INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

Directory

Stock Exchange Listings of the Group

Australian Stock Exchange Limited
ASX code for ordinary shares: **IAG**
ASX codes for reset preference shares: **IAGPA** (Listed June 2002) and **IAGPB** (Listed June 2003)
ASX code for Reset Exchangeable Securities: **IANG** (Listed January 2005)

Investor Information/Administration

Computershare Investor Services Pty Limited
452 Johnston Street, Abbotsford VIC 3067
Or by mail to
GPO Box 4709
Melbourne VIC 3001

Telephone:1300 360 688
Email: iag@computershare.com.au
Facsimile:(03) 9473 2470
Website: www.iag.com.au

Investor Relations

Email: investor.relations@iag.com.au
Ms Anne O'Driscoll
Head of Investor Relations & Capital Planning

Telephone:(02) 9292 3169
Facsimile:(02) 9292 3109
Email:anne.o'driscoll@iag.com.au

Registered Office

Level 26, 388 George Street
Sydney NSW 2000
Telephone: (02) 9292 9222

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

Final dividend – ordinary shares	
Ex-dividend date	31 August 2006
Record date	6 September, 2006
Payment date	**9 October 2006**
Due date for IANG quarterly distribution	**15 September 2006**
Annual General Meeting	**15 November 2006**
Due date for IAGPA, IAGPB and IANG distributions	**15 December 2006**
Announcement of half-year results to 31 December 2006	**22 February 2007**
Interim dividend – ordinary shares	
Ex-dividend date	8 March 2007
Record date	14 March 2007
Payment date	**16 April 2007**
Due date for IANG quarterly distribution	**15 March 2007**
Due date for IAGPA, IAGPB and IANG distributions	**15 June 2007**
Announcement of full year results – 30 June 2007	**24 August 2007**

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

CONTENTS

1. Introduction

- Insurance Australia Group Limited (the Group) produced a consolidated net profit after tax of $759m for FY06, compared to $781m in FY05, and generated a return on equity (ROE) of 22.1% (15.8% normalised) the second highest annual result since listing. The insurance margin was 14.1%, compared with 15.5% in FY05.
- The result was achieved by maintaining high customer renewal in all major portfolios, while adhering to risk and underwriting disciplines and containing expenses. The Group also benefited from reserve releases, particularly in its commercial insurance business while maintaining its conservative approach to reserving.
- In the Group's largest business, Australian Personal Lines, GWP was 3.0% lower than FY05. However, renewed momentum occurred in 2H06, with renewal rates reaching their highest levels in almost two years. This positive trend is continuing, and is being supported by increased advertising into the market at a time when the Group's competitive pricing position in direct motor and home insurance is at its strongest in a number of years. This follows pricing increases by competitors while the Group has comfortably maintained its prices. The Group has adhered to its technical pricing discipline and sees the pricing position as sustainable. Following the renewed positive momentum in personal lines, the Group is confident it will regain system growth in FY07, and aims to grow moderately above system in subsequent periods.
- Part of the pressure on the Group's margins during the year was sustaining its franchise when volumes reduced. This means that the growth now being delivered has little marginal cost.
- The Group's performance was achieved despite a more competitive operating environment across all businesses, lower average premiums in most product classes, and a gross loss of around $360m due to storm activity during the year. The net losses from storms were $76m more than in FY05, all of which relates to 2H06.
- The result includes another record performance from shareholders' funds of $539m pre-tax on the back of strong equity markets returns. Investment returns from claims reserves also contributed $302m to the Group's pre-tax result. In aggregate, this represents a yield of 8.3% on funds under management.
- The Group's capital position, measured as a multiple of APRA's minimum capital requirements applied to the Group, remains very strong at 1.83x, well ahead of the Group's current benchmark of 1.55x. The decrease from 2.0x as at 30 June 2005 and 2.04x as at 31 December 2005 reflects acquisitions in South East Asia and the payment of a special dividend of $201m in 2H06.
- The Group's financial strength has supported the increase in the full year's dividends from 26.5 cents per share to 29.5 cents per share. When added to the special dividend, aggregate dividends for the financial year are 42.0 cents per share. Based on an average share price of $5.49 for FY06, this represents a fully franked yield of 7.7%, or 5.4% excluding the special dividend.
- The Group expects to grow GWP by 5-10% in FY07 and continue to deliver normalised ROE in excess of 1.5x WACC.
- All figures presented in this report for FY05 and FY06 are stated using Australian standards issued as equivalents to International Financial Reporting Standards (AIFRS).

1.1 Operating environment

- The operating environment of each of the Group's businesses was more challenging during FY06 than FY05:
  - The Australian personal lines market was affected by increased competition and advertising spend, lower average premiums in most product classes and increased claims costs. While competition is vigorous, it remains quite a rational market. In addition to these industry-wide factors, the Group's NSW Personal Lines business was also involved in a public debate in 1H06 with the Motor Traders Association NSW (MTA) which took a significant amount of management time. Following initiatives implemented to address these market dynamics and improved stakeholder relations with the smash repair industry, the business has regained positive momentum with renewal rates reaching their highest levels in almost two years;
  - The 'soft cycle' in commercial lines continued. Within this context, the Group was pleased to retain policies in force at 98.8% of the FY05 level. The Group remains committed to its strategy of focusing on relationship management and profitable accounts, while being willing to sacrifice business not appropriately priced. It is the Group's view that pricing in the commercial market may not stabilise until as late as the June 2007 renewals;
  - In New Zealand, industry conditions were similar to those in Australia, with increased competition across all lines of business. Against this backdrop, IAG NZ successfully maintained GWP in New Zealand dollar terms with volumes remaining relatively stable. The depreciation of the New Zealand dollar (average rate) by 3.4% affected the contribution of the businesses in Australian dollar terms; and
  - In Asia, the Group made significant progress towards its goal to build a foothold in that region, with acquired businesses now contributing to the Group's GWP and profits.
- The Group experienced one significant claims event during FY06, Cyclone Larry, which hit the North Queensland coast at Innisfail at about 9am on 20 March. The nature of this event – a Category 4 cyclone, with a highest recorded wind speed of 230km/hr – made it the strongest QLD event since 1918 when two Category 5 cyclones impacted the region. Industry estimates have not been updated since early April. At that time, the estimate was $450m (source: Insurance Disaster Response Organisation 'IDRO'). At that point, the Group's estimate of losses reported within the IDRO figures was about $80m. The Group's net losses estimate, including risk margins, has now developed to $165m. Whilst the Group's total market penetration in Queensland is lower than other Australian mainland states, it has high market shares in rural and regional Queensland. For example, CGU's estimated market share in the cyclone corridor for rural and domestic insurance (sold under CGU or third party brands) is 70% and close to 40% in Cairns.
- The Group's activation of its national claims emergency response teams as the cyclone approached, and its relationships with builders and suppliers, enabled a fast response to claims. However, the continued wet weather for weeks after the cyclone and the broad area of damage led to delays in full assessment of the damage and, indeed, contributed to additional costs as damaged buildings sustained further ingress of water pending repair. The location of the cyclone and the distances entailed in getting tradesmen and supplies to the area has extended the costs and time taken to finalise all repairs. These issues have increased the average cost per claim beyond anticipated levels.
- The latest market data from APRA (quarter ended March 2006) for Australian direct business general insurers shows growth in GWP of 2.4% on a rolling year basis for the year to March 2006. During the same period the Group's domestic GWP declined by 3.4%
- The New Zealand market also experienced relatively low growth at 2.7% and IAG New Zealand business grew 2.0% for the year ended March 2006 (based on latest data from ICNZ).
- The Group's short-fall relative to industry reflects its intention not to underwrite business it does not consider appropriately priced in its commercial business, as well as the challenges faced in its Australian Personal Lines business in 1H06. Growth in the Group's commercial lines in FY07 will be influenced by further development of the cycle. As noted above, the Group expects to generate at least system growth in Australian Personal Lines.
- Further information on the Group's performance can be found in the segment commentary in this report.

1.2 International expansion

- In 2002, the Group recognised the need to expand offshore to deliver sustainable growth, given the mature nature of the Australian and New Zealand general insurance markets, and the Group's leading market shares in both countries. In the past financial year, several milestones were achieved, including:
  - The acquisition of a general insurer in Thailand, which was subsequently renamed IAG Insurance (Thailand) Limited, trading as NZI Thailand, effective from 1 July 2005;
  - The completion of a 30% investment in AmAssurance, Malaysia's second largest motor vehicle insurer;
  - An increase in the Group's shareholding in Thailand's Safety Insurance Public Company (Safety Insurance) from an initial stake of 21.6% in 1998 to 96.1% in March 2006; and
  - Significant progress in negotiations with China Pacific Insurance (Group) Co., Ltd. to acquire 24.9% of China Pacific Property Insurance (CPPI). Draft transaction agreements have been lodged with the China Insurance Regulatory Commission (CIRC) for preliminary review. Completion of this transaction, following all regulatory approvals, is anticipated in October or November 2006.
- To support these activities, a new Asian business unit was incorporated into the Group's executive management structure and a chief executive officer for Asia, Justin Breheny, was appointed in March 2006.
- The consolidated Asian operations contributed GWP of $65m for FY06. This includes a full year's business for NZI Thailand and three months premium for Safety Insurance.
- The Group formed a new captive insurer in Labuan, Malaysia and acquired a newly-formed Singapore-based Lloyd's managing agency and specialist Asian underwriting syndicate, Alba Group Pte Limited (Alba), enabling the Group to provide reinsurance support to its new Asian subsidiaries and partners. The Group's subsidiaries in Thailand and associate in Malaysia have already begun to cede reinsurance to these operations.
- The Group will continue to look for expansion opportunities across Asia, and is also actively investigating opportunities in other insurance markets such as Europe.

1.3 Balance sheet strength

- The Group maintains a very strong balance sheet - the financial foundation of any insurance company. The strong capital base is evident in absolute terms and improves in relative terms on a risk adjusted basis.
- As at 30 June 2006:
  - The Group's net assets totalled $3,671m versus $3,769m as at 31 December 2005;
  - The Group returned $647m to shareholders during the year, comprised of the half-yearly dividends in October 2005 and April 2006 and the special dividend of $201m in June 2006;
  - The APRA risk adjusted MCR multiple was 1.83x versus 2.04x as at 31 December 2005. This continues to be above the Group's internal benchmark of 1.55x APRA's minimum capital requirements as applied to the Group figures;
  - Total debt of $746m plus hybrid capital of $550m represents 27.1% of the Group's total capitalisation versus 26.5% as at 31 December 2005;
  - Investment asset quality continues to remain very strong with 96% of the Group's interest bearing investment assets rated at least 'AA';
  - Reinsurance recoverables of $598m represent 3.5% of total assets and 16.3% of net assets;
  - After payment of the 16.0 cents per share final dividend, the parent will still have franking credits of $410m available to support future dividends;

- The Group also maintains $550m of fully funded contingent capital off balance sheet. If the Group exercised its conversion rights, this would increase the Group's MCR multiple to 2.13x; and
- The ratio of short-tail to long-tail insurance based on GWP remains at 81:19.

- The Group continues to maintain its very strong 'AA' insurer financial strength ratings from S&P for its key wholly-owned insurance entities.

1.4 Outlook

- The Group expects to grow and diversify its earnings in FY07 and:
  - Generate GWP growth of 5-10%, including acquisitions;
  - Deliver ROE of at least 1.5x WACC on a normalised basis; and
  - Maintain its strong balance sheet and prudent reserving philosophy.
- The growth expectation only includes consolidated GWP.
- The organic growth expectation takes account of:
  - Leveraging the Group's current competitive position and positive momentum in direct motor and home insurance;
  - Reduced premium in NSW CTP due to changes in the scheme structure which result in lower premiums;
  - The soft cycle in commercial insurance in Australia and New Zealand; and
  - Ongoing strong growth in the Group's Thai subsidiaries.
- Acquisitive growth is likely to be sourced in Asia and Europe.
- Delivering an ROE of at least 1.5x WACC is considered achievable based on:
  - Continued focus on cost management, including leveraging the capacity in the existing business to write additional business at marginal additional cost;
  - Maintaining pricing discipline for premiums;
  - Being disciplined in the price paid for acquisitions; and
  - Continued active capital management.
- Delivery of these returns is also subject to not incurring any large losses or catastrophes beyond the Group's normal allowances and experiencing no major falls in bond values.

1.5 Difference in reporting format to statutory financial statements

- With effect from 1H06, the Group re-classified the results of its captive reinsurer, IAG Re, by allocating the profit or loss earned by the captive from reinsuring the Group's consolidated operations back to those businesses on a basis which reflects the profits or loss it derived from those businesses. This has been done by adjusting the reinsurance expense in each business. The inwards reinsurance business generated in future from some of the Asian entities in which it acquires significant equity stakes of any such operations will be reported as part of the International Business segment.
- The change in treatment of the captive results noted above is not reflected in the Group's statutory financial statements. The profit is the same in both formats but there are differences in net earned premium, expenses and investment income on technical reserves, with a consequential minor difference in the reported insurance ratios. The 1H06 Investor Report contains reconciliations of the new and old basis of reporting for FY05.
- Expenses and income relating to the Group's Reset Exchangeable Securities and minority interest in controlled investment trusts for FY05 have been reclassified in this report to align with the AIFRS treatment in FY06.

2. Key Elements of Full-year Results

Insurance Australia Group Financial Performance (A-IFRS)	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**3,328**	**3,345**	**3,206**	**3,229**	**6,673**	**6,435**
Gross earned premium	**3,311**	**3,250**	**3,320**	**3,217**	**6,561**	**6,537**
Reinsurance expense	(227)	(243)	(235)	(332)	(470)	(567)
Net premium revenue	**3,084**	**3,007**	**3,085**	**2,885**	**6,091**	**5,970**
Net claims expense	(2,063)	(1,985)	(1,970)	(1,785)	(4,048)	(3,755)
Commission expense	(253)	(247)	(254)	(250)	(500)	(504)
Underwriting expense	(549)	(556)	(584)	(586)	(1,105)	(1,170)
Underwriting profit	**219**	**219**	**277**	**264**	**438**	**541**
Investment income on technical reserves	263	246	192	110	508	302
Insurance profit	**482**	**465**	**469**	**374**	**946**	**843**
Net corporate expenses	(15)	(20)	(18)	(17)	(35)	(35)
Amortisation	(6)	(7)	(6)	(2)	(13)	(8)
Interest	(28)	(27)	(45)	(41)	(55)	(86)
Share of profit from associates	-	-	-	2	-	2
Profit from fee based businesses	10	(27)	(1)	2	(17)	1
Investment income on shareholders' funds	285	170	345	194	455	539
NSW Insurance Protection tax	(10)	(10)	(11)	(10)	(20)	(21)
Profit before income tax	**718**	**544**	**733**	**502**	**1,262**	**1,235**
Income tax expense	(205)	(152)	(220)	(153)	(357)	(373)
Profit after income tax	**513**	**392**	**513**	**349**	**905**	**862**
Minority interests	(46)	(49)	(52)	(51)	(94)	(103)
Profit attributable to shareholders	**467**	**343**	**461**	**298**	**811**	**759**
Dividends paid on reset preference shares	(15)	(15)	-	-	(29)	-
Profit attributable to holders of ordinary shares	**452**	**328**	**461**	**298**	**781**	**759**

Insurance Ratios						
Loss ratio	66.9%	66.0%	63.9%	61.9%	66.5%	62.9%
Expense ratio	26.0%	26.7%	27.1%	29.0%	26.3%	28.0%
Commission ratio	8.2%	8.2%	8.2%	8.7%	8.2%	8.4%
Administration ratio	17.8%	18.5%	18.9%	20.3%	18.1%	19.6%
Combined ratio	92.9%	92.7%	91.0%	90.9%	92.8%	90.9%
Insurance margin	15.6%	15.5%	15.2%	13.0%	15.5%	14.1%

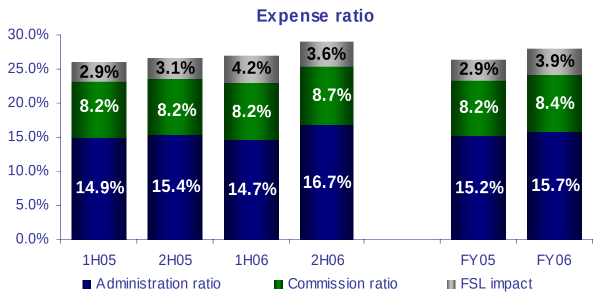
Financial Results/Ratios	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
Profit attributable to holders of ordinary shares (A$m)	$452	$328	$461	$298	$781	$759
Reported ROE % (Avg Equity) to holders of ordinary equity pa	29.2%	20.0%	26.4%	17.9%	24.5%	22.1%
Normalised ROE % (Avg Equity) to holders of ordinary equity pa	21.2%	16.5%	18.2%	13.4%	18.8%	15.8%
Net cash flow from operations (A$m)	$431	$490	$175	$212	$921	$387
Basic EPS (cents)	28.54	20.77	29.06	18.81	49.31	47.87
Diluted EPS (cents)	28.35	20.65	28.89	18.70	49.00	47.59
DPS (excluding special dividend)	12.00	14.50	13.50	16.00	26.50	29.50
Probability of adequacy of general insurance claims reserves	> 90%	92.5%	91.8%	90.0%	92.5%	90.0%
MCR multiple - Group	1.85x	2.00x	2.04x	1.83x	2.00x	1.83x

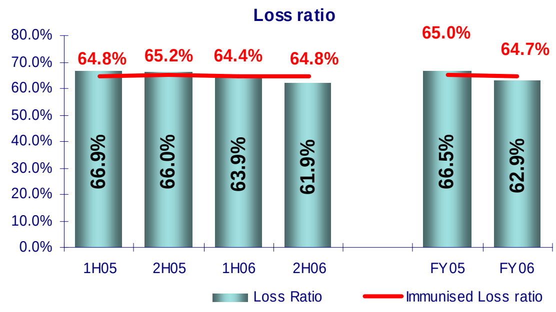
- For the full year, GWP of $6,435m was 3.6% lower than FY05. Of this, 0.5% or $35m was due to the adverse impact from the depreciation of the NZ dollar by 3.4%. On a half-year basis, the exchange rate movements had an adverse impact of $15m when 2H06 is compared to 1H06, and $17m compared to 2H05. In 2H06 GWP fell by $116m or 3.5% on 2H05 but grew by $23m or 0.7% on 1H06, reflecting renewed momentum in the second half of the year.
- The GWP trends by division are:
  - A 3.0% or $118m reduction in the GWP of the Australian Personal Lines business for FY06. 2H06 GWP was only $12m lower than 1H06 GWP reflecting the renewed momentum in the later months of 2H06. The decline in GWP in 1H06 was mainly driven by lower volumes due to strong competition, compounded by lower average premiums in CTP and direct motor insurance. In 2H06, renewed volume growth offset reduced average premiums. Average premiums per policy in direct motor insurance reduced by around 2% due more to reducing motor vehicle values and changes in portfolio mix rather than price adjustments. CTP rates have remained unchanged since June 2004.
  - A 9.1% or $155m reduction in the GWP of the Australian Commercial Lines business, in line with the Group's preference to sacrifice some market share and reduce capital employed where it considers business unprofitable in a soft market. On a half-year basis, GWP in 2H06 was 10.3% lower than 2H05, but increased by 2.2% against 1H06 reflecting continued strength in workers' compensation;
  - A 3.0% decrease in GWP of the New Zealand business was entirely due to the depreciation in the New Zealand dollar against FY05. In New Zealand dollar terms, IAG NZ successfully maintained GWP in line with FY05, largely as a result of price increases in the home portfolio offsetting softening commercial pricing. Volumes remained relatively stable; and
  - A $65m GWP contribution from the Thailand business, which includes NZI Thailand (acquired in July 2005) and Safety Insurance (consolidated from April 2006).
- The reinsurance expense increased by $97m which largely reflects the fluctuation in the captive reinsurer's results which is recognised as a reinsurance expense to the Group. The captive incurred a loss of $56m for FY06 compared to a $77m profit in FY05. The main driver of the FY06 loss was net losses from Cyclone Larry which cost the Group $165m, of which $108m was retained by the captive. Whilst the captive also incurred significant losses in FY05 from storms, this was more than offset by the benefit of reinsurance recoveries of $70m, which were recognised in 2H05. The reduced expense to third party reinsurers reflected the increased deductible for catastrophes effective 1 January 2006 and other savings.
- The net claims expense reduced from $4,048m to $3,755m. The key movements were:
  - A benefit from an increase in the discount rates applied to claims reserves as interest rates rose over the year. Changes in discount rates reduced the net claims expense by $107m in FY06. This contrasts with an expense of $88m in FY05 because interest rates fell;
  - Favourable developments experienced in long-tail commercial classes. This led to releases from current year business, relative to the assumptions when the business was sold, and also from prior periods. The changes in reserving assumptions relate to frequency, cost of claims and anticipated volatility of development and amounted to a benefit of $197m;
  - Cyclone Larry net losses retained within Australian Personal Lines and Australian Commercial Lines of $57m;
  - An $18m loss in the New Zealand business from June 2006 snowstorms; and
  - The probability of adequacy for claims reserves remains at a minimum of 90% on a Group-wide basis.

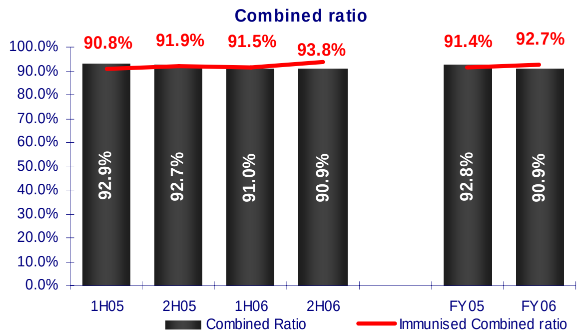
- Underwriting expenses increased by $65m or 5.9% to $1,170m. This includes:
  - An increase of $46m on FY05 for fire service levies. Of the total amount, $16m was due to the under collection in FY05 as a result of adopting Insurance Council of Australia (ICA) rates, which were lower than the rates assessed by the states' fire authorities in 1H06. The remainder of the increase was due to a higher allowance for anticipated assessment levels for 2006. This latter element was similar in both half-years as it follows the earned premium pattern. The higher levy rates were subsequently factored into pricing;
  - A $15m increase in advertising expense in FY06. Around $10m was incurred in 1H06 and the remaining $5m in 2H06. The increase in advertising spend is an industry-wide trend and reflects the highly competitive nature of the personal lines market during the year;
  - Realisation of the $41m in savings committed to last year, of which around $35m related to underwriting and administration expenses; and
  - An average increase of 4% in salary rates and rents weighted to 2H06.
- The investment income on technical reserves reduced from $508m to $302m. The key factor in this was the increase in interest rates which reduced bond values. This was largely offset by the effect of reduced discount rates applied to claims liabilities.
- The insurance result for FY06 of $843m represents an insurance margin of 14.1%, in line with the Group's guidance (as updated in April 2006 following Cyclone Larry) that it would achieve an insurance margin at the lower end of 14-16%. The FY06 insurance margin compares to 15.5% in FY05, which was a record high for the Group and reported as unsustainable.
- Corporate costs remained unchanged at $35m in both FY05 and FY06.
- Amortisation in 1H06 related to capitalised IT management contracts. In 2H06, the amortisation of $2m of intangibles related to the acquisitions of Mike Henry Travel (distribution contracts) and the IAG Insurance Thailand (reinsurance contracts).
- The increase in interest expense of $31m in FY06 is mainly attributable to the distributions paid to reset preference shareholders which, since 1H06 under AIFRS, are deemed to be interest on liabilities. Due to transitional provisions adopted in respect of financial instruments, the prior periods have not been restated for this change in treatment.
- The share in associates' profit represents the contribution from the Group's 30% interest in AmAssurance acquired in March 2006.
- The profit from fee based business of $1m was comprised of a profit derived from fee-based businesses in the Australian commercial lines business, in particular a return to profitable performance from the Group's non-risk workers' compensation portfolios, offset by a $7m loss incurred in CAA, the Group's Chinese road-side assistance business, as it continued to invest in expansion. This level of investment relative to income is expected to be lower in FY07.
- The Group benefited from another year of strong equity markets performance, with net returns on shareholders' funds increasing by $84m to $539m. The return on shareholders' funds was a gross yield of 20.0% for FY06 compared to 19.8% for FY05.
- The NSW Insurance Protection Tax, levied on shareholders since the HIH failure in 2001, remains in force and costs the Group's shareholders approximately $21m per annum. The legislation prohibits the recovery of this levy from policyholders and, for this reason, it is not included in the insurance profit.
- The effective tax rate was just over 30% for FY06, which is consistent with the originally reported effective tax rate for FY04 and FY05. The restatement of the FY05 results for AIFRS increased the profit before tax for the year by $4m but reduced the tax expense by $22m resulting in a revised effective tax rate of 28.3% for that period.
- The Group expects its domestic operations to continue to have an effective tax rate of close to 30% but its international operations to have lower overall effective rates. This should reduce the Group's effective tax rate over time.

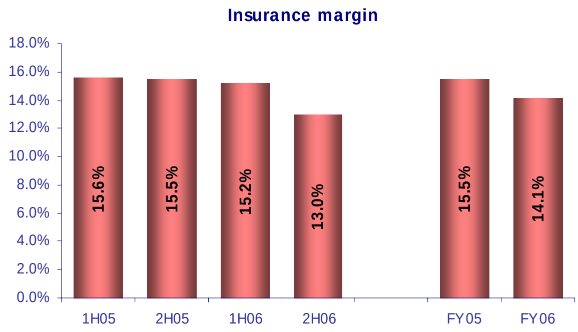
- Cash flows from operating activities have decreased by 58% to $387m. The decrease is mainly attributable to a decrease in premiums received and an increase in gross claims paid. Other factors contributing to the decrease were:
  - An increase in reinsurance expense paid due to an advance reinsurance payment in June 2006;
  - Timing of income tax paid which resulted in the 2006 cash flows including instalments for two years;
  - An increase in interest payments due to the reclassification of reset preference shares to liabilities; and
  - An increase in other operating payments due to commencement of superannuation contributions in June 2005 (as a result of the cessation of the contribution holiday in the IAG & NRMA Superannuation Plan) and an increase in fire service levies.
  - The decrease was offset to some extent by the increase in reinsurance and other recoveries received.
- Earnings per share for FY06 of 47.87¢ per ordinary share is lower than prior year of 49.31¢. The number of issued shares increased by 0.75m during FY06, less than 0.05%.

2.1 Group Insurance Ratios



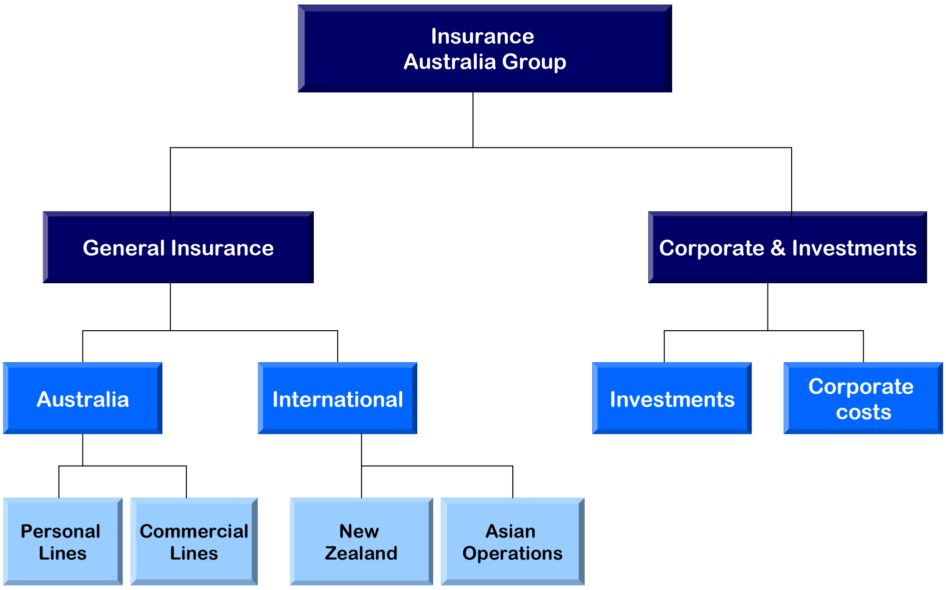






- The insurance margin of 14.1% for FY06 reflects the return to more sustainable margins, following growing insurance margins during the past few years on the back of favourable operating conditions across all areas of the business.
- Comparing FY05 and FY06, the reduction in the insurance margin is essentially due to lower net earned premium, especially in 2H06:
- Other than the increase in fire service levies of $46m for FY06, underwriting and administration expenses averaged about $560m per half-year in FY06 compared with about $550m per half-year in FY05. Savings and efficiencies enabled the Group to absorb inflation of about 4% in salaries and rents.
- The loss ratio, immunised for movements in the discount rates applicable to claims, remained quite constant.
- Maintaining the immunised loss ratio includes a number of factors of note:
  - Costs incurred on Cyclone Larry in 2H06;
  - Continued strong performance from long-tail portfolios in Australian Commercial Lines;
  - Improving frequency in direct motor insurance, CTP insurance and elements of home insurance;
  - Ongoing inflation in claims costs in motor and home insurance; and
  - A reduction in the probability of adequacy for claims provisions, which is included in the commentary on releases in each portfolio.

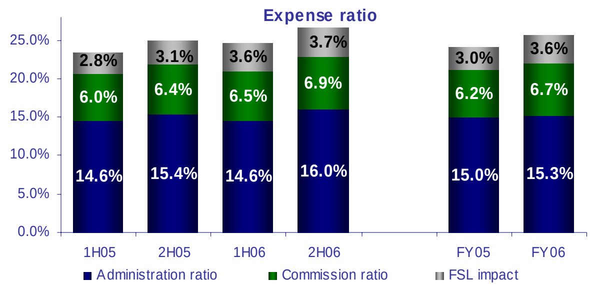
2.2 Results by Business Area

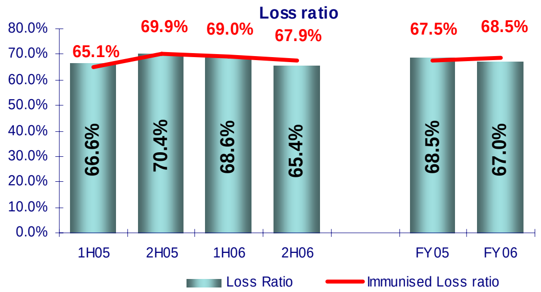


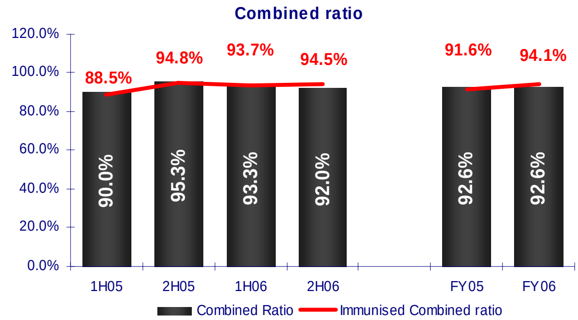
Insurance Australia Group Limited	Personal Lines	Commercial Lines	International	Corp & Inv't	Full-year ended Jun 06	Full-year ended Jun 05
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**3,860**	**1,539**	**1,036**		**6,435**	**6,673**
Gross earned premium	3,890	1,611	1,036		6,537	6,561
Reinsurance	(219)	(241)	(107)		(567)	(470)
Net premium revenue	**3,671**	**1,370**	**929**		**5,970**	**6,091**
Net claims expense	(2,460)	(718)	(578)		(3,755)	(4,048)
Commission expense	(246)	(169)	(89)		(504)	(500)
Underwriting expense	(694)	(317)	(158)		(1,170)	(1,105)
Underwriting profit	**271**	**166**	**104**		**541**	**438**
Investment income on technical reserves	193	81	28		302	508
Insurance profit	**464**	**247**	**132**		**843**	**946**
Net corporate expenses				(35)	(35)	(35)
Amortisation				(8)	(8)	(13)
Interest				(86)	(86)	(55)
Share of profit from associates			2		2	-
Profit/(loss) from fee based businesses		8	(7)	0	1	(17)
Investment income on internal funds				539	539	455
NSW Insurance Protection Tax				(21)	(21)	(20)
Profit before income tax	**464**	**255**	**127**	**389**	**1,235**	**1,262**
Income tax expense					(373)	(357)
Profit after income tax					**862**	**905**
Minority interests: IMA & MCGI					(103)	(94)
Profit attributable to shareholders					**759**	**811**
Dividends on reset preference shares					-	(29)
Profit attributable to holders of ordinary shares					**759**	**781**
Basic earnings per share (cents)					**47.87**	**49.31**
Diluted earnings per share (cents)					**47.59**	**49.00**

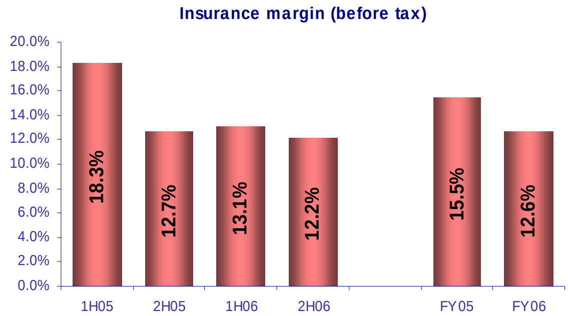
3. Australian Personal Lines

Australian Personal Lines	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**2,002**	**1,976**	**1,936**	**1,924**	**3,978**	**3,860**
Gross earned premium	**1,986**	**1,950**	**1,973**	**1,917**	**3,936**	**3,890**
Reinsurance expense	(83)	(127)	(93)	(126)	(210)	(219)
Net premium revenue	**1,903**	**1,823**	**1,880**	**1,791**	**3,726**	**3,671**
Net claims expense	(1,268)	(1,283)	(1,289)	(1,171)	(2,551)	(2,460)
Commission expense	(114)	(116)	(122)	(124)	(230)	(246)
Underwriting expense	(331)	(338)	(342)	(352)	(669)	(694)
Underwriting profit	**190**	**86**	**127**	**144**	**276**	**271**
Investment income on technical reserves	158	145	119	74	303	193
Insurance profit	**348**	**231**	**246**	**218**	**579**	**464**
Insurance ratios						
Loss ratio	66.6%	70.4%	68.6%	65.4%	68.5%	67.0%
Expense ratio	23.4%	24.9%	24.7%	26.6%	24.1%	25.6%
Commission ratio	*6.0%*	*6.4%*	*6.5%*	*6.9%*	*6.2%*	*6.7%*
Administration ratio	*17.4%*	*18.5%*	*18.2%*	*19.7%*	*18.0%*	*18.9%*
Combined ratio	90.0%	95.3%	93.3%	92.0%	92.6%	92.6%
Insurance margin (before tax)	18.3%	12.7%	13.1%	12.2%	15.5%	12.6%









Notes:

The immunised loss and combined ratios are determined by assuming constant bond yields within each reporting period.

3.1 Operational Results

- The FY06 GWP was 3.0% ($118m) lower than FY05, driven predominantly by decreases in volume in all major classes (direct motor, home and CTP portfolios) and lower average premium in motor and CTP classes. Growth in niche channels (Swann and MCGI) marginally offsets this. Several initiatives to address the market dynamics (detailed later in this section), as well as improved stakeholder engagement with the repair industry contributed to renewed momentum in 2H06. GWP in 2H06 was only $12m lower than 1H06 reflecting the turnaround in momentum in these later months of 2H06.
- Following price reductions in October 2005 to improve the competitive position of the direct short-tail portfolio. Renewal rates recovered to above 90% on the direct books by early 2H06. The direct personal lines new business volumes also increased by 2% between 1H06 and 2H06. This momentum is continuing and forms the basis for recovery of the market position of the Australian Personal Lines business.
- The reinsurance expense fluctuated in line with the division's share of the results of the Group's captive reinsurer.
- The improvement in the FY06 net claims expense includes a favourable adjustment of $52m or 1.4% of NEP from an increase in discount rates applied to claims reserves. Of this, $44m relates to 2H06. This compares to an adverse adjustment of $36m or 1.0% of NEP in FY05 due to discount rates reducing as interest rates fell during FY05.
- On an immunised basis (excluding the impact of discount rate adjustments), the FY06 loss ratio of 68.5% compares to 67.5% in FY05. On a half-year basis, the 2H06 immunised ratio of 67.9% is a 2.0% improvement on 69.9% in 2H05 and 1.1% relative to 69.0% in 1H06. The trend in the loss ratio includes the effect of:
  - Higher average claims costs in the direct short-tail portfolio as a result of increased input costs, which offset some of the benefit of lower claims frequency, particularly in the key portfolios of NSW and Victoria motor and home;
  - The CTP portfolio's insurance profit being $23m lower than FY05 as a result of lower prior year reserve releases and reserve strengthening for inflationary pressures of $40m, comprised of $68m expensed in 1H06 and a release of $28m in 2H06. This reflects an increase in the long-term assumptions for the NSW average weekly earnings index (full time employees) from 4.0% to 4.25%; and
  - The cost of Cyclone Larry claims in 2H06, which led to $71m of gross losses in this portfolio. However, the net losses from storms, including Cyclone Larry, were very similar in both FY05 and FY06.
- Counteracting the positive impact of the movement in discount rates on net claims expense is the reduction in the investment income from technical reserves.
- The net increase of $25m or 3.7% in underwriting and administration expenses to $694m for FY06 includes the following:
  - Additional fire service levies of approximately $22m. This included:
    - An under-collection of the levies in FY05 as a result of adopting Insurance Council of Australia (ICA) rates to estimate the levies, which proved inadequate to fund the final amount levied by the fire brigades authorities; and
    - An increase in provisions to allow for higher anticipated levies in 2006;
  - Increased advertising spend of $15m to address the competitive environment. Whilst most of this expense was incurred in 1H06, the increased level of advertising spend is expected to continue to sustain the competitive position of the direct portfolio;
  - $31m of targeted annual savings achieved in full during the year, of which $24m related to administration expenses;
  - The combination of ongoing wage and other inflation; and
  - In the direct lines there has been a shift in the mix of business from motor, which has a lower expense ratio, to home products which incur more levies and charges. This has contributed approximately 0.2% to the expense ratio.

- These issues and a lower volume of business (at lower average premiums in motor and CTP) over which to allocate the costs accounted for the balance of the costs and an increase of 0.9% in the administration ratio.

3.2 Premiums and market share

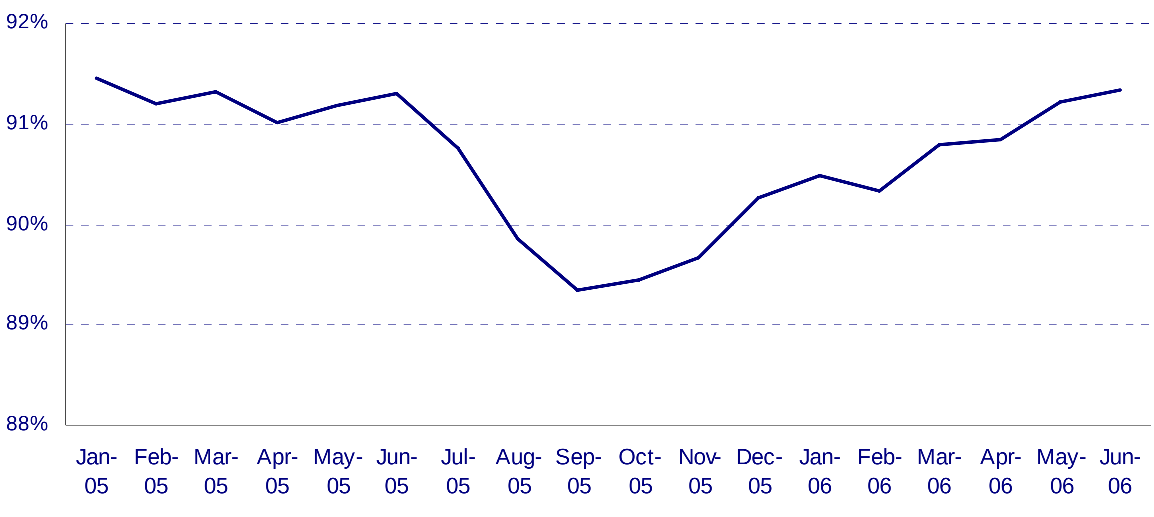
3.2.1 Short-tail personal lines – Premiums

- GWP in the short-tail personal lines portfolio reduced by 2.6% ($85m) during FY06, reflecting both lower volumes, predominantly in 1H06, and lower average premiums:

  Business volumes

  - In the direct portfolio, business volumes were down by 2.3% during FY06. The majority of this loss was incurred in 1H06 in the NSW motor portfolio which experienced significant competition at the same time as the Group was engaged in a public debate with the MTA. The negative perceptions of the Group's web-based repair model following its introduction in NSW in July 2005 and the Group's relative pricing position in subsequent months exacerbated the affect of competitor activity on the Group's largest portfolio, NSW comprehensive motor insurance. Once pricing adjustments were made in October 2005 (reversing increases implemented in the previous quarter), the renewal rates in this portfolio began to recover to above 90%. The renewal rates in NSW direct comprehensive car insurance have now recovered to the highest levels in almost two years. These trends can be seen in the chart below which includes NSW direct comprehensive car insurance as well as the other direct portfolios nationally:

National Direct (All Products) Due Renewal Rate (Monthly)



  - New business volumes in the direct short-tail portfolio also improved during 2H06 compared to 1H06.
  - The Group is in a strong competitive position nationally, but particularly in NSW where it now has the best competitive price position in both direct motor and home for some years. This follows the Group's ability to hold rates in 2H06, while price monitoring reveals competitor pricing has increased.
  - In the indirect portfolio, business volumes reduced by 1.4%, due to the loss of one distributor account where the Group could not obtain sustainable pricing. This was partly offset by growth in the Swann business. A renewed focus on deepening relationships led to the acquisition of a number of new contracts in 2H06, including the expansion of the Group's longstanding relationship with ANZ Bank in Australia to cover motor insurance as well as home insurance.

Average premiums

- Lower average premiums for motor insurance also contributed to the reduction in short-tail GWP. Average premium reduced during 2H06 by around 1% nationally. In the Group's largest motor market, NSW, average premium for the direct portfolio at June 2006 was 1.8% lower than at June 2005.
- Declining trends in motor vehicle sum insured values due to lower prices for new and used cars has contributed to lower average premiums.
- In October 2005, price increases implemented in selected areas of the motor insurance portfolio in mid-2005 were reversed. The Group made no general adjustments to pricing in 2H06 and, thus, its relative price competitiveness improved when key competitors raised prices during the period. The Group's pricing is still set to deliver adequate returns on capital and this competitive price advantage can be sustained where the Group considers it appropriate.
- Average premium for home insurance increased by around 9% over the past year nationally, mainly reflecting the combination of increases in sums insured in all states and increased fire service levies. Prices paid by customers increased by higher amounts in some states where state governments, on whose behalf insurers must collect stamp duty (which is not included in GWP), increased the rates applicable to insurance policies.
- Based on the limited availability of public industry-wide statistics, the Group estimates its share of the potential national motor insurance market as at December 2005 (the latest available statistic) was 29%[1] compared to 30% in June 2005. The Group's share of the potential home market reduced from 25%[2] for June 2005 to 24% for June 2006. In its largest market of NSW, the Group's share of the potential motor and home market remains above 40% and 30% respectively. These trends are borne out by ISA data that also show market share stabilised in the later part 2H06.

- Cross-selling and up-selling continues to add incremental growth to the business to counteract some of the adverse impact of reducing average premium. As at 30 June 2006, the number of direct comprehensive car policies with options has increased to 22.1% compared to 19.1% at December 2005 (eg windscreen cover and car hire). The number of direct home policies with options (eg accidental damage, fusion and domestic workers' compensation) has increased to 47% compared to 45% at December 2005.

3.2.2 Long-tail personal lines – Premiums

- The long-tail personal lines portfolio underwrites CTP business in NSW, Queensland and the ACT.
- The FY06 GWP for the CTP portfolio was 4.8% below the same period last year. The majority of this reduction occurred in 1H06 due to lower business volumes in the NSW CTP portfolio. In 2H06, GWP increased by 3.5% against 1H06, reflecting renewed momentum.
- In NSW, where the Group writes around 83% of its CTP portfolio:
  - The Group's premium rates have remained unchanged since June 2004, while CPI increased by 6.6% and AWE by 8.4% over the same time. However, average premium has reduced during this time as a higher proportion of the book has met the criteria for lower prices within the rates set two years ago;
  - The Group's market share declined from 40.1% as at June 2005 to 37.7% of registrations in force as at June 2006. Weekly volumes have stabilised during 2H06 to this level;
  - Most of the decline related to new business volumes being lower due to heightened competition. In response, the business began promoting its 'at-fault driver cover' which is included as part of the Group's CTP policy and allows an at-fault driver to receive up to $250,000 of cover on specified injuries. The initiative was well received by the market; and

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[1] Based on the number of IAG motor (excluding motor cycle) risks-in-force as a proportion of total car registration for passenger & light commercial vehicle only (source: Cars data base NMVTRC)

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

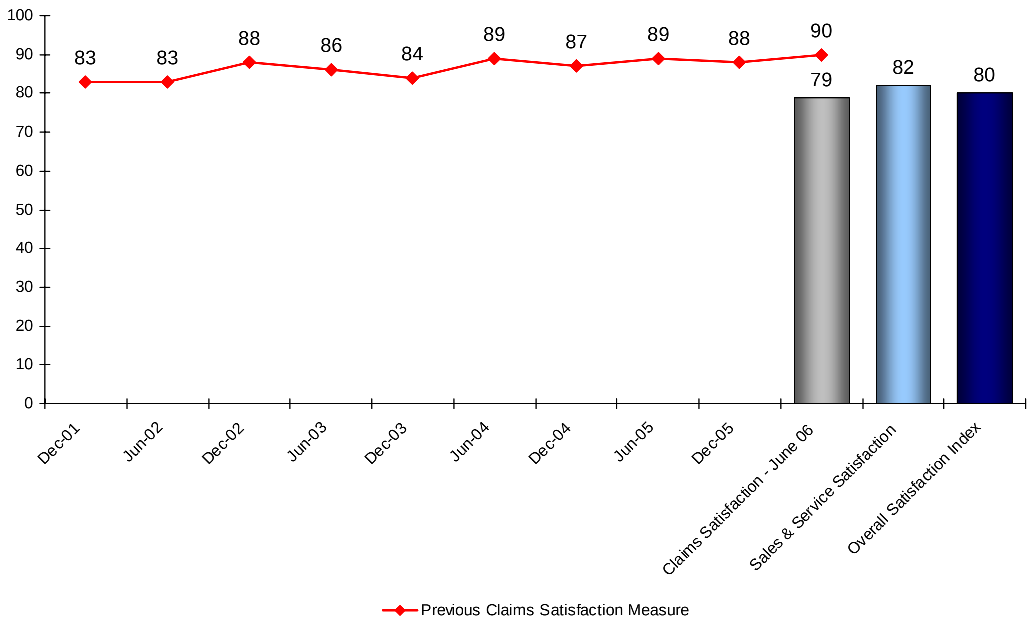
- The Group's analysis and statistics continue to show that the majority of the loss of business is in the higher risk segment contributing to an overall improvement in the risk-mix in the portfolio. The section below on "Claims experience and Frequency" contains more detail. This change in mix has contributed to the Group's market share of premiums falling by more than its market share of registrations.

- The Group's market share in Queensland CTP increased to 2.7% as at June 2006, up from 2.2% in June 2005 and 2.4% in December 2005. This accounts for about 3% of the Group's CTP portfolio. The improved market share has been driven mainly off the back of growth in the NRMA Insurance comprehensive motor portfolio and was achieved through a combination of competitive pricing and targeted marketing.
- Although the business volume in Queensland CTP increased 23.5% during FY06, the income affect was offset by a reduction in premium rates driven by improved claims experience as a result of the 2003 tort reforms.
- The ACT CTP portfolio represents around 14% of the long-tail personal lines business and the Group has 100% market share. Premiums in this market increased by 2.8% in June 2006, the first rate increase in three years.

3.2.3 Customer focus/measures

- Key customer measures in the direct portfolio during FY06 remained very positive. Customer complaints (excluding claims) recorded for FY06 were 3.8% lower than the previous year's average, with the ratio of complaints to policies in force at just 0.016%.
- In January 2006, the Group introduced a more comprehensive measure of customer satisfaction, the Customer Satisfaction Index (CSI). The CSI measures satisfaction levels of the Group's sales & service and claims customers in its direct portfolio using the same methodology. Based on this new measure, the Group's benchmark overall CSI is 80 as at 30 June 2006.
- In this transition period to using the CSI, the Group has replicated the calculation technique that was used to produce previous scores. This like-for-like comparison shows the Group's claims satisfaction for FY06 has increased 1% compared to the same period last year.

Claims Satisfaction (to 30 June 2006) and Satisfaction Indices (at 30 June 2006).



- The chart above highlights the trend in customer satisfaction using the previous measurement (on the left) as well as the components of the new CSI measure as at 30 June 2006 (on the right).

- The separate customer service measure used in the indirect channel has customers rating their service experience at 89% when dealing with the Group's distribution partners for sales and after sales services.
- A key strategy to address the challenges of the increasingly competitive market in Australian Personal Lines is a reinvigorated focus on customers, via a "back to basics" programme. This includes:
  - Reducing change and complexity in the frontline so customer-facing staff can focus on better understanding customer needs and increasing sales;
  - Defending the NSW motor comprehensive market share by leveraging the competitive pricing position of the business;
  - Continuing to deliver strong margins by risk-based pricing and controlling claims costs; and
  - Segmented marketing.
- In addition, work is being undertaken to refresh the brands in the direct business. In NSW, NRMA Insurance retained its position as the leading insurance brand during the year, and in Queensland, the brand reached its highest score ever following successful marketing campaigns in that State. The Group's key distributor in Victoria is planning to increase its advertising spend and marketing presence.
- During the year work was also completed to transform a number of company operated branch sites into franchised agency sites, extending the Group's successful Country Service Centre model which has been operating for many years. The new model is now operational in 13 sites and allows owner operators to employ business efficiencies that are available to small and medium businesses, and provides the Group with a more variable cost base. It also ensures the Group continues its local community presence.
- The Single Customer View (SCV) system introduced in November 2005 has delivered significant improvements in the customer experience through improved data integrity and the functionality of viewing all customer product records in a single customer statement.

3.3 Claims experience and frequency

3.3.1 Short-tail personal lines – Claims

- Including Cyclone Larry, gross claims incurred for storms during FY06 were $230m compared to $290m in FY05, however, the net cost was very similar year on year. On a half-year basis, 2H06 gross storm experience was better than 2H05 by around $60m and was largely in line with 1H06.
- The portfolio incurred $71m in gross claims losses from Cyclone Larry with close to 60% claims finalised as at 31 July 2006. The Group was the first insurer on the ground in response to Cyclone Larry as part of its focus on customer service.
- Claims costs were slightly higher than FY05:
  - The direct motor portfolio benefited from lower collision frequency, this was wholly offset by an increase in average claims costs.
  - In the home portfolio, the average claims costs were higher than the same period last year mainly due to the impact of underlying inflation and Cyclone Larry. The home portfolio has also experienced an increase in total losses from fire and theft during FY06;
  - Underlying inflation varied across claims components. The key inflationary pressures (based on latest available data from ABS for the year ended March 2006) were:
    - Building materials: 2%;
    - Construction industry: 4%;
    - Construction industry wages: 5%;
    - Labour wages for motor repairs: 3.9%; and
    - Car parts prices: 2.4%.

- On the other hand, the direct home portfolio has benefited from declining burglary claim frequencies as a result of lower crime rates and strict underwriting policies.

- Ten Care & Repair centres were opened in metropolitan NSW during FY06 to enhance the Group's service delivery to motor customers. For 2H06, when all sites were operational, 65% of repairs (equating to more than 50,000 claims) in metropolitan NSW were processed through Care & Repair centres.

- The NSW Preferred Smash Repairer (PSR) network had 417 PSRs at the end of June 2006. The proportion of repairs performed by PSRs in NSW during 2H06 was 76%, compared with 80% in 1H06. In Victoria, there has been an increase of 1% to 76% in 2H06 compared to 1H06.

- During the year, the NSW Staysafe Committee reviewed the Care & Repair assessing model. Following an initial report in December 2005, the Committee's progress report, released in May 2006, stated there had been progress in the area of consumer protection and consumer choice. The Committee has stated its intention to continue monitoring the issue, but has not been specific about when this will be done. The Group will continue to work with a range of stakeholders, including preferred repairers, the Staysafe Committee, the Office of Fair Trading and the MTA in NSW to ensure ongoing improvements to the system and the Group's relationships with repairers.

- A new voluntary Federal Code of Conduct will take effect from 1 September 2006. The Group has played an active role in the taskforce which developed the terms of the Code over the past six months. The key provisions of the Code include:

  - A transparent Network Smash Repairer (NSR) scheme with full disclosure of membership criteria and the ability to transfer the status on sale of business;
  - Fair and open processes in relation to quotation processes, time and rates, and use of parts;
  - Insurers providing the smash repairer's details in the warranty provisions that they supply to claimants;
  - Payment terms to smash repairers not exceeding 30 days;
  - Product Disclosure Statements stating policies on choice of smash repairers clearly and prominently;
  - An independent external dispute resolution system; and
  - Administration of the Code by a Code Administration Committee.

- During FY06, the Group further developed its supply arrangements across both the buildings and contents portfolios. The Group has a national contracted supply base that covers high claim volume regions. The contracted suppliers are subject to an evolving performance management framework, covering key areas such as claims cost, customer service and quality of repairs. The results from the comprehensive performance reporting enables the Group to direct larger volumes of work to the higher performing suppliers, hence achieving cost efficiency as well as sustained and improved customer service.

- As part of a renewed focus on the basics of the business, Claims & Assessing is committed to driving sustainable improvements over the short and medium term through various initiatives focussing on improving customer service while still managing costs.

- The three stage Claims Customer Paradigm is focussed on delivering the best claims service in the market, to differentiate the value proposition for customers. The first stage is under way, which includes: determining and meeting customer needs around Care & Repair centres and services; training of builders and suppliers to better anticipate and service home claims customers' needs; and development and implementation of customer service values and tailored customer communication based on customer needs.

3.3.2 Long-tail personal lines – Claims

- NSW CTP experienced a 20% decrease in claims lodgements in 2H06 relative to 2H05, while policies in force declined by less than 5%. The decrease was not reflected in industry-wide data, supporting the conclusion that it was due to an improvement in portfolio risk profile rather than broader scheme or environmental factors.

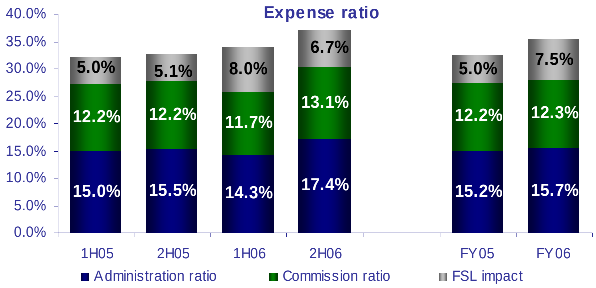
- The Group's NSW portfolio, which has a proportionally lower prevalence of large/business vehicles than the industry, has traditionally had a lower claims frequency than the industry as a whole. As the Group's market share grew the extent of this difference reduced. In the past year, as market share has reduced, the Group's advantage in terms of frequency has increased, providing supporting data for the assertion that the portfolio mix has improved. Compared to industry experience, the Group's claims frequency is more than 10% below the industry averages for the NSW CTP scheme.
- This change in lodgement patterns has not yet matured to a point where it is reflected in the actuarial assumptions underlying the current financial result. It may be a significant positive factor in liability development in FY07.
- Since the introduction of changes to the NSW CTP legislation in 1999, there has been a large fall in frequency. Some of this was anticipated as the changes led to certain small, but frequent, claims being excluded from the process. However, the extent of the reduction has been greater than anticipated, and has continued for longer, indicating that there may be other environmental factors – eg reduced accident injuries – at play.
- The Queensland scheme data shows a continued improvement in claims frequency during FY06, and, by June 2006, frequency was approaching NSW levels. This reflects the positive effects of 2003 tort reforms. However, there remains some uncertainty about the medium term outlook due to recent judicial decisions and the characteristics of the remaining claims mix.
- The ACT experience remained relatively stable, but there is concern about potential cost pressures from an increasing level of plaintiff legal activity and some recent judicial decisions.

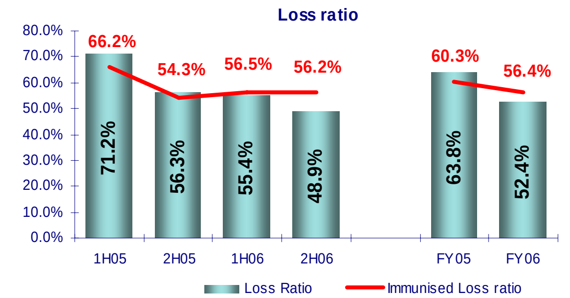
3.3.3 Lifetime Care

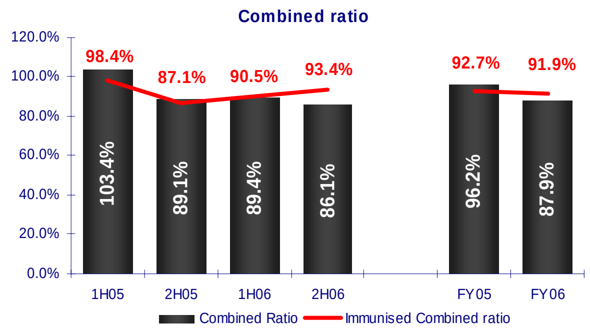
- The NSW compulsory third party (CTP) motor vehicle insurance scheme provides compensation for people injured in motor vehicle accidents that are the fault of another vehicle owner or driver (at fault).
- The major short-term challenge is the transition to the NSW Government's new Lifetime Care and Support (LTCS) scheme. It applies to those who sustain catastrophic injuries in motor vehicle accidents. It is being phased in. For accidents occurring from 1 October 2006, children aged under 16 will be covered regardless of who was at fault and, from 1 October 2007, all people will be entitled to care regardless of who was at fault.
- The scheme will be funded by a levy on every policy from 1 October 2006. For the benchmark Sydney Best Metro rate, this will be 8.4% of premium. The levy will increase from 1 April 2007 to cover the extension of the scheme to adults during the accident year. While this levy must be collected by the insurers, it does not get included in GWP.
- Also to be introduced on 1 October 2006 is the new MAA levy, which will replace the RTA, MAA and Bulk Billing payments currently being charged as part of overall GWP. This levy will also be collected by insurers but not included in GWP or expenses.
- The reduction in premium (net of levies) for insurers is expected to be similar to the levies charged. Based on approximately 1.7 million policies being sold fairly evenly during the year, this will generate a reduction in GWP (net of levies) of approximately $35m during FY07 and $100m in subsequent years.
- Over time there will be a reduction in the capital utilised by the business as it will progressively no longer be exposed to the costs of these large claims. As these claims take longer to settle and have higher volatility, this will take some years to fully materialise.

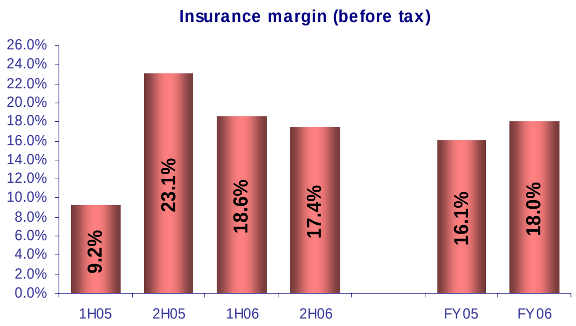
4. Australian Commercial Lines

Australian Commercial Lines	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**827**	**867**	**761**	**778**	**1,694**	**1,539**
Gross earned premium	**831**	**803**	**823**	**788**	**1,634**	**1,611**
Reinsurance expense	(95)	(83)	(85)	(156)	(178)	(241)
Net premium revenue	**736**	**720**	**738**	**632**	**1,456**	**1,370**
Net claims expense	(524)	(405)	(409)	(309)	(929)	(718)
Commission expense	(90)	(88)	(86)	(83)	(178)	(169)
Underwriting expense	(147)	(148)	(165)	(152)	(295)	(317)
Underwriting profit	**(25)**	**79**	**78**	**88**	**54**	**166**
Investment income on technical reserve	93	87	59	22	180	81
Insurance profit	**68**	**166**	**137**	**110**	**234**	**247**
Profit from fee based business	11	(25)	1	7	(14)	8
Total commercial line result	**79**	**141**	**138**	**117**	**220**	**255**
Insurance ratios						
Loss ratio	71.2%	56.3%	55.4%	48.9%	63.8%	52.4%
Expense ratio	32.2%	32.8%	34.0%	37.2%	32.4%	35.5%
Commission ratio	*12.2%*	*12.2%*	*11.7%*	*13.1%*	*12.2%*	*12.3%*
Administration ratio	*20.0%*	*20.6%*	*22.3%*	*24.1%*	*20.2%*	*23.2%*
Combined ratio	103.4%	89.1%	89.4%	86.1%	96.2%	87.9%
Insurance margin (before tax)	9.2%	23.1%	18.6%	17.4%	16.1%	18.0%









4.1 Operational Results

- In spite of the continuation of soft market conditions and intense competition, Australian Commercial Lines delivered a profit of $255m for FY06 and an insurance margin of 18.0%, compared to a profit of $220m and an insurance margin of 16.1% in FY05.
- The result was largely driven by a strong performance in the long-tail classes of liability and workers' compensation and consequent reserve releases, offset by deterioration in the claims experience of the short-tail commercial portfolio (which includes the impact of Cyclone Larry), and additional expense related to fire service levies.

4.1.1 Premiums

- The soft cycle and aggressive competition saw GWP reduce by 9.1% to $1,539m for FY06. In 2H06, GWP reduced by 10.3% to $778m in comparison to the previous corresponding period. This reflected intensified price competition. In this market context, the Group maintained policies in force at 98.8% of the FY05 level (a reduction of approximately 8,000). Australian Commercial Lines remains committed to its strategy of focusing on risk-based pricing and relationship management, rather than pursuing unprofitable market share.
- The decline in GWP was caused by a combination of softer rates (the overall rate reduction for FY06 period was -4.5% in real terms) and the small reduction in volumes, but was not consistent across the classes of business.
- Short-tail commercial lines (fire, commercial motor vehicle, etc.), which comprise approximately 61% of the Group's commercial business, experienced a 12.4% reduction in GWP from $525m in 2H05 to $460m in 2H06, and long-tail commercial lines (professional risk, public liability), which comprise approximately 24% of the Group's commercial business, experienced a 12.7% reduction in GWP from $220m in 2H05 to $192m in 2H06.
- Workers' compensation, which represents approximately 15% of the Group's commercial business, experienced a 3.3% increase in GWP from $122m in 2H05 to $126m in 2H06, reflecting increases in business volume and wage-rolls, particularly in WA, partially offset by rate reductions.
- Competition varied across the different markets:
  - In the corporate segment, all classes of business were affected by very competitive pricing;
  - In commercial, new business was affected by strong competition but retention was strong reflecting the focus on relationship management;
  - Within regional and rural, competition was intense in all segments and some market share was lost in personal and rural business. However, GWP growth was positive compared to the previous year; and
  - Within retail business insurance, retention remained strong.
- During 2H06, the market has seen a softening of rates. The Group regards some risks as priced beneath the level that it considers to be the technical price of the risk, particularly in the corporate sector. This has resulted in lost business.
- The combination of increased pressure on brokers to demonstrate transparent processes and the use of e-commerce (which has enabled brokers to quickly and efficiently source quotes from competing insurers, including the advent of comparative quote tools) has led to increased marketing of client business. Accounts with long standing relationships with particular insurers, which are now being tendered, has been a contributing factor in deepening the present soft market.
- The Group expects the soft market conditions to continue longer than originally thought, especially in the major classes of property and liability. It is the Group's view that the market may not stabilise until as late as the June 2007 renewals.
- In such a soft cycle, maintaining strong customer retention is key. The retention rates remained above 80% during 2H06, reflecting a continued focus on communication with brokers, maintaining local relationships, improving service offerings and linking staff incentives to retention.

4.1.2 Claims Experience

- The net claims expense for FY06 of $718m includes a $55m benefit from the effect of higher interest rates on claims contributing to a 4.0% reduction in the reported loss ratio. As the increase in interest rates was weighted towards 2H06, the effect on this period is larger – a $47m benefit or a 7.3% reduction in the loss ratio. These benefits were more than offset by capital losses on interest bearing securities in the technical reserves investment portfolio.

- Following the benign experience for weather events in 1H06, this portfolio incurred $101m of gross losses from Cyclone Larry in 2H06.
- The Group continued to experience favourable development in long-tail classes. This led to releases from current year business relative to the assumptions when the business was sold and also from prior periods. The changes in reserving assumptions relate to frequency, cost of claims and anticipated volatility of development.
- The combined effect, relative to the assumptions made in prior periods and business sold in the period, added $134m to the 2H06 result. Overall, for FY06, releases from reserves have reduced the reported loss ratio by 14.4%. The favourable trends in claims experience appear to be continuing.
- The Group reported a higher incidence of large individual losses in 1H06. This experience was not repeated in 2H06 and FY06 large losses (excluding Cyclone Larry) were only $7m above FY05 (net of reinsurance).
- The pressure on commercial short-tail profitability from the soft pricing cycle is now evident. However, the ongoing favourable experience in the long-tail classes continues to support the profitable outlook for this portfolio.

4.1.3 Expenses

- The expense ratio increased to 35.5% in FY06 from 32.4% in FY05 and from 34.0% in 1H06 to 37.2% in 2H06. The three key factors for this were:
  - The increase in fire service levies. The total expense for fire service levies was $94m for this business in FY06 compared with $70m for FY05, a $24m increase. This includes the adjustments for prior periods recorded in 1H06 when it was found that the rates advised for use by the ICA were below those finally assessed by the fire brigades authorities. The accrual rate for levies which have yet to be finally assessed was also increased as a consequence;
  - The reduction in net earned premium due to the treatment of the captive's losses on Cyclone Larry; and
  - The soft market for premium rates whilst inflationary pressures continue to be experienced in the expense base.
- Excluding the fire service levies, the underwriting and administration expenses for FY06 actually decreased by $2m from $225m in FY05 to $223m. The expense savings committed to for the year of $10m were delivered, enabling the business to contain inflationary pressures, continue investment in maintaining the quality of the franchise during the soft cycle and meeting continuing changes in the regulatory environment.
- The commission ratio has remained largely stable at 12.3% for FY06 compared with 12.2% for FY05. As a percentage of gross earned premiums, it has remained constant in FY06 after decreasing slightly in FY05, reflecting the increasing portion of earned premium being generated from workers' compensation where commission rates are lower than that paid on other classes.

4.2 Regulatory Environment

- The regulatory focus on the commercial insurance industry continued during the period and included:
  - A strong focus on the impact of tort law reform on the pricing of liability insurance. The average written premium for public and product liability insurance has fallen significantly from 2004 to 2005. Most states showed reductions in average written premium of 11% or higher when compared to the 2004 underwriting year, with the national average falling by 13.4%. This compares with a 6.9% fall for the previous year. (Source: APRA National Claims and Policies Database, Year to December 2005).

- In Western Australia, the second stage of The Workers' Compensation Reform Act 2004 came into effect in November 2005 requiring a greater level of compliance from employers and insurers. Financial penalties exist to ensure compliance. Reform changes included:
  - Replacement of disability assessments with impairment assessments;
  - Common Law thresholds based on impairment;
  - Injury management code of practice; and
  - New dispute resolution process.
- The Insurance Council of Australia (ICA) industry-wide Code of Practice became effective on 18 July 2006. It is the first time the code has been extended to commercial insurance. In preparation for the introduction of the Code, Australian Commercial Lines undertook several initiatives including:
  - Rewriting standard letters and certain policy wordings and brochures;
  - Revising some procedures including timeframes, referrals and complaints handling;
  - Updating supplier agreements; and
  - Product training and accreditation for CGU staff and authorised representatives.
- Broker commission reforms leading to greater transparency of remuneration to intermediaries, particularly following the ASIC inquiry into broker remuneration. This has already seen a desire for brokers to standardise their commission levels in an effort to provide an impartial view on selecting one insurer over another. CGU expects to see further rationalisation of commission rates by key brokers in FY07.
- The delay in the regulations recommended by the Potts Report on Direct Offshore Foreign Insurers (DOFIs) and Discretionary Mutual Funds (DMFs) has enabled foreign insurers to continue to undercut premiums by avoiding charging federal or state-based levies.

4.3 Operating Improvements

4.3.1 Web-based tools and systems

- During the year CGU's e-commerce platform, 'CGU Connect', continued to be redeveloped to improve availability of products, user friendliness and instalment billing. These improvements are expected to attract new business and improve retention. Some of the enhancements include:
  - Easier navigation, better search engines and secure access to CGU applications and specific information;
  - Enhanced services such as claims lodgement and tracking for personal lines, access to online learning management systems and Financial Services Reform ('FSR') administration support;
  - Additional products available on 'CGU Connect' including commercial motor and motor trades. Other products soon to be made available include business insurance, commercial strata, farm motor, 'Countrypak' and crop as well as enhancements to the commercial pack product;
  - An instalment billing payment facility for e-business to be piloted in late 2006; and
  - Improved measurement of operational and product performance.

- As part of the ongoing project 'CGU Renew', new tools to drive consistency and efficiency were launched in April 2006 including:
  - Intermediary Distribution National Operating Procedures (NOP). These procedures contain instructions and reference material for new business (from quoting to processing), renewals and endorsements, and standard letter templates for use by all CGU staff;
  - Product and Underwriting Database to amalgamate documentation such as underwriting manuals, rating manuals, Australian and New Zealand Standard Industrial Classification (ANZSIC) Codes, application forms and policy wordings; and
  - Premium and underwriting calculators that standardise rating calculations for the commercial and personal product suite.
- The 'Workers' Compensation on-line' reporting was enhanced to provide employers with advanced risk management information to assist them in accident prevention and injury management in their work places.

4.3.2 Product Innovation

- CGU released its 'Farm Risk Radar' product (an electronic self-assessment risk management tool) in May 2006. It is a unique tool which differentiates CGU's products from its competitors and offers a value add for customers at no additional charge. An 'Office Risk Radar' will be launched shortly, and a motor fleet and an SME version are under development. These innovations are expected to attract new clients and increase renewal retention.
- The Group's 'Countrypak' business & offices packages and directors & officers' policies were improved during the year. In May 2006, a bundled home warranty insurance and contract works and liability insurance product was offered, in conjunction with the Master Builders Association, to its members and will be progressively rolled out to other brokers in this sector.
- Further development of the Group's web quoting facility for underwritten workers' compensation is under way. This will allow intermediaries to obtain an indicative workers' compensation quotation and bind cover on-line. This tool is expected to be released early in 2007.

4.4 Fee based businesses/managed schemes

- The premium funding loan portfolio has remained in a range of $130-134m during FY06 and remains profitable.
- The Group's state based non-risk workers' compensation business (the provision of policy and claims services out-sourced by various Australian State governments to the private sector for workers' compensation insurance underwritten by each government) generated a profit of $4m for FY06. This result includes $2m in redundancy payments to staff in the SA workers' compensation business following the termination of the SA WorkCover Corporation contract on 30 June 2006, as CGU did not apply to be the scheme's sole claims agent reflecting the Group's view that competition enhances the performance of the entire scheme. As disclosed in 1H06, the contract profitability was less than $1m per annum, so the ongoing financial impact on the Group is negligible.
- The Victorian workers' compensation business recorded an increased profit for FY06 due to improved performance against the assessed performance targets (i.e. level of satisfaction of injured workers) and an improvement in the service fee payment. In the most recent Victorian workers' compensation injured worker and employer satisfaction survey conducted by the Victorian WorkCover Authority, CGU received the highest satisfaction levels amongst all agents.
- The financial performance of the NSW workers' compensation business was adversely impacted by retrospective adjustments relating to performance in prior years. All known adjustments were recognised in 1H06. The introduction of new contract and remuneration arrangements by NSW WorkCover on 1 January 2006 is providing greater transparency and certainty to the businesses' future financial performance.

- Following the awarding of the new contract in NSW workers' compensation in January 2006, several initiatives were implemented to improve the outcomes for the scheme resulting in improved services for injured workers and employers, and to ensure appropriate monitoring and management of business performance. This has included the development of a system based tool known as 'Case Management Action System' (CMAS) which facilitates tracking of performance and identification of training requirements down to the individual case manager level.
- Competition across the workers' compensation businesses remains vigorous and, with the lifting of the market freeze on allocated insurers in NSW on 30 June 2006, policies are expected to move between agents in that market.

4.5 Discontinued Business

4.5.1 Inwards Reinsurance

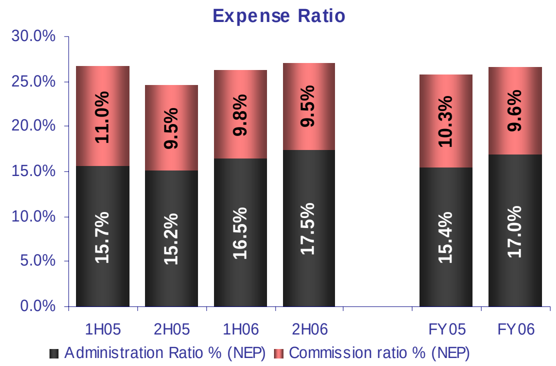
- The execution of the commutation strategy for the inwards reinsurance run-off (business ceased to be written in January 2001) continues to progress with a further two commutations finalised in FY06. Due to the diverse nature of the remaining risks, the pace and extent of commutations has slowed and no commutations were finalised in 2H06. The Group continues to actively seek commutation opportunities.
- The net provision for the outstanding claims on this portfolio is now approximately $76m (FY05 $86m).

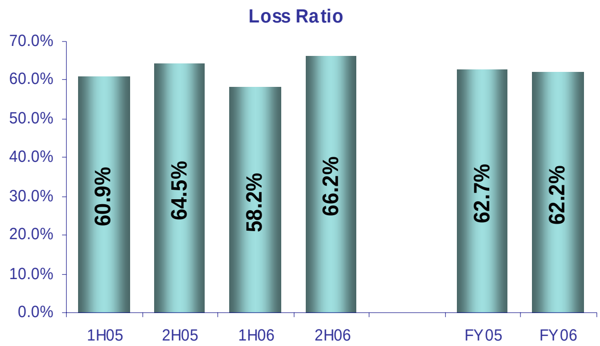
4.5.2 Asbestos

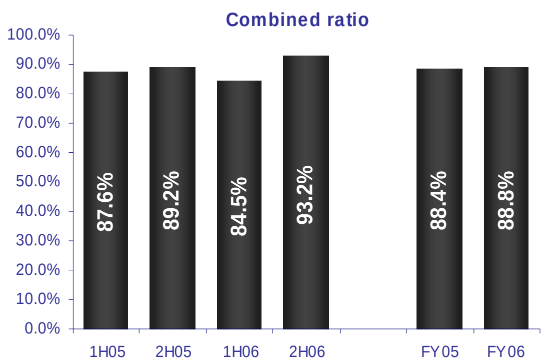
- The survival ratio (net reserves as a multiple of the average of the past three years' claims paid) is 39 times at 30 June 2006, compared with 49 times at 30 June 2005 and 42 times at 31 December 2005. The 30 June 2006 survival ratio is lower than that reported at previous reporting dates largely due to a higher base measure now being used (i.e. three year average payments at June 2006 is higher than that at June 2005).
- The survival ratio is provided as an indicator of the Group's reserving for this particular liability due to its very long tail. However, it should be used with caution as different exposures and portfolio mixes may make comparisons unreliable.
- There has been no change to the basis of reserving during the year and no adverse developments in overall experience.

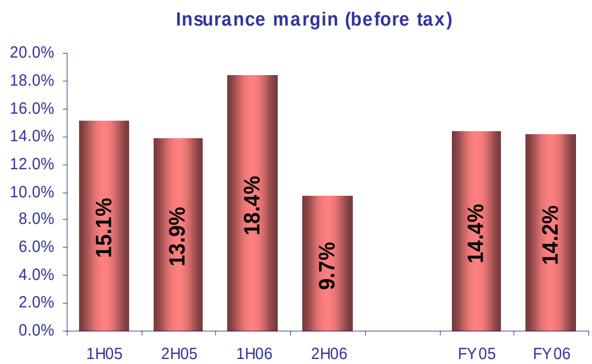
5. International

International operations	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**499**	**502**	**509**	**526**	**1,001**	**1,036**
Gross earned premium	**494**	**496**	**524**	**512**	**990**	**1,036**
Reinsurance expense	(49)	(34)	(57)	(50)	(83)	(107)
Net premium revenue	**445**	**462**	**467**	**462**	**907**	**929**
Net claims expense	(271)	(298)	(272)	(306)	(569)	(578)
Commission expense	(49)	(44)	(46)	(44)	(93)	(89)
Underwriting expense	(70)	(70)	(77)	(81)	(140)	(158)
Underwriting profit	**55**	**50**	**72**	**31**	**105**	**104**
Investment income on technical reserves	12	14	14	14	26	28
Insurance profit	**67**	**64**	**86**	**45**	**131**	**132**
Share of Profit from Associates	-	-	-	2	-	2
China Automobile Association	(2)	(2)	(3)	(4)	(4)	(7)
Total international result	**65**	**62**	**83**	**43**	**127**	**127**
Insurance ratios						
Loss ratio	60.9%	64.5%	58.2%	66.2%	62.7%	62.2%
Expense ratio	26.7%	24.7%	26.3%	27.0%	25.7%	26.6%
Commission ratio	11.0%	*9.5%*	*9.8%*	*9.5%*	*10.3%*	*9.6%*
Administration ratio	15.7%	*15.2%*	*16.5%*	*17.5%*	*15.4%*	*17.0%*
Combined ratio	87.6%	89.2%	84.5%	93.2%	88.4%	88.8%
Insurance margin (before tax)	15.1%	13.9%	18.4%	9.7%	14.4%	14.2%



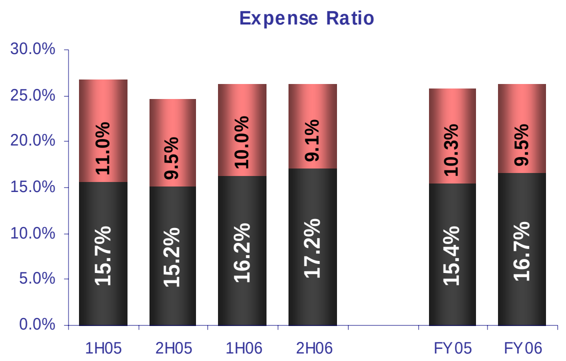


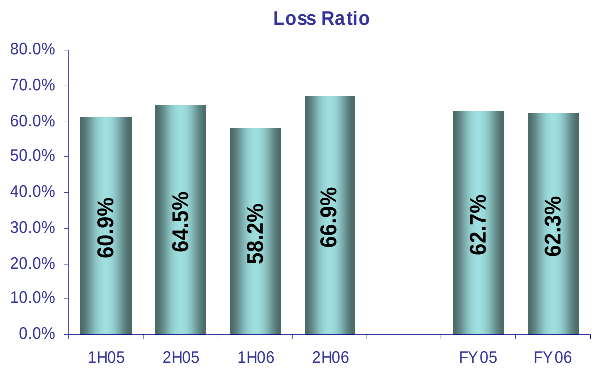


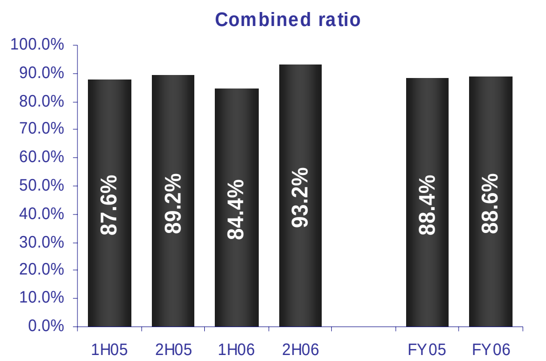


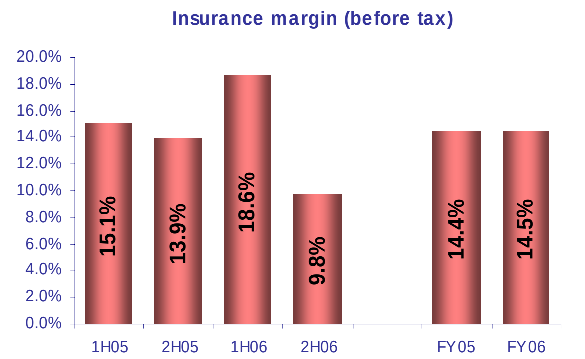
5.1 International – New Zealand

New Zealand Operations	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**499**	**502**	**494**	**477**	**1,001**	**971**
Gross earned premium	**494**	**496**	**507**	**462**	**990**	**969**
Reinsurance expense	(49)	(34)	(45)	(32)	(83)	(77)
Net premium revenue	**445**	**462**	**462**	**429**	**907**	**892**
Net claims expense	(271)	(298)	(269)	(287)	(569)	(556)
Commission expense	(49)	(44)	(46)	(39)	(93)	(85)
Underwriting expense	(70)	(70)	(75)	(74)	(140)	(149)
Underwriting profit	**55**	**50**	**72**	**29**	**105**	**102**
Investment income on technical reserves	12	14	14	13	26	27
Insurance profit	**67**	**64**	**86**	**42**	**131**	**129**
Insurance ratios						
Loss ratio	60.9%	64.5%	58.2%	66.9%	62.7%	62.3%
Expense ratio	26.7%	24.7%	26.2%	26.3%	25.7%	26.3%
Commission ratio	11.0%	9.5%	10.0%	9.1%	10.3%	9.5%
Administration ratio	15.7%	15.2%	16.2%	17.2%	15.4%	16.7%
Combined ratio	87.6%	89.2%	84.4%	93.2%	88.4%	88.6%
Insurance margin (before tax)	15.1%	13.9%	18.6%	9.8%	14.4%	14.5%









- Conditions in the New Zealand market were similar to those in Australia during the year, with increased competition across all lines of business. In spite of this, IAG NZ achieved an insurance margin of 14.5% for FY06 in line with FY05.
- The full year margin consisted of a strong first half-year insurance margin of 18.6% achieved on the back of very favourable weather conditions and improved business processes, and a lower second half insurance margin of 9.8% affected by the June South Island snowstorm. The storm cost to IAG NZ was $18m adding 4.2% to the loss ratio for 2H06.

- For the full year, GWP declined by $30m or 3.0%. The reduction in GWP in Australian dollar terms is entirely attributable to the depreciation in the NZ dollar during the period which created an adverse impact of $35m. In New Zealand dollar terms, IAG NZ achieved growth in GWP of 0.5% from FY05. On a half-year basis, GWP for 2H06 grew by NZ$15m or 2.8% on 1H06 and NZ$5m or 0.9% on 2H05.
- The trends in GWP varied across the distribution channels:
  - In the direct channel, growth was driven mainly by the FY05 re-pricing of the home portfolio which offset a decrease in volumes. Retention rates recovered later in the year when the major competitors also increased home insurance prices. GWP was relatively stable for both half-year periods. The direct channel represents approximately 37% of IAG NZ's portfolio;
  - The corporate partners channel experienced strong growth on FY05 in both personal lines and SME business. The Corporate partner business represents approximately 14% of IAG NZ's portfolio;
  - The broker channel, which represents approximately 47% of IAG NZ's portfolio, continued to achieve volume growth in both personal and commercial lines. In the corporate market, offshore competition was particularly strong, as corporate competitors continued to move into the middle market to supplement the loss of income. As such, some business in material damage and commercial motor was lost. In personal lines, retention remained stable despite rate increases, as both direct and indirect competitors have implemented rate increases; and
  - Travel insurance, which represents approximately 2% of IAG NZ's portfolio, has continued to grow. The Group acquired 50.1% of the Mike Henry Travel business in July 2004 with the underwriting of the business transferred to IAG New Zealand effective October 2004. In July 2006, the Group acquired the remaining 49.9%. In FY06 this business contributed a full year of GWP compared to nine months in FY05.
- The following trends industry-wide became clear during the year:
  - The corporate market showed increased competitive pressure with increased focus from both onshore and offshore underwriters;
  - Significant downward pricing pressure at the top end of the corporate market with slightly less downward pressure on the mid commercial market.
  - Personal lines price increases being led by IAG NZ, particularly in home, reflecting the increasing claims trends in recent years.
- The latest industry statistics, as captured by the Insurance Council of New Zealand (ICNZ) at March 2006, show that industry premium grew by 2.7% for the year to March 2006. During the same period, IAG NZ grew slightly below market at 2.0%. The Group continues to retain its market leading position with a market share of 36.3% based on data captured by ICNZ.
- The reduction in net earned premium (NEP) of $15m was due to the impact of the depreciation in the New Zealand dollar between FY05 and FY06. In New Zealand dollar terms, NEP increased by NZ$18m on FY05, reflecting the GWP growth in the business. On a half-year basis, NEP also fluctuated in line with the captive allocation which effectively reduced the reinsurance expense by A$9m between 1H06 and 2H06.
- The FY06 loss ratio of 62.3% represents an improvement of 0.4%, due mainly to a lower incidence of large losses in FY06 compared to FY05. The claims experience in 1H06 was particularly good, while 2H06 bore the costs of the snowstorms in June. Overall, the costs were similar year on year.
- The FY06 expense ratio of 26.3% increased by 0.6% on FY05. Whilst the 2H06 expense ratio of 26.3%, is largely in line with 1H06, it represents a 1.6% increase on 2H05.
- The administration ratio increased by 1.3% on FY05. For 2H06, the administration ratio increased by 2.0% on 2H05 due to the combination of additional IT spend and restructuring costs, including redundancies.
- The introduction of the Australian personal lines systems in early 2007 will see the business have a competitive advantage in the form of more granular underwriting and pricing. The project has expanded in scope since its original inception to ensure IAG NZ business fully leverage the data and experience from the Australian business. It will also provide additional functionality that may be used in Australia.

- The FY06 commission ratio decreased by 0.8% on FY05 due to the combination of:
  - Prior period commission recoveries from a marine reinsurance treaty; and
  - Reclassification of commission expenses to administration expenses following the acquisition of three distribution channel businesses in December 2004.
- The Group implemented a number of customer service and cost saving initiatives during the period including:
  - Further leveraging of VOIP (voice over internet protocol) technology to increase productivity. This was achieved by enabling branch staff who are not busy with branch customers to log into the call centre and handle telephone business;
  - Ongoing account manager training with a focus on improving sales and service standards for broker customers; and
  - Review of broker personal lines customer liaison standards based on feedback received from ongoing satisfaction surveys. The review is designed to improve responsiveness enabling growth and development in this channel by providing a seamless national service to brokers.
- These customer initiatives contributed to a further improvement in the IAG NZ customer satisfaction score to 86% and the awarding to NZI (IAG NZ's broker brand) of Underwriter of the Year in September 2005 by the Insurance Brokers Association of New Zealand (IBANZ).

5.2 International – Asian Operations

Asian operations	Half-year ended Dec 04	Half-year ended Jun 05	Half-year ended Dec 05	Half-year ended Jun 06	Full-year ended Jun 05	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**-**	**-**	**16**	**49**	**-**	**65**
Gross earned premium	**-**	**-**	**17**	**50**	**-**	**67**
Reinsurance expense	-	-	(12)	(18)	-	(30)
Net premium revenue	**-**	**-**	**5**	**32**	**-**	**37**
Net claims expense	-	-	(2)	(19)	-	(21)
Commission expense	-	-	1	(6)	-	(5)
Underwriting expense	-	-	(3)	(6)	-	(8)
Underwriting profit	**-**	**-**	**1**	**1**	**-**	**2**
Investment income on technical reserves	-	-	(0)	1	-	1
Insurance profit	**-**	**-**	**1**	**2**	**-**	**3**
Share of profit from associates	-	-	-	2	-	2
China Automobile Association	(2)	(3)	(3)	(4)	(5)	(7)
Total international result	**(2)**	**(3)**	**(2)**	**0**	**(5)**	**(2)**
Insurance ratios						
Loss ratio	-	-	40.2%	61.0%	-	58.1%
Expense ratio	-	-	37.4%	36.2%	-	36.4%
Commission ratio	-	-	*(15.1%)*	*18.5%*	-	*13.9%*
Administration ratio	-	-	*52.5%*	*17.7%*	-	*22.5%*
Combined ratio	-	-	77.7%	97.2%	-	94.5%
Insurance margin (before tax)	-	-	19.3%	5.5%	-	7.4%

5.2.1 Overview

- During 2H06, the Group made considerable progress towards its goal of building a portfolio of assets in Asia, expanding on the groundwork undertaken in 1H06. IAG achieved the following:
    - Completed its 30% investment in AmAssurance, Malaysia's second largest motor vehicle insurer;
    - Through its Thai investment holding company, NHCT Limited, increased its controlling stake in Thailand's Safety Insurance Public Company (Safety Insurance) from an initial stake of 21.6% in 1998 to 96.1% in March 2006;
    - Acquired a newly-formed Lloyd's managing agency and specialist Asian underwriting syndicate, Alba Group Pte Limited (Alba), which is based in Singapore;
    - Established an off-shore reinsurance entity, IAG Labuan Re, domiciled in Labuan, Malaysia; and
    - Advanced negotiations with China Pacific Insurance (Group) Co., Ltd. to acquire 24.9% of China Pacific Property Insurance Co. Ltd (CPPI) and lodged draft transaction agreements with the China Insurance Regulatory Commission (CIRC) for preliminary review.
- These activities were in addition to the acquisition, effective from 1 July 2005, of a general insurer in Thailand which was subsequently renamed IAG Insurance (Thailand) Limited, trading as NZI Thailand.
- Reflecting the growing scale of IAG's Asian operations, a new Asian business unit was incorporated into the Group's executive management structure and a Chief Executive Officer Asia, was appointed in March 2006. Regional headquarters were established in Singapore, from which a small IAG team now operates. This team's purpose is to contribute expertise to the Group's newly acquired businesses, and to continue to source and act on appropriate expansion opportunities. The costs of establishing this unit have dampened profitability from the trading operations in FY06.
- The consolidated results include trading profits from NZI Thailand for the full-year and Safety Insurance for the last quarter since the Group moved to a controlling ownership stake. Consolidated GWP for the period was $65m.

- The Group has developed strong, cooperative working relationships with its new business partners and subsidiaries enabling successful implementation of a number of initiatives aimed at increasing market shares and improving returns. Initiatives have focused on:
  - Business development – identification of new products to increase revenue opportunities and transferring distribution capability. A particular emphasis this year has been motor dealers, leveraging Swann Insurance's leading position in this channel in Australia;
  - Portfolio management – transferring core capabilities in pricing and underwriting risk and claims management, which will become increasingly important as anticipated market deregulation occurs in many Asian countries and rating tariffs are removed; and
  - Corporate alignment – identification of a number of initiatives to align financial reporting, funds management and risk management processes with IAG's processes to further increase accountability for, and transparency of, business performance.
- Despite IAG's relatively new involvement in Asia, the Group has developed solid relationships with prudential regulators and industry bodies in the general insurance markets in which it operates. As a result, IAG has provided input into relevant market and regulatory reforms. IAG believes regulatory reform will provide real opportunities for growth due to expected rationalisation (particularly as stricter capital and corporate governance changes occur) and the need for specialist insurance expertise.
- IAG has identified opportunities to supplement the growth and management of its Asian operations through providing reinsurance support. It now has two operations through which this can be affected. The selection of entity will depend on factors such as the nature of the risk and the licensing requirements in the relevant jurisdiction.
- The Group continues to review further expansion opportunities throughout Asia, with the view that these emerging markets will have economic growth well above that of mature markets. Coupled with current levels of low insurance penetration, this will lead to insurance market growth in these markets at a rate above GDP.

5.2.2 Thailand

- The Group's Thai businesses – Safety Insurance and NZI Thailand – contributed GWP of $65m for FY06. This includes only three months performance from Safety Insurance, since the Group took 96.1% control in March 2006.
- Working closely with these two distinct businesses (Safety Insurance is predominantly a personal lines insurer, while NZI Thailand provides predominantly commercial lines), the Group has identified and implemented initiatives to capitalise on growth relevant to the Thailand insurance market.
- Growth in Thailand's GDP is currently estimated to be 4.5% for 2007 increasing to 6.0% in 2008 by International Market Assessment Asia (IMA), August 2006. The insurance sector is anticipated to grow at about 10% in 2006-2007 and 11% in 2007-2008, bringing with it an increase in market penetration to 1.77% in 2008, from less than 1.5% in 2005 (Source: Thailand's Ministry of Commerce).

5.2.2.1 Safety Insurance

- In March 2006, IAG, through its Thai investment holding company, NHCT Limited, increased its controlling stake in Safety Insurance to 96.1%, through on-market purchases and a public tender offer. The Group acquired its original interest of 21.6% in 1998. Safety Insurance retains its listing on the Thai Stock Exchange. A decision on whether to retain this listing will be made by March 2007. Safety Insurance's financial performance for the three months to 30 June 2006 are included in the Group's FY06 consolidated results.
- Safety Insurance is now one of the top five general insurers in Thailand. It sells predominantly motor insurance, as well as fire, marine and other general insurance, through insurance agents, domestic and international brokers, as well as direct to customers.
- The company's compound average growth rate over the last four years has been almost 10%.

- Since increasing its investment to 96.1%, IAG has focussed on transferring capability to the existing management team, scoping areas where the Group can add value to the business as well as aligning Group financial reporting and risk management. The Group has worked with management since 1998 to influence the business's operations, including providing assistance in relation to reserving, data capture, pricing and portfolio analysis.

5.2.2.2 NZI Thailand

- The Group completed is acquisition of Royal & SunAlliance (Thailand) on 4 July 2005. This business was renamed IAG Insurance (Thailand) Limited, trading as NZI Thailand, in December 2005.
- NZI Thailand underwrites more than $35m in premiums annually. NZI Thailand is primarily a short-tail commercial insurance business with a focus on large commercial business via international brokers. Its secondary focus is to access the SME segment through national brokers and develop the affinity partner channel.
- During FY06, the Group's capability transfer programme has focused on developing rigorous technical expertise, risk management, performance management and talent management. The Group also ultilised the proven operating skills within NZI Thailand to add value in a broader Asia capacity. In addition, the Group has aligned NZI Thailand's practices with IAG's key corporate requirements including financial reporting, actuarial reserving and risk management frameworks.
- The Group is seeking to further improve sustainable returns through strengthening relationships with intermediaries and affinity partners, building a presence in the SME segment and capitalising on wider commercial insurance needs resulting from Thailand's increasing import/export growth and infrastructure projects.
- In addition, NZI Thailand will benefit from accessing the Group's Asian underwriting syndicate and skills (Alba) and new reinsurance arrangements. IAG Labuan Re contracted to underwrite 50% of NZI Thailand's reinsurance treaties from 1 July 2006.

5.2.3 Malaysia

- Malaysia continues to be a focus for IAG, given it is the second fastest growing economy in Asia. The general insurance industry has grown at a compound annual growth rate of 10% since 2001, with improving profitability (industry combined ratios in the mid 90-100% range). The total industry GWP is $3.5bn.
- The general outlook for Malaysia is positive, with GDP growth forecast at 5.6% in 2007 rising to 5.9% in 2008 (Source: IMA, August 2006). This, together with the anticipated regulatory reform, confirms Malaysia as an attractive market for the Group.

5.2.3.1 AmAssurance

- On 10 March 2006, IAG completed its acquisition of a 30% stake in AmAssurance. The agreement includes a right to increase the Group's holding to 40% by March 2008 and an option, subject to regulatory approval, to increase to 49% over time. The increase is likely to occur if the business needs more capital to support its expansion, either organically or via acquisition.
- IAG's strategic partner in the acquisition, AMMB Group, also owns Malaysia's sixth largest commercial bank, AmBank, and is the largest auto financier in Malaysia, which provides future bancassurance opportunities.
- AmAssurance is the second largest motor vehicle insurer (fifth largest general insurer) and seventh largest life insurer in Malaysia.
- In the year to 31 March 2006, the general insurance business wrote $160m and the life business wrote $125m of premium.
- Under the principles of equity accounting, IAG recognises 30% of AmAssurance's profit after tax in its results. This amounted to $2m for the quarter.

- The embedded value of AmAssurance's life insurance business increased by 3.8% in the year to 31 March 2006.
- AmAssurance has displayed strong growth, with GWP in general insurance delivering a compound average growth rate (CAGR) over the last four years of 26% in an industry with a CAGR of just under 10% in the same period. Sustaining these historic levels of out-performance is not expected. However, the Group is confident that its deployment of skills and technology will assist AmAssurance to continue to gain market share.
- The Group's capability transfer programme is advancing well with highly productive cooperation between the two companies. Discussions led to the identification of more than 25 initiatives for improvement and these are currently being implemented with oversight from AmAssurance's CEO. To date, IAG has played a role in the following achievements:
  - Introducing new products, including assisting in the wording and pricing;
  - Preparing AmAssurance's response to the industry regulator, Bank Negara, on risk-based capital;
  - Enhancing fraud indicator reporting; and
  - Rolling-out key features of IAG's risk management framework.
- IAG Labuan Re has contracted to underwrite 15% of AmAssurance's proportional and catastrophe reinsurance treaties for its general insurance business from 1 July 2006.

5.2.4 China

5.2.4.1 China Pacific Property Insurance

- On 3 July 2006, IAG announced that its negotiations with China Pacific Property Insurance Co., Ltd. (CPPI) to acquire an initial 24.9% stake had progressed to the stage that draft transaction agreements had been lodged with the China Insurance Regulatory Commission (CIRC) for preliminary review. This followed IAG's announcement on 7 February 2006 that it had signed a memorandum of understanding in relation to the transaction with CPPI.
- Under the terms of the draft transaction agreements, IAG will acquire an initial 24.9% of CPPI for approximately A$350-375m. Under the draft terms, the Group will acquire the right to increase its stake to 40% subject to regulatory approval, in particular the capacity to continue to write motor third party liability. Once the transaction agreements are signed, further approvals will be required before completion, both from regulators and shareholders. At present, completion is anticipated to occur in October or November 2006.
- CPPI is the second largest general insurer in China with approximately 12% of the market. On an IFRS basis, CPPI's GWP for the year ending 31 December 2005 was $2.3bn and its CAGR over the past four years has been 11.4%. GDP growth in China is expected to continue to grow at 9.0% in both 2007 and 2008 (Source: IMA, August 2006).

5.2.4.2 China Automobile Association (CAA)

- The Group's Beijing-based roadside assistance company, CAA, celebrated its tenth anniversary in FY06.
- During FY06, CAA substantially progressed its strategy of national expansion, increasing its network to 129 franchise or affiliation partners (up from 30 in the previous year), across 32 provinces and 120 major cities in China. This extensive geographical reach allows CAA to achieve benefits of scale and membership growth.
- The major investment required to transform the business into one with national capability has now been completed and the net result from operations should now improve.
- CAA focused on creating a high performance culture, improving profitability through disciplined cost management and innovative product design, meeting customer needs and benefiting the community. CAA's FY06 highlights relative to FY05 include:
  - Overall revenue growth of more than 46%;
  - Increased policy sales by more than 42%;

- Customer base growth of more than 67%;
- Maintained more than 90% arrival time to job within target of 45 minutes with a customer satisfaction rate of more than 90% for most measurements;
- Introduced a new sales channel (point of sale) to drive a 'packaged' version of the membership product to be sold in various outlets; and
- Delivered CAA's Road Safety Campaign (which received two awards from the Chinese media) designed to raise community awareness on safety topics such as wearing seat belts, braking distances, the use of child restraints and capsules and the effects of drink driving.

- During the next financial year, CAA will continue to drive growth in revenues, customer base and other key metrics. Key initiatives supporting next year's results include continued development of the Corporate Sales channel, extension of insurance products sold to include home and contents insurance as well as the re-design of CAA's membership product suite.
- With the CPPI transaction moving towards completion, the Group will assess the ongoing strategic fit of the CAA operation with the Group and the capacity to leverage it in conjunction with CPPI.

5.2.5 Reinsurance

- In June 2006, the Group acquired a newly-formed Lloyd's managing agency and specialist Asian Lloyd's underwriting syndicate (Syndicate 4455) that operates as Alba Group Pte Limited (Alba). This business enhances the ability of the Group to provide reinsurance support to its new Asian subsidiaries and partners, as well as managing their inherent risks. Alba operates through the first Asian based Lloyd's multi-line syndicate dedicated to Asian business and has access to all markets in which Lloyd's is licensed, covering more than 70 countries worldwide. It will also write third-party business. The capital required to back this business is mostly provided by the Group using a letter of credit facility. The syndicate's current capacity for FY07 is $70m.
- Alba will focus on the larger corporate risks that a number of the Group's associates in Asia are either unable to write or fully cede out. The highly specialised underwriting staff in Singapore will enable Alba to work closely with the direct insurers to develop solutions for these larger risks.
- The Group established an off-shore reinsurance entity, domiciled and licensed in Labuan, Malaysia, to underwrite reinsurance treaties for the Group's subsidiaries and partners in Asia. IAG Labuan Re wrote premium for NZI Thailand and AmAssurance which incepted on 1 July 2006.
- These two operations provide the Group with the skills and regulatory access to supply appropriately priced reinsurance risk transfer products to Asian insurers owned wholly or partly by the Group which will leverage the Group's exposure to these businesses over time.

6. Investments

6.1 Strategy with Investment Portfolios

- The Group's investment strategy is to invest:
  - Funds supporting its technical reserves in a conservative asset mix of cash, high quality fixed interest securities and synthetic fixed interest investments (overlays/alpha transfer strategies);
  - Its core shareholders' funds portfolio across a diversified range of higher growth assets, including equities and hedge funds; and
  - Its surplus capital (i.e. investable shareholders' funds above the level required to maintain the group's benchmark solvency) in enhanced cash (the mandate allows a maximum of 20% in growth assets) in recognition of the Group's intention to utilise these funds in a combination of returns to shareholders and investing in shareholder accretive opportunities in accordance with the Group's strategy.
- Within the broad parameters of this investment strategy, the Group has continued to focus on reducing the volatility of the investment portfolio by increasing the diversification across both asset classes and the managers responsible for managing the funds.
- Additionally, the Group has extended its programme of alpha transfer strategies to diversify the sources of additional return above the various benchmarks.
- The active management of the Group's investment portfolios is rigorously controlled within both the parameters of the investment strategy and acceptable risk tolerance ranges set by the Board of the Group and overseen by the Group's Asset Liability Committee and the IAG Board's Risk Management & Compliance Committee.
- The investment assets of the Thai insurance operations, now consolidated by the Group, remain under local management. At 30 June 2006, the funds under management were $144m.

6.2 Key changes in the portfolios during 2H06

6.2.1 Technical reserves funds

- As part of the strategy of diversifying sources of active return above the benchmark, two international fixed interest managers were appointed in FY06. This alpha transfer strategy is now at target allocation with a total of $815m invested as at 30 June 2006. The exposure is fully hedged back to Australian dollars and is managed to the same high credit quality as the remaining technical reserves portfolio.
- Two Australian equity market neutral managers were funded during 2H06. A total of $64m was invested in this alpha transfer strategy as at 30 June 2006. This strategy is still in the process of implementation. Further funds are expected to be allocated in 1H07.

6.2.2 Shareholders' funds

- As at 30 June 2006, three external managers were responsible for managing approximately 17% of the Group's Australian equities holdings, with the balance being managed internally using the Group's "core" and "research fund" strategies. All of the Group's holding in international equities continue to be managed externally.
- During 2H06, a third international equities manager was appointed, further diversifying manager risk in this asset class.
- As at 30 June 2006, the total investment in the Group's hedge funds programme was $227m, covering a range of diversified global macro and long/short managers. Of this, $123m was cash held to ensure the Group's exposure to hedge funds remains within the leverage limits set by the Group.

6.3 Investment Performance

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

Asset Class	See Note	Actual return Half-year ended Jun 05	B'mark return Half-year ended Jun-05	Actual return Half-year ended Dec 05	B'mark return Half-year ended Dec 05	Actual return Half-year ended Jun 06	B'mark return Half-year ended Jun 06	Actual return Full-year ended Jun 06	B'mark return Full-year ended Jun-06
		%*	%*	%*	%*	%*	%*	%*	%*
Australian equities	a	10.4	8.6	16.0	14.4	13.1	9.1	31.2	24.9
Listed property trusts	b	1.3	1.4	11.5	11.0	6.6	6.4	18.9	18.1
International equities	c	3.3	2.5	16.7	14.6	5.6	4.6	23.2	19.9
Fixed interest (Aust & NZ)	d	3.1	2.9	2.6	2.6	0.5	0.4	3.1	3.0
International fixed interest	e	n/a	n/a	n/a	n/a	2.6	3.1	2.6	3.1
Market neutral	f	n/a	n/a	n/a	n/a	-1.2	1.9	-1.2	1.9
Hedge funds	g	2.7	2.0	4.3	2.9	2.5	2.8	6.9	5.8
Cash	h	2.8	2.8	2.9	2.9	2.9	2.8	5.9	5.8
Surplus capital portfolio	g	3.7	2.8	2.7	2.9	2.8	2.8	5.6	5.8
Total weighted average		5.0	4.4	6.4	5.9	3.8	2.8	10.4	8.8
Offsetting derivative component of overlay	i	-0.5	-0.6	-1.0	-1.0	-1.0	-0.8	-2.1	-1.8
Total (including overlay)		**4.5**	**3.8**	**5.4**	**4.9**	**2.8**	**2.0**	**8.3**	**7.0**

** These returns are before fees.*

Notes:

a. *The benchmark is a combination of the S&P/ASX200 Accumulation Index (ex-IAG and ex LPTs) and the S&P/ASX300 Accumulation Index (ex-IAG ex LPTs).*

b. *The benchmark is the S&P/ASX200 Property Accumulation Index.*

c. *The benchmark is the MSCI World Index (ex-Australia) net dividends reinvested, in Australian dollars.*

d. *Tailored benchmarks based on the liability profile of each of the Group's insurance portfolios, discounted to the Australian or New Zealand government yield curves, are used.*

e. *The allocation to the international fixed interest managers was completed in February 2006. The benchmark is the UBS Bank Bill index (Aust).*

f. *The initial allocation to market neutral long/short managers was made in 2H06. The benchmark is the UBS Bank Bill index (Aust). The actual return has been reduced by implementation costs.*

g. *The benchmark is the cash benchmark, the UBS Bank Bill Index (Aust).*

h. *The benchmark is a combination of UBS Bank Bill index (Aust) and UBS Bank Bill index (NZ) in Australian dollars.*

i. *The performance has been measured as contribution to total fund. It represents only the derivatives component of the overlay and has been more than offset by the total return achieved on the physical equities component of the overlay.*

- The Group's portfolios outperformed the return on the benchmark by 83 basis points for 2H06 and 138 basis points for FY06. In total, the gross active return has contributed approximately $72m and $124m to the Group's pre-tax result for 2H06 and FY06, respectively, compared with benchmark returns.
- A summary of the investment income and the investment returns generated on the technical reserves and shareholders' funds portfolios are set out below. The percentage returns are gross of expenses.
- Investment income is recorded based on average exchange rates. Yields are stated using daily closing rates, in accordance with industry standards. For foreign investment this can create some disparity between reported income and stated yields.

Portfolio income (pre-tax) and incl. Derivatives	Full-year ended Jun 05		Half-year ended Dec 05		Half-year ended Jun 06		Full-year ended Jun 06	
	A$m	Return (%)	A$m	Return* (%)	A$m	Return* (%)	A$m	Return (%)
Technical reserves	508	7.6%	192	2.8%	110	0.9%	302	3.7%
Shareholders' funds	455	19.8%	345	11.6%	194	7.5%	539	20.0%
Total investment income	**963**	**11.0%**	**537**	**5.4%**	**304**	**2.8%**	**841**	**8.3%**

** These are half-yearly returns.*

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

- The technical reserves portfolios remain predominantly exposed to the Australian and New Zealand fixed interest sectors in line with tailored benchmarks that reflect the underlying currency and expected duration of the liabilities of the various insurance portfolios within the Group.
- The contribution from these assets to the Group's insurance result was $110m for 2H06 and $302m for FY06. The total return achieved on these assets in 2H06 was 0.9%, 35 basis points above the benchmark return for the period. The corresponding return for FY06 was 3.7%, 61 basis points above the benchmark return for the year. The return includes approximately $134m of capital losses in FY06 compared with $60m of capital gains in FY05.
- The return on the Group's technical reserves portfolios includes the return from the three alpha transfer strategies: the Australian equities and listed property overlay, the international fixed interest overlay and the market neutral long/short strategy. The active management of these assets, after allowing for the fixed interest return foregone and associated costs, generated a net pre-tax contribution of $11m in 2H06 and $31m in FY06.
- The Group's shareholders' funds are invested across a range of diversified asset classes and managers. Australian equities represent the largest component, followed by international equities. The total return from shareholders' funds contributed $195m to the Group's 2H06 result and $539m to the Group's FY06 pre-tax result.
- The gross return on the Group's Australian equities portfolios was 13.1% for 2H06 and 31.2% for FY06. The gross return on the Group's International equities portfolios in Australian dollar terms (the portfolio is unhedged) was 5.6% for 2H06 and 23.2% for FY06. These yields are net of transaction fees but before deducting management fees and expenses.
- Both internally-managed Australian equities strategies, the "core" and "research" funds, generated positive active returns for 2H06 and FY06. Both are ranked in the top quartile of comparable managers for over both one and two years, according to leading asset consulting firm, Mercer Investment Consulting.

6.4 Asset Class Exposure

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

Asset class	Technical Reserves	Share-holders' Funds	Technical Reserves	Share-holders' Funds	Technical Reserves	Share-holders' Funds
Exposure as at	Jun 05	Jun 05	Dec 05	Dec 05	Jun 06	Jun 06
	%	%	%	%	%	%
Australian equities	-	52.9	-	43.1	-	47.8
Listed property trusts	-	2.7	-	2.9	-	3.1
International equities [1]	-	16.9	-	18.1	-	18.3
Fixed interest (Aust & NZ)	99.3	5.0	99.3	7.6	99.3	9.6
Cash	0.7	1.7	0.7	1.8	0.7	1.7
Surplus capital [2]	-	16.7	-	18.8	-	10.6
Hedge funds	-	4.1	-	7.7	-	8.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

1. Includes private equity.

2. The surplus capital portfolio is predominantly invested in cash and fixed interest.

6.5 Group Assets Under Management

Assets under management as at	30 Jun 2005	31 Dec 2005	30 Jun 2006
	A$bn	A$bn	A$bn
Technical reserves[1]	6.9	6.9	7.0
Minority interest – Unitholders' funds[2]	0.4	0.3	0.3
Shareholders' funds	2.9	2.8	2.5
Investment in joint ventures & associates	-	-	0.1
Other[3]	0.6	0.8	0.8
Total investments – on balance sheet[4]	10.8	10.8	10.7
RES funds	0.6	0.6	0.6
Other funds managed on behalf of third parties[2]	2.9	1.7	1.9
Total assets under management	14.3	13.1	13.2

Notes:

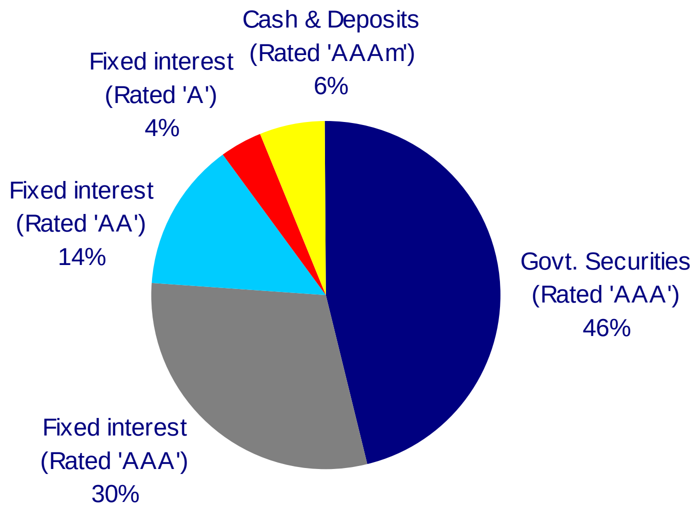
1. *The technical reserves balance is stated net of GST on premium debtors and outstanding claims.*
2. *These two items in aggregate represent the total funds managed on behalf of external clients. The unitholders' funds shown as a minority interest are those invested in trusts which are controlled entities of the Group. There is a matching liability in the Group's balance sheet.*
3. *The balance classified as "Other" represents items that are not under investment management, which include cash in corporate treasury and investments in related entities.*
4. *The prior period balances have been adjusted to exclude the investment in properties occupied by the business, as these are classified as fixed assets under AIFRS.*

- The Group's assets under management reduced by $1.1bn during FY06 reflecting a reduction in external wholesale mandates of $1.5bn. This reduction followed the loss of the NSW Workers' Compensation Scheme mandate after legislative changes and the consequent restructuring of the Scheme's investment arrangements.

6.5.1 Credit quality of assets under management

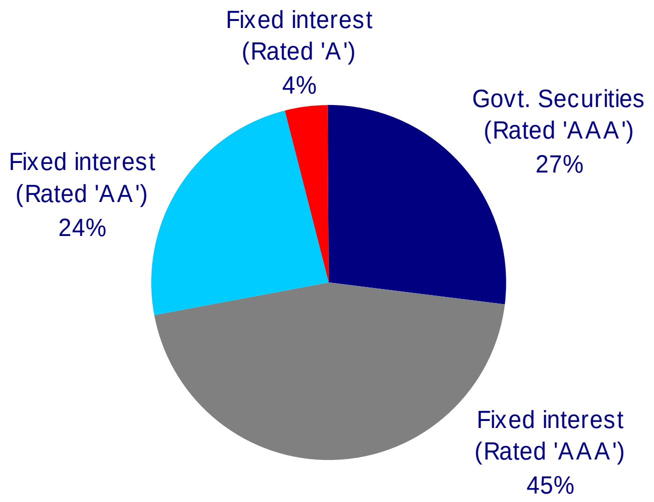
- The credit quality of the Group's Australian and New Zealand fixed interest and cash portfolios backing the technical reserves is considered to be very strong, with 46% invested in Australian and New Zealand government securities and a further 36% in fixed interest and cash securities that are rated 'AAA'. The minimum acceptable credit quality is 'A' rated.

Cash & fixed interest (Aust & NZ) credit quality as at 30 June 2006



- The credit quality of the Group's international fixed interest portfolio backing the technical reserves is also considered to be very strong, with 27% invested in government securities and a further 45% in fixed interest securities that are rated 'AAA'. The minimum acceptable credit quality is 'A' rated.

International fixed interest credit quality as at 30 June 2006



7. Corporate

Corporate	Half year ended Dec 04	Half year ended Jun 05	Half year ended Dec 05	Half year ended Jun 06	Full year ended Jun 05	Full year ended Jun 06
	A$m	A$m	A$m	A$m	A$m	A$m
Head Office	15	20	18	17	35	35
Fee based business (profit)/loss	(1)	(1)	(1)	1	(2)	(0)
Amortisation	6	7	6	2	13	8
Interest	28	27	45	41	55	86
Total corporate expenses	**48**	**52**	**68**	**61**	**100**	**129**

7.1 Corporate

- Head office expenses have remained consistent with FY05.
- The amortisation expense of $8m for FY06 relates to intangible assets, essentially capitalised IT management contracts. The reduction in the expense to $2m for 2H06 occurred as most of the IT management contracts acquired in FY00 are now fully amortised.
- Following the adoption of AIFRS from 1 July 2005, goodwill is subject to review at each reporting date with any impairment recognised in the income statement. For FY06 there were no impairment losses brought to account.
- The FY06 interest expense increased by $31m on FY05 to $86m. This increase represents the treatment of the reset preference shares (RPS) distributions post AIFRS as an interest expense. It follows the reclassification of the RPS as debt instruments under AIFRS. The Group has elected to use a transitional provision within AASB1 and accordingly has not restated prior periods on this basis.

8. Balance Sheet, Capital and Dividends

8.1 Balance Sheet

IAG Group Balance Sheet As at	30-Jun-05	31-Dec-05	30-Jun-06
	A$m	A$m	A$m
Assets			
Investments	10,826	10,803	10,647
Investment in joint ventures & associates	8	7	74
Premium receivables	1,710	1,592	1,652
Reinsurance recoveries on claims	599	645	598
Other recoveries on claims	284	354	310
Deferred acquisition costs	621	601	591
Deferred reinsurance expense	194	143	221
Goodwill and other intangibles	1,494	1,538	1,543
Other assets	1,366	1,211	1,336
Total assets	**17,102**	**16,894**	**16,972**
Liabilities			
Outstanding claims	6,840	6,876	6,916
Unearned premium	3,586	3,487	3,503
Interest bearing liabilities	779	1,295	1,296
Other liabilities	1,394	1,467	1,586
Total liabilities	**12,599**	**13,125**	**13,301**
Net assets	**4,503**	**3,769**	**3,671**
Equity			
Equity attributable to equity holders	3,917	3,597	3,491
Minority interests	586	172	180
Total equity	**4,503**	**3,769**	**3,671**

- The decrease in investments is essentially due to the payment of a special dividend in June 2006 and the impact of the depreciation of the NZ dollar on the NZ investment balances. These decreases were partially offset by funds generated from operations.
- The increase in goodwill and other intangibles is due to an increase in the capitalised software costs under AIFRS and the acquisition of IAG Thailand in July 2005 and Safety Insurance in March 2006. The increase was largely offset by the impact of the depreciation of the NZ dollar on the NZ goodwill balances.
- The "other assets" category represents the aggregate of trade debtors, prepayments, deferred tax assets and property, plant & equipment.
- The increase in interest bearing liabilities is largely due to the reclassification of reset preference shares of $550m to liabilities on adoption of AIFRS in 1H06. There has been a corresponding decrease in equity attributable to shareholders. This increase was partially offset by the repayment of $46m (NZ$50m) of NZ senior term notes in 1H06.
- The "other liabilities" category at 31 December 2005 and 30 June 2006 has increased relative to 30 June 2005 due to the reclassification, required by AIFRS, of unitholders' funds held by minority interests in IAG controlled trusts at 31 December 2005 and 30 June 2006 to liabilities (previously classified as minority interests in equity under GAAP). This was partially offset by a decrease in reinsurance payable, income tax payable and employee provisions, together with the impact of the depreciation of the NZ dollar on the NZ liabilities.
- The Group, having performed the liability adequacy test required under AIFRS, did not need to book a provision against the carrying value of its deferred acquisition costs. The test was conducted using a probability of adequacy of 75%. An unexpired risk provision of $11m (1H06: $3m) has been booked for the captive reinsurer.

8.2 Additional AIFRS disclosures

8.2.1 Claims Development Table

- The Group has prepared the claims development table required by AIFRS on the basis of showing the development in the total provisions recorded in the financial statements. The figures are shown in inflated dollars, ie the actual amounts expected to be paid, net of recoveries, to settle the claims for each accident year, no matter when the amounts are expected to be paid. This enables one to easily compare the movement in the figures for each accident year.
- The increases/decreases in the expected total payments are reflected in the claims expense in profit together with any change in the discount applicable to those expected payments, to provide movement in the net present value of the expected future payments. Movements in the discount element can arise from three sources:
  - Changes in the discount rate, which is based on government bond yields;
  - The unwinding of the discount as the payment year moves one year closer; and
  - Changes in the expected timing or amount of the ultimate claim payments.
- Changes in the discount attributable to claims are separately disclosed in the statutory financial statements. Where changes arise due to movement in interest rates, these are separately identified within this report as they are largely offset by capital movements in bond values where the Group maintains a bond portfolio for which the duration is closely matched to the expected duration of the insurance liabilities.
- A summary of the Group's claims development table is set out below, together with some statistics derived from the Group's annual reports. Under AIFRS, the table will be expanded each year until it covers ten years in total.

Claims development	**Accident year**				
	FY02	**FY03**	**FY04**	**FY05**	**FY06**
Net ultimate claims cost estimate (undiscounted)	**A$m**	**A$m**	**A$m**	**A$m**	**A$m**
At end of accident year	2,313	3,677	3,881	4,024	4,105
One year later	2,215	3,360	3,521	3,743	
Two years later	2,137	3,249	3,493		
Three years later	2,087	3,163			
Current estimate of net ultimate claims cost	2,051	3,163	3,493	3,743	4,105
Statistics					
Cumulative development: favourable / (unfavourable)	**262**	**514**	**388**	**281**	
Development as % of original reserves	11.3%	14.0%	10.0%	7.0%	
PoA on net outstanding claims (min. level to FY03)	90%	90%	90%	92.5%	90%
S&P Insurer financial strength rating for key u/writers	AA+	AA	AA	AA	AA

- The acquisition of CGU and NZI during FY03 is the reason for the significant increase in the level of ultimate claims costs in that accident year. For acquired businesses, development relating to accident years prior to acquisition is all allocated to the period prior to the accident years shown on this table.
- The Group's claims development table shows that there is a history of the claims reserves being conservatively stated. This is to be expected when the Group has had a philosophy of reserving its net claims reserves to a minimum probability of adequacy of 90% throughout this period and the Group's major long-tail portfolios have either been quite stable – (eg CTP NSW and WA workers' compensation) – or developing favourably – (eg liability classes following tort reform).
- The higher level of cumulative releases relating to the FY03 accident year primarily relates to favourable development of assumptions, including risk margins, that the Group made in respect of the acquired CGU business as it took a very conservative stance at acquisition.

- From the claims expense note in the accounts that splits the claims expense in the income statement between that incurred for the current accident year and the aggregate of adjustments to the prior periods, one can see that the Group's conservative reserving approach has generated nine consecutive years of releases from prior years, both on this undiscounted basis and on a discounted basis.

8.3 Capital Management

8.3.1 Capital adequacy/MCR

The Group's minimum capital requirement (MCR) using APRA methodology is as follows:

As at	30-Jun-05	31-Dec-05	30-Jun-06
	A$m	A$m	A$m
Insurance risk	1,091	1,073	1,085
Concentration risk	100	200	200
Investment risk	555	520	549
	1,746	1,793	1,834

- Based on economic capital modelling and factoring in the Group's risk tolerance, the Group currently has a benchmark of 1.55x MCR. Internal policies are in place that ensure that significant forecast or actual deviations from this benchmark result in the Group's Board considering how any shortfall should be made good or any surplus utilised.
- The benchmark coverage will be changed from time to time when the Group's operations change or if there is a change in risk appetite. The last change occurred in 2005 when the Group issued $550m of contingent capital (the RES) and reduced the benchmark multiple from 1.60x to 1.55x in recognition of the added protection provided by the RES of guaranteed access to capital.
- As the Group continues to diversify, it expects this benchmark to reduce over time based on increased diversification.

Coverage of regulatory capital requirements	IAG Group			Insurance Australia Ltd Group		
A$m	30-Jun-05	31-Dec-05	30-Jun-06	30-Jun-05	31-Dec-05	30-Jun-06
Tier 1 capital						
Paid-up ordinary shares	3,263	3,263	3,263	1,286	1,286	1,286
Treasury shares	-	-	(40)			
Hybrid equity	539	546	547	-	-	-
Reserves	(6)	-	(6)	-	-	(10)
Retained earnings	59	375	274	2,365	2,575	1,991
Excess technical provisions (net of tax)	499	465	421	482	458	377
Less: deductions [1]	(1,478)	(1,619)	(1,728)	(1,072)	(1,271)	(1,307)
	2,876	**3,030**	**2,731**	**3,061**	**3,048**	**2,337**
Tier 2 capital						
Subordinated debt	616	628	624	616	628	624
Capital base	**3,492**	**3,658**	**3,355**	**3,677**	**3,676**	**2,961**
Minimum capital requirements (MCR):						
Australian general insurance businesses	1,511	1,570	1,574	1,607	1,573	1,566
International insurance businesses MCR [2]	235	223	260	-	-	-
	1,746	**1,793**	**1,834**	**1,607**	**1,573**	**1,566**
MCR multiple	**2.00x**	**2.04x**	**1.83x**	**2.29x**	**2.34x**	**1.89x**

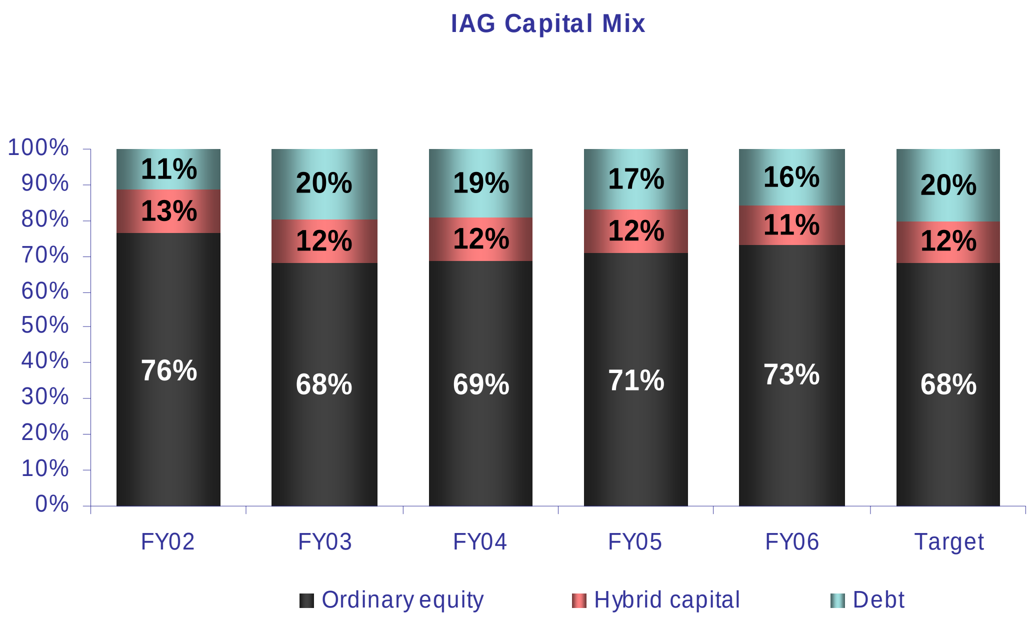
Notes:

1. Includes goodwill, net deferred tax assets and capitalised software.

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 business and the operations in New Zealand and Thailand.

- The Group continues to provide MCR information for both the consolidated Australian operations and for the Group. The calculation is based on applying in principle the APRA standards for individual entities to the consolidated position, pending the publication by APRA of a standard to determine prudential capital at a consolidated level.
- The data for the calculation is sourced from the AIFRS balance sheet. The introduction of AIFRS has not had a material effect on the MCR calculation. Reset preference shares, which are now classified as an interest-bearing liability in the AIFRS balance sheet, continue to be treated as Tier 1 capital for regulatory purposes. The other noticeable AIFRS adjustments are in relation to goodwill and capitalised software, which are recognised as a benefit in the retained earnings. However, this benefit is offset by an increase in the deductions made in calculating the regulatory capital base.
- The comparatives for June 2005 have not been restated to an AIFRS basis in this table.
- The IAG Group multiple of 1.83x MCR as at 30 June 2006 remains above the Group's current benchmark multiple of 1.55x MCR.
- The Group's regulatory capital base, as defined by APRA, has decreased from $3,658m to $3,355m during 2H06 due to:
  - Special dividend of $201m (including costs) paid in June 2006;
  - Recognition of the goodwill for the acquisition of Safety Insurance and the 30% strategic stake in AmAssurance;
  - A reduction in excess technical provisions. This was mainly due to the reduction in the probability of adequacy (PoA) for the outstanding claims liability from 91.8% at December 2005 to 90.0% at 30 June 2006; and
  - Inclusion of the treasury shares as a deduction to the capital base in the calculation.

8.3.2 Target capital mix



The Group's capital mix remains largely in line with the Group's target. This was set taking into account the credit rating agency views of appropriate gearing limits for a 'AA' rated entity.

8.3.3 Total capitalisation and debt

Total Capitalisation As at	30-Jun-05	30-Jun-06
	A$m	A$m
Interest-bearing liabilities		
Senior	91	41
Subordinated	616	624
Reset preference shares[1]	550	550
Less: Capitalised transaction costs	(21)	(14)
Cross currency swap payable[2]	88	95
Total Interest-bearing liabilities	**1,324**	**1,296**
Shareholders' equity		
Equity attributable to holders of ordinary shares	3,263	3,263
Treasury shares	(34)	(40)
Retained profits	142	274
Foreign currency translation reserve	(6)	(15)
Share based remuneration reserve	13	19
Hedging reserves	-	(10)
Total shareholders' equity (excl minority interests)	**3,378**	**3,491**
Total capitalisation	**4,702**	**4,787**
Interest coverage & debt ratios	**12 months to 30 Jun 05**	**12 months to 30 Jun 06**
Earnings before interest and tax (EBIT)	1,346	1,321
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,402	1,382
Market capitalisation:		
- Ordinary shares (30 Jun 05: $6.01, 30 Jun 06: $5.35)	9,582	8,499
Total debt/(Total debt+shareholders equity excluding minority interests)	28.2%	27.1%
Total debt/(Total debt+total market capitalisation)	12.1%	13.2%
EBIT interest cover (times)[3]	16.0x	15.4x
EBITDA interest cover (times)[3]	16.7x	16.1x

Notes:

1. *For comparative purposes, the reset preference shares have been classified as debt as at 30 June 2005 and EBIT for the 12 months to 30 June 2005 excludes $23m of income attributable to minority interests in the trusts controlled by the Group. EBIT has been calculated based on AIFRS for both periods.*
2. *Cross currency swaps are used to hedge the currency exposure from US$ denominated subordinated debt. The cross currency swaps are revalued to take into account movements in the US$/A$ exchange rate and market interest rates and are reported as part of interest paying liabilities.*
3. *Interest cover excludes interest payable on RES, which is offset by interest income.*

Maturity profile of Group debt and reset preference shares	Currency principal amount $ m	A$ equivalent principal amount $ ms	Yield (net of interest rate and cross currency swaps)	Interest rate & dividend repricing date	S&P rating
Long-term debt[1]:					
NZ$50m senior fixed rate notes	NZ$50	41	7.36%	Aug-08	AA
A$50m subordinated floating rate notes	A$50	50	5.78%	Nov-07	AA -
A$250m subordinated fixed rate notes	A$249	249	6.41%	Nov-07	AA -
US$240m subordinated fixed rate notes[2]	US$240	401	6.93%	Apr-10	AA -
A$1.715m subordinated convertible loan[3]	A$2	2	6.67%	Perpetual	Not rated
Total debt		**743**			
Reset preference shares[4]					
IAGPA	A$350	350	5.80%	Jun-07	A -
IAGPB	A$200	200	4.51%	Jun-08	A -
Total reset preference shares		**550**			
Reset Exchangeable Securities (IANG) [5]	A$550	550	5.01%	Mar-10	A -

Notes:

1. *All long-term debt has been issued as either fixed notes, or hedged to fixed rate with interest rate swaps. The yields shown are pre-tax.*
2. *The A$ equivalent of the A$ proceeds received by the Group, net of related cross currency swaps and excluding transaction costs.*
3. *The fixed rate loan is from the minority shareholder of Mutual Community General Insurance Pty Limited.*
4. *The dividend yields shown on the reset preference shares are the cash yields, excluding the value to investors of the attached franking credits. The principal amount excludes capitalised transaction costs.*
5. *The reset exchangeable securities pay a floating rate quarterly interest payment. The interest yield shown is the cash yield for the current interest period, excluding the value to investors of the attached franking credits.*

8.3.4 Reset Preference Shares

- IAGPA and IAGPB were issued and listed on ASX in June 2002 and June 2003, respectively.
- The current coupon rates, as shown in the table above, were set at issue and are due for reset five years after issue.
- They are considered as equity for tax purposes and pay a franked dividend. For accounting purposes, the adoption of AIFRS has meant they are treated as debt. APRA continues to regard them as eligible Tier 1 capital provided that the proportion of these and any other hybrid securities qualifying as Tier 1 capital do not exceed the limits set by APRA.
- The Group's first issue of reset preference shares, IAGPA, will reach their first reset date in June 2007. The terms of issue require notice of the issuers' intentions to be issued at least 50 business days prior to the reset date. The Group currently expects to retain this capital but no decision has been taken as to the terms of any continuation of this security or to replace it.

8.3.5 Reset Exchangeable Securities (RES)

- RES are perpetual reset exchangeable notes with quarterly, floating rate interest payments that are expected to be fully franked. They were issued in January 2005 and are a form of contingent capital as the Group may, at any time, exchange RES for preference shares (issued by IAG) that will pay non-cumulative, quarterly preferred floating rate dividends that are expected to be fully franked. The preference shares, if issued, are expected to qualify as regulatory Tier 1 capital according to their terms. The Group can, in certain circumstances, also convert either RES or the preference shares to ordinary shares.

- The notes are backed by a portfolio of high quality, short-dated, money market securities. The portfolio is managed by the Group.
- The RES and the portfolio of assets which support the securities are set-off in the Group's balance sheet with a net asset being recorded to the extent that the portfolio value is greater than the RES redemption amount. Similarly the interest income on the securities is set-off by the interest distributions on the RES.
- During FY06 the Group expensed interest of $27m, amortised RES borrowing costs of $2m and generated $31m of income on the portfolio. The interest payable on the notes is less than the interest earned on the portfolio, in large part because the interest payable on the notes is net of an allowance for franking credits that attach to the interest distributions.
- RES are listed on ASX as IANG.
- The following table sets out the Group's pro-forma capital adequacy position based on the Group's balance sheet as at 30 June 2006, adjusted as if preference shares were issued in exchange for all RES on issue as at that date:

		Pro-forma adjustments		
A$m	Group	RES on issue[1]	Exchange[2,3]	Pro-forma
Tier 1 Capital	2,731	-	431	3,162
Tier 2 Capital	624	-	119	743
Regulatory capital base	3,355	-	550	3,905
Minimum capital requirement (MCR)[4]	1,834	-	-	1,834
MCR Multiple	1.83x	-		2.13x

Notes:

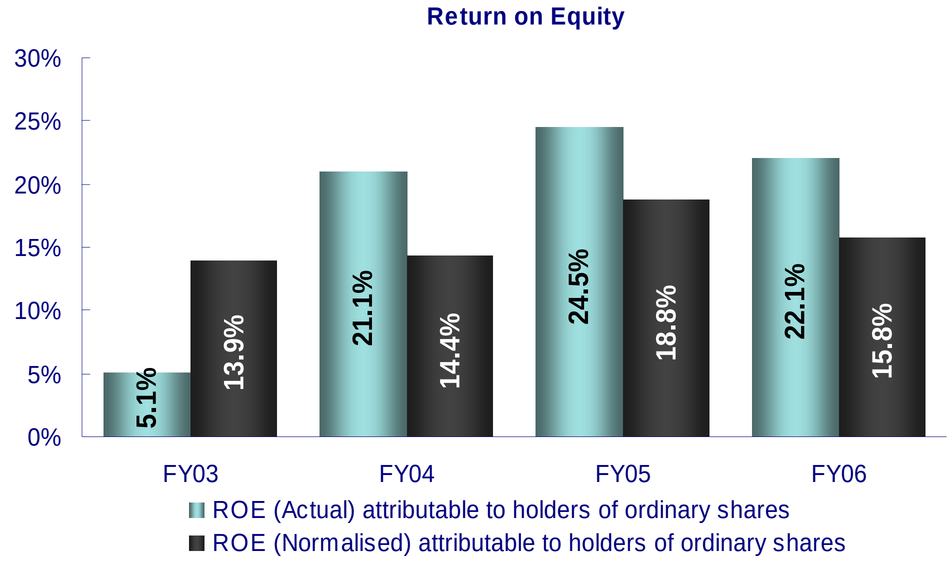
1. *RES are not recognised in the Group's capital adequacy position as they are not eligible to be treated as regulatory capital until such time as preference shares are issued.*
2. *These amounts reflect the composition of the Group's capital adequacy position as at 30 June 2006.*
3. *Assuming there has been no change in the Group's capital adequacy position at the time of exchange and all RES transaction costs have been amortised previously.*
4. *Assuming that the $550 million in investment assets have minimal investment charge and no material impact on the Group's MCR.*

8.3.6 Reinsurance protections

- The Group's catastrophe cover was renewed effective 1 January 2006 and cover was purchased in excess of the retention up to a limit of $3.5bn.
- Based on the APRA single site minimum purchase requirement of a 1 in 250 years return period, the Group's minimum required cover for regulatory purposes is $2bn. The $3.5bn limit is on the same single site APRA basis equivalent to a return period of 1 in 430 years.
- From 1 January 2006, the retained catastrophe loss for a first event was increased from $100m to $200m. This retention drops to $175m for a second event and $75m for a third event to 31 December 2006. The $200m limit moves the retained loss from under 2% of net earned premium to approximately 3.5%. The decision to increase the retained single event loss was made as the cost of the coverage available in the reinsurance market at that time was such that the transaction proved to be capital inefficient compared to retaining the risk against the Group's capital.
- Property surplus cover was secured for Australia and New Zealand on the same basis as expiring from 1 July 2006. Catastrophe cover is purchased in the Australian surplus cover at levels in excess of the 1 in 250 year single site measure.
- The casualty protection was renewed at 30 June 2006 on the same basis as expiring. Unlimited cover was purchased on statutory classes and for other lines cover was placed up to the original underwriting limits for each class.
- The counter-party credit profile of the catastrophe programme has been improved. The expiring programme obtained cover for 70% of the limit from parties rated 'AAA/AA' by S&P and the 2006 programme now stands at 75%. Furthermore, as in 2005, some of the limit is purchased on a "collateralised" basis, where reinsurers have deposited funds equivalent to their participation in a trust fund.

- The counter-party credit profile of the casualty programme improved from 72% of the limits placed with entities rated ‘AAA/AA’ to 81% of limits placed with ‘AAA/AA’ rated entities.

8.4 Return on equity



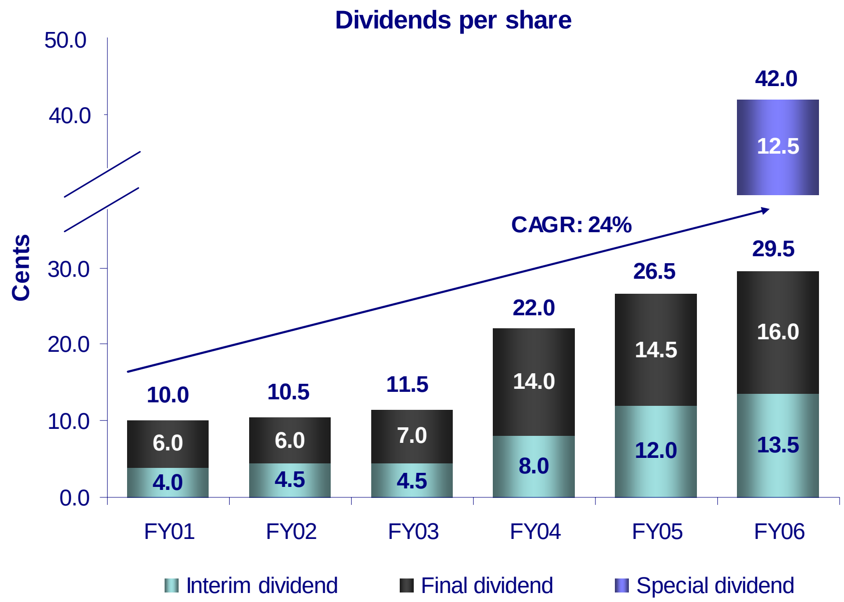
Note: Normalised calculation was based on two adjustments to actual NPAT to holders of ordinary shares:

1. *Exclusion of non-recurring items, eg profit on sale of ClearView in FY04.*
2. *Shareholders’ funds return adjusted to be equivalent to the daily average 10-year bond rate for the year, plus 4%.*
3. *FY05 and FY06 are stated based on AIFRS accounts. The earlier years remain on AGAAP.*

- For the third consecutive year, the Group’s ROE has exceeded 20% assisted by strong equity market returns.
- The normalised ROE for FY06 was 15.8%. Normalised ROE is determined by replacing the actual earnings on core shareholders’ funds (ie shareholders’ funds excluding the surplus capital fund monies) with the earnings that would have been generated using the 10-year bond rate plus 4%. The tax expense is adjusted accordingly. This normalised profit is also used in applying the Group’s dividend policy.
- The Group’s target return on equity to holders of ordinary shares over the cycle is a minimum of 1.5 times WACC. The normalised return for FY06 is in excess of 1.5x the Group’s WACC.
- Over the period since listing early in FY01, the Group’s average reported ROE is 12.8% (normalised 14.1%). The first years after listing in 2000 had lower normalised ROE as the Group transitioned from a surplus capital position, fully funded by ordinary equity, to return or utilise surplus capital and introduce a mix of capital which reduced its weighted average cost of capital. The steps in this process included three off-market buy-backs and the issue of debt and hybrid securities (as noted in Section 8.3 above), as well as improved performance in its core insurance operations.

8.5 Dividends

8.5.1 Dividend on ordinary shares



- The Group has declared a final dividend per ordinary share of 16 cents, fully franked which is payable on 9 October 2006. This brings the annual dividend for FY06 to 29.5 cents per ordinary share, an increase of 11% on the FY05 dividends.
- In addition, the Group paid a special dividend of 12.5 cents per ordinary share in June 2006. This was chosen as the most appropriate form in which to return $201m of surplus capital at that time.
- The total dividend declared for FY06 will be $671m, including the special dividend.
- The dividends paid will have all been fully franked. As at 30 June 2006, the Group had $570m of franking credits it could access providing capacity to frank $1,330m of cash dividends.
- The Group's franking capacity exceeds its current distributable earnings of $1,051m.
- The Group's other issued securities, the IAGPA and IAGPB reset preference shares and IANG reset exchangeable securities, all pay franked distributions. Distributions of these securities absorbed $24m of franking credits during FY06.

8.5.2 Dividend policy and expectations

- The Group's dividend policy has been to pay 50-70% of annual normalised earnings with an interim: final split of 45:55. It has also provided a long-term goal of growing dividends at over 10% per annum over time.
- The dividends on ordinary shares (excluding the special dividend) for FY06 of 29.5 cents per share or $470m meet the growth hurdle but exceed the benchmark pay-out ratio as they represent 87% of normalised earnings for FY06.
- This was foreshadowed at 1H06 as the Group's growth is below the pace it has delivered historically and expects to deliver in the future, so capital did not need to be retained to service short-term growth.
- The Group's capacity to sustain at least 10% growth in total annual dividends over the cycle is dependant on its capacity to sustain growth of at least 10% per annum in normalised distributable earnings, allowing a minimum of 30% to be retained to fund growth.

8.6 Sensitivity analysis

8.6.1 Investment market sensitivities

Sensitivity on NPBT As at		30-Jun-05	30-Jun-06
	Change in assumption	A$m	A$m
Investment sensitivities			
Equity market values:			
Australian equities	+1%	15.6	12.1
Listed property trusts	+1%	0.8	0.8
International equities	+1%	5.0	4.6
Hedge funds	+1%	1.2	2.3
Interest rates:			
Investment returns	-1% or 100 bpts change in interest rates	188.4	197.6
Outstanding claims	-1% Change in net discount rate	(167.3)	(166.2)

- There has been an increase in the Group's sensitivity to interest rates as it has increasingly moved to invest all surplus funds (those funds over the level required to maintain its benchmark multiple of MCR) in interest bearing securities. There has been a decrease in the exposure to equities as a consequence.

8.6.2 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		30-Jun-05	30-Jun-06
	Change in assumption	A$m	A$m
Insurance sensitivities			
Loss ratio - Personal lines	-1%	37.3	36.7
Loss ratio - Commercial lines	-1%	14.6	13.7
Loss ratio - International	-1%	9.2	9.3
Underwriting expenses	-1%	11.0	11.0

Appendix A – Group strategy and sustainable growth

1. Group strategy

- The Group's key objective is to become a top performer in the international general insurance industry, through moving from being a property and casualty (P&C) leader in Australia and New Zealand to becoming a Top 15 global P&C company.
- To achieve this, the Group will seek to double in size by 2012, to ensure continued relevance in a consolidating market, and generate 40% of revenue offshore. The 16.5% growth rate needed to meet this target equates to the rate required to deliver top quartile performance – analysis of entities that have delivered top quartile shareholder return shows delivering sustainable performance above the median involves growth in excess of 14% per annum.
- The strategic approach required to support these objectives remains substantially unchanged. However, it has been refined to take into account the fact that wave one of the Group's international strategy, building a foothold in Asia, is well underway.
- The Group's acquisition strategy is now expanding to examine merger and acquisition opportunities beyond Asia.
- The strategic financial goals remain to:
  - Deliver top quartile shareholder return;
  - Earn a return on equity of at least 1.5 times the Group's weighted average cost of capital on a normalised basis;
  - Continue to build an international platform, in Asia and other markets;
  - Maintain an 80:20 mix of short-tail : long-tail premiums; and
  - Maintain a 'AA' category rating for key wholly-owned insurance operating subsidiaries.
- The operating environment, both domestically and internationally, presents a number of challenges when it comes to delivering on these goals.
- Australia has seen an increase in competitive pressure in both personal and commercial lines, with strong competition in personal lines and soft conditions in the commercial insurance market.
- Internationally, the industry generally is beginning to turn downwards in the cycle, while M&A activity appears to be increasing. Market leaders worldwide have benefited from equity markets and generally benign claims environments (notwithstanding the impact of high profile weather events such as Hurricane Katrina) and this has led to a trend towards consolidation, particularly in markets where organic growth is slowing.
- Both domestically and internationally, thriving in the current environment requires a continued and consistent focus on sustainable growth.

2. Sustainable growth

- The Group is maintaining its focus on meeting these goals in a sustainable way over the long term.
- The Group's focus is on growth over a long period of time, say five years, rather than on growth between one reporting period and the next.
- This translates to a focus on long-term consistency in financial performance, rather than short-term variations.
- For example, the Group's ROE fell below 1.5 times WACC in 2003, while the CGU and NZI businesses purchased in January 2003 were being integrated, but these businesses have been key to delivering shareholder value since and, measured over the period since acquisition, have provided substantial shareholder accretion.

- The Group measures ROE for this purpose using normalised earnings (ie earnings on core shareholders' funds are measured as the 10 year bond rate plus an equity risk premium) to remove equity market volatility and provide focus on core earnings.
- The Group remains committed to creating and maintaining conditions which generate sustainable returns, for example:
  - Diversification of concentration or aggregation exposure in the Group's portfolio;
  - A sustainable cost of capital; and
  - An ability to generate scale benefits in operating expenses.
- Domestically, sustainable growth is supported by:
  - Building organic growth through a clear focus on the customer;
  - Leveraging the Group's pricing capabilities to ensure the Group prices risk effectively through the cycle;
  - Benchmarking the cost base, and making effective use of scale and technology;
  - Continuing to build the capability of people and a culture of performance that will provide a rewarding work environment and improve the retention and performance of our people; and
  - Expanding involvement across the value chain, and ensuring the Group is leading the response to changes in the industry's structure across the value chain.
- Underpinning this approach will be a continued focus on "enablers" – those groups, factors or individuals which are critical to building a sustainable business across the Group such as customers, brands, people, the ability to manage risk in the community, and the risk and regulatory environment in which the Group operates.
- Internationally, the Group will grow through acquisition. The Group is currently investigating and researching a range of possibilities, particularly in mature markets.
- While mature markets do not offer the rapid growth seen in emerging markets, they underpin the Group's focus on sustainable growth by offering the potential for two-way skills and capability transfer.
- Any acquisitions will enable the Group to leverage core strengths in data management, distribution channel skills and supply chain management.
- Both the international and domestic elements of the Group's strategy are designed to ensure consistent and attractive shareholder returns over a long period of time.

Appendix B - A Snapshot of IAG

Australian Personal Insurance Operations

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

The 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. In addition, the Group sells a range of personal insurance nationally under the Swann Insurance brand.

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

Short-tail Insurance

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

Long-tail Insurance

Compulsory third party.

Australian Commercial Insurance Operations

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

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

The Group are a leading provider of workers' compensation services in Australia and operate in every State and Territory where there is a private involvement. In NSW 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 underwrite policies and manage claims. Comprehensive risk management services are available to all employer customers.

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

Short-tail Insurance

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

Long-tail Insurance

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

International

NEW ZEALAND

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

The Group holds approximately 36% of the New Zealand market, and are strongly positioned in all geographic markets.

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

Short-tail Insurance

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

Long-tail Insurance

Surgical
Personal liability
Income protection
Commercial liability

ASIAN INTERESTS

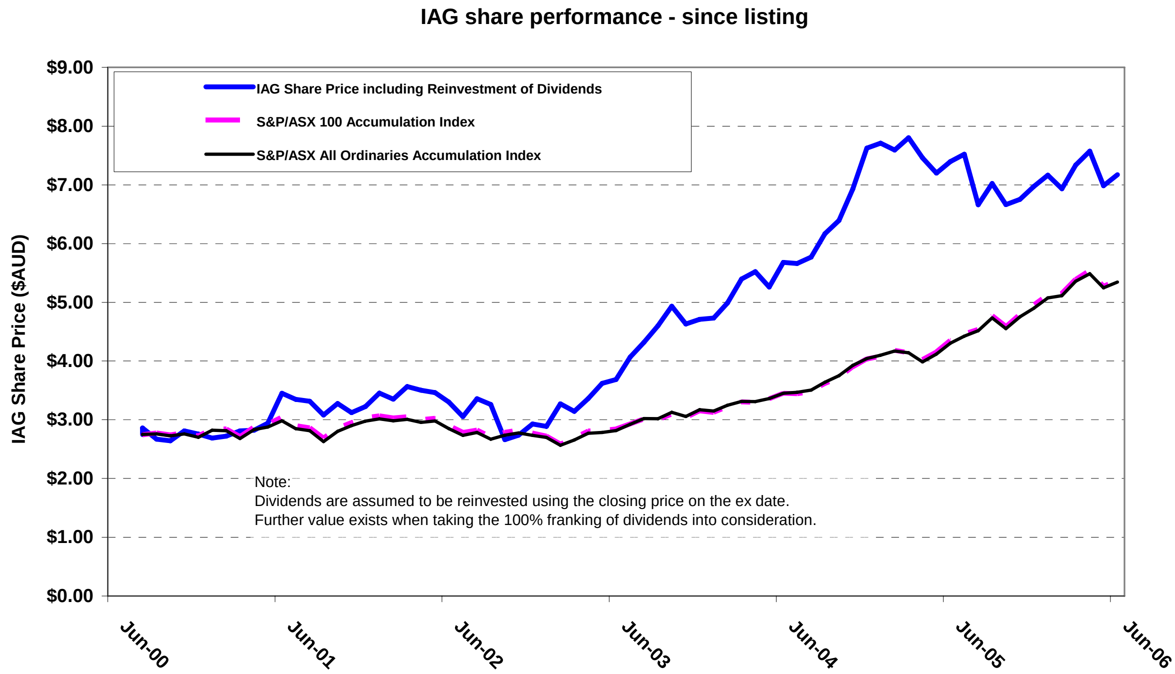
IAG has interests in four businesses in Asia –a controlling economic interest in IAG Insurance Thailand (from July 2005); a 30% share of AmAssurance Berhad (from March 2006); a controlling interest of 96.1% in Thailand's Safety Insurance following a public tender for shares completed in March 2006; and 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China.

Our brands:

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

Appendix C - Share Price Trends & Top 20 Registered Holdings

1. Performance of IAG ordinary shares relative to benchmark indices



2. Spread to Swap performance of Reset Preference Shares & Subordinated Debt & Reset Exchangeable Securities

The first issue of reset preference shares (IAGPA) listed on 5 June 2002. The shares are expected to pay a six-monthly fully franked dividend, currently fixed at 5.80% per annum.

The second issue of reset preference shares (IAGPB) listed on 23 June 2003. They are expected to pay a six-monthly fully franked dividend, currently fixed at 4.51% per annum.

The RES (IANG) listed on 12 January 2005. Interest is payable quarterly. The rate for the quarter to September 2006 5.0143% 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 2005. It does not include announcements of changes in Directors' interests, nor the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements should further information be required. These are available on www.iag.com.au

21 July 2006 Change in Substantial Holding for Capital Group Companies

Capital Group Companies announced it had increased its holding in IAG ordinary shares from 7.2791% voting power to 8.3621%.

3 July 2006 Draft Transaction Agreements with China Pacific Property Insurance

IAG announced that negotiations with China Pacific Property Insurance Co., Ltd (CPPI) had progressed to the stage of a draft transaction agreements being confirmed for the purpose of lodgement with the China Insurance Regulatory Commission (CIRC) for preliminary review.

Under the terms of the draft transaction agreements, IAG will acquire 24.9% of CPPI for approximately $350-375m. IAG and CPPI intend to proceed to sign the transaction agreement as soon as possible following the CIRC's review and formal approval by the shareholders of China Pacific Insurance (Group) Co., Ltd (CPIC Group). Once the transaction agreements are signed there will be further regulatory approvals required which may take up to another four months to complete.

30 June 2006 Change in substantial holding for Capital Group Companies

Capital Group Companies announced it had increased its holding in IAG ordinary shares from 6.2325% voting power to 7.2791%.

15 June 2006 IAG acquires new Lloyd's managing agency and specialist Asian syndicate

IAG announced the acquisition of a newly-formed Lloyd's managing agency and specialist Asian syndicate to support the development and management of IAG's expanding Asian business. The business will operate as Alba Group Pte Limited and be based in Singapore.

The terms of the acquisition are confidential, however the purchase price and the capital required in the first two years of operations are not material to the Group.

13 June 2006 Pricing of Shares to be allocated under dividend reinvestment plan

The ordinary shares allocated under dividend reinvestment plan (DRP) were priced at $5.4218 per share for the 2006 special dividend. The DRP price was based on an average market price for the ten trading days from the 29 May 2006 to 9 June 2006 inclusive.

Under the DRP, approximately 8.7 million ordinary shares were purchased on-market and allocated to participating shareholders on 26 June 2006.

8 June 2006 Notice of cessation of being a substantial holder

452 Capital Pty Limited announced it had decreased its holding in IAG ordinary shares and had ceased to be a substantial holder.

26 May 2006 Changes to IAG executive team

IAG announced changes to its executive team including the promotion of a senior manager to the executive team following the departure of an executive.

The key changes include:

- Mr Rick Jackson, formerly CEO of Asset Management, Reinsurance and Group Strategy, decided to leave IAG and as a result, Mr Jan van der Schalk, currently head of Reinsurance, took up the role of CEO, Asset Management & Reinsurance.
- Ms Christine McLoughlin takes on the role of Group Executive, Strategy, which also formed part of Mr Jackson's portfolio.

8 May 2006 Change in substantial holding for Capital Group Companies

Capital Group Companies announced it had increased its holding in IAG ordinary shares from 5.10% voting power to 6.2325%.

24 April 2006 IAG announces claim estimate of $100 - $135m from Cyclone Larry

IAG confirmed that it expected to pay between $100m to $135m to customers affected by Cyclone Larry. This was in light of over 5,900 claims lodged with CGU and NRMA with the majority of the claims being non-coastal business sold under the CGU brand by financial intermediaries. The claims costs were greater than originally anticipated due to the unusually high intensity of Cyclone Larry as it swept in land.

IAG stated that the Group's catastrophe cover did not cover losses below $200m and thus the damage was within the catastrophe reinsurance deductible for the Group. The total amount of reinsurance recoveries was expected to be less than $10m. The potential claims costs from Cyclone Larry will be approximately 2% of annual net earned premium. The Group still expected to fall within its guidance of a full year insurance margin of 14%-16%. However, it acknowledged the margin would be at the lower end of the scale barring further major losses.

12 April 2006 Dividends payable on Reset Preference shares

The board of IAG declared fully franked dividends on RPS 1 (IAGPA) and on RPS 2 (IAGPB). The record date was 29 May 2006 and payment date was 15 June 2006.

The RPS 1 (IAGPA) dividend rate per annum was 5.80% (with $2.8921 payable per $100 share).

The RPS 2 (IAGPB) dividend rate per annum was 4.51% (with $2.2488 payable per $100 share).

12 April 2006 Declaration of a $200m special dividend on ordinary shares

IAG announced a special fully franked dividend of 12.5 cents per ordinary share payable on 26 June 2006.

11 April 2006 Announcement of Capital Group Companies becoming a substantial holder

Capital Group Companies announced it had purchased a 5.10% voting power of IAG ordinary shares.

30 March 2006 IAG completes tender offer for Thailand's Safety Insurer

IAG announced that its Thai investment holding company, NHCT Limited, had successfully completed its tender offer for shares in Thailand's Safety Insurance Public Company Limited (Safety Insurance). As a result, NHCT Limited has acquired approximately 96% of Safety Insurance. Safety Insurance generates approximately $100m in annual gross written premium.

27 March 2006 Announcement of 452 Capital Pty Limited becoming a substantial holder

452 Capital Pty Limited announced it had become a substantial shareholder with 5.010% voting power of IAG ordinary shares

27 March 2006 Pricing of Shares to be allocated under dividend reinvestment plan

The ordinary shares allocated under the dividend reinvestment plan (DRP) were priced at $5.3425 per share for the 2006 interim dividend. The DRP price was based on an average market price for the ten trading days from 13 March 2006 to 24 March 2006 inclusive.

Under the DRP, approximately 10.2 million ordinary shares were purchased on-market and allocated to participating shareholders on 10 April 2006.

9 March 2006 Warning to IAG's reset preference shares (IAGPA) holders in relation to Mr David Tweed

IAG alerted IAGPA holders that a legal firm that has previously acted on behalf of Mr David Tweed had requested a copy of the reset preference share register and that Mr David Tweed may be preparing to launch an unsolicited offer for those securities.

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

IAG announced a record half-year net profit after tax of $461m for the six months ended 31 December 2005 (31 December 2004: $452m). The Board of IAG declared a fully franked dividend of 13.5 cents per ordinary share payable on the 10 April 2006 and undertook to return $200m to shareholders by 30 June 2006.

1. Ordinary shareholders (IAG) as at 30 June 2006

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		223,412,044	14.02
2	NATIONAL NOMINEES LIMITED		114,762,744	7.20
3	WESTPAC CUSTODIAN NOMINEES LIMITED		71,193,737	4.47
4	CITICORP NOMINEES PTY LIMITED		37,276,037	2.34
5	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	35,046,405	2.20
6	UBS NOMINEES PTY LTD	<116C A/C>	24,000,000	1.51
7	COGENT NOMINEES PTY LIMITED		21,243,145	1.33
8	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<BKCUST A/C>	17,392,694	1.09
9	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<PIPOOLED A/C>	16,443,275	1.03
10	CITICORP NOMINEES PTY LIMITED	<CFS WSLE 452 AUST SHARE A/C>	14,209,669	0.89
11	CITICORP NOMINEES PTY LIMITED	<CFS WSLE GEARED SHR FND A/C>	14,043,687	0.88
12	AMP LIFE LIMITED		12,126,185	0.76
13	QUEENSLAND INVESTMENT CORPORATION		8,946,615	0.56
14	PSS BOARD		8,790,463	0.55
15	IAG SHARE PLANS NOMINEE PTY LIMITED	<IAG PAR UNALLOCATED A/C>	7,743,577	0.49
16	ANZ NOMINEES LIMITED	<INCOME REINVEST PLAN A/C>	7,106,703	0.45
17	CSS BOARD		5,840,733	0.37
18	ARGO INVESTMENTS LIMITED		5,203,333	0.33
19	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		4,592,622	0.29
20	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	3,675,172	0.23
Total Top Holders Balance			**653,048,840**	**40.99**

2. Reset preference (IAGPA) Shareholders as at 30 June 2006

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		677,896	19.37
2	WESTPAC CUSTODIAN NOMINEES LIMITED		249,000	7.11
3	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<JBENIP A/C>	191,744	5.48
4	CITICORP NOMINEES PTY LIMITED		118,775	3.39
5	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	116,940	3.34
6	NATIONAL NOMINEES LIMITED		116,937	3.34
7	UBS NOMINEES PTY LTD		111,163	3.18
8	AMP LIFE LIMITED		100,000	2.86
9	SHARE DIRECT NOMINEES PTY LTD	<NATIONAL NOMINEES A/C>	50,000	1.43
10	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	38,033	1.09
11	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	34,351	0.98
12	ARGO INVESTMENTS LIMITED		30,800	0.88
13	CAMBOOYA PTY LIMITED		30,650	0.88
14	BRENCORP NO 11 PTY LIMITED		22,500	0.64
15	CITICORP NOMINEES PTY LIMITED	<CMIL CWLTH INCOME FUND A/	20,000	0.57
16	M F CUSTODIANS LTD		19,950	0.57
17	ARMADA INVESTMENTS PTY LTD		19,500	0.56
18	GOLDMAN SACHS JBWERE CAPITAL MARKETS LTD	<HYBRID PORTFOLIO A/C>	17,658	0.50
19	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		15,239	0.44
20	NETWEALTH INVESTMENTS LIMITED	<SUPER SERVICES A/C>	15,211	0.43
Total Top Holders Balance			**1,996,347**	**57.04**

3. Reset Preference (IAGPB) Shareholders as at 31 December 2005

Rank		Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		467,585	23.38
2	AMP LIFE LIMITED		199,374	9.97
3	SHARE DIRECT NOMINEES PTY LTD	<NATIONAL NOMINEES A/C>	150,000	7.50
4	COGENT NOMINEES PTY LIMITED	<SMP ACCOUNTS>	123,914	6.20
5	CITICORP NOMINEES PTY LIMITED		83,185	4.16
6	UBS NOMINEES PTY LTD		81,524	4.08
7	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	69,553	3.48
8	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	63,222	3.16
9	NATIONAL NOMINEES LIMITED		61,810	3.09
10	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	28,747	1.44
11	PERPETUAL TRUSTEE COMPANY LIMITED		23,235	1.16
12	MRS FAY CLEO MARTIN-WEBER		20,000	1.00
13	GOLDMAN SACHS JBWERE CAPITAL MARKETS LTD	<HYBRID PORTFOLIO A/C>	18,944	0.95
14	WOODROSS NOMINEES PTY LTD		18,800	0.94
15	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		18,625	0.93
16	FORTIS CLEARING NOMINEES P/L	<SETTLEMENT A/C>	17,898	0.89
17	WESTPAC CUSTODIAN NOMINEES LIMITED		17,300	0.87
18	BRENCORP NO 11 PTY LIMITED		16,000	0.80
19	UNIVERSITY OF CANBERRA		10,000	0.50
20	MOSIDE PTY LTD	<THE SHELL FAMILY A/C>	9,959	0.50
Total Top Holders Balance			**1,499,675**	**75.00**

4. Reset Exchangeable Securities (IANG) holders as at 30 June 2006

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		779,165	14.17
2	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		340,830	6.20
3	NATIONAL NOMINEES LIMITED		225,500	4.10
4	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	88,886	1.62
5	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	78,078	1.42
6	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<AFT>	69,344	1.26
7	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	67,412	1.23
8	SUNCORP CUSTODIAN SERVICES PTY LINITED	<ACT>	52,845	0.96
9	WARBONT NOMINEES PTY LTD	<SETTLEMENT ENTREPOT A/C>	51,970	0.94
10	COGENT NOMINEES PTY LIMITED		50,000	0.91
11	UCA CASH MANGAGEMENT FUND LTD		50,000	0.91
12	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<GSJBW A/C>	48,250	0.88
13	CRYTON INVESTMENTS NO 9 PTY LTD	<GARNER NUMBER 1 A/C>	48,000	0.87
14	CITICORP NOMINEES PTY LIMITED		45,660	0.83
15	BRENCORP PTY LIMITED	<BRENCORP NO 11 PTY LTD A/C	39,504	0.72
16	SR CONSOLIDATED PTY LTD		30,300	0.55
17	ARGO INVESTMENTS LIMITED		25,000	0.45
18	CLYCUT PTY LTD		23,464	0.43
19	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	<NO 1 ACCOUNT>	22,955	0.42
20	AUSTRALIAN NATIONAL UNIVERSITY		20,000	0.36
Total Top Holders Balance			**2,157,163**	**39.23**

Appendix E – Glossary

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

AASB:	Australian Accounting Standards Board.
ABS:	Australian Bureau of Statistics.
AIFRS:	Australian equivalents of International Financial Reporting Standards.
APRA:	Australian Prudential Regulation Authority.
ASX:	Australian Stock 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". Meanwhile, in commercial classes the volume measure is "policies in force". The difference in the definition is required to capture the distinct nature of IAG's business mix.
Combined Ratio:	represents the total of Net Claims Expense incurred and Underwriting Expenses, as a percentage of Net Earned Premium. It is equivalent to the sum of the Loss Ratio and Expense Ratio.
CTP:	compulsory third party insurance, which is liability cover that motorists are obliged to purchase.
Expense Ratio:	the ratio of Underwriting Expenses to Net Earned Premium. Expenses are split into administration and commission, with rates calculated on the same basis.
Fire services Levy (FSL):	FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying the FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy.
Gross Written Premium (GWP):	the total premiums relating to insurance policies underwritten by an insurer or reinsurer during a specified period, before deduction of Reinsurance premiums.
Group:	IAG and its controlled entities.
Insurance Margin:	the ratio of Insurance Profit to Net Earned Premium.
Insurance Profit:	Underwriting Result plus investment income on Technical Reserves.
ISA:	Insurance Statistics Australia Limited
Long-tail:	classes of insurance (such as CTP and workers' compensation insurance) with an average period between the time when earned premiums are and final settlement of claims, which is generally greater than 12 months.
Loss Ratio:	the ratio of Net Claims Expense to Net Earned Premium.
MCR:	minimum capital requirement as defined by APRA.
Net Claims Expense:	insurance claim losses incurred plus claims handling expenses minus Recoveries.
Net Earned Premium (NEP):	Gross Written Premium plus/minus the decrease/increase in unearned premium less the reinsurance expense applicable to that period/premium.

Probability of Adequacy (PoA): the estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. APRA's prudential standard GPS 210 requires general insurers to maintain a minimum probability of adequacy of claims reserves of 75% for the purpose of assessing solvency under the Insurance Act 1973 (as amended).

RACV: Royal Automobile Club of Victoria (RACV) Limited.

Recoveries: the amount of claims recovered from reinsurers, third parties or salvage.

Reinsurance: the practise whereby one party (the Reinsurer), in consideration for a premium paid to it, agrees to cover certain pre-agreed liabilities of another party (the Reinsured) arising from insurance policies issued by that Reinsured.

RES: Reset Exchangeable Securities issued by IAG Finance (New Zealand) Limited and quoted on ASX as IANG. The issuer is a wholly owned subsidiary of IAG.

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

Risks in Force: risk refers to the subject matter than an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.

Shareholders' Funds: the investment portfolio other than Technical Reserves. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations.

Short-tail: classes of insurance (such as motor, home and small-to-medium enterprise commercial) with an average period between the time when premiums are earned and final settlement of claims, which is generally less than 12 months.

S&P: Standard & Poor's Rating Services or Standard & Poor's Investment Services.

Technical Reserves: the investments held to back provisions for outstanding claims (including incurred but not reported and incurred but not enough 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.