INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
Directory

Stock Exchange Listings of the Group

ASX Limited:
ASX code for Ordinary Shares: **IAG** (Shares on issue: 1,794,633,692)
ASX codes for Reset Preference Shares: **IAGPA** (Listed June 2002) and **IAGPB** (Listed June 2003)
ASX code for Reset Exchangeable Securities: **IANG** (Listed January 2005)

London Stock Exchange:
LSE code: 70QG for
Insurance Australia Group Limited £250m Fixed/Floating Rate Subordinated Notes due 2026

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

Final dividend – ordinary shares

Ex-dividend date	30 August 2007
Record date	5 September 2007
Payment date	8 October 2007
Payment date for IANG quarterly distribution	17 September 2007
Annual General Meeting	13 November 2007
Payment date for IAGPA, IAGPB and IANG distributions	17 December 2007
Announcement of half-year results to 31 December 2007	29 February 2008

Interim dividend – ordinary shares

Ex-dividend date	5 March 2008
Record date	12 March 2008
Payment date	14 April 2008
Payment date for IANG quarterly distribution	17 March 2008
Payment date for IAGPA, IAGPB and IANG distributions	16 June 2008
Announcement of full-year results to 30 June 2008	22 August 2008

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

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Insurance Australia Group

1 INTRODUCTION

Insurance Australia Group Financial Performance	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**3,206**	**3,229**	**3,324**	**4,057**	**6,435**	**7,381**
Gross earned premium	**3,320**	**3,217**	**3,369**	**3,838**	**6,537**	**7,207**
Reinsurance expense	(209)	(196)	(214)	(250)	(405)	(464)
Net premium revenue	**3,111**	**3,021**	**3,155**	**3,588**	**6,132**	**6,743**
Net claims expense	(1,985)	(1,915)	(2,033)	(2,441)	(3,900)	(4,474)
Commission expense	(254)	(250)	(259)	(306)	(504)	(565)
Underwriting expense	(598)	(597)	(619)	(678)	(1,195)	(1,297)
Underwriting profit	**274**	**259**	**244**	**163**	**533**	**407**
Investment income on technical reserves	195	115	176	184	310	360
Insurance profit	**469**	**374**	**420**	**347**	**843**	**767**
Net corporate expenses	(29)	(27)	(30)	(39)	(56)	(69)
Interest	(45)	(41)	(50)	(69)	(86)	(119)
Profit/(loss) from fee based business / share from associates	(1)	4	29	54	3	83
Investment income on shareholders' funds	345	194	166	135	539	301
Profit before income tax and amortisation	**739**	**504**	**535**	**428**	**1,243**	**963**
Income tax expense	(220)	(153)	(146)	(133)	(373)	(279)
Profit after income tax (before amortisation)	**519**	**351**	**389**	**295**	**870**	**684**
Minority interests	(52)	(51)	(37)	(40)	(103)	(77)
Profit attributable to IAG shareholders (before amortisation)	**467**	**300**	**352**	**255**	**767**	**607**
Amortisation	(6)	(2)	(7)	(48)	(8)	(55)
Profit attributable to holders of ordinary shares	**461**	**298**	**345**	**207**	**759**	**552**

Insurance Ratios						
Loss ratio	63.8%	63.4%	64.4%	68.0%	63.6%	66.4%
Expense ratio	27.4%	28.0%	27.8%	27.4%	27.7%	27.6%
Commission ratio	8.2%	8.3%	8.2%	8.5%	8.2%	8.4%
Administration ratio	19.2%	19.7%	19.6%	18.9%	19.5%	19.2%
Combined ratio	91.2%	91.4%	92.2%	95.5%	91.3%	94.0%
Insurance margin	15.1%	12.4%	13.3%	9.7%	13.7%	11.4%

Key Financial Metrics						
Reported ROE % (Avg Equity) pa	26.4%	18.2%	19.5%	9.2%	22.1%	13.5%
Normalised Cash ROE % (Avg Equity) pa	18.6%	13.7%	17.2%	9.7%	16.0%	12.9%
EBITDA (A$m)	806	576	610	555	1,382	1,165
Net cash flow from operations (A$m)	175	212	199	202	387	401
Basic EPS (cents)	28.94	18.73	21.42	11.79	47.66	32.79
Diluted EPS (cents)	28.76	18.62	21.30	11.71	47.38	32.59
DPS (excluding special dividend) (cents)	13.50	16.00	13.50	16.00	29.50	29.50
Probability of adequacy of general insurance claims reserves	91.8%	90.0%	90.0%	90.0%	90.0%	90.0%
MCR multiple - Group	2.04x	1.83x	2.39x	1.67x	1.83x	1.67x

- FY07 was a transformational year for the Group with the acquisition of its UK businesses, which contributed almost 16% of the Group's GWP in 2H07. The increased diversity brought by these businesses will assist in reducing reliance on market conditions in the Australian insurance market as well as enhancing earnings – the acquisition of the Equity Insurance Group was immediately cash EPS accretive.
- The Group recorded strong growth in top line revenue in FY07, with GWP growing by 14.7%, compared to a fall of 3.6% in FY06. FY07 GWP grew by $946m to a record $7,381m from $6,435m in FY06. This year-on-year turnaround in GWP, which exceeded the Group's guidance of 12-14% growth, was achieved through a combination of 2.9% of organic growth and 11.8% of acquisitive growth from the newly acquired European underwriting businesses in the UK and Gibraltar.
- The Group's reinvigorated domestic personal lines business turned a prior year fall in GWP of 3.0% into a 2.6% gain after adjusting for the changes to the NSW CTP scheme, which reduced the premium that could be underwritten by the private sector. Excluding the long tail portfolio, FY07 short-tail personal lines GWP increased by 3.3% over the prior year against a 2.6% decline in the prior year.
- The Group produced a consolidated net profit after tax of $552m for FY07, compared to $759m in FY06 and generated a return on equity (ROE) of 13.5% or 12.9% normalised for investment returns and excluding amortisation of intangible assets. We believe this profit does not fully reflect the earnings potential of the Group or the progress made during the year due to the $200m pre-tax impact of the June 2007 storms in the NSW Hunter Valley and Newcastle region (June 2007 Storms) and floods and storms in the UK.
- Non-trading items of note are:
  - A reduction of around $167m in after tax profits related to reduced returns from the investment of the Group's shareholders' funds, primarily due to a decision to move to a more conservative asset mix and accompanied by reduced active returns; and
  - A $47m increase in amortisation expense in relation to the acquired intangibles arising from acquisitions completed during the year.
- The insurance margin was 11.4% compared with 13.7% in FY06. This decrease was mainly attributable to:
  - Two extreme weather events, which occurred in June 2007 in parts of NSW in Australia and in the UK, caused significant property damage and cost the Group $200m (net of reinsurance) before tax, or a 3% detriment to the insurance margin;
  - Continued soft cycle conditions in commercial insurance;
  - Poor performance of the volume UK private motor book, which offset the returns of the better performing bespoke motor specialty business;
  - Higher underwriting expenses in New Zealand following the introduction of a new underwriting IT system that is expected to lead to future improved performance; and
  - The Group's fund managers did not generate any active performance from the asset portfolio that backs the Group's insurance liabilities.
- Excluding the impact of the cost of the extreme weather events, the Group's FY07 normalised ROE would be 16.1%.
- The above items in aggregate more than offset the continued strong performance of the Group's Australian long-tail insurance.
- Net income from fee based business increased substantially from $1m in FY06 to $78m in FY07. This was largely attributable to performance bonuses received in the Australian workers' compensation management business. It includes $18m of profits from fee based business in the UK.

- The result includes $301m of pre-tax income from the investment of the Group's shareholders' funds on the back of another year of strong underlying equity market returns. In FY06, the equivalent return from shareholders' funds was $539m. A key driver for this variance was the Group's decision to significantly reduce its exposure to equities during 1H07, effectively freeing up economic capital to support the Group's growing portfolio of insurance risks, which are expected to produce more sustainable and higher quality earnings into the future.
- The FY07 fully franked final dividend of 16.0 cents per share has been maintained at the same level as last year. This brings the total fully franked dividends payable in respect of FY07 to 29.5 cents per share – the same dividend per share as in FY06 – notwithstanding the expanded capital base. This is in accordance with the guidance provided to shareholders since August 2006. The dividend will be underwritten to support acquisitions that the Group expects to complete in the next six months.
- FY07 cash earnings per share (EPS plus amortisation of intangible items) was 36.11 cents per share versus 48.13 cents per share in FY06.
- FY07 net cash flows from operating activities increased by 3.6% to $401m compared to $387m in FY06.

1.1 Operating environment

- Overall, the operating environment continued to be very competitive and challenging in each of the Group's largest markets: Australia and the UK.
- Extreme weather events impacted the Group's operations in Australia and the UK.
- Pricing behaviour overall in the Australian short-tail personal lines markets continued to remain rational while competitive, with the market raising prices modestly over the year – particularly in the home product.
- FY07 was the fourth successive year of falls in premium rates in the Australian commercial insurance market. However, rate reductions this year have been less pronounced in the middle and SME markets, where the Group is active, than in the corporate market, where the Group has only a small footprint. The segment profits continue to be supported by prior year releases from the long-tail business classes.
- New Zealand industry conditions have broadly mirrored those in Australia, except that, as there is very little long-tail insurance in the hands of the private sector in New Zealand, there are no significant long-tail releases available to subsidise underwriting, so the market has tended to price more rationally.
- The Group's Asian businesses in Malaysia and Thailand have continued to grow despite the negative impact that rising fuel prices have had on the demand for motor vehicles.
- The UK private motor insurance market has been subject to intense competition and claims inflation is estimated to be running at 4-5% per annum. The AA British Insurance Premium Index indicates that quoted rates (before discounts) for comprehensive motor insurance have risen around 7.9% since July 2006. The pace of increases has been volatile and very little is reflected in earned premium to 30 June 2007.
- Further information on the Group's performance can be found in the segment commentary in this report.

1.2 Balance sheet strength

- The Group continues to maintain a very strong balance sheet. At 30 June 2007:
  - The Group's net assets totalled $4,832m versus $3,671m as at 30 June 2006. Excluding minority interests, the net assets attributable to holders of ordinary equity were $4,660m, an increase of $1,169m from 30 June 2006. The increase includes $862m, after costs, of new shares issued as part of the funds for the acquisition of Equity Insurance Group which was completed in January 2007. The remaining increase represents the net profit after tax for FY07 less the cash dividend of $255m paid in October 2006.
  - Total debt of $2,017m, including APRA regulatory Tier 1 hybrid capital of $550m, represents 30.2% of the Group's total capitalisation (excluding minority interests) versus 31.2% and 27.1% as at 31 December 2006 and 30 June 2006 respectively.
  - The regulatory capital position, measured as a multiple of APRA's Minimum Capital Requirement (MCR) applied to the Group, remained very strong at 1.67x, ahead of the Group's current benchmark of 1.55x.
  - The Group continues to maintain $550m of fully funded contingent capital off-balance sheet. If the Group exercised its exchange rights into on-balance sheet regulatory capital, this would increase the Group's MCR multiple by 0.27x to 1.94x.
  - Reinsurance recoverables of $970m represented only 4.5% of total assets. This includes around $473m (2.2% of total assets) in respect of outstanding claims for the recent severe Australian storms.
  - The probability of adequacy on outstanding claims was maintained at 90.0%.
- The ratio of short-tail to long-tail insurance based on GWP remains at 80:20, in line with the Group's target. This was set as a measure of risk appetite as long-tail business is inherently more risky and volatile.
- After payment of the 16.0 cents per share final dividend, the Group will still have franking credits of $441m available to support future fully franked distributions of $1,029m and expects to be able to fully frank dividends for the foreseeable future.

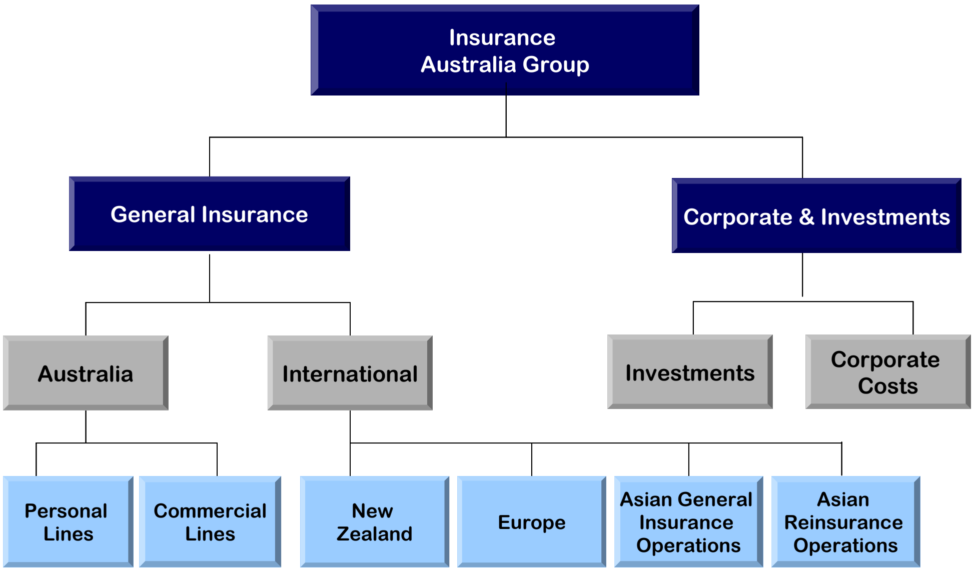
1.3 International expansion

- The Group made two significant acquisitions in Europe in FY07, both UK operations:
  - The Hastings business – a leading personal lines motor insurance broker with a Gibraltar domiciled underwriter, which was consolidated from 29 September 2006; and
  - Equity Insurance Group – a leading Lloyd's syndicate motor underwriter and personal lines broker which was consolidated from 1 January 2007.
- Information on both the Hastings and Equity Insurance Group businesses is provided in Section 4.4 of this report.
- The Group also completed its acquisition of the Alba Lloyd's syndicate and its managing agency, now known as Diagonal Underwriting Agency. These operations were consolidated from 3 July 2006.

1.4 Outlook

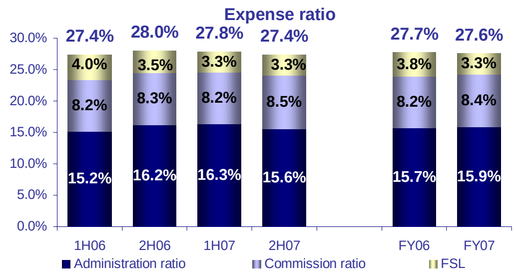
- The Group expects to continue to grow GWP in the range of 10-12% in FY08 and deliver a return on equity (normalised for investment returns and excluding amortisation of intangible assets) of at least 1.5x WACC subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond our allowances and no major falls in bond values.
- Following the improved GWP trends of 2H07, the reinvigorated Australian personal lines and New Zealand businesses are well positioned to continue to deliver quality returns in competitive markets.
- In the Australian commercial lines business the current level of reserve releases is unlikely to be maintained in the medium term, and once these cross subsidies are exhausted, that could prove to be the catalyst for a move to more rational sustainable pricing. In the interim, the business has begun to increase prices and selectively withdraw capacity from certain short-tail product lines if it believes the rates on offer are insufficient to generate an appropriate rate of return for the risks underwritten.
- A significantly improved financial contribution from the European business is expected as premium rate increases flow into earned premiums, and further cost synergies are realised. It is expected that rates will continue to rise as insurers seek to build a margin over claims inflation.
- The Group continues to investigate potential bolt-on acquisition opportunities, both in the countries in which it is operating and in other regions, to progress its strategy of growing and diversifying its earnings streams in a shareholder accretive fashion, and remains focused on motor led propositions.
- Even though targeting a normalised ROE of 1.5x WACC, the Group does not plan to grow the dividend per share in FY08, having considered the growth aspirations which require capital, the Group's preferred credit rating and its relatively high dividend yield.

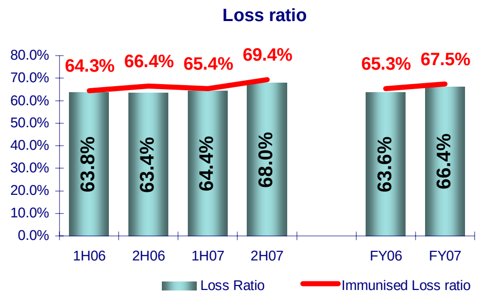
2. CONSOLIDATED GROUP FULL-YEAR RESULTS

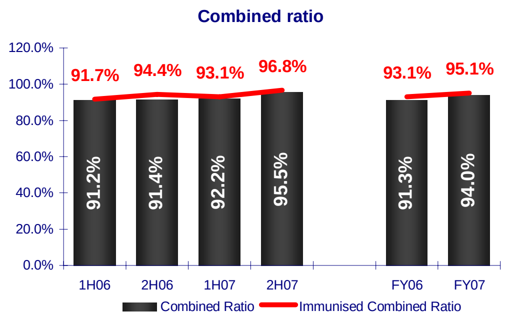


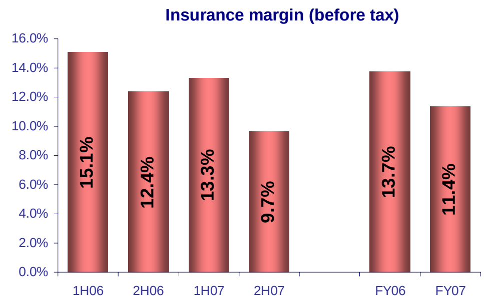
Insurance Australia Group Limited	Australia	International	Corp & Inv't	Full-year ended Jun 07	Full-year ended Jun 06
	A$m	A$m	A$m	A$m	A$m
Gross written premium	**5,489**	**1,892**	**-**	**7,381**	**6,435**
Gross earned premium	5,448	1,759	-	7,207	6,537
Reinsurance	(322)	(142)	-	(464)	(405)
Net premium revenue	**5,126**	**1,617**	**-**	**6,743**	**6,132**
Net claims expense	(3,360)	(1,114)	-	(4,474)	(3,900)
Commission expense	(407)	(157)	-	(565)	(504)
Underwriting expense	(984)	(313)	-	(1,297)	(1,195)
Underwriting profit	**375**	**32**	**-**	**407**	**533**
Investment income on technical reserves	296	64	-	360	310
Insurance profit	**671**	**96**	**-**	**767**	**843**
Net corporate expenses	-	(4)	(65)	(69)	(56)
Interest	-	-	(119)	(119)	(86)
Share of profit from associates		5		5	2
Profit/(loss) from fee based businesses	65	13	-	78	1
Investment income on shareholders' funds	-	-	301	301	539
Profit before income tax and amortisation	**736**	**110**	**117**	**963**	**1,243**
Income tax expense				(279)	(373)
Profit after income tax (before amortisation)				**684**	**870**
Minority interests: IMA & MCGI				(77)	(103)
Profit attributable to IAG shareholders (before amortisation)				**607**	**767**
Amortisation	-	-	(55)	(55)	(8)
Profit attributable to IAG shareholders				**552**	**759**
Basic earnings per share (cents)				**32.79**	**47.66**
Diluted earnings per share (cents)				**32.59**	**47.38**

2.1 Insurance ratios









2.2 Premiums

- The full-year GWP of $7,381m was 14.7% higher than FY06. The primary contributor to this growth was $725m generated by the UK acquisitions, contributing 11.3% of the growth. The Australian business generated 1.4% of the Group's GWP growth – despite the soft cycle in commercial pricing and the exclusion of a part of the NSW CTP business from the private sector. The balance of 2.0% was generated by the Group's other international operations.

2.3 Reinsurance expense

- The Group's reinsurance expense of $464m represented 6.4% of gross earned premium in FY07 compared to 6.4% of gross earned premium in FY06. The increase is essentially due to aggregate exposures growing faster than gross earned premium in Australia – again due to the soft cycle conditions.

2.4 Claims expense

- The Group's net claims expense increased by $574m or 14.7% to $4,474m. $451m or 11.6% of the increase relates to the UK operations.
- The reported loss ratio increased 2.8% to 66.4%. Adjusting to exclude the impact of increased discount rates applicable to claims reserves in both years, the immunised loss ratio increased 2.2% from 65.3% to 67.5% in FY07. The key components of the change were:
    - An increase of $61m in the cost of storm claims in Australia, adding nearly 0.9% to the Group loss ratio. These storm costs include the June 2007 Storms in FY07;

- An increase of $75m in net reserve releases in Australia – reducing the Group loss ratio by 1.1%;
- Lower underlying profitability in commercial lines for the FY07 business as a result of the softening rates. Other than the storms noted above, loss experience was not unusually high or low; and
- Higher loss ratios in the International segment, outside New Zealand. These businesses are an increasing component of the Group's result and the higher loss ratios incurred added to the overall loss ratio.

2.5 Insurance operating expenses

- The Group's expense ratio has improved slightly to 27.6% in FY07 (27.7% in FY06).
- An increase in the commission ratio by 0.2% to 8.4% in FY07, compared to 8.2% in FY06, was more than offset by a 0.3% improvement in the administration ratio from 19.5% to 19.2% in FY07. This was achieved despite increased volumes of business written with lower average premiums in commercial lines and CTP. Savings were generated in Australia, and the UK business has a lower administration ratio, which improves the Group's overall administration ratio. These benefits were largely consumed by investment in new systems for the direct business in New Zealand and establishing the Asian reinsurance operations.

2.6 Corporate expenses

- Corporate expenses increased by $13m from $56m to $69m in FY07. The increase largely reflects costs incurred in pursuing offshore business development opportunities. These expenses include the NSW Insurance Protection Tax (IPT). The NSW Government levied this tax on insurance company shareholders following the collapse of HIH in 2001. It remains in force and costs the Group's shareholders approximately $20m before tax per annum. The legislation prohibits the recovery of this levy from policyholders and, for this reason, it is not included in the insurance result.

2.7 Interest

- The increase in interest expense by $33m to $119m in FY07 compared to FY06 largely reflects interest paid on additional debt raised during the year to fund the acquisition of the businesses in the UK.

2.8 Share of profits from associates

- The $5m share of profits from associates arises from:
  - The Group's 30% interest in AmAssurance in Malaysia. It increased to $7m in FY07 from $2m in FY06, reflecting a full-year's ownership in FY07 and continued strong performance from the business; and
  - A $2m loss was sustained in Arista, a start-up UK underwriting agency in which the Group has a 25.6% interest.

2.9 Profits from fee based business

- The profits from fee based business increased from $1m in FY06 to $78m in FY07. The two key components were:
  - Incentive fees of $55m on prior period performance for the fee based management of workers' compensation business underwritten by the NSW and Victorian Governments were the most significant component. While incentive fees are a goal for every year, the FY07 result is not regarded as sustainable as it included settlement of prior year entitlements under a mechanism that is no longer applicable; and
  - The first fee contribution from the UK business of $18m, of which $14m comprised profit from broking. This contribution is expected to increase, both due to the inclusion of a full-year's contribution in FY08 and the underlying growth in the business and its profitability.

2.10 Investment returns

- Investment income on technical reserves increased from $310m in FY06 to $360m in FY07. The total pre-tax return achieved on the assets in FY07 was 4.4%, up from 3.7% in FY06. Returns were broadly in line with benchmarks.
- The total pre-tax return from the shareholders' funds portfolios was 13.1% for FY07 (FY06: 20%) contributing $301m to the Group's results for the financial year compared with $539m in FY06. These returns include an overall negative active return for the first time in four years and the change in the strategic asset allocation during 1H07 which led to a reduction in the Group's equity exposures. Fixed interest and cash represented 57.3% of the Group's Australian and New Zealand shareholders' fund portfolio assets as at 30 June 2007 compared to 11.3% as at 30 June 2006.

2.11 Tax expense

- The effective tax rate was 30.7% for FY07, an increase of approximately 0.5% from FY06, reflecting the strain of additional amortisation costs, partially offset by lower overall effective tax rates of the Group's international operations.
- The effective tax rate on the profit before amortisation was 29.0% - a 1% improvement from 30.0% in FY06.
- A full-year's contribution from the UK businesses in FY08 and the reduction in the UK tax rate from 30% to 28%, which is effective for FY08, will assist in improving the underlying effective tax rate and mitigate the impact of a full-year's expense for amortisation on the reported tax rate for FY08.

2.12 Amortisation

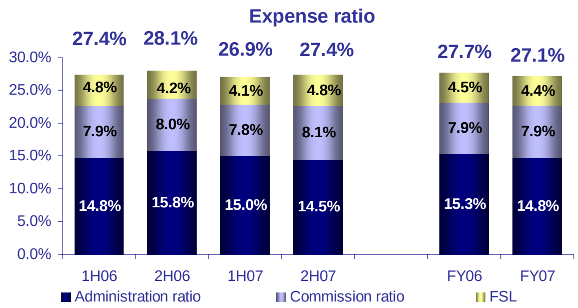
- The increase in amortisation expense from $8m in FY06 to $55m in FY07 is due to commencing amortisation of identifiable intangibles from acquisitions during FY07. The amortisation expense is expected to increase in FY08 to $79m (subject to no further acquisitions, exchange rate movements and changes in the useful life or impairment of intangible assets). Refer to page 47 for a schedule of expected amortisation expense for the next five years.

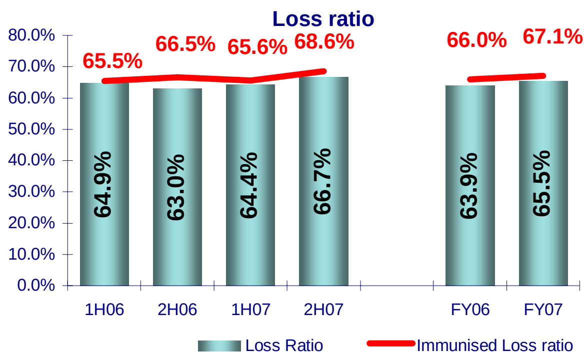
2.13 Difference in reporting treatment

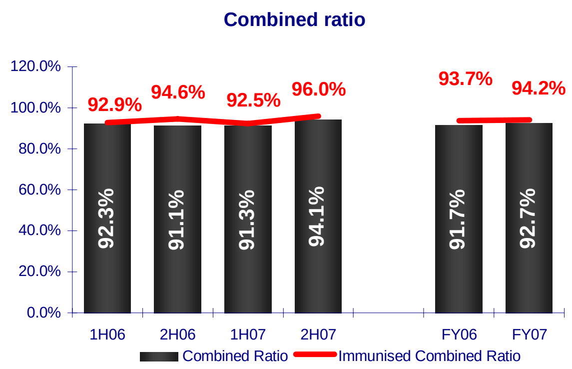
- With effect from 1 January 2007, the Group no longer reallocates the element of the international captive's result back to New Zealand. The comparatives for 1H07, when the international captive commenced operations, have not been restated.

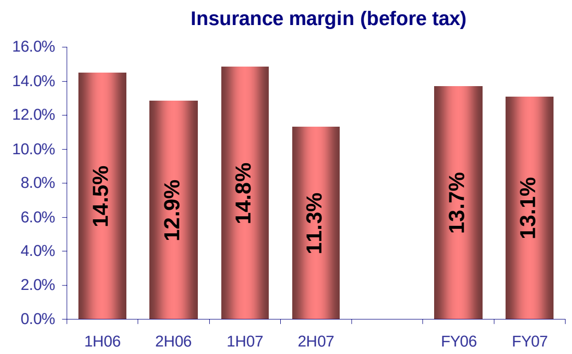
3 AUSTRALIAN GENERAL INSURANCE

Australia	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	
Gross written premium	**2,697**	**2,703**	**2,689**	**2,800**	**5,400**	**5,489**
Gross earned premium	**2,796**	**2,706**	**2,750**	**2,698**	**5,502**	**5,448**
Reinsurance expense	(152)	(141)	(154)	(168)	(293)	(322)
Net premium revenue	**2,644**	**2,565**	**2,596**	**2,530**	**5,209**	**5,126**
Net claims expense	(1,715)	(1,616)	(1,672)	(1,688)	(3,331)	(3,360)
Commission expense	(208)	(206)	(201)	(206)	(414)	(407)
Underwriting expense	(517)	(513)	(497)	(487)	(1,030)	(984)
Underwriting profit	**204**	**230**	**226**	**149**	**434**	**375**
Investment income on technical reserves	180	100	159	137	280	296
Insurance profit	**384**	**330**	**385**	**286**	**714**	**671**
Profit from fee based business	1	7	27	38	8	65
Total Australia result	**385**	**337**	**412**	**324**	**722**	**736**
Insurance ratios						
Loss ratio	64.9%	63.0%	64.4%	66.7%	63.9%	65.5%
Expense ratio	27.4%	28.1%	26.9%	27.4%	27.7%	27.1%
Commission ratio	*7.9%*	*8.0%*	*7.8%*	*8.1%*	*7.9%*	*7.9%*
Administration ratio	*19.6%*	*20.0%*	*19.1%*	*19.3%*	*19.8%*	*19.2%*
Combined ratio	92.3%	91.1%	91.3%	94.1%	91.7%	92.7%
Insurance margin (before tax)	14.5%	12.9%	14.8%	11.3%	13.7%	13.1%









- The Australian General Insurance portfolio comprised 74% of the Group GWP compared to 84% in FY06. This reflects the continued diversification of the Group's business, primarily driven by the recent acquisition of the UK businesses.
- The Australian General Insurance GWP is comprised of 71% Australian Personal Lines and 29% Australian Commercial Lines. This mix remains unchanged from FY06.
- The Group's Australian market share, based on APRA GWP, was 20.4% for the quarter ending 31 March 2007 compared to 19.7% for the quarter ending 31 December 2006.
- The FY07 margin of 13.1% compares with 13.7% for FY06. The key components of the movement in margin are:
  - Lower earned premiums due to prior year reductions in GWP;
  - Lower average premiums for the same risks in commercial lines and CTP;
  - Increased average premiums in short-tail personal lines distributed directly and through Affinity partners;
  - Total storms costs of $374m in FY07 relative to $313m in FY06;
  - Continued reserve releases from long-tail classes. This included a revision to the calculation of risk margins in CTP to better reflect the Group's experience and some sharing of the benefits of greater diversification provided by the acquired UK operations; and
  - Lower active return on invested technical reserves.
- An overview of the impact from storms, net of reinsurance, and reserve releases for the Australian segment, is shown below.

	Storms FY06	Reserve Releases FY06	Storms FY07	Reserve Releases FY07
	A$m	A$m	A$m	A$m
Australian Personal Lines	(216)	106	(328)	204
Australian Commercial Lines	(97)	304	(46)	281
Total	**(313)**	**410**	**(374)**	**485**
Impact on Australian segment loss ratio	(6.0%)	7.9%	(7.3%)	9.5%

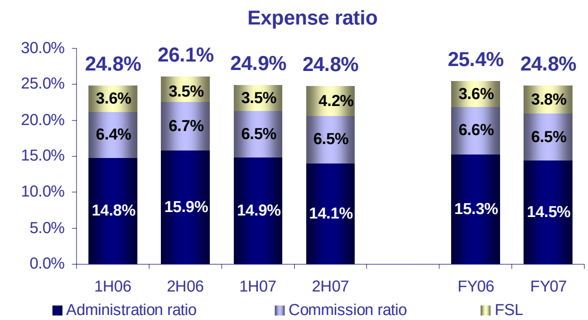
- The 2H07 result includes the net cost of the June 2007 Storms. Whilst the net cost to the Group of $169m (pre-tax) was similar to the net cost for Cyclone Larry in 2H06 of $165m (pre-tax), the impact across the Australian business lines differed as follows:

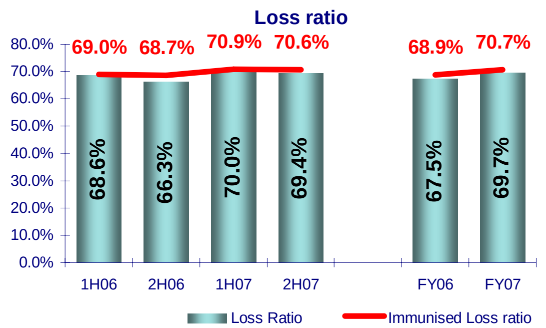
	2H06 Cyclone Larry	2H07 June 2007 Storms
	A$m	A$m
Australian Personal Lines		
- Direct	6	79
- Affinity	29	25
- Broker/agent	33	26
Total APL	**68**	**130**
Australian Commercial Lines	97	38
Total Australia	**165**	**169**

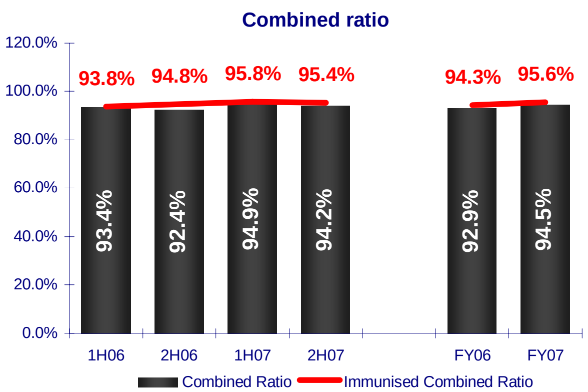
- More detail is provided by business line in the following pages.

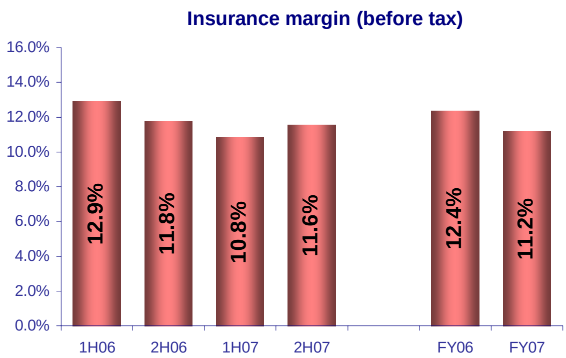
3.1 Australian Personal Lines

Australian Personal Lines	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**1,936**	**1,924**	**1,923**	**1,986**	**3,860**	**3,909**
Gross earned premium	**1,973**	**1,917**	**1,951**	**1,931**	**3,890**	**3,882**
Reinsurance expense	(71)	(66)	(76)	(87)	(137)	(163)
Net premium revenue	**1,902**	**1,851**	**1,875**	**1,844**	**3,753**	**3,719**
Net claims expense	(1,305)	(1,227)	(1,312)	(1,280)	(2,532)	(2,592)
Commission expense	(122)	(124)	(122)	(120)	(246)	(242)
Underwriting expense	(350)	(359)	(345)	(337)	(709)	(682)
Underwriting profit	**125**	**141**	**96**	**107**	**266**	**203**
Investment income on technical reserves	121	77	107	106	198	213
Insurance profit	**246**	**218**	**203**	**213**	**464**	**416**
Insurance ratios						
Loss ratio	68.6%	66.3%	70.0%	69.4%	67.5%	69.7%
Expense ratio	24.8%	26.1%	24.9%	24.8%	25.4%	24.8%
Commission ratio	*6.4%*	*6.7%*	*6.5%*	*6.5%*	*6.6%*	*6.5%*
Administration ratio	*18.4%*	*19.4%*	*18.4%*	*18.3%*	*18.9%*	*18.3%*
Combined ratio	93.4%	92.4%	94.9%	94.2%	92.9%	94.5%
Insurance margin (before tax)	12.9%	11.8%	10.8%	11.6%	12.4%	11.2%









3.1.1 Overview

- GWP in Australian Personal Lines for FY07 has grown by $49m or 1.3% compared to FY06, with growth in all channels. The growth in the short-tail portfolios was partly offset by lower premiums in the long-tail portfolio, primarily due to the introduction of Lifetime Care & Support Scheme (LTCS) in NSW CTP, which reduced GWP by around $51m in FY07. Adjusting for the impact of LTCS, GWP growth in FY07 was 2.6%. Short-tail GWP was up 3.3% on FY06, versus a 2.6% decline in the prior year.
- 2H07 GWP growth of 3.3% on 2H06 was largely driven by the momentum in the direct short-tail business and strong growth in the Affinity and Broker/agent channels.
- The Australian Personal Lines business produced an insurance profit of $416m and an insurance margin of 11.2% for FY07, compared to an insurance profit of $464m and an insurance margin of 12.4% in FY06. The reduction in insurance margin has been driven by a higher loss ratio in the Broker/agent channels with higher claims costs from storms being offset by higher reserve releases. An overview of the impact from storms, net of reinsurance, and reserve releases is shown below.

	Storms FY06	Reserve Releases/ (Strengthening) FY06	Storms FY07	Reserve Releases/ (Strengthening) FY07
	A$m	A$m	A$m	A$m
Direct	(108)	105	(215)	196
Affinity	(55)	-	(58)	10
Broker/agent	(53)	1	(55)	(2)
Total Australian Personal Lines (APL)	(216)	106	(328)	204
Impact on APL loss ratio	(5.8%)	2.8%	(8.8%)	5.5%

- By channel, excluding the effect of major storms:
  - The Direct personal lines results included increased reserve releases on long-tail, improved average claims cost and increased sales on largely the same cost base;
  - The Affinity channel benefited from successfully implementing improved pricing. Rates in this channel had not been sufficiently aligned to cost outcomes in recent periods; and
  - The Broker/agent channel sells personal insurance, often on fine rates, as part of an overall product relationship package in order to secure the commercial business. Initiatives have been implemented to improve the rating adequacy for this book.
- The FY07 net claims expense includes a favourable adjustment of $39m or 1.0% of NEP from an increase in discount rates applied to claims reserves due to higher interest rates. The prior comparatives, which were also benefits, were $52m or 1.4% in FY06. On a half-year basis, the benefits were $22m or 1.2% in 2H07, $17m or 0.9% in 1H07 and $44m or 2.4% in 2H06. Counteracting the positive impact of the movement in discount rates on net claims expense was the reduction in the investment income from technical reserves.
- On an immunised basis (i.e. excluding the impact of discount rate adjustments), the FY07 loss ratio of 70.7% compares to 68.9% in FY06.
- The Australian Personal Lines segment has been further dissected by channel.

3.1.2 Direct channel

The direct channel includes business distributed under the NRMA brand in New South Wales, Queensland, ACT and Tasmania, the SGIO brand in Western Australia, the SGIC brand in South Australia and the RACV[1] brand in Victoria. Products are primarily short-tail (motor and home) and long-tail (CTP).

DIRECT	Half-year ended Dec 05 A$m	Half-year ended Jun 06 A$m	Half-year ended Dec 06 A$m	Half-year ended Jun 07 A$m	Full-year ended Jun 06 A$m	Full-year ended Jun 07 A$m
Gross written premium	**1,452**	**1,452**	**1,419**	**1,470**	**2,903**	**2,889**
Gross earned premium	**1,492**	**1,448**	**1,455**	**1,433**	**2,939**	**2,888**
Reinsurance expense	(45)	(44)	(49)	(51)	(89)	(100)
Net premium revenue	**1,446**	**1,404**	**1,406**	**1,382**	**2,850**	**2,788**
Underwriting profit	**109**	**207**	**100**	**167**	**316**	**267**
Investment income on technical reserves	107	61	93	92	168	185
Insurance profit	**216**	**268**	**192**	**259**	**484**	**452**
Insurance ratios						
Combined ratio	92.4%	85.3%	92.9%	87.9%	88.9%	90.4%
Insurance margin (before tax)	14.9%	19.1%	13.7%	18.8%	17.0%	16.2%

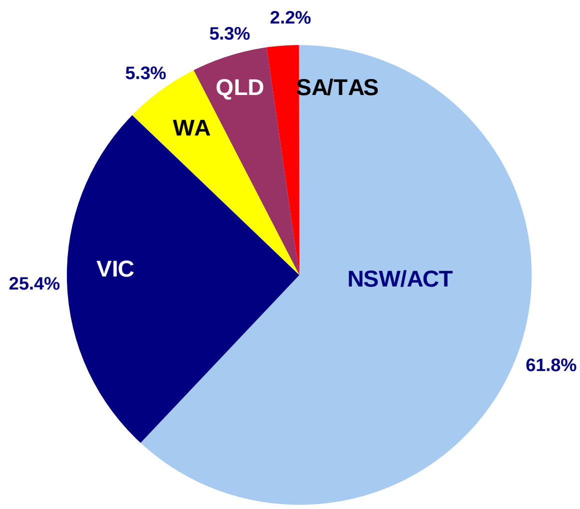
GWP – Direct channel

- Strong growth in the direct short-tail portfolio has been offset by industry wide reductions in GWP in the long-tail portfolio due to the impact of LTCS on NSW CTP. The implementation of the LTCS scheme in October 2006 reduced premiums collected by $13m for 1H07 and $38m in 2H07. After adjusting for the impact of LTCS, the underlying growth in the direct portfolio for FY07 was 1.3% relative to FY06. On a half-year basis, the GWP for 2H07, after adjusting for the impact of LTCS, represented underlying growth of 5.3% and 3.9% on 1H07 and 2H06 respectively. It is expected that the full implementation of LTCS will reduce FY08 GWP by an additional $60m.
- The momentum in the direct short-tail business, representing 80% of the direct portfolio, was apparent in 2H07 with GWP growth of 4.7% on both 1H07 and 2H06 and FY07 growth of 1.9% relative to FY06. Growth was achieved nationally in both home and motor products relative to 2H06, at 4.1% and 5.7% respectively. In the largest market of NSW GWP for 2H07 grew by 4.0% on 2H06 and the second largest state of Victoria grew by 3.3% on 2H06 with growth in both home and motor products in both states. All other states also achieved growth in 2H07 relative to 2H06 with Queensland and Western Australia experiencing strong growth of 13.0% and 11.1% respectively.

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

- Direct short-tail GWP split by state is shown below.

Direct Personal Lines Short-tail GWP by State
FY07



- The 2H07 growth in the direct short-tail portfolio was driven by both price and volume gains.
  - Whilst pricing in the short-tail market continues to be competitive, the 2H07 average premium for the direct short-tail business increased by 3.6% relative to 1H07 and 2.5% relative to 2H06. The average premium increases reflect the outcomes of a segmented pricing approach at a state and regional level, particularly in the motor portfolio, with increasing sums insured and fire service levy increases in the NSW and Victorian home portfolio.
  - Business volumes for the short-tail portfolio in 2H07 grew by 1.5% on 2H06 and 0.8% on 1H07 with growth being driven by strong marketing campaigns and selective competitive pricing positions. The volume growth was in both new business and renewal business volumes with due renewal and retention rates remaining above 90% and 80% respectively.
  - In the core state of NSW, home market share[2] is growing faster than the market growth rate and the motor market share[3] is at or near the market growth rate.
- Excluding the impact of LTCS, the long-tail portfolio, representing 20% of the direct portfolio, delivered underlying GWP growth in 2H07 of 7.8% on 1H07 and 0.9% on 2H06 with FY07 GWP declining by 1% relative to FY06. The growth was all volume, with rates reducing on the back of increased competition.
- The Group's share of the long-tail key market of NSW CTP has increased and reached the target market share (based on registrations for the year) of 38%. In Queensland CTP, market share increased to 3.7% with a 35% lift in volumes during FY07 as a result of increased advertising and brand awareness in this market. The Group continues to be the sole CTP underwriter in ACT.

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[2] *Based on ISA and HIA data for June 2007 quarter and ABS data for March 2007 quarter.*

[3] *Based on ISA and ICA data for June 2007 quarter.*

Insurance margin – Direct channel

- The FY07 insurance margin for the direct channel decreased to 16.2% from 17.0% in FY06. The key driver for this reduction was the lower earned premiums from lower GWP in prior periods. Higher storm costs were largely offset by higher reserve releases. The trend in earned premium is expected to reverse in FY08.
- Higher frequency and severity of storms in FY07 resulted in net storm losses of $215m, which was $107m higher than FY06. In 2H07, net storm losses of $142m were almost double that of 1H07 and four times higher than 2H06. The major event in 2H07 was the June 2007 Storms, with net losses of more than $79m and approximately 27,000 claims. The direct book had only modest claims exposure of $6m to Cyclone Larry in 2H06.
- Excluding storms, underlying claims experience in the direct short-tail portfolio was relatively stable in FY07 as a result of the following counteracting factors:
  - Whilst FY07 motor collision frequency continues to be lower than long term averages, it was higher than FY06 due to wetter weather conditions and improved new business volumes;
  - Savings from lower average claims costs in motor. A number of initiatives were implemented during FY07 that has allowed the business to better manage claims costs and partly offset inflationary pressures. These initiatives included an increase in the number of field assessors to focus on individual repairs;
  - Lower claims frequency in home was offset by higher average claims costs due to the increasing cost of burglary and fire related claims;
  - Managing the impact of inflation on key input costs continues to be a challenge. Claims inflation for the period was influenced by the following factors:
    - In motor, the cost of car parts increased by 1.5% for the year ended 30 June 2007, as measured by the Group's car parts pricing index;
    - In home, building materials increased by 3.7% and construction wages increased by 5% as measured by ABS statistics for the year ended March 2007; and
    - General wages have increased by 3.9% as measured by ABS statistics for the year ended March 2007.
  - This compares to a CPI increase of around 2.1%[4] for the year ended 30 June 2007.
  - The reserve releases in the direct channel are largely in respect of the CTP portfolio. The FY07 reserve releases of $196m were $91m higher than FY06 due to changes in claims costs assumptions and reduced risk margins.

Customers and market position – Direct channel

- Some key outcomes of customer measures during FY07 included:
  - Achieving a customer satisfaction index (Claims and Sales & Service) of 83 for June 2007. This is 3 points higher than the same period last year. National Claims & Assessing improved by three points to 82 and Retail Sales & Service by two points to 84. The combined competitor customer satisfaction index of 82 is the same as last year, placing the direct business slightly ahead of the market; and
  - Total average monthly (excluding Claims) complaints over 2H07 have continued the improving long-term trend, maintaining the complaints/policies ratio at 0.013%, well within the business' target range.

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[5] Australian Bureau of Statistics

- Focus on an improved customer experience continues to be delivered through the Claims Customer Paradigm Program by improving the claims experience for the customer. This has been reflected in strong renewal rates, particularly of those who have experienced the Group's claims service. Some of the initiatives undertaken during FY07 as part of this program include claims consultants being located within repair management centres and "Drop & Go" services at these centres resulting in reduced customer waiting times.
- The short-tail portfolio has maintained its strong competitive position across all core products (motor and home) in all states. The focus of the portfolio's marketing effort continues to be communication through the highest profile media channels of the motor lead acquisition and retention messages emphasising attributes such as recognition and rewards.

3.1.3 Affinity channel

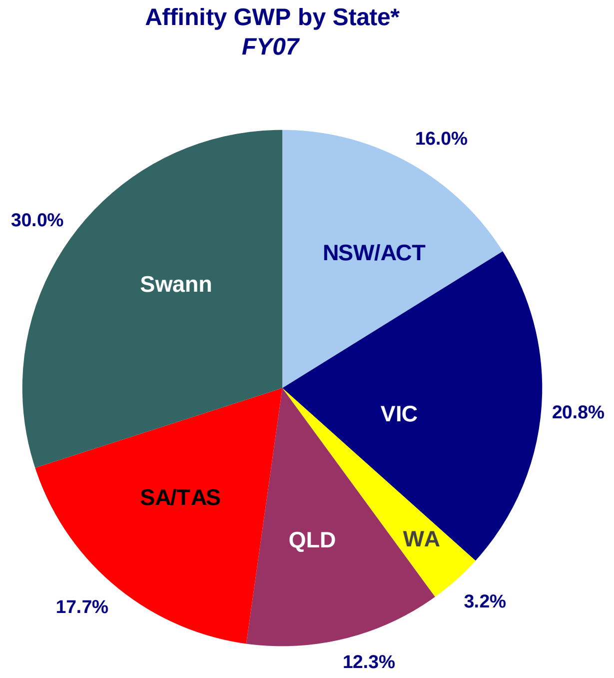
The Affinity channel comprises business distributed through key partnerships such as financial institutions and motor dealerships. Products are all short-tail (home, motor, travel warranty, gap and consumer credit).

AFFINITY	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**342**	**321**	**345**	**349**	**663**	**694**
Gross earned premium	**326**	**318**	**336**	**338**	**644**	**674**
Reinsurance expense	(17)	(14)	(19)	(27)	(31)	(46)
Net premium revenue	**309**	**304**	**317**	**311**	**614**	**628**
Underwriting profit	**12**	**(28)**	**10**	**(19)**	**(16)**	**(9)**
Investment income on technical reserves	11	13	11	11	24	**22**
Insurance profit	**23**	**(15)**	**21**	**(8)**	**8**	**13**
Insurance ratios						
Combined ratio	96.1%	109.2%	96.9%	106.0%	102.6%	101.4%
Insurance margin (before tax)	7.5%	(5.0%)	6.6%	(2.6%)	1.3%	2.1%

GWP – Affinity channel

- During FY07, the portfolio achieved strong growth of 4.7% relative to FY06. On a half-year basis, 2H07 grew by 1.2% on 1H07, and 8.7% on 2H06. The growth in the portfolio was mainly driven by:
  - Securing the motor portfolios of existing distributors in 1H07;
  - Volume growth in the home portfolio, particularly the landlord product; and
  - Rate increases within the Home and Landlord portfolios implemented in November 2006.
- The growth in the portfolio reflects the business' discipline of investing in processes and systems to form and manage effective strategic partnerships. This has led to an increase in renewal rates to 86% for FY07 compared to 82% for FY06 including the securing of renewals for key strategic partnership contracts, which will support further growth.
- The Affinity business had decreased its aggregate exposure in Far North Queensland over the past two years by 2%. The Group continues to monitor the exposure in the region consistent with the Group's strategy of disciplined underwriting.

- The increase in reinsurance expense of around $15m for FY07 was primarily due to a strategic partnership contract gained in 1H07, which included a quota share arrangement with the distributor. The quota share arrangement facilitates the alignment of shared goals between the Group and the distributor.



**Swann business is reported in total (i.e. national basis)*

Insurance margin – Affinity channel

- The FY07 insurance margin of 2.1% and FY06 insurance margin of 1.3% represent an opportunity for improvement to the Group. The volatility in the insurance margin between the half-year periods reflects the occurrence of the severe weather events in 2H06 and 2H07.
- The major event in 2H07 was the June 2007 Storms with net losses of around $25m. Net costs for Cyclone Larry in 2H06 were $29m.
- Rate increases were implemented in November 2006 and April 2007. The benefits of these targeted price increases are expected to flow through in FY08.

Customers and market position – Affinity channel

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

3.1.4 Broker/agent channel

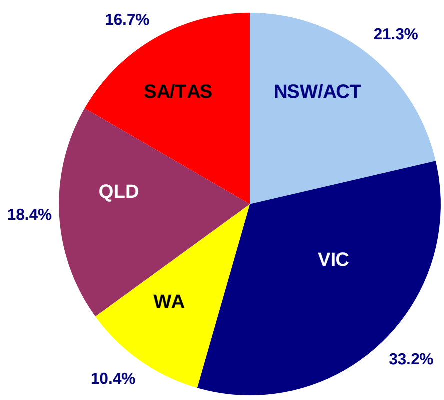
The Broker/agent channel comprises business sold through intermediaries, authorised representatives and underwriting agencies. Products are all short-tail (home and motor). The personal lines products sold via the Broker/agent channel are generally sold as an accommodation class for commercial lines business.

BROKER/AGENT	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**142**	**151**	**159**	**168**	**294**	**326**
Gross earned premium	**155**	**153**	**159**	**161**	**308**	**320**
Reinsurance expense	(9)	(8)	(8)	(8)	(17)	(16)
Net premium revenue	**146**	**145**	**151**	**152**	**290**	**304**
Underwriting profit	**4**	**(37)**	**(14)**	**(40)**	**(33)**	**(54)**
Investment income on technical reserves	3	3	3	4	6	7
Insurance profit	**7**	**(33)**	**(11)**	**(36)**	**(27)**	**(47)**
Insurance ratios						
Combined ratio	97.5%	125.4%	109.3%	125.9%	111.4%	117.7%
Insurance margin (before tax)	4.7%	(23.1%)	(7.2%)	(23.6%)	(9.2%)	(15.4%)

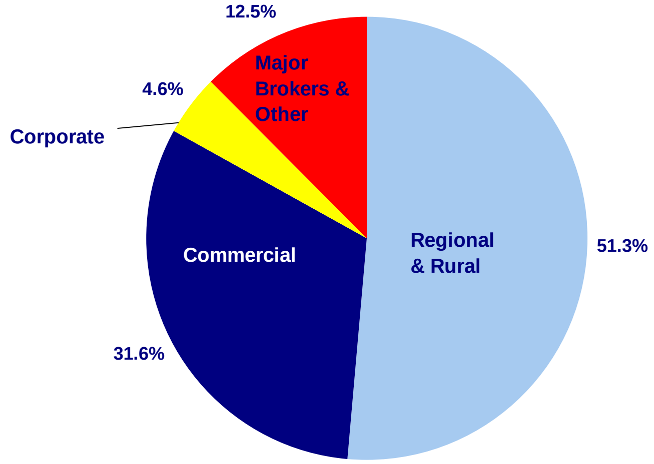
GWP – Broker/agent channel

- GWP for FY07 grew by 10.9% on FY06 with improvement in 2H07 of 5.7% on 1H07 and 11.3% on 2H06. The growth was driven by strong renewals from customer-focussed strategies and risk-based pricing increases in the portfolio.
- The growth was achieved despite half this business being sourced from rural/regional Australia, where continued drought conditions have put pressure on premium. The risks in-force for the business as at 2H07 has remained relatively stable on 1H07, but is marginally down relative to 2H06.
- The growth strategy for this portfolio is to align premiums to technical rates as a priority and focus on customer service initiatives.
- The financial performance of the Broker/agent channel should be viewed together with Australian commercial lines as the overall pricing is considered on a total customer basis.

Broker/agent GWP by State
FY07



Broker/agent GWP by Channel
FY07

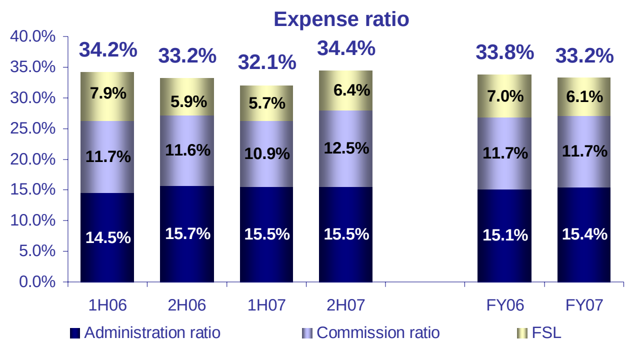


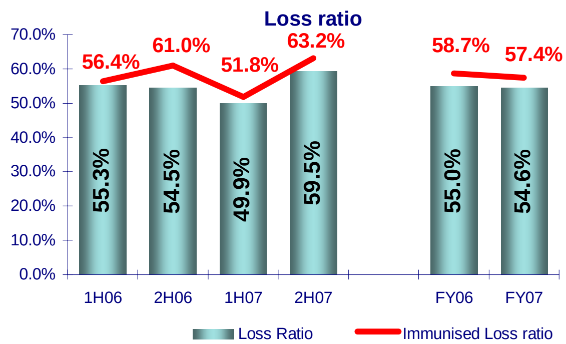
Insurance margin – Broker/agent channel

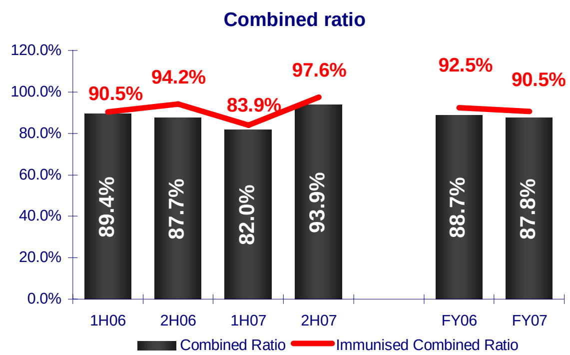
- The negative insurance margins in FY07 and FY06 are primarily a result of the high loss ratios in this channel, which is finely priced because the policyholder's commercial business is desirable. As previously noted, this business is primarily sold as an accommodation class with commercial insurance and the margin should be considered in that context.
- The loss ratio has been significantly impacted by severe weather events, particularly in 2H06 and 2H07.
  - 2H06 included $33m net costs from Cyclone Larry;
  - 1H07 included a number of smaller weather events that impacted the portfolio, such as the Canberra hailstorm and Armidale storm which cost around $10m; and
  - 2H07 included $26m net costs from the June 2007 Storms.
- Excluding severe weather events the underlying loss ratio continued to deteriorate during FY07.
- There have been a number of measures implemented during FY07 to improve the underlying loss ratio, including:
  - A move to risk-based pricing, by increasing premiums towards technical rates in selective portfolios. This commenced in November 2006 and the full impact will flow through in FY08; and
  - Ongoing focus on improving claims handling and management processes to reduce time in managing claims and reduce expenses.

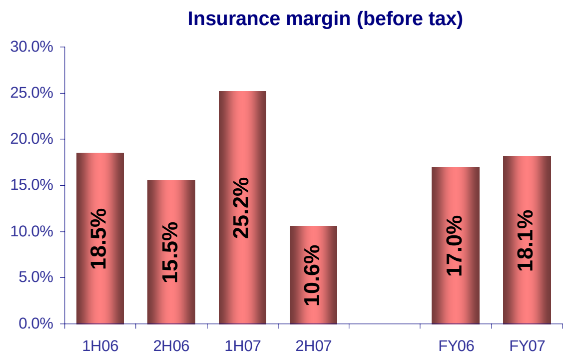
3.2 Australian Commercial Lines

Australian Commercial Lines	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**761**	**778**	**766**	**814**	**1,539**	**1,580**
Gross earned premium	**823**	**788**	**799**	**767**	**1,611**	**1,566**
Reinsurance expense	(81)	(76)	(78)	(81)	(157)	(159)
Net premium revenue	**743**	**712**	**721**	**686**	**1,454**	**1,407**
Net claims expense	(411)	(388)	(360)	(408)	(799)	(768)
Commission expense	(87)	(83)	(79)	(86)	(170)	(165)
Underwriting expense	(167)	(154)	(152)	(150)	(321)	(302)
Underwriting profit	**78**	**87**	**130**	**42**	**164**	**172**
Investment income on technical reserves	59	23	52	31	83	83
Insurance profit	**137**	**110**	**182**	**73**	**247**	**255**
Profit from fee based business	1	7	27	38	8	65
Total commercial line result	**138**	**117**	**209**	**111**	**255**	**320**
Insurance ratios						
Loss ratio	55.3%	54.5%	49.9%	59.5%	55.0%	54.6%
Expense ratio	34.2%	33.2%	32.1%	34.4%	33.8%	33.2%
Commission ratio	*11.7%*	*11.6%*	*10.9%*	*12.5%*	*11.7%*	*11.7%*
Administration ratio	*22.5%*	*21.6%*	*21.2%*	*21.9%*	*22.1%*	*21.5%*
Combined ratio	89.4%	87.7%	82.0%	93.9%	88.7%	87.8%
Insurance margin (before tax)	18.5%	15.5%	25.2%	10.6%	17.0%	18.1%









3.2.1 Overview

- During 2H07, the soft cycle conditions in the commercial insurance market continued, with competition intensifying across all major lines. The Group's market share remains constant relative to the key domestic competitors, but there have been some aggressive overseas players operating in the middle and SME markets. There has also been continued intense competition in the WA workers' compensation market.
- Against this backdrop, the Australian Commercial Lines business recorded GWP in FY07 of $1,580m, a 2.7% increase over the prior year, and delivered an insurance margin of 18.1%, up from 17% for FY06.
- The overall result for Australian Commercial Lines continues to benefit from reserve releases, particularly in the long-tail portfolio.
- The performance in 2H07 has been impacted by the June 2007 Storms, Gippsland storms and an increase in large losses relative to 1H07.

3.2.2 Premiums

- The Australian commercial insurance market remains soft, with premium under pressure in all market segments. The recent weather related claims events may hasten the end of the cycle however a complete turnaround still seems uncertain with capacity still being maintained in all key segments of the market. While continued good experience in most long-tail classes is supporting ongoing premium reductions, the ability to withstand further price reductions in short-tail classes is very limited. Accordingly, the Group intends to start implementing selective rate increases in 1H08 within key portfolios.
- Despite experiencing pressure on premium rates, Australian Commercial Lines generated GWP of $814m for 2H07 from improved retention. This was 6.3% ahead of the $766m achieved in 1H07, which is consistent with the seasonality of the business with a higher proportion of renewals occurring in June and $36m or 4.6% better than 2H06.
- Over FY07 average premiums reduced by around 3% across the portfolio.
- The Group continued to apply its underwriting discipline by binding risk at sustainable rates, rather than pursuing unprofitable market share. New business is difficult to obtain at acceptable pricing levels. However, this has been offset by an improvement in retention rates with the implementation of value add/product extension strategies (e.g. the award winning Risk Radar tool, re-development of websites and expansion of the CGU Connect product suite).
- The impact of softening rates and strong competition in workers' compensation, which represents approximately 14% of the Group's Australian commercial business, was offset by an increase in wage growth, particularly in WA. The Group retained the majority of its workers' compensation portfolio in the June 2007 renewal period.
- The overall mix of business between short-tail and long-tail commercial lines remained stable at around 61:39.
- Exposure, as measured by sums insured, in Far North Queensland has increased by 13% over the past year as a result of growth in sums insured which is likely due to improved awareness of under-insurance in the region.

3.2.3 Claims

- The immunised loss ratio of 57.4% for FY07 improved by 1.3% against FY06. The driver behind the improvement relates to a reduction in severe weather events offset by lower reserve releases as shown below.

	1H06	2H06	1H07	2H07	FY06	FY07
	A$m	A$m	A$m	A$m	A$m	A$m
Reserve releases	108	196	115	166	304	281
Severe storms	-	(97)	(8)	(38)	(97)	(46)
Total	108	99	107	128	207	235
Impact on ACL loss ratio	14.5%	13.9%	14.8%	18.7%	14.2%	16.7%

Note 1: Reserve releases include the benefit of Group diversification in addition to underlying portfolio reserve releases. The amounts quoted above may differ to prior disclosure which did not include diversification benefits.

- The severe weather events impacting the loss ratio included:
  - 2H07 included $38m net costs from the June 2007 Storms; and
  - 2H06 included $97m net costs from Cyclone Larry.
- Reserve releases for FY07 were $281m reflecting the continued positive experience emerging as a result of prudent past reserving and some sharing of the benefits of greater diversification provided by the acquired UK operations.
- The FY07 net claims expense includes a favourable adjustment of $39m from the effect of higher discount rates applied to claims reserves due to higher interest rates. The prior comparatives were a $55m benefit in FY06. On a half-year basis, the benefits were $25m or 3.7% in 2H07, $14m or 1.9% in 1H07 and $46m or 6.5% in 2H06. Counteracting the positive impact of the movement in discount rates on net claims expense was the reduction in the investment income from technical reserves.
- The 2H07 immunised loss ratio of 63.2% increased from 61.0% in 2H06, driven largely by increased short-tail losses.

3.2.4 Expenses

- The FY07 expense ratio of 33.2% improved from 33.8% in FY06 as a result of a continued focus to contain expenses in a market where premium is under pressure. The reduction in expenses of $24m is due to lower fire service levy expenses and reduced administration expenses.
- The commission ratio has remained fairly constant across periods at 11.7% for both years and within lines of business. It is expected that commission rates will increase in the near future as higher commission structures will be in place to support growth and retention.

3.2.5 Customers

- A core element of Australian Commercial Lines' strategy for long term profitability throughout the insurance cycle is to maintain effective relationships with intermediaries and improve levels of service and product offerings. This effort has ensured customer retention on policies available for renewal remains above 80%.
- The implementation and enhancement of e-business is seen as key to sustaining and growing the commercial lines business and during FY07 this has been a focus. There has been a continued trend towards direct and/or online distribution in the core SME market.
- During FY07, there was a solid increase in premium transacted on the Sunrise Exchange platform with a 6.3% increase on FY06.

3.2.6 Fee based businesses/managed schemes

- The net contribution from fee based business of $65m in FY07 was significantly higher than the $8m contribution in FY06. The majority of the increase relates to incentive payments from prior years in the workers' compensation business where the Group manages government underwritten workers' compensation businesses in NSW and Victoria.
- The incentive payments include bonus payments of $14m in 1H07 for the Victorian scheme and $41m, mainly in 2H07, for the NSW scheme. The bonuses relate to an improvement in claims liabilities as assessed by Victorian WorkCover Authority's Valuation Actuary and a positive performance in the loss ratio measure for NSW. The incentives are assessed in arrears and only included in profit on confirmation or receipt due to the uncertainty of the amounts.
- The return on expenses, excluding bonus payments for fee based business, improved to 9.6% in FY07 compared to 5.9% in FY06.
- In late 2006 an e-business tool known as ".Live", a web-based system developed in-house, was introduced in NSW to enable clients and intermediaries to obtain quotes and register policies, request certificates of currency and lodge initial notification of injuries. This tool is unique to the Group in NSW and has provided a considerable competitive advantage to NSW workers' compensation business in the SME direct portfolio. It has already enabled the Group to reduce the number of outstanding proposals requiring follow-up by 90%.
- The Group has market shares as at 30 June 2007 in the order of 30% in Victoria and 20% in NSW. Continued strong competition is anticipated in the market nationally, with a specific focus on corporate and national account clients. Management has increased the focus on proactive national account management and this enabled retention at 30 June 2007 of 95% compared to 91% at 30 June 2006 for workers' compensation national accounts. Retention and new business opportunities at 30 June 2007 and improvements in customer satisfaction and feedback provide strong lead indicators for future growth in market share in our workers' compensation business in line with our strategy.
- The Group continues to work with the NSW and Victorian workers' compensation authorities to assist in moves to increase the uniformity of workers' compensation schemes and safety regulations to lower costs and improve efficiencies for businesses operating in multiple states. The key areas of focus are the administrative processes for premium payment and the delivery of workers' compensation, workplace safety arrangements based on the highest occupational health and safety standards and administrative arrangements for the regulation of self-insurers. The most recent customer satisfaction surveys have shown a significant improvement in NSW and stable results for Victoria. These businesses are expected to deliver between $17m-$22m pa of net fees.
- The premium funding business generated net income before tax of $3.8m in FY07. This market experienced increased competition from large financial institutions and has resulted in a reduction in loans written. Loans outstanding as at 30 June 2007 were $110m representing a 16% fall from 30 June 2006. On 17 August 2007, a contract was entered into for the sale of the existing and ongoing loan business of CGU Premium Funding Pty Limited. It is expected that the transaction will be completed in September 2007.

3.2.7 Discontinued business

Inwards reinsurance

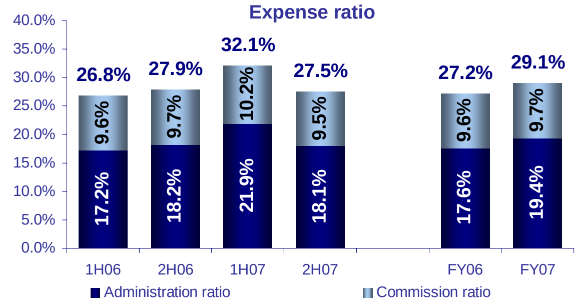
- The net provision for the outstanding claims on this portfolio, which went into run-off in 2001, is approximately $63m in FY07 compared to $76m in FY06. This reduction was due to appreciation in the A$ and the completion of three commutations. Negotiations continue on a number of the remaining policies.

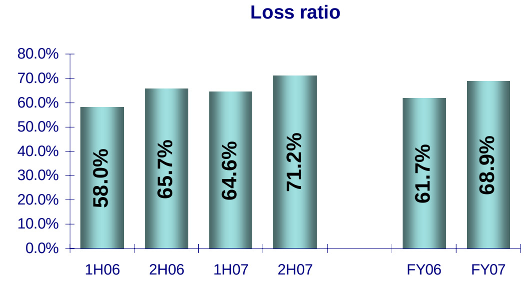
Asbestos

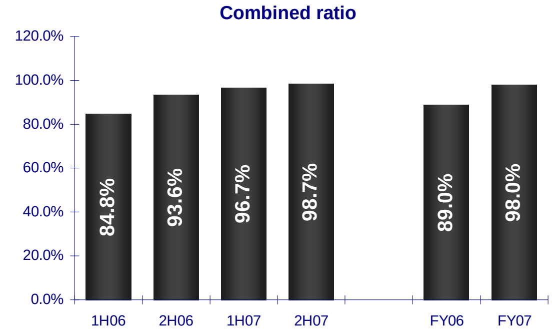
- During 2H07, overall asbestos claims experience has been broadly in line with expectations. Given the potential volatility in asbestos experience, the Group's provisions as at 30 June 2007 have not been adjusted for this experience and the provisions remain consistent with those held at 30 June 2006.
- The survival ratio (net reserves as a multiple of the average of the past three years' claims paid) is 35 times at 30 June 2007, compared with 39 times at 30 June 2006. The 30 June 2007 survival ratio is slightly lower than that reported at 30 June 2006 due to a higher base measure now being used (three year average claims paid at June 2007 is higher than at June 2006).
- 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.

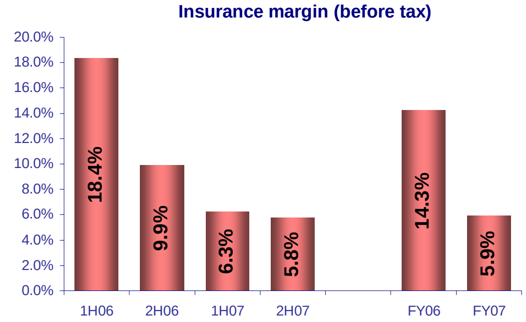
4 INTERNATIONAL

International	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**509**	**526**	**635**	**1,257**	**1,036**	**1,892**
Gross earned premium	**524**	**512**	**619**	**1,140**	**1,036**	**1,759**
Reinsurance expense	(56)	(55)	(60)	(82)	(111)	(142)
Net premium revenue	**468**	**457**	**559**	**1,058**	**925**	**1,617**
Net claims expense	(271)	(300)	(361)	(753)	(571)	(1,114)
Commission expense	(45)	(44)	(57)	(100)	(89)	(157)
Underwriting expense	(80)	(83)	(122)	(191)	(163)	(313)
Underwriting profit	**71**	**30**	**18**	**14**	**102**	**32**
Investment income on technical reserves	15	15	17	47	30	64
Insurance profit	**86**	**45**	**35**	**61**	**132**	**96**
Share of profit from associates	-	2	3	2	2	5
Fee based business	(3)	(4)	(1)	14	(7)	13
Corporate expenses	-	-	(2)	(2)	-	(4)
Total international result	**83**	**43**	**35**	**75**	**127**	**110**
Insurance ratios						
Loss ratio	58.0%	65.7%	64.6%	71.2%	61.7%	68.9%
Expense ratio	26.8%	27.9%	32.1%	27.5%	27.2%	29.1%
Commission ratio	*9.6%*	*9.7%*	*10.2%*	*9.5%*	*9.6%*	*9.7%*
Administration ratio	*17.2%*	*18.2%*	*21.9%*	*18.1%*	*17.6%*	*19.4%*
Combined ratio	84.8%	93.6%	96.7%	98.7%	89.0%	98.0%
Insurance margin (before tax)	18.4%	9.9%	6.3%	5.8%	14.3%	5.9%







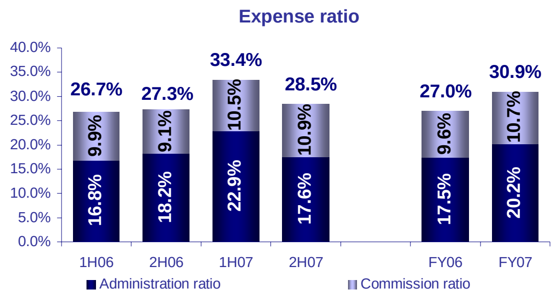


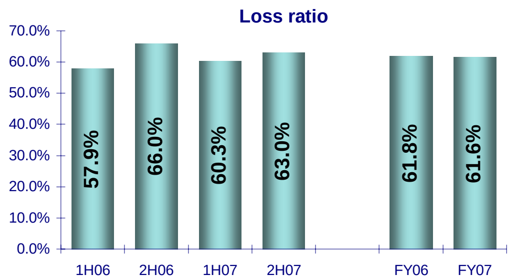
- The international segment consists of the Group's New Zealand, European and Asian operations. Due to the different growth and margin dynamics that exist within the Group's international operations they have been commented upon separately.

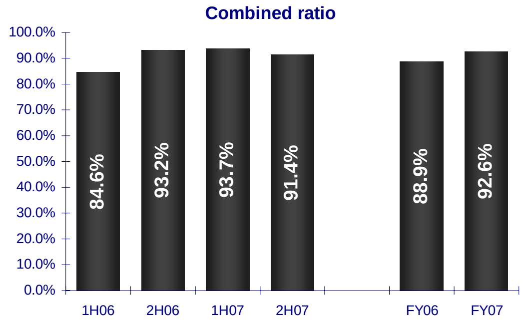
- Through its captive, the Group seeks to obtain a benefit from retaining individual business unit exposures and from the efficiency in managing its reinsurance programme centrally.
- In 1H07 the impact of reinsurance written with the Group's international captive was reported in each business unit's results as a means of eliminating the captive's financial performance on consolidation. From 1 January 2007, the international captive is no longer eliminated at the Group level due to the acceptance of business from associate companies.

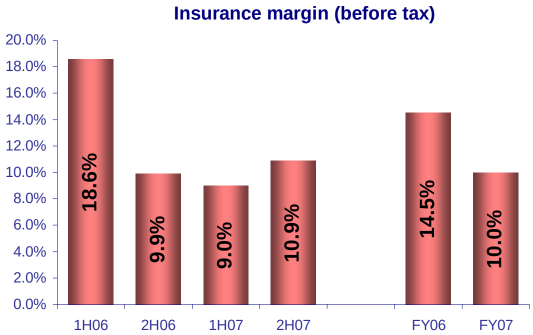
4.1 International – New Zealand

New Zealand Operations	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**494**	**477**	**460**	**508**	**971**	**968**
Gross earned premium	**507**	**462**	**470**	**483**	**969**	**953**
Reinsurance expense	(44)	(37)	(42)	(51)	(81)	(93)
Net premium revenue	**463**	**425**	**428**	**432**	**888**	**860**
Net claims expense	(268)	(281)	(258)	(272)	(549)	(530)
Commission expense	(46)	(39)	(45)	(47)	(85)	(92)
Underwriting expense	(78)	(77)	(98)	(76)	(155)	(174)
Underwriting profit	**71**	**28**	**27**	**37**	**99**	**64**
Investment income on technical reserves	15	14	12	10	30	22
Insurance profit	**86**	**42**	**39**	**47**	**129**	**86**
Insurance ratios						
Loss ratio	57.9%	66.0%	60.3%	63.0%	61.8%	61.6%
Expense ratio	26.7%	27.3%	33.4%	28.5%	27.0%	30.9%
Commission ratio	*9.9%*	*9.1%*	*10.5%*	*10.9%*	*9.6%*	*10.7%*
Administration ratio	*16.8%*	*18.2%*	*22.9%*	*17.6%*	*17.5%*	*20.2%*
Combined ratio	84.6%	93.2%	93.7%	91.4%	88.9%	92.6%
Insurance margin (before tax)	18.6%	9.9%	9.0%	10.9%	14.5%	10.0%









4.1.1 NZ overview

- Conditions in the New Zealand market remained competitive across all lines of business particularly broked commercial business. IAG NZ achieved an insurance margin of 10.0% in FY07. The FY06 insurance margin of 14.5% included a record 1H06 margin of 18.6%. In addition to the pressure on premium rates and expenses from strong competition, the direct costs associated with the new technology platform and a change in the Group's internal reinsurance arrangements reduced the FY07 insurance margin by 3%.

4.1.2 Premiums

- GWP of $968m in FY07 was flat compared to $971m in FY06 due to a weaker NZ$. In NZ$ terms the business grew 2.1% increasing from NZ$1,087m in FY06 to NZ$1,110m in FY07. On a half-year basis GWP for 2H07 grew by NZ$22m or 4.0% on 2H06.
- The trends across the IAG NZ distribution channels in NZ$ terms varied as follows :
  - In the Direct channel (approximately 36% of IAG NZ GWP), GWP was flat compared to FY06. This was due to lower average premium and volumes in motor, partially offset by higher GWP in home. GWP for 2H07 was marginally above 2H06 due to nominal price increases in home in FY06 and growth in public liability and commercial motor. Commercial lines GWP for 2H07 also benefited from the successful launch of the EasyBiz product.
  - The Business Partners channel GWP (approximately 17% of IAG NZ GWP) grew by NZ$12m compared to FY06 with 2H07 higher than each of 2H06 and 1H07 by NZ$8m and NZ$6m respectively. Rate increases across the homeowners book and a new low cost home contents product aimed at students and renters have offset the impact of the slow-down in the residential housing market. SME commercial also experienced volume growth reflecting the banking partners focus in this area.
  - The Intermediated channel GWP (approximately 47% of IAG NZ GWP) grew by NZ$12m on FY06, with 2H07 increasing by NZ$16m on 2H06 in a strong competitive environment. Growth in the personal lines business was due to a new facility with a key broker and price-driven organic growth in existing facilities. Growth in the commercial business was from increased volumes, particularly in commercial property and liability, which more than offset lower average premiums.
- Reinsurance expense increased to 10.6% in 2H07 compared to 8% in 2H06. The increase in the reinsurance expense was attributable to the change in the way the Group has chosen to report the reinsurance arrangements of its international businesses with its international captive, IAG Re Labuan. In prior periods the impact of reinsurance written with the Group's captive was reported in the business unit's results. From 2H07, the reinsurance arrangements for the Group's international businesses are reported as they are managed, i.e. recorded in both the business unit ceding the reinsurance and the captive that accepts the business. On a like-for-like basis, this would have resulted in a 2% improvement to the combined operating ratio in 2H07, as there were no catastrophe events.

4.1.3 Claims

- The loss ratio of 61.6% in FY07 improved slightly in comparison to 61.8% in FY06 – this ignores the changes to the internal reinsurance arrangements in 2H07. The 2H07 loss ratio improved 3.0% to 63.0% compared to 2H06. The major drivers of the result were as follows :
  - Fewer weather events improved the FY07 loss ratio by 1.3% compared to FY06 and the 2H07 loss ratio by 3.0% compared to 2H06. The Northland floods in March 2007 of $6m were the only notable weather event in 2H07 compared with the snowstorm of $20m in June 2006;
  - Underlying claims frequency (excluding storms) deteriorated in FY07 partly due to an increase in the number of contents claims that related to personal electronics. These have a low average cost; and
  - Working average claims costs deteriorated in FY07 compared to FY06 as a result of increased building costs in the home portfolio.

4.1.4 Expenses

- The FY07 expense ratio increased 3.9% relative to FY06 and the 2H07 expense ratio increased 1.2% relative to 2H06 as a result of:
  - Implementing a new technology platform (Huon/Bonus) for the direct business which added approximately 2% to the FY07 expense ratio and approximately 1% to the 2H07 expense ratio;
  - Inflationary pressures, coupled with a tight labour market in NZ, have resulted in increased salary costs which have contributed nearly 1.0% to the FY07 expense ratio and 0.8% to the 2H07 expense ratio; and
  - Broker consolidation and the formation of cluster groups are continuing to put upwards pressure on commission rates. The commission ratio increased by 1.1% to 10.7% in FY07.
- The 2H07 expense ratio of 28.5% decreased 4.9% compared to 1H07. In 1H07, the assumptions used in the liability adequacy test led to a write-down of deferred acquisition costs, which added 2.4% to the 1H07 expense ratio. As at 30 June 2007, NZ passed the liability adequacy test, which resulted in no provision being required.

4.1.5 Customer

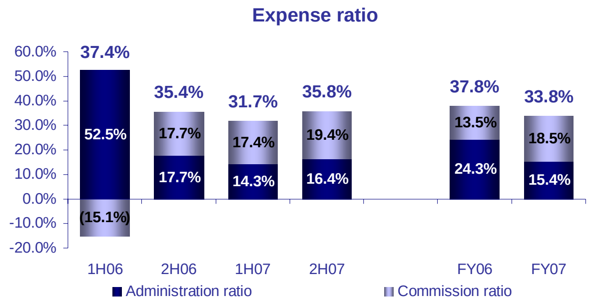
- The IAG NZ team successfully implemented various initiatives during the year including:
  - Implementing the new underwriting system (Huon/Bonus) in May 2007 with renewal business now being transferred on expiry. Benefits include enhanced risk-based pricing, which will be utilised as data, is accumulated at the required level of granularity;
  - A “regional call centre” utilising Voice over Internet Protocol (VoIP) to access personnel capacity and skills in the branches;
  - EasyBiz, a new commercial insurance product in the direct channel, was launched in March 2007 with the aim of leveraging the success this product has had in Australia; and
  - Various strategic initiatives in the Broker/agent channel to improve GWP, such as a focus on the corporate market, entry into the professional risks market and broker relationship management
- The IAG NZ customer satisfaction score was maintained at a high level during FY07 (small decrease from 86.6% in 1H07 to 85.3% in 2H07) which is within the business’ target range.

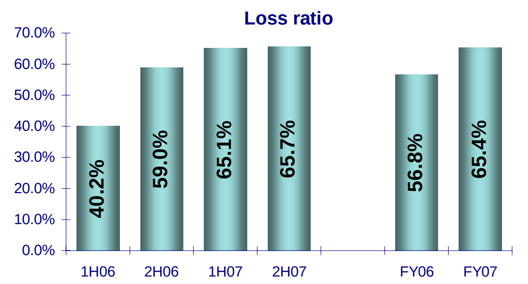
4.1.6 Regulatory

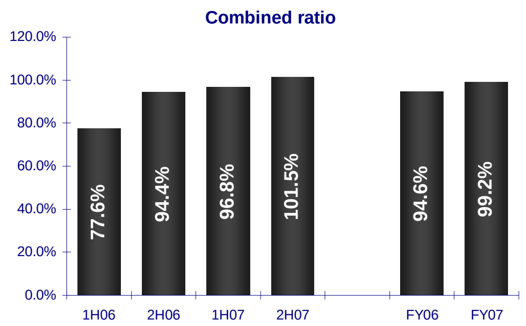
- In June 2007, the Government announced the first tranche of regulatory reform for the non-bank financial sector. The second phase is to be announced in December 2007. The key issues affecting IAG New Zealand include a requirement to register as a financial services provider and changes governing the regulation of financial advisers.

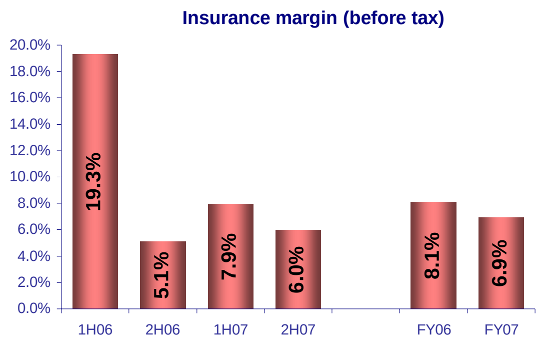
4.2 International – Asian operations

Asian operations	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**16**	**49**	**79**	**89**	**65**	**168**
Gross earned premium	**17**	**50**	**80**	**87**	**67**	**167**
Reinsurance expense	(12)	(18)	(17)	(20)	(30)	(37)
Net premium revenue	**5**	**32**	**63**	**67**	**37**	**130**
Net claims expense	(2)	(19)	(41)	(44)	(21)	(85)
Commission expense	1	(6)	(11)	(13)	(5)	(24)
Underwriting expense	(3)	(6)	(9)	(11)	(9)	(20)
Underwriting profit	**1**	**1**	**2**	**(1)**	**2**	**1**
Investment income on technical reserves	-	1	3	5	1	8
Insurance profit	**1**	**2**	**5**	**4**	**3**	**9**
Share of profit from associates	-	2	3	4	2	7
Fee based business	(3)	(4)	(2)	(3)	(7)	(5)
Corporate expenses	-	-	(2)	(2)	-	(4)
Total Asian operations result	**(2)**	**-**	**4**	**3**	**(2)**	**7**
Insurance ratios						
Loss ratio	40.2%	59.0%	65.1%	65.7%	56.8%	65.4%
Expense ratio	37.4%	35.4%	31.7%	35.8%	37.8%	33.8%
Commission ratio	*(15.1%)*	*17.7%*	*17.4%*	*19.4%*	*13.5%*	*18.5%*
Administration ratio	*52.5%*	*17.7%*	*14.3%*	*16.4%*	*24.3%*	*15.4%*
Combined ratio	77.7%	94.3%	96.8%	101.5%	94.6%	99.2%
Insurance margin (before tax)	19.3%	5.1%	7.9%	6.0%	8.1%	6.9%









4.2.1 Overview

- The Asian Insurance trading result consists of NZI Thailand, which is principally a commercial insurer (acquired in July 2005) and Safety Insurance, which is principally a motor insurer (consolidated from April 2006).
- The share of profit from associates represents the Group's 30% share of net profit after tax from AmAssurance, a composite insurer in Malaysia in which the Group invested in March 2006.
- The fee based business represents the result of China Automobile Association (CAA), a wholly owned roadside assistance and motor insurance agent based in Beijing.
- FY07 has seen the Group continuing its drive towards the Group's aspiration to be a leading personal lines insurer in Asia. The strategy is two-fold:
    - To build, via acquisition, a portfolio of strategic investments in predominantly personal line insurers in key priority Asian countries; and
    - To unlock and create value in those assets through capability transfer of core competencies in underwriting, product development, claims management, risk management, direct distribution, reinsurance and asset management.
- During the year, the Asian team analysed numerous acquisition opportunities in the region and is currently in varying stages of progress with potential investment opportunities in India, China and Malaysia. Steps are underway to increase the Group's ownership of AmAssurance in Malaysia from 30% to 49%.
- In June 2007, the Group suspended negotiations with CPIC Group in China after nearly four years of discussions. The Group remains committed to a strategic investment in China and are pursuing a number of opportunities in the Chinese non-life market.

4.2.2 Premiums

- Despite the challenges in Thailand, including last September's coup; a decline in consumer confidence; falling car sales; rising fuel prices and a stalling of government expenditure, the underlying GWP growth of the combined businesses (ignoring the date of acquisition) from FY06 to FY07 was 11%. The GWP growth includes the benefit of a 7% appreciation in the value of the Thai Baht against the A$.
- GWP was $89m for 2H07, an increase of 13% compared to 1H07. This was due to the benefit of a stronger Thai Baht with underlying growth of 6%. Underlying growth in 2H07 was flat compared to the same period last year reflecting the political and economic climate and motor vehicle sales, which dropped 8% for the year.
- Combined, the Thai businesses gained market share over the period and the Group ranked fourth largest (as measured by GWP) among the non-life insurers, with a market share of approximately 5%[5].
- The outlook for IAG Thailand is positive. The Group expects the short term challenges prevalent in the current environment (political stability, car sales and government expenditure) to turn more favourable in the next year or so. In addition, growth in Thailand's GDP is currently estimated to be 4.3% for calendar 2007, improving to 4.6% in calendar 2008 (Source: IMA June 2007) and the insurance sector is anticipated to grow at 8% in the coming years (Source: Department of Insurance Thailand).

[5] *Marketshare as measured by the Department of Insurance Thailand.*

4.2.3 Claims

- The 1H07 loss ratio trend continued into 2H07 and was largely a result of significant shifts in the composition of the portfolio. The most notable drivers of this trend were the run-off from an underperforming motorcycle credit insurance policy terminated more than 12 months ago and negative developments in the motor portfolio.
- The Group expects to see an improvement in the loss ratio as a result of completion of the run-off of motorcycle credit risk insurance, improved focus on motor claims management, and continued utilisation of data and systems to improve risk selection in the motor portfolio.

4.2.4 Expenses

- The expense ratio improved from 37.8% in FY06 to 33.8% in FY07, mainly due to tight cost control.

4.2.5 Share of profits from associates

- The contribution from the Group's 30% share of the AmAssurance result was $7m in FY07 compared to $2m in FY06.
- The major drivers of the full-year result were :
  - The loss ratio deteriorated to 75% due to a strengthening of bodily injury reserves; offset by
  - Positive investment returns due to rising bond and equity values; and
  - The life insurance business exceeded its solvency requirements (as at 31 March 2007, AmAssurance's fiscal year end) and the appointed actuary was able to approve a transfer of $4.6m of profit to shareholders. The Group's share of this was $1.4m.
- Malaysia is expected to retain and further develop its relatively open market environment, helping investors attain greater ownership in financial services companies. AmAssurance has received approval from the regulator to split its composite (General & Life Insurance) licence. In addition, the Group has reached agreement in principle with its partner (AmBank) to divest its 30% stake in the life business and increase its ownership stake in the general insurance business to 49%. This is expected to occur during FY08, but the timing and amounts involved are not yet clear.

4.2.6 Customers

- The Group has worked with its Thai subsidiaries and Malaysian associate to improve the operations. Examples during FY07 include:
  - Launching new products including extended new and used car warranty and finance gap insurance. In addition, a number of new products such as consumer credit insurance, travel and accident, mid-market commercial and health products are in various stages of development;
  - Progressing plans to open up eight new branches in the North of Thailand and expand Safety's geographical footprint. Over 50% of the country's GDP is produced in the north of Thailand (excluding Bangkok);
  - Establishing a working group to improve the management of bodily injury claims;
  - Developing a portfolio management process that includes leveraging systems and data collection techniques already in place to improve risk selection, pricing and claims performance; and
  - Introducing key features of the IAG Governance and Risk management framework.

4.2.7 *Fee based business*

- The $5m loss in FY07 from China Automobile Association (CAA) was a $2m improvement on the $7m loss in FY06.
- This is the third consecutive year of revenue growth by CAA and customer numbers continue to grow with total customers increasing 161% compared to FY06.
- Going forward CAA will continue to develop its current model to support corporate business, establish its brand as a leading roadside service provider to the retail market and expand its geographical reach using franchised providers to promote CAA as a national brand.

4.2.8 *Corporate expenses*

- The costs incurred in pursuing acquisition opportunities in Asia are disclosed as part of the Asia segment result.

4.3 International – Asian reinsurance operations

Asian Reinsurance	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	
Gross written premium	**-**	**-**	**13**	**18**	**-**	**31**
Gross earned premium	**-**	**-**	**4**	**10**	**-**	**14**
Reinsurance expense	-	-	2	19	-	21
Net premium revenue	**-**	**-**	**6**	**29**	**-**	**35**
Net claims expense	-	-	(7)	(41)	-	(48)
Commission expense	-	-	(1)	(2)	-	(3)
Underwriting expense	-	-	(7)	(7)	-	(14)
Underwriting profit	**-**	**-**	**(9)**	**(21)**	**-**	**(30)**
Investment income on technical reserves	-	-	-	1	-	1
Insurance profit	**-**	**-**	**(9)**	**(20)**	**-**	**(29)**
Insurance ratios						
Loss ratio			116.7%	141.4%	-	137.1%
Expense ratio			133.3%	31.0%	-	48.6%
Commission ratio			*16.6%*	*6.9%*	-	*8.6%*
Administration ratio			*116.7%*	*24.1%*	-	*40.0%*
Combined ratio			250.0%	172.4%	-	185.7%
Insurance margin (before tax)			(150.0%)	(69.0%)	-	(82.9%)

4.3.1 *Overview*

- The Asian Reinsurance segment reflects the business underwritten by IAG Re Labuan Berhad and Alba (Lloyd's syndicate 4455), and the related operating costs.
- As both businesses only commenced operations in July 2006, the high combined ratio of 185.7% includes a considerable amount of set-up costs.
- The Group's reinsurance strategy is to obtain a benefit from retaining individual business unit exposures and gain efficiencies in managing all reinsurance covers centrally.
- IAG Re Labuan was established to meet the reinsurance requirements of the Group's international businesses and the results for the various international segments are retained in the Asian captive. The majority of IAG Re Labuan's business was sourced from IAG NZ from January 2007. Prior to 2H07, IAG NZ placed their reinsurance covers with IAG Re Dublin, which has been shut down. Reinsurance was also accepted from Thailand and the UK.

- Alba is strategically positioned to leverage the Group's Asia-Pacific presence and has the ability to execute on local opportunities by utilising its Lloyd's licences and underwriting expertise in the region. Alba has a mandate to underwrite large single commercial risk exposures emanating from the Group, where specific class expertise resides in Alba, or unrelated entities where its regional expertise presents an underwriting advantage. Alba retains a maximum net exposure per risk of US$2.5m.
- The Lloyd's Syndicate No. 4455 managing agency, based in London, is geared to deliver syndicate management services (i.e. generate fee income) to new start-ups within the Lloyd's market from 2008. It is now known as Diagonal Underwriting Agency.

4.3.2 Premiums

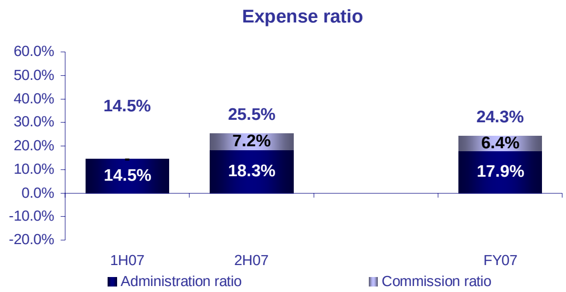
- The Asian Reinsurance operations generated $29m of net earned premium in 2H07, which was $23m higher than 1H07. Significant growth is expected in FY08 as a full-year of the UK, New Zealand and Asian reinsurance covers are placed with IAG Re Labuan.
- Alba generated $13m of gross earned premium in FY07, which was below expectations due to the additional time it has taken to build up a full complement of specialised underwriters and the delay in executing the proposed transactions in the region.
- IAG Re Labuan generated $1m of external gross earned premium in FY07 from a contract with AmAssurance.
- The negative reinsurance expense of $21m is the net of:
  - $42m of reinsurance premium received by IAG Re Labuan from the Group's international business units, less $16m ceded to the external market; and
  - $5m reinsurance expense for Alba whilst it builds and diversifies the risks in its portfolio.

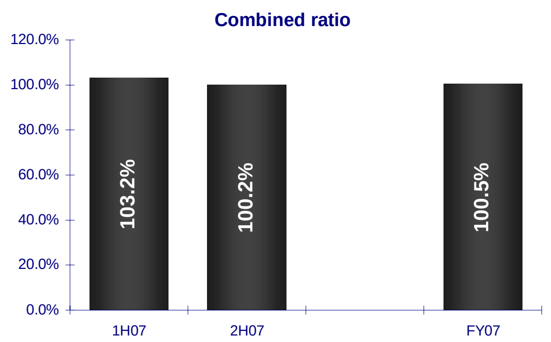
4.3.3 Claims and expenses

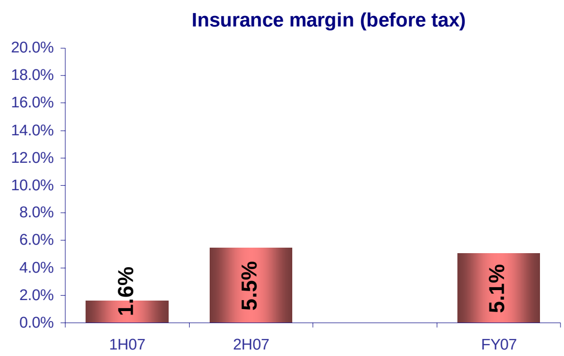
- The claims expense for the business has been dominated by the June 2007 UK flood claims for which the net loss recorded by IAG Re Labuan was $25m.
- The FY07 administration expense ratio of 40% reflects significant set-up costs for both reinsurance businesses. The expense ratio is expected to improve as the business becomes more established.

4.4 International – Europe

European Operations	Half-year ended Dec 05	Half-year ended Jun 06	Half-year ended Dec 06	Half-year ended Jun 07	Full-year ended Jun 06	Full-year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Gross written premium	**-**	**-**	**83**	**642**	**-**	**725**
Gross earned premium	**-**	**-**	**65**	**560**	**-**	**625**
Reinsurance expense	-	-	(3)	(30)	-	(33)
Net premium revenue	**-**	**-**	**62**	**530**	**-**	**592**
Net claims expense	-	-	(55)	(396)	-	(451)
Commission expense	-	-	-	(38)	-	(38)
Underwriting expense	-	-	(9)	(97)	-	(106)
Underwriting profit	**-**	**-**	**(2)**	**(1)**	**-**	**(3)**
Investment income on technical reserves	-	-	3	30	-	33
Insurance profit	**-**	**-**	**1**	**29**	**-**	**30**
Share of profit from associates	-	-	-	(2)	-	(2)
Fee based business	-	-	1	17	-	18
Total Europe result	**-**	**-**	**2**	**44**	**-**	**46**
Insurance ratios						
Loss ratio	-	-	88.7%	74.7%	-	76.2%
Expense ratio	-	-	14.5%	25.5%	-	24.3%
Commission ratio	-	-	-	*7.2%*	-	*6.4%*
Administration ratio	-	-	*14.5%*	*18.3%*	-	*17.9%*
Combined ratio	-	-	103.2%	100.2%	-	100.5%
Insurance margin (before tax)	-	-	1.6%	5.5%	-	5.1%







4.4.1 Overview

- In 2006, the UK non-life insurance industry was the second largest in Europe and third largest in the world (as measured by premium), accounting for around 7.0% of total worldwide premium income[6].
- The Group entered the UK insurance market during 1H07 with two major acquisitions announced during the period.
  - The acquisition of the businesses of Hastings Direct Insurance Services (Hastings) and the Gibraltar domiciled underwriter Advantage Insurance Company (Advantage) for £140m ($349m). These businesses were consolidated with effect from 29 September 2006; and
  - The acquisition of Equity Insurance Group for £570m ($1,425m) was announced on 4 December 2006 and the business was consolidated with effect from 1 January 2007. Equity Insurance Group's core insurance underwriting operation is the Lloyd's Equity Red Star Motor Syndicate 218. The Group owns around 64% of the capacity in this syndicate.
- Combined, the two acquisitions position the Group as the UK's:
  - Largest motorcycle insurer;
  - Third largest personal lines broker (based on Insurance Times Top 50 Brokers – July 2006); and
  - Fifth largest motor insurance Group (FSA and Lloyd's data for calendar 2006).
- The number of cars on the UK roads is increasing at around 3% pa and each car is being driven less as multi-car families become the norm.
- The internet is a growing force in purchasing personal lines insurance in the UK – it is now the second largest distribution mechanism for private motor insurance. Around 36% of new business car insurance policies were purchased online and this accounted for 17% of all private motor policies sold.
- The expansion of insurance price comparison websites has resulted in these sites now accounting for the majority of online private car insurance sales.
- The European division delivered an insurance margin of 5.1% for FY07. The 2H07 insurance margin was 5.5% compared to 1.6% in 1H07, reflecting the better performance that was achieved from the bespoke motor classes of business that Equity Red Star underwrites.
- Profit from fee based business in FY07 totalled $18m, compared to $1m in 1H07.
- The acquisition of Equity Insurance Group was cash EPS accretive in FY07.

4.4.2 Premiums

- GWP for FY07 totalled $725m (£295m). 1H07 GWP totalled $83m (£33m), which represented the first three months of GWP from Advantage. 2H07 GWP, which included a full six months contribution from the acquired businesses, totalled $642m (£262m), which represents an underlying growth of around 4.0% on 2H06.
- 2H07 GWP equated to around 15.8% of the Group's GWP, making Europe the largest geographical source of GWP for the Group outside of Australia.
- The acquisition of Equity Red Star has diversified the insurance risks of the European division away from private motor. In 1H07 private car insurance comprised 95% of European GWP, compared to just 48% in 2H07.
- Household insurance accounted for approximately 8% of European GWP in 2H07.
- The AA's 'Shop Around' premium (an average of the lowest three premiums for each risk quoted in the Index) for comprehensive motor rose by 2.15% to £474.69 and 1.03% for non-comprehensive motor to £566.12 in the second quarter of calendar year 2007.
- The Group has increased private motor premiums over the year between 5-15%, as well as making changes to its underwriting footprint, in order to improve its position in this class. The division is concentrating on selecting those market segments that are profitable to underwrite and moving away from the less attractive segments, such as the volume retail brokers.

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6 Source: Swiss Re, Sigma No4/2007

- Motorcycle rates were flat for most of the year. However, in recent months, increased competition has put some pressure on these rates.
- Rates in the fleet market and specialist motor risks are expected to remain flat for the rest of calendar year 2007 before turning up in calendar year 2008.

4.4.3 Claims

- The improvement in the loss ratio from 88.7% in 1H07 to 74.7% in 2H07 reflects the different mix of business in 2H07 following the acquisition of Equity Red Star. The portfolio was heavily weighted to private motor in 1H07.
- Private motor has proven to be a challenging market, with claims costs exceeding the premiums being charged. This contrasts with the other classes underwritten by the business, namely the bespoke business of fleet and specialist motor risks such as taxis and haulage, which performed well.
- The business has taken action to restore the private motor class to profitability through a combination of price increases, changes in underwriting criteria and refining the distribution strategy for the product.
- The level of losses associated with the severe UK floods in June 2007 was a significant event for the UK community and the insurance industry. UK rainfall between May and July 2007 was at the highest levels ever recorded[7]. Fortunately, the Group's gross exposure to these floods was small given the modest exposure the business has to property.
- The European underwriting performance received the benefit of reinsurance protections in relation to these floods. Some of that reinsurance was provided by the Group's Asian captive and accordingly a portion of these flood-related losses have impacted on the Asian Reinsurance 2H07 loss ratio. The net retained cost to the UK business from the June 2007 UK flood is around $6m.

4.4.4 Expenses

- The expense ratio for FY07 was 24.3%, which includes approximately 3% for industry levies related to motor classes of insurance.
- The expense ratio for 2H07 was 25.5% versus 14.5% in 1H07, due to different business models.
- The 2H07 commission ratio includes profit commission of $8m received from the Group's managing agent in respect of syndicate profit share arrangements.
- Expense ratios are expected to improve in FY08 through the delivery of business integration savings.

4.4.5 Fee based business

- The fee based business in the UK of $18m for FY07 comprises fees from broking of $14m and also managing agent fees of $4m.

Broking

- The Group's UK broking business operates through a mixture of call centres, an extensive branch network and an internet presence.
- Net broking profit for FY07 was $14m. In 2H07, the broking business contributed $13m compared to $1m in 1H07 reflecting the additional commission generated by the Group's expanding insurance broking operations. The following table presents these results on a gross basis:

[7] The UK Meteorological Office states that rainfall in England and Wales for May-July was 208% of the average during 1971-2000, and the highest since records began in 1766.

	1H07	2H07	FY07
Broking GWP – third parties	£13m	£71m	£84m
Broking income – third parties	$7m	$21m	$28m
Commission on other products and other income*	$14m	$69m	$83m
Total Broking income	**$21m**	**$90m**	**$111m**
Broking expenses	($20m)	($77m)	($97m)
Net broking income	**$1m**	**$13m**	**$14m**

Note 1: Other products that generate income for the broking division include legal cover and breakdown service.

- As at 30 June 2007, the Group has a network of 77 branches across the UK which includes the eight branches of Open & Direct Insurance Services Limited (ODIS) which was acquired in January 2007 for $57m.
- This positions the Group as the third largest branch network in the UK specialising in personal lines and the largest personal lines insurance broker in Northern Ireland.
- Consolidation of the UK insurance market is expected to continue with the principal focus being the acquisition of broking businesses by insurers and consolidators in order to gain ownership of the customer relationship.
- The Group aims to have 100 branches by the end of calendar year 2008.
- Policy count for 2H07 was 1,321,000, up 11% on 2H06.
- The broking business is expected to deliver net broking income of around $30m in FY08 as the business implements the UK integration.

Managing agent fees

- The Group also derives fee income from managing Lloyd's insurance syndicates. 64% of this fee income (equal to the Group's syndicate capacity ownership) is set off against underwriting expenses. The balance of $4m for 2H07 is included within fee based business.

4.4.6 Integration synergies

- The Group's UK integration programme, titled 'Unleashing The Potential', commenced in March and brings together the Equity Insurance Group and Hastings/Advantage Group. The program will strengthen the Group's presence in the volume market, using owned distribution, and in the specialist market, using the Group's expertise in a number of niche sectors such as motorcycle, fleet, haulage and agricultural vehicles.
- The integration and synergy benefits of £22m after tax per annum by 30 June 2008 (announced in December 2006) have now been upgraded by 13.6% to £25m.
- Project expenditure incurred in FY07 was around £1m and in FY08 costs are estimated to be within the remaining program budget of £7m, as previously advised.
- As at 30 June 2007, around £4m of after tax benefits had been generated. These benefits were in the main of a structural nature and are reflected in the Group's FY07 corporate tax expense, not in the Division's results.

SYNERGY BENEFITS -	Target pa run-rate by Jun-08 IAG GAAP £m
Underwriting	17
Broking	8
Pre-tax operational benefits	25
Tax at 30%	(8)
After tax benefits	17
Other underwriting synergies (Gibraltar)	1
Corporate structuring benefits	7
Total after tax	25
Original acquisition target	22

4.4.7 Other

Share of loss from Associates

- The $2m share of loss from associate relates to the Group's 25.6% investment in Arista Insurance which was acquired as part of the Equity Insurance Group acquisition. Arista Insurance is an underwriting agency that is involved in commercial and personal lines. The Group underwrites the motor element of its business and continues to support Arista as both a shareholder and provider of insurance capital.

Affinity

- The Group's existing base of affinity partnerships includes such well-known brands as Renault, Chevrolet, Harley Davidson, Skipton Building Society and Cardif Pinnacle (part of the BNP Paribas Group). Since January 2007, additional affinity partnerships have been established with:
  - the FTSE100 financial services group, Alliance & Leicester plc which offers its customers motor policies;
  - Nissan Motor (GB) Limited which offers motor insurance through Nissan's national network of 215 dealerships; and
  - MAN Financial Services plc, a sister company of the fast developing truck and coach business, MAN ERF UK.

5 INVESTMENTS

5.1 Investment policy

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

5.2 Investment philosophy

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

5.3 Changes to investment strategies

- There were no changes to the Group's investment strategies during 2H07. However, an additional Australian equity market neutral manager was funded bringing the total invested in this alpha transfer strategy as at 30 June 2007 to $387 million.
- As at 30 June 2007, the investment assets of the insurance operations in the United Kingdom were in the process of being segregated into portfolios supporting technical reserves and shareholders' funds.
- The total Group funds under management (including all overseas entities and minority interests) was A$12.7bn as at 30 June 2007, across a diversified range of strategies and managers.
- Subsequent to 30 June 2007, the Group has adopted a revised global Strategic Asset Allocation. (Refer section 5.6 for further detail.)

5.4 Investment performance

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

Asset Class Australian and New Zealand % Returns	Actual return Half-year ended Dec 05	Actual return Half-year ended Jun 06	Actual return Half-year ended Dec 06	Actual return Half-year ended Jun 07	Actual return Full year ended June 06	Actual return Full year ended June 07
	%	%	%	%	%	%
Australian equities	16.0	13.1	11.16	14.1	31.2	26.9
Listed property trusts	11.5	6.6	26.14	-0.7	18.9	25.3
International equities	16.7	5.6	5.66	1.0	23.2	6.7
Fixed interest (Aust & NZ)	2.6	0.5	2.91	2.4	3.1	5.4
International fixed interest	n/a	2.6	2.84	2.8	2.6	5.8
Market neutral	n/a	-1.2	0.92	7.7	-1.2	8.7
Hedge funds	4.3	2.5	-1.3	7.3	6.9	5.9
Cash	2.9	2.9	3.1	3.2	5.9	6.4
Surplus capital portfolio	2.7	2.8	3.84	3.7	5.6	7.7
Total weighted average	6.4	3.8	4.8	4.3	10.4	9.3
Offsetting derivative component of overlay	-1.0	-1.0	-1.1	-1.1	-2.1	-2.3
Total Aust & NZ (including overlay)	**5.4**	**2.8**	**3.7**	**3.2**	**8.3**	**7.0**
International **% Returns in local currency**						
UK (GBP)	n/a	n/a	-	2.2	-	3.5
Asia (BAHT)	-	-	-	-	-	8.7

Note:

1 These returns are before fees and tax.
2 The UK data is based on information provided by external fund managers
3 Returns incorporate each entity since acquisition date.

- The return on the portfolios of the Group's Australian and New Zealand businesses outperformed the return on the benchmark by 9 basis points over 2H07. However, the return for FY07 for Australia and New Zealand underperformed by 35 basis points. In total, this has detracted approximately $33m from the Group's pre-tax result for FY07, compared with benchmark returns, primarily due to the underperformance of the Australian equities managers. This is the first time in four financial years the performance has been less than the benchmark.

- A summary of the investment income and the investment returns generated on the technical reserves and shareholders' funds portfolios is set out below. The percentage returns are before tax and expenses.

Portfolio income (pre-tax) and incl. Derivatives	Half -year ended Dec 05		Half-year ended Jun 06		Half -year ended Dec 06		Half-year ended Jun 07		Full-year ended Jun 06		Full-year ended Jun 07	
	A$m	Return* (%)	A$m	Return* (%)	A$m	Return* (%)	A$m	Return* (%)	A$m	Return* (%)	A$m	Return* (%)
Technical reserves	195	2.8%	115	0.9%	176	2.6%	184	1.7%	310	3.7%	360	4.4%
Shareholders' funds	345	11.6%	194	7.5%	166	6.8%	135	5.9%	539	20.0%	301	13.1%
Total investment income	**540**	**5.4%**	**309**	**2.8%**	**342**	**3.7%**	**319**	**2.6%**	**849**	**8.3%**	**661**	**6.4%**

Note: *Investment income is recorded based on average exchange rates. Yields are stated using daily closing rates, in accordance with investment management industry standards. For foreign investments this can create some disparity between reported income and stated yields.*

- The total return achieved on the assets in FY07 was 6.4%, 42 basis points behind the benchmark return for the period.
- The contribution from the Group's technical reserve assets to the insurance result was $360m for FY07.
- The yields in the above table include the Group's foreign currency denominated technical reserve assets which support the Group's insurance liabilities in Europe and Asia. These yields are therefore subject to the impact of exchange rate fluctuations. The strength of the A$ against the £ has reduced these yields.
- The return on the Group's Australian and New Zealand 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 strategy. The active management of these assets, after allowing for the fixed interest return foregone and associated costs, detracted $10m against benchmark from the Group's net pre-tax result over FY07, following gains in each of the previous two financial years.
- The Group's shareholders' funds are invested across a range of diversified asset classes and managers. Following the change to the strategic asset allocation implemented during 1H07, the total pre-tax return from shareholders' funds was 13.1% for FY07 contributing $301m to the Group's results for the financial year.
- The gross return on the Group's Australian equities portfolios was 26.9% for FY07. The gross return on the Group's International equities portfolios was 6.7% for the same period in A$ terms, reflecting the appreciation of the Australian currency over the year (as the portfolio is unhedged).
- These returns are net of transaction fees but before deducting management fees and expenses.

5.5 Asset allocation

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

Asset class exposure as at	Technical Reserves Dec-05	Share-holders' Funds Dec-05	Technical Reserves Jun-06	Share-holders' Funds Jun-06	Technical Reserves Dec-06	Share-holders' Funds Dec-06	Technical Reserves Jun-07	Share-holders' Funds Jun-07
	%	%	%	%	%	%	%	%
Australian equities	-	43.1	-	47.8	-	27.9	0.5	22.3
Listed property trusts	-	2.9	-	3.1	-	3.0	-	2.3
International equities [1]	-	18.1	-	18.3	-	9.6	-	7.8
Fixed interest	99.3	7.6	99.3	9.6	99.2	42.7	97.3	52.4
Cash	0.7	1.8	0.7	1.7	0.8	7.2	1.1	4.9
Surplus capital [2]	-	18.8	-	10.6	-	5.2	-	3.5
Hedge funds	-	7.7	-	8.9	-	4.4	1.1	6.8
Total	**100.0**	**100.0**	**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*

- The reduction in equity holdings and increase in cash and fixed interest reflects the change in the strategic asset allocation referred to in Section 5.3

5.6 Revised Strategic Asset Allocation

- Subsequent to 30 June 2007, the Group has adopted a revised global Strategic Asset Allocation, as follows:

IAG Global Strategic Asset Allocation	
	Strategic Benchmark %
Shareholder funds	
Australian equities	32%
International equities	8%
Private equity	2%
Fixed interest & cash	55%
Listed property	3%
Total	**100%**
Technical reserves	
Fixed interest	100%
Total	**100%**

- Within the technical reserves portfolios, the Australian equities, listed property and international fixed interest overlays are being reduced in size and the market neutral strategy expanded to include the Group's international equities long/short managers.
- Within the shareholders' funds portfolios, the major change is the discontinuation of the investment in hedge funds.
- The revised Strategic Asset Allocation will be implemented in stages during1H08.

5.7 Group assets under management

Investment Assets as at	31-Dec-05	30-Jun-06	31-Dec-06	30-Jun-07
	A$bn	A$bn	A$bn	
Technical reserves[1]	6.9	7.0	7.2	8.0
Shareholders' funds	2.8	2.5	2.4	2.4
Assets under management	9.7	9.5	9.6	10.4
Minority interest – Unitholders' funds[2]	0.3	0.3	0.3	0.3
Other[3]	0.8	0.9	2.1	1.4
Total investment assets on balance sheet	**10.8**	**10.7**	**12.0**	**12.1**
Reset Exchangeable Security (RES) funds[4]	0.6	0.6	0.6	0.6
Total investment assets	**11.4**	**11.3**	**12.5**	**12.7**

Other funds managed on behalf of third parties[2]	1.7	1.9	2.2	1.9

Notes:

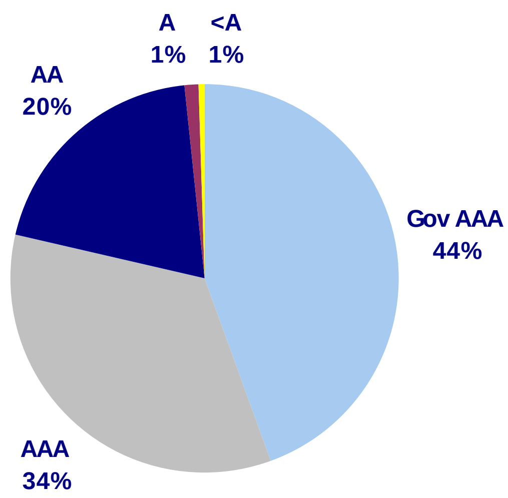
1. *The technical reserves balance is stated net of GST on premium debtors and outstanding claims.*
2. *These two items in aggregate represent the total funds managed on behalf of external clients. The unitholders' funds shown as a minority interest are those invested in trusts that are controlled entities of the Group. There is a matching liability in the Group's balance sheet.*
3. *Assets of $1.4bn represent items that are not under investment management mandate, which include cash in corporate treasury and investments in related entities.*
4. *The Group continues to have available $550m of contingent capital, which is not recognised on its balance sheet. This contingent capital is in the form of debt issued by a subsidiary that is matched by a portfolio of high grade interest bearing securities. The contractual set off rights between the liability for the notes and the assets held to support them mean that the two balances are offset for financial reporting purposes. The terms of the issued debt notes mean that the Group can direct the conversion of this debt to qualifying regulatory capital in Australia at very short notice. The debt securities, known as Reset Exchangeable Securities are listed on the ASX as IANG.*

5.8 Credit quality of assets under management

- The following charts show the credit quality of the fixed interest and cash deposits managed for the Group.

Fixed Interest Credit Quality

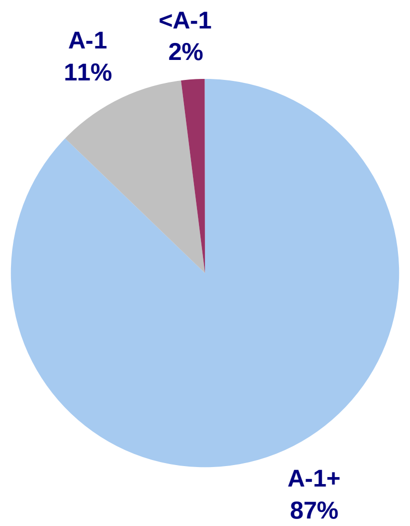
FY ended 30 June 2007



Fixed interest assets represented in this table are $6.9bn

Cash Credit Quality

FY ended 30 June 2007



Cash assets represented in this table are $1.1bn

- The Group has no direct exposure to US sub-prime mortgage debt.

6 CORPORATE

Corporate	Half year ended Dec 05	Half year ended Jun 06	Half year ended Dec 06	Half year ended Jun 07	Full year ended Jun 06	Full year ended Jun 07
	A$m	A$m	A$m	A$m	A$m	A$m
Head office	18	17	18	27	35	45
Insurance protection tax	11	10	10	10	21	20
Net Corporate Expenses	**29**	**27**	**28**	**37**	**56**	**65**
Amortisation	6	2	7	48	8	55
Interest	45	41	50	69	86	119

- Head office expenses increased from $35m in FY06 to $45m in FY07. This increase largely reflects costs incurred in pursuing international expansion opportunities. An additional $4m of corporate costs for pursuing acquisition opportunities in Asia are disclosed as part of the Asia segment result.
- Goodwill is subject to review at each reporting date with any impairment recognised in the income statement. No impairment losses were brought to account in either FY07 or FY06.
- Amortisation expense increased from $8m in FY06 to $55m in FY07. This increase relates to the amortisation associated with the identifiable intangible assets recognised upon the acquisition of Hastings / Advantage Group in 1H07 of $168m, Equity Insurance Group in 2H07 of $598m and Equity Insurance Group's subsequent acquisition of ODIS in 2H07 of $45m.
- The Group's total identifiable intangible assets as at 30 June 2007 were $815m after amortisation of $55m, compared with $57m at 30 June 2006.
- The following schedule shows the expected impact on the Group's result through to FY12 from the projected amortisation expense. These amounts are subject to change, as details are finalised within a year of purchase; exchange rate movements; future acquisitions; future impairment testing; and changes in the useful life of the intangible assets.

Identifiable Intangible Assets Amortisation						
A$m	FY08	FY09	FY10	FY11	FY12	> FY12
Amortisation Expense	79	82	74	69	67	244

- Interest expense increased from $50m in 1H07 to $69m in 2H07. This increase largely represents the interest paid on the Group's £ denominated fixed rate subordinated debt issued in December 2006 which was used to provide long-term finance for the Group's European acquisitions.

7 BALANCE SHEET, CAPITAL AND DIVIDENDS

7.1 Balance sheet

IAG Group Balance Sheet As at	30-Jun-06	31-Dec-06	30-Jun-07
	A$m	A$m	A$m
Assets			
Cash and cash equivalents	718	1,855	1,163
Investments	9,929	9,988	10,884
Investment in joint ventures & associates	74	76	75
Premium receivable	1,652	1,600	2,045
Trade and other receivables	764	824	1,206
Reinsurance recoveries on claims	598	533	970
Other recoveries on claims	310	422	376
Deferred acquisition costs	591	589	789
Deferred reinsurance expense	221	286	224
Intangible assets	57	228	815
Goodwill	1,486	1,692	2,222
Other assets	572	668	841
Total assets	**16,972**	**18,761**	**21,610**
Liabilities			
Outstanding claims	6,916	7,043	8,562
Unearned premium	3,503	3,631	4,213
Interest bearing liabilities	1,296	1,970	2,017
Trade and other payables	743	729	1,120
Other liabilities	843	871	866
Total liabilities	**13,301**	**14,244**	**16,778**
Net assets	**3,671**	**4,517**	**4,832**
Equity			
Equity attributable to holders of ordinary shares	3,491	4,344	4,660
Minority interests	180	173	172
Total equity	**3,671**	**4,517**	**4,832**

- The acquisition of the European operations increased assets and liabilities – a summary of the assets and liabilities acquired is set out in the Group's Annual General Purpose Financial Report.
- The NZ$ appreciated 2% in 2H07 and 11% compared to FY06, which has added growth to assets and liabilities.
- The increase in reinsurance recoveries on claims from $533m at 1H07 to $970m at 2H07 is due to reinsurance recoveries associated with the June 2007 Storms.

Insurance Australia Group

- The increase in intangible assets from $228m at 1H07 to $815m at 2H07 is due to:
  - Identifiable intangible assets recognised upon the acquisition of Equity Insurance Group of $598m and ODIS of $45m before amortisation; and
  - Movements in exchange rates and amortisation.
- The increase in goodwill from $1,692m at 1H07 to $2,222m at 2H07 is due to:
  - The Equity Insurance Group acquisition which generated $545m of goodwill and ODIS which generated $14m of goodwill; and
  - Exchange rate movements.
- The increase in investments from $9,988m at 1H07 to $10,884m at 2H07 reflects:
  - The acquisition of Equity Insurance Group, which added $952m in investments as at 30 June 2007;
  - Investment income of $319m in 2H07 and net cash flows from operations; and
  - Tax paid during the half of $208m.
- The other assets category represents the aggregate of current and deferred tax assets, prepayments, property plant and equipment, defined benefit superannuation assets, deferred expenditure and other assets. The increase from $668m at 1H07 to $841m at 2H07 relates mainly to the acquisition of Equity Insurance Group.
- The increase in the outstanding claims liabilities from $7,043m at 1H07 to $8,562m at 2H07 is due to:
  - The acquisition of Equity Insurance Group which added $963m as at 30 June 2007; and
  - The June 2007 Storms, which resulted in an increased amount of outstanding claims.
- The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unit holders' funds held by minority interests in IAG-controlled trusts and lease provisions. Other liabilities decreased slightly from $871m at 1H07 to $866m at 2H07.
- The increase in shareholders' equity from $4,344m at 1H07 to $4,660m at 2H07 is due to:
  - The issue of shares of $361m since December 2006;
  - Net profit after tax of $207m in 2H07;
  - A 1H07 interim dividend paid in April 2007 of $237m;
  - Defined benefit plan gains of $26m;
  - Dividends received on treasury shares held in trust of $4m;
  - Increase in treasury shares reserve of $30m; and
  - A decrease in other reserves of $15m (Foreign Currency Translation Reserve, Share Based Remuneration and Hedging Reserve).

7.2 Claims development table

- Note 11 of the Group's Annual General Purpose Financial Report includes a claims development table that shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claims costs for the six most recent accident years as estimated at each reporting date.
- This table includes risk margins that are held to allow for the uncertainty surrounding the outstanding claims liability estimation process.
- The risk margin is set to take into account the correlations assessed between outstanding claims liabilities arising from the various forms of business underwritten by the different entities within the consolidated Group. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.
- The Group's policy is for the risk margin to be set as to provide an overall probability of adequacy for the outstanding claims liability of at least 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment.
- An extract of that table is reproduced below:

Net Ultimate Claims Costs	CONSOLIDATED Accident year 2002	2003	2004	2005	2006	2007	Total
	$m	$m	$m	$m	$m	$m	$m
Development							
At end of accident year	2,359	3,733	3,927	4,071	4,438	5,763	
One year later	2,263	3,415	3,572	3,794	4,148		
Two years later	2,184	3,303	3,546	3,715			
Three years later	2,133	3,214	3,480				
Four years later	2,095	3,115					
Five years later	2,045						
Cumulative development	(314)	(618)	(447)	(356)	(290)	n/a	
Cumulative development as a percentage of original reserves	**(13.3%)**	**(16.6%)**	**(11.4%)**	**(8.7%)**	**(6.5%)**	**n/a**	
Current estimate of net ultimate claims cost	2,045	3,115	3,480	3,715	4,148	5,763	
Cumulative payments	(1,874)	(2,783)	(2,926)	(2,890)	(3,043)	(2,550)	
Net undiscounted outstanding claims liability for the six most recent accident years	171	332	554	825	1,105	3,213	6,200
Discount to present value	(31)	(50)	(82)	(124)	(166)	(310)	(763)
Net discounted outstanding claims Liability for the six most recent accident years	**140**	**282**	**472**	**701**	**939**	**2,903**	**5,437**

- The above table shows a history of the claims reserves being conservatively stated and demonstrates favourable development each successive year. This is to be expected when the Group has a policy of reserving its net claims reserves to a minimum probability of adequacy of 90%.
- The following table is prepared on a similar basis, using only central estimates, i.e. it excludes risk margins.

Net central estimate basis	CONSOLIDATED Accident year 2002	2003	2004	2005	2006	2007	Total
	$m	$m	$m	$m	$m	$m	$m
Development							
At end of accident year	2,171	3,401	3,546	3,661	4,057	5,264	
One year later	2,130	3,224	3,383	3,607	3,975		
Two years later	2,071	3,149	3,407	3,586			
Three years later	2,045	3,115	3,393				
Four years later	2,039	3,063					
Five years later	2,018						
Cumulative development	(153)	(338)	(153)	(75)	(82)	n/a	
Cumulative development as a percentage of original reserves	**(7.0%)**	**(9.9%)**	**(4.3%)**	**(2.0%)**	**(2.0%)**	**n/a**	
Current estimate of net ultimate claims cost	2,018	3,063	3,393	3,586	3,975	5,264	
Cumulative payments	(1,874)	(2,783)	(2,926)	(2,890)	(3,043)	(2,552)	
Net undiscounted outstanding claims liability for the six most recent accident years	144	280	467	696	931	2,712	5,231
Discount to present value	(26)	(42)	(69)	(105)	(140)	(261)	(644)
Net discounted outstanding claims Liability for the six most recent accident years	**118**	**238**	**398**	**591**	**791**	**2,451**	**4,587**

- This table also demonstrates a very similar pattern of favourable claims development at the central estimate level, as the ultimate claims costs were settled or became more certain.
- The table also highlights the relatively short-tail nature of the Group's portfolio with more than 90% of the total estimated liability for the 2002 and 2003 accident years already paid and more than 75% already paid for the 2006 year.

7.3 Risk margins

- The Group's probability of adequacy of the claims liability for FY07 is 90.0%, which is unchanged from the prior year.
- Insurers are in the business of accepting and managing risks. A key feature of insurance businesses is diversification between risks and without it the insurance business would not exist. The Group uses diversification to manage the portfolio of risks that arises in the business.
- Risk management and, in particular, diversification, benefits the globalisation of insurance and the provision of insurance across borders means that this diversification benefit can also extend across jurisdictions.
- The risk margin at the end of FY07 as a percentage of the net outstanding claims liability was 18.6%, compared to 22.2% in FY06. This reduction in percentage risk margin reflects in part the $86m diversification benefit obtained from the recent UK acquisitions. It also includes the impact of reducing the co-efficient of variation used to determine the risk margin for CTP following a review of the Group's experience with this portfolio.
- Additional diversification benefits can be obtained depending upon portfolio granularity, netting effects, geography and/or industry concentrations, and correlations within and between risk types. Thus diversification can, and is, effectively used by the Group for more competitive product pricing.

7.4 Capital management

7.4.1 Capital adequacy

- The Group's view on its appropriate level of capital continues to be set based on a number of parameters including risk of absolute insolvency, regulatory insolvency and rating agency requirements (the Group currently targets a 'AA' category rating for the Group as a whole).
- The amount of capital required to fit within these parameters varies according to business mix and asset mix and is estimated using dynamic financial analysis modelling. For ease of communication, internally and externally, the Group has translated the outcome into a multiple of a Minimum Capital Requirement (MCR) set by applying the APRA methodology for measuring Australian licensed insurer capital as if the rules applied to the whole Group. On this basis, the Group has been using a benchmark MCR multiple of 1.55x for the past two years.
- Internal policies are in place to ensure significant forecast or actual deviations from this benchmark will result in the Group's Board considering how any shortfall should be made good or any surplus utilised.
- The growing diversification of the Group means that, prima facie, the amount of capital required per dollar of insurance exposure should reduce to recognise the increased diversification/reduced concentration exposure. However, there are a number of complicating factors in assessing the extent to which the benchmark should be altered or remain appropriate for the Group as a whole. These include:
    - The growing importance of the Group's stream of fee based income following the acquisition of the UK broking businesses;
    - Standard & Poor's rating process, which includes a risk-based capital adequacy model that is currently in the process of being updated. The rating process also includes many qualitative factors in arriving at a company's credit rating. This makes a purely quantitative approach insufficient; and
    - The Group's involvement in Lloyd's syndicates, which use the Lloyd's rating and, having paid the appropriate Lloyd's levies, have access to the Lloyd's insolvency protections, including the Lloyd's central funds.
- The Group now operates in countries that have sovereign ratings of less than the 'AA' category sought for the Group as a whole. Consequently, 'AA' ratings are not usually available for entities operating in those countries.
- At the current time, the Standard & Poor's requirements to maintain the Group's 'AA' category rating are the over-riding parameter. Based on the balance sheet structure at 30 June 2007 the capital requirement is 10-15% over the 1.55x MCR benchmark.
- Finalisation of the claims resulting from the extreme weather events of June 2007 will result in a reduction in regulatory capital charges in relation to outstanding claims and reinsurance recoverables and, consequently, an improvement in the MCR multiple of around 4 basis points.

7.4.2 Capital adequacy/Minimum Capital Requirement position

- As at 30 June 2007 the Group's MCR increased to $2,068m from $1,834m as at 30 June 2006.

As at	31-Dec-05	30-Jun-06	31-Dec-06	30-Jun-07
	A$m	A$m	A$m	A$m
Insurance risk	1,073	1,085	1,121	1,295
Concentration risk	200	200	200	200
Investment risk	520	549	511	573
Minimum Capital Requirement	**1,793**	**1,834**	**1,832**	**2,068**

- The increase in the insurance risk charge and investment charge is due to:
  - The acquisition of Equity Insurance Group in January 2007. The change in asset allocation to reduce exposure to equities was more than offset by the increase in invested assets as a result of the acquisition; and
  - Increased capital charges arising from the recognition of net claims provisions and recoveries for the June 2007 Storms. These added $36m to the MCR as at 30 June 2007.
- The Group's coverage of its MCR requirement is set out below for both the full consolidated Group and the Insurance Australia Limited sub-Group which incorporates all the Australian insurance operations.

Coverage of regulatory capital requirements	IAG Consolidated			Insurance Australia Ltd Group		
A$m	30-Jun-06	31-Dec-06	30-Jun-07	30-Jun-06	31-Dec-06	30-Jun-07
Tier 1 capital						
Paid-up ordinary shares	3,263	4,000	4,361	1,286	1,286	1,286
Treasury shares	(40)	(40)	(36)	-	-	-
Hybrid equity	547	548	549	-	-	-
Reserves	(6)	11	(4)	(10)	(3)	(3)
Retained earnings	274	373	372	1,991	2,325	2,253
Excess technical provisions (net of tax)	421	456	431	377	409	326
Less: deductions [1]	(1,728)	(2,177)	(3,372)	(1,307)	(1,350)	(1,353)
Total Tier 1 capital	**2,731**	**3,171**	**2,301**	**2,337**	**2,667**	**2,509**
Tier 2 capital						
Gross subordinated debt	624	1,215	1,169	624	604	582
less: ineligible subordinated debt	-	-	(18)	-	-	-
Total Tier 2 capital	**624**	**1,215**	**1,151**	**624**	**604**	**582**
Capital base	**3,355**	**4,386**	**3,452**	**2,961**	**3,271**	**3,091**
Minimum capital requirements (MCR):						
Australian general insurance businesses	1,424	1,393	1,501	1,468	1,441	1,553
International insurance businesses MCR [2]	210	239	367	-	-	-
Catastophe concentration risk	200	200	200	98	98	200
Total Minimum capital requirements (MCR)	**1,834**	**1,832**	**2,068**	**1,566**	**1,539**	**1,753**
MCR multiple	**1.83x**	**2.39x**	**1.67x**	**1.89x**	**2.12x**	**1.76x**

Notes:

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

- The Group's regulatory capital has decreased from $4,386m as at 31 December 2006 to $3,452m as at 30 June 2007 due to:
  - An increase of $1,195m in deductions including goodwill, intangibles and net deferred tax assets largely as a result of the Equity Insurance Group acquisition in January 2007;
  - A decrease of $25m in excess technical provisions as a result of a decrease in risk margin and a provision for premium liabilities in the UK business; and
  - A decrease of $15m in reserves due to the weakening of the £ relative to the A$ and its impact on the foreign currency translation reserve; and
  - Payment of the interim dividend in April 2007 of $237m.
- These decreases were offset to some extent by:
  - Total new capital raised in 2H07 of $361m (net of costs and income tax benefit). The new capital comprised of $124m raised in January 2007 by a retail share purchase plan and $237m raised in April 2007 from underwriting the FY07 interim dividend; and
  - 2H07 net profit after tax of $207m.

7.4.3 Total capitalisation and debt

Total Capitalisation As at	31-Dec-05	30-Jun-06	31-Dec-06	30-Jun-07
	A$m	A$m	A$m	
Interest-bearing liabilities				
Unsecured notes	-	-	-	89
Secured mortgage	-	-	-	2
Senior debt	46	41	63	63
Subordinated debt	628	624	1,247	1,201
Reset preference shares	550	550	550	550
Receivables financing debt (GBP)	-	-	20	6
Less: Capitalised transaction costs	(18)	(14)	(14)	(19)
Cross currency swap payable[1]	89	95	104	125
Total Interest-bearing liabilities	**1,295**	**1,296**	**1,970**	**2,017**
Shareholders' equity				
Share capital	3,263	3,263	4,000	4,361
Treasury shares	(45)	(40)	(39)	(69)
Retained profits	375	274	372	372
Foreign currency translation reserve	(3)	(15)	(10)	(34)
Share based remuneration reserve	16	19	24	33
Hedging reserves	(9)	(10)	(3)	(3)
Total shareholders' equity (excl minority interests)	**3,597**	**3,491**	**4,344**	**4,660**
Total capitalisation	**4,892**	**4,787**	**6,314**	**6,677**
Interest coverage & debt ratios Half-year ended	**31-Dec-05**	**30-Jun-06**	**31-Dec-06**	**30-Jun-07**
Earnings before interest and tax (EBIT)	778	543	578	446
Earnings before interest, tax, depreciation and amortisation (EBITDA)	806	576	610	555
Market capitalisation:				
- Share price	5.42	5.35	6.35	5.70
- Ordinary shares on issue	1,594	1,595	1,731	1,794
Total debt/(Total debt+shareholders equity excluding minority interests)	26.5%	27.1%	31.2%	30.2%
Total debt/(Total debt+total market capitalisation)	13.0%	13.2%	15.2%	16.5%
EBIT interest cover (times) [2]	17.3x	13.2x	11.6x	6.8x
EBITDA interest cover (times) [2]	17.9x	14.0x	12.2x	8.5x

Notes:

1. *Cross currency swaps are used to hedge the currency exposure from the US$240m denominated subordinated debt issue. The cross currency swaps are revalued to take into account movements in the US$/A$ exchange rate and market interest rates and are reported as part of interest paying liabilities.*
2. *Interest cover excludes interest payable on Reset Exchangeable Securities, which is offset by interest income. In December 2006 the Group raised an additional £50m of subordinated debt over that required to fund the acquisition of Equity Insurance Group, as a pre-funding of the anticipated November 2007 redemption of A$300m of subordinated debt. Interest on this borrowing ($3.5m) has been excluded from the calculation of interest cover.*

Maturity profile of Group debt and reset preference shares	Currency principal amount $m	A$ equivalent principal amount $m	Yield (net of interest rate and cross currency swaps)	Fixed Rate / Variable Rate (net of swaps)	Call Date, Reset Date or Maturity Date[6]	S&P rating
Long-term debt:						
GBP37m Senior Loan Notes[1]	£37	89	5.45%	Variable	Jul-07	Not rated
A$50m subordinated floating rate notes	A$50	50	5.78%	Fixed	Nov-07	'AA -'
A$250m subordinated fixed rate notes	A$250	249	6.41%	Variable	Nov-07	'AA -'
NZ$50m senior fixed rate notes	NZ$50	45	7.36%	Fixed	Aug-08	'AA'
£15m receivables financing facility[2]	£3	6	6.75%	Variable	Jan-09	Not rated
Secured GBP mortgage loan[2]	£1	2	7.00%	Variable	Dec-09	Not rated
US$240m subordinated fixed rate notes[3]	US$240	401	6.93%	Fixed	Apr-10	'AA -'
€12m senior floating rate notes[2]	€ 12	19	8.33%	Variable	Sep-10	Not rated
€12m subordinated floating rate notes[2]	€ 12	19	8.15%	Variable	Dec-10	Not rated
US$7.5m subordinated floating rate notes[2]	US$8	9	9.31%	Variable	Dec-10	Not rated
£250m subordinated fixed rate notes	£248	591	5.66%	Fixed	Dec-16	'A'
Total debt		**1,480**				
Reset preference shares[4]						
IAGPB	A$200	200	4.51%		Jun-08	'A '
IAGPA	A$350	350	5.63%		Jun-12	'A '
Total reset preference shares		**550**				
Reset Exchangeable Securities (IANG) [5]	A$550	550	5.32%		Mar-10	'A'

Notes:

1 *The Senior Loan Notes were issued to the management of Equity Insurance Group by IAG UK Holdings Ltd on 8 January 2007. The notes were issued in three tranches with maturity dates up to 8 January 2010. The majority of these notes are redeemable at the option of the holder on a six monthly basis from July 2007 onwards. In July 2007, £18m of the notes were redeemed.*

2 *Borrowings acquired as part of the acquisition of Hastings and Advantage*

3 *The A$ equivalent of the US$ proceeds received by the Group, net of related cross currency swaps and excluding transaction costs*

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. The margin, dividend rate and next reset date for IAGPAs were reset during the financial year in accordance with the terms of issue.*

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.*

6 *Where a debt or preference share has a call date or reset date, that is the date included here.*

7.4.4 Reset preference shares (RPS)

- The first tranche of the Group's Reset Preference Shares (ASX code: IAGPA) had its first reset date on 15 June 2007. Effective on this date, the Group reset the margin, the market rate and the next reset date. The way the dividend is calculated and the payment frequency was not changed. The total face value of IAGPA on issue remains at $350m.
- A comparison of previous terms to the reset terms of RPS1 are as follows:

	Reset Terms	Original Terms
Reset date	15 June 2012	15 June 2007
Margin	1.10%	1.90%
Market rate	6.935%	6.38%
Dividend rate	5.63%	5.80%

7.4.5 Reset Exchangeable Securities (RES)

- The Group continues to have available $550m of contingent capital, which is not recognised on its balance sheet. This contingent capital is in the form of debt issued by a subsidiary that is matched by a portfolio of high grade interest bearing securities. The contractual set-off rights between the liability for the notes and the assets held to support them mean the two balances are offset for financial reporting purposes. The terms of the issued debt notes mean that the Group can direct the conversion of this debt to qualifying regulatory capital in Australia at very short notice. The debt securities, known as Reset Exchangeable Securities, are listed on ASX as IANG. If the securities had been converted as at 30 June 2007, the MCR multiple would have increased by 0.27x.

		Pro-forma adjustments		
A$m	Group	RES on Issue[1]	Exchange[2,3,4]	Pro-forma
Tier 1 Capital	2,301	-	550	2,851
Tier 2 Capital	1,151	-	18	1,169
Regulatory capital base	3,452	-	568	4,020
Minimum capital requirement (MCR)[4]	2,068	-	-	2,068
MCR Multiple	1.67x	-		1.94x

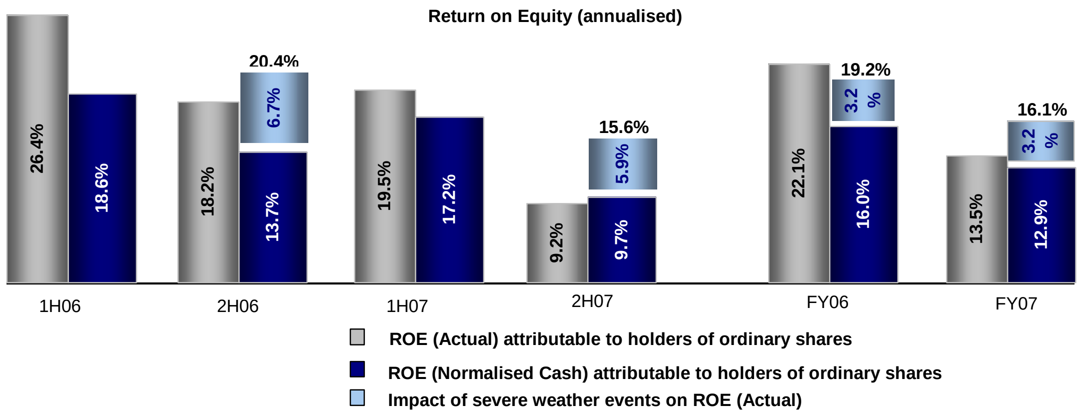
Notes:

1. *RES are not recognised in the Group's capital adequacy position as they are not eligible to be treated as regulatory capital until such time as they are converted into qualifying regulatory capital instruments.*
2. *These amounts reflect the composition of the Group's capital adequacy position as at 30 June 2007.*
3. *Assuming there has been no change in the Group's capital adequacy position at the time of exchange and all RES transaction costs have been amortised previously.*
4. *Assuming that the $550 million in investment assets have minimal investment charge and no material impact on the Group's MCR.*
5. *The Group's Tier 2 Capital securities currently exceed 50% of the Group's net Tier 1 Capital and are therefore excluded from the eligible capital base. Increasing the Tier 1 capital base would allow more eligible Tier 2 capital to be included in the regulatory capital base.*

7.4.6 Reinsurance protections

- The Group's main catastrophe cover for all its non-UK operations was renewed for 12 months effective 1 January 2007 and cover was purchased up to a limit of $3.5bn. In addition to the Australian and New Zealand businesses, the catastrophe programme also provides coverage for the majority of the IAG Group's international businesses where ownership was completed prior to 1 January 2007. This additional coverage is provided after exhaustion of those entities' own specific programmes.
- The Group has implemented a customised event definition in its contract wordings with reinsurers to ensure that covers provide appropriate protection to the Group. The June 2007 Storms demonstrated the benefit of this as it enabled the entire duration of the loss to be treated as one event with certainty and hence carry one retention whereas a standard reinsurance contract definition could have resulted in the event being divided into two with two retentions needing to be applied.
- The Group has improved the efficiency of its reinsurance programmes from 1 July 2007 by replacing a significant amount of the proportional property surplus covers with both a risk excess of loss cover and some additional catastrophe cover.
- Following the June 2007 Storms (first event), the maximum retained catastrophe loss in Australia and New Zealand for a natural perils second event has now reduced to $125m for the remainder of 2007.
- The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where whole of portfolio is the sum of all non-correlated risk). The limits purchased reflect a 1 in 250 year return period on this basis and are significantly higher than APRA's single site minimum purchase of a 1 in 250 year return period.
- The counter-party credit profile of the main catastrophe programme has more than 81% of the limit provided by parties rated 'AA-' or better by S&P. The $473m of reinsurance recoveries on the balance sheet in respect of the NSW storms are of at least a "strong" credit quality and thus attract correspondingly lower APRA capital charges as a result.
- A separate aggregate cover was secured at 1 January 2007 to provide protection against infectious diseases (eg. Avian flu), primarily in respect of business interruption loss in property policies. The cover steps down in line with the run-off of exposure in its original policies and expires on 30 September 2007.
- The Group's UK operations purchase separate third party reinsurance to protect their motor portfolios. Both entities carry a £1m deductible for this class of business. The Equity Red Star property reinsurance protections are placed with IAG Re Labuan (L) Berhad while Advantage's covers are placed directly with the external markets. These protections are bought to a 1 in 150 year return period in accordance with standard UK market practice, which equates to a Group retention of approximately $100m.
- Separate per risk covers are bought on the external market for Alba.
- The casualty protection was renewed at 30 June 2007 on similar terms to expiry. Unlimited cover was purchased on statutory classes where this was available and for other lines cover was placed up to the original underwriting limits for each class. Cover was also secured for potential accumulations within a class or between classes of business.
- The counter-party credit profile of the casualty programme has improved with over 88% of limits placed with 'AA-' or better rated entities.
- The Group has a philosophy of limiting its per risk catastrophe retention to a maximum of 4.0% of net earned premium. Its current retentions are below this level.

7.5 Return on equity

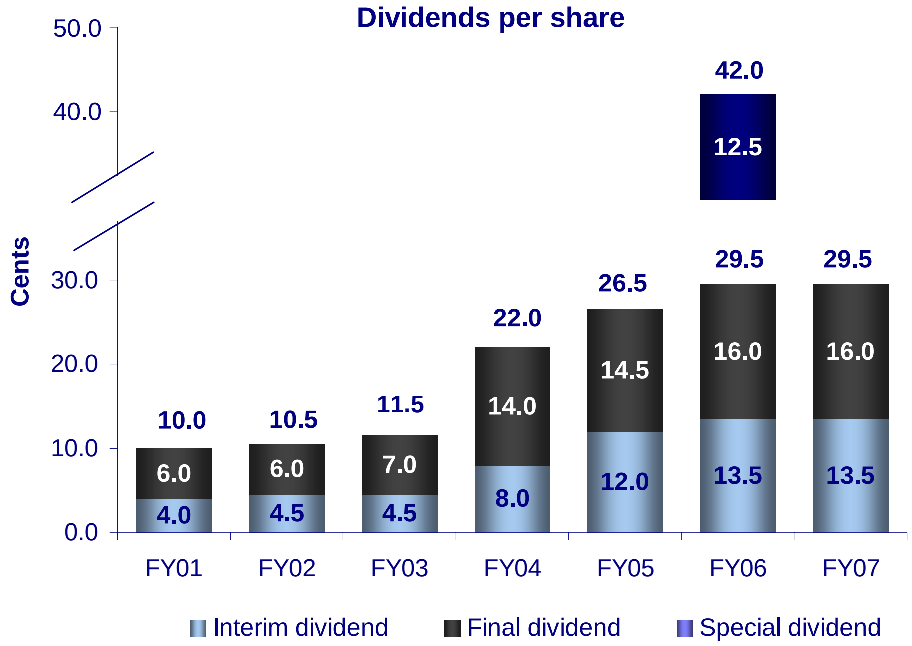


Note:

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

- The Group's ROE for FY07 was 13.5%, compared to 22.1% in FY06.
- The concept of normalised earnings is used in targeting ROE.
- Normalised ROE is calculated by dividing normalised earnings by the average equity attributable to IAG shareholders. Normalised earnings are derived by performing three adjustments to actual NPAT for holders of ordinary shares:
  - Shareholders' funds return is adjusted to be equivalent to the daily average 10-year bond rate for the period, plus 4% pa for periods prior to 1H07 to allow for the equity risk premium. For 1H07 and 2H07 the same principle is applied, but adjusted to reflect the lower allocation to equities;
  - Add back amortisation; and
  - Adjust the tax expense in line with the change in investment income.
- The Group's target ROE to holders of ordinary shares over the cycle is a minimum of 1.5 times its weighted average cost of capital (WACC).
- Excluding the impact of the severe weather events, the Group's normalised FY07 ROE would have been 16.1% compared to 19.2% in FY06. Since listing the Group has only incurred losses on three events which were greater than either $100m or of a severity of at least 1 in 100 year return period . These occurred in the following financial years:
- March 2006 – Cyclone Larry – FY06
- June 2007 – June 2007 Storms – FY07
- June 2007 – UK floods – FY07

7.6 Dividends



- The Group has declared a final dividend per ordinary share of 16 cents, fully franked, which is payable on 8 October 2007. This brings the annual dividend for FY07 to 29.5 cents per ordinary share, which is unchanged on the prior year.
- The Group's goals of delivering dividend growth and paying annual dividends in the range of between 50-70% of normalised earnings[8] remain unchanged.
- The Group has determined that it is inappropriate to grow the dividend paid per share unless it is supported by sustainable growth in normalised earnings. The Group expects to be able to return to growing its dividends when the newly acquired businesses make meaningful contributions to the Group's results.
- The final dividend will reduce the retained earnings by $287m, compared to $255m last year, as it is payable on an expanded capital base.
- The Group's franking balance as at 30 June 2007 was $564m. The final dividend will utilise $123m of franking credits. After payment of the final dividend for FY07, the franking balance of $441m is capable of fully franking a further $1,029m of distributions.
- The Group has determined that it will arrange to have the final dividend underwritten as this continues to be an efficient mechanism for managing its core capital requirements to fund potential bolt-on acquisitions so that it can continue to execute on its strategy of growing and diversifying its earnings streams in a shareholder accretive fashion.
- The Group's Dividend Reinvestment Plan continues to operate with pricing based on the volume weighted average price of the Group's shares traded during a pricing period determined by the Company. No discount currently applies.

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

7.7 Sensitivity analysis

7.7.1 Investment market sensitivities

Sensitivity on NPBT As at		30-Jun-06	31-Dec-06	30-Jun-07
	Change in assumption	A$m	A$m	A$m
Investment sensitivities				
Equity market values:				
Australian equities	+1%	12.1	6.5	6.3
Listed property trusts	+1%	0.8	0.7	0.7
International equities (incl. private equity)	+1%	4.6	2.2	2.2
Hedge funds	+1%	2.3	1.0	1.1
Interest rates:				
Technical Provisions (Aust & NZ Fixed Interest)	-1% or 100 bpts change in interest rates	188.7	188.5	179.7
Shareholders' Funds (Australian Fixed Interest)	-1% or 100 bpts change in interest rates	8.9	14.9	11.2
Total Investment Returns	-1% or 100 bpts change in interest rates	197.6	203.4	190.9
Outstanding claims	-1% Change in net discount rate	(166.2)	(159.6)	(162.6)

7.7.2 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-06	30-Jun-07
	Change in assumption	A$m	A$m
Insurance sensitivities			
Loss ratio - Australia	-1%	52.1	51.3
Loss ratio - International	-1%	9.3	16.2
Underwriting expenses	-1%	12.0	13.0

APPENDIX A – GROUP PURPOSE AND STRATEGY

Group purpose and strategy

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

APPENDIX B – A SNAPSHOT OF IAG

Australian 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 (motor injury liability).

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 is a leading provider of workers' compensation services in Australia and operates in every State and Territory except South Australia, 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 underwrites policies and manages 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 Broker/agent channel.

The Group holds approximately 36% of the New Zealand market, and is 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, which include large financial institutions.

Short-tail Insurance

Motor vehicle
Home and contents
Commercial property, 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

EUROPE

The Group now owns two general insurance operations in Europe which, combined, underwrite approximately 5% of the United Kingdom motor insurance market. Hastings Direct (with a Gibraltar based underwriter, Advantage) was acquired in October 2006 and the Equity Insurance Group acquisition was completed in January 2007. In addition to distributing under their brands, they also underwrite affinity business and broke other insurers' business.

ASIAN INTERESTS

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

OUR MAJOR BRANDS

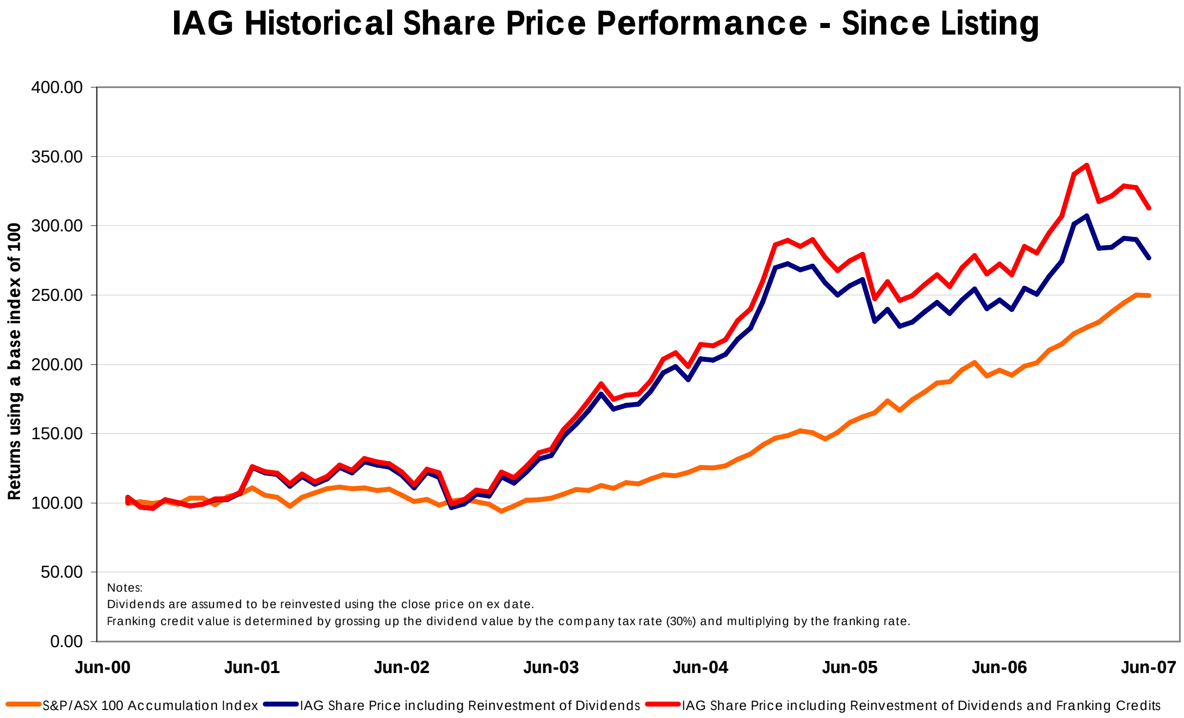
100% owned unless indicated

Australia	NRMA INSURANCE, SGIO, SGIC, CGU, swann insurance
New Zealand	STATE, NZI
Europe	equity REDSTAR, equity INSURANCE BROKERS, Hastings DIRECT
Asia	CAA, NZI, 96% voting rights, AmAssurance 30% owned

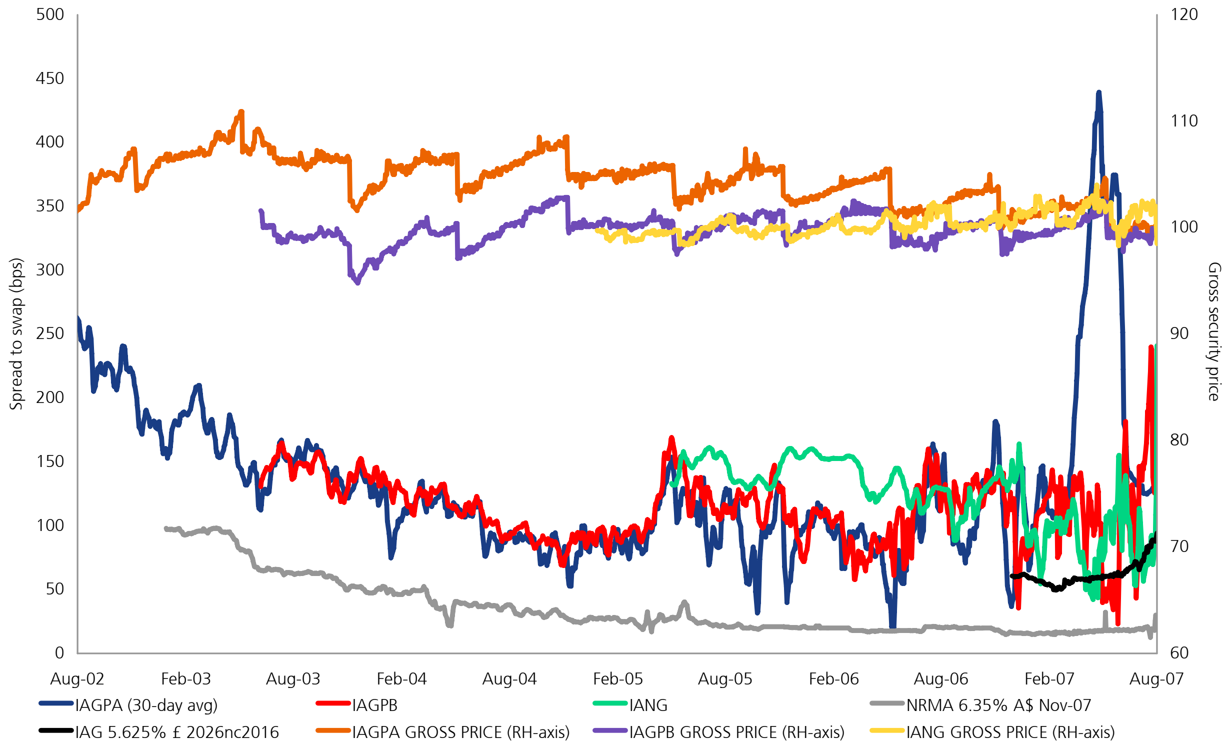
IAG Brand Integrity G012118A 07/07

APPENDIX C – SHARE PRICE TRENDS & TOP 20 REGISTERED HOLDINGS

3. Performance of IAG ordinary shares relative to benchmark indices



4. Spread to Swap performance of Reset Preference Shares Subordinated Debt and Reset Exchangeable Securities



Note:

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

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

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

The RES (IANG) listed on 12 January 2005. Interest is payable quarterly. The rate for the quarter to September 2007 is 5.3293% 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 February 2007. It does not include announcements of changes in Directors' interests, nor the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements should further information be required. These are available on www.iag.com.au

22/02/2007 **Announcement of Half-Year results – 31 December 2006**

IAG announced a net profit after tax of $345m for the 6 months to 31 December 2006 (31 December 2005: $461m). The Board of IAG declared a fully franked dividend of 13.5 cents per ordinary share payable on 16 April 2007.

02/04/2007 **IAGPA reset of terms and notices**

IAG announced the terms and conditions applicable to the Reset Preference Shares (RPS) after the first reset date, 15 June 2007, on which IAG was to reset the margin, market rate and the next reset date.

02/04/2007 **Pricing of shares to be allocated under Dividend Reinvestment Plan**

The ordinary shares allocated under the Dividend Reinvestment Plan (DRP) were priced at $5.8507 per share for the interim dividend. The DRP price was based on an average market price for the ten days from 19 March 2007 to 30 March 2007 inclusive.

11/04/2007 **Change in substantial holding for Commonwealth Bank of Australia**

Commonwealth Bank of Australia announced that it had increased its combined holding in IAG ordinary shares from 6.49% voting power to 7.25%.

17/04/2007 **Dividends payable on Reset Preference Shares**

The Board of IAG declared fully franked dividends on RPS1 (IAGPA) and RPS2 (IAGPB). The record date was 30 May 2007 and payment date was 15 June 2007.

The RPS1 (IAGPA) dividend rate per annum was 5.8% (with $2.8921 payable per $100 share).

The RPS2 (IAGPB) dividend rate per annum was 4.51% (with $2.2488 payable per $100 share).

03/05/2007 **Resale of Reset Preference Shares**

IAG announced that a process to facilitate the resale of RPS1 that were the subject of Exchanges Notices that had been received would be undertaken. Macquarie Equity Capital Markets was appointed to manage the resale process of approximately $122 million of RPS.

10/05/2007 **IAGPA Reset Preference Share Resale Placement**

IAG advised that RPS that were subject to validly completed Exchange Notices were acquired by third parties on 15 June 2007 for their Face Value of $100 per RPS.

IAG announced that the Additional Margin referred to in the Reset Notice for the RPS would be 0% and the margin applying to all RPS would be 1.10% for the period from 16 June 2007 until the next Reset Date of 15 June 2021.

30/05/2007 **Change in substantial holding for Capital Group Companies**

The Capital Group Companies announced that it had decreased its holding in IAG ordinary shares for which it had voting power from 8.362% to 7.2029%.

04/06/2007 **IAG suspends discussions with China Pacific Property Insurance**

IAG announced that its planned investment in China Pacific Property Insurance (CPPI) to acquire 24.9% of CPPI had been suspended, and, barring any substantial changes in CPIC's short-term strategy, was unlikely to proceed.

12/06/2007 **NSW Central Coast Storms**

IAG announced that it had received over 9,000 claims in relation to the NSW Central Coast Storms and expected further lodgements. IAG advised that the full cost of claims under $100m would be borne by IAG and any costs in excess of $200m would be fully covered. Partial covers were in place for losses between $100m and $150m, which limited IAG's exposure to 37.25% of any losses.

IAG expected that the ultimate number of claims and related costs would lead to the Group making claims on its catastrophe reinsurance covers and the total pre-tax loss, net of reinsurance, was reasonably likely to reach the maximum Group exposure of $169m.

15/06/2007 **IAGPA Reset Of Dividend Rate**

IAG set the Market Rate (5 year swap rate) for its IAGPA RPS1 at the rate of 6.935%, in accordance with the RPS terms set out in the Reset Notice lodged on 2 April 2007. The Dividend Rate was fixed until the reset date of 15 June 2012 at the rate of 5.63% per annum.

25/06/2007 **Change in substantial holding for Commonwealth Bank of Australia**

Commonwealth Bank of Australia announced that it had increased its combined holding in IAG ordinary shares for which it had voting power from 7.52% to 8.54%.

28/06/2007 **Change to Dividend Reinvestment Plan Rules**

The IAG Board approved an amendment to the IAG Dividend Reinvestment Plan rules that came into effect on 1 August 2007. The change applies to the definition of "Average Market Price" in the Glossary of the DRP booklet to reflect changes to the ASX Market Rules.

13/07/2007 **Change in substantial holding for Capital Group Companies**

The Capital Group Companies announced that it had decreased its holding in IAG ordinary shares for which it had voting power from 7.2029% to 6.1334%.

31/7/2007	**Warning to IAG shareholders**
	IAG issued a warning to its shareholders that Hassle Free Share Sales Pty Ltd may be preparing unsolicited offers to buy IAG shares at less than their prevailing market value.
01/08/2007	**Change in substantial holding for Commonwealth Bank**
	Commonwealth Bank of Australia announced that it had increased its combined holding in IAG ordinary shares for which it had voting power from 8.54% to 9.54%.
17/8/2007	**Executive team changes**
	IAG announced that Ms Sam Mostyn would be leaving her role as a full-time executive in October 2007 and that Ms Christine McLoughlin would assume Ms Mostyn's responsibilities along with her existing responsibility for Group Strategy.

1. Ordinary Shareholders (IAG) as at 30 June 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		280,101,769	15.61%
2	NATIONAL NOMINEES LIMITED		139,245,663	7.76%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		129,088,461	7.19%
4	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	50,380,230	2.81%
5	CITICORP NOMINEES PTY LIMITED		44,096,152	2.46%
6	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<BKCUST A/C>	25,795,286	1.44%
7	COGENT NOMINEES PTY LIMITED		21,626,316	1.21%
8	CITICORP NOMINEES PTY LIMITED	<CFS WSLE GEARED SHR FND A/C>	17,689,479	0.99%
9	CITICORP NOMINEES PTY LIMITED	<CFS WSLE IMPUTATION FND A/C>	16,129,775	0.90%
10	AUSTRALIAN REWARD INVESTMENT ALLIANCE		12,325,104	0.69%
11	CITICORP NOMINEES PTY LIMITED	<CFS WSLE 452 AUST SHARE A/C>	11,624,464	0.65%
12	QUEENSLAND INVESTMENT CORPORATION		10,993,764	0.61%
13	CITICORP NOMINEES PTY LIMITED	<CFS IMPUTATION FUND A/C>	10,496,784	0.58%
14	AMP LIFE LIMITED		8,880,542	0.49%
15	IAG SHARE PLANS NOMINEE PTY LIMITED	<IAG PAR UNALLOCATED A/C>	8,640,561	0.48%
16	CITICORP NOMINEES PTY LIMITED	<CFS WSLE AUST SHARE FND A/C>	7,146,183	0.40%
17	UBS NOMINEES PTY LTD	<116C A/C>	6,830,000	0.38%
18	ANZ NOMINEES LIMITED	<INCOME REINVEST PLAN A/C>	6,100,947	0.34%
19	CITICORP NOMINEES PTY LIMITED	<CFSIL CFSWS GEAR 452 AU A/C>	5,855,939	0.33%
20	ARGO INVESTMENTS LIMITED		5,783,333	0.32%
		Total Top Holders Balance	**818,830,752**	**45.63%**

2. Reset Preference (IAGPA) Shareholders as at 30 June 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		451,401	12.90
2	UBS NOMINEES PTY LTD		171,233	4.89
3	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	117,294	3.35
4	CITICORP NOMINEES PTY LIMITED		109,997	3.14
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		80,750	2.31
6	M F CUSTODIANS LTD		49,769	1.42
7	CITICORP NOMINEES PTY LIMITED	<CFSIL CFS WS ENH YIELD A/C>	47,306	1.35
8	OHJ HOLDINGS PTY LTD		42,085	1.20
9	ARMADA INVESTMENTS PTY LTD		39,500	1.13
10	ARGO INVESTMENTS LIMITED		30,800	0.88
11	NATIONAL NOMINEES LIMITED		27,200	0.78
12	G JAMES AUSTRALIA PTY LTD		25,000	0.71
13	MOUNT PRITCHARD & DISTRICT COMMUNITY CLUB		25,000	0.71
14	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	21,192	0.61
15	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		21,099	0.60
16	CATHOLIC CHURCH INSURANCES LTD		20,000	0.57
17	CITICORP NOMINEES PTY LIMITED	<CMIL CWLTH INCOME FUND A/C>	20,000	0.57
18	DIMBULU PTY LTD		20,000	0.57
19	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<GSENIP A/C>	20,000	0.57
20	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	<BERNDALE A/C>	15,794	0.45
		Total Top Holders Balance	**1,355,420**	**38.71**

3. Reset Preference (IAGPB) Shareholders as at 30 June 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		359,128	17.96
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	NATIONAL NOMINEES LIMITED		106,610	5.33
6	CITICORP NOMINEES PTY LIMITED		99,613	4.98
7	UBS NOMINEES PTY LTD		89,024	4.45
8	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	65,861	3.29
9	CITICORP NOMINEES PTY LIMITED	<CFSIL CFS WS ENH YIELD A/C>	64,025	3.20
10	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	59,422	2.97
11	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	34,060	1.70
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		29,088	1.45
13	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		28,212	1.41
14	UCA CASH MANAGEMENT FUND LIMITED		24,097	1.20
15	WOODROSS NOMINEES PTY LTD		23,700	1.19
16	MRS FAY CLEO MARTIN-WEBER		20,000	1.00
17	GOLDMAN SACHS JBWERE CAPITAL MARKETS LTD	<HYBRID PORTFOLIO A/C>	18,944	0.95
18	M F CUSTODIANS LTD		15,959	0.80
19	FORTIS CLEARING NOMINEES P/L	<SETTLEMENT A/C>	14,450	0.72
20	PERPETUAL TRUSTEE COMPANY LIMITED		10,749	0.54
		Total Top Holders Balance	**1,536,230**	**76.81**

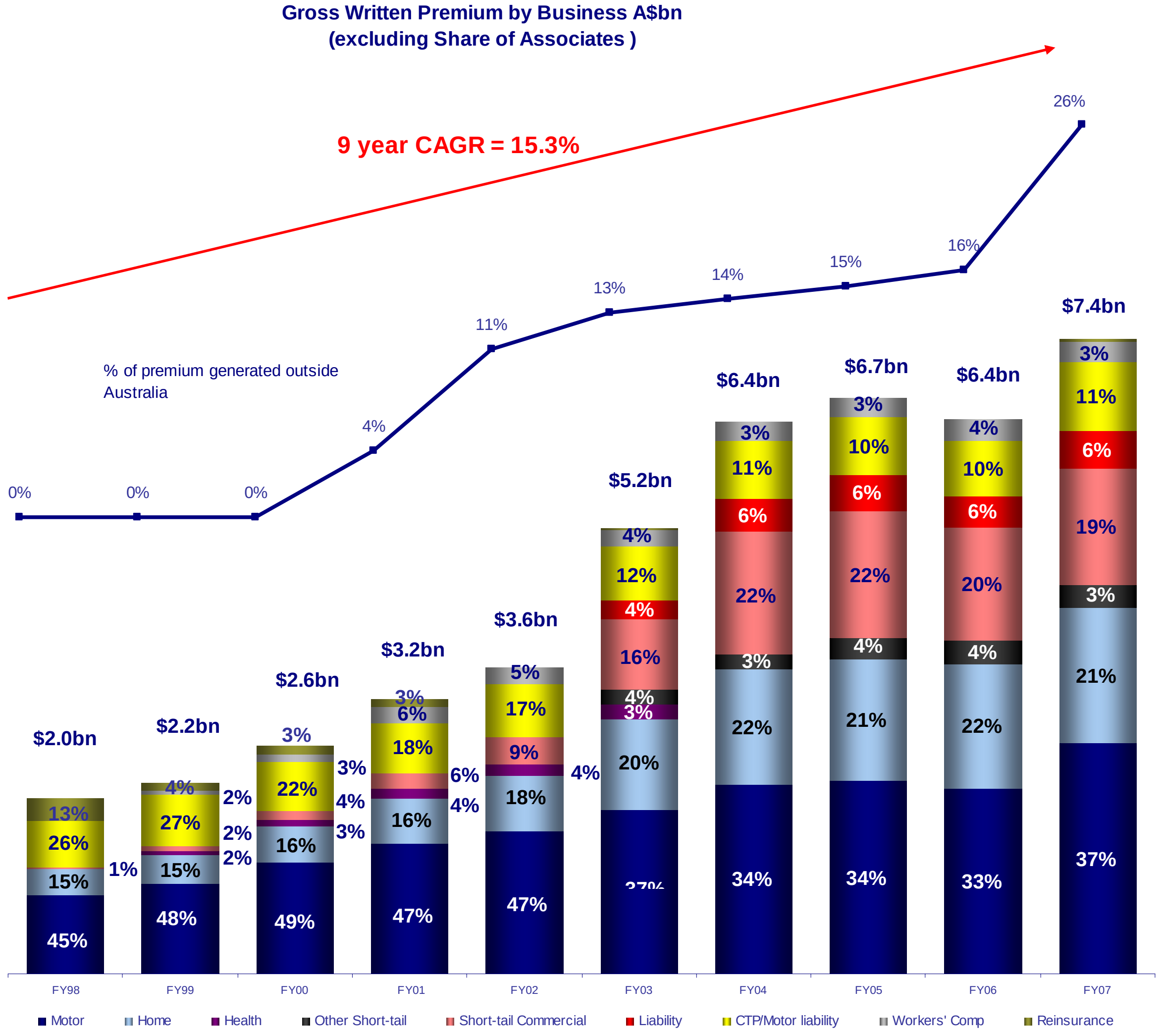
4. Reset Exchangeable Securities (IANG) holders as at 30 June 2007

Rank	Name	Account Designation	Units Held at end of period	% of Issued Capital
1	J P MORGAN NOMINEES AUSTRALIA LIMITED		773,256	14.06
2	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD		320,644	5.83
3	NATIONAL NOMINEES LIMITED		154,377	2.81
4	ANZ NOMINEES LIMITED	<CASH INCOME A/C>	143,757	2.61
5	CITICORP NOMINEES PTY LIMITED		142,382	2.59
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		110,985	2.02
7	CITICORP NOMINEES PTY LIMITED	<CFSIL CWLTH SPEC 5 A/C>	84,365	1.53
8	SUNCORP CUSTODIAN SERVICES PTY LIMITED	<AFT>	69,344	1.26
9	UCA CASH MANAGEMENT FUND LTD		68,107	1.24
10	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<GSJBW A/C>	67,565	1.23
11	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	<MLCI A/C>	64,325	1.17
12	SUNCORP CUSTODIAN SERVICES PTY LINITED	<ACT>	52,845	0.96
13	COGENT NOMINEES PTY LIMITED		50,000	0.91
14	CRYTON INVESTMENTS NO 9 PTY LTD	<GARNER NUMBER 1 A/C>	48,000	0.87
15	SR CONSOLIDATED PTY LTD		30,300	0.55
16	PERPETUAL TRUSTEES CONSOLIDATED LIMITED	<ALLIANCE A/C>	28,544	0.52
17	ARGO INVESTMENTS LIMITED		25,000	0.45
18	FORTIS CLEARING NOMINEES P/L	<SETTLEMENT A/C>	22,475	0.41
19	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	<NO 1 ACCOUNT>	21,275	0.39
20	THE AUSTRALIAN NATIONAL UNIVERSITY		20,000	0.36
Total Top Holders Balance			**2,297,546**	**41.77**

APPENDIX E – PRODUCT AND GEOGRAPHICAL DIVERSIFICATION

F1: Growth in gross written premium and product split

This graph shows a history of the Group's growth in gross written premium and the increased diversification over a 10-year period.



Notes:

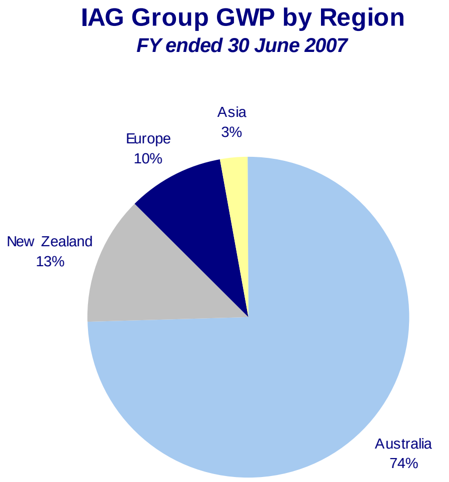
1. The Group's mix of short-tail and long-tail premium as at 30 June 2007 is 80:20.
2. The Health business was sold in July 2003.
3. Other short-tail primarily consists of other accidents, extended warranty and consumer credit insurance.

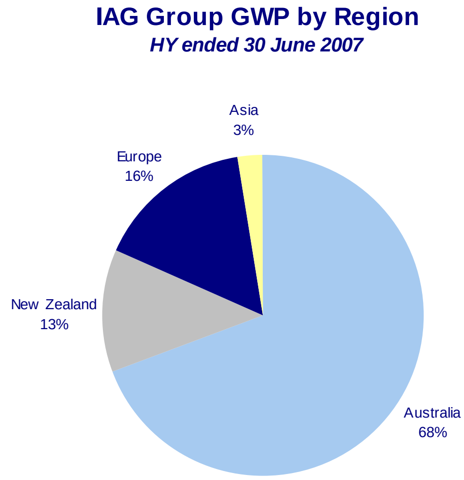
F2: Key acquisitions completed since 1998

Calendar Year		GWP Acquired
1998	• Acquired **SGIO** & **SGIC** in WA & SA through on-market takeover of SGIO Ltd	$321 m
1999	• **RACV** Strategic Alliance in VIC	$333 m
2001	• Acquisition of **State Insurance** in NZ	$297 m
	• Acquisition of renewal rights to HIH workers' compensation(4)	$80 m
2003	• Acquisition of **CGU & NZI(4)** (Aviva's general insurance business in Australia and New Zealand respectively)	$2,009 m
2005	• Acquisition of **RSA** Thailand (Royal & Sun Alliance business)	$35 m
2006	• Investment of 30% in **AmAssurance** Bhd in Malaysia(3)	$41m
	• Increased interest to 97% in **Safety Insurance** in **Thailand**	$100 m
	• Acquisition of **Hastings Group**(4)	$233 m
	• Acquisition of **Equity Insurance Group**(4)	$875 m
2007	• Acquisition of **Open and Direct Insurance Service**(4)	N/A

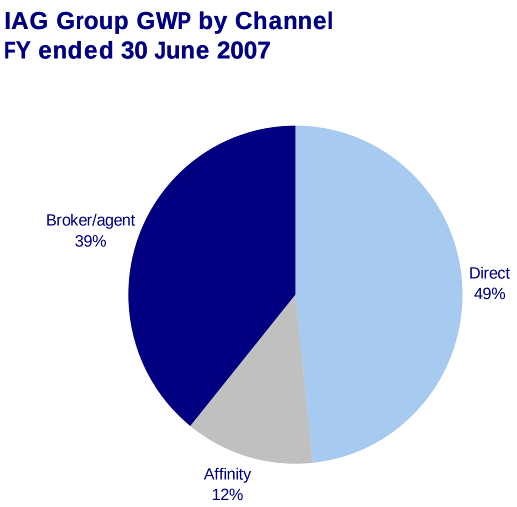
Note:
(1) This does not represent all acquisitions, only acquisitions greater than $20m are shown and excludes divestments.
(2) GWP reflects premiums for the financial year prior to acquisition.
(3) Reflects proportion interest in AmAssurance.
(4) Acquisition also includes fee based business.

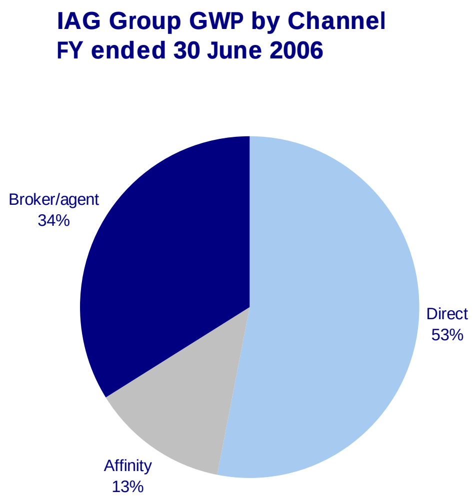
F3: Group Gross Written Premium – Region split



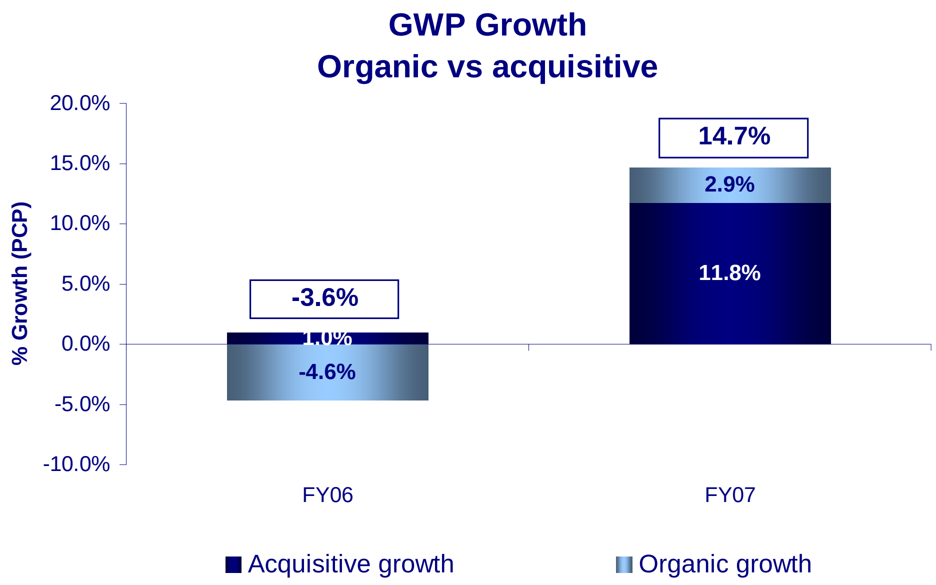


F4: Group Gross Written Premium – Channel split





APPENDIX F – GWP GROWTH ORGANIC VS ACQUISITIVE



Note: Acquisitive growth in FY07 is due to the newly acquired European underwriting businesses in the UK and Gibraltar.

APPENDIX G - GLOSSARY

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

AIFRS:	Australian equivalents of International Financial Reporting Standards.
APRA:	Australian Prudential Regulation Authority.
ASX:	Australian Securities Exchange Limited.
Business volume:	this measures the volume of business at a point in time. The basis of the measure depends on the class of business. In personal lines classes of business, the relevant volume measure is "risks in force". In commercial classes, the volume measure is "policies in force". The difference in the definition is required to capture the distinct nature of IAG's business mix.
Combined ratio:	represents the total of Net Claims Expense incurred and Underwriting Expenses, as a percentage of Net Earned Premium. It is equivalent to the sum of the Loss Ratio and Expense Ratio.
CTP:	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase.
Expense ratio:	the ratio of Underwriting Expenses to Net Earned Premium. Expenses are split into administration and commission, with rates calculated on the same basis.
Fire services levy (FSL):	FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying the FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy.
Gross written premium (GWP):	the total premiums relating to insurance policies underwritten by an insurer or reinsurer during a specified period, before deduction of Reinsurance premiums.
Group:	IAG and its subsidiaries.
Insurance margin:	the ratio of Insurance Profit to Net Earned Premium.
Insurance profit:	Underwriting Result plus investment income on Technical Reserves.
June 2007 Storms:	The severe weather even that occurred over the Queen's Birthday weekend in June 2007 in the Hunter Valley and Newcastle region.

Long-tail: classes of insurance (such as CTP and workers' compensation insurance) with an average period between the time when earned premiums are collected and final settlement of claims that is generally greater than 12 months.

Loss ratio: the ratio of Net Claims Expense to Net Earned Premium.

LTCS: Lifetime Care and Support Scheme. This scheme is operated by the NSW Government and provides care for people catastrophically injured in motor vehicle accidents in NSW regardless of fault. It is funded by a levy collected through NSW CTP premiums.

MCR: minimum capital requirement as defined by APRA.

Net claims expense: insurance claim losses incurred plus claims handling expenses minus Recoveries.

Net earned premium (NEP): Gross Written Premium plus/minus the decrease/increase in unearned premium less the reinsurance expense applicable to that period/premium.

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

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

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

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

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

Reset Preference Shares (RPS): Reset Preference Shares issued by IAG in two tranches and listed on ASX as IAGPA and IAGPB.

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

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

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

S&P:	Standard & Poor's Rating Services or Standard & Poor's Investment Services.
Technical reserves:	the investments held to back provisions for outstanding claims (including incurred but not reported and incurred but not enough reported) and Unearned Premium, net of Recoveries and premium debtors.
Underwriting:	the process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
Underwriting Expenses:	those expenses incurred as a result of Underwriting activities, including risk assessment, commission expenses and other acquisition expenses.
Underwriting profit/(loss):	see Underwriting Result.
Underwriting result:	Net Earned Premium less Net Claims Expense less Underwriting Expenses.
Unearned premium:	the portion of premium written applicable to the unexpired portion of a policy.
WACC:	weighted average cost of capital.