

Results for the six months ended 31 December 2004 compared to the previous corresponding six month period.

GROUP DIRECTORY

CONTINUING THE IAG RISK MANAGEMENT STORY: PART 1.5

IAG INTERIM REPORT 2005

HOW WE'VE PERFORMED

FINANCIAL HIGHLIGHTS

\$446m **Net profit after tax** increased from \$302m on the back of organic growth, integration synergies and buoyant equity markets.

\$3,109m **Revenue** increased by 6.8% from \$2,912m reflecting the strength of the Group's insurance business.

\$255m **Underwriting result** showed an underlying improvement.

\$518m **Insurance profit**, which is the addition of our underwriting result and investment returns from claims reserves, increased 51% from \$344m.

\$287m **Investment income** on shareholders' funds increased by 41% from \$204m, setting a new record since listing, driven by strong equity markets.

16.7% **Insurance margin** improved from 11.8%, boosted by strong margins across all areas of the business.

12c **Interim dividend** increased by 50% from 8 cents per share. The dividend is fully franked.

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Delivering value in these four ways is the key to ensuring our future sustainability and creating value for shareholders.



IAG
Insurance Australia Group

FINANCIAL PERFORMANCE

	As at 31 Dec 2003 \$m	As at 31 Dec 2004 \$m
Net premium revenue	2,912	3,109
Net claims expense	1,909	2,067
Commission expense	227	253
Underwriting expense	499	534
Underwriting profit/(loss)	277	255
Insurance profit	344	518
Net profit attributable to shareholders	302	446

FINANCIAL POSITION

	As at 31 Dec 2003 \$bn	As at 31 Dec 2004 \$bn
Investments	11.0	10.4
Other assets	4.4	4.5
Intangibles	1.5	1.4
Total assets	16.9	16.3
Claims provisions and unearned premium	9.5	10.0
Borrowings and other liabilities	3.1	2.0
Total liabilities	12.6	12.0
Net assets	4.3	4.3
Equity attributable to IAG shareholders	3.7	3.7
Outside equity interests	0.6	0.6
Total equity	4.3	4.3*

*Stated after return of \$0.8bn to shareholders in dividends and buy-backs during calendar year 2004.

STICKING TO OUR STRATEGY



We are pleased to report Insurance Australia Group's strong performance continued during the first six months of the 2005 financial year.

Real momentum across the entire business and record levels of investment income enabled the Group to achieve a net profit after tax of \$446 million for the six months ended 31 December 2004, up from \$302 million in the same period last year.

The result confirms the soundness of our strategy. By focusing on general insurance and leveraging our scale, we have been able to improve our earnings while premiums in most classes are stable or decreasing.

Our strong performance was driven by a number of factors, including:

- **Underlying business growth.** The Group's revenue grew 6.8% on the previous corresponding period, boosted by sales growth in each of the Group's three operating areas – personal insurance, commercial insurance and our international operations;
- **Synergy benefits flowing to the bottom line.** CGU and NZI are now fully integrated into the Group and the promised synergy benefits are 'business as usual';
- **Margins continued to improve.** Initiatives to improve our underwriting disciplines, refine claims management practices and reduce costs enabled us to improve margins in all our businesses. Our overall insurance margin for the period was 16.7%, up from 11.8% in the previous corresponding period; and
- **Buoyant equity markets.** The Group achieved a return on shareholders' funds of \$287 million, an increase of 41% from the previous corresponding period and a record return since the Group listed in 2000.

DIVIDENDS

In light of the Group's strong performance, the Board has declared an interim dividend of 12 cents per ordinary share, fully franked. That is an increase of 50% from the previous corresponding period and is in keeping with the Board's aim to provide continual increases in annual dividends.

The dividend will be paid on 18 April 2005 to ordinary shareholders registered on 16 March 2005.

DIVISIONAL HIGHLIGHTS

Insurance Australia Group's three core businesses – Australian personal insurance, Australian commercial insurance and international operations – all reported improvements in performance during the six month period.

Australian Personal Insurance

The Group's largest division, Australian personal insurance, includes home and motor insurance sold direct to customers. During the period, sales were up, with revenue growing 5.4% on the previous corresponding period. Our focus on customer service saw retention rates remain above 90% and customer satisfaction levels are at a record high. We also introduced new products and features, including landlords' insurance and Home@50.

Australian Commercial Insurance

The Group's Australian commercial lines division also performed strongly, recording a 6.1% growth in revenue compared to the same period last year. Despite increased competition, rates were stable during the period. We continued to improve processes, particularly our on-line offering, and we recorded solid sales of new products, including home warranty insurance.

International Operations

The Group result also benefited from a strong contribution from the international division, which includes the New Zealand personal and commercial insurance operations, our Asian interests and the internal reinsurance portfolio. This division reported a strong improvement in its operating margin, boosted by positive exchange rates, favourable trading conditions and no major catastrophes.

CAPITAL MANAGEMENT

The Board's active approach to capital management continued during the period. An initiative to issue a new type of security, called Reset Exchangeable Securities, was completed in January 2005, raising \$550 million in contingent capital. This provides the Group with an additional layer of capital protection.

In light of the continuing strength of the Group's capital position, the Board may look to return capital to shareholders if the Group's current surplus is sustained.

LONG TERM SUSTAINABILITY

We believe we deliver long-term value in four ways – by paying claims, understanding and pricing risk, managing costs and helping to reduce risk in the community. We have aligned our business, and our people, around these principles and are focusing our energy into initiatives that will have real benefit for all our stakeholders.

Some examples of our work are summarised in the four sections below and more detail is included in our first Sustainability Report published in November last year. This report can be found at www.iag.com.au/sustainability.

OUTLOOK

The momentum in the business, coupled with robust trading and economic conditions, is expected to continue for at least the next six months. As a result, the Group is on track to deliver an insurance margin of at least 15% and revenue growth of 5-7% for the full year, barring any further major losses.

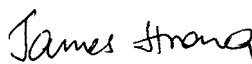
Longer term, our strategy remains unchanged. We will continue to grow our business in Australia and New Zealand and will pursue opportunities to expand our business overseas.


Our long term corporate goals remain to:

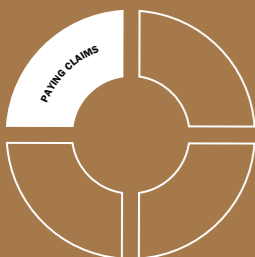
- achieve top quartile total shareholder return;
- achieve a return on equity of at least 1.5 times our weighted average cost of capital;
- establish an Asian foothold;
- maintain an 80:20 mix of short-tail:long-tail premiums; and
- maintain a 'AA' category rating.

Finally, we'd like to thank the people who work for the Group. These results are a reflection of their hard work and dedication.

We look forward to reporting to you on our progress, and thank you for your continued support.


James Strong
 Chairman


Michael Hawker
 CEO



PAYING CLAIMS

IAG pays around \$11 million each day in claims. But, more importantly, we also help our customers get back on the road or back to work, or we replace their goods as quickly as possible, when they make a claim.

\$11 million a day



UNDERSTANDING AND PRICING RISK

Our core business is pricing risk. IAG's sophisticated approach to data collection and risk profiling enables us to price risk accurately and fairly. In fact, the CGU Professional Risk team was voted best underwriter in the JP Morgan Deloitte 2004 General Insurance Survey released in October 2004.

1st – CGU Professional Risk Team



MANAGING COSTS

IAG's ability to manage costs means competitive prices for customers and stable earnings for shareholders. IAG's administration ratio shows our expenses ran at only 17.2% of our revenue.

17.2%



REDUCING RISK

The fewer the risks the better for everyone. That's why IAG invests time and money in community risk reduction programmes, like the first aid training course that 1,308 IAG employees have completed with St John Ambulance.

1,308 employees trained in first aid