

Insurance Australia
Group Limited
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388 George Street
Sydney NSW 2000
Telephone 02 9292 9222
iag.com.au



15 September 2005

Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

IAG FINANCE (NEW ZEALAND) LIMITED ("IAN")

ANNUAL REPORT 2005

In accordance with Listing Rule 3.17, please find enclosed IAN Annual Report 2005, which is to be sent to shareholders from today.

Yours sincerely

A handwritten signature in black ink that reads 'Anne O'Driscoll'.

Anne O'Driscoll
**Group Company Secretary &
Head of Investor Relations**

Attachment (28 pages)



SGIO

SGIC



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insurance**

STATE

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**Reset Exchangeable
Securities** | **RES**

IAG Finance (New Zealand) Limited
ABN 97 111 268 243

Annual Report 2005



sgjo



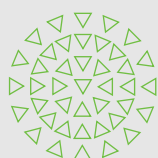


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IAG Finance (New Zealand) Limited

ABN 97 111 268 243

New Zealand branch

IAG House,

Level 10, 151 Queen Street

Auckland, New Zealand

Chairman's letter

19 August 2005

Dear Securityholder

I am pleased to report to you on the performance of your Reset Exchangeable Securities ("RES").

On 11 January 2005, IAG Finance (New Zealand) Limited raised \$550 million by issuing 5,500,000 RES which, through their conversion rights, form contingent capital for Insurance Australia Group Limited ("IAG"). RES are rated 'A-' by Standard & Poor's Rating Services.

RES are perpetual reset exchangeable securities, providing you with non-cumulative, quarterly, floating rate interest payments that are expected to be fully franked. The proceeds of the issue, through a series of intra-group arrangements, are invested in a portfolio of high quality, short dated, fixed interest securities, rated 'AAAF' by Standard & Poor's Investment Services ("S&P"). Your interest payments are derived from the performance of this portfolio.

Each RES has been fully paid \$2.0487 in interest since issue on 11 January 2005. The franking credits attached to the aggregate of these payments are \$0.878 per RES. A further \$1.2130 per RES is expected to be paid on 15 September 2005, which is also expected to be fully franked.

On behalf of the Directors of IAG Finance (New Zealand) Limited, I would like to take this opportunity to thank you for supporting this investment opportunity.

If you have any questions regarding your RES holding, please contact the security registry on 1300 360 688 or visit www.iag.com.au/res. As detailed in the offer prospectus, RES can be exchanged by IAG at anytime for preference shares issued by IAG. IAG has announced a record profit and an increased dividend for the year ended 30 June 2005, together with a continuation of its very strong capital position. For information on IAG and its results and financial position, please visit www.iag.com.au.

Yours faithfully

A handwritten signature in black ink that reads "James Strong".

James Strong

Chairman

IAG Finance (New Zealand) Limited

Portfolio Composition and Performance

The proceeds of the issue were lent, through a series of intra-group arrangements, to IAG Portfolio Limited. IAG Portfolio Limited invested these funds in a portfolio of high quality, short dated, fixed interest securities (“Portfolio”) managed by IAG Asset Management Limited (“IAGAM”).

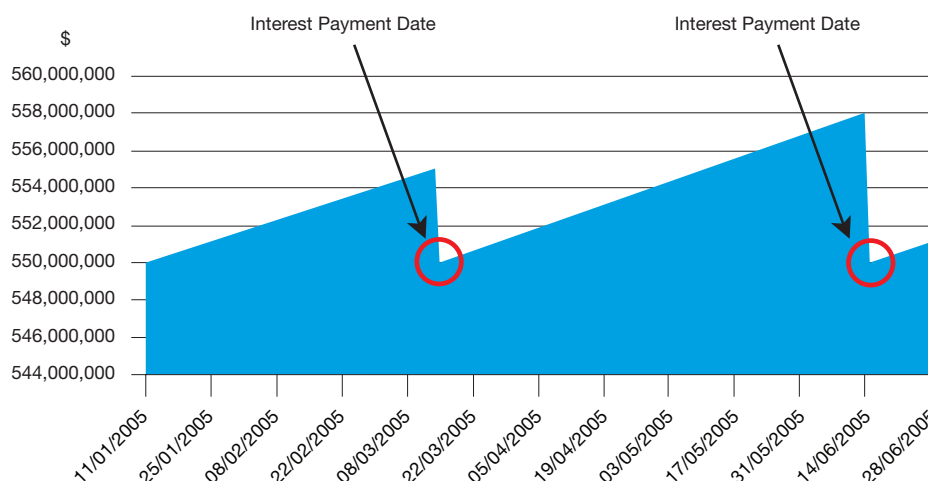
IAGAM is required to manage the Portfolio to ensure that it maintains an Australian Bond Fund Rating of 'AAAf' from S&P and has done so. According to S&P, the assets of funds rated 'AAAf' exhibit extremely strong protection against losses from credit default. 'AAAf' is the highest Australian Bond Fund Rating assigned by S&P.

The interest payments to RES holders are derived from income generated by the Portfolio. Therefore, the performance of the Portfolio is important for RES holders. The Portfolio has been managed in accordance with the investment mandate, and has generated income in excess of the amount required to pay interest payments to RES holders. Any income generated by the Portfolio in excess of the interest payment to RES holders may be paid to Insurance Australia Group Limited and its controlled entities (“IAG Group”).

The composition and performance of the Portfolio from its inception to 30 June 2005 are detailed below for your reference.

Portfolio Value

Portfolio Value from Inception to 30 June 2005





Portfolio Income

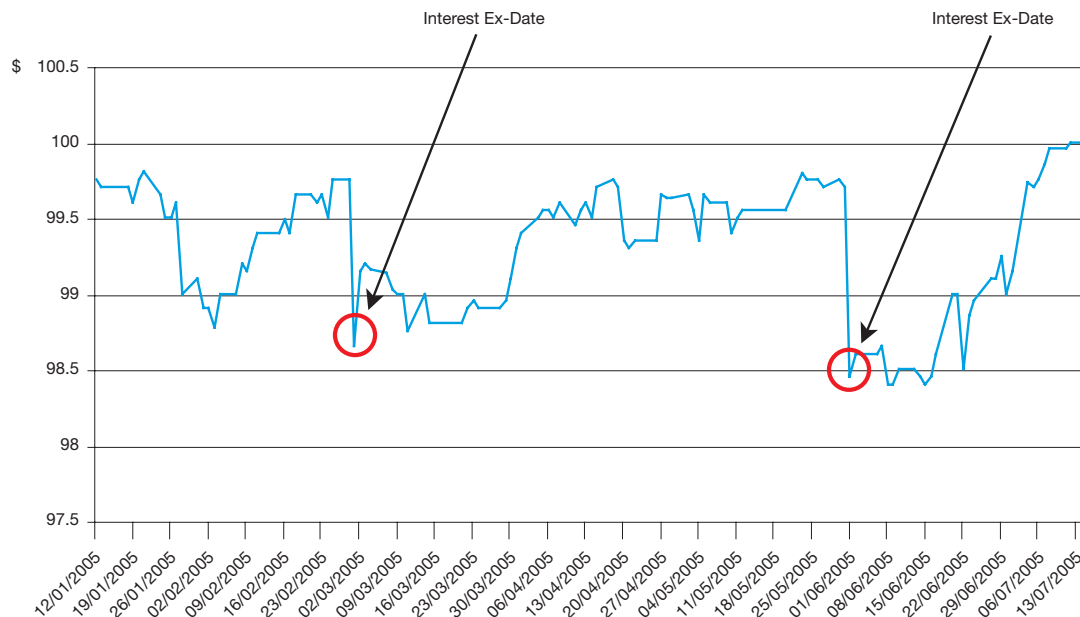
Payment Date	Portfolio Income Received \$	Interest Payments to RES Holders \$	Surplus Paid to IAG Group \$
15 March 2005	5,127,339	4,452,243	675,096
15 June 2005	8,074,435	6,815,596	1,258,839
Total	13,201,774	11,267,839	1,933,935

Composition of the Portfolio as at 30 June 2005

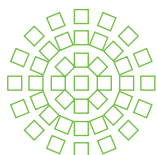
Counterparty	Security Type	Standard & Poor's Credit Rating	Market Value of Securities \$	Maturity Date
ANZ Banking Group	Certificate of Deposit	A-1+	148,230,092	15/9/2005
GIFT Securities Pty Ltd – Series 3	Asset-backed Commercial Paper	A-1+	5,045,839	7/9/2005
National Australia Bank	Certificate of Deposit	A-1+	148,230,092	15/9/2005
National Australia Bank	Bank Deposits	A-1+	618,350	At Call
St George Bank	Certificate of Deposit	A-1	49,407,456	15/9/2005
Suncorp-Metway	Certificate of Deposit	A-1	49,406,426	15/9/2005
Westpac Banking Corporation	Medium Term Note	A-1+	150,376,718	15/9/2005
Total			551,314,973	

RES Security Price Performance

Reset Exchangeable Securities (ASX Code: IANG)



The volatility in the RES price has been largely determined by accrual of interest in the Portfolio, the timing of interest payments (in particular the ex-date for payment) and market views on interest rates.



IAG Finance (New Zealand) Limited Director Biographies

James Alexander Strong

Chairman and Non-executive Director, Age 61

Mr James Strong is Chairman of IAG Finance (New Zealand) Limited. Mr Strong is also Chairman of Insurance Australia Group Limited ("IAG"), which he was appointed in August 2001. He is Chairman of the IAG Nomination, Remuneration & Sustainability Committee.

Mr Strong is Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company, the Australian Brandenburg Orchestra and the Australia Business Arts Foundation (AbaF). He is also a Director of the Australian Grand Prix Corporation and Dorna Sports SL.

Mr Strong was Chief Executive and Managing Director of Qantas Airways Limited from 1993 to 2001. Previous positions he has held include Group Chief Executive of DB Group Limited in New Zealand, National Managing Partner and later Chairman of law firm Corrs Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council. Mr Strong has been admitted as a barrister and solicitor.

Michael John Hawker BSc, FAIBF, ASIA, FAICD

Executive Director, Age 45

Mr Michael Hawker was appointed a Director of IAG in December 2001 and Chief Executive Officer of IAG in December 2001.

Before joining IAG, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40. He was awarded the Australian Banking & Finance Magazine Banker of the Year Award in 2000, and the Best Insurance Executive Award in 2003 and 2004; and in 2003 he was awarded Insurance Industry Accolade's Best Insurance Executive. He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies.

Mr Hawker is President of the Insurance Council of Australia; Member of the Financial Sector Advisory Council; Director of the Australian Chamber of Commerce and Industry; Member of the Federal Treasury's Consumer and Financial Literacy Council; Member of the Business Council of Australia; Advisory Board Member of the Australian Graduate School of Management; Member of the Business Roundtable for Sustainable Development; Member of the Australia Business Arts Foundation (AbaF) and Advisory Board Member for the Police Commission of NSW. He was previously the Chairman of the Australian Financial Markets Association.



Rowan Alexander Ross BEc, BCom, FCPA, FSIA

Non-executive Director, Age 56

Mr Rowan Ross is a Non-executive Director of IAG Finance (New Zealand) Limited. Mr Ross was appointed as a Director of IAG in July 2000 and acted as Chairman from April to August 2001. He is Chairman of the IAG Risk Management & Compliance Committee and serves on the IAG Nomination, Remuneration & Sustainability Committee.

Mr Ross is currently Chairman of Macquarie Capital Alliance Limited and Sydney IVF Limited. He is the former Chairman of Bankers Trust Investment Bank, former National President of the Securities Institute of Australia and former Chairman of the Sydney Dance Company and the Australian Major Performing Arts Group. Mr Ross has more than 30 years experience in investment banking and is an Executive Director of Macquarie Bank Limited.

George Venardos BCom, FCA, DipCM, FCIS, FTIA, MAICD

Executive Director, Age 47

Mr George Venardos is an Executive Director of IAG Finance (New Zealand) Limited. Mr Venardos has more than 26 years experience in the insurance, investment and finance sectors. Mr Venardos joined IAG in 1998 and played a key role in the demutualisation and listing of the IAG Group, which was completed in August 2000. He is responsible for all aspects of IAG's corporate secretariat, investor relations, group finance and treasury, legal, corporate actuarial and mergers and acquisitions, taxation, group strategy and asset management, with responsibility for the IAG Group's \$14 billion in funds under management. Prior to joining IAG, Mr Venardos held the position of Executive Director and General Manager, Finance and Corporate Services, with the Legal & General Group in Australia.

He is the Chairman of the Finance and Accounting Standing Committee for the Insurance Council of Australia. In 2003 Mr Venardos was awarded CFO of the Year in Insto Magazine's Annual Distinction Awards.

Michael Woods MAICD

Alternate Executive Director, Age 47

Mr Michael Woods is an alternate Director for Mr Hawker and Mr Venardos. Mr Woods joined IAG in 1998. He is Head of Group Finance & Treasury, a role which includes responsibility for group finance, treasury, management accounting, financial reporting, budgeting, forecasting, finance systems and asset management operations.

Mr Woods has over 25 years experience in the insurance and financial services industry. Before joining IAG, Mr Woods held treasury related roles at other organisations, including KPMG, the Bank of New Zealand and Bankers Trust. He is a member of the IAG Group's Asset & Liability Committee.

Corporate Governance



IAG Finance (New Zealand) Limited (“the Company”) is a wholly owned subsidiary of Insurance Australia Group Limited (IAG). The RES issued by the Company commenced trading on the ASX on 12 January 2005.

The Company has responsibility for raising finance for the New Zealand operations of the IAG Group and for management of their ongoing treasury requirements. The New Zealand Branch of the Company employs a Branch Manager to manage the performance of these functions.

The Company utilises and is subject to IAG's corporate governance framework, including risk and capital management policies, procedures and controls. Except as noted below, the key corporate governance practices followed by the Company are the same as those of the IAG Group. The corporate governance framework and practices of the IAG Group are disclosed in IAG's 2005 Annual Report, which will be available on IAG's website at www.iag.com.au from 26 September 2005.

IAG has complied with the Australian Stock Exchange (“ASX”) Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations Principles (“CGC Principles”) throughout the reporting period.

The Company has complied with most, but not all, of the CGC Principles. It is the Company's view that this non-compliance is appropriate given that the corporate governance practices and framework adopted are not separable from the corporate governance practices of IAG and that:

- The Company is a wholly owned subsidiary of IAG;
- The Company is not involved in the management of the Portfolio established out of the proceeds from the RES issue, which is managed by IAGAM according to a strict investment mandate. IAGAM is a related body corporate of the Company and a wholly owned subsidiary of IAG;
- Subject to the interest payment tests, the Company does not have discretion as to whether interest payments are made to RES holders, and if so, the amount of such interest payments;
- The interest payment tests relate to the return on the Portfolio managed by IAGAM and whether IAG has paid a dividend in the 12 months prior to the interest payment. The Company's obligations on the RES are secured by the Portfolio.

1. The Board of Directors

1a Roles and Responsibilities

The Board is responsible for oversight of the Company, and specifically:

- Monitoring financial performance and reporting;
- Reviewing the adequacy of systems to comply with all laws and regulations which apply to the Company;
- Monitoring key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;
- Ensuring that reporting and disclosure processes include all relevant legal and commercial requirements; and
- Ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are established and processes exist to ensure they are adhered to at all times.

The Company does not have a CEO. The Branch Manager is responsible for the day to day operations of the Company and reports directly to the IAG Corporate Treasurer and relevant finance executives in the IAG Group's New Zealand operations.

1b Structure and composition of the Board

The Board currently comprises two Non-executive Directors who are also Non-executive, independent directors of IAG, two Executive Directors and one alternate for the Executive Directors. The Chairman, Mr James Strong, is also Chairman of IAG.

Under the tests for "independence" set out in the CGC principles, Messrs Strong and Ross who are independent Non-executive directors of IAG would be not independent directors of the Company as both are directors of IAG, the Company's sole shareholder. Messrs Strong and Ross have, however, been deemed by the Company as independent as long as they remain independent directors of IAG.

The Company has taken the view that this is an appropriate board structure for the Company and that the appointment to the Company's Board of a majority of independent, non-executive directors is not warranted for the reasons set out at the start of this section of the report.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or Executive Director, their holdings of RES and directorships of other listed companies in the past three years are set out in the Directors' Report at pages 9 and 11. In addition, biographical details of Directors are included at pages 4 to 5.

1c Board operations

The Board meets at least 4 times during the year.

1d Board Committees

The Company does not have any standing committees, but has empowered the IAG Audit Committee to perform the same role for the Company as it does for IAG and for most of its authorised insurer subsidiary companies. A copy of the charter of the IAG Audit Committee can be found on IAG's website at www.iag.com.au. The names and qualifications of the members of this committee and the meetings held in the year are set out in the IAG's 2005 Annual Report which is also available on IAG's website. The Company has taken the view that it is appropriate for the IAG Audit Committee to perform this task as long as it is composed of directors that are considered independent of IAG.

The establishment of a nomination committee or, indeed, empowering the IAG Nomination, Remuneration & Sustainability Committee ("NRSC") to act for the Company in this capacity, would not add value to the Company's corporate governance practices given that the directors appointed to the Company's Board receive no additional remuneration from the Company or any related parties for their service on the Board. The IAG NRSC evaluates the performance of the IAG Board, its committees, individual directors and IAG key executives. The Company considers that this review is sufficient to encourage enhanced performance of the Company's directors and employees. The sole employee of the Company is not a specified executive of the Company under the Corporations Act or generally accepted accounting standards and, accordingly, disclosure of remuneration received by this employee is not required.

2. Ethical and Responsible Decision-making

The directors and the employees of the Company are expected to comply with the IAG Group's Code of Conduct and Continuous Disclosure & Insider Trading Policy, which are set out in further detail in the IAG Group Corporate Governance Report which is available on IAG's website at www.iag.com.au. The IAG Group's Continuous Disclosure & Insider Trading Policy applies to trading by directors and employees of the Company in RES and other IAG securities.

The Group's Code of Conduct and Continuous Disclosure & Insider Trading Policy also sets out the policies and procedures for how Directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep the market fully informed.

3. RES Holders

The Company makes quarterly announcements to the ASX regarding interest payments and the interest rate for the following quarter. RES holders, who elect to do so, also receive the Company's annual report.

The value of the Portfolio as at the end of each month is published on the IAG Group website at www.iag.com.au. ASX announcements and any annual, financial and Directors' reports are also posted on the IAG Group website.

The Company is not required, and does not currently intend, to hold Annual General Meetings.

RES holders may raise any issues or concerns at any time by contacting the Company. RES holders should email their questions or comments to investor.relations@iag.com.au or write to the Chairman or Company Secretary at IAG Finance (New Zealand) Limited, Level 26, 388 George Street, Sydney NSW 2000.

4. Risk Management

Managing risk is at the heart of ensuring ongoing sustainability and delivery of value to IAG's stakeholders. IAG Group's risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes, and culture. IAG Group's Risk Management & Compliance Committee oversees the Company's risk management framework as part of its oversight of the entire IAG Group including the Company. Further details on the IAG Group's policies on risk oversight and management are available on IAG's website at www.iag.com.au. The CEO and CFO of IAG confirm in writing to the Board that the Company's half year and full year financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with relevant accounting standards.

The Company is subject to a number of additional external and internal reporting requirements:

- Quarterly reports are prepared for the Trustee and ASIC pursuant to Section 283BF of the Corporations Act;
- An annual compliance report is provided to S&P in relation to the Portfolio; and
- Quarterly compliance reports setting out the compliance of the Company's New Zealand Branch against various legal, tax and risk management requirements in New Zealand are prepared for IAG's Head of Group Risk & Compliance. In future, these compliance reports will also be reviewed by the Board of the Company.

5. Community and Environment

The Company recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to RES holders, customers and employees. The Company complies with IAG Group's code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. Further details are provided in the IAG Group Corporate Governance Report, which is available on IAG's website at www.iag.com.au.

Directors' Report

The Directors present their report together with the financial statements of IAG Finance (New Zealand) Limited ("the Company") for the period from date of incorporation on 6 October 2004 to 30 June 2005 and the auditors' report thereon.

Date of incorporation

IAG Finance (New Zealand) Limited was incorporated on 6 October 2004. The Company is a wholly-owned subsidiary of Insurance Australia Group Limited ("IAG"), an entity listed on the Australian Stock Exchange.

The first annual financial report is for the period from the date of incorporation to 30 June 2005.

Directors

The Directors in office at any time during or since the end of the financial period are as follows:

Mr JA Strong (Director since 9 November 2004), Mr RA Ross (Director since 9 November 2004), Mr MJ Hawker (Director since 9 November 2004), Mr G Venardos (Director since 6 October 2004) and Mr MDE Woods (Alternate Director for MJ Hawker and Mr G Venardos since 9 November 2004).

Former directors resigned during the financial period:

Mr IF Brown (Director from 6 October to 9 November 2004), Ms AB O'Driscoll (Director from 15 October to 9 November 2004) and Mr MDE Woods (Director from 6 October 2004 to 9 November 2004).

Other directorships of Directors

Listed below are directorships of other listed companies held in the past 3 years by the relevant Directors:

Mr JA Strong: Woolworths Limited (appointed 10 March 2000) and Insurance Australia Group Limited (appointed 2 August 2001).

Mr RA Ross: Macquarie Capital Alliance Limited (appointed 25 January 2005) and Insurance Australia Group Limited (appointed 25 July 2000).

None of the other Directors have held any directorships of other listed companies in the past 3 years.

Principal activity

The principal activity of the Company is to perform all treasury functions of the IAG Group's New Zealand operations. This function is performed through a New Zealand branch of the Company.

Operation and financial review

The net result of the Company for the period ended 30 June 2005, after applicable income tax, was a profit of \$1,278,000.

On 11 January 2005, the New Zealand branch of the Company issued 5,500,000 reset exchangeable securities ("RES") raising a total of \$550,000,000. The RES began trading on the Australian Stock Exchange on 12 January

2005. The gross proceeds of the issue were loaned to a related body corporate, IAG (NZ) Holdings Limited on commercial terms.

The Company's obligations to the RES holders are secured by a portfolio of high quality, short-dated, fixed interest securities ("Portfolio"). The Portfolio is held by a special purpose related body corporate, IAG Portfolio Limited.

Interest payments on RES and its redemption amounts will depend on the performance and creditworthiness of the Portfolio. The Company is not aware of anything, which would affect the Company's prospects of continuing to pay quarterly interest payments. IAG may, at any time, exercise its right to exchange some or all RES for preference shares issued by IAG. The following quarterly interest payments on the RES were made during the financial period:

Payment date	Amount per RES	Interest rate
15 March 2005	\$0.8095	4.6900% per annum
15 June 2005	\$1.2392	4.9163% per annum

Likely developments

The Company is expected to continue to perform all treasury functions of the IAG Group's New Zealand operations. The New Zealand Branch will remain as the issuer of 5,500,000 reset exchangeable securities.

Significant changes in the state of affairs

Except for the issue of reset exchangeable securities as mentioned above, there was no significant change in the state of affairs of the Company during the financial period.

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

The lead auditor's independence declaration is set out on page 11 and forms part of the directors' report for the period ended 30 June 2005.

Indemnification and insurance of directors and officers

The Company's constitution contains an indemnity in favour of every person who is or has been:

- a Director of the Company and wholly-owned subsidiaries (if any);
- a secretary of the Company and wholly-owned subsidiaries (if any);
- a person making or participating in making decisions that affect the whole or a substantial part of the business or Company or any of its wholly-owned subsidiaries (if any); or
- a person having the capacity to affect significantly the financial standing of the Company or any of its wholly-owned subsidiaries (if any).

Directors' Report (continued)

The indemnity generally applies to the maximum extent permitted by law to liabilities incurred by the person in the relevant capacity, and to legal costs incurred in defending proceedings arising because of their relevant capacity.

The Company is a wholly-owned subsidiary of Insurance Australia Group Limited ("IAG").

IAG has granted various deeds of indemnity to certain current and former Directors and secretaries and members of senior management of IAG and its subsidiaries and associated companies. In general terms, under these deeds, IAG indemnifies, to the maximum extent permitted by the law, the former or current Director or secretary or member of senior management against liabilities incurred by the person in the relevant capacity, and relevant costs and expenses (such as legal costs) so they can defend legal proceedings. The indemnity does not apply to the extent the liability is owed to IAG or any of its subsidiaries or associated companies unless the law allows the Director to be indemnified, or (in general terms) where the liability arises out of a lack of good faith, willful misconduct, gross negligence, reckless misbehaviour or fraud.

Under each deed, IAG is also required to maintain and pay the premiums on a contract of insurance covering each current or former Director or member of senior management against liabilities incurred in respect of the relevant office. The insurance should be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance is prohibited by the relevant contract of insurance.

Events subsequent to reporting date

Details of matters subsequent to the end of the financial period including the impact of the introduction of Australian equivalents of the International Financial Reporting Standards are set out in note 18.

Non-audit services

During the financial period KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Directors have considered the non-audit services provided during the financial period by KPMG and in accordance with written advice provided by resolution of the Audit Committee, are satisfied that the provision of those non-audit services by the Company's auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit assignments were approved in accordance with the process set out in the IAG Audit Committee Charter ("Charter") on the agreed framework for engaging auditors for non-audit services; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the

Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in the Directors' report.

The level of fees for non-audit services exceed total audit fees (refer to note 13 to the financial statements for further details on costs incurred on individual non-audit assignments). The Company has incurred a one-off non-audit service cost of \$255,550 in relation to the issue of the reset exchangeable securities ("RES"). KPMG was engaged to review the results disclosed in the prospectus for the issue of RES and other related matters including attending the IAG Due Diligence Committee meetings and providing accounting advice. These services are allowed by the Charter. This engagement has resulted in the Company incurring more non-audit services fees than audit service fees.

Environmental regulation

The Company's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the Company's operations. The Board of Directors believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

Rounding of amounts

Unless otherwise stated, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 (as amended by class order 04/667 dated 15 July 2004) issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Remuneration report

The Company's Directors and secretaries did not receive any remuneration from the Company or any parties in connection with their position with the Company. IAG or any related entity charged no management fee to the Company which included any remuneration for the Directors, secretaries or senior managers of the Company.

The employee of the New Zealand Branch of the Company does not meet the definition of a "specified executive" as defined in the accounting standard AASB 1046: Directors and Executive Disclosures by Disclosing Entities or "senior manager" or "officer" as defined in the Corporations Act 2001. The specified executives of IAG did not receive any remuneration from the Company or any parties in connection with their management of the Company.

IAG's Remuneration Report for the year ended 30 June 2005, which contains the disclosures for the Directors, secretaries, senior managers and executives of the IAG Group is included in IAG's 2005 Directors' Report that can be viewed at www.iag.com.au.

Directors' Report (continued)

Directors' interest in securities

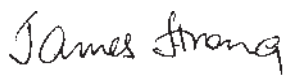
As at 16 August 2005, the relevant interest of each Director in shares, options and other securities over shares in or debentures of the Company and Insurance Australia Group Limited (IAG) as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001 are as follows:

Director	Reset exchangeable securities ¹	Ordinary shares ²	Performance award rights ²	Performance share rights ²	Reset preference shares ²
Mr JA Strong	-	176,984	-	-	-
Mr RA Ross	-	151,203	-	-	-
Mr MJ Hawker	1,000	1,150,059	1,200,000	60,000	-
Mr G Venardos	-	12,637	305,048	-	-
Mr M Woods	1,400	14,237	109,643	-	500

¹ These securities have been issued by the Company. The number disclosed includes securities directly held and indirectly held by the Directors' related entities.

² These securities have been issued by IAG or provide a right over shares in IAG. The number disclosed includes securities directly held and indirectly held by the Directors' related entities.

Signed at Sydney this 16th day of August 2005 in accordance with a resolution of the Directors.



James Strong
Director

Lead Auditor's Independence Declaration Under Section 307c of the Corporations Act 2001

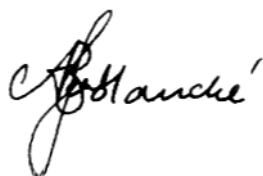
To: the directors of IAG Finance (New Zealand) Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the period ended 30 June 2005 there have been:

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



KPMG



Dr Andries B Terblanché
Partner

Sydney
16th August 2005

Statement of Financial Performance for the period ended 30 June 2005

	Notes	Period from 6 October 2004 to 30 June 2005 \$000
Interest revenue		
– related bodies corporate		19,508
– other corporations		334
Total interest revenue		19,842
Interest expense		
– related bodies corporate		(3,837)
– reset exchangeable securities		(12,406)
Total interest expense		(16,243)
Net interest income		3,599
Treasury fee income		32
Amortisation of deferred borrowing costs		(1,260)
Unrealised exchange loss		(236)
Other administration expenses	3	(218)
Profit from ordinary activities before income tax	4	1,917
Income tax expense	5	(639)
Net profit		1,278
Total changes in equity from non-owner related transactions attributable to the shareholder of IAG Finance (New Zealand) Limited		1,278

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

Statement of Financial Position as at 30 June 2005

	Notes	30 June 2005 \$000
Assets		
Cash assets	11	2,397
Amounts receivable from related bodies corporate		2
Current tax assets		198
Plant and equipment		8
Deferred borrowing costs	7	11,167
Loans to related bodies corporate		551,837
Total assets		565,609
Liabilities		
Payables		84
Interest payable on reset exchangeable securities		1,330
Amounts payable to related bodies corporate		51
Employee benefits provision	12	8
Loans from related bodies corporate		12,858
Reset exchangeable securities	8	550,000
Total liabilities		564,331
Net assets		1,278
Equity		
Contributed equity	9	–*
Retained profits	9	1,278
Total equity	9	1,278

* The issued share capital of the Company was \$1, represented by 1 fully paid ordinary share.

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

Statement of Cash Flows

for the period ended 30 June 2005

	Notes	Period from 6 October 2004 to 30 June 2005 \$000
Cash flows from operating activities		
Interest received		18,007
Interest paid		(14,549)
Income tax paid		(835)
Other operating receipts		31
Other operating payments		(79)
Net cash provided by operating activities	10	2,575
Cash flows from investing activities		
Outlays for plant and equipment acquired		(8)
Net cash used in investing activities		(8)
Cash flows from financing activities		
Proceeds from issue of reset exchangeable securities		550,000
Loan to a related body corporate		(550,000)
Loan from a related body corporate		12,494
Payment of deferred borrowing costs		(12,604)
Net cash used in financing activities		(110)
Net increase in cash held		2,457
Cash at the beginning of the financial period		-
Effects of exchange rate changes on cash held in foreign currencies		(60)
Cash at the end of the financial period	11	2,397

Notes to the Financial Statements

for the period ended 30 June 2005

Note 1. Summary of significant accounting policies

(a) Basis of preparation of financial report

This general purpose financial report has been prepared in accordance with Corporations Act 2001, applicable Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Australian Stock Exchange Listing Rules. These financial statements are presented in Australian Dollars.

The statement of financial position has been prepared using the liquidity format of presentation. This presentation is considered more meaningful to emphasise the importance of liquidity to the users of the accounts.

The accounting policies adopted have been consistently applied during the period. Except for certain assets which as noted in the financial statements, are measured at fair value, the financial statements have been prepared on the basis of historical cost.

(b) Interest income

Interest income on a loan to a related body corporate and external parties is brought to account on an accruals basis.

(c) Interest expense

Interest expense on reset exchangeable securities and loan from a related body corporate is brought to account on an accruals basis.

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

(d) Taxation

(i) Income tax

The Company adopts the income statement liability method of tax effect accounting. Income tax is calculated on the operating result adjusted for permanent differences between taxable and accounting income. Any future income tax benefit relating to tax losses or other timing differences is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation or beyond reasonable doubt of realisation respectively. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the tax rates which are expected to apply when those timing differences reverse.

(ii) Tax consolidation

Insurance Australia Group Limited ("IAG"/"head entity") and its Australian resident wholly-owned subsidiaries adopt the tax consolidation legislation. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group.

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

Under the tax funding agreement, the contributions are calculated on a "stand alone taxpayer basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by each wholly-owned subsidiary. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany receivables and payables with a consequential adjustment to income tax expense / credit.

The New Zealand branch of the Company is resident in New Zealand for tax purposes and is liable for all taxes on income generated in New Zealand. These liabilities or refunds are recognised by the New Zealand branch and disclosed as current tax liabilities or assets in the Company's statement of financial position.

(iii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of current receivables and payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Derivatives

The Company uses a variety of derivatives for the sole purpose of reducing risk exposures of the Company. Derivatives are not held for speculative purposes.

There is no Australian accounting standard setting out the measurement requirements for these financial instruments, and so the Company accounts for them in accordance with developed market practice.

The Company has entered into a cross currency swap to hedge foreign currency lending. Interest receipts and payments on the swap are charged to the statement of financial performance on a daily basis over the term for which the swap is effective as a hedge of the underlying lending and are included within the interest income on lending. Revaluation gains and losses are recognised in the statement of financial performance against the revaluation losses and gains of the underlying hedged items.

(f) Employee benefits

Liabilities for wages and salaries (including bonuses), annual leave and sick leave are recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when these liabilities are settled, including on-costs. A liability for sick leave is considered to exist only when it is probable that sick leave taken in the future will be greater than entitlements that will accrue in the future.

(g) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are initially translated into the reporting currency at the rates of exchange at the dates of the transactions. At reporting date, amounts payable to and by the Company in foreign currencies are translated to Australian currency at rates of exchange current at reporting date. Resulting exchange differences are brought to account in the statement of financial performance except for those relating to hedging transactions as per (iii) below.

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

(g) Foreign currency (continued)

(ii) Translation of controlled foreign operations

The financial position and performance of controlled foreign branches are translated into Australian currency for inclusion in the Company's financial report. The assets and liabilities are translated using reporting date exchange rates while equity items are translated using historical rates. The statements of financial performance are translated using weighted average rates for the reporting period. Exchange differences arising from the translations are recorded directly in the statement of financial performance.

The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

(iii) Hedge transactions

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(e) for details of the relevant accounting policies.

(h) Reset exchangeable securities

Reset exchangeable securities are initially measured at face value plus transaction costs incurred in issuing the securities. Interest expense on the reset exchangeable securities is brought to account on an accruals basis and payable quarterly subject to the terms of issue. Transaction costs are disclosed separately as deferred borrowing costs and are amortised over 5 years from the date of issue.

Note 2. Ultimate parent entity

The parent and ultimate parent entity is Insurance Australia Group Limited, an entity incorporated in Australia and listed on the Australian Stock Exchange.

Period from 6 October 2004
to 30 June 2005
\$000

Note 3. Analysis of total expenses

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

218

Analysis of expenses by nature:

Employee costs	159
Audit fees	23
Trustee fees	17
Consultant fees	12
Other administration costs	7

218

Note 4. Profit from ordinary activities before income tax

Profit from ordinary activities before income tax includes the following specific net expenses:

Transfer to provision – employee entitlements	8
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Note 5. Income tax

The income tax for the financial period differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:

Profit from ordinary activities before income tax	1,917
Income tax calculated at 30%	575
Differences in tax rates relating to New Zealand branch's result which is calculated at 33%	64
Income tax expense attributable to profit from ordinary activities before and after impact of tax consolidation	639

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

Note 6. Segment reporting

The Company operates as a special purpose company issuing reset exchangeable securities in Australia. The reset exchangeable securities are listed on the Australian Stock Exchange.

The Company also generates income from providing treasury functions to IAG's New Zealand operations.

Note 7. Deferred borrowing costs

30 June 2005
\$000

Borrowing costs paid and deferred during the period	12,604
Borrowing costs amortised during the period	(1,260)
Foreign currency exchange differences	(177)
Balance at the end of the financial period	11,167

Note 8. Reset exchangeable securities

5,500,000 reset exchangeable securities **550,000**

On 11 January 2005, the New Zealand branch of the Company issued 5,500,000 reset exchangeable securities ("RES") raising a total of \$550,000,000. The RES began trading on the Australian Stock Exchange on 12 January 2005.

The gross proceeds of the issue were loaned to a related body corporate, IAG (NZ) Holdings Limited on commercial terms. This is disclosed as a loan to a related body corporate on the statement of financial position and includes accrued interest.

RES holders are entitled to an interest payment, subject to the terms of issue, that is non-cumulative and based on a floating rate. The following quarterly interest payment on the RES was made during the financial period:

Payment date	Amount per RES	Interest rate
15 March 2005	\$0.8095	4.6900% per annum
15 June 2005	\$1.2392	4.9163% per annum

The next quarterly interest payment, which is expected to be \$1.2130 per RES (4.8125% per annum), is due for payment on 15 September 2005. These interest payments are expected to be fully franked.

The Company's obligations to the RES holders are secured by a portfolio of high quality, short-dated, fixed interest securities ("Portfolio"). This Portfolio is held by a special purpose related body corporate, IAG Portfolio Limited. The Portfolio was funded by a loan from Insurance Australia Limited, a related body corporate, to IAG Portfolio Limited. At 30 June 2005, the net market value of the Portfolio was \$551,315,000.

Interest payments on RES will depend on the performance of the Portfolio. An interest payment may not be paid in full if the total income from the Portfolio is less than the interest payment on RES. An interest payment may not be made at all if IAG does not have sufficient profits equal to or greater than the interest payment on RES and has not paid a dividend on any of its classes of capital in the preceding 12 months.

RES redemption amount will depend on the performance and creditworthiness of the Portfolio. IAG may, at any time, exercise its right to exchange some or all RES for preference shares issued by IAG.

The Company may change some of the terms of the RES or redeem or convert some or all RES on a reset date. The first reset date is 15 March 2010 after which the reset dates are expected to be every 5 years. The Company can also redeem or convert some or all RES on the occurrence of a tax event or acquisition event, as defined in the RES terms. RES holders can request redemption of some or all of their RES under certain circumstances.

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

Note 9. Statement of changes in equity

30 June 2005
\$000

Contributed equity

Ordinary shares

Ordinary shares issued during the period	-*
Balance at the end of the financial period	-*

Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up the Company in proportion to the number of and amounts paid on the shares held.

(a) Contributed equity	-*
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(b) Retained profits

Net profit attributable to the shareholder of IAG Finance (New Zealand) Limited	1,278
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Balance at the end of the financial period	1,278
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Total equity	1,278
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* The issued share capital of the Company was \$1, represented by one fully paid ordinary share.

Note 10. Reconciliation of net cash provided by operating activities to profit from ordinary activities after income tax

Period from 6 October 2004
to 30 June 2005
\$000

Net cash provided by operating activities	2,575
Foreign exchange losses	(236)
Amortisation of deferred borrowing costs	(1,260)
Increase / (decrease) in operating assets:	
Interest receivable from a related body corporate	1,834
Amounts receivable from related bodies corporate	2
Current tax asset	198
(Increase) / decrease in operating liabilities:	
Payables	(84)
Interest payable on reset exchangeable securities	(1,330)
Amounts payable to related bodies corporate	(413)
Employee benefits provision	(8)
Profit from ordinary activities after income tax	1,278

Note 11. Reconciliation of cash

30 June 2005
\$000

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, deposits at call and money market investments readily convertible to cash within two working days.

Cash	2,397
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Note 12. Employee benefits

(a) Employee benefits provision

Annual leave	8
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The Company does not contribute to any superannuation schemes.

(b) Employee numbers

The New Zealand branch of the Company had 1 employee (on full time equivalent basis) as at 30 June 2005.

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

Period from 6 October 2004
to 30 June 2005
\$

Note 13. Auditors' remuneration

(a) Audit services	
Auditing the financial statements	22,907
	<hr/>
	22,907
(b) Non-audit services	
– issue of reset exchangeable securities	255,550
	<hr/>
	255,550

Note 14. Contingencies

In respect of the issue of reset exchangeable securities (“RES”):

(a) IAG Portfolio Limited, a wholly-owned subsidiary of IAG, has granted to Permanent Trustee Company Limited (“Trustee”) a mortgage over the Company’s portfolio of investments (“Portfolio”) and a floating charge over its rights, property and undertaking as a security to the RES holders.

(b) To safeguard the interests of RES holders, the Company has granted the Trustee of the RES, a fixed charge over its rights, title and interest in the payments to it under the Portfolio Management Agreement and certain intra group receivables.

(c) Insurance Australia Limited has put in place an interest rate floor with IAG Portfolio Limited in the event the bank bill rate applicable to the calculation of the interest rate payable on the RES falls below the ‘floor’ rate of 2.80% per annum. This will enable IAG Portfolio Limited to generate sufficient income to allow the Company to make part or full interest payments on RES.

(d) In the event of an interest payment on RES being unfranked, IAG must pay an amount into IAG Portfolio Limited to fund a gross-up of the interest payment on RES.

(e) IAG may exchange some or all RES for preference shares issued by IAG at any time.

(f) The Company may, in relation to the RES, change their terms, redeem them for cash or convert them into ordinary shares issued by IAG on any reset date. The next reset date is 15 March 2010.

(g) The Company may, in relation to the RES, redeem them for cash or convert them into ordinary shares issued by IAG, if a tax event, regulatory event or acquisition event, as defined in the RES terms, occurs.

(h) RES holders may redeem the RES on any reset date or if a trigger event, as defined in the RES terms, occurs.

(i) IAG has an obligation to pay all costs, charges and expenses in managing the Portfolio including the trustee and custodian.

(j) IAG and other members of the IAG Group may be entitled to any surplus in the Portfolio from excess income from the Portfolio after the payment of aggregate interest payments on RES or from excess net assets of the Portfolio after the payment of aggregate redemption amounts on RES.

Note 15. Related party disclosures

(a) Directors

The Directors who held office during the year were:

Mr JA Strong, Mr RA Ross, Mr IF Brown, Mr MJ Hawker, Ms AB O’Driscoll, Mr G Venardos and Mr MDE Woods.

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

Note 15. Related party disclosures (continued)

(b) Other related parties

Aggregate amount included in the determination of profit from ordinary activities before income tax that resulted from transactions with other related parties were as follows:

	Period from 6 October 2004 to 30 June 2005 \$000
Interest income received or receivable from IAG (NZ) Holdings Limited	19,508
Service fee received or receivable from IAG New Zealand Limited	32
Interest expense paid or payable to Insurance Australia Limited	3,837

Aggregate amounts receivable from, and payable to, other related parties at reporting date were as follows:

	30 June 2005 \$000
Amounts receivable from:	
IAG (NZ) Holdings Limited	2
Loan receivable from:	
IAG (NZ) Holdings Limited	549,829
Insurance Australia Limited	2,008
Amounts payable to:	
Insurance Australia Limited	30
IAG New Zealand Limited	21
Loan payable to:	
Insurance Australia Limited	12,858

(c) Directors' interests in securities

As at reporting date, Directors' interest in shares, options and other securities over shares in or debentures of the Company and Insurance Australia Group Limited (IAG) were as follows:

Director	Reset exchangeable securities ¹	Ordinary shares ²	Performance award rights ²	Performance share rights ²	Reset preference shares ²
Mr JA Strong	-	176,984	-	-	-
Mr RA Ross	-	151,203	-	-	-
Mr MJ Hawker	1,000	1,150,059	1,200,000	60,000	-
Mr G Venardos	-	12,637	305,048	-	-
Mr M Woods	1,400	14,237	109,643	-	500

¹ These securities have been issued by the Company. The number disclosed includes securities directly held and indirectly held by the Directors' related entities.

² These securities have been issued by IAG or provide a right over shares in IAG. The number disclosed includes securities directly held and indirectly held by the Directors' related entities.

(d) Other transactions

Insurance products provided by the IAG Group are also available to all directors on the same terms and conditions available to other employees.

Note 16. Financial instruments

The Company is exposed to interest rate risk and credit risk from its business.

(a) Interest rate risk

The Company's exposure to interest rate risk arises from its reset exchangeable securities and the interest-bearing loans with related bodies corporate.

Notes to the Financial Statements for the period ended 30 June 2005 (continued)

Note 16. Financial instruments (continued)

(i) The exposure to interest rate risk and the weighted average effective interest rates on the interest-bearing financial assets and liabilities of the Company are summarised in the table below. All other assets and liabilities disclosed on the statement of financial position are non-interest bearing.

2005	Fixed interest maturing in					Total \$000	Weighted average interest rate %
	Floating interest rate \$000	1 year or less \$000	Over 1 to 5 years \$000	More than 5 years \$000	Non interest bearing \$000		
Financial assets							
Cash assets	2,397	-	-	-	-	2,397	4.84
Loan receivable from a related body corporate	-	551,837	-	-	-	551,837	7.64
	2,397	551,837	-	-	-	554,234	
Financial liabilities							
Loan payable to related bodies corporate	-	12,858	-	-	-	12,858	6.23
Reset exchangeable securities	-	550,000	-	-	-	550,000	4.81
	-	562,858	-	-	-	562,858	
Net financial assets / (liabilities)	2,397	(11,021)	-	-	-	(8,624)	

30 June 2005
\$000

(ii) Reconciliation of net financial assets to net assets

Net financial liabilities	
- Interest-bearing	(8,624)
- Other	(1,473)
Net non financial assets	11,375
Net assets	1,278

(b) Credit risk

The credit risk exposures of the Company are in respect of the non-repayment of receivables and loans due from related bodies corporate only.

(c) Exchange rate risk

The Company has entered into a cross currency swap with a related body corporate Insurance Australia Limited in order to hedge the exchange rate exposure arising from providing a New Zealand dollar loan to a related body corporate, IAG (NZ) Holdings Limited, from the Australian dollar proceeds of the issue of reset exchangeable securities. The swap has no maturity date, however will terminate when the reset exchangeable securities are redeemed, converted or exchanged. Over the term of the swap, the Company will receive Australian dollar payments equal to the interest payable on the reset exchangeable securities and will pay interest at the variable rate of the New Zealand three month bank bill mid market settlement rate less a margin on a principal amount of NZ\$600.325 million. On termination of the swap, the Company will repay the principal amount of NZ\$600.325 million and receive A\$550 million based on the original spot exchange rate at inception.

(d) Net fair value

The Company's financial assets and liabilities are carried in the statement of financial position at amounts that approximate net fair value. The carrying value amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

Note 17. Net tangible assets

30 June 2005
\$000

Net tangible asset per ordinary share

1,278

The issued share capital of the Company was \$1, represented by one fully paid ordinary share.

Note 18. Events subsequent to reporting date

As the following event occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the period ended 30 June 2005.

International Financial Reporting Standards

(a) Overview

For reporting periods beginning on or after 1 January 2005, the Company must comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") as issued by the Australian Accounting Standards Board. The Company'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, however, as permitted under the transitional provisions for first time adoption of A-IFRS, the Company has elected to not restate comparatives for certain standards being AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. A-IFRS transition adjustments will be made retrospectively against retained profits for the 2005 financial year except for those standards, noted here, for which the transition adjustments will be made at 1 July 2005.

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 as having a significant effect on the Company's financial performance and financial position are summarised below. There will also be significant changes in the presentation and content of financial reports prepared in accordance with A-IFRS.

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

(b) Management of the Company's transition

The IAG Group, of which the Company is a wholly-owned subsidiary, 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 Company expects to be able to provide financial reports that are fully compliant with A-IFRS for the 2006 financial year.

(c) Key differences

The project team has completed the work required for the Company to comply with the recognition and measurement requirements of the new standards. It has been determined that there are no recognition and measurement differences affecting the financial position or financial performance of the Company arising from the transition to A-IFRS, subject to determination of any taxation adjustments which have not yet been reliably determined. There will be changes in the presentation and content of the financial report prepared in accordance with A-IFRS.

Derivatives (applicable from 1 July 2005)

All derivative contracts, regardless of the purpose for which they are used, will be measured at fair value with movements recognised through profit or loss. Hedge accounting will not be applied for any of the derivatives. This is basically continuation of current practice and requires no adjustment.

Taxation

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.

The taxation adjustments (if any) arising from the transition to A-IFRS have not yet been reliably determined.

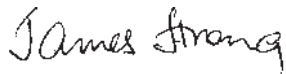
Directors' Declaration

In the opinion of the Directors of IAG Finance (New Zealand) Limited:

- (a) the financial statements and notes, set out on pages 12 to 21, are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the financial position of the IAG Finance (New Zealand) Limited as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Accounting Standards 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.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the period ended 30 June 2005.

Signed at Sydney this 16th day of August 2005 in accordance with a resolution of the Directors.



James Strong
Director

Independent Audit Report

To the shareholder of IAG Finance (New Zealand) Limited

Scope

The financial report and directors' responsibility

The financial report comprises the remuneration report, statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 18 to the financial statements, and the directors' declaration for IAG Finance (New Zealand) Limited (the "Company"), for the period ended 30 June 2005.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the shareholder of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- (a) examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- (b) assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.


Audit opinion

In our opinion, the financial report of IAG Finance (New Zealand) Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the financial period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



KPMG



Dr Andries B Terblanché

Partner

Sydney

16th August 2005

RES Holder Information

You can access information about RES including Portfolio value, interest payments and current ASX releases at www.iag.com.au/res.

Code on ASX

RES are listed on ASX under the code IANG.

RES holder Registry

All Registry functions are performed by Computershare Investor Services Pty Limited who can be contacted on:

Telephone: 1300 360 688

Email: iag@computershare.com.au

Fax: (03) 9473 2470

Postal address: Insurance Australia Group Limited
Share Registry
C/- Computershare Investor Services Pty Limited
GPO Box 4709
Melbourne VIC 3001

Portfolio Value

The value of the RES Portfolio as at 30 June 2005 was \$551,314,973. This value is updated monthly at www.iag.com.au/res.

Interest Payments

Period End	\$ per Security	Ex Date	Record Date	Payment Date	Franking Level	Franking Credit
14/09/05	\$1.2130*	01/09/05	07/09/05	15/09/05	**	**
14/06/05	\$1.2392	01/06/05	07/06/05	15/06/05	100%	30%
14/03/05	\$0.8095	01/03/05	07/03/05	15/03/05	100%	30%

* Payment of the interest payment is subject to the interest payment tests set out in the RES terms.

** To be advised.

Interest Payments

Until the first reset date which is 15 March 2010, RES holders are entitled, subject to the RES terms, to receive quarterly interest payments based on a margin of 1.2% per annum above the 90 day Bank Bill Rate and adjusted for the value of attached franking credits. The interest payments are expected to be fully franked. The interest rate for the current interest payment period, from 15 June 2005 to 15 September 2005, is 4.8125% per annum.

Annual Report

There are a number of options available concerning the Annual Report. You can choose:

- not to receive it;
- to view or download the report from our website; or
- to receive reports in the mail.

If there are multiple RES holders at your registered address and you wish to receive just one copy of the Annual Report, please contact the Registry on 1300 360 688. Any change in the annual report election details made by completing the form enclosed with this Report and returning it in the envelope provided.

Annual General Meeting

The Company is not required, and does not intend, to hold an Annual General Meeting.

Voting

RES holders have no voting rights in the Company, and no voting rights in IAG unless RES are exchanged or converted into shares issued by IAG.

Information on RES Holdings

Twenty Largest RES holders as at 15 August 2005	No. of RES	% of RES Issued
J P Morgan Nominees Australia Limited	773,082	14.06
UBS Private Clients Australia Nominees Pty Ltd	400,607	7.28
National Nominees Limited	337,371	6.13
ANZ Nominees Limited <Cash Income A/C>	83,752	1.52
Suncorp Custodian Services Pty Limited <AFT>	69,344	1.26
RBC Global Services Australia Nominees Pty Limited <MLCI A/C>	63,554	1.16
Citicorp Nominees Pty Limited <CFSIL Cwith Spec 5 A/C>	58,320	1.06
Suncorp Custodian Services Pty Limited <ACT>	52,845	0.96
Cogent Nominees Pty Limited	50,000	0.91
UCA Cash Management Fund Ltd	50,000	0.91
Cryton Investments No 9 Pty Ltd <Garner Number 1 A/C>	48,000	0.87
Brencorp Pty Limited <Brencorp No 11 Pty Ltd A/C>	40,000	0.73
ANZ Nominees Limited	38,601	0.70
SR Consolidated Pty Ltd	30,300	0.55
Australian Executor Trustees Limited	26,206	0.48
Argo Investments Limited	25,000	0.45
Westpac Custodian Nominees Limited	20,794	0.38
Cambooya Pty Limited	20,250	0.37
Australian National University	20,000	0.36
Marbear Holdings Pty Limited	20,000	0.36
Total for Top Twenty	2,228,026	40.50

Range of holders as at 15 August 2005	No. of holders	No. of RES	% of RES Issued
1 - 1,000	5,227	1,614,590	29.36
1,001 - 5,000	398	939,288	17.08
5,001 - 10,000	52	422,401	7.68
10,001 - 100,000	37	1,012,661	18.41
100,001 - over	3	1,511,060	27.47
Total	5,717	5,500,000	100.00
Securityholders with less than a marketable parcel of 5 securities as at 15 August 2005	0	0	



Directory

Company and Registered Office

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NZ Branch and Issuer

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IAG House
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Company Secretary

Anne O'Driscoll FCA, ANZIF (Fellow), GAICD