

Results for the six months ended 31 December 2005 compared to the previous corresponding period, stated under new international financial reporting standards.

FINANCIAL HIGHLIGHTS

\$461m Net profit after tax increased 2% to \$461m from \$452m.

\$3,085m Revenue remained steady at \$3,085m, compared to \$3,084m, in a highly competitive market.

\$277m Underwriting profit increased 26.5% from \$219m to \$277m.

\$469m Insurance profit decreased \$13m or 2.7% from the record performance achieved in the prior comparative period.

\$345m Investment income on shareholders' funds reached record levels, rising 21% on the back of strong equity markets.

15.2% Insurance margin of 15.2% was in line with the four previous half-year periods and the full-year guidance of 14%–16%.

13.5c Interim dividend of 13.5 cents per share, fully franked, was up 12.5% on the previous interim dividend.

\$200m The amount of capital being returned to shareholders by 30 June 2006.

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

Group Company Secretary
Anne O'Driscoll FCA, ANZIIF (Fellow), GAICD

Insurance Australia Group Limited
ABN 60 090 739 923
www.iag.com.au

Help us help the environment and reduce costs
You may elect not to receive IAG's annual reports and interim reports by mail. Simply complete the form enclosed with this report, or register online at www.iag.com.au/shareholdercentre.



Printed on Australian made recycled paper.

CONTINUING THE IAG RISK MANAGEMENT STORY: PART 2.5

IAG INTERIM REPORT 2006



This report, 'part 2.5', 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

	As at 31 Dec 2004 \$m	As at 31 Dec 2005 \$m
Net premium revenue	3,084	3,085
Net claims expense	(2,063)	(1,970)
Commission expense	(253)	(254)
Underwriting expense	(549)	(584)
Underwriting profit	219	277
Insurance profit	482	469
Net profit attributable to holders of ordinary shares	452	461

FINANCIAL POSITION

	As at 31 Dec 2004 \$m	As at 31 Dec 2005 \$m
Investments	10,409	10,808
Other assets	4,265	4,548
Intangibles	1,479	1,538
Total assets	16,153	16,894
Claims provisions and unearned premium	10,045	10,363
Borrowings and other liabilities	1,777	2,762
Total liabilities	11,822	13,125
Net assets*	4,331	3,769
Equity attributable to IAG shareholders	3,772	3,597
Minority interests	559	172
Total equity	4,331	3,769

* The decrease in net assets is largely due to the reclassification of reset preference shares as liabilities under new international financial reporting standards.

STICKING TO A STRATEGY THAT'S DELIVERING RESULTS



Delivering sustainable, long term value requires us to align our business around four principles – paying claims, understanding and pricing risk, managing costs and reducing risk.

Sticking to these principles enabled us to deliver a record profit and dividend for the half year ended 31 December 2005.

Paying claims is easy. The hard part is the way claims are paid. We focus our efforts on replacing customers' goods, or getting them back on the road or back to work, to help them recover as quickly as possible.

We price our products before we know their cost. So it is important we can assess and price risk accurately and fairly, ensuring it is neither underpriced nor overpriced.



No one wants to experience the hardship that leads to making a claim, so we use our knowledge to help reduce the likelihood of a claim occurring in the first place. We concentrate on improving road safety, reducing crime and workplace injury, and minimising our environmental impact.

Our operating costs are factored in the price of a premium, so we must be as efficient as possible. We are responsibly using our scale to keep our costs per policy down.

We are pleased to report that Insurance Australia Group again delivered solid margins, and achieved a record interim profit and dividend, for the first half of the 2006 financial year.

During the past six months, our disciplined approach to underwriting, introduction of initiatives to improve our customer service, and record investment income, enabled us to maintain our strong margins despite intense competition in the Australian and New Zealand insurance markets.

The Group achieved a net profit after tax of \$461 million for the period, up 2% on the previous corresponding period. The insurance margin of 15.2% is consistent with the four previous half-year periods, demonstrating our ability to deliver consistent results, and puts us on track to meet our full-year insurance margin guidance of 14%–16%.

In our largest division, Australian personal insurance, overall customer retention remained high and claims satisfaction improved. We invested in our brands and introduced new customer service tools to more closely tailor our products to our customers' needs.

In Australian commercial insurance, we focused on deepening relationships with existing customers and selectively pursuing new business, while in New Zealand, we posted our highest ever insurance result, reflecting improvements in our claims processes and the absence of major weather events.

At the same time, investment income reached record levels, with our pre-tax return on shareholders' funds rising 21% from \$285 million (pre-tax) to \$345 million. Investment returns from claims reserves performed well, contributing \$192 million to our pre-tax profit.

DIVIDENDS AND CAPITAL MANAGEMENT

In light of the Group's strong result, the Board has declared a fully franked interim dividend of 13.5 cents per share, up 12.5% on the previous corresponding period. The interim dividend will be paid on 10 April 2006 to shareholders registered on 8 March 2006.

The Board also plans to return \$200 million in surplus capital to shareholders by 30 June 2006. With around \$870 million in capital surplus to that required to maintain our internal benchmark and regulatory requirements, we are pleased to be in the financial position to return capital to shareholders as well as make further international investments.

PATHWAYS TO GROWTH

To continue to meet our goal of delivering top quartile shareholder return over the long term, our strategy has been to seek incremental revenue offshore to supplement our domestic businesses.

In line with this strategy, we have taken some significant steps to build an international portfolio of insurance assets, with our initial focus on Asia. We have:

- signed a memorandum of understanding to invest in 24.9% of China's second largest general insurer, China Pacific Property Insurance Company. If successful, this represents the largest single investment in China by an Australian company to date;
- acquired an additional 16.7% stake in Thailand's Safety Insurance, taking our shareholding to 38.3%. We are currently seeking to further increase this holding through an offer to Safety Insurance shareholders;
- acquired an initial 30% stake in Malaysia's AmAssurance; and
- acquired Royal & SunAlliance Thailand (now branded NZI), which is already contributing incremental earnings.

Successful completion of all of these investments would enable us to participate in companies with annual gross written premium of more than \$3 billion, of which the Group would have an interest in more than \$800 million, and provide us with a foothold to participate in the world's fastest growing insurance markets. Further opportunities are in the pipeline and we are confident that other deals can be executed which add value for shareholders.

OUTLOOK

Looking to the future, we expect to deliver a full-year insurance margin of 14%–16% and we remain on track to achieve 10% growth in dividends, barring any material insurance losses outside our normal expectations.

We will maintain our margins by sticking to our plan of balancing risk-based pricing while retaining a leading market position, maintaining strong customer relationships and continually looking for opportunities to operate our business more efficiently. At the same time, we will aim to bed down our investments in Asia, while continuing our search for further international expansion opportunities.

Beyond the current financial year, we believe the strength of our franchise and our market position in Australia and New Zealand, should enable us to deliver returns that are 2%–3% ahead of the insurance market average. And we remain confident that our Asian platform will generate value for you, our shareholders.



James Strong

James Strong
Chairman



Michael Hawker

Michael Hawker
CEO