

**INSURANCE AUSTRALIA GROUP LIMITED**

**ABN 60 090 739 923**

**HALF YEAR REPORT 31 DECEMBER 2004**

**APPENDIX 4D**

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INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2004

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	<b>Up/down</b>	<b>% change</b>	<b>\$m</b>
Revenue from ordinary activities	Up	9.6%	4,278
Profit from ordinary activities after tax attributable to shareholders	Up	47.7%	446
Net profit attributable to shareholders of Insurance Australia Group Limited	Up	47.7%	446

<b>Dividends – ordinary shares</b>	<b>Amount per share</b>	<b>Franked amount per share</b>
Interim dividend	12 cents	12 cents

The record date of the dividend is 16 March 2005. The dividend is to be paid on 18 April 2005. The last date for the receipt of an election notice for participation in the company's Dividend Reinvestment Plan is 16 March 2005.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2004

**OTHER INFORMATION**

During the half year the Insurance Australia Group held an interest in the following joint ventures:

	<b>% Held</b>
NTI Limited	50

The company's aggregate share of profits of these entities is not material.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2004

**APPENDIX 4D COMPLIANCE MATRIX**

Appendix 4D disclosure requirements	Insurance Australia Group Appendix 4D	Page Number	Note Number
1. Details of the reporting period and the previous corresponding period.	All financial data headings		
2. Key information in relation to the following. This information must be identified as "Results for announcement to the market".  2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.  2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.  2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.  2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.  2.5 The record date for determining entitlements to the dividends (if any).  2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	"Results for announcement to the market" page 1 Appendix 4D		
3. Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Half year financial report 31 December 2004: <ul style="list-style-type: none"> <li>• Notes to the financial statements</li> <li>- Net tangible assets.</li> </ul>	P.14	Note 12
4. Details of entities over which control has been gained or lost during the period, including the following.  4.1 Name of the entity.  4.2 The date of the gain or loss of control.  4.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.	Attachment A: Half year financial report 31 December 2004: <ul style="list-style-type: none"> <li>• Notes to the financial statements</li> <li>- Changes in the composition of the consolidated entity</li> </ul>	P.11	Note 8

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2004

<p>5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.</p>	<p>Attachment A: Half year financial report 31 December 2004:</p> <ul style="list-style-type: none"> <li>• Notes to the financial statements               <ul style="list-style-type: none"> <li>- Dividends note</li> </ul> </li> </ul>	<p>P.11</p>	<p>Note 7</p>
<p>6. Details of any dividend or distribution reinvestment plan in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.</p>	<p>Attachment A: Half year financial report 31 December 2004:</p> <ul style="list-style-type: none"> <li>• Notes to the financial statements               <ul style="list-style-type: none"> <li>- Dividend note</li> </ul> </li> </ul>	<p>P.11</p>	<p>Note 7</p>
<p>7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and - where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.</p>	<p>"Other information" page 2 Appendix 4D</p>		
<p>8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).</p>	<p>Not applicable</p>		
<p>9. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.</p>	<p>Not applicable</p>		

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2004

**ATTACHMENT A**

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**HALF YEAR FINANCIAL REPORT – 31 DECEMBER 2004**

**INSURANCE AUSTRALIA GROUP LIMITED**  
**ABN 60 090 739 923**  
**AND CONTROLLED ENTITIES**  
**HALF YEAR FINANCIAL REPORT - 31 DECEMBER 2004**

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**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited ("IAG" / "the Company") and its controlled entities ("the IAG Group") for the half year ended 31 December 2004 and the auditors' review report thereon.

**Directors**

The Directors of the Company during or since the end of the half year are:

Mr JA Strong (Director since 2 August 2001), Ms YA Allen (Director since 10 November 2004), Mr JF Astbury (Director since 25 July 2000), Mr GA Cousins (Director since 25 July 2000), Ms DG Fisher (Director from 19 June 2000 to 10 November 2004), Mr ND Hamilton (Director since 19 June 2000), Ms AJ Keating (Director from 19 June 2000 to 10 November 2004), Mr RA Ross (Director since 25 July 2000), Mr B Schwartz (Director since 1 January 2005) and Mr MJ Hawker (Director since 1 December 2001).

**Result and review of operations**

The IAG Group net profit for the half year was \$504 million (2003 - \$348 million). After adjusting for outside equity interests in the IAG Group result, the net profit attributable to shareholders of the Company was \$446 million (2003 - \$302 million).

The key components for the half year result were:

- Strong underwriting profit of \$255 million for the half year compared to \$277 million in 2003. Excluding the impact of interest rate movements during the period on outstanding claims provisions, the underwriting profit for the half year is \$320 million (2003 - \$179 million). The quality of the result was again driven by strong performance of all major business segments.
- The strength of the underwriting result and the synergy benefits from the CGU/NZI acquisition contributed to an improvement in the insurance margin to 16.7% (2003 - 11.8%). The insurance margin achieved currently exceeds the IAG Group's long-term expectation of 9% - 12%.
- Gross written premium was \$3,329 million, representing organic growth of 6.0% on the same period last year (\$3,140 million).
- The expense ratio (underwriting expenses to net earned premium) of 25.3% compares to 24.9% for the same period last year. The increase is attributable to an increase in commission expense and fire brigade charges.
- The IAG Group's combined ratio of 91.8% (2003 - 90.5%) includes a negative impact of \$65 million in discount rate adjustments on outstanding claims provision compared with a \$98 million benefit in 2003. Excluding the impact of interest rates movements during the period on outstanding claims provisions, the combined ratio is 89.7% (2003 - 93.8%).
- The improvement in the combined ratio (excluding the impact of interest rates) reflects an underlying improvement of the IAG Group's underwriting business over the last 12 months. This improvement has been due to the synergy benefits in claims management and processes, reserve releases from key long-tail portfolios as a result of continued stability in the New South Wales CTP scheme, better than expected loss experience in liability classes and a continuation of favourable weather resulting in lower levels of storm damage. These benefits have been partly offset by the strengthening of asbestos reserves.
- During the half year, the continued strength of equity markets delivered a 23.4% annualised return on shareholders' funds, while the decrease in bond yields had a positive impact on investment returns on technical reserves. Total investment income included in the consolidated net profit before tax for the half year was \$574 million (2003 - \$286 million).

The IAG Group recognised an income tax expense of \$219 million for the half year ended 31 December 2004 compared to \$136 million in 2003, representing an effective tax rate of 30.3% (2003 - 28.1%). The lower effective tax rate for the 2003 half year was due to the recognition of a once-off benefit of \$22 million as a result of the IAG Group forming a tax consolidated group in line with changes in tax legislation.

Further information on the IAG Group's result and review of operations can be found in the 31 December 2004 Investor Report on the Company's website, [www.iag.com.au](http://www.iag.com.au).

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the half year ended 31 December 2004.

**Events subsequent to reporting date**

Details of matters subsequent to the end of the financial period are set out in note 13. These include:

- a dividend declared of 12 cents per ordinary share. The Dividend Reinvestment Plan will operate using shares acquired on market with no discount applied;
- the issue and listing of Reset Exchangeable Securities (RES);
- the appointment of Mr Brian Schwartz as a director of the Company; and
- the impact of the introduction of Australian equivalents of the International Financial Reporting Standards.


**Dividends**


Details of dividends declared are set out in note 7.

**Rounding of amounts**

Unless otherwise stated, amounts in the financial report and Directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 24th day of February 2005 in accordance with a resolution of the Directors.

  
..... Director

  
..... Director



**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001**

To: the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2004 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review;  
and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

*KPMG*

KPMG

A handwritten signature in cursive script, appearing to read 'A Terblanché'.

**Dr Andries B Terblanché**  
*Partner*

Sydney  
24th February 2005

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	<u>Notes</u>	<b>CONSOLIDATED</b>	
		<b>31 Dec 2004 \$m</b>	<b>31 Dec 2003 \$m</b>
Premium revenue	3(a)	3,311	3,116
Reinsurance expense		(202)	(204)
<b>Net premium revenue</b>		<b>3,109</b>	<b>2,912</b>
Claims expense		(2,349)	(2,217)
Reinsurance and other recoveries	3(a)	282	308
<b>Net claims expense</b>		<b>(2,067)</b>	<b>(1,909)</b>
Acquisition costs		(534)	(507)
Other underwriting expenses		(166)	(164)
Fire brigade charges		(87)	(55)
<b>Underwriting expenses</b>		<b>(787)</b>	<b>(726)</b>
<b>Profit from underwriting <sup>(i)</sup></b>		<b>255</b>	<b>277</b>
Investment revenue	3(b)	574	286
Other operating revenue	3(c)	106	188
Borrowing costs expense		(28)	(29)
Corporate, administration and other expenses		(184)	(238)
<b>Profit from ordinary activities before income tax</b>		<b>723</b>	<b>484</b>
Income tax expense		(219)	(136)
<b>Net profit</b>		<b>504</b>	<b>348</b>
Net profit attributable to outside equity interests		(58)	(46)
<b>Net profit attributable to shareholders of Insurance Australia Group Limited</b>		<b>446</b>	<b>302</b>
<b>Non-owner transaction changes in equity:</b>			
Net exchange difference on translation of financial reports of foreign controlled entities		1	-
<b>Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity</b>		<b>447</b>	<b>302</b>
		<b>31 Dec 2004 cents</b>	<b>31 Dec 2003 cents</b>
Basic earnings per ordinary share	5(a)	27.06	17.07
Basic earnings per reset preference share	5(b)	267.27	265.03
Diluted earnings per ordinary share	5(a)	27.01	17.01
Note:		<b>31 Dec 2004 \$m</b>	<b>31 Dec 2003 \$m</b>
(i) Profit from underwriting comprises:			
Net premium revenue		3,109	2,912
Net claims expense		(2,067)	(1,909)
Underwriting expenses		(787)	(726)
		<b>255</b>	<b>277</b>

The above statement of financial performance is to be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004**

		<b>CONSOLIDATED</b>	
		<b>31 Dec</b>	<b>30 Jun</b>
		<b>2004</b>	<b>2004</b>
		<b>\$m</b>	<b>\$m</b>
<b>Assets</b>			
Cash assets		465	424
Investments		9,944	9,686
Receivables		2,156	2,348
Reinsurance and other recoveries receivable		916	915
Inventories		2	2
Property, plant and equipment		246	231
Prepayments		70	63
Deferred levies		105	104
Deferred reinsurance premium		111	184
Deferred acquisition costs		582	558
Deferred tax assets		255	296
Investments in joint ventures and associates		7	7
Intangible assets		12	18
Goodwill		1,412	1,455
<b>Total assets</b>		<b>16,283</b>	<b>16,291</b>
<b>Liabilities</b>			
Payables		730	937
Restructuring provision		13	29
Current tax liabilities		63	222
Unearned premium		3,497	3,472
Employee benefits provision		157	188
Deferred tax liabilities		176	99
Outstanding claims liability		6,548	6,327
Interest-bearing liabilities		794	793
<b>Total liabilities</b>		<b>11,978</b>	<b>12,067</b>
<b>Net assets</b>		<b>4,305</b>	<b>4,224</b>
<b>Equity</b>			
Contributed equity	9(a)	3,802	3,802
Foreign currency translation reserve	9(b)	(4)	(5)
Accumulated losses	9(c)	(51)	(259)
<b>Equity attributable to shareholders of Insurance Australia Group Limited</b>		<b>3,747</b>	<b>3,538</b>
Outside equity interests in controlled entities	9(d)	558	686
<b>Total equity</b>	<b>9</b>	<b>4,305</b>	<b>4,224</b>

The above statement of financial position is to be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	<u>Note</u>	<b>CONSOLIDATED</b>	
		31 Dec	31 Dec
		<b>2004</b>	2003
		\$m	\$m
<b>Cash flows from operating activities</b>			
Premium received		3,347	3,375
Reinsurance and other recoveries received		237	186
Claims costs paid		(2,095)	(2,046)
Outwards reinsurance premium paid		(123)	(204)
Dividends received		55	52
Interest and similar items received		244	236
Borrowing costs paid		(32)	(28)
Income tax refund		9	7
Income tax paid		(259)	(68)
Other operating receipts		343	307
Other operating payments		(1,295)	(1,123)
<b>Net cash provided by operating activities</b>		<b>431</b>	<b>694</b>
<b>Cash flows from investing activities</b>			
Net cash flows on disposal of a controlled entity	8	-	48
Proceeds from disposal of investments and property, plant and equipment		11,057	11,561
Outlays for investments and property, plant and equipment acquired		(11,036)	(12,134)
Repayment of premium funding loans		180	146
Advances of premium funding loans		(225)	(167)
<b>Net cash used in investing activities</b>		<b>(24)</b>	<b>(546)</b>
<b>Cash flows from financing activities</b>			
Outlays for return of capital to outside equity interests		-	(56)
Proceeds from issues of trust units		468	629
Outlays for redemption of trust units		(544)	(569)
Proceeds from borrowings		-	487
Repayment of borrowings		-	(515)
Dividends paid to IAG shareholders		(238)	(132)
Dividends paid to outside equity interests		(52)	(34)
<b>Net cash used in financing activities</b>		<b>(366)</b>	<b>(190)</b>
<b>Net increase / (decrease) in cash held</b>		<b>41</b>	<b>(42)</b>
<b>Cash at the beginning of the financial period</b>		<b>424</b>	<b>626</b>
<b>Cash at the end of the financial period <sup>(i)</sup></b>		<b>465</b>	<b>584</b>

Notes:

(i) Cash represents cash on hand and in banks, deposits at call and money market investments readily convertible to cash within two working days, net of bank overdraft.

The above statement of cash flows is to be read in conjunction with the notes to the financial statements.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 1. Statement of significant accounting policies**

**Basis of preparation of half-year financial report**

The half year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. This half year financial report is to be read in conjunction with the 30 June 2004 Annual Financial Report and any public announcements by Insurance Australia Group Limited and its controlled entities during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

The accounting policies adopted have been consistently applied by each entity in the IAG Group and are consistent with those applied in the 30 June 2004 Annual Financial Report unless otherwise mentioned. The half year report does not include full note disclosures of the type normally included in an annual financial report.

The statement of financial position has been prepared using the liquidity format of presentation and differs from the presentation as disclosed in the 30 June 2004 Annual Financial Report. The change has been made as it is considered more meaningful to emphasise the importance of liquidity to the users of the accounts. The opportunity for the change has arisen from changes in disclosure requirements as Australia adopts new accounting standards in 2005 (refer note 13). Certain reclassifications have been made from the prior period's financial report to conform to the current period's presentation.

**Note 2. Current/non-current information**

While the IAG Group presents the statement of financial position using the liquidity format, there are specific disclosure requirements regarding current/non-current classifications for certain items.

	<b>CONSOLIDATED</b>		
	<b>Current 31 Dec 2004 \$m</b>	<b>Non-current 31 Dec 2004 \$m</b>	<b>Total 31 Dec 2004 \$m</b>
<b>Assets</b>			
Investments	2,611	7,333	9,944
Reinsurance and other recoveries receivable	350	566	916
Deferred levies	105	-	105
Deferred reinsurance premium	111	-	111
Deferred acquisition costs	550	32	582
Deferred tax assets	-	255	255
<b>Liabilities</b>			
Unearned premium	3,404	93	3,497
Employee benefits provision	127	30	157
Deferred tax liabilities	-	176	176
Outstanding claims liability	2,243	4,305	6,548
Interest-bearing liabilities	46	748	794
	30 Jun 2004	30 Jun 2004	30 Jun 2004
	\$m	\$m	\$m
<b>Assets</b>			
Investments	2,474	7,212	9,686
Reinsurance and other recoveries receivable	368	547	915
Deferred levies	104	-	104
Deferred reinsurance premium	184	-	184
Deferred acquisition costs	527	31	558
Deferred tax assets	-	296	296
<b>Liabilities</b>			
Unearned premium	3,386	86	3,472
Employee benefits provision	151	37	188
Deferred tax liabilities	-	99	99
Outstanding claims liability	2,202	4,125	6,327
Interest-bearing liabilities	-	793	793

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 2. Current/non-current information (continued)**

All items of investment in joint ventures and associates, property, plant and equipment, intangible and goodwill assets are non-current assets. Cash assets, receivables and other assets are all current assets. All other liabilities are current liabilities.

	<b>CONSOLIDATED</b>	
	<b>31 Dec</b>	31 Dec
	<b>2004</b>	2003
	<b>\$m</b>	\$m
<b>Note 3. Revenue from ordinary activities</b>		
<b>Revenue from operating activities</b>		
<b>(a) General insurance revenue</b>		
Direct gross written premium	3,329	3,140
Movement in unearned premium reserve	(17)	(26)
Direct premium revenue	<u>3,312</u>	3,114
Inwards reinsurance premium revenue	(1)	2
Premium revenue	<u>3,311</u>	3,116
Reinsurance and other recoveries	282	308
Total general insurance revenue	<u>3,593</u>	3,424
<b>(b) Investment revenue</b>		
Dividend income	48	25
Interest income	197	211
Trust income	6	12
	<u>251</u>	248
Changes in net market values of investments		
- realised gains / (losses)	47	(15)
- unrealised gains	276	53
Total investment revenue	<u>574</u>	286
<b>(c) Other operating revenue</b>		
Fee based business revenue	106	118
Life insurance business revenue	-	70
	<u>106</u>	188
Proceeds from disposal of plant and equipment	5	5
Total other operating revenue	<u>111</u>	193
<b>Total revenue from operating and ordinary activities</b>	<u><u>4,278</u></u>	<u><u>3,903</u></u>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**CONSOLIDATED**

<b>31 Dec</b>	31 Dec
<b>2004</b>	2003
<b>\$m</b>	<b>\$m</b>

**Note 4. Analysis of total expenses**

Expenses (excluding borrowing costs expense) disclosed on the face of the statement of financial performance:

Reinsurance expense	<b>202</b>	204
Claims expense	<b>2,349</b>	2,217
Acquisition costs	<b>534</b>	507
Other underwriting expenses	<b>166</b>	164
Fire brigade charges	<b>87</b>	55
Corporate, administration and other expenses	<b>184</b>	238
Total expenses	<b>3,522</b>	3,385

Analysis of expenses by function:

General insurance business expenses	<b>3,338</b>	3,147
Life insurance business expenses	-	52
Corporate and administration expenses	<b>184</b>	186
Total expenses	<b>3,522</b>	3,385

**CONSOLIDATED**

<b>31 Dec</b>	31 Dec
<b>2004</b>	2003
<b>cents</b>	<b>cents</b>

**Note 5. Earnings per share**

(a) Ordinary shares

Basic earnings per share	<b>27.06</b>	17.07
Diluted earnings per share	<b>27.01</b>	17.01

<b>31 Dec</b>	31 Dec
<b>2004</b>	2003
<b>Number</b>	Number
<b>of shares</b>	of shares
<b>million</b>	million

(i) Reconciliation between basic earnings per share denominator and diluted earnings per share denominator

Weighted average number of ordinary shares outstanding during the financial period used in calculation of the basic earnings per share

<b>1,592</b>	1,683
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Potential ordinary shares under the Performance Share Rights Plan:

Expiry date 21 December 2010	-	1
Expiry date 30 April 2011	<b>2</b>	4
Expiry date 13 December 2011	<b>1</b>	1
Expiry date 5 March 2012	<b>1</b>	1
Cancelled potential ordinary shares	<b>(1)</b>	(1)

Weighted average number of ordinary shares and potential ordinary shares outstanding during the financial period used in calculation of the diluted earnings per share

<b>1,595</b>	1,689
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Event subsequent to reporting date:

On 31 January 2005, a total of 923,000 ordinary shares were issued as a result of the exercise of vested Performance Share Rights. As at 31 December 2004, these shares were included as potential ordinary shares used in calculation of diluted earnings per share.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	<b>31 Dec 2004 \$m</b>	31 Dec 2003 \$m
<b>Note 5. Earnings per share (continued)</b>		
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit	<b>504</b>	348
Net profit attributable to outside equity interests	<b>(58)</b>	(46)
Net profit attributable to shareholders of Insurance Australia Group Limited	<b>446</b>	302
Net profit attributable to reset preference shares	<b>(15)</b>	(14)
Earnings used in calculating basic and diluted earnings per share	<b>431</b>	288

	<b>CONSOLIDATED</b>	
	<b>31 Dec 2004 cents</b>	31 Dec 2003 cents
(b) Reset preference shares		
Basic earnings per share	<b>267.27</b>	265.03

	<b>31 Dec 2004 Number of shares million</b>	31 Dec 2003 Number of shares million
Weighted average number of reset preference shares outstanding during the financial period used in calculation of the basic earnings per share	<b>6</b>	6

	<b>31 Dec 2004 \$m</b>	31 Dec 2003 \$m
Net profit used in calculating basic earnings per share (based on dividends paid or payable to reset preference shares)	<b>15</b>	14

There are no potential reset preference shares on issue.

**Note 6. Individually significant items**

Profit from ordinary activities before income tax includes the following items whose disclosure is relevant in explaining the financial performance of the IAG Group:

Expenses:

Restructuring / integration costs	-	25
Insurance protection tax levied by the NSW State Government	<b>10</b>	10

Income tax benefit:

Effect of resetting tax values on entering tax consolidation	-	22
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**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

<b>Half year ended 31 Dec 2004 \$m</b>	<b>Year ended 30 Jun 2004 \$m</b>
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**Note 7. Dividends**

(a) Ordinary shares

Final dividend for year ended 30 June 2004 of 14 cents (year ended 30 June 2003 – 7 cents) per share, paid on 18 October 2004, fully franked at 30% (year ended 30 June 2003 – 30%)

223	118
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Interim dividend for the year ended 30 June 2004 of 8 cents per share, paid on 19 April 2004, fully franked at 30%

-	135
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(b) Reset preference shares

Dividend paid on IAGPA at 5.8% per annum and IAGPB at 4.51% per annum, fully franked at 30% (year ended 30 June 2004 – 30%)

15	29
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Total dividends declared and paid by cash

<b>238</b>	<b>282</b>
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Dividend reinvestment:

The Company operates a Dividend Reinvestment Plan (“DRP”) which allows shareholders to elect to receive their dividend entitlement in the form of IAG shares. The price of DRP shares is the average share market price, less a discount if any (determined by the Directors) calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date. The DRP share price in 2004 was with no discount. Shares allocated to shareholders participating in the DRP during the financial period ended 31 December 2004 were purchased on market (period ended 31 December 2004 – 12 million shares; year ended 30 June 2004 - 19 million shares).

Event subsequent to reporting date:

On 24 February 2005 an interim dividend of 12 cents per ordinary share, 100% franked, was declared by the Company. The DRP will operate using shares acquired on market with no discount applied. The dividend will be paid on 18 April 2005. The last date for the receipt of an election notice for participation in the dividend reinvestment plan is 16 March 2005.

**Note 8. Changes in the composition of the IAG Group**

During the half year ended 31 December 2003, the IAG Group disposed of 100% of the ordinary shares in NRMA Health Pty Limited effective 25 July 2003.

<b>CONSOLIDATED</b>	
<b>31 Dec 2004 \$m</b>	<b>31 Dec 2003 \$m</b>

Detail of the disposal is as follows:

Sale proceeds:

Cash

-	99
---	----

Fair value of net assets of controlled entity disposed (including goodwill)

-	97
---	----

Costs associated with disposal

-	4
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-	101
---	-----

Loss on disposal

-	(2)
---	-----

Net cashflow on disposal of controlled entity:

Cash proceeds received (net of disposal costs)

-	95
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Cash balance disposed

-	(47)
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Inflow of cash

-	48
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The disposed entity’s contribution to the profit from ordinary activities before income tax of the IAG Group for the period ended 31 December 2003 was \$Nil.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

	CONSOLIDATED		CONSOLIDATED	
	31 Dec 2004	30 Jun 2004	31 Dec 2004	30 Jun 2004
	Number of shares million	Number of shares million	\$m	\$m
<b>Note 9. Statement of changes in equity</b>				
<b>(a) Contributed equity</b>				
<i>Ordinary shares</i>				
Balance at the beginning of the financial period	1,591	1,683	3,263	3,434
Shares issued under Performance Share Rights Plan	2	2	-	-
Share buy-back	-	(94)	-	(168)
Share buy-back transaction costs	-	-	-	(3)
Balance at the end of the financial period	1,593	1,591	3,263	3,263
<i>Reset preference shares</i>				
Balance at the beginning and end of the financial period	6	6	539	539
Total contributed equity at the end of the financial period	1,599	1,597	3,802	3,802
<b>(b) Reserves</b>				
<i>Foreign currency translation reserve</i>				
Balance at the beginning of the financial period			(5)	(2)
Currency translation adjustments			1	(3)
Balance at the end of the financial period			(4)	(5)
<b>(c) Accumulated losses</b>				
Balance at the beginning of the financial period			(259)	(396)
Net profit attributable to shareholders of Insurance Australia Group Limited			446	665
Utilised in share buy-back			-	(246)
Dividends declared and paid			(238)	(282)
Balance at the end of the financial period			(51)	(259)
<b>Total equity attributable to shareholders of Insurance Australia Group Limited</b>			<b>3,747</b>	<b>3,538</b>
<b>(d) Outside equity interests in controlled entities</b>				
- Contributed equity			124	124
- Retained profits			35	39
- Unitholders' funds			399	523
Balance at the end of the financial period			558	686
<b>Total equity</b>			<b>4,305</b>	<b>4,224</b>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 10. Segment reporting**

On 20 July 2004, the IAG Group announced an organisational restructure along four business lines. The consequential management restructuring and changes to internal reporting systems to the Chief Executive Officer and the Board were implemented in the half year ended 31 December 2004. Comparative segment information has been restated to reflect the new structure.

Primary reporting - business segments

The IAG Group operated in the general insurance industry during the half year. Revenue from the general insurance industry is derived from the underwriting of personal, commercial and international insurance businesses and these form separate reportable segments. Other activities, including corporate services, investment management and investment of the IAG Group's capital funds form a separate segment. In the half year ending 31 December 2003, the IAG Group also operated businesses in the retirement services industry, which were sold on 21 January 2004. For the purposes of the comparatives, this segment (with external revenues of \$53 million and profit from ordinary activities before income tax of \$15 million for the period ended 31 December 2003) has been amalgamated in the Corporate and investments segment.

	<b>Personal insurance 31 Dec 2004 \$m</b>	<b>Commercial insurance 31 Dec 2004 \$m</b>	<b>International insurance 31 Dec 2004 \$m</b>	<b>Corporate and investments 31 Dec 2004 \$m</b>	<b>Intersegment elimination 31 Dec 2004 \$m</b>	<b>Total 31 Dec 2004 \$m</b>
External revenue	2,302	1,080	542	354	-	4,278
Intersegment revenue	-	-	139	-	(139)	-
<b>Total revenue</b>	<b>2,302</b>	<b>1,080</b>	<b>681</b>	<b>354</b>	<b>(139)</b>	<b>4,278</b>
Profit / (loss) from underwriting	182	(9)	82	-	-	255
Investment revenue	158	93	12	311	-	574
Other operating result	-	11	(2)	(115)	-	(106)
<b>Profit from ordinary activities before income tax</b>	<b>340</b>	<b>95</b>	<b>92</b>	<b>196</b>	<b>-</b>	<b>723</b>
	31 Dec 2003 \$m	31 Dec 2003 \$m	31 Dec 2003 \$m	31 Dec 2003 \$m	31 Dec 2003 \$m	31 Dec 2003 \$m
External revenue	2,056	1,020	489	338	-	3,903
Intersegment revenue	-	-	113	-	(113)	-
<b>Total revenue</b>	<b>2,056</b>	<b>1,020</b>	<b>602</b>	<b>338</b>	<b>(113)</b>	<b>3,903</b>
Profit from underwriting	212	63	2	-	-	277
Investment revenue	53	3	11	219	-	286
Other operating result	-	20	-	(99)	-	(79)
<b>Profit from ordinary activities before income tax</b>	<b>265</b>	<b>86</b>	<b>13</b>	<b>120</b>	<b>-</b>	<b>484</b>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 11. Contingent liabilities and contingent assets**

There have been no material changes in contingent liabilities or contingent assets since 30 June 2004.

<u>Notes</u>	<b>CONSOLIDATED</b>	
	<b>31 Dec 2004</b>	<b>30 Jun 2004</b>
	\$	\$

**Note 12. Net tangible assets**

Net tangible assets per ordinary share	(i)	<u>1.12</u>	<u>0.96</u>
Net tangible assets per reset preference share	(ii)	<u>100.00</u>	<u>100.00</u>

(i) Net tangible assets per ordinary share has been determined after adjusting for outside equity interests, goodwill and other intangible assets and the value of reset preference shares on issue.

(ii) Net tangible assets per reset preference share has been reflected at the face value of \$100, as the entitlement to the net assets in all circumstances is limited to the face value of the reset preference shares.

**Note 13. Events subsequent to reporting date**

As these transactions occurred after balance date and did not relate to conditions existing at balance date, no account has been taken of them in the financial statements for the half year ended 31 December 2004.

(a) On 24 February 2005 an interim dividend of 12 cents per share, 100% franked, was declared by the Company. The Dividend Reinvestment Plan will operate using shares acquired on market with no discount applied. The dividend is to be paid on 18 April 2005.

(b) On 11 January 2005, IAG announced the issue of 5.5 million Reset Exchangeable Securities (RES) by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG, raising a total of \$550 million. The RES began trading on the Australian Stock Exchange on 12 January 2005. The gross proceeds of the Offer, through a series of intra-group arrangements, have been invested by IAG Portfolio Limited, a wholly-owned subsidiary of IAG, in a portfolio of high quality, short-dated, fixed interest securities (Portfolio). IAG's obligations to the RES holders are secured by the Portfolio and interest payments and redemption amounts will depend on the performance and creditworthiness of this Portfolio. IAG may, at any time, exercise its right to exchange some or all RES for preference shares issued by IAG.

The issue of RES is expected to have a net positive, though immaterial impact, on IAG's financial performance as the increase in investment income generated by the Portfolio will be largely offset by the increase in interest expense from interest payments to RES holders and the amortisation of capitalised transaction costs. RES and the Portfolio will be set-off in IAG's statement of financial position with a net asset being recorded to the extent that the Portfolio value is greater than the RES redemption amount.

(c) Mr Brian Schwartz was appointed a director of the Company on 1 January 2005.

(d) International Financial Reporting Standards

(i) Overview

For reporting periods beginning on or after 1 January 2005, the IAG Group must comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") as issued by the Australian Accounting Standards Board. The IAG Group's financial report will be prepared in accordance with A-IFRS for the first time for the half year ending 31 December 2005 and the year ending 30 June 2006. A-IFRS requires the restatement of comparative financial statements of the IAG Group subject to optional restatement for certain standards relevant to the IAG Group being AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 4 *Insurance Contracts*, and AASB 1023 *General Insurance Contracts*. A-IFRS transition adjustments will be made retrospectively against opening accumulated losses at 1 July 2004 except where, as noted above, the IAG Group elects not to restate comparatives for a particular standard in which case transitional adjustments for those standards will be made at 1 July 2005.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 13. Events subsequent to reporting date (continued)**

(d) International Financial Reporting Standards (continued)

(i) Overview (continued)

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("Australian GAAP"). The differences between Australian GAAP and A-IFRS identified to date as potentially having a significant effect on the IAG Group's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and A-IFRS as there is still work to be completed. There will also be significant changes in the presentation and content of financial reports prepared in accordance with A-IFRS.

The potential impacts on the IAG Group's financial performance and financial position of the transition to A-IFRS, including system upgrades and other implementation costs that may be incurred, have not all been quantified as at the transition date of 1 July 2004. The impact on future years will depend on the particular circumstances prevailing in those years.

Any assessments made in respect of the transition to A-IFRS may require adjustment before inclusion in the first financial report prepared in accordance with AIFRS due to new or revised standards or interpretations or additional guidance on the application of AIFRS in a particular industry or to a particular transaction.

It is important to understand that while the A-IFRS accounting requirements will change the IAG Group's reported results, this does not represent a change in the strength of the underlying business.

(ii) Management of the IAG Group's transition

The IAG Group has established a project team to manage the transition to the new standards, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports quarterly to the audit committee. The project team has prepared a detailed timetable for managing the transition to the new standards and is currently on schedule. To date the project team has analysed most of the new standards and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the IAG Group.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 13. Events subsequent to reporting date (continued)**

(iii) Key differences

The key implications of the conversion to A-IFRS on the IAG Group are as follows:

<p><b>Insurance contracts</b></p> <p>All of the insurance products meet the new accounting definition of an “insurance contract”</p> <p>The only significant change to the accounting treatments for insurance contracts is the expanded liability adequacy test</p>	<p>In respect of the IAG Group’s core insurance business, the changes to accounting treatments on conversion to A-IFRS are minimal. A-IFRS allows the IAG Group to basically continue with current accounting treatments for those general insurance products and reinsurance products that meet the A-IFRS definition of an “insurance contract”. The only significant change is the introduction of a new liability adequacy test.</p> <p>All of the IAG Group’s general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract. This means that the IAG Group’s accounting for premium revenue, reinsurance expense, claims expense, acquisition costs, and reinsurance and other recoveries, together with related balances in the statement of financial position, will continue without significant change, subject to an expanded liability adequacy test.</p> <p>The IAG Group is working with other general insurance companies and the Australian Accounting Standards Board to resolve issues concerning the conduct of the expanded liability adequacy test as currently published. The impact from this test, if any, is not capable of being determined until these issues are resolved. Any deficiency arising from the test will be recognised first through the write down of any related intangible assets and then the related deferred acquisition costs, with any remaining balance being recognised in the statement of financial position as an unexpired risk liability.</p> <p>The IAG Group may elect to not restate comparatives for these changes as permitted under the transitional provisions for first time adoption of A-IFRS, and so the financial impact, if any, may apply from 1 July 2005.</p>
<p><b>Contributed equity</b></p> <p>The reset preference shares likely to be reclassified as compound instrument</p>	<p>The measurement and treatment of the issued and fully paid ordinary shares will remain unchanged.</p> <p>The IAG Group’s reset preference shares are currently presented as equity under Australian GAAP as they are not considered a mandatory convertible instrument, are perpetual, and there is no obligation to pay distributions.</p> <p>It was previously reported that the reset preference shares would be classified as debt under A-IFRS. However, as a result of developments in relation to the interpretation of the relevant accounting standard, it is now understood that the reset preference shares will likely be classified as a compound instrument that will consist of both a debt and equity component with associated dividend and interest expenses. This matter is subject to final clarification.</p> <p>The IAG Group may elect to not restate comparatives for these changes as permitted under the transitional provisions for first time adoption of A-IFRS, and so the financial impact of these changes may be applied from 1 July 2005.</p> <p>This change has a direct impact on the contributed capital of the IAG Group which is central to the capital adequacy requirements set by APRA. APRA has stated it will continue the current regulatory capital treatment for existing instruments that are adversely affected by the accounting standard change until further notice. If APRA’s approach changes, it has indicated it may ‘grandfather’ the treatment of affected issued securities.</p>
<p><b>Accumulated losses</b></p> <p>The accumulated losses balance as at 30 June 2004 will change</p>	<p>In transitioning to A-IFRS the basic principle (with certain exceptions) is that the IAG Group must apply the new standards as if the IAG Group had always applied them. There are therefore likely to be retrospective adjustments that will affect the accumulated losses balance as at 1 July 2004.</p>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 13. Events subsequent to reporting date (continued)**

<p><b>Investments</b></p> <p>More choices around accounting policies for investments</p> <p>Initial accounting policy selection means no immediate change</p>	<p>Under current accounting standards, the IAG Group is required to measure at net market value (fair value less disposal costs) all investments integral to general insurance activities with movements in the net market value recorded in the statement of financial performance. Under A-IFRS, the IAG Group will be required to measure at fair value those financial assets held to back insurance liabilities. Those financial assets that are not held to back insurance liabilities will move to a system of purpose led accounting. The new standards require classification of the investments based on the purpose for which they are held. The different classifications have different accounting treatments, being fair value through the statement of financial performance, fair value through equity, and amortised cost. There is also an option to measure any financial asset at fair value through the statement of financial performance regardless of the purpose for which it is held.</p> <p>The IAG Group has elected to apply the fair value through statement of financial performance option under its current investment strategy for shareholders' funds and so all investments held will be measured on the same basis. This will basically be a continuation of current practice with small adjustments for disposal costs and a change in market price determination.</p> <p>The IAG Group reserves the right to deem further asset acquisitions as held for another purpose and thus be valued on one of the other available bases.</p> <p>The IAG Group may elect to not restate comparatives for these changes as permitted under the transitional provisions for first time adoption of A-IFRS, and so the investment portfolio may be revalued to A-IFRS requirements from 1 July 2005.</p>
<p><b>Derivatives</b></p> <p>All recorded in statement of financial position at fair value</p>	<p>The IAG Group uses derivative financial instruments solely for hedging purposes. A-IFRS specifies that hedge accounting can only be applied for fair value hedges, cash flow hedges, and hedges of investments in foreign operations, and only where stringent rules are met. Hedge accounting basically provides for the movement in fair value of the derivative to follow the accounting for the underlying instrument.</p> <p>All derivative contracts, regardless of the purpose for which they are used, will be measured at fair value.</p> <p>For the majority of derivatives, which relate to investments held for which the IAG Group has elected to apply the fair value through statement of financial performance option, the movements in fair value will be recorded in the statement of financial performance.</p> <p>For the small number of derivative contracts that will be designated as hedges under A-IFRS, the movements in fair value will be recorded on the same basis as the item being hedged.</p>
<p><b>Goodwill</b></p> <p>No amortisation resulting in lower expenses, subject to impairment charges</p> <p>Goodwill supportable at 1 July 2004</p>	<p>The IAG Group will not restate the accounting for business combinations transacted prior to 1 July 2004, as permitted under the transitional provisions for first time adoption of A-IFRS. There are also no additional intangible assets to be recognised separately from goodwill upon first time adoption. Goodwill will not be amortised under A-IFRS and so the carrying value of goodwill as at 1 July 2004 of \$1,455 million will be carried forward under A-IFRS subject to impairment testing. Part of that goodwill balance is denominated in New Zealand dollars and so the balance will continue to change reflecting foreign currency movements.</p> <p>The net goodwill as at 1 July 2004 has been systematically allocated to cash generating units for the purpose of the recoverability test, which is to be conducted at each reporting date. Any impairment is to be recognised in the statement of financial performance in the period in which it is identified. Using A-IFRS impairment methodology the \$1,455 million goodwill balance is supportable at 1 July 2004.</p> <p>The elimination of the requirement to amortise goodwill under A-IFRS will increase reported profits, subject to any impairment charge that may be required at a reporting date. The IAG Group had a goodwill amortisation expense for the half year to 31 December 2004 of \$46 million. That amount will be removed from the statement of financial performance under A-IFRS and the 1 July 2004 goodwill balance of \$1,455 million will be reinstated, subject to impairment testing.</p>
<p><b>Non-goodwill intangibles</b></p> <p>All current non-goodwill intangible assets qualify for recognition</p>	<p>Existing non-goodwill intangible assets on the IAG Group's statement of financial position at 1 July 2004 and 31 December 2004 meet the recognition and measurement requirements of A-IFRS and so the accounting treatment, including amortisation, will remain unchanged. They will be subject to impairment testing.</p> <p>In certain circumstances under A-IFRS, development phase expenditure will be capitalised and so recognised as an internally generated intangible asset. Software development is the only significant development expenditure for the IAG Group. The IAG Group is not currently carrying any capitalised software development costs in the statement of financial position but is likely to recognise such an asset under the more prescriptive A-IFRS requirements.</p>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 13. Events subsequent to reporting date (continued)**

<b>Employee benefits</b>	The accounting for all employee benefits will remain unchanged except for defined benefit superannuation arrangements and share based payments.
<b>Superannuation surplus</b>	In December 2004 the Australian Accounting Standards Board released a revised version of AASB 119 <i>Employee Benefits</i> . The revised standard provides three options to account for actuarial gains and losses associated with defined benefit superannuation plans. These options are the ‘immediate recognition’ option in which the surplus as a whole is recognised in the statement of financial position with movements recognised in the statement of financial performance, the ‘corridor’ option which provides for only a portion of actuarial gains and losses to be recognised for a period, and the ‘direct to retained earnings’ option. The IAG Group has not yet selected its accounting policy in response to these changes.
Positive impact to retained earnings at 1 July 2004	The relevant net position of defined benefit superannuation plans are currently not recognised in the IAG Group’s results though some information is disclosed in the notes to the annual financial report. The defined benefit superannuation plans are currently in surplus. It is important to note that the net position calculated under A-IFRS is different to that calculated in accordance with current accounting standards because of different measurement requirements with the principal difference being the discount rate applied.
Initial change involves recognition of new asset	Fewer than 10% of employees of the IAG Group participate in defined benefit superannuation arrangements.
<b>Share-based payments</b>	The only transactions within the IAG Group that qualify as share-based payments are share-based remuneration payments. The IAG Group provides share-based remuneration through four different plans each of which have different purposes and different rules. The IAG Group will not retrospectively apply the A-IFRS expense treatment to the Performance Share Rights Plan or the Employee Share Plan, as permitted under the transitional provisions for first time adoption of A-IFRS, because the last rights provided under those plans were granted prior to 7 November 2002. The A-IFRS transition changes will therefore impact on only the Performance Award Rights Plan (“PAR Plan”), and Non-Executive Director Share Plan (“NED Plan”).
Overall expense likely to be reduced	The IAG Group’s current practice is to acquire IAG shares on market and hold them in trust to satisfy a future obligation for share-based remuneration. The shares are purchased on or near grant date at the then market price. The cost of acquiring the shares is expensed in full, generally over the period during which the employees provide related services.
Equity remuneration trust to be consolidated	Under A-IFRS the fair value at grant date of share-based remuneration is required to be recognised as an expense over the period from grant date until the equity instruments vest fully to the employee. The charge is matched by an increase in an equity reserve. At each reporting date the total accumulated expense will be adjusted through the statement of financial performance based on the latest estimate of the number of equity instruments that will vest, considering only employee turnover, and taking into account the expired portion of the vesting period.
	The vesting conditions for the two plans are different with only the PAR Plan incorporating a market based vesting condition. If equity instruments in either of the plans do not vest because the participant ceases to be employed by the IAG Group then the expense charged in relation to that participant will be reversed. If equity instruments in the PAR Plan do not vest only because the market condition is not met, then the expense will not be reversed.
	The A-IFRS requirement to expense the fair value of the equity instruments granted can be different to the fair value (on-market purchase price) of acquiring the relevant number of shares to support the arrangements. For the PAR Plan, the fair value of the rights granted is lower than the market value of the shares purchased on or near grant date because of the variables and uncertainty that influence whether the participant will ever receive the share and what the value of the share will be at that time. For the NED Plan, the on-market share price at grant date may be used as a proxy for the fair value of the equity instrument granted because the shares are provided fully vested on a monthly basis and the participant is entitled to dividends and other shareholder rights during the vesting period.
	The requirement to determine the fair value of the share-based remuneration and recognise this expense over the period from grant date to vesting date will likely result in a reduction in the overall expense recognised for the IAG Group in relation to share-based payments.
	Under A-IFRS the equity remuneration trust used to manage the share-based arrangements will be consolidated by the IAG Group. The impact of this will be that the shares purchased by the equity remuneration trust will likely be treated as negative equity.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004**

**Note 13. Events subsequent to reporting date (continued)**

<p><b>Property, plant and equipment</b></p> <p>All property classified as owner occupied and depreciated over useful life</p> <p>Plant and equipment to continue to be measured at cost</p>	<p>Under current accounting treatments, all property, regardless of the purpose for which it is used, must be designated as an investment integral to general insurance activities and so is measured at fair value. This designation will not continue under A-IFRS and property will be classified according to the purpose for which it is held. All of the property within the IAG Group will be classified as owner occupied property under A-IFRS.</p> <p>The IAG Group has elected to apply the cost approach under which the property will be depreciated over its useful life and also be subject to impairment testing. The IAG Group has elected to apply the optional exemption permitted under the transitional provisions for first time adoption of A-IFRS to use the fair value of the property held as at 30 June 2004 as the deemed cost of that property moving forward.</p> <p>The IAG Group has elected to apply the cost approach under which plant and equipment will be depreciated over its useful life and also be subject to impairment testing. The IAG Group has elected to not apply the optional exemption permitted under the transitional provisions for first time adoption of A-IFRS to use the fair value of the plant and equipment as at 30 June 2004 as the deemed cost and so will continue to depreciate the original cost.</p>
<p><b>Taxation</b></p> <p>More deferred tax assets and liabilities may be recognised</p>	<p>Income tax will be calculated based on the “balance sheet approach” replacing the “income statement approach” currently used. The A-IFRS treatment focuses on the closing balances rather than the movements for the period. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base (being the amount attributed to an asset or liability for tax purposes) rather than for differences between accounting and taxable profit. Deferred tax assets under A-IFRS will be recognised based on a ‘probable’ criterion rather than the ‘beyond reasonable doubt’ criteria, or ‘virtually certain’ criteria for unused tax losses, under Australian GAAP. This may result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.</p> <p>The net impact (directional or value) at transition and in the future is not capable of being determined until all other A-IFRS adjustments are finalised. The IAG Group has recently implemented and tested new tax software that is IFRS capable.</p>
<p><b>Consolidation</b></p> <p>Consolidated financial reporting to be simplified</p>	<p>Other than the equity remuneration trust (refer above) there are no other entities in the IAG Group that are currently not consolidated that will be consolidated under A-IFRS.</p> <p>IAG has operations in five countries. Three of the countries, Australia, New Zealand and Ireland, require or permit transitioning to IFRS equivalent standards from 1 January 2005 for local reporting purposes. The IAG Group controlled entities operating in those countries will apply the relevant standards in line with the IAG Group. This will simplify the IAG Group’s consolidated financial reporting. The other two countries, being China and Thailand, are not currently transitioning to IFRS for local reporting purposes.</p>
<p><b>First time adoption – optional exemptions</b></p>	<p>Upon transition to A-IFRS the general principle is that the financial reports must be prepared as if the new standards had always been applied. There are however eleven optional exemptions that may be applied upon first time adoption. The IAG Group may elect to apply some, all or none of the options. Only eight of the options are relevant to the IAG Group and we list these below together with the proposed treatment.</p> <p><b>Business combinations</b> – The IAG Group has elected to not restate the accounting for business combinations transacted prior to 1 July 2004.</p> <p><b>Share-based payments</b> - The IAG Group will not retrospectively apply the A-IFRS expense treatment to share-based payments granted prior to 7 November 2002.</p> <p><b>Property, plant and equipment</b> – The IAG Group will use the fair value of the property as at 30 June 2004 as the deemed cost of that property moving forward but will continue with original cost for plant and equipment.</p> <p><b>Foreign currency translation reserve</b> – The IAG Group will not reset the foreign currency translation reserve to zero.</p> <p><b>Financial instruments options</b> – There are two options relevant to the A-IFRS conversion of the IAG Group’s accounting for financial instruments. The IAG Group will use these options in line with the election to apply the fair value through statement of financial performance option for shareholders’ funds and the election whether to restate comparatives for the financial instruments standards.</p> <p><b>Insurance contracts</b> – The IAG Group’s application of this option for insurance contract disclosures is dependent in part on whether the IAG Group elects to not restate comparatives for AASB 1023 <i>General Insurance Contracts</i>, as permitted under the transitional provisions for first time adoption of A-IFRS.</p> <p><b>Employee benefits</b> – The IAG Group has not yet selected its accounting policy in response to the revised employee benefits standard which provides three options to account for actuarial gains and losses associated with defined benefit plans.</p>

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

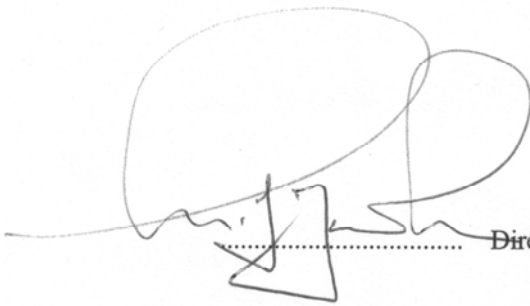
DIRECTORS' DECLARATION

In the opinion of the Directors of Insurance Australia Group Limited:

- (a) the financial statements and notes, set out on pages 4 to 19, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the IAG Group as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 24th day of February 2005 in accordance with a resolution of the Directors.

*James Strong* ..... Director

 ..... Director

