

HOW WE'VE PERFORMED

FINANCIAL HIGHLIGHTS

\$345m

Net profit after tax increased 15.8% on the previous period.

\$3,155m

Net premium revenue increased 4% on the previous period, in a highly competitive market.

\$420m

Insurance profit of \$420 million was a solid result in the context of trading conditions experienced.

\$166m

Investment income on shareholders' funds was down, reflecting lower returns.

13.3%

Group insurance margin of 13.3% is below the 15.1% in the previous corresponding period, while our combined Australian business achieved 14.8%.

13.5c

Interim dividend of 13.5 cents per share, fully franked, is in line with the previous interim dividend and guidance provided in August 2006.

19.5%

Return on equity of 19.5% remains above the Group's target of 1.5 times our weighted average cost of capital.

CORPORATE DIRECTORY

Share Registry Contact Details
 Computershare Investor Services Pty Limited
 GPO Box 4709
 Melbourne Vic 3001
 Telephone (within Australia) 1300 360 688
 Telephone (outside Australia) +61 3 9415 4210
 Fax (03) 9473 2470
 Email iag@computershare.com.au
 Hand deliveries can be made to
 Level 2, 60 Carrington Street, Sydney NSW 2000

Registered Office
 Insurance Australia Group Limited
 Level 26, 388 George Street
 Sydney NSW 2000
 Telephone (02) 9292 9222
 Fax (02) 9292 8072
 ABN 60 090 739 923
www.iag.com.au

CONTINUING THE IAG RISK MANAGEMENT STORY: PART 3.5

IAG INTERIM REPORT 2007

This report, 'part 3.5', is an instalment in an ongoing series of reports which aim to demonstrate a risk management story must be told over the longer term. It provides a six-month update on the performance of a long term investment.



HOW WE'VE PERFORMED

FINANCIAL PERFORMANCE

	Six months ended 31 Dec 2006 \$m	Six months ended 31 Dec 2005 \$m
Net premium revenue	3,155	3,111
Net claims expense	(2,033)	(1,985)
Commission expense	(259)	(254)
Underwriting expense	(619)	(598)
Underwriting profit	244	274
Insurance profit	420	469
Net profit attributable to holders of ordinary shares	345	461

FINANCIAL POSITION

	As at 31 Dec 2006 \$m	As at 31 Dec 2005 \$m
Investments	11,843	10,803
Other assets	4,998	4,553
Intangibles	1,920	1,538
Total assets	18,761	16,894
Claims provisions and unearned premium	10,674	10,363
Borrowings and other liabilities	3,570	2,762
Total liabilities	14,244	13,125
Net assets	4,517	3,769
Equity attributable to IAG shareholders	4,344	3,597
Minority interests	173	172
Total equity	4,517	3,769

LAYING THE FOUNDATION FOR NEW GROWTH

We are pleased to advise Insurance Australia Group Limited (IAG) has recorded a net profit after tax of \$345 million for the first half of the 2007 financial year. While this is down on \$461 million recorded in the previous corresponding period, it is a 15.8% improvement on the six months to June 2006, demonstrating the Group's business performance is gathering momentum and transitioning to a new path of growth.

The Group is already starting to see the benefits of our strategy to diversify our risks and develop into an international general insurance group through the purchases of the Hastings and Equity motor insurance businesses in the UK. These new opportunities have come at a challenging time in the Australian and New Zealand markets, where competitive pricing and pressure in commercial rates from the soft cycle continue.

The result was achieved on an insurance margin of 13.3% and will enable payment of a fully franked interim dividend of 13.5 cents per share.

The strength of the result was impacted by lower investment returns on shareholders' funds decreasing to \$166 million. We changed the Group's investment allocation strategy in the final quarter of 2006, which has reduced exposure to equity market volatility.

UNDERLYING BUSINESSES ON A GROWTH CURVE

One of the most pleasing aspects of this result is that our Group revenue, margin and profit have increased compared to the second half of last year. The ability to sustain an insurance margin of 13.3% (12.4% in the previous period) despite a soft cycle in commercial lines, a more competitive pricing strategy in Australian Personal Lines and the removal of some premium from the NSW CTP market demonstrates the business is well insulated against market volatility.

In our largest business, Australian Personal Lines, we have developed a more sustainable business model based on reinvigorated customer service, product-focused marketing and a more competitive price position. The success of this strategy is evidenced by renewal rates in direct NSW car comprehensive and home portfolios above 93% and in December our share of NSW CTP registrations almost reached our June 2007 target of 38%.

Our Australian Commercial Lines business delivered a strong margin, benefiting from continued favourable developments in long-tail classes and a focus on managing our relationships well, adhering to underwriting disciplines rather than pursuing unprofitable marketshare.

Offshore, our businesses in Asia continue to grow, and the result included the first contribution from Hastings, one of our UK businesses.

DIVIDENDS AND CAPITAL MANAGEMENT

The Group raised \$875 million in equity capital and \$625 million in debt in December 2006 and January 2007 as funding for the Equity acquisition. This included an institutional placement and retail share purchase plan which were both heavily over-subscribed at \$5.50 per share.

Earnings from the period together with new capital issued in the funding of Equity have helped to maintain our "AA" rating by Standard & Poor's for our key wholly-owned Australian insurers.

The Board has declared an interim dividend of 13.5 cents per share fully franked, in line with the previous interim dividend. It will be paid on 16 April 2007 to shareholders registered on 14 March 2007. The Board expects to return to growing dividends when the acquired businesses make meaningful contributions to the Group's results.

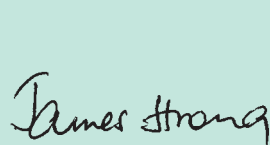
OUTLOOK

We remain on track to meet our full year guidance of 12-14% gross written premium growth while maintaining return on equity at least 1.5 times weighted average cost of capital.

Our Australian and New Zealand businesses are well positioned to continue delivering quality returns in a competitive market.

The acquisition of Hastings and Equity, and growing contributions from our Asian operation, add to our offshore earnings potential. We will also continue to pursue international expansion opportunities which meet our stringent investment criteria.

The strategy of the business continues to reap rewards, and your Board and management will continue to harness this momentum to deliver sustainable value for shareholders.



James Strong
Chairman



Michael Hawker
Chief Executive Officer



PAYING CLAIMS

PAYING CLAIMS

Customers expect their claims will be paid. That's why we're here. But what makes us different is the way we pay claims – we focus on replacing their goods or getting them back to work as quickly as possible.

UNDERSTANDING AND PRICING RISK

UNDERSTANDING AND PRICING RISK

When customers take out insurance they want to know the price we charge is accurate and fair. That's why we use our extensive data records to help us calculate each customer's premium to ensure it is neither overpriced nor underpriced.

MANAGING COSTS

MANAGING COSTS

Operating costs are factored into premium prices, so we must be as efficient as possible. IAG's large scale allows us to manage costs through access to volume discounts across the supply chain, without sacrificing quality, thereby keeping costs per policy down.

REDUCING RISK

REDUCING RISK

No one wants to experience the hardship that leads to making an insurance claim. IAG invests in programs to reduce the incidence of crime; make our roads, homes and workplaces safer; help prevent fires; and reduce our environmental impact - because the fewer risks there are, the better for everyone.