**FINANCIAL HIGHLIGHTS**

- **Net profit after tax** increased 2% to $461m from $452m.
- **Revenue** remained steady at $3,085m, compared to $3,084m, in a highly competitive market.
- **Underwriting profit** increased 26.5% from $219m to $277m.
- **Insurance profit** decreased $13m or 2.7% from the record performance achieved in the prior comparative period.
- **Investment income** on shareholders’ funds reached record levels, rising 21% on the back of strong equity markets.
- **Insurance margin** of 15.2% was in line with the four previous half-year periods and the full-year guidance of 14%-16%.
- **Interim dividend** of 13.5 cents per share, fully franked, was up 12.5% on the previous interim dividend.
- The amount of capital being returned to shareholders by 30 June 2006.

**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.

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**FINANCIAL PERFORMANCE**

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

**FINANCIAL POSITION**

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

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

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**CORPORATE DIRECTORY**

**Share Registry Contact Details**
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Melbourne Vic 3001

- Telephone (within Australia) 1300 360 688
- Telephone (outside Australia) +61 3 9473 4210
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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

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**CONTINUING THE IAG RISK MANAGEMENT STORY: PART 2.5**

IAG INTERIM REPORT 2006

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**HOW WE’VE PERFORMED**

- **Net profit after tax** increased 2% to $461m from $452m.
- **Revenue** remained steady at $3,085m, compared to $3,084m, in a highly competitive market.
- **Underwriting profit** increased 26.5% from $219m to $277m.
- **Insurance profit** decreased $13m or 2.7% from the record performance achieved in the prior comparative period.
- **Investment income** on shareholders’ funds reached record levels, rising 21% on the back of strong equity markets.
- **Insurance margin** of 15.2% was in line with the four previous half-year periods and the full-year guidance of 14%-16%.
- **Interim dividend** of 13.5 cents per share, fully franked, was up 12.5% on the previous interim dividend.
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**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.**
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.

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.

We concentrate on improving road safety, reducing crime and workplace injury, and minimising our environmental impact.

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.

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 help our costs per policy down.

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.

Our environmental impact.

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 $288 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.

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