



# **Financial results**

## **Half year ended 31 December 2006**

Michael Hawker, Chief Executive Officer

George Venardos, Chief Financial Officer

22 February 2007

Insurance Australia Group Limited  
ABN 60 090 730 923

Good morning. Welcome to the Insurance Australia Group results briefing on our results for the six months ended 31 December 2006.

Copies of all the materials we are using here this morning are already on our website and an archive of this presentation will be published later today.

As usual, we'd like to complete the presentation before taking questions from those of you here with us in person this morning and from those on the phone lines.

## Agenda



- Results and operating conditions
- Dividends
- UK update

Michael Hawker

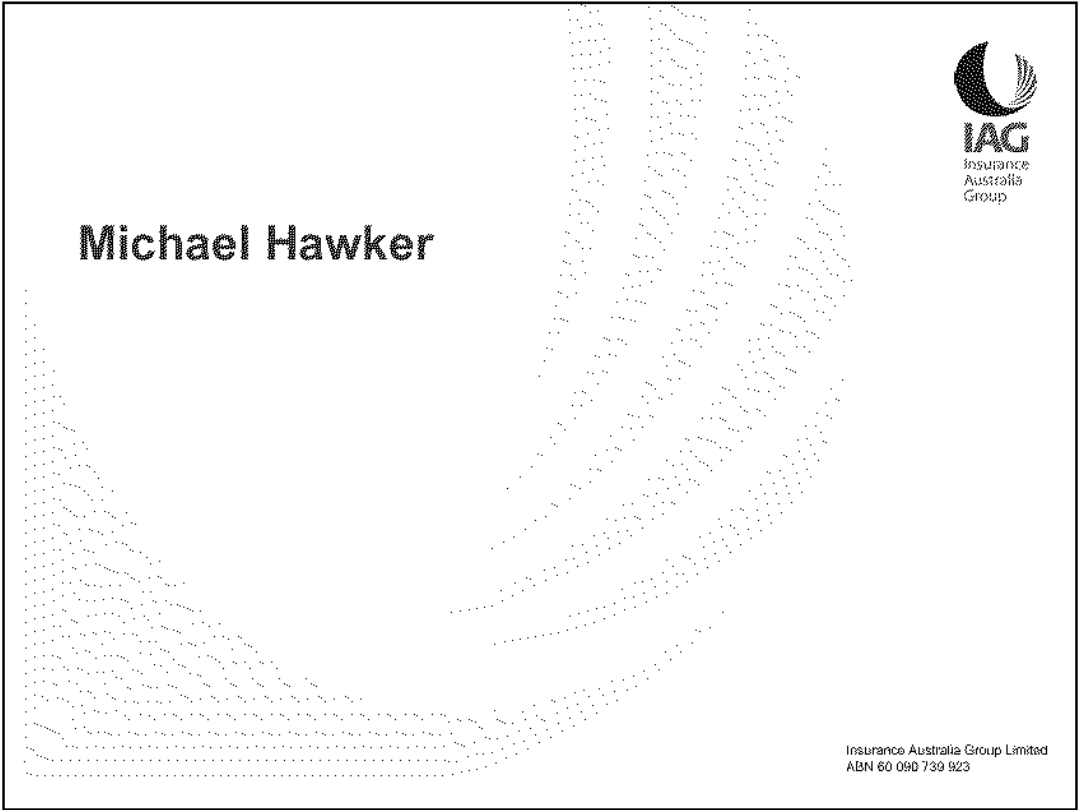
- Segmental analysis
- Capital

George Venardos

- Outlook

Michael Hawker

- Conclusion & questions



## NPAT up 15.8% with return to growth in 1H07



- Relative to 2H06
  - Net profit to holders of ordinary shares increased 15.8% to \$345m
  - Earnings per share of 21.42 cps up 14.4%
- GWP up 2.9% to \$3,324m relative to 2H06
- Insurance margin of 13.3% (2H06 12.4%)
  - Soft cycle in commercial lines, while long-tail classes continue to perform well
  - Effects of re-basing our NSW comprehensive car pricing
  - \$125m in storm costs even though no 'catastrophe'
- Interim dividend maintained at 13.5cps
- Successfully completed two value accretive acquisitions that will provide future earnings growth

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I am pleased to be able to report an improved profit for shareholders in 1H07 of \$345m, which is 15.8% ahead of 2H06. The result is lower than the \$461m reported for 1H06 which included both the peak in insurance margins and even higher equity market returns than 1H07.

Our GWP is back in growth mode and we have generated an insurance margin of 13.3%. As usual in our business, there are a number of moving factors influencing the result. In this period, the most significant include:

- The soft cycle in commercial. This has obviously put downward pressure on premiums and margins in short-tail but the overall segment continues to be more than adequately supported by continuing recognition of the benefits of tort reform in our actuarial reserving;
- Our decision nearly a year ago to rebase our pricing in our largest single portfolio, NSW comprehensive car, so that it is priced very competitively relative to the other major insurers. This contrasts with our approach for a couple of years prior to that where our pricing had crept above the zone of being keenly competitive. While we were generating very attractive margins, this was at the expense of growing our book. We now have a more sustainable base (in terms of price and margin) and supported by reinvigorated marketing in NSW, the NSW motor book is growing again. This approach, combined with lower average market values of the car fleet, has seen our average in-force premiums for the direct motor portfolio reduce by 2.6% relative to a year ago. Within this NSW comprehensive car average premiums are down 4.9%; and
- Thankfully, we haven't had a major loss such as Cyclone Larry so far in this financial year. However, we've still experienced a number of significant storms – \$125m in aggregate compared with \$231m in 2H06 (\$66m excluding Cyclone Larry). The storms of most note within this total were:
  - NSW windstorms on 25 & 26 September
  - Newcastle hail storm on 31 October
  - NSW & Victorian fire storms – December 2006
  - Armidale hail storm – 21 December 2006
  - Canberra hail storms – 29 & 31 December 2006

We've maintained our interim dividend at 13.5 cents per share, fully franked. As indicated when we announced our result last August, we thought it appropriate to slow down the growth in dividends until we delivered renewed earnings growth. And, of course, having announced the acquisition of two profitable UK motor insurance operations during the half-year, we are on track to do that.

## Segment results



| Results by area                   | 2H05       | 1H06       | 2H06       | 1H07       | 1H07<br>vs<br>1H06 | 1H07<br>vs<br>2H06 |
|-----------------------------------|------------|------------|------------|------------|--------------------|--------------------|
|                                   | A\$m       | A\$m       | A\$m       | A\$m       | %                  | %                  |
| Australia                         | 372        | 385        | 337        | 412        | 7%                 | 22%                |
| New Zealand                       | 64         | 86         | 42         | 39         | (55%)              | (8%)               |
| Asia                              | (2)        | (2)        | 0          | (5)        |                    |                    |
| Europe                            | -          | -          | -          | 2          |                    |                    |
| Investment on shareholders' funds | 170        | 345        | 194        | 166        | (52%)              | (15%)              |
| Other                             | (60)       | (81)       | (71)       | (86)       | (7%)               | (22%)              |
| <b>Net profit before tax</b>      | <b>544</b> | <b>733</b> | <b>502</b> | <b>528</b> | (28%)              | 5%                 |
| Tax expense & minority interests  | (201)      | (272)      | (204)      | (183)      | 33%                | 10%                |
| <b>Net profit after tax</b>       | <b>343</b> | <b>461</b> | <b>298</b> | <b>345</b> | (25%)              | 16%                |

- Operating result of Australian operations increased over prior periods
- New Zealand generating solid result for a short-tail business but reported profit hampered by systems investment and LAT
- Results from ongoing Asian operations increased, Alba in start-up mode
- European acquisitions to deliver in 2H07
- Investment income on shareholders funds the key driver of volatility in reported profit – now significantly de-risked

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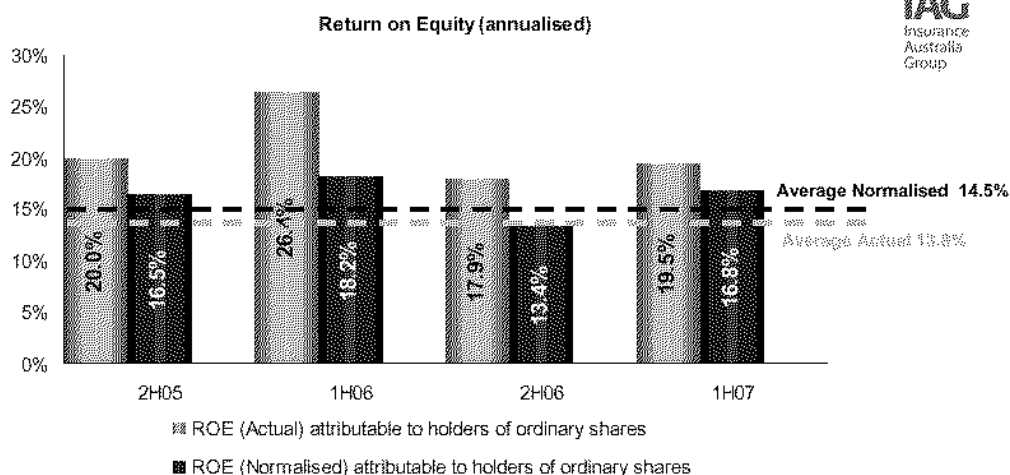
The first part of this slide gives an overview by geography of our operating results. It shows:

- The operating result of our Australian operations has continued to increase each period except for 2H06 which bore the costs of Cyclone Larry;
- The New Zealand business is generating solid returns for a short-tail business but reported profit in 1H07 has been held back by investment in new systems and provisions arising from the liability adequacy test; and
- The Thai and Malaysian insurance operations increased their contribution to the Group results but this was offset by start-up costs in Alba.

The income from European operations will start to grow in 2H07.

Finally it can be seen that the greatest volatility in our results is investment income on shareholders' funds. We significantly de-risked the portfolio during 1H07.

## Normalised ROE in-line with target



- ROE has been calculated excluding the equity capital raised in December 2006 for the purchase of Equity Insurance Group
- Averages are since listing in FY01

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The Group delivered an ROE of 19.5% in 1H07.

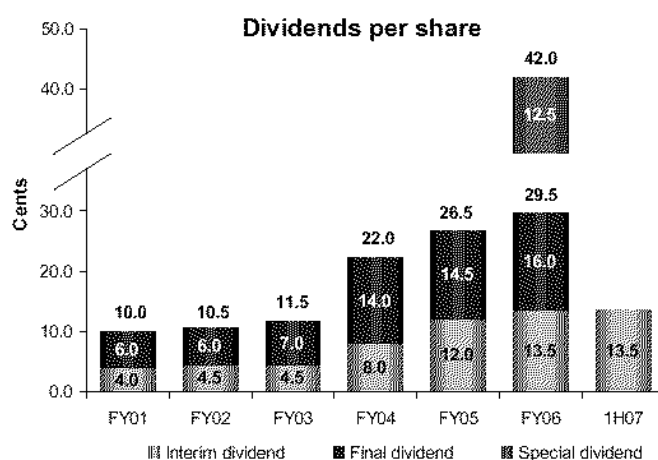
The Group's weighted average cost of capital remains around 10% so we have continued to deliver at least 1.5 times that figure with a normalised ROE of 16.8%.

As usual, our normalised ROE is calculated by restating earnings to include long-term returns on equity investments rather than the actual market returns. The adjustment in 1H07 reflects our re-weighting of shareholders' funds investments to a lower exposure to equity markets during the period.

The average reported ROE since listing in FY01 is 13.8% or 14.5% on a normalised basis.

This ROE performance is not being delivered through over-gearing – the Group retains its 'AA' rating from Standard & Poor's.

## Dividend maintained



- Interim dividend increased from \$215m in 1H06 to \$237m
- Represents 68.7% of reported earnings and 79.5% of normalised earnings
- Since listing, the cumulative dividend payout is 64.4% (71.1% including FY06 special dividend) of cash earnings
- 1H07 dividend to be underwritten to fund future growth

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As I noted earlier, we've kept our interim dividend flat at 13.5 cents per share (cps). This is 79.5% of normalised earnings for the period, ie above the top of our target range of 50-70% of normalised earnings. We think the higher payout ratio is justified in the current circumstances where we are confident of growth in normalised earnings in the coming year on the back of the momentum in our Australian portfolios and the growing contribution from our offshore businesses.

Since listing in FY01, our cumulative payout – including the special dividend paid in FY06 – is 71.1% and, if one assumes a final dividend for this year of at least 16.0 cps, the compound annual growth rate in dividends (excluding the special dividend) would be at least 20%.

The Board has resolved to arrange to underwrite the current dividend to provide some capital to fund future growth, including bolt-on acquisitions.

## Financial results overview



| Financial Results/Ratios                                       | Half-year ended Jun 05 | Half-year ended Dec 05 | Half-year ended Jun 06 | Half-year ended Dec 06 |
|----------------------------------------------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>Financial Overview</b>                                      |                        |                        |                        |                        |
| Profit attributable to holders of ordinary shares (A\$m)       | \$328                  | \$461                  | \$298                  | \$345                  |
| Reported ROE % (Avg Equity) to holders of ordinary equity pa   | 20.0%                  | 26.4%                  | 17.9%                  | 19.5%                  |
| Normalised ROE % (Avg Equity) to holders of ordinary equity pa | 16.5%                  | 18.2%                  | 13.4%                  | 16.8%                  |
| Investment income on shareholders funds (A\$m)                 | \$170                  | \$345                  | \$194                  | \$166                  |
| Net cash flow from operations (A\$m)                           | \$490                  | \$175                  | \$212                  | \$199                  |
| Basic EPS (cents)                                              | 20.77                  | 28.94                  | 18.73                  | 21.42                  |
| DPS (excluding special dividend)                               | 14.50                  | 13.50                  | 16.00                  | 13.50                  |
| <b>Group General Insurance</b>                                 |                        |                        |                        |                        |
| GWP (A\$m)                                                     | \$3,345                | \$3,204                | \$3,229                | \$3,324                |
| Insurance profit (A\$m)                                        | \$465                  | \$469                  | \$374                  | \$420                  |
| Loss ratio                                                     | 66.2%                  | 63.8%                  | 63.4%                  | 64.4%                  |
| Expense ratio                                                  | 26.8%                  | 27.4%                  | 28.0%                  | 27.8%                  |
| Combined ratio                                                 | 93.0%                  | 91.2%                  | 91.4%                  | 92.2%                  |
| Insurance margin                                               | 15.3%                  | 15.1%                  | 12.4%                  | 13.3%                  |
| <b>Capital Strength</b>                                        |                        |                        |                        |                        |
| Probability of adequacy of general insurance claims reserves   | 92.5%                  | 91.8%                  | 90.0%                  | 90.0%                  |
| MCR multiple - Group                                           | 2.00x                  | 2.04x                  | 1.83x                  | 2.39x                  |

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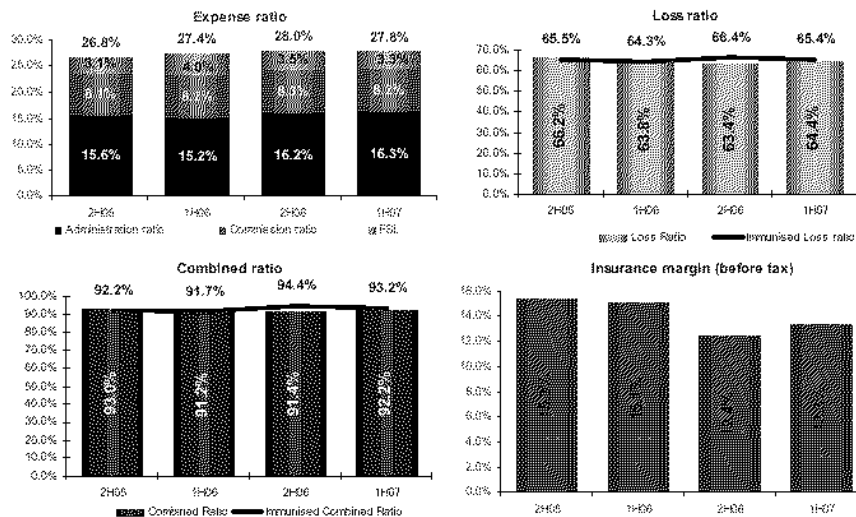
I'd like to draw your attention to a few lines on this chart.

Firstly, the GWP and insurance profit lines. With four half-years on this slide, one can see the fall in our GWP in the year to June 2006 and the rebound now underway and the similar trend in insurance profit.

The Group's probability of adequacy on its claims reserves remains at 90%.

The MCR (minimum capital requirement) multiple of 2.39 times is artificially high because of the funding raised for the Equity Insurance Group acquisition which was not settled until January. George will address the underlying position during his presentation.

## Strong insurance ratios in a competitive market



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While the reported loss ratio has increased over the two prior periods, the immunised loss ratio (shown as a red line) is a more realistic reference to understand the trends in the underlying ratios.

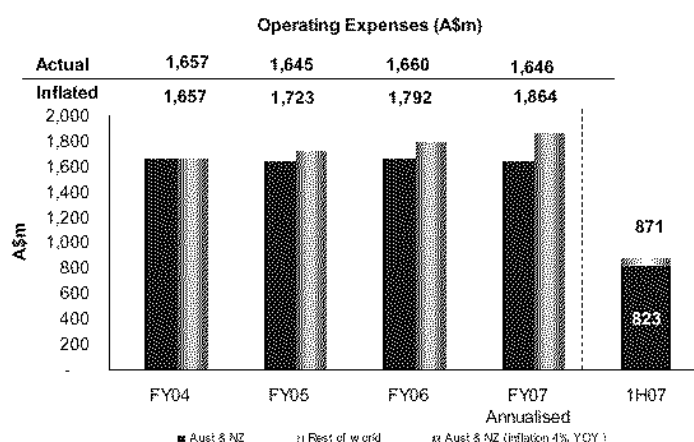
The immunised ratio removes the change in the loss ratio arising within each period from changes in the discount rates applied to claims during that period. Here it can be seen that there has been an improvement in the ratio in this period.

The result in 1H07 has not relied on any unusually high releases from reserves. We acknowledged that the overall level of reserve releases was high in 2H06 with the change in our probability of adequacy on claims and recognition of increased diversification benefits. In 1H07, the Group's total releases from reserves are very similar to both 2H05 and 1H06. We remain on track for 10 consecutive years of releases from prior year reserves – which is not unexpected with an increasingly diversified book and a 90% probability of adequacy.

The components of the expense ratio have remained very stable relative to 2H06. While moderately up on the two periods preceding that, this is not unexpected given the downward movements in premium rates. In actual dollar terms, for example, the underwriting and administration expense in Australia, excluding fire service levies, actually decreased by \$16m relative to 2H06.

Overall, there is considerable stability in the results.

## Operating expenses kept flat



- Allowing for seasonality (higher expenditure in the second-half of the financial year), FY07 expenses expected to remain closely in line on a like-for like basis
- Overseas component will grow as UK businesses included for a full six months in 2H07

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One of the key cost measures we track is what we refer to as direct expenses. It is effectively all our 'internal' costs. It excludes third-party commissions, any payments to claimants, claims suppliers and for government levies and taxes.

The prior periods, as previously reported, excluded our operations outside of Australia and New Zealand as well as integration costs and merger & acquisition costs. The equivalent figure for 1H07 is \$823m which has been annualised on this chart to \$1,646m – relative to \$1,660m for FY06. However, with inflation still to come in the second-half of the financial year and acknowledging there is some seasonality with our expenses, a claim of keeping the expenses flat is more appropriate.

In real terms, allowing for inflation at 4% per annum as this is reflective of wages growth (the largest single component), our costs have continued to reduce in real terms.

During this period, for example, we have benefited from:

- New banking arrangements which have reduced both our fees and facilitated increased automation of manual processes and reconciliations;
- Reduced service calls as our SCV customer relationship management system is generating the expected savings through reduced rework as customer data is more accurate and easily updated; and
- Increased use of our CGU Connect platform.

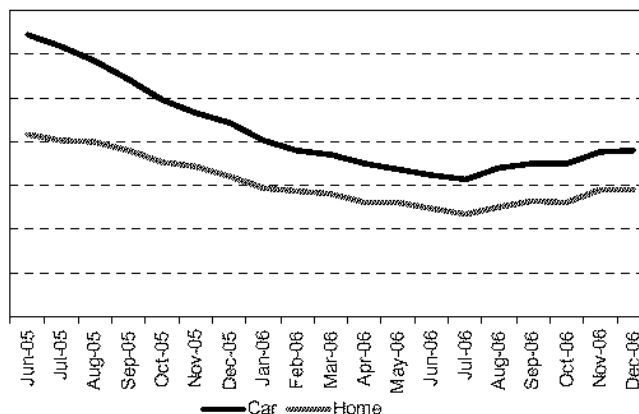
The expenses for our overseas operations, excluding New Zealand amounted to \$48m bringing the Group total for the half-year to \$871m, of which \$29m related to the UK and will clearly grow in 2H07 when both Hastings and Equity are included for a full six months.

While there is a bias towards higher costs in the second half, we still expect our costs – on a like-for-like basis – to reduce in real terms as we improve the efficiency of our operations.

## Recovery strategy delivering in NSW personal lines



NSW Comprehensive Car & Home RIF



- During 2H06, we rebased pricing to be more competitive, improved supplier relationships and, leading into 1H07, introduced more focused product marketing. This is generating the anticipated recovery and market shares stabilised during 1H07 and volumes are now growing.

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In the final quarter of FY06, we undertook concerted action to stem the losses in our NSW car and home books. To do this, we rebased pricing to be more competitive, improved supplier relationships and, leading into 1H07, introduced more focused product marketing. This strategy, which we regard as sustainable, has delivered:

- Renewal rates that have been running at over 93% for both NSW car comprehensive and home insurance since June 2006;
- New business volumes that are stronger than they have been for a number of years; and
- In 1H07, a return to growth in these two key portfolios.

The return to growth takes time as the in-force book on which renewals are offered is smaller. However, market shares have stabilised during 1H07 and the book now has the momentum to maintain market share and, we expect, generate some above system growth while continuing to deliver insurance margins that meet our return on capital targets. Trends so far in 2H07 support this view.

## Customer service levels improved



- The Customer Service Index for direct personal lines distributed by the Group increased from 80 to 83 during 1H07
- Renewal rates in indirect personal lines portfolio increased from 82% to 85% during 1H07
- In CGU renewal rates remained above 80% despite the soft environment
  - New crop insurance e-business application
- 100% success in the renewal of national workers' compensation accounts for the December renewal period
  - Launch of ".live"
- IAG NZ's customer satisfaction indices also improved over the year
  - NZI: 84% to 91%
  - State direct: 86% to 87%

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The improvements noted on the previous slide would not have been sustained without also maintaining our focus on customer service. The NSW book is a key component of the national results of our CSI (Customer Service Index). The score increased from 80 to 83 during 1H07.

Customer service measures vary across the organisation but each area has demonstrated improvements.

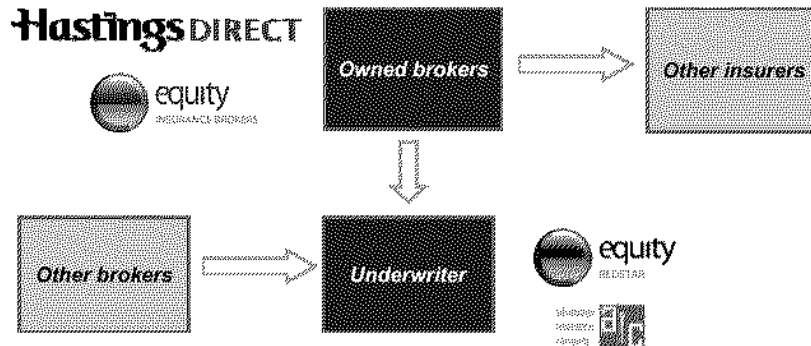
In our third party distributed business, renewal rates increased from 82% to 85% during 1H07.

In CGU, renewal rates remained above 80% despite the soft environment. This reflects the ongoing focus on our clients' needs. We're also continuing to improve our e-business applications. We launched a crop application this period and within a very short period had over 400 intermediaries using it.

Our CGU and our Business Partnerships teams working together had a 100% success rate in renewing national workers' compensation accounts for the December renewal period. In NSW, the Group has led the market in introducing an e-business application, referred to as ".live", which enables employers and brokers to obtain online quotations and certificates of currency as well as permitting electronic lodgement of injury notifications.

In New Zealand, satisfaction in both our broker and direct channels increased – to 91% and 87%, respectively – and our Business Partners again reported satisfaction in the mid-80s. The State business will be launching Easybiz in New Zealand in coming months leveraging the knowledge of the market within NZI and the success of this product which led the way in Australia.

## Progressing our offshore expansion – Hastings and Equity in the UK



- Own two leading broking brands. Combined, they rank third in the UK market for personal lines brokers<sup>1</sup>
- Control two insurance underwriters which, combined, are the fourth largest underwriter of UK motor insurance<sup>1</sup>

<sup>1</sup> Rankings based on GWP

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As you are aware, our strategy includes a target to double the size of our business each five years while maintaining a rating of AA for the Group and a normalised ROE of at least 1.5x WACC. I don't propose to review the rationale for that here today but merely note it as context in terms of our offshore activity during 1H07.

We began executing transactions in Asia during FY06 and moved to this stage in the UK in 1H07 and agreed to buy both Hastings and Equity. These two assets fit very well with our strategy of focusing on motor insurance led businesses and, in mature markets, seeking businesses that have sustainable and profitable positions through selective underwriting and retail customer access.

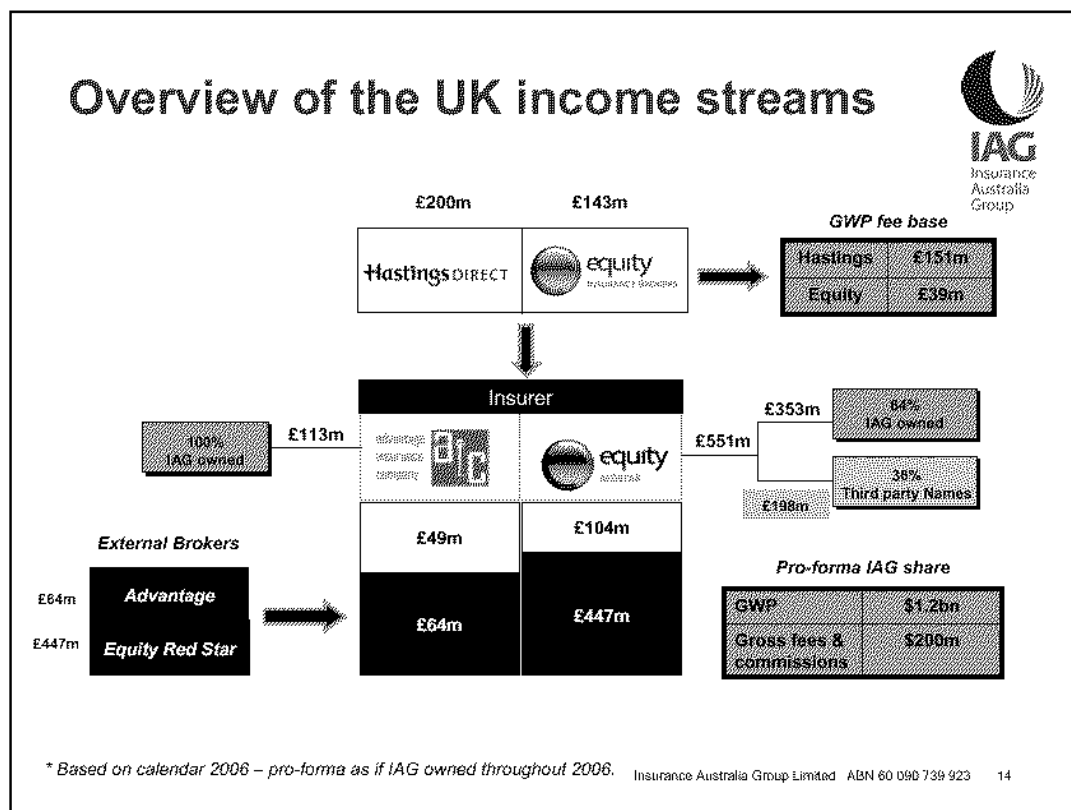
I'd now like to turn to our newly acquired UK operations and present an overview of the two operations together.

Before moving into the operational side, I'd like to mention governance. We've put in place a UK Board to oversee the Group's interests in the market. The membership of that Board includes Philip Colebatch, our newly appointed main Board director who is a UK resident, the CEOs of both Equity and Hastings and myself. Neil Utley, CEO of Equity Insurance Group, is the Managing Director of the UK holding company and Peter Connell, CEO of Hastings, is Deputy Managing Director.

Operationally, we now have two key distribution brands – Hastings and Equity Insurance Brokers. Hastings also owns and operates another brand – Peoples Choice – and not all of Equity's broking outlets operate under the Equity brand at this stage but Hastings and Equity Insurance Brokers are the key brands.

We also have two underwriters – Equity Red Star and Advantage Insurance Company. We own 100% of Advantage and 64% of the capacity in Equity Red Star (Lloyd's Syndicate 218).

All of the operations source premium from other underwriters and brokers. The following slide shows the flows and sources.



This diagram attempts to capture the flows of premium through the Group's UK businesses. The figures are drafts for the whole of calendar 2006.

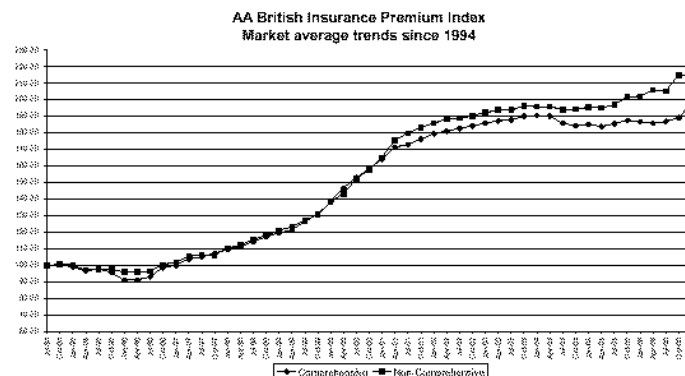
Starting at the top, the white boxes record a total of £343m in broked premiums. £190m of this GWP generates fee income for the Group as it is not underwritten by the Group. The balance of £153m – about 45% – is underwritten by Equity Red Star and Advantage.

Equity Red Star and Advantage also underwrite about £511m of premium distributed by other brokers (represented by the purple boxes on the left).

This brings the total underwritten GWP to about £664m. Of this, approximately £198m is attributable to the third party names within the Equity Red Star syndicate (Syndicate 218) leaving over £466m for recording by the Group. At current exchange rates, this is almost \$1.2 billion.

The gross commission and fee income on the broked business is in the order of £80m or \$200m. This is a very valuable stream of income with a low requirement for economic capital to back it.

## Growth opportunities in the UK



- Premium rises in the UK motor insurance market have started to gain traction
- Hastings has an excellent website and growing usage of it – over 40% of quotes and almost 20% of policies
- Equity Insurance Brokers has a strategy of acquiring branch distribution and moving to underwrite more of the brokered business on a selective basis
- Strong presence in the affinity market

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The cycle for motor insurance in the UK market has started to turn, as indicated on the chart shown. This is the AA British Insurance Premium Index, the benchmark in the UK. In the year to December 2006, it records an increase for comprehensive motor of 5.7%, of which 4.35% was in the final quarter. Both Equity Red Star and Advantage are putting rate increases through successfully and the broking arms are seeing the same from other insurers.

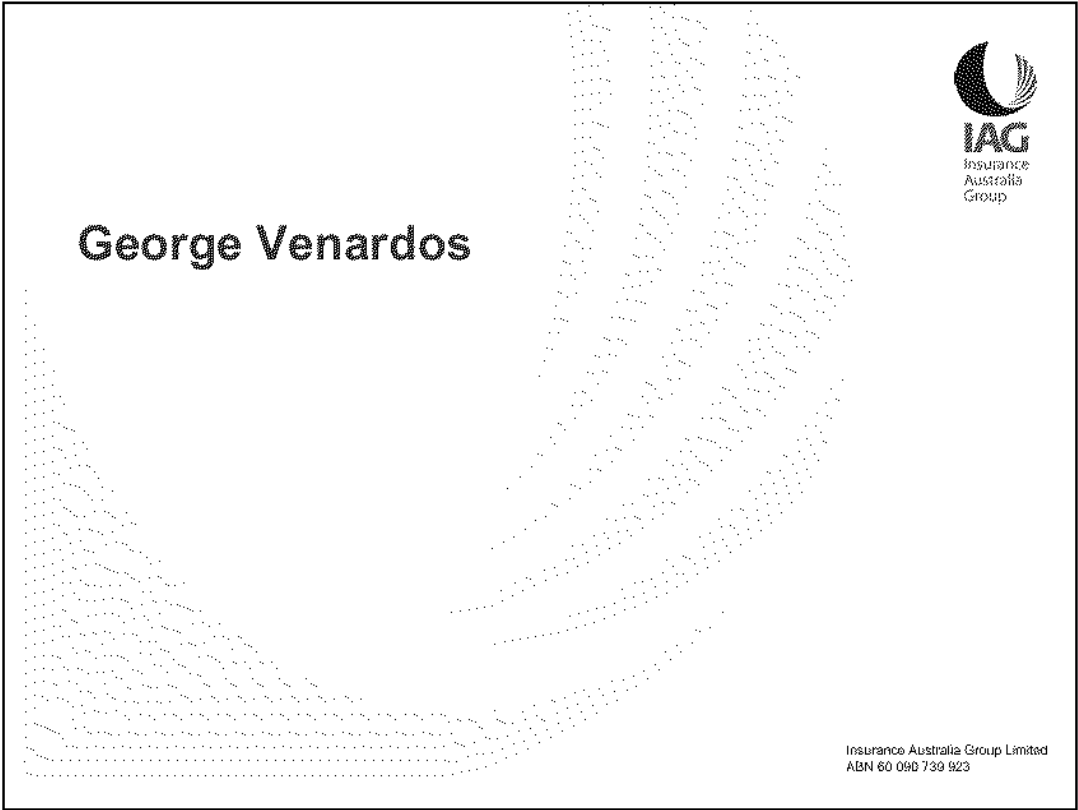
The penetration of the internet for distribution of motor insurance in the UK is far higher than in Australia and New Zealand. This is probably, at least in part, due to the fragmented market in terms of brands. While both our broking businesses have websites, the Hastings website is a key part of its branding presence. The latest available surveys quote internet sales in the order of 15 – 20% of the market and growing to close to 30% by 2009. Hastings already exceeded those figures in 2006 with over 40% of quotes, and almost 20% of policies, sold on-line.

Equity Insurance Brokers has been pursuing a policy of buying regional high street branches and networks for a few years now. It has undertaken 19 acquisitions and has a successful model of working with the vendors to keep customers and migrate more of the underwriting to Equity Red Star on a selective basis. Typically, the portion underwritten at acquisition may be only 5% at acquisition and move to over 50% within two years. Equity also seeks to obtain better commission terms from the remaining panel underwriters.

When we agreed to acquire Equity it was already pursuing a number of opportunities to acquire more distribution. In January it completed the acquisition of Open & Direct Insurance Services, the second largest broker in Northern Ireland. This acquisition – which cost £25m – means Equity is the largest distributor of motor insurance in the province. The acquisition was tested against IAG's hurdles, including EPS accretion within a year, before being allowed to proceed. Equity is continuing to look at other such low-risk bolt-on acquisitions.

Equity Red Star also has an established position in affinity business, the fastest growing segment of the market. Recent wins in this field include Nissan and Alliance & Leicester.

All up, we believe our recently acquired operations are very well-placed to deliver growth and value for the Group.



**George Venardos**



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## Australian General Insurance



| Australia                               | Half-year ended Jun 05 | Half-year ended Dec 05 | Half-year ended Jun 06 | Half-year ended Dec 06 |
|-----------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                         | A\$m                   | A\$m                   | A\$m                   | A\$m                   |
| Gross written premium                   | 2,843                  | 2,697                  | 2,703                  | 2,689                  |
| Gross earned premium                    | 2,753                  | 2,796                  | 2,706                  | 2,750                  |
| Reinsurance expense                     | (167)                  | (152)                  | (141)                  | (154)                  |
| Net premium revenue                     | 2,586                  | 2,644                  | 2,565                  | 2,596                  |
| Net claims expense                      | (1,727)                | (1,715)                | (1,616)                | (1,672)                |
| Commission expense                      | (204)                  | (208)                  | (206)                  | (201)                  |
| Underwriting expense                    | (495)                  | (517)                  | (513)                  | (497)                  |
| Underwriting profit                     | 160                    | 204                    | 230                    | 226                    |
| Investment income on technical reserves | 237                    | 180                    | 100                    | 159                    |
| Insurance profit                        | 397                    | 384                    | 330                    | 385                    |
| Profit from fee based business          | (25)                   | 1                      | 7                      | 27                     |
| Total Australia result                  | 372                    | 385                    | 337                    | 412                    |
| <b>Insurance ratios</b>                 |                        |                        |                        |                        |
| Loss ratio                              | 66.8%                  | 64.9%                  | 63.0%                  | 64.4%                  |
| Expense ratio                           | 27.0%                  | 27.4%                  | 28.1%                  | 26.9%                  |
| Commission ratio                        | 7.9%                   | 7.9%                   | 8.0%                   | 7.8%                   |
| Administration ratio                    | 19.1%                  | 19.6%                  | 20.0%                  | 19.1%                  |
| Combined ratio                          | 93.8%                  | 92.3%                  | 91.1%                  | 91.3%                  |
| Insurance margin (before tax)           | 15.3%                  | 14.5%                  | 12.9%                  | 14.8%                  |

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The Australian insurance portfolio composition is 72% Australian personal lines and 28% Australian commercial lines in GWP terms. During 1H07, the Australian insurance business generated insurance profits of \$385m and an insurance margin of 14.8%. This was largely in line with 1H06 and an improvement of \$55m, or 1.9% in insurance margin terms, on 2H06.

The mix of profit contribution from each line of business has changed between the half-year periods reflecting the different dynamics within each division and the advantage of having a diverse book. Both segments are experiencing underlying margin pressure due to lower average prices but continuing to benefit from long-tail claims trends being better than anticipated.

The provision of \$165m for the costs of Cyclone Larry in 2H06 was key to the relative performance of that period. In 1H07 there has been no such catastrophic loss but continued high frequency of storms are a feature of the result putting us above our expected loss ratio in Personal Lines for the period. In contrast, Commercial lines benefited from lower than expected individual large losses and continued favourable experience from the long-tail classes during 1H07.

Prior year reserve releases were \$99m for 1H07, down from \$162m in the prior comparative period.

## Australian Personal Lines



| Australian Personal Lines               | Half-year ended Jun 05 | Half-year ended Dec 05 | Half-year ended Jun 06 | Half-year ended Dec 06 |
|-----------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                         | A\$m                   | A\$m                   | A\$m                   | A\$m                   |
| <b>Gross written premium</b>            | <b>1,976</b>           | <b>1,936</b>           | <b>1,924</b>           | <b>1,923</b>           |
| <b>Gross earned premium</b>             | <b>1,950</b>           | <b>1,973</b>           | <b>1,917</b>           | <b>1,951</b>           |
| Reinsurance expense                     | (73)                   | (71)                   | (66)                   | (76)                   |
| <b>Net premium revenue</b>              | <b>1,877</b>           | <b>1,902</b>           | <b>1,851</b>           | <b>1,875</b>           |
| Net claims expense                      | (1,333)                | (1,305)                | (1,227)                | (1,312)                |
| Commission expense                      | (116)                  | (122)                  | (124)                  | (122)                  |
| Underwriting expense                    | (346)                  | (350)                  | (359)                  | (345)                  |
| <b>Underwriting profit</b>              | <b>82</b>              | <b>125</b>             | <b>141</b>             | <b>96</b>              |
| Investment income on technical reserves | 149                    | 121                    | 77                     | 107                    |
| <b>Insurance profit</b>                 | <b>231</b>             | <b>246</b>             | <b>218</b>             | <b>203</b>             |
| <b>Insurance ratios</b>                 |                        |                        |                        |                        |
| Loss ratio                              | 71.0%                  | 66.6%                  | 66.3%                  | 70.0%                  |
| Expense ratio                           | 24.6%                  | 24.8%                  | 26.1%                  | 24.9%                  |
| Commission ratio                        | 6.2%                   | 6.4%                   | 6.7%                   | 6.5%                   |
| Administration ratio                    | 18.4%                  | 18.4%                  | 19.4%                  | 18.4%                  |
| Combined ratio                          | 95.6%                  | 93.4%                  | 92.4%                  | 94.9%                  |
| Insurance margin (before tax)           | 12.3%                  | 12.9%                  | 11.8%                  | 10.8%                  |

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The Australian Personal Lines business produced an insurance result of \$202m and an insurance margin of 10.8%. This result is below 1H06 and 2H06 by \$44m and \$16m, respectively.

GWP of \$1,923m was in line with the prior period and marginally below 1H06. The volume of risks in force in the direct portfolio returned to growth during the period. However, changes to the NSW CTP scheme effective 1 October 2006 reduced premium by \$13m in 1H07.

Renewal rates in the direct NSW comprehensive car and home portfolios remained over 93% during the period.

The Queensland and Western Australia direct portfolios also continued to grow market share during the period.

As mentioned earlier, the net claims expense includes a large number of storm events which cost \$111m compared with \$116m in 2H06 which included costs in respect of Cyclone Larry.

Aside from volatility in storms, claims frequencies in the short-tail classes have remained quite stable on a national basis in both direct motor and home. There has been a slight upward trend in collision claims frequency in the direct NSW car comprehensive portfolio in recent months which has been offset by continued reductions in theft frequency. For example, the number of theft claims incurred in 1H07 decreased by 5.6% relative to 2H06.

The 1H07 underwriting and administration expenses of \$345m was an improvement of \$5m on 1H06 and \$14m on 2H06.

Excluding the fire services levy, the expense ratio improved to 15% in 1H07, from 16% in 2H06. This was achieved against a backdrop of increased advertising spend which will continue into 2H07.

Total reserve releases for the APL business were \$30m for the period versus \$59m in the 2H06.

## Australian Commercial Lines



| Australian Commercial Lines             | Half-year ended Jun 05 | Half-year ended Dec 05 | Half-year ended Jun 06 | Half-year ended Dec 06 |
|-----------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                         | A\$m                   | A\$m                   | A\$m                   | A\$m                   |
| <b>Gross written premium</b>            | <b>867</b>             | <b>761</b>             | <b>778</b>             | <b>766</b>             |
| <b>Gross earned premium</b>             | <b>803</b>             | <b>823</b>             | <b>788</b>             | <b>799</b>             |
| Reinsurance expense                     | (93)                   | (81)                   | (76)                   | (78)                   |
| <b>Net premium revenue</b>              | <b>710</b>             | <b>743</b>             | <b>712</b>             | <b>721</b>             |
| Net claims expense                      | (395)                  | (411)                  | (388)                  | (360)                  |
| Commission expense                      | (88)                   | (87)                   | (83)                   | (79)                   |
| Underwriting expense                    | (149)                  | (167)                  | (154)                  | (152)                  |
| <b>Underwriting profit</b>              | <b>78</b>              | <b>78</b>              | <b>87</b>              | <b>130</b>             |
| Investment income on technical reserves | 88                     | 59                     | 23                     | 52                     |
| <b>Insurance profit</b>                 | <b>166</b>             | <b>137</b>             | <b>110</b>             | <b>182</b>             |
| Profit from fee based business          | (25)                   | 1                      | 7                      | 27                     |
| <b>Total commercial line result</b>     | <b>141</b>             | <b>138</b>             | <b>117</b>             | <b>209</b>             |
| <b>Insurance ratios</b>                 |                        |                        |                        |                        |
| Loss ratio                              | 55.7%                  | 55.3%                  | 54.5%                  | 49.9%                  |
| Expense ratio                           | 33.4%                  | 34.2%                  | 33.2%                  | 32.1%                  |
| Commission ratio                        | 12.4%                  | 11.7%                  | 11.6%                  | 10.9%                  |
| Administration ratio                    | 21.0%                  | 22.5%                  | 21.6%                  | 21.2%                  |
| Combined ratio                          | 89.0%                  | 89.4%                  | 87.7%                  | 82.0%                  |
| Insurance margin (before tax)           | 23.4%                  | 18.5%                  | 15.5%                  | 25.2%                  |

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During 1H07, the soft market conditions in the commercial insurance market continued, with competition intensifying across all major lines.

Against this backdrop, the Australian Commercial Lines business recorded GWP slightly ahead of 1H06 and delivered an insurance profit of \$182m, representing an increase of \$46m when compared with 1H06 and an increase of \$73m against 2H06 which was impacted by Cyclone Larry.

The improved performance in 1H07 was led by the short-tail commercial lines portfolio which benefited from a lower incidence of large losses.

The profit also benefited from continued favourable claims experience in long-tail classes and prior year reserve releases of \$94m, which is in line with the \$87m released in 1H06.

The 1H07 expense ratio of 32.1% improved from 34.1% in 1H06. This improvement is particularly pleasing in the context of falling premium rates.

A core element of Australian Commercial Lines' strategy for long term profitability throughout the insurance cycle is to maintain effective relationships with brokers and improve levels of service and product offerings. This effort has resulted in customer retention rates being sustained above 80% despite the challenging rate environment.

The fee based businesses generated a profit of \$27m in 1H07, compared with profits of \$7m and \$1m in 2H06 and 1H06, respectively. The increase is attributable to the improved results in the workers' compensation business where the Group manages government underwritten workers' compensation business in NSW and Victoria.

The premium funding business has continued to grow and remains profitable. This market is experiencing increased competition from a range of financial institutions. Loans outstanding at 31 December 2006 were \$158m compared to \$131m at 30 June 2006, representing an increase of 20.6%.

## International businesses



| international                           | Half-year<br>ended<br>Jun 05 | Half-year<br>ended<br>Dec 05 | Half-year<br>ended<br>Jun 06 | Half-year<br>ended<br>Dec 06 |
|-----------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                         | A\$m                         | A\$m                         | A\$m                         | A\$m                         |
| Gross written premium                   | 502                          | 509                          | 526                          | 635                          |
| Gross earned premium                    | 496                          | 524                          | 512                          | 619                          |
| Reinsurance expense                     | (48)                         | (56)                         | (55)                         | (60)                         |
| Net premium revenue                     | 448                          | 468                          | 457                          | 559                          |
| Net claims expense                      | (285)                        | (271)                        | (300)                        | (361)                        |
| Commission expense                      | (44)                         | (45)                         | (44)                         | (57)                         |
| Underwriting expense                    | (71)                         | (80)                         | (83)                         | (122)                        |
| Underwriting profit                     | 48                           | 71                           | 30                           | 18                           |
| Investment income on technical reserves | 16                           | 15                           | 15                           | 17                           |
| Insurance profit                        | 64                           | 86                           | 45                           | 35                           |
| Share of profit from associates         | -                            | -                            | 2                            | 3                            |
| Fee based business                      | (2)                          | (3)                          | (4)                          | (1)                          |
| Corporate expenses                      | -                            | -                            | -                            | (2)                          |
| Total international result              | 62                           | 83                           | 43                           | 35                           |
| Insurance ratios                        |                              |                              |                              |                              |
| Loss ratio                              | 63.6%                        | 58.0%                        | 65.7%                        | 64.6%                        |
| Expense ratio                           | 25.6%                        | 26.8%                        | 27.9%                        | 32.1%                        |
| Commission ratio                        | 9.7%                         | 9.6%                         | 9.7%                         | 10.2%                        |
| Administration ratio                    | 15.9%                        | 17.2%                        | 18.2%                        | 21.9%                        |
| Combined ratio                          | 89.2%                        | 84.8%                        | 93.6%                        | 96.7%                        |
| Insurance margin (before tax)           | 14.3%                        | 18.4%                        | 9.9%                         | 6.3%                         |

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The International Business segment is in transition from being almost exclusively comprised of the Group's New Zealand operations to including Asia and Europe.

The growth in the 1H07 is attributable to the first full period of ownership of Safety Insurance in Thailand and the inclusion of the Hastings/Advantage Group from October 2006.

Going forward we will also include the Equity Insurance Group, which incorporates Open & Direct, a broker in Northern Ireland which was purchased on 17 January 2007.

If you combine the underwritten premium for Equity Insurance Group and Advantage for the year ended 31 December 2006, the UK operations wrote approximately £466m or \$1.2bn of GWP.

## IAG New Zealand



| New Zealand Operations                  | Half-year ended Jun 05 | Half-year ended Dec 05 | Half-year ended Jun 06 | Half-year ended Dec 06 |
|-----------------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                         | A\$m                   | A\$m                   | A\$m                   | A\$m                   |
| <b>Gross written premium</b>            | <b>502</b>             | <b>494</b>             | <b>477</b>             | <b>460</b>             |
| <b>Gross earned premium</b>             | <b>496</b>             | <b>507</b>             | <b>462</b>             | <b>470</b>             |
| Reinsurance expense                     | (48)                   | (44)                   | (37)                   | (42)                   |
| <b>Net premium revenue</b>              | <b>448</b>             | <b>463</b>             | <b>425</b>             | <b>428</b>             |
| Net claims expense                      | (285)                  | (268)                  | (281)                  | (258)                  |
| Commission expense                      | (44)                   | (46)                   | (39)                   | (45)                   |
| Underwriting expense                    | (71)                   | (78)                   | (77)                   | (98)                   |
| <b>Underwriting profit</b>              | <b>48</b>              | <b>71</b>              | <b>28</b>              | <b>27</b>              |
| Investment income on technical reserves | 16                     | 15                     | 14                     | 12                     |
| <b>Insurance profit</b>                 | <b>64</b>              | <b>86</b>              | <b>42</b>              | <b>39</b>              |
| <b>Insurance ratios</b>                 |                        |                        |                        |                        |
| Loss ratio                              | 63.6%                  | 57.9%                  | 66.0%                  | 60.3%                  |
| Expense ratio                           | 25.6%                  | 26.7%                  | 27.3%                  | 33.4%                  |
| <i>Commission ratio</i>                 | 9.7%                   | 9.9%                   | 9.1%                   | 10.5%                  |
| <i>Administration ratio</i>             | 15.9%                  | 16.8%                  | 18.2%                  | 22.9%                  |
| Combined ratio                          | 89.2%                  | 84.6%                  | 93.2%                  | 93.7%                  |
| Insurance margin (before tax)           | 14.3%                  | 18.6%                  | 9.9%                   | 9.0%                   |

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The New Zealand business delivered a margin of 9.0% for the period.

Consolidated GWP from New Zealand has fallen largely due to a lower average exchange rate for the New Zealand dollar during 1H07. In local currency terms, GWP of NZ\$537m remained in line with 1H06 and is consistent with the seasonality of the business.

Net earned premium reported for 1H07 increased marginally from 2H06. The apparent fall relative to 1H06 is almost entirely due to the NZ dollar's depreciation over the past year.

The 1H07 loss ratio of 60.3% represents an improvement of 5.7% on 2H06 due to a lower incidence of major storms. The 2H06 result included around \$20m in losses from major snowstorms in June 2006. The underlying business has also experienced some increases in frequency and claims costs, primarily in home insurance which has been the driver of rate increases over the past year.

The 1H07 expense ratio of 33.4% increased by 6.1% relative to the 2H06.

Commission rates are rising in New Zealand where cluster groups of brokers are winning higher rates in a soft commercial market. The commission expense rate increased 1.4% during the period.

The Group is in the process of completing the implementation of the Australian personal lines system in New Zealand for the direct personal lines business. While external systems development costs are being capitalised, there are considerable internal costs which are expensed as incurred. These costs have driven an increase of 1.0% in the expense ratio relative to 2H06 and 1.5% relative to 1H06. Costs have also been incurred on improving the systems used for the interface with business partners.

In addition, the assumptions used in the liability adequacy test led to a write down of deferred acquisition costs in the period that added 2.5% to the expense ratio. The business delivered an insurance margin of 11.5% before this adjustment.

## Asian operations



| Asian operations                        | Half-year<br>ended<br>Jun 05 | Half-year<br>ended<br>Dec 05 | Half-year<br>ended<br>Jun 06 | Half-year<br>ended<br>Dec 06 |
|-----------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                         | A\$m                         | A\$m                         | A\$m                         | A\$m                         |
| Gross written premium                   | -                            | 16                           | 49                           | 79                           |
| Gross earned premium                    | -                            | 17                           | 50                           | 80                           |
| Reinsurance expense                     | -                            | (12)                         | (18)                         | (17)                         |
| Net premium revenue                     | -                            | 5                            | 32                           | 63                           |
| Net claims expense                      | -                            | (2)                          | (19)                         | (41)                         |
| Commission expense                      | -                            | 1                            | (6)                          | (11)                         |
| Underwriting expense                    | -                            | (3)                          | (6)                          | (9)                          |
| Underwriting profit                     | -                            | 1                            | 1                            | 2                            |
| Investment income on technical reserves | -                            | (0)                          | 1                            | 3                            |
| Insurance profit                        | -                            | 1                            | 2                            | 5                            |
| Share of profit from associates         | -                            | -                            | 2                            | 3                            |
| Fee based business                      | (2)                          | (3)                          | (4)                          | (2)                          |
| Corporate expenses                      | -                            | -                            | -                            | (2)                          |
| Total Asian operations result           | (2)                          | (2)                          | 0                            | 4                            |
| <b>Insurance ratios</b>                 |                              |                              |                              |                              |
| Loss ratio                              |                              | 40.2%                        | 59.0%                        | 65.1%                        |
| Expense ratio                           |                              | 37.4%                        | 35.4%                        | 31.7%                        |
| Commission ratio                        |                              | (15.1%)                      | 17.7%                        | 17.4%                        |
| Administration ratio                    |                              | 52.5%                        | 17.7%                        | 14.3%                        |
| Combined ratio                          |                              | 77.7%                        | 94.3%                        | 96.8%                        |
| Insurance margin (before tax)           |                              | 19.3%                        | 5.1%                         | 7.9%                         |

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The insurance profit of \$5m represents the performance of the Group's two Thai businesses: NZI Thailand which is essentially a commercial insurer, was acquired in July 2005 and Safety Insurance which is principally a motor insurer has been consolidated since April 2006.

The Thai insurance market, which has been averaging growth in excess of 10% per annum for over five years, grew by only 6.3% in calendar 2006. This has been driven by lower motor vehicle sales (which slowed as a result of rising fuel prices), higher interest rates and a decline in consumer confidence in recent months. The Thai Department of Insurance estimates growth for calendar 2007 at 8% and motor vehicle sales growth is forecast at 1.5%.

Higher repair costs are a key component of the increase in the loss ratio. This is being offset by tight cost control over promotional expenses and keeping growth in administration costs below the growth in the business.

The share of profits from associates represents the Group's 30% share of the net profit after tax of AmAssurance, a composite insurer in Malaysia.

## Investment performance



| Portfolio income (pre-tax)<br>and incl. Derivatives | Half-year<br>ended Jun 05 |             | Half-year<br>ended Dec 05 |              | Half-year<br>ended Jun 06 |             | Half-year<br>ended Dec 06 |             |
|-----------------------------------------------------|---------------------------|-------------|---------------------------|--------------|---------------------------|-------------|---------------------------|-------------|
|                                                     | A\$m                      | Return*     | A\$m                      | Return*      | A\$m                      | Return*     | A\$m                      | Return*     |
| Technical reserves                                  | 253                       | 6.6%        | 193                       | 5.6%         | 115                       | 1.3%        | 176                       | 3.2%        |
| Shareholders' funds                                 | 176                       | 14.6%       | 345                       | 23.2%        | 194                       | 15.0%       | 166                       | 13.6%       |
| <b>Total investment income</b>                      | <b>429</b>                | <b>9.0%</b> | <b>540</b>                | <b>10.8%</b> | <b>309</b>                | <b>5.6%</b> | <b>342</b>                | <b>7.5%</b> |

| Asset Class                                   | Actual<br>return             | B'mark<br>return             | Actual<br>return             | B'mark<br>return             | Actual<br>return             | B'mark<br>return             | Actual<br>return             | B'mark<br>return             |
|-----------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                               | Half-year<br>ended<br>Jun 05 | Half-year<br>ended<br>Jun 05 | Half-year<br>ended Dec<br>05 | Half-year<br>ended Dec<br>05 | Half-year<br>ended Jun<br>06 | Half-year<br>ended Jun<br>06 | Half-year<br>ended Dec<br>06 | Half-year<br>ended Dec<br>06 |
| Australian equities                           | 10.4                         | 8.6                          | 16                           | 14.4                         | 13.3                         | 9.1                          | 11.2                         | 12.9                         |
| Listed property trusts                        | 1.3                          | 1.4                          | 11.5                         | 11                           | 6.6                          | 6.4                          | 26.1                         | 26.0                         |
| International equities                        | 3.3                          | 2.5                          | 16.7                         | 14.6                         | 5.6                          | 4.6                          | 8.7                          | 8.6                          |
| Fixed interest (Aust & NZ)                    | 3.1                          | 2.9                          | 2.6                          | 2.6                          | 0.5                          | 0.4                          | 2.9                          | 2.9                          |
| International fixed interest                  | n/a                          | n/a                          | n/a                          | n/a                          | 2.6                          | 3.1                          | 2.8                          | 3.1                          |
| Market neutral                                | n/a                          | n/a                          | n/a                          | n/a                          | -1.2                         | 1.9                          | 0.9                          | 3.1                          |
| Hedge funds                                   | 2.7                          | 2.0                          | 4.3                          | 2.9                          | 2.5                          | 2.8                          | -1.3                         | 3.1                          |
| Cash                                          | 2.8                          | 2.8                          | 2.9                          | 2.9                          | 2.9                          | 2.8                          | 3.1                          | 3.1                          |
| Surplus capital portfolio                     | 3.7                          | 2.8                          | 2.7                          | 2.9                          | 2.8                          | 2.8                          | 3.8                          | 3.1                          |
| Total weighted average                        | 5.0                          | 4.4                          | 6.4                          | 5.9                          | 3.8                          | 2.8                          | 4.8                          | 4.7                          |
| Offsetting derivative<br>component of overlay | -0.5                         | -0.6                         | -1.0                         | -1.0                         | -1.0                         | -0.8                         | -1.1                         | -1.0                         |
| <b>Total (including overlay)</b>              | <b>4.5</b>                   | <b>3.8</b>                   | <b>5.4</b>                   | <b>4.9</b>                   | <b>2.8</b>                   | <b>2.0</b>                   | <b>3.7</b>                   | <b>3.7</b>                   |

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The Group's portfolios underperformed the return on benchmark by around 50 basis points for 1H07. This is the first half-year period to show under-performance after seven consecutive half-years of out-performance.

The return on the Group's technical reserves includes the return from the three alpha transfer strategies: the Australian equities and listed property overlay, the international fixed interest overlay and the market neutral long/short strategy. The active management of these assets, after allowing for the fixed interest return foregone and associated costs, detracted \$12m from net pre-tax return over 1H07 following gains in each of the previous five half-year periods.

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 the half-year, Australian fixed interest and cash represented 50% of the shareholders' fund assets as at 31 December 2006. Australian equities represented the next largest component at 27.9%, followed by international equities of 9.6%. The total pre-tax return from shareholders' funds was \$166m for 1H07.

The gross return on the Group's Australian equities portfolios was 11.2% which is 1.7% behind the benchmark return for the period.

## Capital adequacy/MCR position



| Coverage of regulatory capital requirements           |  |              |              | IAG Consolidated |  |  | Insurance Australia Ltd Sub-Group |              |              |
|-------------------------------------------------------|--|--------------|--------------|------------------|--|--|-----------------------------------|--------------|--------------|
| AS\$m                                                 |  | 31-Dec-05    | 30-Jun-06    | 31-Dec-06        |  |  | 31-Dec-05                         | 30-Jun-06    | 31-Dec-06    |
| <b>Tier 1 capital</b>                                 |  |              |              |                  |  |  |                                   |              |              |
| Paid-up ordinary shares                               |  | 3,263        | 3,263        | 4,000            |  |  | 1,286                             | 1,286        | 1,286        |
| Treasury shares                                       |  | -            | (40)         | (40)             |  |  | -                                 | -            | -            |
| Hybrid equity                                         |  | 546          | 547          | 546              |  |  | -                                 | -            | -            |
| Reserves                                              |  | -            | (6)          | (1)              |  |  | -                                 | (10)         | (3)          |
| Retained earnings                                     |  | 375          | 274          | 373              |  |  | 2,575                             | 1,991        | 2,325        |
| Excess technical provisions (net of tax)              |  | 465          | 421          | 456              |  |  | 458                               | 377          | 409          |
| Less: deductions <sup>(1)</sup>                       |  | (1,619)      | (1,728)      | (2,177)          |  |  | (1,271)                           | (1,307)      | (1,350)      |
|                                                       |  | <b>3,030</b> | <b>2,731</b> | <b>3,171</b>     |  |  | <b>3,048</b>                      | <b>2,337</b> | <b>2,667</b> |
| <b>Tier 2 capital</b>                                 |  |              |              |                  |  |  |                                   |              |              |
| Subordinated debt                                     |  | 626          | 624          | 1,215            |  |  | 626                               | 624          | 604          |
| <b>Capital base</b>                                   |  | <b>3,656</b> | <b>3,355</b> | <b>4,386</b>     |  |  | <b>3,676</b>                      | <b>2,961</b> | <b>3,271</b> |
| <b>Minimum capital requirements (MCR):</b>            |  |              |              |                  |  |  |                                   |              |              |
| Australian general insurance businesses               |  | 1,570        | 1,574        | 1,536            |  |  | 1,573                             | 1,566        | 1,539        |
| International insurance businesses MCR <sup>(2)</sup> |  | 223          | 260          | 296              |  |  | -                                 | -            | -            |
|                                                       |  | <b>1,793</b> | <b>1,834</b> | <b>1,832</b>     |  |  | <b>1,573</b>                      | <b>1,566</b> | <b>1,539</b> |
| <b>MCR multiple</b>                                   |  | <b>2.04x</b> | <b>1.83x</b> | <b>2.39x</b>     |  |  | <b>2.34x</b>                      | <b>1.89x</b> | <b>2.12x</b> |

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The Group's regulatory capital base, as defined by APRA, has increased from \$3,355m to \$4,386m during 1H07. It includes:

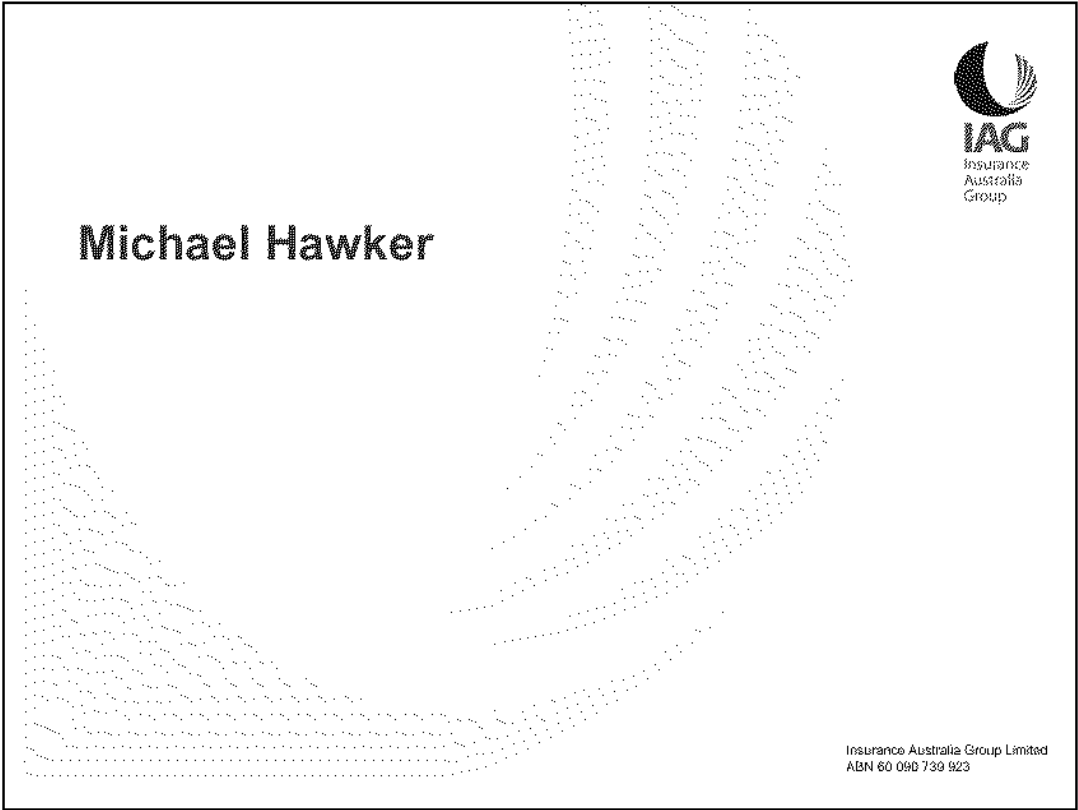
- The new capital raised in December 2006 by way of \$750m share placement (\$737m net of costs) and the \$625m issue of subordinated notes in the UK (\$615m net of discount). These notes are structured to qualify as lower Tier 2 regulatory capital.
- An increase in the Group's excess technical provisions of \$35m due to a lower premium liability in CTP; less
- Deductions for the goodwill and intangibles arising from the Hastings/Advantage Insurance Group acquisition.

As the MCR has not changed substantially, the MCR multiple has expanded to 2.39x MCR. On a pro-forma basis, excluding the funds raised in December for the acquisition of Equity Insurance Group and Open & Direct, the MCR multiple would have been 1.86x. Post the acquisition of the Equity Insurance Group, this number has reduced to around 1.70x MCR. Based on our economic capital modelling, this level of MCR coverage indicates we have surplus capital.

However, there is a difference between the amount of capital that the rating agency requires based on its generic market based models for a 'AA' rating and our own internal capital model. The S&P model is now running at around 10% above our economic capital assessment and, as such, does not recognise our surplus capital position.

S&P recently advised us that our inaugural Enterprise Risk Management Assessment is excellent, which is the highest assessment available under their methodology.

We continue to work closely with the agency so that they can acquire a greater understanding and level of comfort from our internal capital modelling and our operational risk management capability.



**Michael Hawker**



Insurance Australia Group Limited  
ABN 60 090 730 923

## FY07 Outlook



- Continue to grow and diversify our earnings
  - Deliver the targeted synergy benefits for Hastings & Equity
  - Maintain pipeline of potential acquisitions
  - 1H07 interim dividend to be underwritten to fund future growth
- Generate GWP growth of 12 - 14%
  - From organic business and acquisitions
  - Excludes non-consolidated GWP of associates
- Deliver normalised ROE of at least 1.5x WACC \*
  - Increasing importance of fee-based income stream
  - Pricing discipline maintained – for GWP and acquisitions
  - Continued focus on cost containment
- Maintain strong balance sheet and prudent reserving

\* Subject to no catastrophes or large losses beyond our allowances and no major falls in bond values.

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The themes of our outlook for the balance of FY07 are largely unchanged from what we presented at the beginning of the year. The detail is different as a result of having delivered the acquisitions of Hastings/Advantage and Equity Insurance Group. This provides more clarity on the source of growth in income and earnings for the balance of FY07 and into FY08. These acquisitions also underlie the current guidance on GWP growth for FY07 of 12 -14%.

We had hoped that we would have income from a 24.9% investment in China Pacific Property Insurance by now. Unfortunately this is not the case even though we had draft agreements finalised last July and continue to receive strong support from the various government bodies involved. The parent company, CPIC Group, is dealing with a range of challenges, including some issues arising from the agreements with the strategic partners in the life insurance business. This has delayed completion and the timing of our investment is now unclear. We remain in talks with CPIC and continue to believe that investing in China's insurance business is an important part of our long-term future.

In the meantime, we continue to develop opportunities elsewhere as evidenced by our UK acquisitions and our commitment of resources to Asia. The prospect of investment opportunities is why we have decided to underwrite our dividend and build a small bank of capital to support further bolt-on expansion by our businesses.

We expect to deliver at least 1.5x WACC for FY07. We received comment last year when we didn't give insurance margin guidance. With the increasing importance of fee income to our profits, insurance margin guidance is becoming less indicative of overall profitability and effective use of capital by the Group. For this reason, we intend sticking with ROE guidance and will also move to providing more information about our fee income business in future investor reporting.

However, we are confident of our insurance margin remaining very respectable for the rest of the year – subject to the usual caveats noted on the slide. The pressure from reduced pricing in commercial lines is expected to be more than offset by a combination of:

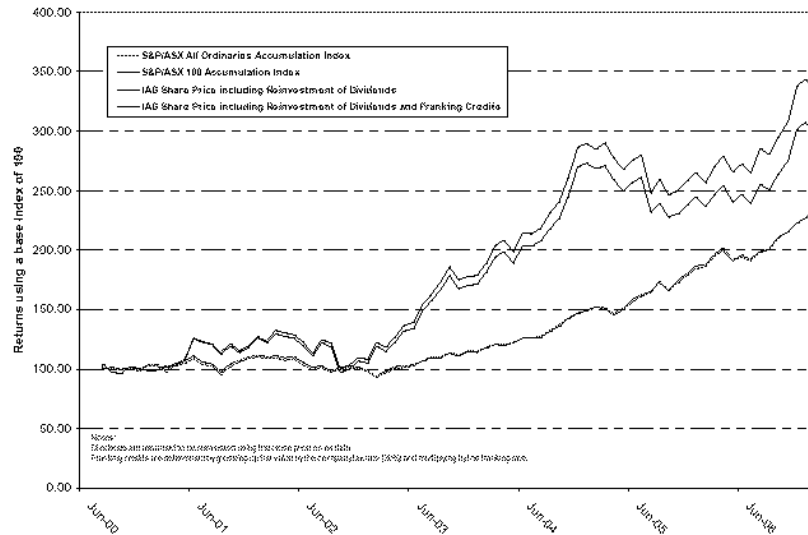
- cost containment in our existing operations;
- focus on delivery of synergies in our UK businesses;
- the return to growth in Australian personal lines; and
- the expectation that there may be more releases from long-tail classes.

Now, we'll take some questions ...

# TSR performance since listing



## Total Shareholder Returns - Since Listing



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Questions

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