and amortisation	535	287	(43)	(7)	237
Income tax expense	(146)	-	-	-	(78)
Profit after income tax (before amortisation)	389	-	-	-	159
Minority interests: IMA & MCGI	(37)	-	-	-	(17)
Profit attributable to IAG shareholders (before amortisation)	352	-	-	-	142
Amortisation	(7)	-	-	-	(32)
Profit attributable to IAG shareholders	345	-	-	-	110
Basic earnings per share (cents)	21.42	-	-	-	6.07
Diluted earnings per share (cents)	21.30	-	-	-	6.03

2.1 Insurance ratios



2.2 Premiums

- ▶ The 1H08 GWP of \$3,851m was 15.9% (\$527m) higher than in 1H07. The primary contributor to this growth was \$502m generated by the UK acquisitions. The Australian Direct Personal Insurance business grew 4.6% (adjusted for the impact of LTCS), Business Partnerships grew by 2.9% and CGU Broker/Agent personal lines grew by 5% compared with 1H07. CGU commercial lines curtailed its growth by 5.9% reflecting the business' decision to shed unprofitable market share in a continuing soft cycle. New Zealand GWP grew 4.8% (or 3.5% in local currency terms).

2.3 Reinsurance expense

- ▶ The Group's reinsurance expense of \$214m represented 5.5% of gross earned premium compared with 6.4% in 1H07. The reduction was due to the restructuring of the Group's reinsurance programmes.

2.4 Claims expense

- ▶ The Group's net claims expense increased by \$611m to \$2,644m in 1H08. \$342m of the increase relates to a full half year's result from the UK operations. \$201m of the increase in 1H08 relates to a higher number of severe weather events.
- ▶ The Group's reported loss ratio increased 6.9% to 71.3%. Adjusting to exclude the impact of increased discount rates applicable to claims reserves in both years, the immunised loss ratio increased 6.6% from 65.4% in 1H07 to 72.0% in 1H08. The key components of the change were:

- Increased frequency of severe weather and other natural events across the Group. Severe events contributed 8.8% to the Group's loss ratio in 1H08 compared with 4.0% in 1H07. The total cost of these events in 1H08 was \$326m compared with \$125m in 1H07. The Group's storm loss provisioning allowances were \$153m in 1H08 and \$129m in 1H07;
- Reserve releases reduced the Group's loss ratio by 6.1% in 1H08 compared with 5.7% in 1H07. Prior year reserve releases were \$228m in 1H08 due to positive experiences on prior year claims in CTP and commercial classes;
- Lower underlying profitability in the Australian and New Zealand short-tail portfolios due to both higher frequency, particularly related to weather events and higher average claims costs; and
- The loss ratio in the UK remained steady between 2H07 and 1H08 at around 75%. Whilst still loss making, the Advantage loss ratio improved by 4.8%, reflecting the benefits of increased premium rates flowing through into earned premium and an improvement in the quality of risks being underwritten.

2.5 Insurance operating expenses

- ▶ The Group's expense ratio has increased 1.1% to 28.9% in 1H08 (27.8% in 1H07).
- ▶ The commission ratio increased 0.7% to 8.9% in 1H08. The Australian commission ratio remained flat. Despite commission rates remaining unchanged, the New Zealand commission ratio increased due to growth in GWP from broker and business partners.
- ▶ One-off costs of \$8m (0.2%) in relation to integration and productivity initiatives.
- ▶ The underlying expense ratio has increased across the major businesses of Australia, New Zealand and the UK due to the investment made to grow these businesses.
- ▶ Productivity improvement initiatives are progressing in all of the Group's businesses.

2.6 Corporate expenses

- ▶ Net corporate expenses decreased by \$3m from \$30m in 1H07 to \$27m in 1H08.
- ▶ The NSW Insurance Protection Tax (IPT) is a blatant tax on insurance company shareholders imposed following the collapse of HIH Insurance in 2001. It remains in force notwithstanding that the HIH losses have been recovered and costs the Group's shareholders approximately \$20m before tax per annum. The legislation prohibits the recovery of this levy from policyholders and, for this reason; it is not included in the insurance result.

2.7 Interest

- ▶ The interest expense fell \$11m to \$58m compared with 2H07. This is partly due to \$4m in interest income in 1H08 related to the forward points earned from the foreign currency hedging of the Group's UK net investments.

2.8 Profits from fee based business

- ▶ The profits from fee based business increased from \$26m in 1H07 to \$28m in 1H08. The key components were:
 - \$16m of prior period payments for the fee based management of workers' compensation business underwritten by the NSW and Victorian governments ;
 - \$9m from the sale of the premium funding business;

- UK broking operations loss of \$2m compared with \$1m profit in 1H07 and \$17m profit in 2H07. This was due to lower third party premium income in the Hastings business due to the temporary suspension of a third party panel.

2.9 Investment returns

- ▶ Investment income on technical reserves increased from \$176m in 1H07 to \$224m in 1H08 due to a higher yield and the addition of the Equity Insurance technical reserve assets. The total pre-tax return achieved on the assets in 1H08 was 2.6% (year-to-date) compared to 2.3% in 1H07 (year-to-date). 1H08 investment income was negatively impacted by a \$55m mark-to-market loss on the fixed interest portfolio. This loss is expected to be recovered as the portfolio matures.
- ▶ The pre-tax return from the shareholders' funds portfolios was 2.6% (year-to-date) for 1H08 (1H07: 7.0%) contributing \$76m to the Group's results for the financial year, compared with \$166m in 1H07. This reduction was a result of a more conservative asset mix and lower equity market investment returns.

2.10 Tax expense

- ▶ The effective tax rate was 38.0% compared with 27.7% in 1H07. In 1H07, the tax rate benefited from franked dividends and prior period adjustments, partially offset by the amortisation of intangibles.
- ▶ In 1H08, the tax rate reflected the negative impact of higher amortisation of intangibles and differences in tax rates (losses in lower tax jurisdictions). The Group also earned less franked dividends when compared with 1H07.
- ▶ The effective tax rate on the profit before amortisation was 32.9%, a 5.6% increase from 27.3% in 1H07.
- ▶ The Group expects the effective tax rate to improve as earnings grow in the lower taxed jurisdictions.

2.11 Amortisation

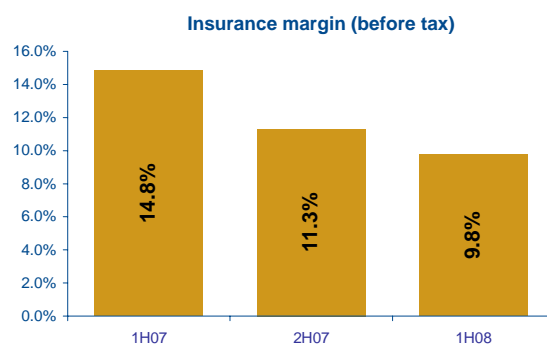
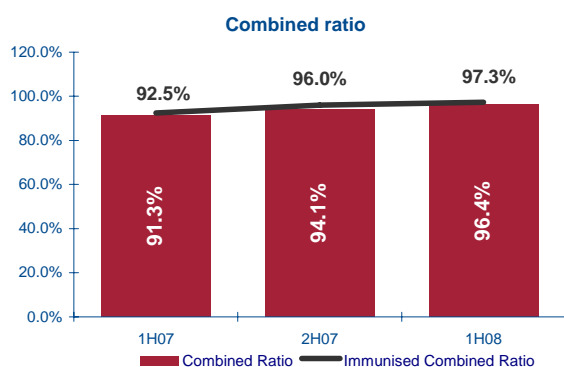
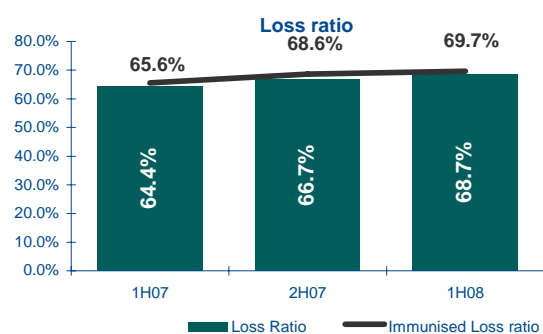
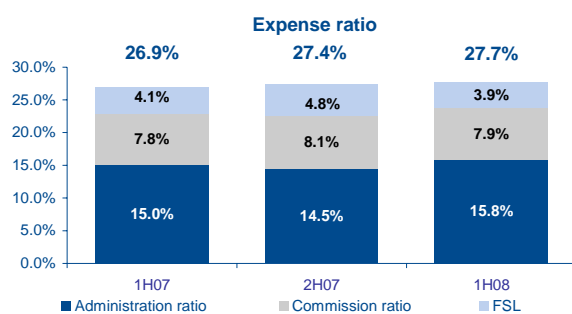
- ▶ The increase in amortisation expense from \$7m in 1H07 to \$32m in 1H08 relates to the amortisation of identifiable intangibles from acquisitions undertaken during FY07. The decrease on 2H07 from \$48m to \$32m reflects an appreciation of the A\$ against the £.
- ▶ The amortisation expense is expected to be \$70m in FY08 (subject to no further acquisitions, exchange rate movements or changes in the useful life or impairment of intangible assets). Refer to Section 6 for a schedule of expected amortisation expense for the next five years.

2.12 Difference in reporting treatment

- ▶ With effect from 1 January 2007, the Group no longer reallocated the international captive's result back to New Zealand. The comparatives for 1H07, when the international captive commenced operations, have not been restated.

3. AUSTRALIAN GENERAL INSURANCE

AUSTRALIA	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	2,689	2,800	2,683
Gross earned premium	2,750	2,698	2,757
Reinsurance expense	(154)	(168)	(149)
Net premium revenue	2,596	2,530	2,608
Net claims expense	(1,672)	(1,688)	(1,791)
Commission expense	(201)	(206)	(206)
Underwriting expense	(497)	(487)	(516)
Underwriting profit	226	149	95
Investment income on technical reserves	159	137	160
Insurance profit	385	286	255
Profit from fee based business	27	38	32
Total Australia result	412	324	287
Insurance ratios			
Loss ratio	64.4%	66.7%	68.7%
Expense ratio	26.9%	27.4%	27.7%
<i>Commission ratio</i>	7.8%	8.1%	7.9%
<i>Administration ratio</i>	19.1%	19.3%	19.8%
Combined ratio	91.3%	94.1%	96.4%
Insurance margin (before tax)	14.8%	11.3%	9.8%



- ▶ The Australian General Insurance portfolio comprised 70% of the Group's GWP in 1H08 compared with 81% in 1H07. This reflects the continued diversification of the Group's business, primarily driven by the acquisition of the UK businesses.
- ▶ The Australian General Insurance GWP is comprised of:
 - Direct Personal Insurance (DPI), 54% of the segment's GWP;
 - Business Partnerships (BP), 13% of the segment's underwritten GWP (this business also receives a fee for managing parts of the Victoria and NSW Governments' workers' compensation schemes); and
 - CGU Insurance (CGU), 33% of the segment's GWP (81% commercial lines and 19% personal lines).
- ▶ According to APRA, the market concentration in premium revenue from personal classes of business (house owners/householders and domestic motor vehicle) has grown sharply over the year ended 30 June 2007. The top three general insurance groups accounted for 83% of gross premium revenue for personal business, 5% higher than in the previous 12 month period. The top five groups accounted for 91% of gross premium revenue from personal business, 2% higher than in the previous 12 month period. By State, NSW/ACT had the highest level of market concentration in personal business with the top five groups accounting for 94% of total gross premium revenue.
- ▶ The 1H08 insurance margin of 9.8% compares with 14.8% in 1H07. The key components of the movement in margin are continued storm activity (in excess of allowances), declining reserve releases, the soft underwriting conditions in commercial lines and the negative impact of widening credit spreads on investment income, which reduced the insurance margin for 1H08 by 2.1%.
- ▶ An overview of the impact from storms, net of reinsurance, and reserve releases for the Australian segment is shown below.

	1H07		2H07		1H08		
	Storms A\$m	Reserve Releases A\$m	Storms A\$m	Reserve Releases A\$m	Storms A\$m	Reserve Releases A\$m	Credit Spreads A\$m
DPI	(73)	62	(142)	135	(154)	61	(32)
BP	(16)	2	(42)	8	(30)	(9)	(4)
CGU	(33)	116	(68)	162	(44)	157	(19)
Australia	(122)	180	(252)	305	(228)	209	(55)

- ▶ Total storms costs of \$228m were incurred in 1H08 compared with \$122m in 1H07.
- ▶ As a consequence, the businesses have implemented pricing increases in the Business Partnerships and CGU Insurance businesses and pricing reviews are now occurring in the Direct Personal Insurance business. The Group has also reduced the maximum retained catastrophe loss in Australia to \$93m⁶ for a first event.
- ▶ The 1H08 reserve releases include a revision to the calculation of risk margins in CTP and modelling changes in long-tail commercial to better reflect the Group's experience and assumptions. The gap between reserving and emerging experience continues to narrow and is now not as significant as previous reporting periods as the benefits of scheme changes, tort reforms and economic conditions are being reflected in current pricing models.
- ▶ 1H08 commission ratio of 7.9% was broadly in line with 1H07.
- ▶ 1H08 administration ratio was 19.8% compared with 19.1% in 1H07. The increase in expenses was primarily attributable to increased investment in future growth initiatives such as advertising and an increase in frontline sales staff and acquisition related expenditure.
- ▶ More detail is provided by business line in the following pages.

3.1 Direct Personal Insurance

- ▶ The Direct Personal Insurance channel includes business distributed under the NRMA brand in New South Wales, Queensland, ACT and Tasmania, the SGIO brand in Western Australia, the SGIC brand in South Australia and the RACV⁷ brand in Victoria. Products are both short-tail (motor and home) and long-tail (CTP).

DIRECT PERSONAL INSURANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	1,419	1,470	1,440
Gross earned premium	1,455	1,433	1,457
Reinsurance expense	(49)	(51)	(54)
Net premium revenue	1,406	1,382	1,403
Net claims expense	(1,018)	(939)	(1,102)
Commission expense	(35)	(37)	(35)
Underwriting expense	(253)	(239)	(257)
Underwriting profit	100	167	9
Investment income on technical reserves	93	92	92
Insurance profit	192	259	101
Insurance ratios			
Loss ratio	72.4%	68.0%	78.5%
Expense ratio	20.5%	20.0%	20.8%
<i>Commission ratio</i>	2.5%	2.7%	2.5%
<i>Administration ratio</i>	18.0%	17.3%	18.3%
Combined ratio	92.9%	87.9%	99.4%
Insurance margin (before tax)	13.7%	18.8%	7.2%

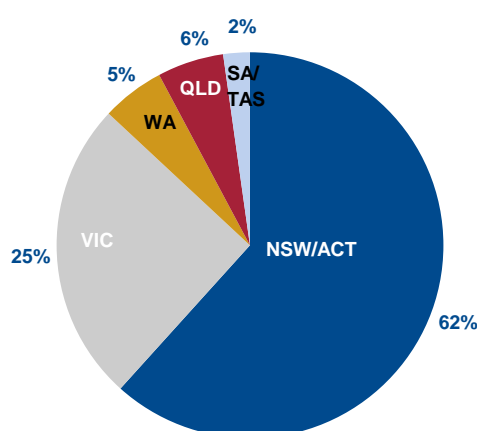
⁶ For further information, please refer to s7.2.6 "Reinsurance protections"

⁷ RACV brand is not owned by IAG. RACV has a 30% interest in IMA, the Group's short-tail underwriter of direct personal lines insurance in NSW, ACT and Victoria.

3.1.1 GWP - Direct Personal Insurance

- ▶ GWP increased by 4.6% (adjusted for LTCS) in 1H08 compared with 1H07 driven by growth of 5.3% in the NSW short-tail insurance portfolios.
- ▶ Short-tail GWP growth in 1H08 was 4.8% on 1H07. Average premium per risk has grown nationally by 3.1% on 1H07. Policy count has grown by 1.8%.
 - Motor average premium for 1H08 is 2.9% higher than 1H07.
 - Home average premiums have increased by 3.6% in 1H08 compared with 1H07. Average premium growth was driven from a combination of increases in premium and strong underlying growth in sums insured.
- ▶ Short-tail paid risk volumes have grown nationally by 1.8% on 1H07 and by 0.9% on 2H07.
 - Motor paid risk volumes were 1.7% above 1H07.
 - Motor new business sales have shown growth on both 1H07 and 2H07 (up 5.2% and 5.4% respectively), due primarily to the performance in the major markets of NSW and Victoria. The maintenance of competitive pricing positions in both markets, together with the launch of a new marketing campaign in Victoria, were the key contributing factors.
 - Motor paid renewals were 0.8% above 1H07.
 - Home paid risk volumes have grown 1.6% in 1H08 compared with 1H07, driven by accelerated growth in the eastern seaboard states. The strongest growth in volumes occurred in Queensland. Growth in 1H08 compared with 2H07 was strong at 4.4% nationally, with improved risk volumes across all states. Growth has been particularly strong in new business against previous periods: 1H08 grew 5.5% against 1H07 and 7.5% against 2H07.
 - Renewal volumes grew 0.8% in 1H08 compared with 1H07. The NSW due renewal rate remained around 94% with a significant lift in the Victorian rate and smaller improvements in all other states. For Victoria in particular, there has been an increased focus on retention activity, which has contributed in part to the overall improvement.
 - Due renewal rates for short-tail insurance continue to track above 90% and retention rates continue to track above 80%.
- ▶ Direct short-tail GWP split by state is shown below.

Direct Personal Lines Short-tail GWP by State
1H08



- ▶ On a national basis, the Group's motor and home market shares are estimated to be growing ahead of the market growth rate with NSW, Queensland and Western Australia being the main sources of that growth.
- ▶ The 12-month average market share (based on registrations) for NSW CTP was 38%.
- ▶ The market share in Queensland CTP continues to increase with the market share in December 2007 being 4.7%, significantly better than the 3.1% in December 2006.
- ▶ Average premiums for CTP in both NSW and Queensland remained relatively stable during the period. NSW CTP premiums were increased by 5.6% from 1 November 2007. ACT premiums were reduced by \$10 for Passenger Vehicles from 1 October, the decrease reflecting an improvement in the claims frequency.
- ▶ The ACT Legislative Assembly recently passed legislation which will open up the ACT CTP market to private sector competition from 1 July 2008. The Group has for many years been the only insurer authorised to write CTP in the ACT. The CTP market in the ACT has a premium income of approximately \$90m. The Group anticipates other insurers will participate in this market when the new scheme commences. As such, the Group anticipates losing some market share over the next few years, particularly for the commercial vehicles which have historically under-performed in terms of profitability.
- ▶ Under the new arrangements, people registering their vehicles will be able to nominate their insurer on the back of the registration form in a similar way to the Queensland scheme. In order to simplify this process, there will be one premium for each vehicle class regardless of the age of the vehicle and owner. The Group is assisting the ACT Government to build the necessary infrastructure required of an open market, such as the development of an industry deed and the development of sharing rules.

3.1.2 Insurance margin - Direct Personal Insurance

- ▶ The 1H08 insurance margin for Direct Personal Insurance decreased to 7.2% from 13.7% in 1H07. The insurance margin has been significantly impacted by increased severe storm activity offset by reserve releases. In addition, widening of credit spreads has also reduced the insurance margin by around 2.3% (\$32m). Compared with 1H07, reserve releases in 1H08 have been significantly lower than storms costs. The impact of these is shown in the table below:

DIRECT PERSONAL INSURANCE	1H07	1H08
	\$m	\$m
Reserve releases/(strengthening)	62	61
Storms	(73)	(154)
Total	(11)	(93)
Net impact on DPI loss ratio	(0.8%)	(6.6%)

- ▶ Higher frequency and severity of storms in 1H08 resulted in net storm losses (after recoveries) of \$154m, which was \$81m higher than 1H07. The two major events in 1H08 were the Sydney December 2007 hailstorms with approximately 24,000 claims and the Northern New South Wales/South East Queensland storms (October 2007) with approximately 6,000 claims.
- ▶ The response to these storms (especially given the proximity to the June 2007 Storms) has been the implementation of a storms claims management initiative, aimed at mitigating claims cost while improving the customers' claims experience. The key features include the introduction of a system to identify and prioritise critical claims at an early stage, with the aim of preventing further damage, minimising the customer's interruption and the use of an innovative paintless dent repair system, which has been found to reduce automotive panel damage repair costs and turnaround times and utilising a system that facilitates builders to safely undertake external repairs in wet weather.

- ▶ Excluding storms, underlying claims experience in the direct short-tail portfolio deteriorated in 1H08 compared with 1H07 as a result of the following factors:
 - Motor claim frequency rose by 2.5% through 1H08 due to increases in collision and windscreen claims. This deterioration was offset by a fall in underlying non-storm frequency in the home book.
 - National car comprehensive average claims cost increased in 1H08 by 0.5% compared with 1H07.
For WA, 1H08 average claims costs have increased by 4.6% compared with 1H07, driven by higher than national average state inflation rates including cost inflationary issues such as repairer labour rate increases and the strong WA economy. Despite this, the lead indicator information has shown a positive downward trend in WA in recent months.
 - National average claims cost in the home portfolio increased in 1H08 by 3.4% compared with 1H07. This increase has been driven by higher average claims costs in the burglary and fire incident types. Thus, although the frequencies of burglary and fire have reduced, the total incident cost has increased, which has driven the national average claims cost up.
- ▶ Going forward, the Group does not expect large long-tail reserve releases as current experience shows closer alignment to prior period reserving assumptions.

3.1.3 Customers and market position - Direct Personal Insurance

- ▶ Direct Personal Insurance has maintained competitive pricing positions across motor and home and is seeing tactical pricing movements by the major competitors in each state market.
- ▶ A customer satisfaction index (Claims and Sales & Service) of 84 was achieved for December 2007. This is 1 point higher than in June 2007. The combined competitor score of 82 is unchanged from June 2007, placing Direct Personal Insurance slightly ahead of the market.
- ▶ Direct Personal Insurance has also focussed on targeted sales initiatives including the first phase of a customer document re-design programme. Motor and home renewal documents and certificates of insurance have been redeveloped in order to make them more appealing and informative to customers while also facilitating enhanced sales and marketing communication. This should lead to increased customer satisfaction, reduced renewal inquiries into the distribution network and possibly a higher due renewal rate.
- ▶ The Group has also introduced a number of claims experience improvements including:
 - The Customer Claims Paradigm programme was designed to improve the customer experience during and after a claim with the aim of increasing customer retention rates. To achieve this, a number of initiatives have been piloted or implemented during 1H08 across both the home and motor portfolios. These range from the ability to process some claims at the point of lodgement, to an enhanced service for those who drop off their car at a Care & Repair Centre after an accident, as well as customer service training for some external suppliers. The business surveyed customers during and after implementation of the initiatives, and recorded very positive impacts on customer satisfaction;
 - In August 2007, Direct Personal Insurance announced to the Preferred Smash Repairer industry that it is supporting the smash repair industry in its move towards a transparent remuneration system for repair work, through the introduction of New Times and Rates. There has been an extremely positive response from the industry. This system of pricing will be rolled out across NSW by June 2008 (on a voluntary basis, after which time it will be the business' standard quoting practice from June 2009) and nationally by the end of FY09; and

- In Queensland, the Group has successfully re-introduced sales and service activity into repair management centres so that customers awaiting motor vehicle damage assessment can have their other insurance needs attended to by retail staff while they wait. When not serving customers face to face, the retail staff remotely take calls from the Brisbane telephone business centre queue.
- ▶ The direct channel's marketing capability was recognised at the recent National Multicultural Marketing Awards where it was awarded 'the best campaign by a large organisation' in relation to the joint campaign with NRMA Motoring & Services into the Sydney Chinese community.
- ▶ Total average monthly complaints (excluding claims) in 1H08 have continued their long-term improving trend. The 1H08 increases in policies in force assisted in maintaining the complaints/policies ratio at 0.013% - well within the target range.

3.1.4 Outlook and initiatives

- ▶ GWP growth for FY08 is expected to be in the range of 2 - 4% (4 - 6% when adjusted for LTCS)
- ▶ The insurance margin for FY08 is expected to be in the range of 12 - 14%.
- ▶ FY08 NSW CTP market share, as measured by registrations, is expected to be in the range of 38 - 39%.
- ▶ Priorities are:
 - Reviewing all pricing;
 - Managing claims costs; and
 - Continued focus on the direct expense base.

3.2 Business Partnerships

- ▶ The Business Partnerships channel comprises business distributed through key partnerships such as financial institutions and motor dealerships. Products are all short-tail (home, motor, travel, short-tail warranty, gap and consumer credit). It also includes the fee based businesses involved in providing injury and policy management services on behalf of the Victorian and NSW Workers' Compensation Authorities and employers registered as self insured under Comcare.

BUSINESS PARTNERSHIPS	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	345	349	355
Gross earned premium	336	338	351
Reinsurance expense	(19)	(27)	(20)
Net premium revenue	317	311	331
Net claims expense	(186)	(207)	(217)
Commission expense	(61)	(55)	(65)
Underwriting expense	(60)	(67)	(66)
Underwriting profit	10	(19)	(17)
Investment income on technical reserves	11	11	13
Insurance profit	21	(8)	(4)
Profit from fee based businesses	25	36	24
Total business partners result	46	28	20
Insurance ratios			
Loss ratio	58.8%	66.6%	65.6%
Expense ratio	38.2%	39.4%	39.6%
<i>Commission ratio</i>	19.1%	17.8%	19.6%
<i>Administration ratio</i>	19.0%	21.6%	19.9%
Combined ratio	96.9%	106.0%	105.1%
Insurance margin (before tax)	6.6%	(2.6%)	(1.2%)

3.2.1 GWP - Business Partnerships

- ▶ During 1H08, the portfolio achieved growth of 2.9% relative to 1H07. The growth in the portfolio was mainly driven by:
 - Motor and home rates moving towards technical rates to address the lower than acceptable underwriting performance within unprofitable segments of the portfolio; and
 - Ongoing strong patterns of home, motor and motorcycle purchases.
 - The above growth was reduced by exiting from two unprofitable portfolios.
- ▶ Growth within the business has primarily been organic by increasing sales penetration with existing partners rather than via new partner account acquisition. This reflects the business' investment in systems and processes to manage fewer large strategic partnerships for mutual increased profitability. Included in this has been improving portfolio management techniques such as demonstrating the elasticity of renewals following rate changes and identifying key segments for both the insurer and the business partner.

3.2.2 Insurance margin - Business Partnerships

- ▶ The 1H08 insurance margin of (1.2%) was lower than 1H07's margin of 6.6% but an improvement on 2H07 which had an insurance margin of (2.6%). The key driver of the volatility has been storm costs. The costs and margin effect in each of the three periods was as follows:
 - 1H07:\$16m (5.0%);
 - 2H07:\$42m (13.5%); and
 - 1H08:\$30m (9.1%).
- ▶ The impact of widening credit spreads in 1H08 reduced the insurance margin by around 1.4% (\$5m).
- ▶ Rate increases in the Financial Institutions channel were implemented in December 2007 (9% average in home) and further rate increases are due in early March in motor. Most of the benefits of these targeted price increases will flow through into earned premiums in FY09. Further work is being undertaken on the policy design and discounts, and steps to achieve technical rates in key segments and partnerships to fully restore the portfolio to acceptable returns.

3.2.3 Customers and market position - Business Partnerships

- ▶ This channel is highly competitive with ongoing industry consolidation within the small and mid-tier financial institutions and vertical integration within the motor dealer channel. The business' core value proposition is to deliver innovative systems and products to the market to strengthen its position as a key partner in the distribution chain.

3.2.4 Fee based businesses/managed schemes

- ▶ The net contribution from fee based business of \$24m in 1H08 was in line with the \$25m contribution in 1H07. The profit for 1H08 includes prior period performance based payments of \$16m, primarily relating to loss ratio payments in NSW workers' compensation and lump sum payments (actuarial release) in Victoria workers' compensation. When results have been normalised with prior period and lump sum payments removed, underlying performance has improved in 1H08 compared with 1H07, attributable to:
 - An increase in market share for NSW workers' compensation from 20% in 1H07 to 21.1% in 1H08;
 - An improvement in performance measures achieved for Victoria workers' compensation due to improved results in the work practice audits, and forecasted results in the injured worker survey and return to work rates; and
 - Lower controllable expenses.
- ▶ The return on expenses, excluding bonus payments improved to 15.0% in 1H08 compared with 6.0% in 1H07.
- ▶ The Group has market shares as at 31 December 2007 in the order of 28.4% in Victoria and 21.1% in NSW (30 June 2007: Victoria 29%, NSW 20%). As expected in Victoria there has been some decline in the manufacturing portfolio driven by economic conditions, with either stability or growth shown in the other major industries. Business Partnerships has also targeted specific sectors as part of its industry forum series, including local and state government (with recent growth success), labour hire and transport. NSW operations delivered positive growth in the SME business, primarily driven through the on-line technology platform ".Live". Results in larger accounts have not been at the same levels although it is expected that there will be an improvement over the coming months based on broker initiatives undertaken in 1H08.

- ▶ The financial results of NSW and Victoria workers' compensation benefited once again in 1H08 from performance based prior period payments. With changes to remuneration models and improved stability of the workers' compensation fee based schemes, prior period adjustments will reduce significantly with no material prior period payments expected moving forward, based on current information. This means that future financial results will be driven by performance within the year. The strong economic position in Australia with full employment should assist return to work rates to maximise performance fees.

3.2.5 Outlook and initiatives

- ▶ GWP growth for FY08 is expected to be in the range of 4 - 6%.
- ▶ The insurance margin for FY08 is expected to be in the range of 1 - 3%.
- ▶ Priorities are to:
 - Review rating structures with a view to achieving technical rates;
 - Working in a mutually beneficial arrangement with key distributors to improve portfolio management; and
 - Ongoing focus on improving return to work outcomes in the workers' compensation businesses.

3.3 CGU Insurance

- ▶ CGU Insurance comprises business underwritten and distributed through intermediaries, authorised representatives and underwriting agencies.

CGU INSURANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	925	982	888
Gross earned premium	958	928	949
Reinsurance expense	(86)	(89)	(75)
Net premium revenue	872	838	874
Net claims expense	(468)	(540)	(472)
Commission expense	(105)	(113)	(106)
Underwriting expense	(184)	(182)	(193)
Underwriting profit	116	2	103
Investment income on technical reserves	55	35	55
Insurance profit	171	37	158
Profit from fee based businesses	2	2	8
Total CGU Insurance result	173	39	166
Insurance ratios			
Loss ratio	53.6%	64.4%	54.0%
Expense ratio	33.1%	35.3%	34.2%
<i>Commission ratio</i>	12.1%	13.5%	12.1%
<i>Administration ratio</i>	21.1%	21.8%	22.1%
Combined ratio	86.7%	99.7%	88.2%
Insurance margin (before tax)	19.6%	4.4%	18.1%

Overview

- ▶ Soft market conditions in the commercial insurance industry have continued into a third year, and have yet to show any real signs of a turnaround. Expectations are for strong price-based competition to continue for at least the next 12 months.
- ▶ Against this backdrop, CGU Insurance recorded GWP in 1H08 of \$888m, a 4.0% decrease on 1H07, and delivered an insurance margin of 18.1%, compared with 19.6% in 1H07. The insurance margin for CGU Insurance continues to benefit from reserve releases, particularly in the long-tail portfolio.
- ▶ The performance in 1H08 has been negatively impacted by storms in Northern NSW/South East Queensland and, to a lesser extent, Melbourne.
- ▶ The widening of credit spreads resulted in a reduction in the insurance margin of around 2.2% (\$19m).
- ▶ Profit from fee based business includes the profit on sale of the premium funding business, which occurred in 1H08.

Premiums

- ▶ The reduced level of GWP in 1H08 will flow through to earned premium in subsequent periods. However, the net earned premium reduction will be somewhat muted as \$15m of the business which was shed was heavily reinsured so there will be a disproportionate reduction in the reinsurance expense.

3.3.1 CGU Insurance: Commercial Lines

- ▶ The CGU Commercial Lines products include commercial property, commercial motor, public liability, professional indemnity and workers' compensation.

CGU COMMERCIAL LINES	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	766	814	721
Gross earned premium	799	767	782
Reinsurance expense	(78)	(81)	(68)
Net premium revenue	721	686	714
Net claims expense	(360)	(408)	(359)
Commission expense	(79)	(86)	(78)
Underwriting expense	(152)	(150)	(163)
Underwriting profit	130	42	114
Investment income on technical reserves	52	31	50
Insurance profit	182	73	164
Profit from fee based businesses	2	2	8
Total CGU commercial lines result	184	75	172
Insurance ratios			
Loss ratio	49.9%	59.5%	50.3%
Expense ratio	32.0%	34.4%	33.8%
<i>Commission ratio</i>	<i>11.0%</i>	<i>12.5%</i>	<i>10.9%</i>
<i>Administration ratio</i>	<i>21.1%</i>	<i>21.9%</i>	<i>22.8%</i>
Combined ratio	82.0%	93.9%	84.0%
Insurance margin (before tax)	25.2%	10.6%	23.0%

- ▶ The Australian commercial insurance market remains soft, with premiums under pressure in all market segments. The recent weather-related claims events may hasten the end of the cycle however a complete turnaround still seems uncertain, with capacity still being maintained in all key segments of the market. Expectations are for strong price-based competition to continue for at least the next 12 months. While continued good experience in most long-tail classes is supporting ongoing premium reductions, the ability to withstand further price reductions in short-tail classes is very limited. CGU Insurance has taken a leading position on increasing rates across selected short-tail commercial insurance portfolios during 1H08.

Premiums

- ▶ CGU Insurance Commercial Lines generated GWP of \$721m for 1H08. This was 5.9% behind the \$766m achieved in 1H07, influenced by:
 - The loss of a single account (GWP of \$15m, although the net earned premium was significantly lower);
 - A decline of \$18m for workers' compensation mainly due to reductions in rates driven by competition and improved scheme performance across all states; and
 - Soft market conditions, intense competition, and predatory pricing which continues to hinder new business opportunities.
- ▶ Overall 1H08 average premiums were flat across the portfolio compared with a reduction of 3% during 1H07.
- ▶ Despite rate increases, solid retention rates of around 84% continued to be achieved, broadly unchanged from FY07.
- ▶ CGU short-tail commercial lines GWP was in line with 1H07 levels. However, reductions in other classes resulted in short-tail representing 64.2% of the 1H08 portfolio compared with 60.8% in 1H07. Short-tail lines continue to be impacted by soft market conditions, price competition, e-Business solutions offered by competitors, and the impact of drought on the rural marketplace.

Insurance Margin

- ▶ The 1H08 insurance margin of 23.0% was 2.2% less than the 1H07 insurance margin.
- ▶ 1H08 included \$23m net costs from the Sydney December 2007 hailstorms, the Northern NSW/South East Queensland storms and Melbourne storms.
- ▶ The impact of widening credit spreads in 1H08 reduced the insurance margin by around 2.4% (\$17m).
- ▶ Reserve releases for 1H08 were \$151m, reflecting the continued positive experience emerging as a result of prudent past reserving. While the experience continues to be favourable against the reserving models, there are signs that liability reserving models are moving more in line with emerging experience with the level of releases expected to slow from 2H08.
- ▶ Workers' compensation reserving assumptions have continued to respond to favourable experience driven by the booming resource sector in WA and a review of the WA common law reserving assumptions (although it is still only a relatively short period since reforms in this area were implemented).

3.3.2 CGU Insurance: Broker / Agent Personal Lines

- ▶ The CGU Personal Lines products are all short-tail (home and motor). The personal lines products sold via this channel are generally sold as an accommodation class for commercial Insurance business. The performance of this portfolio should be viewed together with CGU Commercial Lines as the overall pricing is considered on a total customer basis.

BROKER / AGENT	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	159	168	167
Gross earned premium	159	161	167
Reinsurance expense	(8)	(8)	(7)
Net premium revenue	151	152	160
Net claims expense	(108)	(132)	(113)
Commission expense	(26)	(27)	(28)
Underwriting expense	(32)	(32)	(30)
Underwriting profit	(14)	(40)	(11)
Investment income on technical reserves	3	4	5
Insurance profit	(11)	(36)	(6)
Insurance ratios			
Loss ratio	71.1%	86.9%	70.6%
Expense ratio	38.2%	39.1%	36.3%
<i>Commission ratio</i>	17.3%	17.8%	17.5%
<i>Administration ratio</i>	21.0%	21.3%	18.8%
Combined ratio	109.3%	125.9%	106.9%
Insurance margin (before tax)	(7.2%)	(23.6%)	(3.8%)

Premiums

- ▶ GWP for short-tail personal lines in 1H08 grew by 5.0% on 1H07. The growth in 1H08 was driven by strong renewals from customer-focussed strategies and risk-based pricing increases in the portfolio. This growth was achieved despite continuing challenges in business being sourced from rural and regional Australia, where continued drought conditions have put pressure on premiums.
- ▶ 1H08 retention rates increased to 86% from 82.5% in 1H07.

Insurance Margin

- ▶ The personal lines negative insurance margins in 1H08 and previous half years were primarily a result of the high loss ratios in this channel, which is finely priced because the policyholder's commercial business is desirable. As previously noted, this business is primarily sold as an accommodation class with commercial insurance and the margin should be considered in that context.
- ▶ The loss ratio has been significantly impacted by severe weather events, particularly in 1H08 and 2H07.
- ▶ The impact of widening credit spreads in 1H08 reduced the insurance margin by around 0.6% (\$1m).
- ▶ 1H08 included \$21m net costs in respect of weather events (Sydney December 2007 hailstorms, the Northern NSW/South East Queensland storms and the Melbourne storms) representing 13.1% of net earned premium.
- ▶ 2H07 included \$30m net costs (Queen's Birthday weekend and Gippsland storms), in total equivalent to 19.7% of net earned premium.
- ▶ Insurance margins are expected to improve in 2H08 and beyond from improvements in the loss ratio arising from rate increases as the business moves prices more toward technical rates.

3.3.3 Customers

- ▶ A core element of the CGU strategy for long-term profitability throughout the insurance cycle is to maintain effective relationships with intermediaries and improve levels of service and product offerings. This effort has ensured customer retention on policies available for renewal remains around 84% which is broadly unchanged from FY07.
- ▶ To mitigate pressure on retention rates as price rises take effect, CGU Insurance has implemented several key initiatives including:
 - A new account management model which is expected to improve retention rates as services to brokers are improved and the quality of service from the account management staff is enhanced through tailored training programmes;
 - Enhancements to claims operations which will also assist in increasing retention rates. These enhancements include the introduction of customer-centric claims teams and a push to make claims operations in general more externally focused; and
 - A revised pricing strategy targeting discount authority towards the key SME segment.

3.4 Discontinued business

3.4.1 Inwards reinsurance

- ▶ The net provision for the outstanding claims on this portfolio, which went into run-off in 2001, is approximately \$47m in 1H08 compared with \$63m in 2H07. This reduction was due to a combination of favourable development, claims payments being made and the completion of two commutations. Negotiations continue on a number of the remaining policies.

3.4.2 Asbestos

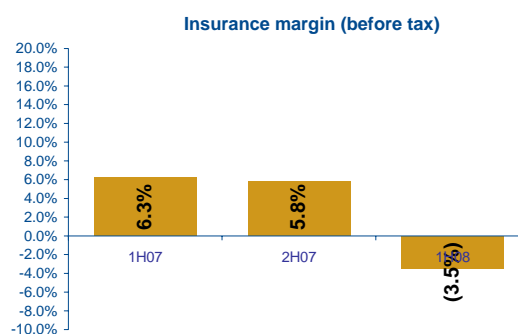
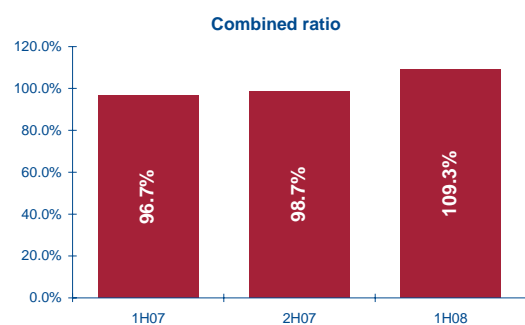
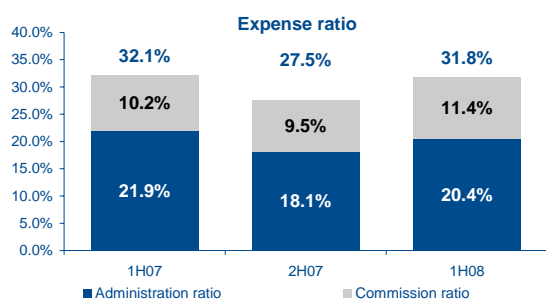
- ▶ The survival ratio (net reserves as a multiple of the average of the past three years' claims paid) is 35 times at 31 December 2007, in line with that reported at 30 June 2007.
- ▶ The survival ratio is provided as an indicator of the Group's reserving for this particular liability due to its very long tail. However, it should be used with caution as different exposures and portfolio mixes may make comparisons unreliable.

3.4.3 Outlook & initiatives

- ▶ GWP for FY08 is expected to be in the range of (5%) to (3%) for commercial lines and (3%) to (1%) for personal lines.
- ▶ The insurance margin for FY08 is expected to be in the range of 15 - 17% for commercial lines and (6%) to (4%) for personal lines.
- ▶ The discussions with Vero Insurance Limited regarding the acquisition of NTI have proved more protracted than expected. The Group is pursuing all options to expedite the transfer of Vero's 50 per cent stake in the NTI business.
- ▶ Initiatives for the next six months include:
 - Continue to adhere to price discipline, increasing rates where required, or exiting unprofitable business;
 - Account management project, aimed at revitalising the sales methodology/culture and providing better support tools to the frontline;
 - eCommerce replacement solution, with the aim of providing a differentiated customer offering and improved service delivery; and
 - Continue to drive a strong cost focus.

4. INTERNATIONAL

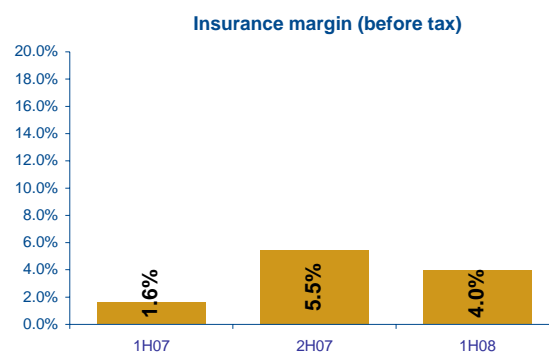
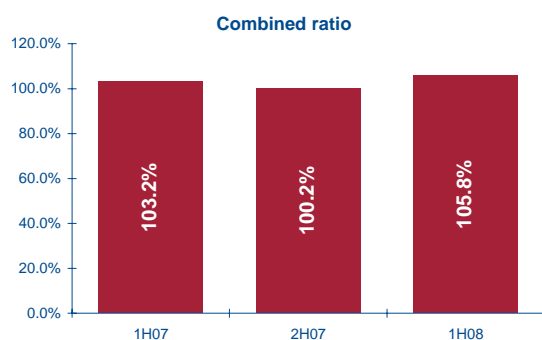
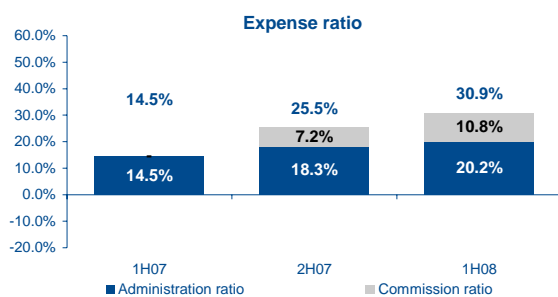
INTERNATIONAL	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	635	1,257	1,168
Gross earned premium	619	1,140	1,166
Reinsurance expense	(60)	(82)	(65)
Net premium revenue	559	1,058	1,101
Net claims expense	(361)	(753)	(853)
Commission expense	(57)	(100)	(125)
Underwriting expense	(122)	(191)	(225)
Underwriting profit	18	14	(102)
Investment income on technical reserves	17	47	64
Insurance profit	35	61	(38)
Share of profit from associates	3	2	1
Fee based business	(1)	14	(4)
Corporate expenses	(2)	(2)	(2)
Total international result	35	75	(43)
Insurance ratios			
Loss ratio	64.6%	71.2%	77.5%
Expense ratio	32.1%	27.5%	31.8%
<i>Commission ratio</i>	10.2%	9.5%	11.4%
<i>Administration ratio</i>	21.9%	18.1%	20.4%
Combined ratio	96.7%	98.7%	109.3%
Insurance margin (before tax)	6.3%	5.8%	(3.5%)



- ▶ The International segment consists of the Group's United Kingdom, New Zealand and Asian operations and comprised 30% of the Group's GWP in 1H08 compared with 19% in 1H07. Due to the different growth and margin dynamics that exist within the Group's international operations they have been commented upon separately. Through its Asian reinsurance captive, the Group seeks to obtain a benefit from retaining individual business unit exposures and from the efficiency in managing its reinsurance programme centrally.
- ▶ In 1H07, the impact of reinsurance written with the Group's international captive was reported in each business unit's results as a means of eliminating the captive's financial performance on consolidation. The international captive is no longer eliminated at the Group level due to the acceptance of business from associate companies.
- ▶ 1H08 includes a full six months of reported earnings for Advantage / Hastings and the Equity Group. The segments results in 1H07 do not reflect the acquisition of the Equity Group, which took place in January 2007.

4.1 International - UK

UNITED KINGDOM	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	83	642	585
Gross earned premium	65	560	576
Reinsurance expense	(3)	(30)	(46)
Net premium revenue	62	530	530
Net claims expense	(55)	(396)	(397)
Commission expense	-	(38)	(57)
Underwriting expense	(9)	(97)	(107)
Underwriting profit	(2)	(1)	(31)
Investment income on technical reserves	3	30	52
Insurance profit	1	29	21
Share of profit from associates	-	(2)	(2)
Fee based business	1	17	(2)
Total United Kingdom result	2	44	17
Insurance ratios			
Loss ratio	88.7%	74.7%	74.9%
Expense ratio	14.5%	25.5%	30.9%
<i>Commission ratio</i>	<i>0.0%</i>	<i>7.2%</i>	<i>10.8%</i>
<i>Administration ratio</i>	<i>14.5%</i>	<i>18.3%</i>	<i>20.2%</i>
Combined ratio	103.2%	100.2%	105.8%
Insurance margin (before tax)	1.6%	5.5%	4.0%



4.1.1 Overview

- ▶ UK GWP represents 15% of the Group's GWP for 1H08 compared with 2% for 1H07.
- ▶ The UK is the second largest non-life insurance market in Europe and the third largest non-life insurance market in the world, accounting for 7% of worldwide premium income⁸.
- ▶ IAG UK is the UK's largest motorcycle insurer, fourth largest personal lines broker and manages the fifth largest motor insurer. It has the UK's third largest personal lines branch network and is the largest broker in Northern Ireland.
- ▶ The number of cars on the UK roads is increasing at around 3% pa and each car is being driven less as multi-car families become the norm.
- ▶ In the last five years, the internet has become an established purchasing platform for personal lines insurance. By 2009, it is estimated that one third of all private motor policies will be sold online⁹.
- ▶ In 2005 the internet became the second largest distribution channel for private car insurance. In 2007, 22% of customers purchased private car policies on-line, a 5% increase over 2006, over the phone purchases fell 5% to 66% whilst face to face transactions remain unchanged at 8% (balance of 4% is made up by post)¹⁰.
- ▶ The operating environment during 1HY08 continued to be challenging with the market remaining soft and rates taking longer to harden than anticipated. Weather events during CY07 were the worst on record with the UK industry incurring claims totalling £3b from the June and July floods. Accordingly, this has led to rates increases which are now holding, with IAG UK increasing rates across most classes during the period.
- ▶ Despite operating environment challenges, the UK operations have delivered a 1H08 insurance margin of 4.0%. This compares favourably with the 1.6% recorded at 1H07 and is below the 5.5% for 2H07. The insurance result includes integration costs of \$2.1m.
- ▶ Equity produced an insurance margin of 12.9%; offsetting this return was a very disappointing 20% negative insurance margin in Advantage. Despite market challenges, Equity's result for 1H08 compares favourably to the 15.4% margin recorded for 2H07, with its niche markets continuing to significantly outperform the mass market segment.

4.1.2 Premiums

- ▶ GWP for 1H08 totalled \$585m (£250m). 1H07 GWP of \$83m (£33m) represented only three months of Advantage business, with 2H07 GWP reflecting the first full six months contribution from both the recently acquired Equity and Advantage businesses. Despite premium rate increases prevailing during 1H08, GWP for 1H08 was lower than 2H07 GWP of \$642m (£262m) following the conscious decision to reduce the Group's exposure to underperforming private motor business, particularly in Advantage.
- ▶ The AA's 'Shoparound' premium (an average of the lowest three premiums for each risk quoted in the Index) for comprehensive motor rose by 3.9% to £415.69 and by 2.2% for non-comprehensive motor to £398.40 in the fourth quarter of calendar year 2007. In the year to 31 December 2007, the 'Shoparound' premium rose by 4.8% for comprehensive motor and by 8.2% for non-comprehensive motor.
- ▶ The Group has increased private motor premiums quoted over the past 12 months by 5% - 18% depending on the distribution channel, as well as revisiting its underwriting strategy and concentrating on profitable market segments.

⁸ Swiss Re, sigma No4/2007

⁹ September 2007 Datamonitors

¹⁰ September 2007 Datamonitors

- ▶ Rate increases have been necessitated by above inflation increases in cost of accidental damage and bodily injury claims. Further rate rises are expected in all classes in 2008 but strong competition in the private car market continues, with internet aggregators maintaining price competition while the larger direct insurers are focusing on policy features. Despite this price competition, rate increases of 13% across the private car market have been achieved during the 2007 calendar year.
- ▶ The household market was hit by two flood events in the calendar year and by December many schemes were attracting overall increases of 10%. The Group has increased rates by 11% in this class. A consequence of this inclement weather has been an increase in the number of households taking up contents insurance.
- ▶ Motor business, which includes private motor, fleet, specialist motor and motorcycle business, accounted for 87% of 1H08 UK GWP, with household insurance accounting for approximately 9% of total GWP. Private motor represented 46.5% of total GWP, compared with 48.0% for 2H07.
- ▶ Equity's 1H08 GWP was 4.7% below the premium written in 2H07 in local currency terms. This is predominantly due to reduced private car volumes where there has been a deliberate strategic shift towards fleet and specialist motor.
 - The private car proportion of the portfolio has reduced from 30.5% in 2H07 to 26.5% in 1H08, with further reductions anticipated in 2H08. Private motor quoted rates were increased during the period by 10% and indications are that these increases will stick and the market will continue to look to increase rates.
 - Fleet and specialist motor classes, where Equity has significant expertise leading to competitive advantage and which have less exposure to internet pricing pressures have increased from 40.7% in 2H07 to 42.6% in 1H08. Growth in the proportion of fleet and specialist risk classes has largely been achieved through leveraging the strongest broker relationships. The fleet and specialist motor market remains competitive, however rates have started to harden and further rises are expected in 2008. Despite competitive pressure, renewal rates remain strong and have increased, notably in specialist motor where 97% of business was renewed during November 2007 in the London fleet market business.
 - Motorcycle volumes have decreased and rates were static at the start of 2H07. Increased competition including the acquisition of motorcycle brokers by insurers is causing pressure on rates at both ends of the motorcycle market. Motorcycle quoted rates were increased by 10% in December 2007.
- ▶ In local currency terms, Advantage GWP in 1H08 is 3.8% below 2H07. This is primarily due to the reduction in business volume as a result of the rating increases applied to the underperforming external broker business. The reduced exposure to this channel is aimed at improving overall profitability. This book now accounts for 39% of business compared with 55% in FY07 and this has predominantly been achieved through rate increases and profile shifts. This reduction in GWP has been partially offset by an increase in business written through the internet as this source of business continues to expand. GWP comprises both motorcycle and private car, with the proportion of private car business being 96% (95% for 2H07).
- ▶ In 1H08, Advantage ratings actions for external brokers increased quotes by around 12% compared with 6% for the broker market overall to reduce exposure to underperforming business. The rate increases were needed to address poor claims performance and going forward Advantage will continue to raise premiums to align account performance. Rate increases were targeted at the worst performing segments and this has led to a reduction of business in these segments. 1H08 has also seen a move away from younger drivers towards a higher proportion of business written with older drivers, reflecting changes to the pricing policy taken during the period. Specific targeting is occurring of the over 50s market, which is known to have a reduced claims frequency and claims cost. Actual rate increases achieved were lower than the headline rate increases at 7% for external broker business and 5% for direct business, reflecting the improved mix of business written.

- ▶ Further improvements to the Advantage rating engine will be implemented in 2H08, with enhanced actuarial pricing models being rolled out, leveraging the Group's capability.
- ▶ A quota share treaty was established with IAG Re Labuan, ceding 60% of Advantage business incepting from August 2007. This has had a positive impact on the reported performance of the UK operations.

4.1.3 Claims

- ▶ The 1H08 loss ratio of 74.9% for the UK business is in line with the 2H07 loss ratio of 74.7% and well under the 1H07 loss ratio of 88.7%, which reflected the predominantly private motor book of Advantage. Equity was acquired in January 2007.
- ▶ Equity's 1H08 loss ratio of 64.2% has increased from the 62.0% achieved during 2H07. Bodily injury claims costs are estimated to have risen by 7% during 1H08 and accidental damage claims costs have risen by 2-3%. IAG UK achieves a lower overall claims inflation rate of around 3-4% compared with an estimated industry claims inflation rate of 4-5% and this benefit is expected to continue for the medium term. This is achieved through its business mix of more comprehensive policies, fewer younger drivers, proactive claims handling policies and low reinsurance retention. Bodily injury claims continue to be higher than inflation and averaged 9.5% over the period 1996-2006. IAG UK achieves a lower inflation rate of 7%, reflecting the more selective business mix.
- ▶ Claim frequency across the industry continues to be flat. A November 2007 Deloitte report on UK motor insurance indicates that claims frequency is trending slightly downwards, dropping from 21% in 2001 to 20% in 2007.
- ▶ Advantage loss ratios have improved from 108.0% for 2H07 to 103.2% for 1H08, reflecting the measures implemented to improve the book. External business, which was reduced materially during 1H08, has historically run at a higher loss ratio than business sold directly through Hastings.
- ▶ The UK business' net loss from the summer floods in 1H08 was \$9m. However, the Group's loss was higher as the Asian reinsurance unit had provided covers to the UK business.

4.1.4 Expenses

- ▶ The expense ratio for 1H08 was 30.9%, which is inclusive of industry levies totalling 2.9% relating to the motor classes of business. The 2H07 expense ratio was 25.5%.
- ▶ The increase in the underlying commission ratio is largely due to change in business mix, with household and special risk classes of business attracting higher commission rates.
- ▶ The 2H07 commission expense included \$8m profit commission received from the Group's managing agent in respect of syndicate profit share arrangements. Profit commission received during 1H08 was \$0.4m, with 2H08 expected to deliver a similar benefit to that of 2H07.
- ▶ One-off integration costs of \$2.1m relating to underwriting were incurred during 1H08.
- ▶ Underlying expenses in 1H08 have slightly increased over 2H07 due to the establishment of various internal functions and increased labour costs.

4.1.5 Customer

- ▶ The “Unleashing the Potential” integration programme and the implementation of revised underwriting and claims strategies will lead to operating model improvements crystallising in FY09.
- ▶ A project commenced at the end of 2007 to carry out a full strategic review of the current operating model and make recommendations to ensure that IAG UK is strategically positioned to maximise value, in particular, in light of the market’s shift to internet distribution. The aim of the project is to create, in the long term, a robust and flexible business model supporting market leading distribution and underwriting.
- ▶ Strong retention rates exist in the Equity bespoke business and are holding firm in private motor in the face of fierce competition. Broker retention rates for motor are 86.2% in 1H08 versus 84.2% for 2H07, reflecting the strong focus within the business to increase retention rates.
- ▶ Equity is introducing satellite underwriting offices in FY08 to position underwriting staff closer to target markets. The first two of these offices are due to open in March 2008.
- ▶ Both Equity Red Star and Advantage are planning to enter the SME insurance market during 2008-09, depending on market conditions.
- ▶ Advantage plans to launch a home insurance product in 2H08 as well as investigating other product development to support customer requirements of the Group’s broking channels. Advantage will continue to be Gibraltar-based, thereby utilising the benefits of that jurisdiction.

4.1.6 Fee based business

- ▶ Including one-off integration costs of \$8m, the UK fee based business incurred a net loss of \$2m for 1H08. This is comprised of a net loss of \$5m from broking fee business offset by managing agent fees of \$3m.

4.1.7 Broking

- ▶ Net broking loss for 1H08 was \$5m. The 1H08 reported result compares unfavourably to the 2H07 contribution of \$13m and \$1m for 1H07. The key component of the reduction was in Hastings, including:
 - Shift of business away from call centres onto the internet, resulting in narrower margins and reduced opportunity to up-sell high margin add-ons (e.g. legal expense insurance and premium finance);
 - Reduced third party commissions due to the temporary suspension of third party panel following issues identified with the pricing engine. Remedial work is well-progressed and the panel should be reactivated during 2H08 with the key underwriters participating; and
 - As already noted, one-off integration costs of \$8m incurred during 1H08.

- ▶ The following table presents these results on a gross basis:

UNITED KINGDOM	1H07	2H07	1H08
Broking GWP - third parties	£13m	£71m	£55m
Broking income - third parties	\$7m	\$21m	\$23m
Commission on other products and other income	\$14m	\$69m	\$57m
Total broking income	\$21m	\$90m	\$80m
Broking expenses	(\$20m)	(\$77m)	(\$85m)
Net broking income/(loss)	\$1m	\$13m	(\$5m)

- ▶ As at 31 December 2007, the Group had 83 branches, located in three geographical 'footprints' in the UK: the North/Midlands, the South and Northern Ireland. Seven branches were acquired during 1H08 and the Group aims to have 100 branches by December 2008.
- ▶ Branch acquisitions are continuing in a strong buyer's market due to proposed capital gains tax legislation changes that, if enacted, will take effect from April 2008.
- ▶ Owned branches at December 2006 were placing 50% of their business with Equity by end of 1H08. Open & Direct Insurance Services (ODIS), acquired in January 2007, is currently placing 14.3% of its business with Equity, an increase from nil when ODIS was acquired.
- ▶ Aggregator volumes are up considerably since 2006 and although internet acquisition costs are low, margins are tight due to discounting and reduced opportunities to up-sell add-on products.
- ▶ Market conditions remain very competitive and the Hastings brand is being relaunched in 2H08. This will focus the brand on sustainability and aims to build a stronger relationship with the policyholders to increase retention.

4.1.8 Managing agent fees

- ▶ The Group derives fee income from managing Lloyd's insurance syndicates. 64% of this fee income (equal to the Group's syndicate capacity ownership) is set off against underwriting expenses. The balance of \$3m for 1H08 is included within fee based business.

4.1.9 Synergy benefits

- ▶ The IAG UK Group integration programme titled 'Unleashing the Potential' (UTP) commenced in March 2007 and brings together the Equity Insurance Group and the Hastings/Advantage Group. The programme will strengthen the Group's presence in the volume market, using owned distribution, and in the specialist market, using the Group's expertise in a number of niche sectors such as motorcycles, fleet, haulage and agricultural vehicles.
- ▶ The integrated corporate structure is in place and process improvements and Group alignment tasks are well advanced.
- ▶ The expected integration and synergy benefits of £25m after tax per annum by 30 June 2008 (announced at August 2007) are on track for delivery. Project expenditure in 1H08 was £4.5m, with a further £3.5m forecast for 2H08.

4.1.10 Share of profit from associates

- ▶ The \$2m share of loss from associates relates to the Group's 26.5% investment in Arista and 26.7% in InsuranceWide, an internet referral portal. Arista is a commercial lines underwriting agency where the Group underwrites its motor book. As Arista is still in start-up mode, the majority of the loss recorded in 1H08 is attributable to costs associated with establishing the business.

4.1.11 Affinity

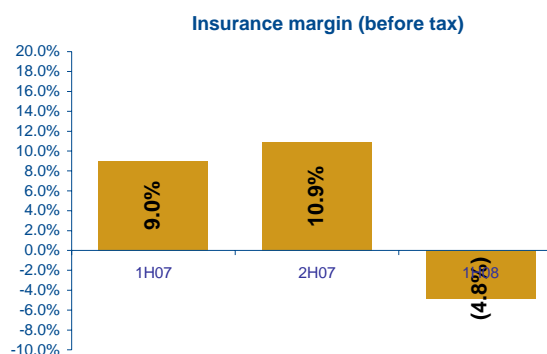
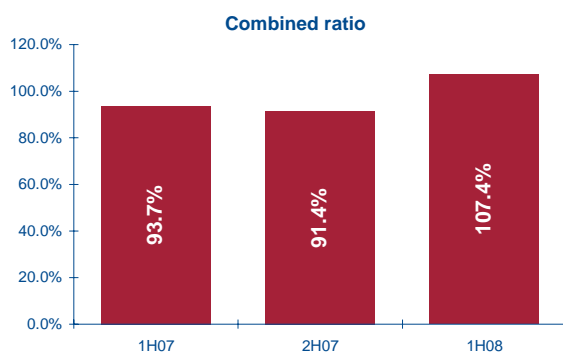
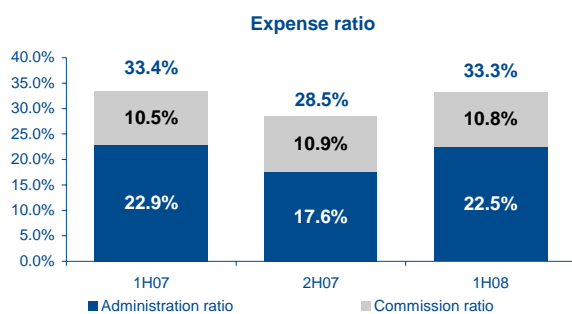
- ▶ The affinity branded proposition is a proven distribution channel for the Group. Currently, the Group has a large existing base of affinity partnerships including such well known brands as Renault, Chevrolet, Harley Davidson, Skipton Building Society, Cardif Pinnacle (part of the BNP Paribas Group), Alliance & Leicester plc, Nissan Motor (GB) Limited and MAN Financial Services plc. There have been no significant changes to the affinity partnerships during 1H08.

4.1.12 Outlook

- ▶ FY08 GWP growth is expected to be in the range of 57 - 60% reflecting the full year's contribution of Equity and Advantage.
- ▶ The FY08 insurance margin is expected to be in the range of 5 - 7%.
- ▶ The UK insurance margin run-rate is expected to be at least 10% by the end of FY08.
- ▶ Continued improvement of the Equity business mix, as a drop in private car volume is made up by gains in bespoke business.
- ▶ The Advantage combined operating ratio is anticipated to remain at 125%+ for FY08. Based on remedial action undertaken in underwriting, a positive insurance margin run-rate is expected in FY09.
- ▶ Net broking income is expected to break even for FY08.
- ▶ £25m of after tax run-rate synergies are on track for FY09.

4.2 International - New Zealand

NEW ZEALAND	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	460	508	482
Gross earned premium	470	483	489
Reinsurance expense	(42)	(51)	(54)
Net premium revenue	428	432	435
Net claims expense	(258)	(272)	(322)
Commission expense	(45)	(47)	(47)
Underwriting expense	(98)	(76)	(98)
Underwriting profit	27	37	(32)
Investment income on technical reserves	12	10	11
Insurance profit	39	47	(21)
Insurance ratios			
Loss ratio	60.3%	63.0%	74.0%
Expense ratio	33.4%	28.5%	33.3%
<i>Commission ratio</i>	10.5%	10.9%	10.8%
<i>Administration ratio</i>	22.9%	17.6%	22.5%
Combined ratio	93.7%	91.4%	107.4%
Insurance margin (before tax)	9.0%	10.9%	(4.8%)



4.2.1 Overview

- ▶ NZ GWP represents 12% of the Group's GWP for 1H08 compared with 14% for 1H07.
- ▶ The IAG NZ operation has achieved strong top line growth in 1H08, whilst adopting a disciplined approach to pricing and seeking to maximise profitable opportunities in all lines of business.
- ▶ However, abnormally severe weather and other natural events have resulted in exceptionally large claims being incurred during 1H08. There was also an unusual level of individual large losses (e.g. hotel fires). Consequently, a negative insurance margin of 4.8% for 1H08 was recorded and compares unfavourably to the 9.0% insurance margin recorded for 1H07.

4.2.2 Premiums

- ▶ 1H08 GWP grew by 4.8% to \$482m against \$460m in 1H07 (3.5% growth in NZ\$ terms), this has been achieved despite tough market conditions, although varying in composition.
- ▶ Analysing this strong top line growth across New Zealand's distribution channels in NZ\$ terms
 - The Direct channel GWP (approximately 36% of NZ GWP) was steady in comparison with 1H07. Commercial Direct GWP has increased over 1H07 as a result of volume growth in the commercial and liability product lines and the Easy-biz product suite. In personal lines, the conversion to the Australian personal lines (HUON/Bonus) technology and the new rating model continues to be rolled out.
 - Business Partners (approximately 18% of NZ GWP) grew by 3.2% or NZ\$3m on 1H07. This growth has been across all personal and commercial lines. The largest increase has occurred in commercial lines, with solid growth in the commercial banking partners' small to medium business segment.
 - The Broker channel (approximately 46% of NZ GWP) similarly grew by a strong 7.8% or NZ\$19m. The main contribution to this growth was from the commercial lines portfolio, which increased its top line by 10% over 1H07. This sales success transpired despite a highly competitive corporate market, with a number of new accounts won during the June/July 2007 renewal period. In comparison to 2H07, 1H08 GWP is NZ\$17m lower, reflecting the seasonality of the broker portfolio. The personal lines business grew in 1H08 by a modest 2.7% over the 1H07 period, driven by a combination of volume and price increases.
- ▶ Reinsurance expense increased by \$12m in comparison to 1H07, mainly due to the Group's decision at 1H07 to report the impact of reinsurance written with the Group's captive in the business unit's results. The impact of this was to reduce the New Zealand business' reinsurance expense by \$10m in 1H07. Growth in the Broker business continued, securing three large clients in June 2007, with the reinsurance impact flowing through into FY08.
- ▶ Based on September 2007 ICNZ statistics, the Group has a 36.2% market share of the NZ fire and general insurance market, reflecting a slight increase on both the September 2006 and June 2007 quarterly market share of 35.8% and 36.0%, respectively.

4.2.3 Claims

- ▶ Net claims expenses have increased by \$64m over 1H07 following the unusual extreme weather events in July, the December Gisborne earthquake, and an abnormal level of individual large losses. The 1H08 loss ratio of 74.0% is significantly above the 1H07 loss ratio of 60.3% when there was an absence of similar abnormal weather activity.
- ▶ Details of the significant events in 1H08 are as follows:
 - Upper North Island storm, on 10 and 11 July 2007 incurred claims cost of \$26m. Abnormal rainfall (second highest since records began in 1937) was experienced in this region, resulting in floods and several massive landslips forcing residents to evacuate their homes.
 - North Island tornadoes between 4 and 14 July 2007 incurred claims costs of \$3m;
 - South Island frosts on 8 and 9 July 2007 incurred a claims cost of \$3m; and
 - An earthquake with a magnitude of 6.8, struck the East Coast of the North Island (Gisborne) in December, incurring a total cost of \$9m. Whilst earthquakes exceeding the magnitude of 6.0 are not uncommon, recent earthquakes have struck offshore and/or at greater depth and/or in relatively unpopulated areas, with minimal insurance losses.
- ▶ Underlying claims frequency has slightly deteriorated on 1H07 due to poor weather in the period and a higher level of claims on personal property. The average cost of claims has also increased due to an unusually high number of large fire losses and increased repair costs resulting from the tight NZ labour market and increased material costs.

4.2.4 Expenses

- ▶ The 1H08 expense ratio of 33.3% was steady compared with the 33.4% recorded for 1H07. 1H08 was 4.9% ahead of the 28.5% for 2H07. This increase on 2H07 is the result of:
 - Ongoing operating costs relating to the implemented technology platform (HUON/Bonus) in the Direct business. Related documentation costs arising from the rollout of the platform were also incurred during the half (combined impact to 1H08 expense ratio is approximately 1.2%);
 - Redundancy costs and consultancy fees incurred relating to productivity improvement (impact to 1H08 expense ratio is approximately 0.9%). This initiative is expected to deliver a 1% - 2% improvement in the insurance from 2H08; and
 - Commission costs are slightly ahead on 1H07 following growth in GWP in the Broker and Business Partner channels.
- ▶ There were no significant changes to commission rates during the period, however broker consolidation continues in the NZ market.

4.2.5 Customer

- ▶ The Direct channel has spent the past six months bedding down multiple initiatives implemented during FY07. In particular:
 - The conversion to HUON/Bonus. Final transition is due to be completed in July 2008 and one of the many benefits will be to provide a more granular approach to the pricing of the State personal book. The ability to price risks accurately based on the individual and the geographical area will allow a more competitive strategy in all metropolitan areas of New Zealand; and
 - The regional call centre network, which has been highly successful with improved conversion rates over the existing call centres.

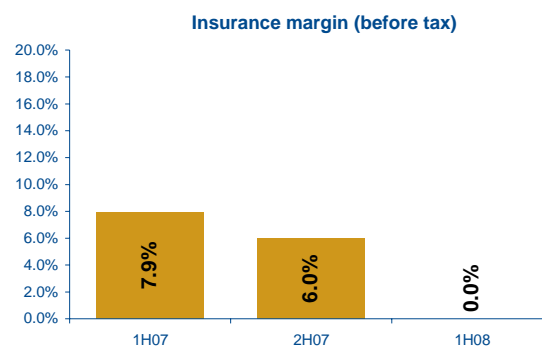
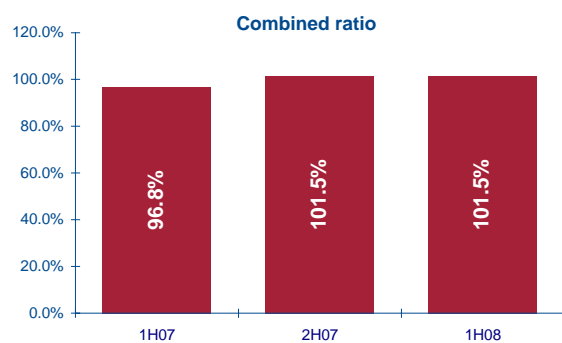
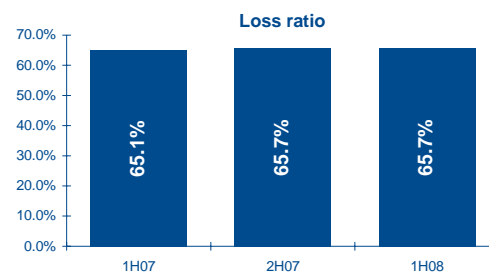
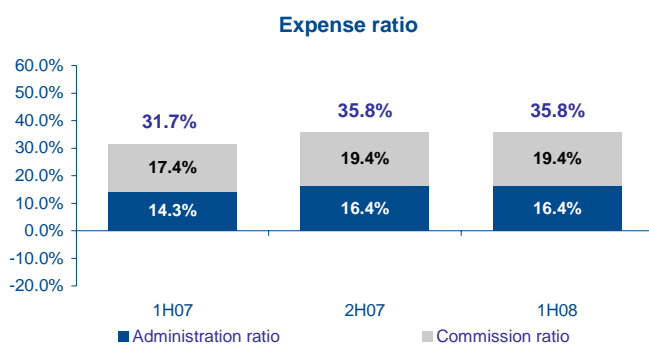
- ▶ Continued investment in technology in both the Business Partners and Broker channels to improve customer connectivity and deliver process and productivity benefits.
- ▶ The Insurance Brokers Association of New Zealand (IBANZ) Insurer of the Year survey results saw NZI win the Insurer of the Year Award as voted by the IBANZ members. NZI was the clear winner in all areas measured including service, product, reputation, value and business support. NZI was ranked first out of the 10 insurers for all key areas.
- ▶ Overall customer satisfaction across IAG NZ remains high at 86.7% (July to December 2007) and slightly higher than the 2006 - 2007 annual result of 85.9%. More favourable responses in the claims areas across all businesses have contributed to this improvement.

4.2.6 Outlook

- ▶ GWP growth for FY08 is expected to be in the range of 1 - 3%.
- ▶ Insurance margin for FY08 is expected to be in the range of 2 - 4%.
- ▶ All business units are predicting positive growth over the next 12 to 18 months. This is based on current growth trends in the Broker and Corporate Partner channels. Growth in the Direct channel will be supported by a new advertising campaign for State, which was launched in early February 2008. The campaign is television-led, but will extend to all sales channels including radio, online and point of sale. The campaign is expected to build brand consideration and sales momentum.
- ▶ IAG NZ is confident that claims can be managed at historical levels going forward with an expected return to more normal weather conditions.

4.3 International - Asian operations

ASIA	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium	79	89	89
Gross earned premium	80	87	88
Reinsurance expense	(17)	(20)	(21)
Net premium revenue	63	67	67
Net claims expense	(41)	(44)	(44)
Commission expense	(11)	(13)	(13)
Underwriting expense	(9)	(11)	(11)
Underwriting profit	2	(1)	(1)
Investment income on technical reserves	3	5	1
Insurance profit	5	4	-
Share of profit from associates	3	4	3
Fee based business	(2)	(3)	(2)
Corporate expenses	(2)	(2)	(2)
Total Asian operations result	4	3	(1)
Insurance ratios			
Loss ratio	65.1%	65.7%	65.7%
Expense ratio	31.7%	35.8%	35.8%
<i>Commission ratio</i>	17.4%	19.4%	19.4%
<i>Administration ratio</i>	14.3%	16.4%	16.4%
Combined ratio	96.8%	101.5%	101.5%
Insurance margin (before tax)	7.9%	6.0%	0.0%



4.3.1 Overview

- ▶ Asian GWP represents 3% of the Group's GWP for 1H08, consistent with 1H07.
- ▶ 1H08 has seen IAG continue in its efforts to build a personal lines insurance business in Asia. Whilst no acquisitions have been completed in this period it has been a challenging six-month period. The Group's strategy in Asia remains two-fold:
 - To build via acquisition a portfolio of strategic investments in predominantly personal lines insurers in key priority Asian countries; and
 - To unlock and create value in those assets through capability transfer of the Group's core competencies in underwriting, product development, claims management, risk management, direct distribution, reinsurance, and asset management.
- ▶ The key priority markets remain India, China, Malaysia and Thailand.
- ▶ During 1H08 the Group analysed a number of potential opportunities in these markets, remaining disciplined in terms of the Group acquisition criteria and not paying unrealistic or temporarily inflated prices, and also being very focused on the strategy and target markets for the region.
- ▶ The Group is currently in varying stages of progress in relation to opportunities in India, Malaysia and China and is confident that it will be successful in the short to medium term in both India and Malaysia. However, following the Group's withdrawal from the CPIC process, its objectives in China are likely to take longer to fulfil.
- ▶ The process for restructuring the investment in AmAssurance in Malaysia continues and the Group believes that it will be able to complete an increase in its investment stake in the non-life insurance business from 30% to 49% by the end of 2H08. Divestment of its interest in the associated life insurance business is expected in the short to medium term.
- ▶ Thailand's overall economy and the insurance sector in particular had below average growth in 1H08. The continued political uncertainty following the military coup more than twelve months ago and the lack of a clear majority for any party following recent elections has kept consumer confidence low, leading to a sustained slow-down in GDP. Thailand's GDP grew by 4.8% in 2007 compared with 5.1% in 2006 (source: International Market Assessment (IMA), Asia December 2007). IMA Asia reports this level of GDP is a full 2% below Thailand's potential and has been affected by the continued political uncertainty, a slow recovery in investment and a slight easing in export growth.

4.3.2 Thailand

Premiums

- ▶ Despite these difficult conditions the Group's Thai businesses - Safety Insurance and NZI (IAG) Thailand - managed to grow GWP in 1H08 by more than 12% (6% in local currency terms) compared with 1H07. Compared with 2H07, GWP for 1H08 was steady with solid rate movements achieved offsetting a reduction in policy volumes.
- ▶ The Group's market share is approximately 4.5% for the businesses combined, and collectively the Group holds the number four market position (based on GWP). The strong growth in premium in 1H08 over 1H07 has largely been driven by premium rate increases in the motor classes, an expansion of the Safety distribution network with three new branches opened in the period, and some improvement in new car sales, albeit off a low base, up 12.6% year-on-year in October 2007 (source: IMA Asia December 2007).
- ▶ This growth was pleasing given the significant slow-down in infrastructure spend and foreign investment due to political uncertainty. As a result GWP growth in the specialist commercial classes has been modest over 1H07. Decreases in commercial premium rates, and strengthening of the Thai Baht against the \$US (which affects \$US-denominated policies written in the Thai heavy commercial market) have added to the pressure on premium growth.

- ▶ Policy numbers in both Thai operations have fallen during the half largely as a result of a management decision to cease underwriting certain less profitable insurance classes and some schemes, and the continued slow-down in government infrastructure spending.

Claims

- ▶ The 1H08 loss ratio of 65.7% was broadly in line with 1H07. Over the last twelve months, management has repriced certain classes of the insurance portfolio and ceased underwriting other unprofitable classes/schemes of business.
- ▶ In particular, the Asian operation has been actively managing an underperforming portfolio of motor insurance policies, known as “G-Policies”. These policies provided additional claim repair benefits that were inadequately priced by the market but were in high demand from various distribution sources. Efforts by management to reprice and de-emphasise this portfolio have seen these policies fall from around 33% of the portfolio to around 24%.
- ▶ In addition to this, the operation terminated three underperforming motor fleets and the full benefits of this decision are expected to flow into 2H08.

Expenses

- ▶ The total expense ratio has increased within expectations, reflecting changes in operating conditions and in line with the Group’s desire to develop Asian markets, with development activities centred on new product and distribution capability.
- ▶ The 1H08 expense ratio increased to 35.8% compared with 31.7% for 1H07. The main drivers were:
 - A change in the portfolio mix with increased exposure to commercial business attracting higher commissions;
 - The opening of three new branches in the north of the country;
 - A 4% “minimum wage” increase; and
 - Planned development for new business with increased staffing levels, establishment costs for a call centre and associated marketing.

Outlook

- ▶ The Group remains positive on the outlook for Thailand. Thailand’s GDP is expected to improve to 5.3% in 2008 and 5.9% the year after (source: IMA Asia January 2008) and, based on this improving outlook, the Group expects the insurance sector to grow at about 8% in these years.
- ▶ This market optimism is behind the development of three new branches, particularly in the north of the country (excluding Bangkok), which is regarded as an emerging area. The Group expects an improvement in the broader economy post the recent election and establishment of the new Thai government and a more stable political environment going forward. This should lead to an increase in large infrastructure spending, which in turn will assist growth in the commercial portfolio.
- ▶ The continued recovery of the Thai domestic economy is likely to have a positive impact on new car sales, the signs of which are already been seen with new car sales in the twelve months to October 2007 up 12.6% on the corresponding prior period (source: IMA Asia December 2007).
- ▶ The Group anticipates that the loss ratio will reduce as a result of changes in the mix of business, cessation of the run-off impact of motorcycle credit risk insurance, improved focus on motor claims management and continued utilisation of data and systems to improve risk selection in the motor portfolio.
- ▶ FY08 GWP growth is expected to grow by 6 - 8%; and
- ▶ The FY08 insurance margin is expected to be 1 - 3%.

4.3.3 Malaysia

Share of profits from associates

- ▶ AmAssurance is the fourth largest general insurer in Malaysia, with a market share of around 5%. Importantly, AmAssurance remains the second largest insurer in motor.
- ▶ The contribution from the Group's 30% share of the Am Assurance result was \$3m for 1H08; in line with 1H07 result.
- ▶ Major drivers for the half year result were:
 - Excellent top line growth of 14.4% (21.7% in local currency terms) arising from an improvement in car sales, the roll-out of new/varied products (some of which are derived from IAG's capability transfer programme), deliberate growth of non-motor insurance products and the continued growth of the Am Bank distribution network;
 - Loss ratio improvement (64.6% for 1H08, compared with 66.6% for 1H07 and 75.3% for 2H07) reflecting the continued efforts of management to improve the profitability through growth in lower loss ratio lines of business and improvements in the motor comprehensive portfolio; and
 - Strong investment returns.
- ▶ These positive results were somewhat offset by an increase in expenses arising from growth of the non-motor portfolio attracting higher commissions and higher operating expenses resulting from the growth in the business.
- ▶ IAG will continue the capability transfer initiatives by establishing development teams aimed at introducing a range of products into the partners' retail banking network, identifying key initiatives relating to bodily injury claims, developing the portfolio management processes, and developing and implementing a plan to significantly expand commercial business.

Outlook

- ▶ The Group has received conditional approval from Bank Negara Malaysia (BNM) to split the current composite insurance licence of AmAssurance into two separate licences for the non-life and life businesses. In addition, IAG has also reached agreement in principle with its partner (AmBank) to divest its 30% stake in the life business, and increase its ownership stake to 49% in the non-life insurance business (both subject to final BNM approval). This process is continuing and the Group estimates completion of the increase in the Group's equity interest to 49% of the general insurer by end of 2H08.

4.3.4 China Fee based business

- ▶ For 1H08, the loss on the CAA operations was \$2m which was steady against 1H07.
- ▶ 1H08 revenue was up 38% compared with 1H07, with the customer base (both retail and corporate) increasing by 34% over CY07. The national network has significantly developed to the point where CAA is now in cooperation with 430 national network partners.
- ▶ CAA will continue to develop its current model to support corporate business and expand its geographical reach using franchised providers to promote CAA as a national brand.

Outlook

- ▶ The Group has indicated in the past that it was actively reviewing its investment in CAA. This review continues with many options being considered, which may include the sale of all or part of the business, and/or the restructuring of the business so as to significantly reduce the ongoing level of losses.

4.3.5 Customer

- ▶ The Asia division will continue to pursue new opportunities for its Thai businesses to broaden their income stream and grow revenue from new products, some of which are being introduced via IAG's capability transfer programmes. Some new initiatives include extended warranty, consumer credit, gap (the outstanding loan balance and the value of the vehicle in the case of total loss), travel and accident, mid-market commercial (medium-size businesses) and health business for professional expatriates.
- ▶ IAG will continue the capability transfer initiatives to generate incremental value. To-date achievements include the following:
 - Introduced key features of the IAG Governance & Risk Management Framework;
 - Leveraged data collection techniques already in place to improve risk selection, pricing, and claims performance; and
 - Introduced a number of new products including Chevrolet 'Platinum' new car extended warranty, 'Chevy OK' used car extended warranty and finance gap insurance with GMAC Thailand.

4.3.6 IAG Asia Corporate expenses

- ▶ The \$2m of corporate expenses incurred during 1H08 reflect the pursuit of acquisition opportunities in Asia. These are disclosed as part of the Asia segment result.

4.4 International - Asian reinsurance operations

ASIAN REINSURANCE	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Gross written premium (3rd party premium income)	13	18	12
Gross earned premium	4	10	13
Reinsurance expense (net of IAG Group premium income)	2	19	56
Net premium revenue	6	29	69
Net claims expense	(7)	(41)	(90)
Commission expense	(1)	(2)	(8)
Underwriting expense	(7)	(7)	(9)
Underwriting profit	(9)	(21)	(38)
Investment income on technical reserves	-	1	-
Insurance profit	(9)	(20)	(38)
Insurance ratios			
Loss ratio	116.7%	141.4%	130.4%
Expense ratio	133.3%	31.0%	24.6%
<i>Commission ratio</i>	16.6%	6.9%	11.6%
<i>Administration ratio</i>	116.7%	24.1%	13.0%
Combined ratio	250.0%	172.4%	155.1%
Insurance margin (before tax)	(150.0%)	(69.0%)	(55.1%)

4.4.1 Overview

- ▶ The Asian Reinsurance segment reflects the business underwritten by IAG Re Labuan Berhad and Alba (Lloyd's syndicate 4455).
- ▶ The Group's reinsurance strategy is to obtain a benefit from retaining individual business unit exposures and gain efficiencies in managing all reinsurance covers centrally.
- ▶ IAG Re Labuan was established to meet the reinsurance requirements of the Group's international businesses and the results for the various international segments are retained in the Asian captive.
- ▶ Alba is strategically positioned to leverage the Group's Asia-Pacific presence and has the ability to execute on local opportunities by utilising its Lloyd's licence and underwriting expertise in the region. Alba has a mandate to underwrite large single commercial risk exposures emanating from the Group, where specific class expertise resides in Alba, or unrelated entities where its regional expertise presents an underwriting advantage. Alba retains a maximum net exposure per risk of US\$2.5m.
- ▶ The Lloyd's Syndicate No. 4455 managing agency, known as Diagonal Underwriting Agency and based in London, is equipped to deliver syndicate management services (i.e. generate fee income) to new start-ups within the Lloyd's market from June 2008.

4.4.2 Premiums

- ▶ The Asian Reinsurance operations generated \$69m of net earned premium in 1H08, an increase of \$63m on 1H07 and \$40m higher than 2H07. This variance is due to 1H08 being the first full half year of written premiums and also the inclusion of the Advantage quota share and additional cover for the Group's New Zealand business. Alba premiums were flat on 1H07 reflecting soft commercial market conditions in the region.

4.4.3 Claims

- ▶ The claims expense for 1H08 was \$90m. This represents an increase of \$83m on 1H07 and of \$49m on 2H07. The unfavourable variance to 1H07 has arisen largely as a result of:
 - UK floods (\$50m);
 - The net impact of July NZ North Island storm (\$3m);
 - The impact of the Advantage quota share arrangement (\$18m); and
 - Increased frequency of larger claims and abnormal claims activity in Alba (\$8m).

4.4.4 Expenses

- ▶ The commission expense for 1H08 was \$8m, \$6m higher than 2H07. This is mainly due to the new Advantage quota share business which commenced in August 2007.
- ▶ The administration expense ratio has fallen to 13.0% compared with 116.7% in 1H07, when the business was in its infancy and 24.1% in 2H07, due to a higher level of net earned premium compared with the prior periods.

5. INVESTMENTS

5.1 Investment policy

- ▶ The Group's investment policy is to maintain control of risk and return, through a global Strategic Asset Allocation (SAA) that is implemented at the regional or business level.
- ▶ Additional considerations specific to each region or business, such as regulatory, tax and capital requirements, are factored in when determining the SAA appropriate for each business, in line with the Group's investment philosophy.

5.2 Investment philosophy

- ▶ The Group's investment philosophy is to:
 - Manage the assets backing technical reserves and shareholders' funds separately, subject to regulatory or other structural constraints;
 - Invest the assets backing technical reserves, wherever possible, in a combination of high quality fixed interest securities and alpha transfer strategies, with interest rate sensitivities that match the underlying insurance liabilities;
 - Invest the Group's shareholders' funds to produce an optimal risk-adjusted return that is consistent with the Group's risk appetite and flexibility needs, including, where practical, investments that are aligned with corporate sustainability goals without sacrificing investment return for the Group's shareholders;
 - Generate cost-effective and consistent added value to technical reserves and shareholders' funds SAA benchmarks, within strict risk tolerance parameters and time frames specified by the Group; and
 - Maintain highly liquid portfolios, invested in accordance with the Group's foreign exchange, credit and liquidity policies.

5.3 Changes to investment strategies

- ▶ The Group adopted a revised global SAA during 1H08.
- ▶ The total Group funds under management (including all overseas entities and minority interests) were \$10.7bn as at 31 December 2007, across a diversified range of strategies and managers.

5.4 Investment performance

- ▶ The following table sets out the investment returns achieved on the Group's portfolios.

ASSET CLASS	Actual return	Actual return	Actual return
Australian and New Zealand % Returns	1H07 %	2H07 %	1H08 %
Australian equities	11.2	14.1	4.8
Listed property trusts	26.1	(0.7)	(12.4)
International equities	5.7	1.0	(1.3)
Fixed interest (Aust & NZ)	2.9	2.4	1.9
International fixed interest	2.8	2.8	1.3
Market neutral	0.9	7.7	10.6
Hedge funds	(1.3)	7.3	0.6
Cash	3.1	3.2	3.4
Surplus capital portfolio	3.8	3.7	3.5
Total weighted average	4.8	4.3	2.5
Offsetting derivative component of overlay	(1.1)	(1.1)	(0.2)
Total Aust & NZ (including overlay)	3.7	3.2	2.3
United Kingdom			
% Returns in £			
UK (GBP)	-	2.2	4.7

Notes:

1. These returns are before fees and income tax.
 2. Returns incorporate each entity since acquisition date.
- ▶ The investment return of the Group's Australian and New Zealand businesses' portfolios underperformed the benchmark by 32 basis points over 1H08. In total, this detracted approximately \$34m from the Group's pre-tax result for 1H08, compared with benchmark returns. This underperformance was primarily due to the adverse impact on the fixed interest portfolios from the widening of credit spreads during 1H08.
 - ▶ A summary of the investment income and the investment returns generated on the technical reserves and shareholders' funds portfolios is set out in the following table. The percentage returns are before tax and expenses.

PORTFOLIO INCOME (PRE-TAX) AND INCL. DERIVATIVES	1H07		2H07		1H08	
	A\$m	Return* (%)	A\$m	Return* (%)	A\$m	Return* (%)
Technical reserves	176	2.3	184	2.2	224	2.6
Shareholders' funds	166	7.0	135	5.4	76	2.6
Total investment income	342	3.4	319	3.1	300	2.6

Note: Return (%) are accounting yields being investment income based on average exchange rates divided by closing funds under management. Return (%) exclude fees and other investment income generated by investments not under active management. This differs from previously disclosed yields which were stated using daily closing rates in accordance with investment management industry standards.

- ▶ The total year-to-date return achieved on the assets in 1H08 was 2.6%.
- ▶ The contribution from the Group's technical reserve assets to the insurance result was \$224m for 1H08. This comprised \$171m from the Group's Australian and New Zealand businesses, \$52m from the Group's UK business, and \$1m from the Asian businesses.
- ▶ The yields in the above table include the Group's foreign currency denominated technical reserve assets that support the Group's insurance liabilities in the United Kingdom and Asia.
- ▶ The widening in credit spreads resulted in a \$55m mark-to-market loss on the Group's fixed interest portfolio's backing technical provisions. This loss is expected to be recovered as the portfolio matures.
- ▶ The Group's alpha transfer strategies utilised in the Group's Australian and New Zealand technical reserves portfolios have added value relative to the benchmark. These strategies added \$11m of active return to the Group's net pre-tax result in 1H08.
- ▶ The year-to-date percentage returns are net of transaction fees but before deducting management fees, expenses and income tax.

5.5 Asset allocation

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

ASSET CLASS EXPOSURE AS AT	Technical Reserves 1H07 %	Share- holders' Funds 1H07 %	Technical Reserves 2H07 %	Share- holders' Funds 2H07 %	Technical Reserves 1H08 %	Share- holders' Funds 1H08 %
Australian equities	-	27.9	0.5	22.3	0.0	24.1
Listed property trusts	-	3.0	-	2.3	0.0	2.2
International equities ¹	-	9.6	-	7.8	1.5	8.3
Fixed interest	99.2	47.1	97.3	55.3	94.8	53.6
Cash	0.8	7.6	1.1	5.2	3.3	10.0
Hedge funds & Other	-	4.7	1.1	7.1	0.4	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

1. Includes private equity.
2. The surplus capital portfolio disclosed previously has been reclassified as cash, fixed interest and other.
3. The other category includes a small investment in a unitised unlisted Australian absolute return fund.

- ▶ The hedge fund investments in the shareholders' funds are in the process of being fully liquidated. This will be completed by the end of 2H08.
- ▶ The change in the relative weightings of fixed interest and cash in the shareholders' funds is primarily due to the reclassification to cash of assets previously classified as fixed interest.
- ▶ As at 31 December 2007, the Group has reduced its exposure to growth assets relative to fixed interest and cash held in its shareholder funds to 36:64 compared with 40:60 as at 30 June 2007.

5.6 Group assets under management

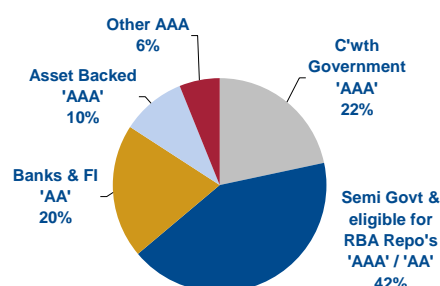
INVESTMENT ASSETS AS AT	1H07 A\$bn	2H07 A\$bn	1H08 A\$bn
Technical reserves ¹	7.2	8.0	8.2
Shareholders' funds	2.4	2.4	2.5
Assets under management	9.6	10.4	10.7
Minority interest – Unitholders' funds ²	0.3	0.3	0.3
Investments in Joint Ventures and Associates	0.1	0.1	0.1
Funds at Lloyds	n/a	0.2	0.2
Other ³	2.0	1.1	0.4
Total investment assets on balance sheet	12.0	12.1	11.7
Reset Exchangeable Security (RES) funds ⁴	0.6	0.6	0.6
Total investment assets	12.5	12.7	12.3

Notes:

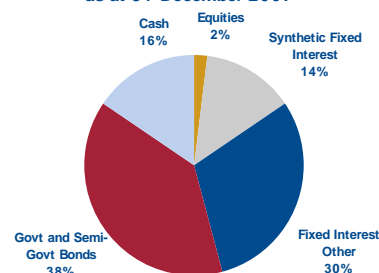
- The technical reserves balance is stated net of GST on premium debtors and outstanding claims.
- The unitholders' funds shown as a minority interest are those invested in trusts that are controlled entities of the Group. There is a matching liability in the Group's balance sheet.
- Assets of \$0.4bn represent items that are not under investment management mandate, which include cash in corporate treasury and operating cash in subsidiary companies and related entities.
- The Group continues to have \$550m of contingent capital available, which is not recognised on its balance sheet. This contingent capital is in the form of debt issued by a subsidiary that is matched by a portfolio of high grade interest bearing securities which as at 31 January 2008 had a market value of \$555.4m. The contractual set off rights between the liability for the notes and the assets held to support them means that the two balances are offset for financial reporting purposes. The terms of the issued debt notes mean that the Group can direct the conversion of this debt to qualifying regulatory capital in Australia at very short notice. The debt securities, known as Reset Exchangeable Securities, are listed on the ASX as IANG.

5.7 Credit quality of assets under management

Fixed interest asset quality as at 31 December 2007 for Australia & New Zealand



Group Technical Reserve Asset Composition as at 31 December 2007



- ▶ The Australian and New Zealand fixed interest portfolio was valued at \$6bn at the end of 1H08. The portfolio's credit quality remains very strong and underlying these ratings there is a good diversity amongst counterparties and industry exposures.
- ▶ The UK fixed interest portfolio was \$0.7bn as at 31 December 2007 with \$0.6bn invested in 'AAA' rated UK Government securities and the remainder in very short dated securities with an 'A-' rating.
- ▶ The Group held \$1.6bn in cash with an 'A-1+' Rating.

- ▶ The market value of some semi and non-government securities was reduced by the widening of credit spreads during 1H08. The impact of this widening in credit spreads was \$55m before tax. This fall in market value is expected to be recovered as these assets mature.
- ▶ As at 31 December 2007 the sensitivity of the Group's net profit before tax to a 10 basis points widening in credit spread yields was -\$12m.
- ▶ The Group has no direct exposure to US sub-prime mortgages.
- ▶ Synthetic fixed interest refers to the investment in a combination of equity style overlays and long/short equity strategies.

6 CORPORATE

CORPORATE			
	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Head office	18	27	16
Insurance protection tax	10	10	9
Net Corporate Expenses	28	37	25
Amortisation	7	48	32
Interest	50	69	58

- ▶ Head office expenses remained steady against 1H07, moving from \$18m to \$16m in 1H08. The movement between 2H07 and 1H08 of \$11m largely reflects the decrease in costs incurred in pursuing international expansion opportunities in 1H08.
- ▶ Goodwill is subject to review at each reporting date, with any impairment recognised in the income statement. No impairment losses were brought to account in either 1H08, 2H07 or 1H07.
- ▶ Amortisation expense of \$32m in 1H08 represents a \$25m increase on 1H07. The increase relates to amortisation associated with the identifiable intangible assets recognised upon acquisition of Equity in 2H07 and Hastings and Advantage in September 2007. 1H08 amortisation also included an \$8m benefit relating to restatement of the useful life of the distribution channel identifiable intangible from the Equity acquisition.
- ▶ Detailed work completed in 1H08 has resulted in the identification of errors with certain inputs used in the provisional acquisition date valuation of one of the acquired intangible assets for the Hastings and Advantage acquisition. The correction of these inputs has resulted in a reallocation of value between the acquired intangible asset (reduced by \$36m) and goodwill (increased by \$36m). The 30 June 2007 Group balance sheet has been restated to take this change into consideration including the impact of movement in foreign exchange rates. Refer to Note 10 in the Group's 1H08 Financial Report for additional information.
- ▶ The Group's total identifiable intangible assets as at 31 December 2007 were \$722m after amortisation of \$32m, compared with \$7m of amortisation expense in 1H07.
- ▶ The following schedule shows the expected impact on the Group's result through to FY12 from the projected amortisation expense. These amounts are subject to change, as either: details are finalised within a year of purchase; impact of exchange rate movements; future acquisitions; future impairment testing; and changes in the useful life of the intangible assets.

IDENTIFIABLE INTANGIBLE ASSETS AMORTISATION

A\$m	FY08	FY09	FY10	FY11	FY12	> FY12
Amortisation Expense	70	70	65	62	62	230

- ▶ Interest expense decreased by \$11m from 2H07 to 1H08 due to \$4m of interest income in 1H08 related to the forward points earned from the foreign currency hedging of the UK net investments.

7 BALANCE SHEET, CAPITAL AND DIVIDENDS

7.1 Balance sheet

IAG Group Balance Sheet			
As at	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Assets			
Cash and cash equivalents	1855	1163	1118
Investments	9,988	10,884	10,525
Investment in joint ventures & associates	76	75	79
Premium receivable	1,600	2,045	1,935
Trade and other receivables	824	1,233	986
Reinsurance recoveries on claims	533	970	711
Other recoveries on claims	422	376	377
Deferred acquisition costs	589	789	779
Deferred reinsurance expense	286	224	332
Intangible assets	228	781	722
Goodwill	1,692	2,256	2,219
Other assets	668	841	783
Total assets	18,761	21,637	20,566
Liabilities			
Outstanding claims	7,043	8,562	8,228
Unearned premium	3,631	4,213	4,105
Interest bearing liabilities	1,970	2,017	1,723
Trade and other payables	729	1,139	697
Other liabilities	871	874	893
Total liabilities	14,244	16,805	15,646
Net assets	4,517	4,832	4,920
Equity			
Equity attributable to holders of ordinary shares	4,344	4,660	4,774
Minority interests	173	172	146
Total equity	4,517	4,832	4,920

- ▶ The movement in majority of the assets and liabilities is due to the weakening of the £ and the NZ\$ during the period. The majority of the assets and liabilities of the IAG Group's overseas operations are denominated in those currencies. The £ and the NZ\$ have depreciated against the A\$ by 4% since June 2007.
- ▶ The decrease in reinsurance recoveries on claims from \$970m at 2H07 to \$711m was due to a reduction in estimated reinsurance recoveries from the June 2007 storms in line with a reduction in the estimates for the gross claims cost, offset by an increase in potential recoveries from the Sydney December 2007 hailstorms.

- ▶ The decrease in intangible assets from \$781m at 2H07 to \$722m at 1H08 is due to movements in exchange rates and amortisation.
- ▶ The decrease in goodwill from \$2,256m at 2H07 to \$2,219m at 1H08 is due to exchange rate movements.
- ▶ The decrease in investments from \$10,884m at 2H07 to \$10,525m at 1H08 reflects the mark-to-market revaluation of fixed interest and equity securities, exchange rate movements, the repayment of \$300m of subordinated notes and \$42m (£18m) of management loan notes issued in the UK during the period.
- ▶ The decrease in trade and other receivables from \$1,233m at 2H07 to \$986m at 1H08 is due to the sale of the premium funding loan portfolio during the period.
- ▶ The other assets category represents the aggregate of current and deferred tax assets, prepayments, property plant and equipment, defined benefit superannuation assets, deferred expenditure and other assets. The decrease from \$841m at 2H07 to \$783m at 1H08 relates mainly to the movement in exchange rates and the decrease in deferred tax assets and the defined benefit superannuation assets.
- ▶ The decrease in the outstanding claims liabilities from \$8,562m at 2H07 to \$8,228m at 1H08 is mainly due to:
 - The payment of claims relating to the June 2007 Storms;
 - Reduction in overall estimate of the total of the June 2007 Storms claims;
 - Partially offset by claims generated from the December 2007 hailstorms; and
 - The impact of exchange rate movements.
- ▶ The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unit holders' funds held by minority interests in IAG-controlled trusts and lease provisions. Other liabilities increased from \$874m at 2H07 to \$893m at 1H08, mainly due to the increase in reinsurance payable at 1H08.
- ▶ The increase in shareholders' equity from \$4,660m at 2H07 to \$4,774m at 1H08 is due to:
 - The final 2007 dividend paid in October 2007 of \$287m offset by the issue of \$287m in new shares;
 - 1H08 net profit after tax of \$110m;
 - Defined benefit plan net actuarial losses of \$2m;
 - Dividends received on treasury shares held in trust of \$2m;
 - Increase in treasury shares of \$2m; and
 - An increase in other reserves of \$7m (Foreign Currency Translation Reserve, Share Based Remuneration and Hedging Reserve).
- ▶ Net tangible assets increased to \$0.99 per ordinary share as at 31 December 2007 compared with \$0.90 as at 30 June 2007. This was due to the increase in shareholders' equity, amortisation of identifiable intangibles and exchange rate movements impacting the carrying values of the Group's foreign currency denominated intangibles and goodwill.

7.2 Capital management

7.2.1 Capital adequacy

- ▶ The Group's view on its appropriate level of capital continues to be set based on a number of parameters including risk of absolute insolvency, regulatory insolvency and rating agency requirements (the Group currently targets a 'AA' category rating for the Group as a whole).
- ▶ The amount of capital required to fit within these parameters varies according to business mix and asset mix and is estimated using dynamic financial analysis modelling. For ease of communication, internally and externally, the Group has translated the outcome into a multiple of a Minimum Capital Requirement (MCR) set by applying the APRA methodology for measuring Australian licensed insurer capital as if the rules applied to the whole Group. On this basis, the Group has been using a benchmark MCR multiple of 1.55x for the past three years.
- ▶ Internal policies are in place to ensure significant forecast or actual deviations from this benchmark will result in the Group's Board considering how any shortfall should be made good or any surplus utilised.
- ▶ The growing diversification of the Group means that, prima facie, the amount of capital required per dollar of insurance exposure should reduce to recognise the increased diversification/reduced concentration exposure. However, there are a number of complicating factors in assessing the extent to which the benchmark should be altered or remain appropriate for the Group as a whole. These include:
 - The growing importance of the Group's stream of fee based income;
 - Standard & Poor's (S&P) rating process, which includes a risk-based capital adequacy model that is in the process of being updated. The rating process also includes many qualitative factors in arriving at a company's credit rating. This makes a purely quantitative approach insufficient; and
 - The Group's involvement in Lloyd's syndicates, which use the Lloyd's rating and, having paid the appropriate Lloyd's levies, have access to the Lloyd's insolvency protections, including the Lloyd's central funds.
- ▶ The Group now operates in countries that have sovereign ratings of less than the 'AA' category sought for the Group as a whole. Consequently, 'AA' ratings are not usually available for entities operating in those countries.
- ▶ At the current time, the S&P's requirements to maintain the Group's 'AA' category rating are the over-riding parameter. On 19 December 2007, S&P affirmed the Group's 'AA' category rating, however lowered the outlook from 'stable' to 'negative' citing "cumulative impact of consecutive events in a relatively short period of time" which have been "exacerbated by the current soft cycle in the insurance markets in Australia and the UK, which have reduced the Group's resilience to further market pressure or event risk below the levels required for 'AA' ratings".
- ▶ According to S&P, "The negative outlook reflects the expectation that the operating environment will remain challenging. The 'AA' ratings will be vulnerable to any significant deterioration due to further large events or deterioration in the operating performance of the Australian as well as UK operations. Significant improvement in the capitalization as well as a turnaround in the operating performance of the local and overseas business will support the rating." The Group will continue dialogue with S&P with a view to improving the rating outlook.

7.2.2 Capital adequacy/Minimum Capital Requirement position

- ▶ As at 31 December 2007 the Group's MCR decreased to \$1,853m from \$2,068m as at 30 June 2007.

AS AT	1H07 A\$m	2H07 A\$m	1H08 A\$m
Insurance risk	1,121	1,295	1,256
Concentration risk	200	200	93
Investment risk	511	573	504
Minimum Capital Requirement	1,832	2,068	1,853

- ▶ The decrease in the insurance, investment and concentration risk charge is due to:

- The reduction in net insurance liabilities since June 2007;
- The reduction in reinsurance recoveries receivable;
- The reduction in holding of equity securities;
- The impact of FX movements; and
- The purchase of additional reinsurance cover.

- ▶ The Group's coverage of its MCR requirement is set out below.

COVERAGE OF REGULATORY CAPITAL REQUIREMENTS A\$m	IAG Consolidated		
	1H07	2H07	1H08
Tier 1 capital			
Paid-up ordinary shares	4,000	4,361	4,649
Treasury shares	(40)	(36)	(26)
Hybrid equity	548	549	550
Reserves	11	(4)	3
Retained earnings	373	372	194
Excess technical provisions (net of tax)	456	431	396
Less: deductions ⁽¹⁾	(2,177)	(3,372)	(3,232)
Total Tier 1 capital	3,171	2,301	2,534
Tier 2 capital			
Gross subordinated debt	1,215	1,169	923
less: ineligible subordinated debt	-	(18)	-
Total Tier 2 capital	1,215	1,151	923
Capital base	4,386	3,452	3,457
Minimum capital requirements (MCR):			
Australian general insurance businesses	1,393	1,501	1,407
International insurance businesses MCR ⁽²⁾	239	367	353
Catastrophe concentration risk	200	200	93
Total Minimum capital requirements (MCR)	1,832	2,068	1,853
MCR multiple	2.39x	1.67x	1.87x

Notes:

1. Includes goodwill and intangibles, net deferred tax assets, capitalised software and surplus assets in defined benefit superannuation funds.
2. The MCR and capital base for the international insurance businesses are calculated on a similar basis to the Australian regulatory requirements and includes the captive reinsurance operations and the underwriters in New Zealand, Europe and Thailand.

- ▶ The Group's regulatory capital has increased slightly from \$3,452m as at 30 June 2007 to \$3,457m as at 31 December 2007.
- ▶ The major factors contributing to the increase were:
 - The issue of ordinary shares to the value of \$287m in October 2007 to fund the payment of the final 2007 dividend;
 - 1H08 net profit of \$110m;
 - The decrease in the deductions to regulatory capital relating to intangibles of \$140m. The total reduction was largely made up of:
 - amortisation of intangibles of \$32m;
 - amortisation of capitalised software of \$12m;
 - FX movements;
 - decrease in the defined benefit superannuation asset; and
 - decrease in the net deferred tax asset;
 - An increase of \$6m in reserves due to the gains on cash flow hedges and increase in share based remuneration reserve. These increases were offset to some extent by the weakening of the £ relative to the A\$ and its impact on the foreign currency translation reserve; and
 - The decrease by \$11m in treasury shares excluded from regulatory capital due to additional share based remuneration expense charged during the period;
- ▶ These increases were mainly offset by:
 - The payment of the final 2007 dividend in October 2007 of \$287m;
 - A decrease of \$35m in excess technical provisions as a result of a decrease in risk margin, the strength of premium liabilities and the impact of seasonality on the business mix; and
 - The decrease in Lower Tier 2 regulatory capital by \$228m mainly attributable to the repayment of the A\$ denominated subordinated notes of \$300m, offset by the issue of NZ\$ denominated subordinated notes totalling \$88m.

7.2.3 Total capitalisation and debt

TOTAL CAPITALISATION AS AT			
	1H07	2H07	1H08
	A\$m	A\$m	A\$m
Interest-bearing liabilities			
Unsecured notes	-	89	45
Secured mortgage	-	2	2
Senior debt	63	63	62
Subordinated debt ^{1,2}	1,247	1,201	957
Reset preference shares	550	550	550
Receivables financing debt (GBP)	20	6	-
Less: Capitalised transaction costs	(14)	(19)	(15)
Cross currency swap payable ³	104	125	122
Total interest-bearing liabilities	1,970	2,017	1,723
Shareholders' equity			
Share capital	4,000	4,361	4,648
Treasury shares	(39)	(69)	(71)
Retained profits	372	372	195
Foreign currency translation reserve	(10)	(34)	(49)
Share based remuneration reserve	24	33	45
Hedging reserves	(3)	(3)	6
Total shareholders' equity (excl minority interests)	4,344	4,660	4,774
Total capitalisation	6,314	6,677	6,497
Interest coverage & debt ratios			
Half-year ended			
	1H07	2H07	1H08
Earnings before interest and tax (EBIT) \$m	578	446	263
Earnings before interest, tax, depreciation and amortisation (EBITDA) \$m	610	555	341
Market capitalisation:			
- Share price	6.35	5.70	4.12
- Ordinary shares on issue (millions)	1,731	1,794	1,852
Total debt/(Total debt+shareholders equity excluding minority interests)	31.2%	30.2%	26.5%
Total debt/(Total debt+total market capitalisation)	15.2%	16.5%	18.4%
EBIT interest cover (times) ⁴	11.6x	6.8x	4.5x
EBITDA interest cover (times) ⁴	12.2x	8.5x	5.9x

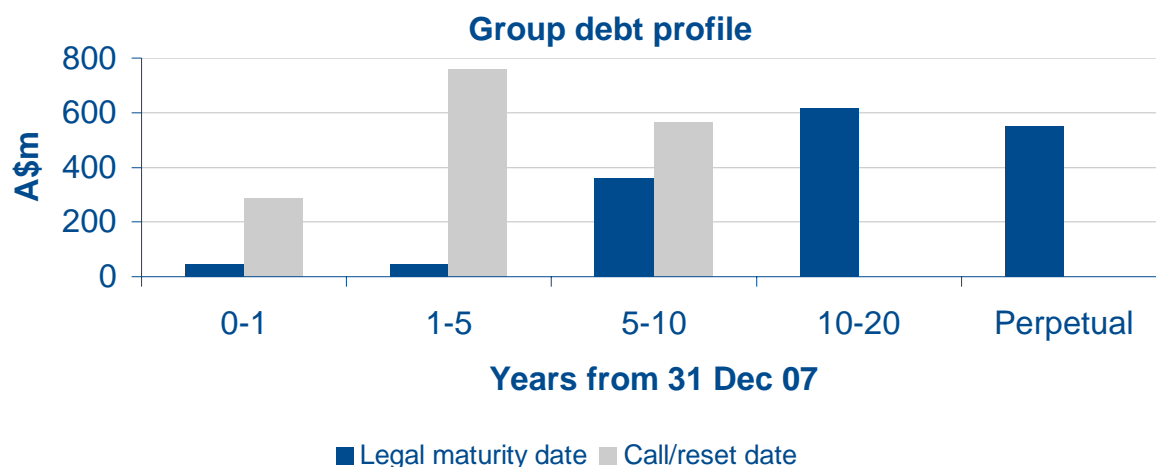
Notes:

1. In December 2006, the Group raised an additional £50m of subordinated debt over that required to fund the acquisition of Equity Insurance Group, as a pre-funding of the anticipated November 2007 redemption of \$300m of subordinated debt. Interest on this borrowing (\$3.5m) has been excluded from the calculation of interest cover.
2. \$300m of subordinated debt was repaid on 27 November 2007. This was replaced with the issue of NZ\$100m of subordinated debt on 21 November 2007.
3. Cross-currency swaps are used to hedge the currency exposure from the US\$240m denominated subordinated debt issue. 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.
4. Interest cover excludes interest payable on Reset Exchangeable Securities, which is offset by interest income.

MATURITY PROFILE OF GROUP DEBT AND RESET PREFERENCE SHARES	Currency principal amount m	A\$ equivalent principal amount \$m	Yield (net of interest rate and cross currency swaps)	Fixed Rate / Variable Rate (net of swaps)	Call Date, Reset Date or Maturity Date ⁶	S&P rating
Long-term debt:						
GBP Senior Loan Notes ¹	£19.5	45	6.08%	Variable	Jan-08	Not rated
NZ\$50m senior fixed rate notes	NZ\$50	44	7.36%	Fixed	Aug-08	'AA'
Secured GBP mortgage loan ²	£1	2	7.00%	Variable	Dec-09	Not rated
US\$240m subordinated fixed rate notes ³	US\$240	273	6.93%	Fixed	Apr-10	'AA -'
€12m senior floating rate notes ²	€ 12	19	10.66%	Variable	Sep-10	Not rated
€12m subordinated floating rate notes ²	€ 12	19	11.15%	Variable	Dec-10	Not rated
US\$7.5m subordinated floating rate notes ²	US\$8	9	10.52%	Variable	Dec-10	Not rated
NZ\$100m subordinated fixed rate notes	NZ\$100	88	9.11%	Fixed	Nov-12	'AA -'
£250m subordinated fixed rate notes	£248	567	5.66%	Fixed	Dec-16	'A'
Total debt		1,066				
Reset preference shares⁴						
IAGPB	A\$200	200	4.51%	Fixed	Jun-08	'A'
IAGPA	A\$350	350	5.63%	Fixed	Jun-12	'A'
Total reset preference shares		550				
Reset Exchangeable Securities (IANG) ⁵	A\$550	550	5.98%	Variable	Mar-10	'A'

Notes:

- The Senior Loan Notes were issued to the management of Equity Insurance Group by IAG UK Holdings Ltd on 8 January 2007. The notes were issued in three tranches with maturity dates up to 8 January 2010. The majority of these notes are redeemable at the option of the holder on a six monthly basis from July 2007 onwards. In January 2008, £9.5m of the notes were redeemed.*
- Borrowings acquired as part of the acquisition of Hastings and Advantage.*
- The A\$ equivalent of the US\$ proceeds received by the Group, net of related cross currency swaps and excluding transaction costs.*
- The dividend yields shown on the Reset Preference Shares are the cash yields, excluding the value to investors of the attached franking credits. The principal amount excludes capitalised transaction costs.*
- 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.*
- Where a debt or preference share has a call date or reset date, that is the date included here.*



7.2.4 APRA developments

- ▶ In the six months to 31 December 2007, APRA has announced a range of proposed changes to its prudential regulation framework. The most significant of these proposals relate to reinsurance recoveries and investment asset risk charges. IAG has, and is continuing to, participate in the industry dialogue with APRA relating to the proposed regulatory changes, which are still in draft form. The impact on IAG of the proposed changes will depend on the final prudential standards when they are released. IAG will have a range of possible actions available to it on the finalisation of the standards, including review of asset allocation, reinsurance arrangements, risk appetite, capital position and its derivation, and use of transition periods.

7.2.5 Reset Exchangeable Securities (RES)

- ▶ The Group continues to have \$550m of pre-funded contingent capital available, which is not recognised on its balance sheet. This contingent capital is in the form of debt issued by a subsidiary that is matched by a portfolio of high grade short-dated interest bearing securities. The contractual set-off rights between the liability for the notes and the assets held to support them mean the two balances are offset for financial reporting purposes. The terms of the issued debt notes mean that the Group can direct the conversion of this debt to qualifying regulatory capital in Australia at very short notice. The debt securities, known as Reset Exchangeable Securities, are listed on ASX as IANG. If the securities had been converted as at 31 December 2007, the MCR multiple would have increased by 0.30x.

A\$m	Group	RES on Issue ¹	Pro-forma adjustments Exchange ^{2,3,4}	Pro-forma
Tier 1 Capital	2,534	-	550	3,084
Tier 2 Capital	923	-	-	923
Regulatory capital base	3,457	-	550	4,007
Minimum capital requirement (MCR) ⁴	1,853	-	-	1,853
MCR Multiple	1.87x	-	-	2.17x

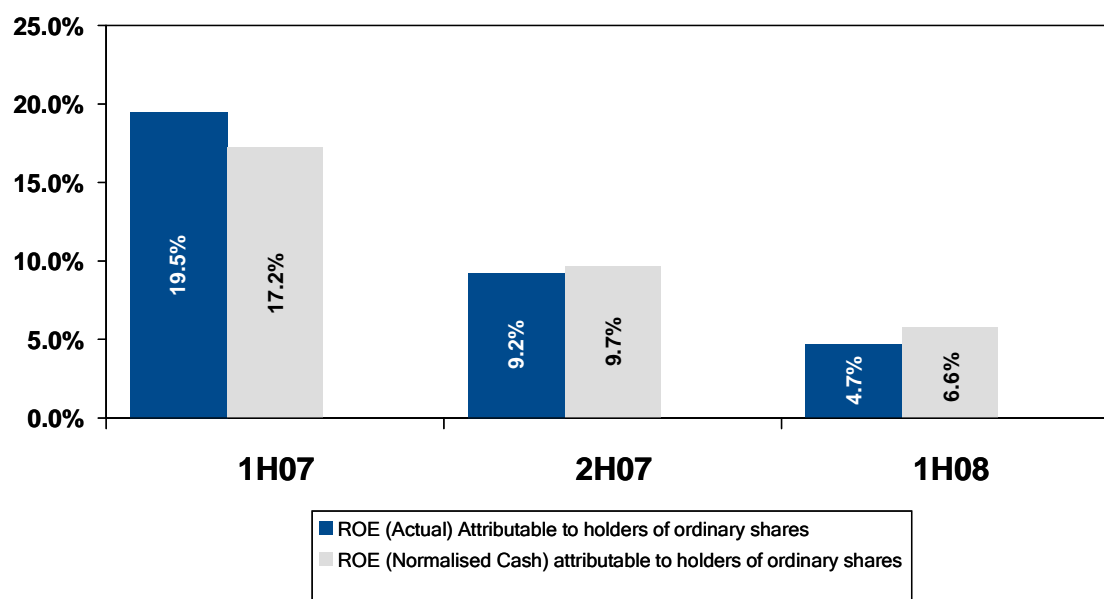
Notes:

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 they are converted into qualifying regulatory capital instruments.
 2. These amounts reflect the composition of the Group's capital adequacy position as at 31 December 2007.
 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 \$550m in investment assets have minimal investment charge and no material impact on the Group's MCR.
- ▶ As at 31 January 2008, the above portfolio of securities had a market value of \$ 555.4m. This value is updated monthly and can be found on the Group's website at <http://www.iag.com.au/shareholder/res/index.shtml>

7.2.6 Reinsurance protections

- ▶ With effect from 1 January 2008, all of the Group's catastrophe protections are now substantially on an excess of loss structure. Catastrophe exposure protection previously purchased on a proportional basis has been substantially discontinued. This enables greater flexibility in future protections.
- ▶ The Group's main catastrophe cover for all its non-UK operations was renewed for 12 months effective 1 January 2008 and provides cover in excess of the retention for losses up to \$4bn.
- ▶ The Group has purchased covers such that the Group's current maximum event retention (MER) for a first event is \$93m for an Australian event and \$81m for New Zealand.
- ▶ Separate covers protecting the UK operations of the Group were secured at 1 January 2008, which provide protection for losses arising from an event in excess of a 1 in 250 year return period. They cover the Group's economic interest in the UK and reduce the maximum event retention for a UK first event to \$79m.
- ▶ Should a second event occur, the MER for Australia would be \$50m, \$44m for New Zealand and \$62m for UK.
- ▶ With effect from 1 July 2008, the Group's "first event" retentions in all territories will increase by \$25m because of the expiry of reinsurance protection (note that the UK and NZ retentions are also affected by currency movements).
- ▶ At the 1 January 2008 renewal, whilst Group aggregates had increased by 12% from 2007, the main catastrophe programme afforded an additional \$500m of protection at a 12% reduction in "rate on aggregate" with \$3.8bn of cover purchased.
- ▶ With effect from 1 January 2008, the Group has also purchased a property catastrophe aggregate cover which provides up to \$150m of additional protection for accumulated losses arising from events larger than \$15m. This placement will afford up to \$50m of cover for any one qualifying loss, on the basis that it is 100% placed. This protection is 82.67% placed.
- ▶ The Group has a customised event definition in its contract wordings with reinsurers to ensure that covers provide appropriate protection to the Group. The June 2007 Storms and Sydney December 2007 hailstorms demonstrated the benefit of this as it enabled the entire duration of each of the losses to be treated as one event with certainty and hence carry one retention whereas a standard reinsurance contract definition could have resulted in the event being divided into two with two retentions needing to be applied.
- ▶ The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where whole of portfolio is the sum of all risk). The limits purchased reflect a 1 in 250 year return period on this basis and are significantly higher than APRA's single site minimum purchase of a 1 in 250 year return period.
- ▶ The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4.0% of net earned premium. Its current maximum retention (\$93m in respect of an Australian event) represents 1.26% of Group forecasted net earned premium.
- ▶ The counter-party credit profile of the main catastrophe programme has more than 70% of the limit provided by parties rated 'AA-' or better by S&P.
- ▶ Separate per risk covers are bought in the external market for Alba.
- ▶ The casualty protection was renewed at 30 June 2007 on similar terms to expiry. Unlimited cover was purchased on statutory classes where this was available and for other lines cover was placed up to the original underwriting limits for each class. Cover was also secured for potential accumulations within a class or between classes of business.
- ▶ The counter-party credit profile of the casualty programme has over 88% of limits placed with 'AA-' or better rated entities.

7.3 Return on equity

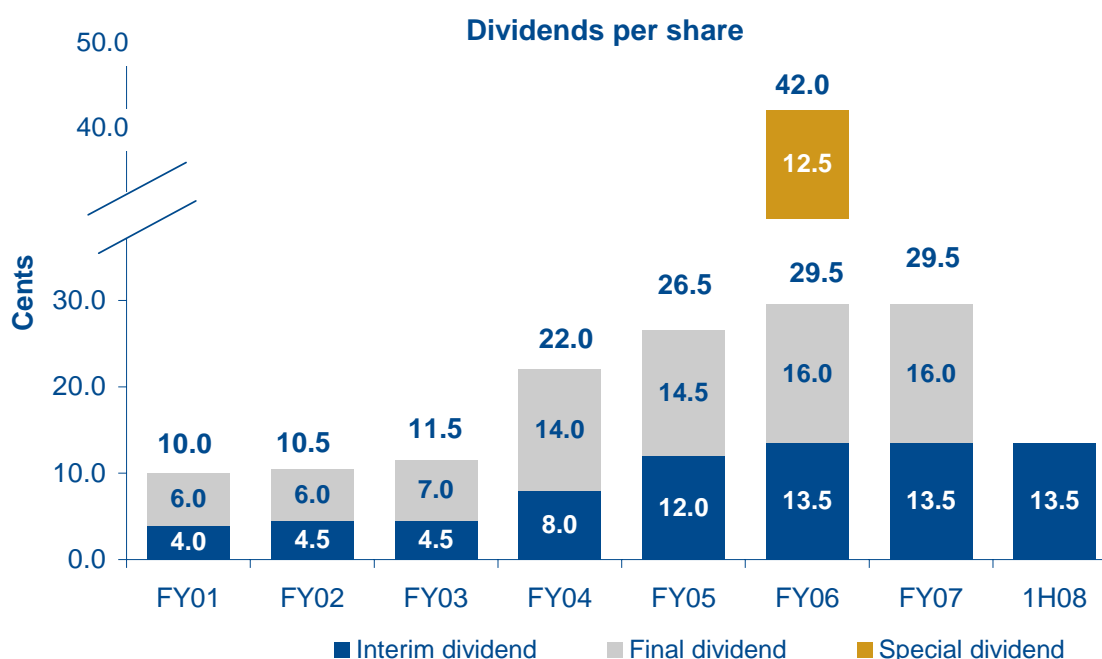


Note:

The 1H07 ROE is stated after excluding the equity of \$737m raised in December 2006 from the denominator.

- ▶ The Group's ROE for 1H08 was 4.7% for 1H08, compared with 19.5% at 1H07.
- ▶ The concept of normalised cash earnings is used in targeting ROE.
- ▶ Normalised cash ROE is calculated by dividing normalised earnings by the average equity attributable to IAG shareholders. Normalised cash earnings are derived by performing three adjustments to actual NPAT for holders of ordinary shares:
 - Actual shareholders' funds return in respect of growth assets is adjusted to be equivalent to the daily average 10-year bond rate for the period, plus 4% pa to allow for the equity risk premium, based on the actual asset mix of growth assets to fixed interest and cash;
 - Add back amortisation; and
 - Adjust the tax expense in line with the change in investment income.
- ▶ The Group's target ROE to holders of ordinary shares over the cycle is a minimum of 1.5 times its weighted average cost of capital (WACC).

7.4 Dividends



- ▶ The Group's goals of delivering dividend growth and paying annual dividends in the range of between 50-70% of normalised earnings¹¹ remain unchanged.
- ▶ The Group has declared an FY08 interim dividend per ordinary share of 13.5 cents, fully franked, which is payable on 14 April 2008.
- ▶ While the FY08 interim dividend represents a high payout ratio of the Group's current earnings, the decision to maintain the interim dividend has been made in the context of the Group's expectations of the future growth and earnings performance of its businesses and its conservatively positioned balance sheet.
- ▶ Recognising the more pessimistic economic and investment markets outlook, the Group has chosen to conserve capital by funding some of the interim dividend through the issue of new shares to DRP participants, who will be given a 1.5% discount.
- ▶ The outlook for dividends will depend on growth in underlying earnings, market conditions and the normal caveats the Group puts on its financial forecasts.
- ▶ The Issue Price per Share for the FY08 interim dividend DRP will be the Average Market Price less a discount of 1.5%.
- ▶ Record date for the FY08 interim dividend will be 12 March 2008.
- ▶ A copy of the Group's Dividend Reinvestment Plan Booklet is available at: http://www.iag.com.au/shareholder/reinvestment/DRP_booklet.pdf
- ▶ Insurance Australia Group Limited (the head entity) at 31 December 2007 had distributable retained earnings of \$492m. The franking balance as at 31 December 2007 was \$530m. The final dividend will utilise \$107m of franking credits. After payment of the interim dividend for FY08, the franking balance of \$423m is capable of fully franking a further \$987m of distributions.

¹¹ See Section 7.5 for an explanation on how normalised earnings are determined.

7.5 Sensitivity analysis

7.5.1 Investment market sensitivities

SENSITIVITY ON NPBT AS AT		Change in assumption	1H07 A\$m	2H07 A\$m	1H08 A\$m
<i>Investment sensitivities</i>					
Equity market values:					
Australian equities	+1%		6.5	6.3	5.9
Listed property trusts	+1%		0.7	0.7	0.5
International equities (incl. private equity)	+1%		2.2	2.2	2.0
Hedge funds	+1%		1.0	1.1	0.3
Interest rates:					
Impact of Credit Spreads on Technical Provisions		-0.1% or 10bpts widening in credit spreads			10.5
Impact of Credit Spreads on Shareholders' Funds		-0.1% or 10bpts widening in credit spreads			1.5
Technical Provisions (Aust & NZ Fixed Interest)		-1% or 100 bpts change in interest rates	188.5	179.7	152.9
Shareholders' Funds (Australian Fixed Interest)		-1% or 100 bpts change in interest rates	14.9	11.2	13.5
Total Investment Returns		-1% or 100 bpts change in interest rates	203.4	190.9	166.4
Outstanding claims		-1% Change in net discount rate	(159.6)	(162.6)	(164.7)

7.5.2 Operational sensitivities

- ▶ This table shows 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		Change in assumption	1H07 A\$m	2H07 A\$m	1H08 A\$m
<i>Insurance sensitivities</i>					
Loss ratio - Australia	-1%		51.9	51.3	52.2
Loss ratio - International	-1%		11.2	16.2	22.0
Underwriting expenses	-1%		12.4	13.0	15.1

APPENDIX A - GROUP PURPOSE AND STRATEGY

Group purpose and strategy

- ▶ The Group's over-riding purpose is to create sustainable value for its owners - its shareholders. As a general insurer, the Group believes that this is best achieved by delivering well on the following four key tenets:
 - Understanding and pricing risk;
 - Paying claims;
 - Managing costs; and
 - Reducing risk in the community.
- ▶ Explanations of how the Group interprets these are set out in its annual report and on its website.
- ▶ To successfully deliver on its commitment to shareholders, the Group regards it as fundamental that it generate sustainable returns above its cost of capital through cycles and keep its cost of capital competitive by continuing to grow its business, organically and through acquisition, while maintaining strong risk disciplines.
- ▶ The strategic financial goals that support the Group's growth objectives remain to double the size of the business between 2006 and 2012 within the following parameters:
 - Deliver top quartile shareholder return;
 - Earn a return on equity of at least 1.5x the Group's weighted average cost of capital on a normalised basis;
 - Grow presence in mature international markets such as the UK;
 - Continue to build a footprint in Asian emerging markets;
 - Maintain an 80:20 mix of short-tail : long-tail premiums; and
 - Maintain a 'AA' category rating for the Group.
- ▶ In measuring progress against these goals, a balanced scorecard approach is used with targets set and measured in four areas: Financial/shareholder; Customer; People (i.e. employees); and Community.
- ▶ This report focuses primarily on the financial/shareholder aspect of the balanced scorecard. More detail on the other aspects is provided in the Group's annual sustainability report - released each November and accessible on the Group's website.

APPENDIX B - A SNAPSHOT OF IAG

AUSTRALIAN INSURANCE OPERATIONS		
<p>Direct Personal Insurance</p> <p>Direct Personal Insurance products are sold primarily under the NRMA Insurance brand in NSW, ACT, Queensland and Tasmania. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Victoria, the Group distributes home, motor and other insurance products through RACV. Products are distributed through the branches, call centres and representatives.</p> <p>Short-tail Insurance</p> <ul style="list-style-type: none"> • Motor vehicle • Home and contents • Niche insurance, such as pleasure craft, veteran and classic car, caravan, and travel insurance. <p>Long-tail Insurance</p> <ul style="list-style-type: none"> • Compulsory Third Party (motor injury liability). 	<p>CGU Insurance</p> <p>CGU Insurance products are sold primarily under the CGU Insurance brand through a network of more than 1,000 intermediaries (insurance brokers and agents). Business 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.</p> <p>Short-tail Insurance</p> <ul style="list-style-type: none"> • Commercial property • Commercial motor and fleet motor • Construction and engineering • Farm, crop and livestock • Marine • Motor vehicle • Home and contents <p>Long-tail Insurance</p> <ul style="list-style-type: none"> • Public and products liability • Professional indemnity • Directors' and officers' • Home warranty • Workers' compensation 	<p>Business Partnerships</p> <p>Business Partnership products are distributed nationally and are sold via financial institutions and alliances. In addition, it also sells a range of personal insurance products nationally under the Swann Insurance brand.</p> <p>The Group is a leading provider of workers' compensation services in Australia and operates in every State and Territory except South Australia. In NSW and Victoria we collect premiums and manage claims on behalf of each State Government. In Western Australia, Tasmania, ACT and the Northern Territory, the Group underwrites policies and manages claims. Comprehensive risk management services are available to all employer customers.</p> <p>Short-tail Insurance</p> <ul style="list-style-type: none"> • Motor vehicle • Home and contents • Niche insurance, such as consumer credit travel insurance.
INTERNATIONAL		
<p>New Zealand</p> <p>The New Zealand business is the leading insurance provider in the country in the direct channel and a leading insurer in the Broker/agent channel.</p> <p>The Group holds approximately 36% of the New Zealand market, and is strongly positioned in all geographic markets.</p> <p>The Group provides insurance products directly to customers under its State brand and through insurance brokers and agents under its NZI brand. The personal lines and simplified commercial products are also distributed through agents and under the third party brands by the corporate partners, which include large financial institutions.</p> <p>Short-tail Insurance</p> <ul style="list-style-type: none"> • Motor vehicle • Home and contents • Commercial property, motor and fleet motor 	<ul style="list-style-type: none"> • Construction and engineering • Niche insurance, such as pleasure craft, boat, caravan, and travel. • Rural and horticultural • Marine <p>Long-tail Insurance</p> <ul style="list-style-type: none"> • Surgical • Personal liability • Income protection • Commercial liability <p>United Kingdom</p> <p>The Group now owns two general insurance operations in the UK which, combined, underwrite approximately 5% of the UK motor insurance market. Hastings Direct (with a Gibraltar based underwriter, Advantage) was acquired in October 2006 and the Equity Insurance Group acquisition was completed in January 2007. In addition to distributing under their brands, they also underwrite affinity business and broke other insurers' business.</p>	<p>Asia</p> <p>The Group has interests in four businesses in Asia - a controlling economic interest in IAG Insurance Thailand (from July 2005); a 30% share of AmAssurance Berhad (from March 2006); a controlling interest of 96.1% in Thailand's Safety Insurance following a public tender for shares completed in March 2006; and 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China. In addition, in July 2006 the Group has established two specialist insurance operations in Labuan Re and Alba.</p>

OUR MAJOR BRANDS

100% owned unless indicated

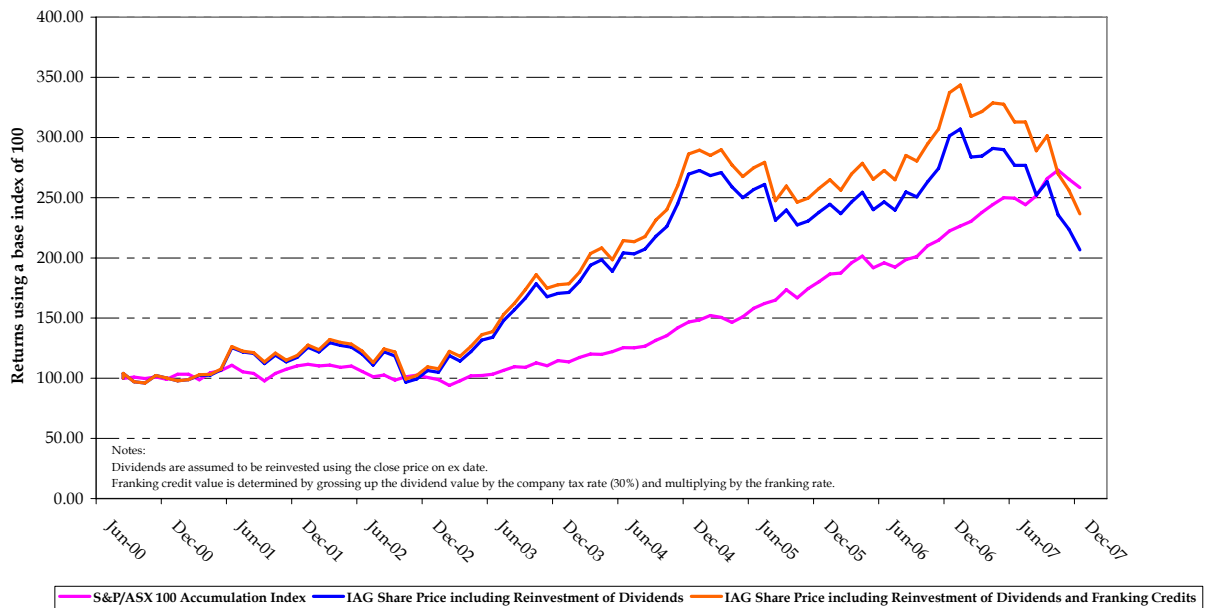
 Australia					
 New Zealand					
 Europe					
 Asia			 90% voting rights	 30% owned	

MG Brand Strategy: G012116R 08/07

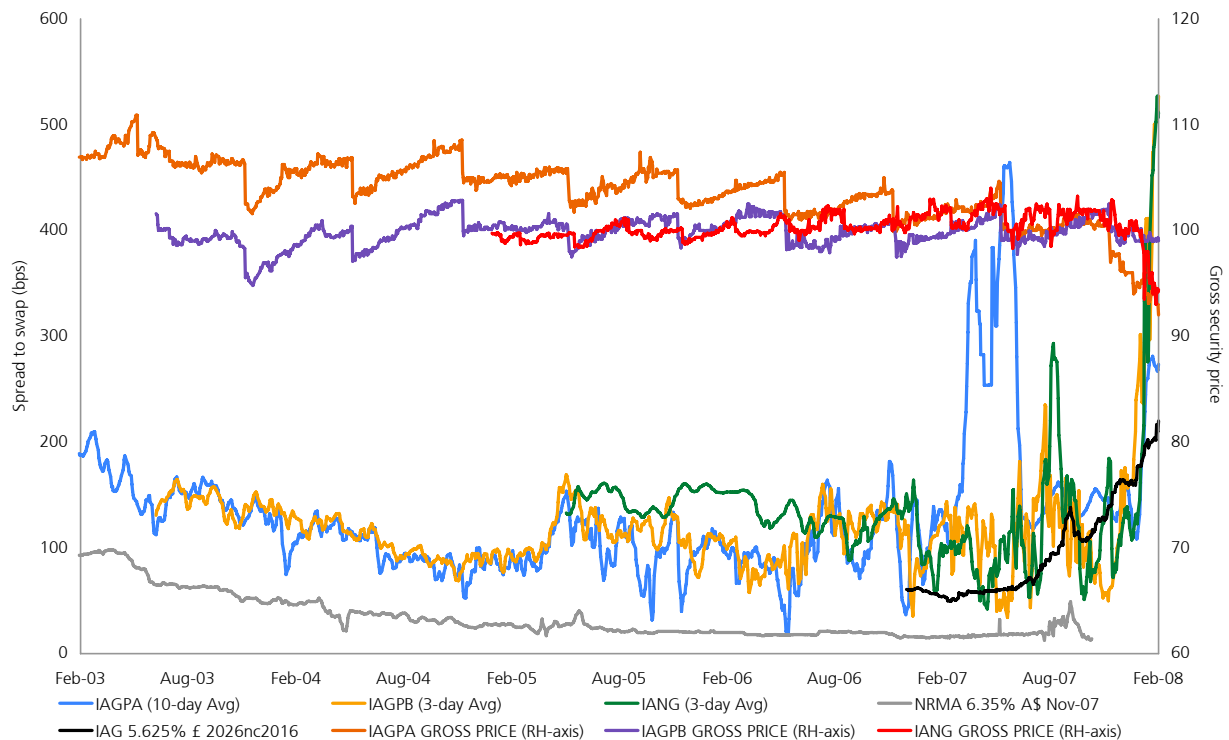
APPENDIX C - SHARE PRICE TRENDS AND TOP 20 REGISTERED HOLDINGS

Performance of IAG ordinary shares relative to benchmark indices

IAG Historical Share Price Performance - Since Listing



Spread to swap performance of Reset Preference Shares Subordinated Debt and Reset Exchangeable Securities



Note:

As the IAGPAs were subject to a reset date on 15 June 2007, any movements in the price of the security will have a large impact on the implied spread. Additionally, on ex-dividend dates the price of the security may not fully adjust for the declaration of the dividend.

The first issue of Reset Preference Shares (IAGPA) listed on 5 June 2002 and was reset on 15 June 2007. The shares are expected to pay a six-monthly fully franked dividend, currently fixed at 5.63% per annum.

The second issue of Reset Preference Shares (IAGPB) listed on 23 June 2003. The shares 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 March 2008 is 5.978% 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.

APPENDIX D - KEY ASX RELEASES

This schedule contains only a summary of the announcements made to the ASX since July 2007. 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 from <http://www.iag.com.au>

- 11/01/2008** **Notice of cessation of being a substantial shareholder**
452 Capital Pty Limited announced it had ceased to be a substantial holder.
- 19/12/2007** **New South Wales Storms Update**
IAG announced the impact to its results of the storms that hit NSW on 7 and 9 December was \$105m net of reinsurance. As a result the Group revised its insurance margin guidance from 11-13% to 9-11% for the full year ended June 2008. IAG advised that as at the 19 December the Group had received more than 21,000 claims, 60% of which were for hail-damaged cars.
- Announcement of 452 Capital Pty Limited becoming a substantial holder**
452 Capital Pty Limited announced it had become a substantial shareholder with a 5.014% voting power of IAG ordinary shares.
- 14/12/2007** **Executive team changes**
IAG announced the appointment of Mr Duncan West as Chief Executive Officer CGU from late January 2008. Mr West takes on the role from Mario Pirone, who had decided to leave IAG.
- Warning to IAG shareholders - Undervalued offer for IAG shares**
IAG issued a further warning to its shareholders that Shareholder Sales Group Pty Ltd of Elsternwick, Victoria had launched an offer to buy IAG shares at less than the prevailing market value.
- 12/12/2007** **Sydney Storms Update**
IAG announced that as of 11:00am approximately 13,000 claims had been received as a result of the storm that hit Sydney on 9 December 2007. 60% of claims appeared to be for hail-damaged vehicles with the commercial insurance impact of the event likely to be limited.
- 27/11/2007** **Notice of cessation of being a substantial shareholder**
The Capital Group Companies, Inc. announced it had decreased its holding in IAG ordinary shares and had ceased to be a substantial holder.
- 26/11/2007** **Appointment of Director**
IAG announced the appointment of Mr Mike Wilkins as a director of IAG

21/11/2007

Warning to IAG shareholders - Undervalued offer for IAG shares

IAG issued another warning to its shareholders that Hassle Free Share Sales Pty Ltd had launched an offer to buy IAG shares at less than the prevailing market value.

13/11/2007

IAG Annual General Meeting and 2007 Sustainability Report

IAG announced that the Group's Gross Written Premium growth for FY07 of 15% exceeded its target of 12-14%, attributable to growth in domestic business and the contribution from the UK acquisition.

IAG released its 2007 Sustainability Report at the AGM, which detailed the Group's performance against a range of indicators and reaffirmed IAG's intention to become carbon neutral across all businesses by 2012.

Annual General Meeting Poll Results

The following motions were passed:

- ▶ Ms Yasmin Allen, Mr Brian Schwartz, Mr Phillip Colebatch, Mr Hugh Fletcher and Ms Anna Hynes were re-elected as directors of IAG;
- ▶ The Company's Remuneration Report for the financial year ended 30 June 2007 was adopted;
- ▶ That the maximum aggregate remuneration payable to Non-executive Directors be increased by \$750,000 to \$2,750,000 per annum;
- ▶ That members be permitted to exercise a Direct Vote at a general meeting; and
- ▶ Approved the conduct and terms of a selective Buy-back of up to 100% of the Reset Preference Shares issued on 20 June 2003 - ASX Code: IAGPB (PRS2) at the discretion of the Directors in accordance with the RPS2 Terms of Issue at any time.

26/10/2007

IAG announces updated trading outlook for FY08

IAG announced a revision of the guidance for the FY08 financial year to GWP growth of 7-9% and an insurance margin of 11-13%. Previous guidance was for GWP growth of 10-12% and a return of 1.5x weighted average cost of capital.

IAG announces appointment of Chief Operating Officer

IAG announced the appointment of Mr Mike Wilkins as Chief Operating Officer (COO) commencing November 2007. The newly created role would report to the CEO and lead IAG's operational CEO team.

19/10/2007

Announcement of Capital Group Companies becoming a substantial holder

Capital Group Companies announced it had become a substantial holder with a 5.03% voting power of IAG ordinary shares.

- 17/10/2007** **Warning to IAG shareholders**
IAG issued a warning to its shareholders that Share Buying Group Pty Ltd had launched an unsolicited offer to buy IAG shares at less than their prevailing market value.
- 15/10/2007** **Notice of cessation of being a substantial shareholder**
The Capital Group Companies, Inc. announced it had ceased to be a substantial holder.
- 08/10/2007** **IAG issues shares to the underwriter of IAG's Dividend Reinvestment Plan**
IAG issues 38,987,305 fully paid ordinary shares to the underwriter of IAG's Dividend Reinvestment Plan.
- 28/09/2007** **Dividends Payable on Reset Preference Shares**
The Board of IAG declared fully franked dividends in respect of RPS1 (IAGPA) and RPS2 (IAGPB). The Record date was 30 November 2007 and Payment date was 17 December 2007.

The RPS1 (IAGPA) dividend rate per annum was 5.63%, with \$2.8232 payable per \$100 share.

The RPS2 (IAGPB) dividend rate per annum was 4.51%, with \$2.2612 payable per \$100 share.

Pricing of shares to be allocated under Dividend Reinvestment Plan
The ordinary shares allocated under the Dividend Reinvestment Plan (DRP) were priced at \$4.9233 per share for the final dividend. The DRP price was based on an average market price for the fifteen days from 10 September 2007 to 28 September 2007 inclusive.
- 25/09/2007** **2007 Annual Report and notice of Annual General Meeting released to the market**
- 30/8/2007** **IAG Board Appointments**
IAG announced the retirement of Mr John Astbury and Mr Geoffrey Cousins from the Board effective 31 August 2007. It advised that Mr Hugh Fletcher and Ms Anna Hynes would be appointed to the Board as non-executive directors effective from 1 September 2007.
- 24/8/2007** **Announcement of Full-year results - 30 June 2007**
IAG announced a full-year net profit after tax of \$552m for the full year ended 30 June 2007. The Board of IAG declared a fully franked dividend of 16 cents per ordinary share payable on the 8 October 2007.

- 17/8/2007** **Executive team changes**
- IAG announced that Ms Sam Mostyn would be leaving her role as Group Executive Culture & Reputation in October 2007 to return as an advisor in January 2008. It was advised that the Culture and Reputation portfolio was to be taken over by Ms Christine McLoughlin who would also maintain her position as Group Executive Strategy.
- 01/08/2007** **Change in substantial holding for Commonwealth Bank**
- Commonwealth Bank of Australia announced that it had increased its combined holding in IAG ordinary shares for which it had voting power from 8.54% to 9.54%.
- 31/07/2007** **Warning to IAG shareholders**
- IAG issued a warning to its shareholders that Hassle Free Share Sales Pty Ltd might be preparing unsolicited offers to buy IAG shares at less than their prevailing market value.
- 13/07/2007** **Change in substantial holding for the Capital Group Companies**
- The Capital Group Companies, Inc. announced that it had decreased its combined holding in IAG ordinary shares from 7.2029% voting power to 6.1334%.

1. Ordinary Shareholders (IAG) as at 31 December 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		229,143,638	12.37
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		173,378,559	9.36
3	NATIONAL NOMINEES LIMITED		125,612,254	6.78
4	CITICORP NOMINEES PTY LIMITED		50,380,839	2.72
5	COGENT NOMINEES PTY LIMITED		35,983,839	1.94
6	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<BKCUST A/C>	27,431,819	1.48
7	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	26,922,846	1.45
8	UBS NOMINEES PTY LTD		17,530,898	0.95
9	CITICORP NOMINEES PTY LIMITED	<CFS WSLE 452 AUST SHARE A/C>	17,456,648	0.94
10	AUSTRALIAN REWARD INVESTMENT ALLIANCE		16,245,973	0.88
11	CITICORP NOMINEES PTY LIMITED	<CFS WSLE IMPUTATION FND A/C>	14,797,046	0.80
12	QUEENSLAND INVESTMENT CORPORATION		12,913,899	0.70
13	CITICORP NOMINEES PTY LIMITED	<CFS WSLE GEARED SHR FND A/C>	11,702,358	0.63
14	CITICORP NOMINEES PTY LIMITED	<CFS IMPUTATION FUND A/C>	10,227,784	0.55
15	TASMAN ASSET MANAGEMENT LTD	<TYNDALL AUSTRALIAN SHARE WHOLESALE PORTFC	10,189,653	0.55
16	CITICORP NOMINEES PTY LIMITED	<CFSIL CFSWS GEAR 452 AU A/C>	8,695,964	0.47
17	ANZ NOMINEES LIMITED	<INCOME REINVEST PLAN A/C>	8,590,408	0.46
18	IAG SHARE PLANS NOMINEE PTY LIMITED	<IAG PAR UNALLOCATED A/C>	8,303,684	0.45
19	CITICORP NOMINEES PTY LIMITED	<CFS WSLE AUST SHARE FND A/C>	7,053,983	0.38
20	ARGO INVESTMENTS LIMITED		6,303,333	0.34
Total Top Holders Balance			818,865,425	44.20

2. Reset Preference (IAGPA) Shareholders as at 31 December 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		444,587	12.70
2	UBS NOMINEES PTY LTD		171,233	4.89
3	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	112,753	3.22
4	CITICORP NOMINEES PTY LIMITED		110,030	3.14
5	CITICORP NOMINEES PTY LIMITED	<CFSIL CFS WS ENH YIELD A/C>	91,306	2.61
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		80,223	2.29
7	TRESCO HOLDINGS PTY LTD		73,364	2.10
8	ARMADA INVESTMENTS PTY LTD		39,500	1.13
9	M F CUSTODIANS LTD		34,097	0.97
10	ARGO INVESTMENTS LIMITED		30,800	0.88
11	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		29,481	0.84
12	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	28,389	0.81
13	G JAMES AUSTRALIA PTY LTD		25,000	0.71
14	ELISE NOMINEES PTY LIMITED		21,298	0.61
15	MOUNT PRITCHARD & DISTRICT COMMUNITY CLUB		21,000	0.60
16	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<GSENIPT A/C>	20,637	0.59
17	CITICORP NOMINEES PTY LIMITED	<CMIL CWLTH INCOME FUND A/C>	20,000	0.57
18	DIMBULU PTY LTD		20,000	0.57
19	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<BKCUST A/C>	15,050	0.43
20	M F CUSTODIANS LTD		14,182	0.41
Total Top Holders Balance			1,402,930	40.07

3. Reset Preference (IAGPB) Shareholders as at 31 December 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		236,521	11.83
2	AMP LIFE LIMITED		199,374	9.97
3	SHARE DIRECT NOMINEES PTY LTD	<NATIONAL NOMINEES A/C>	150,000	7.50
4	CITICORP NOMINEES PTY LIMITED	<CFSIL CFS WS ENH YIELD A/C>	128,873	6.44
5	CITICORP NOMINEES PTY LIMITED		113,922	5.70
6	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	113,914	5.70
7	UBS NOMINEES PTY LTD		113,024	5.65
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		91,534	4.58
9	NATIONAL NOMINEES LIMITED		86,303	4.32
10	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	62,783	3.14
11	UCA CASH MANAGEMENT FUND LIMITED		38,607	1.93
12	COGENT NOMINEES PTY LIMITED		37,336	1.87
13	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	32,724	1.64
14	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		28,570	1.43
15	ELISE NOMINEES PTY LIMITED		21,501	1.08
16	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<AFT>	20,000	1.00
17	MRS FAY CLEO MARTIN-WEBER		20,000	1.00
18	OMINECA PTY LIMITED		15,000	0.75
19	FORTIS CLEARING NOMINEES P/L	<SETTLEMENT A/C>	12,954	0.65
20	PERPETUAL TRUSTEE COMPANY LIMITED		8,606	0.43
Total Top Holders balance			1,531,546	76.61

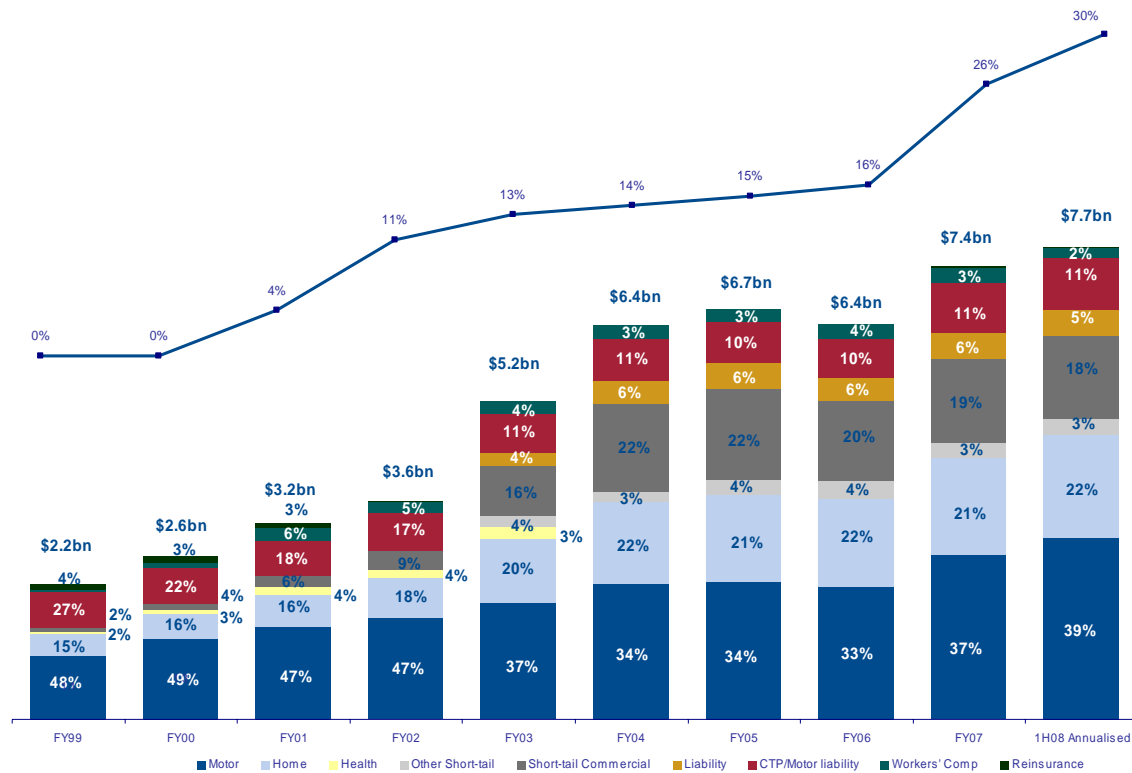
4. Reset Exchangeable Securities (IANG) holders as at 31 December 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		687,836	12.51
2	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		340,654	6.19
3	CITICORP NOMINEES PTY LIMITED		219,754	4.00
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		165,625	3.01
5	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	162,217	2.95
6	NATIONAL NOMINEES LIMITED		154,377	2.81
7	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<AFT>	69,344	1.26
8	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	69,115	1.26
9	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<GSJBW A/C>	67,565	1.23
10	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<ACT>	52,845	0.96
11	CRYTON INVESTMENTS NO 9 PTY LTD	<GARNER NUMBER 1 A/C>	48,000	0.87
12	UCA CASH MANAGEMENT FUND LTD		45,586	0.83
13	COGENT NOMINEES PTY LIMITED		43,282	0.79
14	PERPETUAL TRUSTEES CONSOLIDATED LIMITED	<ALLIANCE A/C>	29,580	0.54
15	ARGO INVESTMENTS LIMITED		25,000	0.45
16	SR CONSOLIDATED PTY LTD		22,363	0.41
17	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	<NO 1 ACCOUNT>	21,903	0.40
18	THE AUSTRALIAN NATIONAL UNIVERSITY		20,000	0.36
19	DE LA SALLE BROTHERS		19,993	0.36
20	MARBEAR HOLDINGS PTY LIMITED		18,865	0.34
Total Top Holders Balance			2,283,904	41.53

APPENDIX E - PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

E1: Growth in Gross Written Premium and product split

This graph shows a history of the Group's growth in Gross Written Premium and the increased diversification over a 10-year period.



Notes:

1. The Group's mix of short-tail and long-tail premium as at 31 December 2007 is 82:18.
2. The Health business was sold in July 2003.
3. Other short-tail primarily consists of other accidents, extended warranty and consumer credit insurance.

E2: Key acquisitions completed since 1998

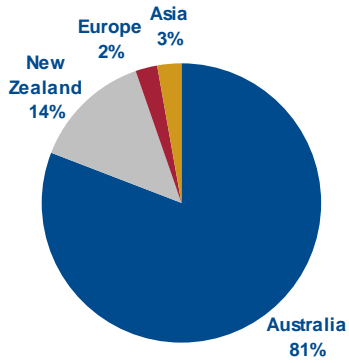
Calendar Year		GWP Acquired
1998	<ul style="list-style-type: none"> Acquired SGIO & SGIC in WA & SA through on-market takeover of SGIO Ltd 	\$321 m
1999	<ul style="list-style-type: none"> RACV Strategic Alliance in VIC 	\$333 m
2001	<ul style="list-style-type: none"> Acquisition of State Insurance in NZ Acquisition of renewal rights to HIH workers' compensation⁽⁴⁾ 	\$297 m \$80 m
2003	<ul style="list-style-type: none"> Acquisition of CGU & NZI⁽⁴⁾ (Aviva's general insurance business in Australia and New Zealand respectively) 	\$2,009 m
2005	<ul style="list-style-type: none"> Acquisition of RSA Thailand (Royal & Sun Alliance business) 	\$35 m
2006	<ul style="list-style-type: none"> Investment of 30% in AmAssurance Bhd in Malaysia⁽³⁾ Increased interest to 97% in Safety Insurance in Thailand Acquisition of Hastings Group⁽⁴⁾ Acquisition of Equity Insurance Group⁽⁴⁾ 	\$41 m \$100 m \$233 m \$875 m
2007	<ul style="list-style-type: none"> Acquisition of Open and Direct Insurance Services⁽⁴⁾ 	N/A

Note:

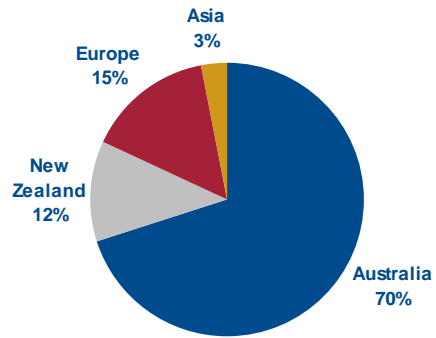
- (1) This does not represent all acquisitions, only acquisitions greater than \$20m are shown and excludes divestments.
(2) GWP reflects premiums for the financial year prior to acquisition.
(3) Reflects proportion interest in AmAssurance.
(4) Acquisitions also includes fee based businesses.

E3: Group Gross Written Premium - Region split

IAG Group GWP by Region
HY ended 31 December 2006
GWP \$3,324m

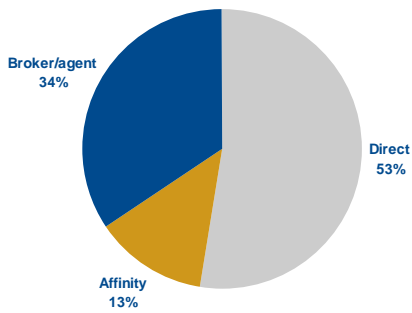


IAG Group GWP by Region
HY ended 31 December 2007
GWP \$3,851m

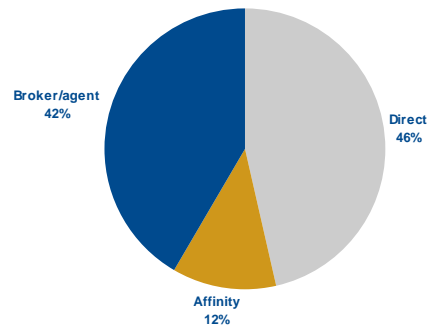


E4: Group Gross Written Premium - Channel split

IAG Group GWP by Channel
HY ended 31 December 2006



IAG Group GWP by Channel
HY ended 31 December 2007



APPENDIX F - GLOSSARY

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

£	Lawful currency of the United Kingdom
\$ or A\$	Australian dollar unless otherwise specified
AIFRS:	Australian equivalents of International Financial Reporting Standards.
APRA:	Australian Prudential Regulation Authority.
ASX:	Australian Securities Exchange Limited.
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 classes of business, the relevant volume measure is “risks in force”. 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.
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 subsidiaries.
Insurance margin:	the ratio of Insurance Profit to Net Earned Premium.
Insurance profit:	Underwriting Result plus investment income on Technical Reserves.
June 2007 Storms:	the severe weather event that occurred over the Queen’s Birthday weekend in June 2007 in the Hunter Valley and Newcastle region.

Long-tail:	classes of insurance (such as CTP and workers' compensation insurance) with an average period between the time when earned premiums are collected and final settlement of claims that is generally greater than 12 months.
Loss ratio:	the ratio of Net Claims Expense to Net Earned Premium.
LTCS:	Lifetime Care and Support Scheme. This scheme is operated by the NSW Government and provides care for people catastrophically injured in motor vehicle accidents in NSW regardless of fault. It is funded by a levy collected with NSW CTP premiums.
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.
NZ\$	Lawful currency of New Zealand
Probability of adequacy (PoA):	the estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. 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). It is also known as the probability of sufficiency.
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.
Reset Exchangeable Securities (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.
Reset Preference Shares (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 that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
Shareholders' funds:	the investment portfolio 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 that 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 reported) 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.