KEY FIGURES

$110m

Net profit after tax

Down from $345 million in the previous corresponding period, due to high natural event costs, wetter weather and lower investment returns.

$3,851m

Gross premium revenue

Up 15.9% on the previous corresponding period, reflecting acquisitions and strong performances from key businesses.

5.9%

Insurance margin

Group insurance margin was 5.9%, while our combined Australian businesses achieved 9.8%.

13.5cps

Interim dividend

Maintained at 13.5 cents per share, fully franked.

6.6%

Normalised return on equity

Normalised return on equity (ROE) was 6.6%, while actual ROE was 4.7%.

TO CONTACT US

IAG SHARE REGISTRY

Computershare Investor Services Pty Limited
Telephone: 1300 360 688 or +61 3 9415 4210
Email: iag@computershare.com.au

IAG REGISTERED OFFICE

Insurance Australia Group Limited
ABN 60 090 739 923
Telephone: +61 2 9292 9222
www.iag.com.au

OUR MAJOR BRANDS

Australia

New Zealand

Europe

Asia

96% voting rights

30% owned

100% owned unless indicated

G009653 03/08

THE FACTS: IN BLACK AND WHITE

INTERIM REPORT 2008

Insurance Australia Group

HOW WE'VE PERFORMED

FINANCIAL PERFORMANCE

	Six months ended 31 Dec 2006 $m	Six months ended 31 Dec 2007 $m
Gross premium revenue	3,324	3,851
Net premium revenue	3,155	3,709
Net claims expense	(2,033)	(2,644)
Underwriting profit/(loss)	244	(7)
Investment income on technical reserves	176	224
Insurance profit	420	217
Profit from fee based business/ share from associates	29	29
Investment income on shareholders' funds	166	76
Net profit attributable to holders of ordinary shares	**345**	**110**

FINANCIAL POSITION

	As at 30 Jun 2007 $m	As at 31 Dec 2007 $m
Cash and investments	12,047	11,643
Other assets	6,553	5,982
Goodwill and intangibles	3,037	2,941
Total assets	**21,637**	**20,566**
Claims provisions and unearned premium	12,775	12,333
Borrowings and other liabilities	4,030	3,313
Total liabilities	**16,805**	**15,646**
Net assets	**4,832**	**4,920**
Equity attributable to IAG shareholders	4,660	4,774
Minority interests	172	146
Total equity	**4,832**	**4,920**

RESPONDING TO THE CHALLENGES

Insurance Australia Group Limited (IAG) recorded a net profit after tax of $110 million and an insurance margin of 5.9% for the first half of the 2008 financial year.

This is a disappointing result. The overall decline in profitability was largely due to:

- Significantly higher storm and natural event costs of $326 million (before tax), well ahead of our normal budget for such events and $201 million higher than the previous corresponding period;
- Lower returns from investments. The returns on our invested shareholders' funds were $90 million lower due to the poorer performance of investment markets and our lower exposure to equities. In addition, the income on our investments backing our claims reserves took a $55 million loss from widening credit spreads, although we expect to recover this over time; and
- Soft cycle conditions in Australian commercial and UK motor insurance.

While managing the impact of weather events is part of our role as an insurer, the number and severity of events this period was unusual. Our customers in Australia, the UK and New Zealand have been affected by hail, flood and severe storms. In New Zealand, we also had an earthquake. In addition to these major events, the change to a wetter weather pattern in Australia has brought an increase in the number of claims, in particular motor collisions and an increase in the average cost of claims due to pressure on our repair supply chain.

These trends clearly call for action. We have increased both our reinsurance protections and premiums in classes of insurance where claims costs are rising. To improve the underlying profitability of our businesses we have begun implementing productivity improvements which will see our cost base reduce, and we have strengthened our management team.

MOMENTUM MAINTAINED IN KEY BUSINESSES

Premium revenue (GWP) was up 15.9% to $3.9 billion, reflecting contributions from the UK businesses acquired last year and a strong performance from Australian Personal Insurance and our New Zealand business. In Australian Commercial Insurance we curtailed our growth in light of soft market conditions.

Some operating highlights from the past six months include:

- Our biggest business, Australian Direct Personal Insurance, increased revenue from the sale of home and motor insurance by 4.6% (adjusted for the impact of the NSW Lifetime Care & Support Scheme). Our largest portfolio, NSW motor, grew by 5.8%;
- In Australian Commercial Insurance we shed some market share in line with our strategy to walk away from unprofitable business. However, our focus on relationships saw customer retention remain high at 84%;
- In New Zealand, the business we sell through brokers and agents increased by around 8% while personal lines remained steady. Overall revenue grew 3.5% in local currency terms;
- In Asia, revenue increased by 6% in local currency terms. Our existing businesses introduced new products and distribution channels and we continued to pursue small, strategic acquisitions; and
- In the UK, Equity Insurance Group performed in line with our expectations and Advantage is showing early signs of an improvement, although its performance for the period was still poor. The integration of the two businesses is on track to deliver the £25 million in synergies (after tax) forecast at the time of acquisition.

CAPITAL AND DIVIDEND

Return on equity (ROE) for the period, normalised for investment returns and excluding amortisation of intangible assets, is 6.6%. Actual ROE was 4.7%.

We continued to maintain a very strong balance sheet and our regulatory capital position strengthened during the period.

The interim dividend has been maintained at 13.5 cents per share, fully franked. It will be paid on 14 April 2008 to shareholders registered as at 12 March 2008.

We made the decision to maintain the interim dividend in the context of our expectations of future growth and earnings performance, as well as our conservatively positioned balance sheet.

Recognising the more pessimistic economic and investment markets outlook, we have chosen to conserve capital by funding some of the dividend through the issue of shares to participants in the Group's Dividend Reinvestment Plan (DRP). The DRP shares will be issued at a 1.5% discount to the average market price during the pricing period.

OUTLOOK

For the full year, we have maintained our existing guidance of 7–9% of GWP growth and an insurance margin of 9–11%. However, we expect to be at the low end of both ranges as a result of further catastrophic events, the ongoing soft market in commercial insurance and currency movements. As usual our guidance is subject to no catastrophes or large losses outside the Group's allowance nor any material movements in currency or investment markets in the second half.

In Australia, we will continue to grow our businesses while maintaining our risk-based pricing and cost control disciplines, and we expect a stronger bottom-line performance from our key international businesses in the UK and New Zealand.

We have also made changes to our reinsurance programme to help protect our earnings and financial position over this period.

We will continue to pursue small, strategic acquisitions in our chosen markets of India, Malaysia, Thailand and China and are committed to completing our acquisition of the remaining 50% of NTI, Australia's largest truck insurance specialist.

While 2007 was a challenging year for the local general insurance industry, we are pleased with the growth we have achieved across our businesses and are confident the actions we are taking will improve the bottom-line performance of your company in the second half of the financial year.

James Strong

JAMES STRONG
Chairman

MICHAEL HAWKER
Chief Executive Officer

WEATHER AND INVESTMENTS IMPACTED OUR PROFIT, BUT OUR BUSINESS CONTINUED TO GROW.

Claims from severe weather events and an earthquake totalled $326 million, $201 million more than in the first half of the previous year. Revenue grew 15.9% to $3.9 billion.

WE RECEIVED 27,000 CLAIMS FOLLOWING THE DECEMBER HAILSTORM IN SYDNEY.

Paying claims is core business for an insurance company. Following severe storms in NSW in December, we received the number of claims we would normally get in 12 months in just a few days.

WE STRENGTHENED OUR CAPITAL POSITION.

Our regulatory capital position, measured as a multiple of the minimum capital requirement, strengthened from 1.67x to 1.87x as at 31 December 2007.

IMPROVEMENTS TO OUR BUSINESS MEAN WE ARE CONFIDENT OF IMPROVING OUR PROFIT IN THE SECOND SIX MONTHS OF 2007/2008.

We have increased our reinsurance protections, increased premiums in classes of insurance where claims costs are rising, and continued our internal focus on reducing costs. As a result, we expect performance to improve and to record an insurance margin for the full year at the low end of the range of 9–11%.