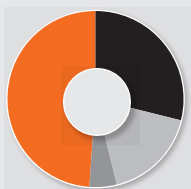


AUSTRALIAN PERSONAL INSURANCE

The Australian personal insurance operation, which contributes around 60% of the Group's GWP, continued to perform strongly despite heightened competitor activity and several severe weather events.

PORTFOLIO MIX % OF GWP



- Motor vehicle 49%
- Home 29%
- Compulsory third party 17%
- Other short-tail 5%

FINANCIAL PERFORMANCE

Gross written premium	\$3,978 million
Net earned premium	\$3,721 million
Combined ratio	92.2%
Insurance margin	16.0%

YEAR IN REVIEW

In the past year, our Australian personal insurance operations achieved an insurance margin of 16.0%, and combined ratio of 92.2%.

We continued to focus on providing help beyond the claim, working with our suppliers to provide a seamless service to our customers when they need it most, at claim time.

This focus has delivered customer retention rates of over 90% for the past three years for directly sold business, while customer complaints decreased to 0.3%, their lowest levels since IAG listed.

A number of significant storms influenced the personal insurance result. The worst of these storms occurred in Sydney and Melbourne in early February 2005. These storms resulted in nearly 25,000 claims.

This year, we also commenced the process of building on IAG's established distribution network by progressively converting 24 of our branches to franchises. The process was the result of a national review of IAG's branch network which looked at the needs of customers, the opportunity for growth in each market and the long term financial viability of each site.

It means we will be able to maintain the most extensive customer-facing network of any insurer in Australia, with 320 branches and country service centres across metropolitan and regional Australia.

Our share of the CTP insurance market remained stable in all markets, with shares of around 40% and 2% in NSW and Queensland, respectively. As no other insurers have entered the ACT CTP market, our share remains at 100%.

OUR CUSTOMERS' PERSPECTIVE

We recognise that paying a claim goes only part of the way to meeting customers' needs. Events which lead to a claim can be stressful or traumatic, so providing a customer experience which takes some of the worry out of the aftermath of an event is a key differentiator for IAG.

Storms in Mudgee and Ulladulla in NSW in April 2005 left thousands of cars with hail damage.

To ensure customers didn't have to wait long for their car to be repaired, IAG has facilitated the widespread use of Paintless Dent Repair, a high quality, fast method of repair which is used internationally on hail damaged cars.

To help customers lodge their claims quickly, we despatched Help Vans to affected locations, and assisted our customers to protect their property by providing tarpaulins. Finally, for those customers whose homes had been made unliveable by the storms, we arranged temporary accommodation.

Our efforts to help our customers aren't limited to those affected by storms.

We take the leg work out of having customers' cars repaired by giving them access to a high quality, rigorously assessed pool of repairers.

We conduct random quality audits of cars repaired by members of our repairer network, we can provide customers a post-repair quality check at no cost, and provide a lifetime guarantee on the quality of the work for approved repairs.

This year, we launched our Care & Repair Centres in metropolitan NSW. They are designed to make the repair process even more convenient. The service has been operating for some time in Queensland, Western Australia and South Australia, where it has driven consistently high customer satisfaction levels.

This method of allocating repairs through these Centres has also increased quality of repairs in all the markets in which Care & Repair operates.

The preferred builders we work with to help our home insurance customers are subject to similar quality controls as those which govern our preferred smash repairers. We also give our customers access to quality suppliers to help replace stolen or damaged goods.

This year saw a new addition to our home insurance product line. Landlords insurance was launched in March 2005, to cater to the increasing number of property investors. This product provides benefits to landlords for a number of common risks faced by them.

OUR COMMUNITY

Part of our purpose is to reduce risk in the community. In the context of our personal insurance operations, this translates to reducing risk at home and on the road.

Severe head injury is the most common cause of death from accidents for people aged under 40 and a leading cause of disability in the Australian community. Head injuries sustained in motor vehicle crashes costs the NSW community more than \$180 million every year.

This year, we took a significant step towards reducing the severity of head injuries suffered by accident victims, with the launch of the Head Injury Retrieval Trial (HIRT).

IAG has committed \$11.2 million to the trial over three years, which is being carried out by NRMA CareFlight throughout Greater Sydney and surrounding regions.

The trial entails sending a specialist doctor and paramedic by helicopter directly to randomly selected crash scenes to assist people identified as having severe head injury.

We have also continued helping local communities to reduce risk through our **communityhelp** grants programme.

In 2005, IAG awarded 150 **communityhelp** grants, with a total of around \$530,000 going to fund community projects including:

- Fire safety initiatives for people with hearing impairments, run by Travellers Aid Disability Access Service in Victoria;
- Education on road safety around school zones, an initiative by the Fitzgerald State School P&C Association in Queensland; and
- Community safety seminars in English, Vietnamese, Cantonese, Arabic and Spanish, run by Woodville Community Services in NSW.

Since the **communityhelp** grants programme began in 2003, IAG has given more than \$1.3 million in grants to community groups across Australia.

Our preferred smash repairers are our partners in providing quality smash repairs to our customers, and we're committed to ensuring the sustainability of the smash repair industry.

In 2000, IAG launched its Jumpstart Autobody Scholarship programme for school leavers interested in a career in smash repair.

In June this year, the first group of NRMA Insurance Jumpstart Autobody Scholarship holders graduated. As recognition of their commitment throughout the programme, IAG recently presented the nine participants and their employers with \$5,000 each.

In 2004, the Scholarship was joined by the Jumpstart Autobody Traineeship, which allows students to train for a career in smash repairing while completing high school. To date, 230 students have found a job with our preferred smash repairers through the \$7.4 million programme.

LOOKING FORWARD

In the next year, we aim to maintain the high retention levels which have characterised our home and motor portfolios.

We will remain focused on using sophisticated risk rating to ensure low risks don't subsidise high ones. In the next year, we will refine this focus to develop ways to ensure that those customers who take measures to reduce their risk are increasingly rewarded by discounts or lower premiums.

We will continue to seek community partnerships which provide relevant, useful risk mitigation tools, driving both customer retention and risk reduction.

We will also work with our preferred suppliers to continue to develop and implement supply chain models which drive greater efficiency, quality and customer satisfaction.



WOOD CHOPPER TO THE RESCUE

Imagine the horror of waking up with a tree at the foot of your bed. That's what happened to customer Richard Wardlaw when rain and windstorms battered the Melbourne area in February this year.

"It was 4am, my wife was away and I was asleep. Torrential rain and storms had softened the ground so when the winds came, I woke up to a giant crash and found water pouring into the bedroom. Our giant poplar tree had crashed into the house and was balancing on a cross beam and window frame, perfectly aimed at our bed.

"I was shaken, but thankful to be alive.

"After the initial shock of what had happened, the clean up task seemed daunting. From the beginning, CGU was there coordinating the entire effort. The position of our house and the block of land meant that cranes couldn't get access and it was simply too dangerous for tree loppers to chop the tree into bits.

"That's when CGU decided the only way to get this tree out of our house was by helicopter – a sight I thought I would never see."

AUSTRALIAN COMMERCIAL INSURANCE

Our Australian commercial insurance operations, predominantly branded CGU Insurance, reported gross written premium growth of 5% in a market characterised by falling rates.

PORTFOLIO MIX

% OF GWP



- Short tail commercial 63%
- Liability 25%
- Workers' compensation 12%

FINANCIAL PERFORMANCE

Gross written premium	\$1,694 million
Net earned premium	\$1,435 million
Combined ratio	95.3%
Insurance margin	17.2%

YEAR IN REVIEW

Our Australian commercial insurance operations achieved a solid performance during the year, growing gross written premium by 5%, and posting a combined ratio of 95.3% and an insurance margin of 17.2%.

Growth in business volume contributed to our result, with the number of policies in force increasing by 7%. In addition, our retention and renewal rates were strong due to the relationships we have built with our intermediaries.

To position our business for long term growth, we developed four strategic platforms during the year:

- being market-focused and forming strategic relationships;
- building a portfolio of businesses operating at an optimum level;
- providing exceptional customer claims experience; and
- investing in the development and the technical ability of our people.

These strategic platforms guided our business direction and the development of our initiatives. This focus also deepened our understanding of customers and the broader community, and better equipped us to design and deliver more robust products and services.

OUR CUSTOMERS' PERSPECTIVE

CGU's strategy to foster deeper relationships with customers and stakeholders saw the introduction of a number of initiatives.

Our customers told us they wanted our technology to work better for them. In response, we've significantly enhanced our online capabilities.

We extended our web-based CGU Connect product to include commercial pack and landlords insurance, and launched an online claims tracking system for personal insurance claims to help insurance brokers manage their customers' policies. We also placed our renewal documents online for checking by customers, which led to a halving in turnaround time and cutting paper use by 10 million A4 sheets a year.

Similarly, we developed a web-based reporting system to help employers proactively manage injury claims and identify how they can improve safety.

We boosted our health and safety product suite, developing the CD ROM tool, Risk Radar, to help small businesses manage and improve their environmental and OH&S performance. Risk Radar picked up the United Nation's Australian 'Triple Bottom Line' Award 2005.

CGU also launched its market-leading online learning management solution for small to medium businesses, making employee safety training significantly more accessible and affordable.

We also introduced a best practice case management programme for our workers' compensation teams in South Australia and Victoria, bringing together associated disciplines and strategies to help injured people return to work and preventing further injuries.

Our brokers asked us to share our knowledge about specialist insurance products like workers' compensation and professional risks. In response, we held education sessions for more than 1,000 employees of brokers and authorised representatives. This educational support has been a key factor in prompting brokers to rate CGU's Professional Risks team as Australia's number one for small to medium-sized businesses for the sixth time in the Deloitte/JP Morgan General Insurance survey.

We trained a further 4,400 employers and their representatives about their obligations in managing claims of injured employees, getting injured people back to work and preventing workplace injuries.

From a product perspective, we worked closely with regulators, governments and the building industry to extend our home warranty insurance presence beyond NSW and Victoria, to also be available in South Australia, Western Australia and Tasmania.

Drawing on the existing expertise in our business, we launched a dedicated commercial motor fleet unit so CGU can provide broader products and services to both small and large motor fleet clients. As part of this, we established a new accident management model giving customers a single point of contact to ensure minimal off road time.

OUR PEOPLE

Commercial insurance involves many stakeholders and complexities associated with law, regulation and technical factors. As such, a high calibre workforce is essential. We established professional benchmarks during the year to ensure we have a workplace that attracts the best people and supports our people to be their best, particularly in relationship management and technical ability.

We launched an Australian industry first – the CGU Commercial Insurance Academy – providing our people with high quality education delivered by experts. We also supported the Business Insurance Accredited Learning Programme, a competency-based programme. These initiatives are industry-approved and the qualifications are recognised externally.

Our people achieved outstanding results in the Australian and New Zealand Institute of Insurance and Finance Academic Awards. We will continue supporting the development of our people.

OUR COMMUNITY

We have a proud tradition of standing alongside local communities in times of need. Our response to the Eyre Peninsula fires in January 2005, where lives were tragically lost, was prompt and aimed to provide immediate crisis support within 24-hours of the fires, helping with accommodation and advance payments. We also joined agribusiness partners, Elders and Landmark, to work with local businesses and farmers to plan for the community's longer term recovery.

We used our vast risk management knowledge to raise awareness about community risks and to help make the lives of our customers safer, particularly those with limited resources like farmers and small business owners.

Working in partnership with the NSW Police and Crimestoppers, we launched a campaign to prevent rural crime and encourage people who have been victims of crime to report it.

Through the media, we educated small businesses about the importance of physical and cash security and highlighted peak periods for crimes against businesses. Using our claims data, we developed a Top Six Farm Risks campaign to help people on farms prevent injury, and we worked to raise awareness about where and when people are most likely to be injured in the workplace.

Our dialogue with the broader community is now more meaningful and is geared towards keeping insurance affordable, particularly as society and its expectations change. In anticipation of the community benefits we believe will result from tort law reforms, we cut our public liability rates by more than 10% in all States and Territories.

LOOKING FORWARD

We will continue to strengthen our business for sustainable growth.

We are developing centres of excellence around our product groups, distribution networks and customer segments. This means we can improve our risk selection and pursue targeted opportunities and provide the best insurance solutions and service to our customers.

Our strategies are resonating well with our people and our customers and provide an excellent base for future growth and profitability.



DRIVING SAFETY AT DIESEL ENGINE FACTORY

Working with our customers to reduce risk is core business for IAG. Stuart Davis, General Manager of R Moore and Sons, a diesel engine factory and CGU workers' compensation customer in Western Australia really appreciates this.

"Our workshop is a safer place since CGU helped us work out an action plan to reduce hazards for our staff.

"The CGU team looked at our safety management systems, interviewed our staff and toured our office, factory and storage areas. They worked out that most of our workplace injuries resulted from the way employees were handling materials which caused sprains and strains, and showed us more than 40 specific improvements we could make to minimise the hazards.

"The results have been remarkable. Our staff benefit from working in a safer environment, and we've significantly reduced our costs – injury claims are down by more than 80%. We have a growing confidence in dealing with health and safety issues. Staff have become involved and developed a positive attitude to our health and safety strategy, and our standards have been raised."

The reason IAG does this is simple: reducing risks means customers can avoid unnecessary hardships, and they can benefit from lower premiums too.

INTERNATIONAL OPERATIONS

The Group's international operations produced a significant improvement in margins, benefiting from favourable underwriting conditions.

NEW ZEALAND OPERATIONS PORTFOLIO MIX

% OF GWP



- Short-tail commercial 42%
- Motor vehicle 27%
- Home 26%
- Other short-tail 5%

FINANCIAL PERFORMANCE

Gross written premium	\$1,001 million
Net earned premium	\$868 million
Combined ratio	92.5%
Insurance margin	10.6%

NEW ZEALAND OPERATIONS

Favourable underwriting conditions, coupled with further operational efficiencies and high customer retention and satisfaction levels, enabled our New Zealand operations to maintain momentum during the year. This resulted in an improved insurance margin and combined ratio.

Our people were put to the test again this year responding to some of the worst weather-related events in New Zealand's history. In May 2005, in the upper North Island, major damage caused by storm-related floods and landslips resulted in more than 1,500 claims. A month earlier, the most severe hailstorm in Christchurch in 10 years led to approximately 3,100 claims.

Claims costs from major weather-related events totalled around \$36 million, with the scale of claims and rebuilding placing strain on resources in affected areas. This compared to around \$14 million in the prior year, net of reinsurance recoveries.

Despite the challenge of responding to these events, as well as operating in an environment experiencing heightened competition from both domestic and offshore competitors, we maintained our position as New Zealand's market leader during the year, holding a share of approximately 37% of the general insurance market (according to Insurance Council of NZ Statistics).

This was achieved through a clear focus on leveraging our product and distribution capabilities and improving customer service and delivery standards. We also further increased the efficiency of our operations, while our bottom line benefited from the first full year's contribution of the integration synergies flowing through from the acquisition of NZI in January 2003.

Our distribution network was enhanced during the year through the acquisition of interests in three small, niche underwriting operations:

- Clipper Club Marine Underwriters Limited, a specialist marine underwriter and distributor of marine insurance products;
- National Auto Club Underwriters Agency (NZ) Limited, a specialist underwriter of high performance motor vehicle insurance; and

- Mike Henry Travel Insurance Limited, in which we've acquired a 50.1% interest, to enable us to become the leading underwriter and distributor of travel insurance products within the New Zealand market.

In addition, our New Zealand operations launched a number of core business products, including insurance products tailored to high net worth individuals, body corporates and students.

We also reviewed our technology systems which manage customer claims and policies, and resolved to adopt the same platform in New Zealand for our direct lines as used by IAG's Australian personal lines operations, rather than build a stand-alone platform.

Our people have been integral to achieving our consistent results. The most recent survey of our 1,900 employees showed an improvement in engagement levels, which is particularly pleasing given the operational challenges we faced during the year. Career and capability programmes and improved training, coupled with our system of reward and recognition and strengthened leadership from the management team, contributed to the improvement.

OUR CUSTOMERS' PERSPECTIVE

Recognising that responsiveness to customers is a key to our sustainability as a business, we made further progress during the year in improving our service delivery.

To drive improvements, we reviewed our internal training programmes, success measures and key performance indicators, and introduced initiatives to heighten our service standards, including the 'Customer Promises' concept and a customer feedback system.

A 'Customer Promise' is a statement developed by our customer-facing teams that helps to heighten our people's motivation to improve every customer interaction, while the feedback system is a formalised method to capture and learn from our customers' comments.

Customer satisfaction results demonstrate the success of the improvements we have made. In our direct channel under the State brand, overall customer satisfaction increased from 86% to 89%.

Similarly, research conducted among key brokers to measure the strength of their relationship with NZI showed the business achieved significant increases in broker satisfaction, improving from 70% to 84%.

OUR COMMUNITY

We take our role in promoting safer communities in New Zealand very seriously.

We were very pleased that this was recognised when IAG New Zealand took first place in the large business category of the Sustainable Business Network's National Sustainable Business Awards. The award recognises our focus on tackling key community issues such as under and noninsurance, climate change and flood mitigation.

A range of programmes have been launched through our partnership with the New Zealand Fire Service, most notably our sponsorship of the Fire Awareness Intervention Programme which aims to overcome the problem of children and adolescents lighting fires.

Our Neighbourhood Support and Community Patrols work in close partnership with the police to make people's homes, streets, neighbourhoods and communities safer places to live and work. Our sponsorship of Victim Support assists in providing practical advice, information and emotional support to more than 140,000 New Zealanders affected by trauma every year.

In line with our commitment to ensuring the sustainability of our key suppliers, we continued to support the vehicle repair industry through our apprenticeship scheme. Under the scheme, which is in its third year, IAG New Zealand pays all fees and course-related costs for selected students to complete a National Certificate-level qualification in panel beating or vehicle refinishing. During the year, 25 applicants were selected to complete the three year course.

Our commitment to reducing our impact on the environment progressed well during the year. Initiatives included new recycling programmes in our offices, the introduction of environmentally friendlier vehicles in our fleet, the inclusion of sustainability criteria within the design and fit-out of our new building in Christchurch and the introduction of new sustainability criteria to guide the selection of all our suppliers.

LOOKING FORWARD

We will continue to focus on growing our New Zealand operations through innovating and developing our capabilities, reducing costs and leveraging our scale.

We will also focus on developing niche business opportunities, like those offered through our marine and travel insurance ventures.

We recognise that we have an ability to influence and shape our business environment by extending our leadership position within the community, particularly in public education about the issue of under insurance and noninsurance.

As our customers continue to increase their level of understanding about insurance products, we will be required to constantly meet the challenge of updating our technology and operational processes. Our recruitment and employee engagement strategies will need to evolve to match the challenges of a tightening labour market.

ASIAN INTERESTS

The Group continued to develop and expand its portfolio of assets in Asia.

In China, our key strategies to develop our wholly-owned road side assistance company, the China Automobile Association (CAA), are to develop a retail direct distribution strategy and to expand the business beyond Beijing to become a national player in the road side assistance market.

CAA recently broadened its product mix from only offering pre-paid membership to offering a range of fee-for-service options for road service and towing.

In addition, CAA continued to expand its distribution, acting as an agent selling car insurance for China's three leading insurers.

CAA is also developing its position as a road safety advocate, establishing an accredited partnership with Tsinghua University for a smash testing facility. We have commenced free towing services for government-owned buses in cooperation with the Beijing Traffic Management Bureau to alleviate traffic problems, and we are also assisting the government with the Beijing 2008 Olympics.

In Thailand, we acquired a small general insurer, formerly part of the Royal & SunAlliance Insurance Group in July 2005. This acquisition, coupled with our existing strategic 22% holding in Thailand's fifth largest motor insurer, Safety Insurance, positions the Group well to play a role in the inevitable consolidation of the fast growing Thai general insurance market.

With our technical assistance, Safety Insurance has continued to grow profitably. During the past year, Safety Insurance's revenue grew more than 10% and earnings per share increased by about 20%.

LOOKING FORWARD

Our strategy remains to build a portfolio of insurance assets in Asia, subject to finding the appropriate opportunities at the right price.

Working with CAA is assisting us in gaining knowledge of the general insurance market in China, which is benefiting our research of potential partnership opportunities.

In the growing Thai general insurance industry, we are positioned well to play a role in the market's anticipated consolidation.

Our focus for future growth opportunities in Asia remains on China, Thailand, Malaysia Hong Kong, Singapore and India. We intend to open a regional office in Singapore to assist with the management and growth of our Asian investments.