

**INSURANCE AUSTRALIA GROUP LIMITED**

**ABN 60 090 739 923**

**HALF YEAR REPORT 31 DECEMBER 2003**

**APPENDIX 4D**

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INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4D – HALF YEAR REPORT 31 DECEMBER 2003

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	<b>Up/down</b>	<b>% change</b>	<b>\$m</b>
Revenue from ordinary activities	Up	77.3%	3,898
Profit from ordinary activities after tax attributable to shareholders	Up	387.1%	302
Net profit attributable to shareholders of Insurance Australia Group Limited	Up	387.1%	302

<b>Dividends – ordinary shares</b>	<b>Amount per share</b>	<b>Franked amount per share</b>
Interim dividend	8.0 cents	8.0 cents

The record date of the dividend is 17 March 2004. The dividend is to be paid on 19 April 2004. The last date for the receipt of an election notice for participation in the company's Dividend Reinvestment Plan is 17 March 2004.

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**OTHER INFORMATION**

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

	<b>% Held</b>
Associated Marine Insurers Agents Pty Ltd	50
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 2003

**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 2003: <ul style="list-style-type: none"> <li>• Notes to the financial statements</li> <li>- Net tangible assets.</li> </ul>	P.16	Note 15
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 2003: <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.13	Note 11

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<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 2003:</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 2003:</p> <ul style="list-style-type: none"> <li>• Notes to the financial statements               <ul style="list-style-type: none"> <li>- Contributed equity note</li> <li>- Dividend note</li> </ul> </li> </ul>	<p>P.11-12 P.11</p>	<p>Note 8 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 2003

**ATTACHMENT A**

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**HALF YEAR FINANCIAL REPORT – 31 DECEMBER 2003**

**INSURANCE AUSTRALIA GROUP LIMITED**  
**ABN 60 090 739 923**  
**AND CONTROLLED ENTITIES**  
**HALF YEAR FINANCIAL REPORT - 31 DECEMBER 2003**

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Insurance Australia Group Limited is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 388 George Street, Sydney, NSW 2000.

**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 2003 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), Mr JF Astbury (Director since 25 July 2000), Mrs MC Callaghan (Director from 19 June 2000 to 1 September 2003), Mr GA Cousins (Director since 25 July 2000), Mrs M Easson (Director from 19 June 2000 to 1 September 2003), Ms DG Fisher (Director since 19 June 2000), Mr ND Hamilton (Director since 19 June 2000), Ms AJ Keating (Director since 19 June 2000), Mr RA Ross (Director since 25 July 2000) and Mr MJ Hawker (Director since 1 December 2001).

**Result and review of operations**

The IAG Group net profit for the half year was \$348 million (2002 - \$97 million). After adjusting for outside equity interests in the IAG Group result, the net profit attributable to shareholders of the Company was \$302 million (2002 - \$62 million).

The key components for the half year result were:

- Sustained improvement in underwriting profit of \$277 million compared to \$71 million in 2002.
- The strength of the underwriting result produced an insurance margin of 11.8%, which is within the IAG Group's target range of 9% - 12%.
- Gross written premium was \$3,142 million, representing an increase of 66.6% on the same period last year (\$1,886 million). The acquisition of CGU Insurance Australia Limited ("CGU") and Belves Investments Limited ("NZI") on 2 January 2003 was the major driver of this growth.
- The expense ratio (underwriting expenses to net earned premium) of 24.9% compares to 19.2% for the same period last year. However, the CGU and NZI businesses bring a higher expense ratio, in the form of commission expense, due to the intermediary distribution of their products. When commission expense and integration costs are excluded, the underlying administration ratio is 17.5% compared to 17.7% in 2002.
- The quality of the result was driven by strong performance of all major business segments. The IAG Group's combined ratio of 90.5% was better than the target range 94% - 96% and was an improvement on 96.1% in 2002.
- The result includes \$25 million of expenses associated with the restructuring and integration of the CGU and NZI businesses acquired.
- After two years of negative return on equity portfolios, the recovery in the global equity markets delivered a welcome positive contribution to the IAG Group's results. Total investment income included in the consolidated net profit for the half year was \$286 million (2002 - \$113 million).
- A once-off benefit of \$22 million was included in income tax expense, 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 2003 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**

**Events subsequent to reporting date**

(a) IAG announced the agreement to sell its ClearView retirement services businesses to MBF on 12 December 2003. This sale was effective on 21 January 2004. The sale price was approximately \$220 million plus up to an additional \$50 million earn-out, subject to business performance over the next five and a half years. This sale results in a profit after tax to IAG of approximately \$43 million which will be included in the full year (30 June 2004) financial statements.

(b) On 26 February 2004 an interim dividend of 8.0 cents per share, 100% franked, was declared by the Company. The dividend is to be paid on 19 April 2004.

(c) On 26 February 2004 IAG announced that it intends to undertake an off-market buy-back in the order of \$350 million of ordinary shares. The final price and the allocation of that amount between capital and a fully franked dividend will be determined under the terms and conditions of the buy-back offer. This buy-back will be funded from surplus capital.

Other than the matters referred to above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the IAG Group, the results of those operations, or the state of affairs of the IAG Group in future financial periods.

**Dividends**

Details of dividend 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 26th day of February 2004 in accordance with a resolution of the Directors.

..... Director

..... Director

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	Notes	CONSOLIDATED	
		31 Dec 2003 \$m	31 Dec 2002 \$m
Premium revenue	3(a)(i)	3,116	1,868
Reinsurance expense		(204)	(69)
Net premium revenue		<u>2,912</u>	<u>1,799</u>
Claims expense		(2,217)	(1,524)
Reinsurance and other recoveries	3(a)(i)	308	142
Net claims expense		<u>(1,909)</u>	<u>(1,382)</u>
Acquisition costs		(464)	(229)
Other underwriting expenses		(207)	(78)
Fire brigade charges		(55)	(39)
Underwriting expenses		<u>(726)</u>	<u>(346)</u>
Profit from underwriting		277	71
Investment income	3(a)(ii)	248	151
Realised losses on investments	3(a)(ii)	(15)	(34)
Unrealised gains / (losses) on investments	3(a)(ii)	53	(4)
Financial services revenue	3(a)(iii)	70	(1)
Other operating revenue	3(a)(iv)	118	77
Borrowing costs expense		(29)	(12)
Life insurance business expenses	4	(52)	11
Corporate and administration expenses		(186)	(144)
<b>Profit from ordinary activities before income tax</b>		<u>484</u>	<u>115</u>
Income tax expense		(136)	(18)
<b>Net profit</b>		<u>348</u>	<u>97</u>
Net profit attributable to outside equity interests		(46)	(35)
<b>Net profit attributable to shareholders of Insurance Australia Group Limited</b>		<u>302</u>	<u>62</u>
<b>Non-owner transaction changes in equity:</b>			
<b>Total revenue, expenses and valuation adjustments attributable to shareholders of Insurance Australia Group Limited recognised directly in equity</b>		-	-
<b>Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity</b>		<u>302</u>	<u>62</u>
		<b>31 Dec 2003 cents</b>	<b>31 Dec 2002 cents</b>
Basic earnings per ordinary share	5(a)	<u>17.07</u>	3.64
Basic earnings per reset preference share	5(b)	<u>265.03</u>	308.27
Diluted earnings per ordinary share	5(a)	<u>17.01</u>	3.62

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 2003**

	<u>Notes</u>	<b>CONSOLIDATED</b>	
		<b>31 Dec 2003 \$m</b>	<b>30 Jun 2003 \$m</b>
<b>Current assets</b>			
Cash assets		584	626
Receivables		2,537	2,548
Investments		3,074	2,585
Current tax assets		17	40
Other		777	823
<b>Total current assets</b>		<b>6,989</b>	<b>6,622</b>
<b>Non-current assets</b>			
Receivables		499	401
Investments		7,410	7,246
Plant and equipment		153	139
Deferred tax assets		300	326
Intangible assets		1,521	1,626
Other		12	32
<b>Total non-current assets</b>		<b>9,895</b>	<b>9,770</b>
<b>Total assets</b>		<b>16,884</b>	<b>16,392</b>
<b>Current liabilities</b>			
Payables		817	846
Interest-bearing liabilities		124	136
Current tax liabilities		144	106
Provisions		150	174
Outstanding claims		2,308	2,147
Unearned premium		3,243	3,223
<b>Total current liabilities</b>		<b>6,786</b>	<b>6,632</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities		789	789
Deferred tax liabilities		49	59
Provisions		33	43
Gross life insurance policy liabilities		958	910
Outstanding claims		3,919	3,828
Unearned premium		73	78
<b>Total non-current liabilities</b>		<b>5,821</b>	<b>5,707</b>
<b>Total liabilities</b>		<b>12,607</b>	<b>12,339</b>
<b>Net assets</b>		<b>4,277</b>	<b>4,053</b>
<b>Equity</b>			
Contributed equity	8	3,973	3,973
Foreign currency translation reserve		(2)	(2)
Accumulated losses	9	(226)	(396)
<b>Equity attributable to shareholders of Insurance Australia Group Limited</b>		<b>3,745</b>	<b>3,575</b>
Outside equity interests in controlled entities:			
- Contributed equity		124	180
- Retained profits		24	20
- Unitholders' funds		384	278
<b>Total equity</b>	10	<b>4,277</b>	<b>4,053</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 2003**

	<u>Note</u>	<b>CONSOLIDATED</b>	
		31 Dec	31 Dec
		<b>2003</b>	2002
		\$m	\$m
<b>Cash flows from operating activities</b>			
Premium received		3,375	2,063
Reinsurance and other recoveries received		186	159
Claims costs paid		(2,046)	(1,550)
Outwards reinsurance premium paid		(204)	(65)
Dividends received		52	45
Interest and similar items received		236	198
Interest and other finance costs paid		(6)	(9)
Income tax paid		(68)	(58)
Income tax refunds		7	5
Other operating receipts		307	306
Other operating payments		(1,145)	(801)
<b>Net cash provided by operating activities</b>		<b>694</b>	293
<b>Cash flows from investing activities</b>			
Net cash flows on disposal of a controlled entity	11	48	-
Proceeds from disposal of investments and plant and equipment		11,561	14,456
Outlays for investments and plant and equipment acquired		(12,134)	(13,974)
Repayment of premium funding loans		146	-
Advances of premium funding loans		(167)	-
<b>Net cash provided by / (used in) investing activities</b>		<b>(546)</b>	482
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		-	880
Outlay for share buy-back in outside equity interests		(56)	-
Proceeds from issues of trust units		629	337
Outlays for redemption of trust units		(569)	(365)
Proceeds from borrowings		487	592
Repayment of borrowings		(515)	(935)
Share issue costs paid		-	(24)
Dividends paid to IAG shareholders		(132)	(89)
Dividends paid to outside equity interests		(34)	(25)
<b>Net cash provided by / (used in) financing activities</b>		<b>(190)</b>	371
<b>Net increase / (decrease) in cash held</b>		<b>(42)</b>	1,146
<b>Cash at the beginning of the financial period</b>		<b>626</b>	253
Effects of exchange rate changes on the balances of cash held in foreign currencies		-	1
<b>Cash at the end of the financial period <sup>(i)</sup></b>		<b>584</b>	1,400

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 2003**

**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 2003 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 2003 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.

**Note 2. Tax consolidation**

IAG and its Australian resident wholly-owned entities have decided to adopt tax consolidation legislation as of 1 July 2002 and the Australian Taxation Office has been informed of this decision. The entities have entered into a tax sharing agreement as defined in UIG Abstract 52 Income Tax Accounting under the Tax Consolidation System.

As a consequence, IAG, as the head entity, recognises all current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group in all financial statements from 1 July 2002 as if those transactions, events and balances were its own, in addition to the current and deferred tax balances arising in relation to its own transactions, events and balances. Amounts receivable or payable under the tax sharing agreement will be recognised separately by IAG as tax-related amounts receivable or payable. The tax sharing agreement will have an immaterial impact on the income tax expense and results of IAG and on the consolidated assets and liabilities and results.

On formation of a tax consolidated group, the head entity has an option to establish the tax cost of the assets of each subsidiary member entering the tax consolidated group by choosing between two alternative methods, the Allocable Cost Amount method or Transitional Method. As a result of recent announcements by the Government which are yet to be enacted, the tax cost setting rules will be modified so that the goodwill asset of a general insurance company that has demutualised will retain its existing tax value provided that the ownership of the company has not changed between the time of demutualisation and the time of joining a consolidated group. The Government has also announced that it intends extending the deadline for taxpayers to choose between the alternative methods until 31 December 2004. Given the recently announced change to the treatment of goodwill, IAG is currently reassessing whether its preliminary choices remain optimal.

The financial effect of the implementation of the legislation has been recognised in the financial statements for the half year ended 31 December 2003 and is disclosed in note 6.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<b>CONSOLIDATED</b>	
	<b>31 Dec 2003 \$m</b>	<b>31 Dec 2002 \$m</b>
<b>Note 3. Revenue</b>		
<b>(a) Revenue from ordinary activities</b>		
<b>(i) General insurance revenue</b>		
Gross written premium	3,142	1,886
Movement in unearned premium reserve	(26)	(18)
Premium revenue	<u>3,116</u>	<u>1,868</u>
Direct premium	3,114	1,854
Inwards reinsurance premium	2	14
Premium revenue	<u>3,116</u>	<u>1,868</u>
Reinsurance and other recoveries	308	142
Total general insurance revenue	<u>3,424</u>	<u>2,010</u>
<b>(ii) Investment revenue</b>		
Dividend income		
- other corporations	25	18
Interest income		
- other parties	211	128
Trust income		
- other parties	12	5
Total investment income	<u>248</u>	<u>151</u>
Changes in net market values of investments		
- realised losses	(15)	(34)
- unrealised gains / (losses)	53	(4)
Total investment revenue	<u>286</u>	<u>113</u>
<b>(iii) Financial services revenue</b>		
Life insurance business revenue		
- premium revenue	13	12
- investment revenue	57	(13)
	<u>70</u>	<u>(1)</u>
Total financial services revenue	<u>70</u>	<u>(1)</u>
<b>(iv) Other operating revenue</b>		
- other parties	118	77
Total other operating revenue	<u>118</u>	<u>77</u>
<b>Total revenue from ordinary activities</b>	<u>3,898</u>	<u>2,199</u>
<b>(b) Revenue from outside ordinary activities</b>		
Proceeds from disposal of plant and equipment	5	8
<b>Total revenue from outside ordinary activities</b>	<u>5</u>	<u>8</u>
<b>Total revenue</b>	<u>3,903</u>	<u>2,207</u>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<b>CONSOLIDATED</b>	
	<b>31 Dec</b>	31 Dec
	<b>2003</b>	2002
	<b>\$m</b>	\$m
<b>Note 4. Analysis of total expenses</b>		
Expenses (excluding borrowing costs expense) disclosed on the face of the statement of financial performance:		
Reinsurance expense	204	69
Claims expense	2,217	1,524
Acquisition costs	464	229
Other underwriting expenses	207	78
Fire brigade charges	55	39
Life insurance business expenses	52	(11)
Corporate and administration expenses	186	144
Total expenses	<u>3,385</u>	<u>2,072</u>
Analysis of expenses by function:		
General insurance business expenses		
- Reinsurance expense	204	69
- Claims expense	2,217	1,524
- Underwriting expenses	726	346
	<u>3,147</u>	<u>1,939</u>
Life insurance business expenses		
- Policy payments	5	3
- Increase / (decrease) in policy liabilities	34	(27)
- Administration and other expenses	13	13
	<u>52</u>	<u>(11)</u>
Administration expenses	186	144
Total expenses	<u>3,385</u>	<u>2,072</u>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**CONSOLIDATED**

<b>31 Dec</b>	31 Dec
<b>2003</b>	2002
<b>cents</b>	cents

**Note 5. Earnings per share**

(a) Ordinary shares

Basic earnings per share	<b>17.07</b>	3.64
Diluted earnings per share	<b>17.01</b>	3.62

<b>31 Dec</b>	31 Dec
<b>2003</b>	2002
<b>Number</b>	Number
<b>of shares</b>	of shares

(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>1,682,721,213</b>	1,391,265,083
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Potential ordinary shares:

Expiry date 21 December 2010	<b>1,712,117</b>	1,712,116
Expiry date 30 April 2011	<b>3,796,156</b>	3,796,145
Expiry date 2 August 2011	<b>190,697</b>	190,696
Expiry date 22 October 2011	<b>134,999</b>	134,998
Expiry date 13 December 2011	<b>1,000,000</b>	1,000,000
Expiry date 5 March 2012	<b>521,893</b>	521,892
Expiry date 15 July 2012	<b>102,221</b>	94,443
Cancelled potential ordinary shares	<b>(909,820)</b>	(771,347)

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>1,689,269,476</b>	1,397,944,026
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Potential ordinary shares consist of rights granted to employees under the Performance Share Rights Plan.

Event subsequent to reporting date:

On 16 January 2004, a total of 1,361,660 ordinary shares were issued as a result of the exercise of vested Performance Share Rights. At 31 December 2003, these shares were included as potential ordinary shares used in calculation of diluted earnings per share.

<b>31 Dec</b>	31 Dec
<b>2003</b>	2002
<b>\$m</b>	\$m

(ii) Reconciliation of earnings used in calculating earnings per share

Net profit	<b>348</b>	97
Net profit attributable to outside equity interests	<b>(46)</b>	(35)
Net profit attributable to shareholders of Insurance Australia Group Limited	<b>302</b>	62
Net profit attributable to reset preference shares	<b>(14)</b>	(11)
Earnings used in calculating basic and diluted earnings per share	<b>288</b>	51

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<u>Notes</u>	<b>CONSOLIDATED</b> <b>31 Dec</b> <b>2003</b> <b>cents</b>	31 Dec 2002 cents
<b>Note 5. Earnings per share (continued)</b>			
(b) Reset preference shares			
Basic earnings per share		<b>265.03</b>	308.27
		<b>31 Dec</b> <b>2003</b> <b>Number</b> <b>of shares</b>	31 Dec 2002 Number of shares
Weighted average number of reset preference shares outstanding during the financial period used in calculation of the basic earnings per share		<b>5,500,000</b>	3,500,000
		<b>31 Dec</b> <b>2003</b> <b>\$m</b>	31 Dec 2002 \$m
Net profit used in calculating basic earnings per share (based on dividends paid or payable to reset preference shares)		<b>14</b>	11

There are no potential reset preference shares on issue.

**Note 6. Individually significant items**

Expenses:			
Restructuring / integration costs	(i)	<b>25</b>	-
Insurance protection tax levied by the NSW State Government		<b>10</b>	9
Income tax benefit:			
Effect of resetting tax values on entering tax consolidation	(ii)	<b>22</b>	-

(i) These represent expenses incurred during the half year associated with the restructuring and integration of the CGU and NZI businesses acquired in January 2003.

(ii) During the half year ended 31 December 2003, IAG and its Australian resident wholly-owned entities elected to form a tax consolidated group from 1 July 2002. As a result of forming a tax consolidated group, IAG recognised a once-off benefit of \$22 million, which reflects the increase in the tax deductions available from resetting tax values of the IAG Group's assets. Refer to note 2 for further details.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**CONSOLIDATED**

<b>31 Dec</b>	<b>31 Dec</b>
<b>2003</b>	<b>2002</b>
<b>\$m</b>	<b>\$m</b>

**Note 7. Dividends**

(a) Ordinary shares

Final dividend for year ended 30 June 2003 of 7 cents (2002 – 6 cents) per fully paid ordinary share, paid on 13 October 2003

Fully franked at 30% (2002 – 30%)

<b>118</b>	<b>78</b>
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(b) Reset preference shares

Dividend paid at 5.8% and 4.51% on IAGPA and IAGPB respectively (2002 – 5.8% on IAGPA) per annum, fully franked at 30% (2002 – 30%)

<b>14</b>	<b>11</b>
-----------	-----------

Total dividends declared and paid by cash

<b>132</b>	<b>89</b>
------------	-----------

Event subsequent to reporting date:

On 26 February 2004 an interim dividend of 8.0 cents per ordinary share, 100% franked, was declared by the Company. The dividend will be paid on 19 April 2004. The last date for the receipt of an election notice for participation in the dividend reinvestment plan is 17 March 2004.

**CONSOLIDATED**

<b>31 Dec 2003</b>		<b>30 Jun 2003</b>	
<b>Number of shares million</b>	<b>\$m</b>	<b>Number of shares million</b>	<b>\$m</b>

**Note 8. Contributed equity**

Share capital

Issued and fully paid ordinary shares

<b>1,683</b>	<b>3,434</b>	<b>1,683</b>	<b>3,434</b>
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Issued and fully paid reset preference shares

<b>6</b>	<b>539</b>	<b>6</b>	<b>539</b>
----------	------------	----------	------------

<b>1,689</b>	<b>3,973</b>	<b>1,689</b>	<b>3,973</b>
--------------	--------------	--------------	--------------

Movements in ordinary shares:

Balance at the beginning of the financial period

<b>1,683</b>	<b>3,434</b>	<b>1,301</b>	<b>2,509</b>
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Ordinary shares issued

-	-	<b>355</b>	<b>880</b>
---	---	------------	------------

Ordinary shares issued under Dividend Reinvestment Plan

-	-	<b>27</b>	<b>75</b>
---	---	-----------	-----------

Less: transaction costs arising on share issues

-	-	-	<b>(30)</b>
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Balance at the end of the financial period

<b>1,683</b>	<b>3,434</b>	<b>1,683</b>	<b>3,434</b>
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Movements in reset preference shares:

Balance at the beginning of the financial period

<b>6</b>	<b>539</b>	<b>4</b>	<b>343</b>
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Shares issued

-	-	<b>2</b>	<b>200</b>
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Less: transaction costs arising on share issue

-	-	-	<b>(4)</b>
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Balance at the end of the financial period

<b>6</b>	<b>539</b>	<b>6</b>	<b>539</b>
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**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**Note 8. Contributed equity (continued)**

(i) Ordinary shares

Ordinary shares entitle the holder 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.

Dividends, if declared, are subject to there being distributable profits available and not breaching Australian Prudential Regulation Authority capital adequacy requirements.

(ii) Reset preference shares

Reset preference shares entitle the holder to a preferred, but not cumulative, dividend (currently 5.8% per annum for the first issue in June 2002 ("IAGPA") and 4.51% per annum for the second issue in June 2003 ("IAGPB")).

Dividends, if declared, are subject to similar conditions as ordinary shares. However, dividends will be paid in priority to any dividends on ordinary shares. If dividends are not paid for reset preference shares, no dividends can be paid and no return of capital can be made on ordinary shares until such time as the dividend stop is released in accordance with the terms of reset preference shares issued. The rate, frequency and timing of the payment of dividends can be reset by the Company on a reset date. The first reset dates are 15 June 2007 for IAGPA and 15 June 2008 for IAGPB.

Reset preference shares rank before ordinary shares in the event of the Company being wound up. The reset preference shares do not carry voting rights at general meetings.

(iii) Dividend reinvestment

The Company operates a Dividend Reinvestment Plan ("DRP"). Shareholders can elect to take their dividend entitlement by way of shares on the average share market price, less discount (if any as the Directors may determine) calculated over the pricing period (which will be at least five trading days) as determined by the Directors for each dividend payment date. Shares allocated to shareholders participating in the DRP during the half year ended 31 December 2003 were purchased on market (Period ended 31 December 2003 – 9 million shares purchased on market; year ended 30 June 2003 - 27 million new shares issued).

(iv) Performance share rights

A Performance Share Rights Plan, which was approved at the Annual General Meeting held on 28 November 2000 was in operation and closed for further new right issues during the year ended 30 June 2003. During the financial period, no rights (2002 – 102,222) were issued. One right can be converted into one unissued ordinary share of the Company at the date of exercise of the right. These rights lapse upon the termination of employment with IAG Group, other than termination due to redundancy. No rights (2002 – 230,000) were cancelled during the period on termination of employees' employment. There were no rights exercised during the period (2002 – nil). Subsequent to balance date, 1,361,660 rights were exercised on 16 January 2004.

<b>CONSOLIDATED</b>	
<b>31 Dec</b>	<b>30 Jun</b>
<b>2003</b>	<b>2003</b>
<b>\$m</b>	<b>\$m</b>

**Note 9. Accumulated losses**

Accumulated losses	<b>(226)</b>	(396)
Movements in accumulated losses		
Balance at the beginning of the financial period	<b>(396)</b>	(375)
Net profit attributable to shareholders of Insurance Australia Group Limited	<b>302</b>	153
Dividends declared	<b>(132)</b>	(174)
Balance at the end of the financial period	<b>(226)</b>	(396)

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<b>CONSOLIDATED</b>	
	<b>31 Dec</b>	30 Jun
	<b>2003</b>	2003
	<b>\$m</b>	\$m
<b>Note 10. Total equity reconciliation</b>		
Total equity at the beginning of the financial period	<b>4,053</b>	2,979
Total changes in equity recognised in the statement of financial performance	<b>302</b>	153
Transactions with owners as owners:		
- contributions of equity, net of transaction costs	-	925
- reset preference shares, net of transaction costs	-	196
- dividends declared	<b>(132)</b>	(174)
Movement in foreign currency translation reserves on foreign controlled entities	-	(1)
Total changes in outside equity interests	<b>54</b>	(25)
Total equity at the end of the financial period	<b>4,277</b>	4,053

**Note 11. Changes in the composition of the consolidated entity**

The IAG Group disposed of 100% of the ordinary shares in NRMA Health Pty Limited effective 25 July 2003.

	<b>31 Dec</b>	31 Dec
	<b>2003</b>	2002
	<b>\$m</b>	\$m
Details of the disposal is as follows:		
Sale proceeds:		
Cash	<b>99</b>	-
Fair value of net assets of controlled entity disposed (including goodwill)	<b>97</b>	-
Costs associated with disposal	<b>4</b>	-
	<b>101</b>	-
Loss on disposal	<b>(2)</b>	-
Net cashflow on disposal of controlled entity:		
Cash proceeds received (net of disposal costs)	<b>95</b>	-
Cash balance disposed	<b>(47)</b>	-
Inflow of cash	<b>48</b>	-
Profit / (loss) from ordinary activities before income tax that the disposed entity contributed to the IAG Group:		
For period ended 31 December 2003	-	-
For period ended 31 December 2002	<b>(10)</b>	-

The profit / (loss) from ordinary activities before income tax of the disposed entity contributed to the IAG Group has been determined based on the results of the entity to the date of disposal after allowing for amortisation of goodwill.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**Note 12. Contingent liabilities and contingent assets**

Other than the matter referred to below, there have been no other material changes in contingent liabilities or contingent assets since 30 June 2003.

As disclosed in prior periods, in the normal course of its operations, Insurance Australia Limited ("IAL") (formerly NRMA Insurance Limited) entered a quota share reinsurance contract with a US insurer ("the Ceding Insurer") for one year from 1 July 1997.

IAL accepted 50% of a 20% Whole Account Quota Share Reinsurance Treaty of the property and casualty insurance and reinsurance business written by the Ceding Insurer ("the Treaty").

Court proceedings were commenced by IAL against the Ceding Insurer and other parties in 1999. The dispute with the Ceding Insurer has been referred to arbitration.

The other insurers to the Treaty have separate arbitration proceedings against the Ceding Insurer.

The arbitration involving IAL is being heard in two parts. In November 2002, the arbitration panel ruled in favour of IAL in relation to the preliminary issue, that the Treaty is not retroactive and therefore does not cover loss occurrences prior to 1 July 1997.

The second part of the arbitration took place in October 2003 with a final day of hearing on 7 January 2004. This hearing dealt with:

- whether the Treaty should be rescinded, and
- alternatively the appropriate award of damages resulting from the reaccounting following the 2002 order.

IAL is claiming an amount of \$27 million in this part of the case.

The Arbitration Panel has reserved its decision. If it finds in favour of IAL, application will be made to the Court to confirm the Panel award.

IAL holds two letters of credit totalling US\$30 million (A\$39 million) as security if it is successful in its claim.

Whilst IAL believes its case is strong, if IAL was wholly unsuccessful in its claim, it could lose the amount of US\$25 million (A\$33 million) recognised as an asset in the financial report. The Ceding Insurer claims a further amount of US\$3 million (A\$4 million) or US\$8 million (A\$11 million) if the Panel reversed its 2002 order which, if successful, would cause IAL to record a further loss of this amount. A potential loss of US\$33 million (A\$44 million) compares to US\$38 million (A\$56 million) disclosed in the financial report as at 30 June 2003.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**Note 13. Segmental reporting**

Primary reporting - business segments

The IAG Group operated during the half year in the general insurance and retirement services industries. In the general insurance industry, its revenue is derived from the underwriting of short-tail, long-tail and international insurance businesses and these form separate reportable segments along with retirement services. Other activities, including corporate services, investment management and investment of the IAG Group's capital funds form a separate segment.

	<b>Short-tail insurance</b>		<b>Long-tail insurance</b>		<b>International insurance</b>		<b>Retirement services</b>		<b>Corporate and investments</b>	
	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m
External revenue	<b>2,334</b>	1,359	<b>742</b>	679	<b>489</b>	228	<b>53</b>	(20)	<b>285</b>	(39)
Intersegment revenue	-	-	-	-	<b>113</b>	63	-	-	<b>6</b>	7
<b>Total revenue</b>	<b>2,334</b>	1,359	<b>742</b>	679	<b>602</b>	291	<b>53</b>	(20)	<b>291</b>	(32)
Profit / (loss) from underwriting	<b>126</b>	89	<b>149</b>	(22)	<b>2</b>	4	-	-	-	-
Investment income	<b>38</b>	46	<b>19</b>	169	<b>11</b>	4	-	-	<b>218</b>	(106)
Other operating result	<b>3</b>	-	<b>17</b>	3	-	-	<b>15</b>	2	<b>(114)</b>	(74)
<b>Profit / (loss) from ordinary activities before income tax</b>	<b>167</b>	135	<b>185</b>	150	<b>13</b>	8	<b>15</b>	2	<b>104</b>	(180)
	<b>Intersegment elimination</b>		<b>Total</b>							
	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m	<b>31 Dec 2003 \$m</b>	31 Dec 2002 \$m						
External revenue	-	-	<b>3,903</b>	2,207						
Intersegment revenue	<b>(119)</b>	(70)	-	-						
<b>Total revenue</b>	<b>(119)</b>	(70)	<b>3,903</b>	2,207						
Profit from underwriting	-	-	<b>277</b>	71						
Investment income	-	-	<b>286</b>	113						
Other operating result	-	-	<b>(79)</b>	(69)						
<b>Profit from ordinary activities before income tax</b>	-	-	<b>484</b>	115						

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

**Note 14. Events subsequent to reporting date**

(a) IAG announced the agreement to sell its ClearView retirement services businesses to MBF on 12 December 2003. This sale was effective on 21 January 2004. The sale price was approximately \$220 million plus up to an additional \$50 million earn-out, subject to business performance over the next five and a half years. This sale results in a profit after tax to IAG of approximately \$43 million which will be included in the full year (30 June 2004) financial statements.

(b) On 26 February 2004 an interim dividend of 8.0 cents per share, 100% franked, was declared by the Company. The dividend is to be paid on 19 April 2004.

(c) On 26 February 2004 IAG announced that it intends to undertake an off-market buy-back in the order of \$350 million of ordinary shares. The final price and the allocation of that amount between capital and a fully franked dividend will be determined under the terms and conditions of the buy-back offer. This buy-back will be funded from surplus capital.

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 2003.

<u>Notes</u>	<b>CONSOLIDATED</b>	
	<b>31 Dec 2003</b>	<b>30 Jun 2003</b>
	<b>\$</b>	<b>\$</b>

**Note 15. Net tangible assets**

Net tangible assets per ordinary share	(i)	<u><u>1.00</u></u>	<u><u>0.84</u></u>
Net tangible assets per reset preference share	(ii)	<u><u>100.00</u></u>	<u><u>100.00</u></u>

(i) Net tangible assets per ordinary share has been determined after adjusting for outside equity interests, intangible assets (being goodwill and other intangibles) and the value of reset preference shares on issue (note 8).

(ii) Net tangible assets per reset preference share has been reflected at the face value of \$100.

**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 3 to 16, 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 2003 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 26th day of February 2004 in accordance with a resolution of the Directors.

..... Director

..... Director

***Independent Auditors' Review Report to the shareholders of Insurance Australia Group Limited***

***Scope***

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Insurance Australia Group Limited Consolidated Entity ("the Consolidated Entity"), for the half year ended 31 December 2003. The Consolidated Entity comprises Insurance Australia Group Limited ("the Company") and the entities it controlled during that half year.

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.

*Review approach*

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

***Independence***

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

***Statement***

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Insurance Australia Group Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2003 and of its performance for the half year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**KPMG**

**Dr Andries B Terblanché**  
**Partner**

Sydney  
26th February 2004