
Insurance Australia Group Limited

ABN: 60 090 739 923

Directory

Stock Exchange Listing

Australian Stock Exchange Limited
ASX code for ordinary shares: IAG
ASX code for reset preference shares : IAGPA

Investor Information/Administration

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Key Dates for Shareholders

<i>19 September 2002</i>	<i>Ex-dividend date (ordinary shares)</i>
<i>25 September 2002</i>	<i>Record date for final dividend (ordinary shares)</i>
<i>30 September 2002</i>	<i>Annual report released</i>
<i>21 October 2002</i>	<i>Final dividend paid (ordinary shares)</i>
<i>13 November 2002</i>	<i>Annual General Meeting</i>
<i>15 December 2002</i>	<i>First dividend payment (reset preference shares)</i>
<i>27 February 2003</i>	<i>1H03 results due to be announced</i>
<i>April 2003</i>	<i>Interim dividend payment (ordinary shares)</i>
<i>15 May 2003</i>	<i>Dividend payment (reset preference shares)</i>
<i>21 August 2003</i>	<i>Full year results due to be announced</i>

CONTENTS

<i>CORPORATE STRATEGY</i>	4
<i>INSURANCE AUSTRALIA GROUP LIMITED</i>	7
SHARE PRICE PERFORMANCE RELATIVE TO THE AUSTRALIAN ALL ORDINARIES AND INSURANCE INDICES TO 30 JUNE 2002	7
TOP 20 REGISTERED ORDINARY SHAREHOLDERS AS AT 30 JUNE 2002	7
TOP 20 REGISTERED RESET PREFERENCE SHAREHOLDERS (RPS) AS AT 30 JUNE 2002	8
<i>FULL YEAR RESULTS</i>	9
<i>OVERVIEW OF RESULTS</i>	10
<i>GROUP INSURANCE RATIOS</i>	11
<i>ANALYSIS OF INSURANCE GROUP RESULTS</i>	13
A. SEGMENT RESULTS OF OPERATIONS	13
B. UNDERWRITING RESULT	13
C. GROSS WRITTEN PREMIUM & NET EARNED PREMIUM	14
D. GROSS WRITTEN PREMIUM MIX	15
E. DIVERSIFICATION OF GWP & LIABILITIES – Group	16
F. HALF ON HALF COMPARISON OF RESULTS	17
G. RESULTS BY BUSINESS AREA	18
<i>DOMESTIC SHORT TAIL ANALYSIS</i>	19
A. OPERATING RESULTS	20
B. MARKET SHARE – MOTOR AND HOME	20
C. CLAIMS EXPERIENCE AND MANAGEMENT	21
D. EMERGING BUSINESS – SME COMMERCIAL INSURANCE	23
E. EMERGING BUSINESS – HEALTH INSURANCE	24
<i>DOMESTIC LONG TAIL ANALYSIS</i>	25
A. OPERATING RESULTS	26
B. COMPULSORY THIRD PARTY	27
C. WORKERS’ COMPENSATION	30
D. SUSTAINABILITY OF RESULTS	32
E. DISCONTINUED BUSINESS - INWARDS REINSURANCE RUN-OFF	33
<i>INTERNATIONAL GENERAL INSURANCE</i>	34
A. INTERNATIONAL	34
B. THAILAND & CHINA	35
<i>RETIREMENT SERVICES ANALYSIS</i>	37
A. STRATEGY UPDATE	37
B. OPERATIONAL RESULTS	38
C. FUNDS UNDER MANAGEMENT	38
D. RISK PRODUCTS	40
E. EMBEDDED VALUE	40
<i>CORPORATE AND INVESTMENTS</i>	41
CORPORATE	41
A. CORPORATE	41

INVESTMENTS	43
A. INVESTMENT RETURNS	43
B. PORTFOLIO RESTRUCTURING	44
C. ASSET RETURN EXPOSURE	45
D. GROUP ASSETS UNDER MANAGEMENT	46
BALANCE SHEET	47
A. DIVIDEND	47
B. RETURN ON EQUITY	48
C. CAPITAL MANAGEMENT	49
D. SENSITIVITY ANALYSIS	52
APPENDIX A - KEY ASX RELEASES	54
APPENDIX B – FINANCIAL STATEMENTS 30 JUNE 2002 – INSURANCE MANUFACTURERS OF AUSTRALIA PTY LIMITED	58
APPENDIX C – FINANCIAL STATEMENTS 30 JUNE 2002 – NRMA LIFE LIMITED.....	60

Corporate Strategy

The insurance landscape changed dramatically in FY02. The tragic events of September 11 delivered the poorest underwriting conditions in history. At the same time, the worst performance of investment markets since FY88 affected insurers around the world.

In Australia and New Zealand, there were a number of unusually severe catastrophes, resulting in far-reaching damage to homes and properties.

However, despite a year of poor investment returns and global underwriting losses, IAG's underlying business achieved a record operational result. In addition, the Group has delivered double-digit growth in net earned premium ('NEP') in the last three years, and doubled its gross written premium ('GWP') in the last four years.

IAG's strategic priorities

IAG's strategy to build on this strong performance can be encapsulated in five key priorities:

- reinvigorating customer focus;
- extending scale and diversity in core general insurance;
- leveraging core capabilities;
- managing risk; and
- delivering high quality growth and earnings.

Reinvigorating customer focus

The heritage of IAG and its brands is inextricably linked to a commitment to superior customer service. IAG's customer focus will be reinvigorated through promoting simplicity, convenience, and consistent customer service standards across the organisation. A number of programmes are underway to reduce customer waiting times, simplify documentation, and streamline the customer service process.



The Group also underwrites the insurance sold in Victoria under the RACV brand,
Extending scale and diversity in core general insurance

IAG is the largest domestic insurer in both Australia and New Zealand, with national market shares of 18% and 21%, respectively. The Group will leverage its core capabilities and expertise in general insurance to grow via the following means:

- **Natural premium growth** – The Group expects the hardening of market rates will continue, resulting in organic premium growth.
- **Deepening the relationship with existing customers** – IAG will maximise cross-selling opportunities with existing customers by offering multi-policy discounts.
- **Growth in other states** – The Group is looking to grow market share outside New South Wales ('NSW') and the Australian Capital Territory ('ACT'). Opening four branches in Queensland comprises part of IAG's commitment to ensuring a strong national presence and broader geographic distribution.
- **New products** – such as EasyBiz (the Group's commercial product tailored specifically for the small to medium enterprise market and designed for direct distribution).
- **CTP and workers' compensation** – IAG's strength in Compulsory Third Party ('CTP') and workers' compensation means the Group is well placed to participate in the potential privatisation of those schemes that remain underwritten by state and territory governments. The Group estimates that premiums underwritten by governments in these markets are close to \$5 billion.

Leveraging core capabilities

The corporate strategy will leverage our core expertise in underwriting and claims management, direct distribution and risk management.

- **Underwriting and claims management** – The Group's underwriting, product development and claims management practices were rated world-class by Accenture in May this year. Comparisons of cost structures ranked IAG's performance as equivalent to the leadership group in the United States. Nevertheless, a number of initiatives have been undertaken to improve the claims process even further, such as the introduction of an on-line claims option.
- **Direct distribution** – IAG deals directly with customers in Australia and New Zealand through 87 branches, 199 country service centres, a number of call centres, the internet and affiliated Australia Post outlets. Through these contacts, the Group gathers important information about customers, their needs, and their risks. A direct distribution model also provides the opportunity to cross-sell IAG products to existing customers.
- **Risk pricing models** – IAG is among only a handful of insurers to operate a sophisticated statistical model that determines risk factors fairly and accurately for each customer. This enables the Group to accurately price premiums. The Group's extensive risk pricing database provides it with a competitive advantage in terms of both underwriting statistics and customer profiles.

Managing risk

IAG's understanding of risk is considered amongst the best in the world. The Group's focus on maintaining best practice risk management processes ensures it is in a position to achieve sustainable and profitable growth. IAG will continue to reserve conservatively (currently at a 90% probability of sufficiency relative to a regulatory standard of 75%) and also aims to maintain a ratio of short to long tail business of 80:20 to avoid undue exposure to long tail classes.

Delivering high quality earnings and growth

IAG has several avenues through which to grow earnings including:

- **New insurance classes** – IAG will consider moving into new insurance classes such as public liability, medical indemnity and builders' warranty if sufficient structural reforms are made to stabilise the schemes. Should the Group proceed with these new classes, its focus will remain on the small to medium enterprise segment.
- **Industry consolidation** - There are currently six key players in the Australian insurance industry (in aggregate they account for over 70% of total premiums). The new capital requirements introduced by the Australian Prudential Regulation Authority ('APRA') are likely to drive further consolidation within the industry. This would provide the Group with the opportunity to grow by acquisition.
- **International expansion** – The Group will continue to investigate and consider international opportunities in which it can apply its core competencies - primarily in personal lines insurance. The Group's purchase of New Zealand's State Insurance in February 2001 represents the first major step in this direction. Long term, international expansion will be necessary to provide continued growth and risk diversification.

Aspirational financial targets

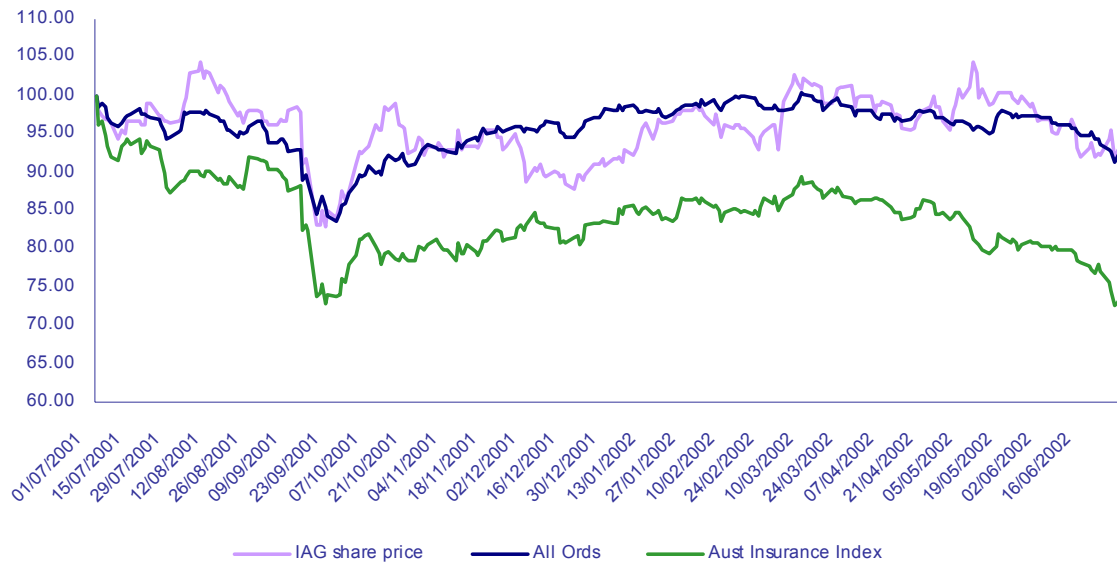
The five year strategic plan translates to the following financial aspirational goals:

- ◆ achieve top quartile total shareholder returns;
- ◆ record a normalised 13%-15% return on investments (assuming medium term average investment returns);
- ◆ double gross written premium by 2007; and
- ◆ maintain a combined ratio at less than 100% for the Group.

The Group considers that this combination of growth in premium balanced by an intent to maintain a strong credit rating and sub-100% combined ratios, together with an ongoing commitment to manage the capital and re-invest for the future, should deliver quality and sustainable shareholder returns.

Insurance Australia Group Limited

Share price performance relative to the Australian All Ordinaries and Insurance Indices to 30 June 2002



Top 20 Registered Ordinary Shareholders as at 30 June 2002

INVESTOR		% I/C
1	JP MORGAN NOMINEES AUSTRALIA LIMITED	90,091,090 6.92
2	WESTPAC CUSTODIAN NOMINEES LIMITED	51,455,790 3.95
3	NATIONAL NOMINEES LIMITED	49,067,507 3.77
4	NRMA NOMINEES PTY LIMITED	29,300,000 2.25
5	QUEENSLAND INVESTMENT CORPORATION	23,904,235 1.84
6	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	21,547,604 1.66
7	CITICORP NOMINEES PTY LIMITED	18,245,204 1.40
8	MLC LIMITED	16,294,319 1.25
9	AMP LIFE LIMITED	16,011,824 1.23
10	CITICORP NOMINEES PTY LIMITED <CFS WSLE IMPUTATION FUND A/C>	14,848,198 1.14
11	COMMONWEALTH CUSTODIAL SERVICES LIMITED	13,556,784 1.04
12	CITICORP NOMINEES PTY LIMITED <CFS WSLE AUST IMPUTATION FUND A/C>	9,585,632 0.74
13	CITICORP NOMINEES PTY LIMITED <CFS IMPUTATION FUND A/C>	8,167,039 0.63
14	CITICORP NOMINEES PTY LIMITED <CFS WSLE INDUSTRIAL SHR A/C>	6,540,709 0.50
15	CITICORP NOMINEES PTY LIMITED <CFS WSLE GEARED SHR FUND A/C>	5,928,194 0.46
16	COGENT NOMINEES PTY LIMITED	4,287,050 0.33
17	NRMA SHARE PLAN NOMINEE PTY LTD	4,060,138 0.31
18	ANZ NOMINEES LIMITED	3,187,637 0.24
19	TRANSPORT ACCIDENT COMMISSION	3,076,541 0.24
20	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/c>	2,942,994 0.23

Top 20 Registered Reset Preference Shareholders (RPS) as at 30 June 2002

	INVESTOR		% I/C
1	COMMONWEALTH CUSTODIAL SERVICES LIMITED	491,741	14.05
2	WESTPAC CUSTODIAN NOMINEES LIMITED	272,559	7.79
3	CITICORP NOMINEES PTY LIMITED	247,340	7.07
4	THE NATIONAL MUTUAL LIFE ASSOCIATION OF AUSTRALASIA LTD	230,000	6.57
5	AMP LIFE LIMITED	100,000	2.86
6	SHARE DIRECT NOMINEES PTY LIMITED	100,000	2.86
7	JBWERE CAPITAL MARKETS LIMITED	98,779	2.82
8	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED <RA A/C>	64,892	1.85
9	BRISPOT NOMINEES PTY LIMITED <HOUSE HEAD NOMINEE NO.1 A/C>	57,187	1.63
10	JP MORGAN NOMINEES AUSTRALIA LIMITED	50,000	1.43
11	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED <PP A/C>	50,000	1.43
12	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LTD	42,250	1.21
13	COGENT NOMINEES PTY LIMITED <SMP ACCOUNTS>	40,000	1.14
14	WERESYD PROPRIETARY LIMITED <F1 A/C>	35,000	1.00
15	I00F INVESTMENT MANAGEMENT LIMITED	32,500	0.93
16	ARGO INVESTMENTS LIMITED	30,800	0.88
17	FORTIS CLEARING NOMINEES P/L <SETTLEMENT A/C>	29,289	0.84
18	ELISE NOMINEES PTY LIMITED	25,695	0.73
19	KAPLAN EQUITY LIMITED	25,500	0.73
20	BRENCORP NO 11 PTY LIMITED	22,500	0.64

Full Year Results

Consolidated Financial Results	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance from June-01
	A\$m	A\$m	A\$m	A\$m
Gross written premium	2,643	3,198	3,558	360
Gross earned premium	2,573	3,035	3,448	413
Reinsurance expense	(189)	(260)	(253)	7
Net premium revenue	2,384	2,775	3,195	421
Net claims expense	(2,048)	(2,233)	(2,425)	(192)
Underwriting expense	(514)	(564)	(628)	(64)
Underwriting profit/(loss)	(178)	(22)	142	165
Investment income on technical reserves	288	232	136	(96)
Insurance profit	110	210	278	68
Financial services	21	20	(5)	(25)
Net corporate expenses	(66)	(121)	(42)	79
Amortisation and interest	(28)	(39)	(67)	(28)
Investment income/(loss) on shareholders' funds	417	126	(234)	(360)
Investment income/(loss) on external funds	44	44	(75)	(118)
Profit/(loss) from fee based businesses	(42)	15	32	17
NSW Insurance Protection Tax	-	-	(21)	(21)
Non-recurring items ¹	-	-	33	33
Extraordinary items	19	-	-	-
Profit before income tax	475	255	(101)	(356)
Income tax (expense)/benefit	(129)	(44)	18	62
Profit after income tax	346	211	(83)	(294)
Outside equity interests	(50)	(68)	58	126
Profit/(loss) attributable to shareholders	296	143	(25)	(168)

Financial Results/Ratios	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02
GWP (A\$m)	\$2,643	\$3,198	\$3,558
Profit attributable to shareholders (A\$m)	\$296	\$143	(\$25)
ROE % (Average Equity)	11.00	5.32	(1.00)
Basic EPS (cents) ^{2,3}	19.28	9.40	(1.78)
Diluted EPS (cents)	19.28	9.39	(1.77)
DPS	-	10.0	10.5
Group insurance ratios			
Loss ratio	85.9%	80.5%	75.9%
Expense ratio - Group	21.6%	20.3%	19.7%
Expense ratio - Domestic	21.6%	19.5%	18.9%
Combined ratio - Group	107.5%	100.8%	95.6%
Insurance margin (before tax)	4.6%	7.6%	8.7%
Probability of sufficiency of general insurance claims reserves	>90%	>90%	>90%

1. Non-recurring items: Profit on sale of Building Society (\$45m) and legal expenses related to "Share in The Future" (\$12m).

2. Based on the weighted average number of shares.

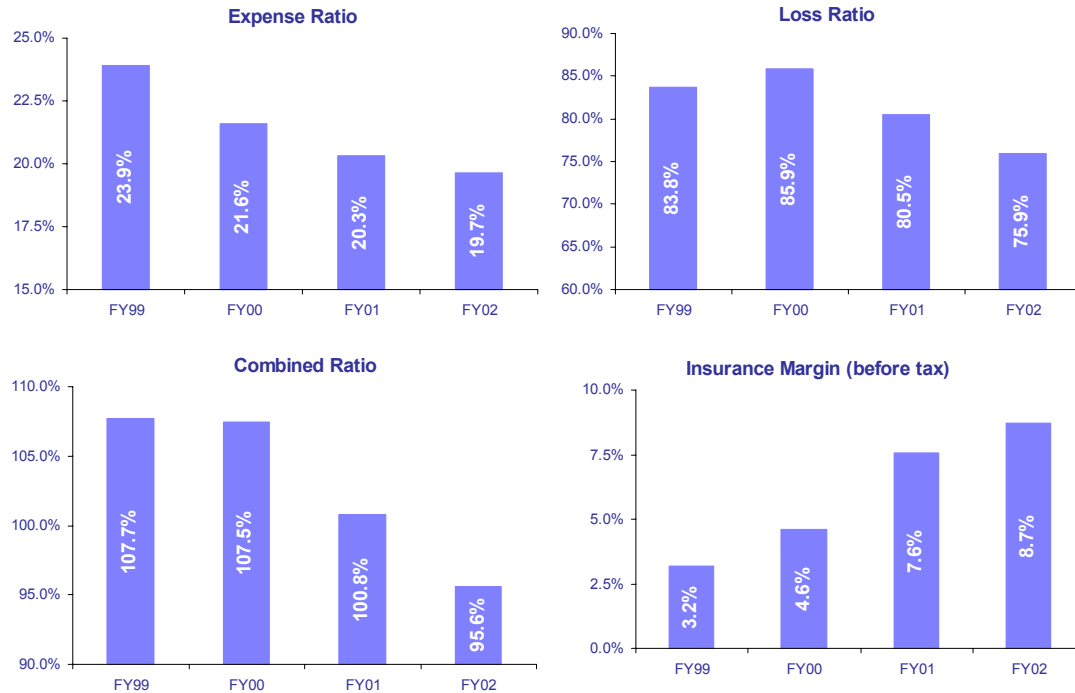
3. IAG listed in August 2000, EPS for 30 June 2000 was based on a pro-forma figure 1,537 million shares.

June 2001 comparatives throughout the report reflect the full 12 months to 30 June 2001.

Overview of Results

- The Group's growth in gross written premium of 11.3% to \$3.6bn was attributable to premium growth in core products, inclusion of NRMA NZ (State Insurance group) and the acquired workers' compensation portfolio for a full 12 months and organic growth in the commercial and health insurance businesses.
- The Group's NPAT for the financial year ended 30 June 2002 was a loss of \$25m. Whilst the Group continues to improve its operational results, the poor investment market conditions substantially affected the investment returns for the Group. This is only the second ever loss reported by IAG or NRMA Insurance over the nearly 80 years of operation.
- The full year result includes a number of significant (pre-tax) amounts:
 - Valuation adjustment of \$185m for the Group's whole of account aggregate stop loss contract ('WAASL') included in reinsurance recoveries;
 - Net loss from September 11, severe storms and record bushfires which totalled over \$100m;
 - Legal expenses of \$12m in relation to the 1994 "Share the Future" restructuring proposal; and
 - Profit on the sale of NRMA Building Society of \$45m.
- Operationally, the Group has continued to deliver strong underwriting results with both underwriting and insurance profit showing improvement on the previous corresponding period.
- The underwriting profit of \$142m compares with a loss of \$22m for FY01. Whilst the WAASL valuation had a positive impact of \$185m, the net loss from September 11, severe storms and record bushfires cost over \$100m. Eliminating just the September 11 net loss of \$60m and the \$185m from the WAASL, the Group would have reported an underwriting profit of \$17m.
- The solid underwriting performance of the business has supported the improvement in the insurance profit line, despite the lower investment returns earned on technical reserves compared with both prior periods and normalised rates of return.
- As previously announced to the market, the Group undertook a process to eliminate equities exposure from its technical reserves portfolio. This process was completed in June 2002. Going forward, the method used to achieve this reduction will ensure lower volatility in reported insurance profits (see page 44, Portfolio Restructuring).
- The Group has also implemented a programme of structured collars on a substantial portion of the equities backing its shareholders' funds and is reviewing the asset allocation process for this portfolio.

Group Insurance Ratios



- The Group's insurance ratios continue to improve demonstrating the value added from its disciplined approach to underwriting, pricing and cost control.
- On a full year basis, the Group has achieved a sub-100% combined ratio of 95.6% which is a 5.2% improvement on FY01. This translates to a \$166m improvement to the Group's underwriting results on net earned premium of \$3,195m.
- If the WAASL valuation benefit of \$185m is excluded, the Group's combined ratio would have been 101.3% or only 0.5% behind FY01 ratio. Indeed, in terms of underlying performance, if the \$185m WAASL valuation and the September 11 losses are excluded, the combined ratio would have been 99.5%
- Achieving an underlying COR of 99.5% in spite of major bushfires and storms is a testament to the strength of the Group's underwriting skills developed over many years and strictly applied to the portfolio since early in calendar 2000.
- The Group's insurance margin improved from 7.6% to 8.7% for this period, despite investment income on technical reserves, being down by 41.4% compared with the previous corresponding period.

- The domestic expense ratio was reduced from 19.5% to 18.9%, whilst the expense ratio for the Group fell from 20.3% to 19.7%. The improvement in the Group's expense ratio is reflective of the Group's scale, improving distribution capability and scalable information systems that support its core underwriting capabilities. This improvement in the expense ratio was achieved in spite of incurring the costs of implementing Privacy Act compliance and bearing the costs of our eCommerce channel (charged to corporate during the development phase).
- The valuation adjustment for the WAASL for the full year was \$185m. It has continued to be allocated 75% to long tail and 25% short tail, based on the contribution that these portfolios have made to the premiums over the term of the contract. The allocations of contributions were based on the perceived risk each portfolio ceded to the contract.

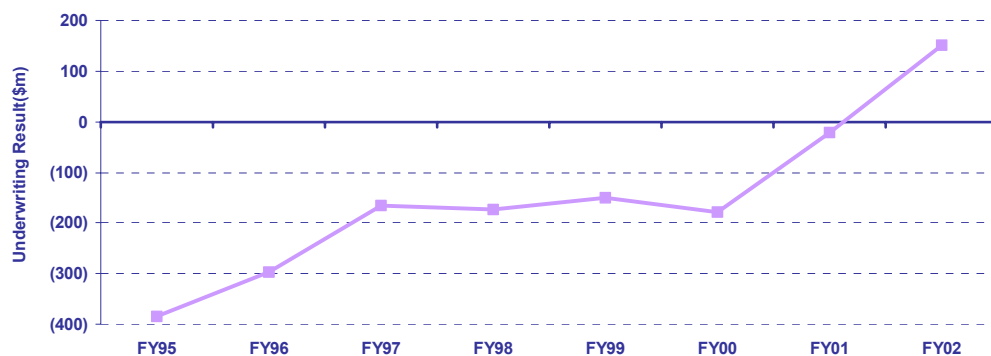
Analysis of Insurance Group Results

A. SEGMENT RESULTS OF OPERATIONS



Note: June 2002 longtail results includes the inwards reinsurance run-off.

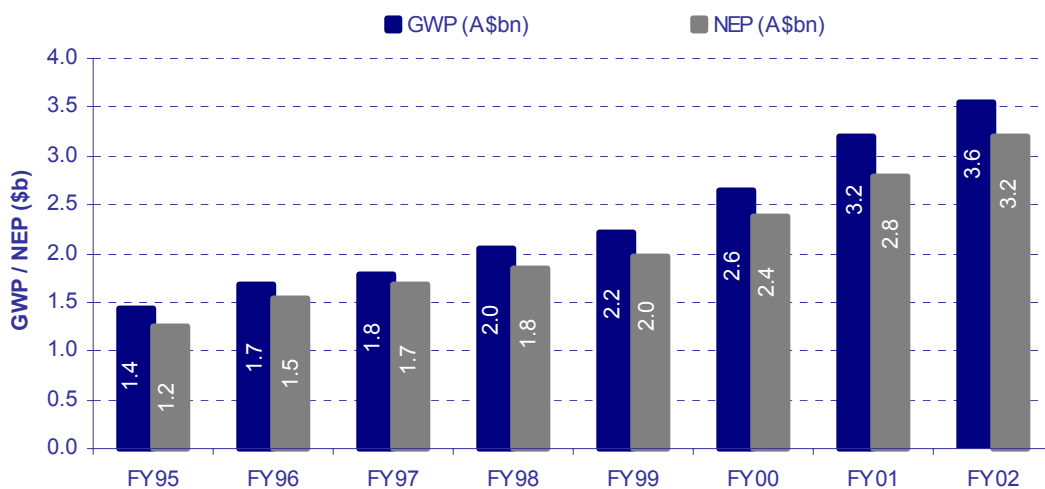
B. UNDERWRITING RESULT



- The trend of this graph illustrates the strength of the Group's core underwriting business. The Group's focus on managing its margins has significantly turned around the underwriting result from a loss of \$178m in June 2000 to a profit of \$142m in June 2002.

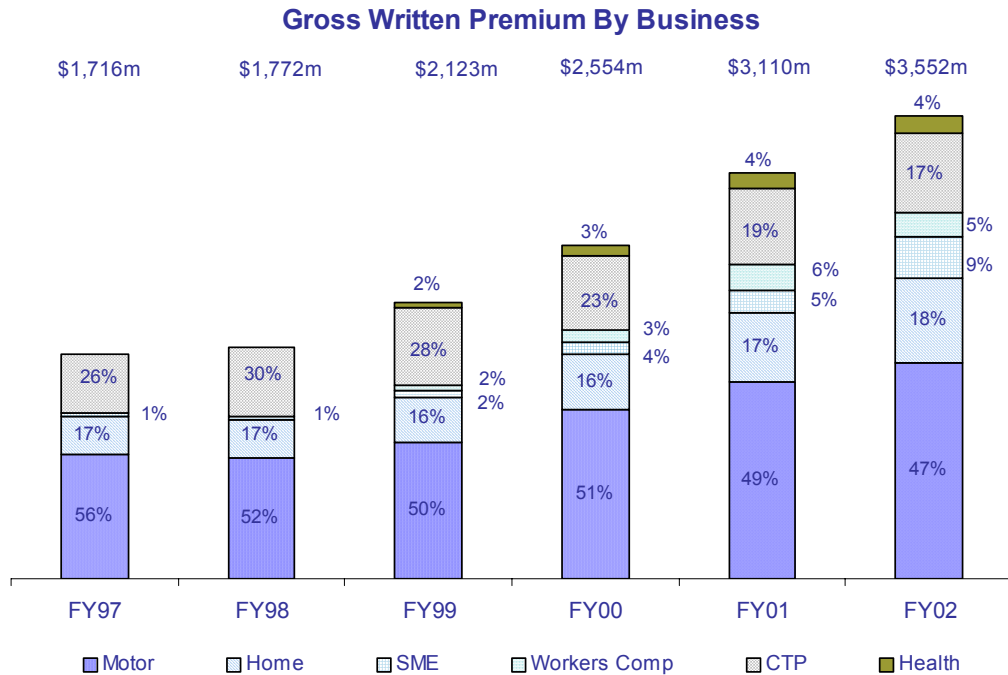
- The WAASL valuation had a positive impact of \$185m, whilst the net loss from September 11, severe storms and bushfires negatively impacted by over \$100m. Merely eliminating the two most unusual items (the \$185m profit from the WAASL and the \$60m net loss from September 11), the Group would have reported its first full year underwriting profit in at least a decade.
- In a volatile investment market environment, the general insurance operations are no longer permitted to rely on high investment returns to supplement underwriting losses.
- Given the poor performance of the investment market over this period, the quality of the underwriting result is emphasised with the Group achieving a higher insurance margin over the previous period despite investment income on technical reserves being 41.4% less than FY01.

C. GROSS WRITTEN PREMIUM & NET EARNED PREMIUM



- The GWP has significantly accelerated since financial year 1999 achieving a compound growth rate of 17.6% per annum to financial year 2002. Approximately half of this growth was generated through acquisition.
- The Group will continue to seek opportunities, both domestically and internationally, to achieve its strategic goal of doubling GWP by 2007. This growth objective is tempered by the Group's intent to ensure the combined ratio remains at an average of under 100% over the cycle, a target which, in itself, means the Group needs to target a business mix in the order of 80:20 between short-tail and long-tail lines.
- Compound growth in NEP during the same period has been 16.9%. The lower growth rate, relative to GWP, reflects the reinsurance arrangements inherited with acquisitions and the WAASL contract being in place for the four years to 30 June 2002.

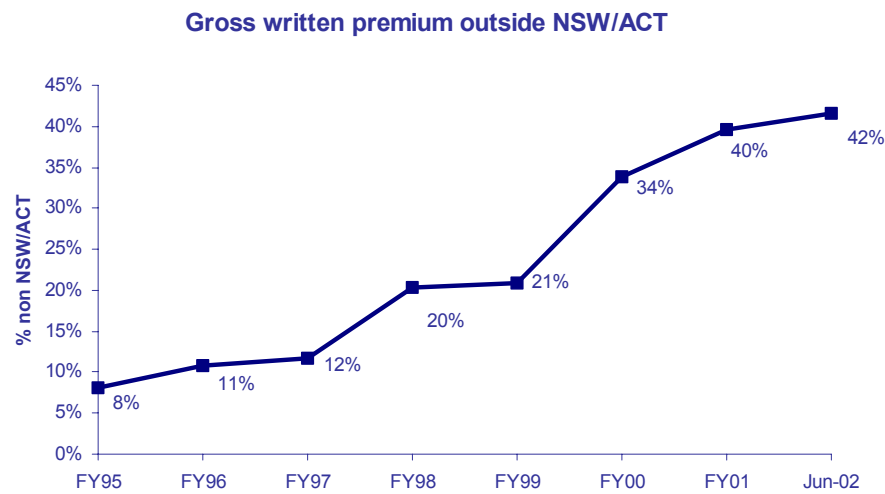
D. GROSS WRITTEN PREMIUM MIX



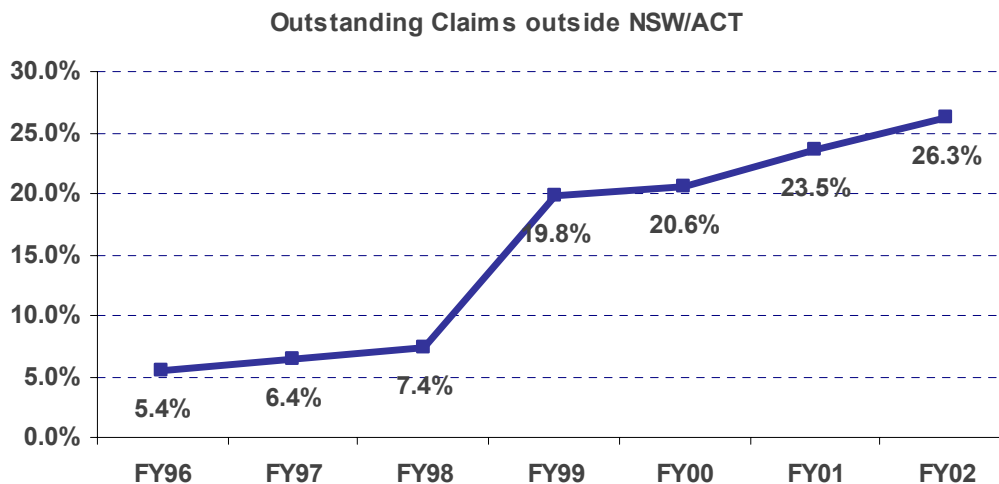
Note: Includes GWP of all businesses except Inwards Reinsurance, which is in run-off.

- The graph shows the momentum in the business and the ongoing trend in the diversification of the Group's premium base into other lines of business. Of particular importance is the maintenance of the Group's exposure to home insurance whilst reducing the reliance on motor insurance (56% to 47% in five years) and CTP (26% to 17% in five years). The continuation of this momentum should ensure the quality and sustainability of the Group's underwriting results.

E. DIVERSIFICATION OF GWP & LIABILITIES – Group



- The pace of geographic diversification of premium was slower this year with no acquisitions undertaken. Organically, growth in SME (small to medium enterprise) commercial and health business in the Eastern Australian states tempered the effect of the ongoing growth elsewhere. The focus on further growth in Queensland and the recent introduction of SME commercial products in Victoria (using the RACV brand) should see continued improvement in this aspect of diversification in future periods.



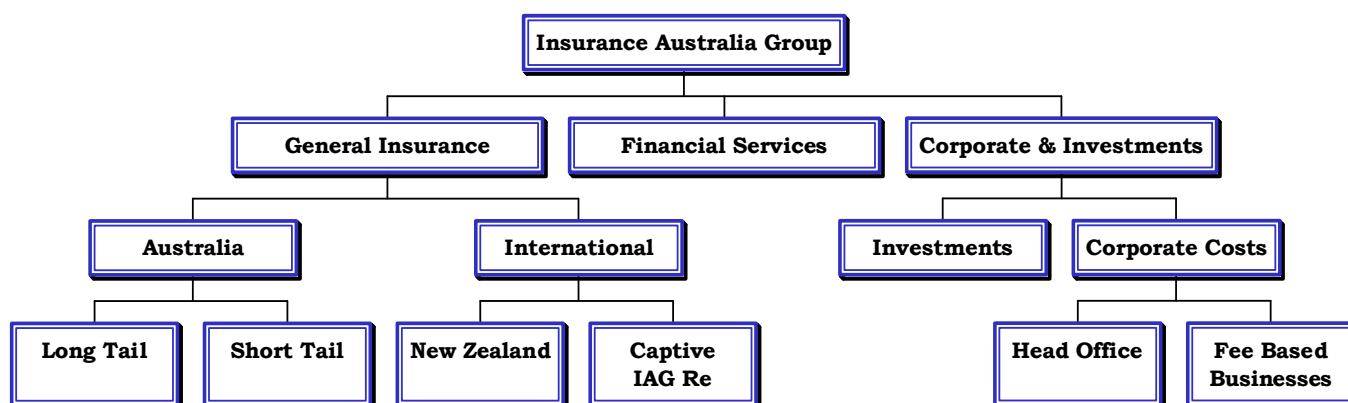
Note: The figures in this graph vary to that reported in June 2001 as it excludes inwards reinsurance run-off.

- The 2001 purchase of a national workers' compensation portfolio is having a delayed impact on the diversification of liabilities as no outstanding claims liabilities were assumed with the portfolio. As the reserves for business written by the Group accumulate in coming periods, some further gradual improvement in this ratio is anticipated.

F. HALF ON HALF COMPARISON OF RESULTS

Insurance Australia Group Financial Performance	1st Half Dec-00	2nd Half Jun-01	1st Half Dec-01	2nd Half Jun-02
	A\$m	A\$m	A\$m	A\$m
Net premium revenue	1,315	1,460	1,568	1,627
Net claims expense	(1,064)	(1,169)	(1,216)	(1,209)
Underwriting expense	(277)	(287)	(315)	(313)
Underwriting profit/(loss)	(26)	4	37	105
Investment income on technical reserves	129	103	88	48
Insurance profit/(loss)	103	107	125	153
Financial services	3	17	8	(13)
Net corporate expenses	(59)	(62)	(24)	(18)
Amortisation and interest	(15)	(24)	(36)	(31)
Investment income on shareholders' funds	(35)	161	(54)	(180)
Investment income/(loss) on external funds	14	30	4	(79)
Profit/(loss) from fee based businesses	7	8	17	15
NSW Insurance Protection tax	-	-	(10)	(11)
Non-recurring items	-	-	33	-
Extraordinary items	-	-	-	-
Profit / (loss) before income tax	18	237	63	(164)
Income tax (expense) / benefit	2	(46)	(5)	23
Profit / (loss) after income tax	20	191	58	(141)
Outside equity interest	(17)	(51)	(9)	67
Profit / (loss) attributable to shareholders	3	140	49	(74)
Insurance Ratios				
Loss Ratio	80.9%	80.1%	77.5%	74.3%
Expense Ratio	21.1%	19.7%	20.1%	19.2%
Combined Ratio	102.0%	99.8%	97.6%	93.5%
Insurance Margin	7.8%	7.3%	8.0%	9.4%

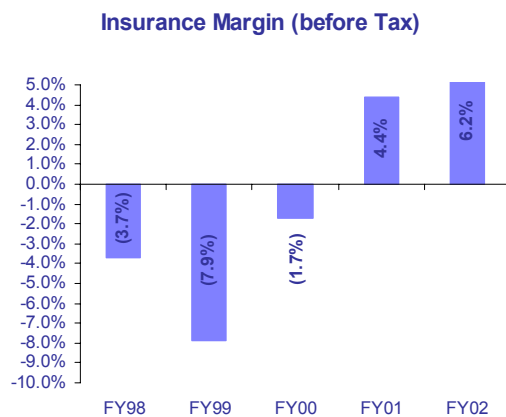
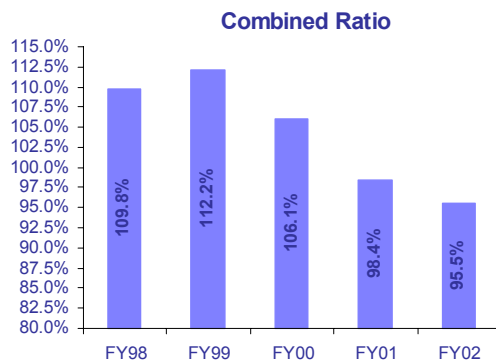
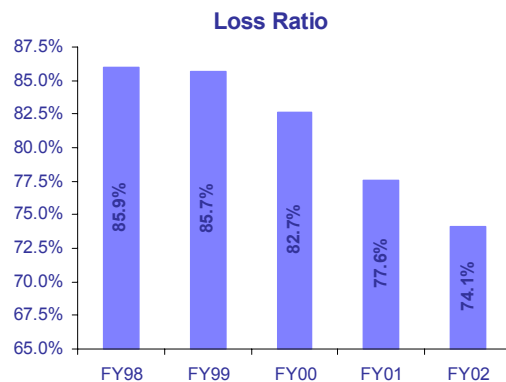
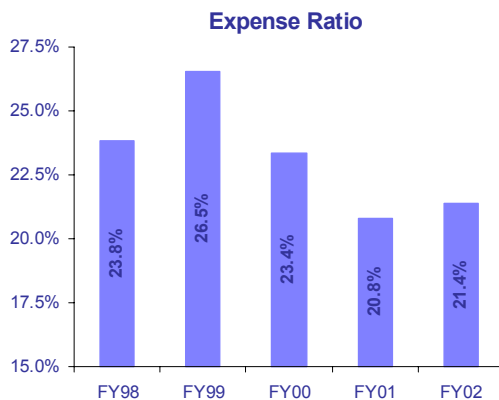
G. RESULTS BY BUSINESS AREA



Insurance Australia Group Limited	Short tail	Long tail	Financial Services	Corp & Inv't	Inter-national	Full Year ended June- 02	Full Year ended June- 01
						A\$m	A\$m
Net premium revenue	2,125	729			341	3,195	2,775
Net claims expense	(1,574)	(609)			(242)	(2,425)	(2,233)
Underwriting expense	(454)	(87)			(87)	(628)	(564)
Underwriting profit/(loss)	97	33			12	142	(22)
Investment income on technical reserves	34	87			15	136	232
Insurance profit	131	120			27	278	210
Financial services			(5)			(5)	20
Net corporate expenses				(42)		(42)	(121)
Amortisation and interest				(67)		(67)	(39)
Investment income/(loss) on shareholders' funds				(234)		(234)	126
Investment income/(loss) on external funds				(75)		(75)	44
Profit from fee based businesses				32		32	15
NSW Insurance Protection Tax				(21)		(21)	-
Non-recurring items				33		33	-
Profit before income tax	131	120	(5)	(374)	27	(101)	255
Income tax (expense)/benefit				18		18	(44)
Profit after income tax						(83)	211
Outside equity interests:							
External funds						75	(44)
Insurance Manufacturers of Australia						(17)	(24)
Profit/(loss) attributable to shareholders						(25)	143
Basic earnings per share (cents)						(1.8)	9.4
Diluted earnings per share (cents)						(1.8)	9.4

Domestic Short tail Analysis

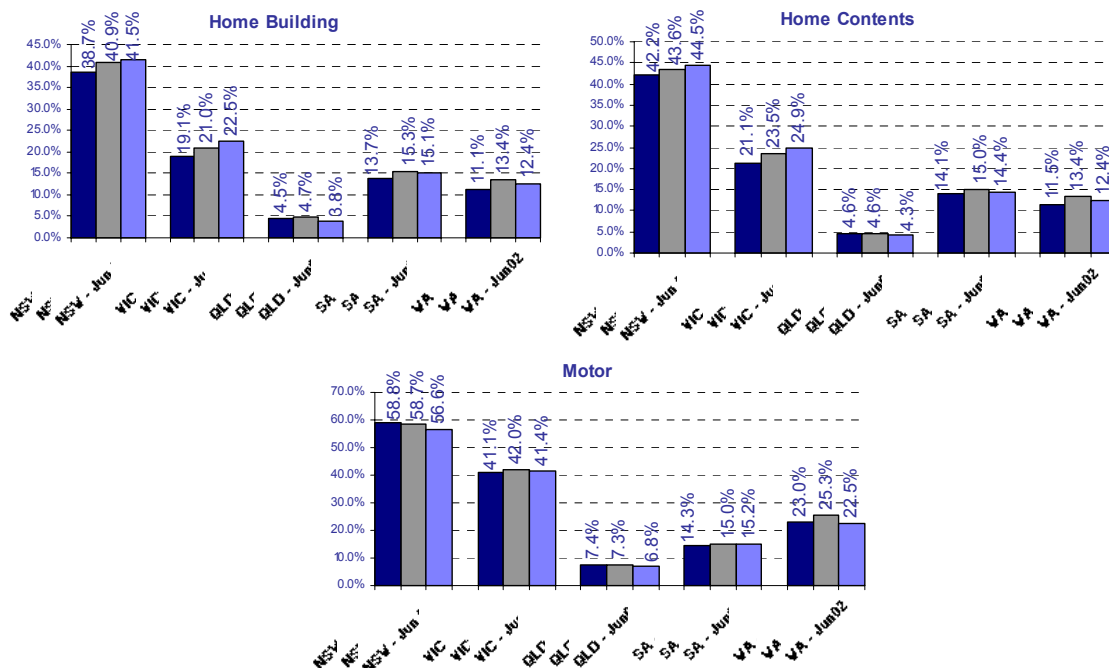
Domestic Short Tail	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance
	A\$m	A\$m	A\$m	A\$m
Gross written premium	1,876	2,183	2,357	174
Gross earned premium	1,804	2,097	2,266	169
Reinsurance expense	(95)	(109)	(141)	(33)
Net premium revenue	1,709	1,988	2,125	136
Net claims expense	(1,413)	(1,543)	(1,574)	(31)
Underwriting expense	(399)	(414)	(454)	(40)
Underwriting profit/(loss)	(103)	31	97	66
Investment income on technical reserves	74	56	34	(22)
Insurance profit	(29)	87	131	44
Insurance ratios				
Loss ratio	82.7%	77.6%	74.1%	(3.5%)
Expense ratio	23.4%	20.8%	21.4%	0.5%
Combined ratio	106.1%	98.4%	95.5%	(2.9%)
Insurance margin (before tax)	(1.7%)	4.4%	6.2%	1.8%



A. OPERATING RESULTS

- The three-year comparison of the short-tail financial results shows the significant turnaround of the business since the implementation of initiatives to improve underwriting, risk-based pricing and concentrated efforts on reducing average claims cost.
- The Group's confidence in the short-tail business led to the March 2002 announcement of a reduction in target combined ratio from 98%-100% to 96%-98%.
- For the FY02, the short-tail business achieved this target by producing a COR of 95.5% or 97.6% excluding the benefit of the WAASL valuation, compared with 98.4% for FY01. This underlying ratio is at the higher end of the Group's target ratio of 96-98% for this business, reflecting the impact of unusually severe storms and bushfires in 1H02. The 2H02 COR, excluding the WAASL valuation of \$46m, was 94.6%. The key dependency to continuing this run rate is the performance of the motor portfolio, particularly in NSW due to the relative size of that part of the portfolio.
- The increase in underwriting expenses during the year is attributable to a combination of the volume of business and costs associated with new Privacy Act compliance requirements.
- The record underwriting result has driven the insurance margin higher from 4.4% to 6.2%, despite lower investment returns compared to the previous corresponding period. Following the recent changes to remove equities exposure from the Group's technical reserves, the combination of target combined ratios of 96-98% and current interest rates should deliver insurance profits of at least 8% for medium term, barring major insured catastrophes.

B. MARKET SHARE – MOTOR AND HOME



Source: Roy Morgan Research-12 month rolling averages, 2002 figures are 11 months to May 2002 as June unavailable to date

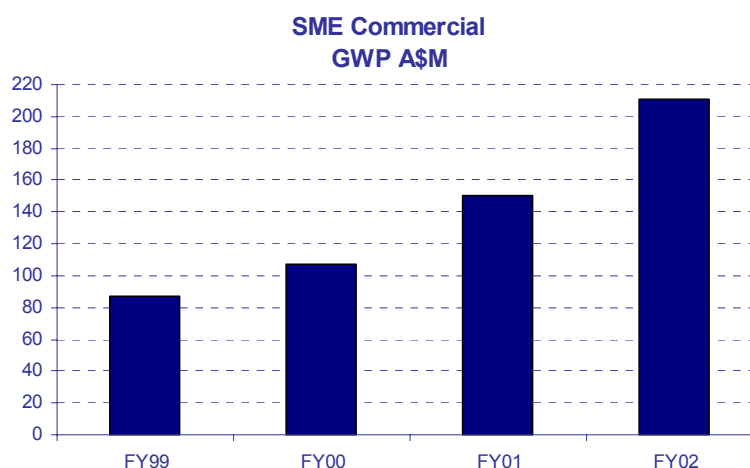
- Although the Group approaches the management of its short tail business from a national perspective, the market shares by State are shown as the opportunities for profitable expansion in each area are different.
- The Group's primary focus for over two years has been applying its underwriting principles and pricing models to its portfolios. This led to considerable re-pricing of some elements of the Group's portfolio, in particular motor in NSW and Victoria and home insurance in Western Australia.
- As the major restructuring has been completed, the Group has recommenced its focus on increasing cross-sell in the last year. The focus on cross-sell is seen as more attractive at this stage than growth in new policies because:
 - the quality of data already held on these customers enables the Group to more accurately price for the risk;
 - the significantly lower penetration of the Group into home insurance; and
 - the prospects for further cross-sell with other classes such as health and commercial.
- The graphs shown on the previous page reflect both the minor reductions in market shares experienced during the restructure and the early success in growing the home market shares in the first two areas targeted, ie. NSW and Victoria.
- It should also be noted that the Group's national policies in force for motor and home nationally have grown in the two years since June 2000.

C. CLAIMS EXPERIENCE AND MANAGEMENT

- With the exception of NSW storm and fire, claim frequencies for the period were almost without exception significantly down relative to the corresponding period last year. This was a major contributor to the overall result for the year considering that the Group has effectively absorbed approximately \$40m of 'abnormal' storm and bushfire experience.
- The motor claims experience was significantly better than prior periods, attributable to:
 - reduced collision frequency;
 - generally favourable weather;
 - reduced theft frequency;
 - reduced average claims size; and
 - changes in the portfolio mix.
- The claims experience in the home portfolio was effected by the major storms and bushfires.

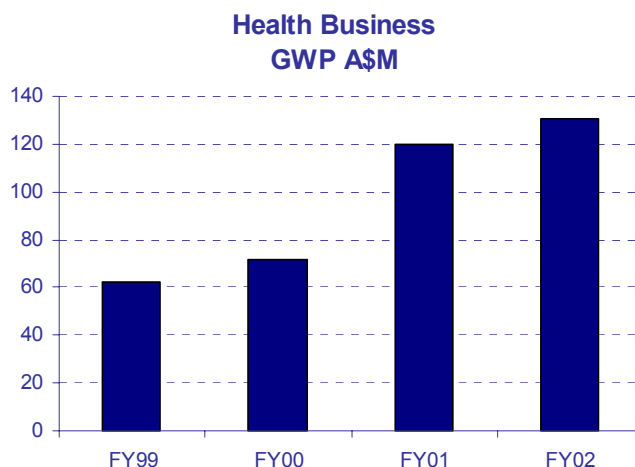
- The Group remains committed to improving its claims processes to both manage the cost of claims and ensure the customers' experience is favourable. Our research has shown very high retention rates for customers with a favourable claims experience. Independent surveys of the Group's claimants report 88% stating that they are likely to renew their policies with similar and increasing numbers indicating their satisfaction with the overall claims experience.
- Initiatives currently under development in claims management include:
 - systematic identification and automated processing of non-complex claims;
 - improving recovery systems and tracking;
 - central systematic sourcing of home contents replacement goods;
 - home claims system for allocation of work to preferred home repairers and builders, including remote assessing and repairs allocation; and
 - preferred towing trial whereby 85% of tows are now being allocated to Preferred Smash Repairers.
- The Preferred Smash Repairers (PSR) scheme, initiated in NSW, has now reached the stage that 70% of repairs in the relevant areas of that State are performed by PSRs, and of these repairs, 70% are referrals from the Group's teleclaims operations. The success of PSR arrangements in terms of customer satisfaction and claims cost and quality has led to it being adopted as a national strategy.
- The Group also recognises that prevention of claims is important for the Group and its customers, both from social and financial perspectives. As a consequence, the Group continues to invest in loss prevention. This includes:
 - sponsorship focused on crime and injury and support for the emergency response services; and
 - research conducted locally, together with participation in leading international research, on the design of vehicles to maximise safety and minimise repair costs and theft.

D. EMERGING BUSINESS – SME COMMERCIAL INSURANCE



- Since the introduction of the Eazybiz product in February 2001 as the key platform to expand the Group's SME commercial insurance business, it has been a substantial contributor to the Group's organic GWP growth.
- For the year ended June 2002, the Group recorded a 40.5% increase on GWP in this portfolio and a 45.6% growth in policies in force compared to the previous corresponding period.
- The substantial growth in the business has translated to an increase in the SME commercial insurance market share from 4.3% to 6.2% as at 30 June 2002.
- Most importantly, not only is strong growth occurring in all classes within the SME commercial business but it has also made positive contributions to the Group's underwriting results.
- To continue the momentum of this growth in SME commercial insurance, the Group has implemented various initiatives to enhance and expand its product offerings and to improve its sales delivery and customer service.
- These initiatives include:
 - Simplifying the sales process through the use of 'Quick Quote', a PC software application that delivers instant quoting capabilities to the Group's sales representatives and intermediaries on an Australia-wide basis. Approximately 130 brokers are currently using the system; and
 - Providing product and service direct over-the-phone, which is a unique feature in the commercial insurance market. This efficient product and service delivery via the Group's internet and over-the-phone capability is a major factor in consumers' preference for IAG's SME commercial insurance products.

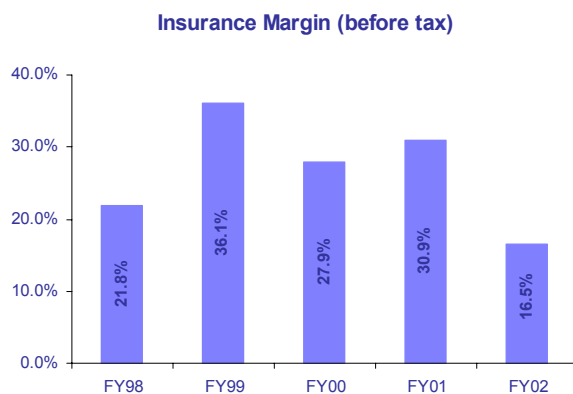
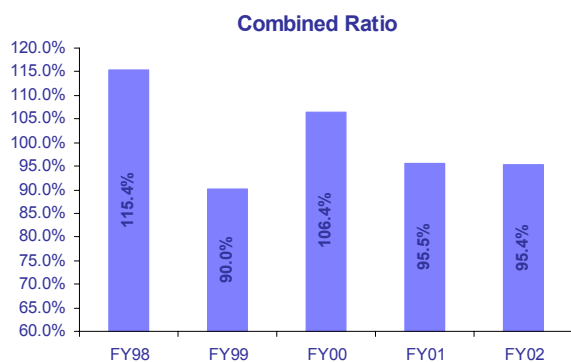
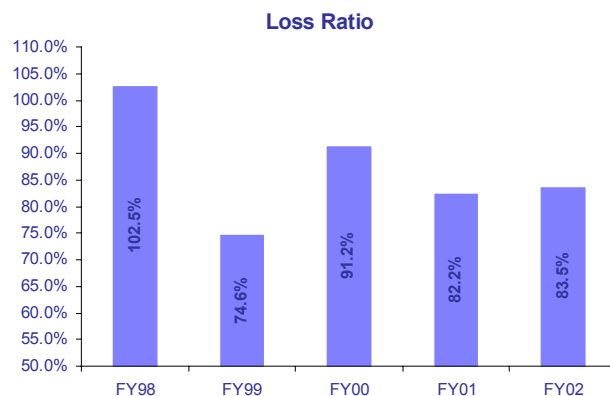
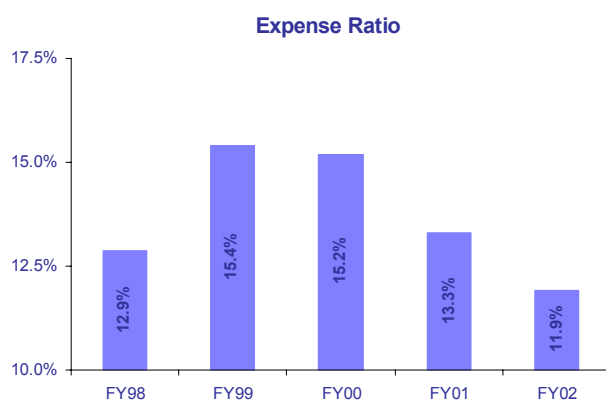
E. EMERGING BUSINESS – HEALTH INSURANCE



- The GWP for the health business grew by 9% for the year ended 30 June 2002 and policies in force for the health business increased by 14.7%. As previously reported, an advertising campaign in 1H02 needed to be withdrawn and was not replaced until December. In response to this new campaign and marketing efforts, 2H02 saw stronger sales in both corporate and retail channels.
- As at March 2002, 44.7% of the Australian population was covered by private hospital insurance. This represented a slight decrease of 0.2% since June 2001, whilst over the same period market share for NRMA Health increased by 0.1% to 1.7%.
- The Group will continue to focus its efforts on marketing and educating consumers through its retail and corporate channels to capitalise on the increasing awareness of the need for private health insurance.
- Given the Group's market positioning and scale, it is able to leverage its large customer base to grow its sales by cross-selling and bundling its products of health, commercial, CTP and workers' compensation insurance as a package to the corporate consumer. The Group's initial success in this area has added a valuable avenue of growth for the Group's health insurance business. The relevant sales teams are working together to identify and deliver opportunities.

Domestic Long tail Analysis

Domestic Long tail	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance
	A\$m	A\$m	A\$m	A\$m
Gross written premium	674	788	811	23
Gross earned premium	672	718	817	99
Reinsurance expense	(71)	(100)	(88)	12
Net premium revenue	601	618	729	111
Net claims expense	(548)	(508)	(609)	(101)
Underwriting expense	(91)	(82)	(87)	(5)
Underwriting profit/(loss)	(38)	28	33	5
Investment income on technical reserves	206	163	87	(76)
Insurance profit	168	191	120	(71)
Insurance ratios				
Loss ratio	91.2%	82.2%	83.5%	1.4%
Expense ratio	15.2%	13.3%	11.9%	(1.4%)
Combined ratio	106.4%	95.5%	95.4%	(0.1%)
Insurance margin (before tax)	27.9%	30.9%	16.5%	(14.4%)



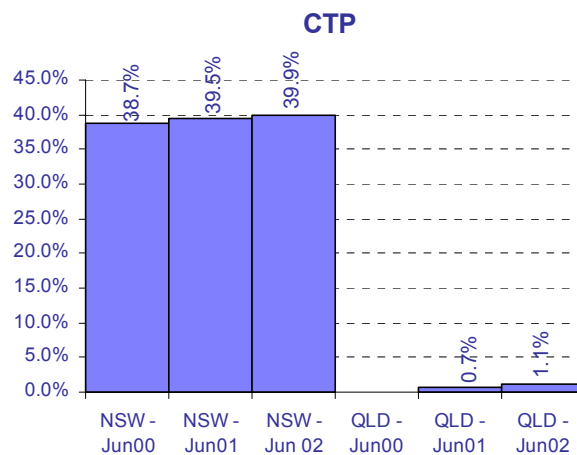
A. OPERATING RESULTS

- The insurance margin from the domestic long tail business is now operating closer to what the Group considers to be a sustainable level based on an underlying target combined ratio of 105-110%.
- The reported combined ratio of 95.4% for FY02 is unchanged from FY01, but the underlying composition is different.
- Gross written premium increased by 2.9%. This reflects the stable pricing in the two largest portfolios – New South Wales ('NSW') compulsory third party ('CTP') and Western Australian ('WA') workers' compensation. (The discontinuation of new business in the inwards reinsurance portfolio does not affect this comparative as that business was separately reported prior to being put into run-off.)
- Net earned premium rose by 18.0% compared with FY02, essentially because the FY02 results only included about a quarter's earned premium from the workers' compensation portfolio acquired in March 2001.
- The net claims expense for FY02 was affected by:
 - Valuation recoveries from the WAASL that reduced the net claims expense for the year by \$138.7m. As the WAASL contract has been terminated with effect from 1 July 2002, these amounts will be non-recurring. The related reinsurance premium expense that was incurred over four years will also cease; and
 - Unexpected losses in the inwards reinsurance portfolio, in particular the World Trade Center loss which contributed \$60m to the net claims expense.
- Adjusting the discount rate on claims for current interest rates amounted to an expense of \$18m for the year, following a credit of \$12m in 2H02 when the discount rates increased.
- The FY02 expense ratio of 11.9% is lower than prior periods due to a combination of:
 - Efficiencies achieved through economies of scale and implementation of a national operating model for all statutory injury compensation schemes in which the Group participates – including those where the Group acts as a claims manager for government underwritten schemes; and
 - Improved stability in the major injury compensation portfolios underwritten by the Group resulted in a reduced write-down of deferred acquisition costs on the long tail business, which more than offset the one-off costs of implementation of Privacy Act requirements incurred in 1H02.

- If the effects of the WAASL valuation recoveries and the September 11 losses are excluded, the long tail portfolio's combined ratio was 106.3%, which is within the Group's target combined ratio range of 105-110%. Looking at each half separately on this basis, the COR for 1H02 was 109.5% and 103.4% for 2H02. A return to these levels from the lower combined ratios experienced in prior years has been foreshadowed by the Group for a couple of years.
- The Group is satisfied that the long tail portfolio makes an appropriate and sustainable contribution to the Group's return on capital when operating in this target range, given the Group's scale. At this level, the key injury compensation schemes for which the Group is one of the underwriters, seem to be able to operate in a form of equilibrium whereby premiums are quite stable, reasonable benefits are provided to those who are injured and there is an adequate return for the underwriters.
- Investment income on technical reserves was 11.9% of NEP compared with 26.4% for FY01. This significant reduction – due to poor investment market performance – accounts for the reduction in the insurance margin. As previously noted, the removal of equities exposure from the technical reserves investments should increase the stability of the investment income in future periods.

B. COMPULSORY THIRD PARTY

B.1. Market Share



Note: NRMA has 100% of ACT market

Source: NSW CTP market share: Motor Accident Authority (MAA)
QLD CTP market share: Motor Accident Insurance Commission (MAIC)

- Market share in NSW has remained quite stable. Market share in Queensland has grown to 1.1%. Further growth in Queensland, concentrated on regional areas, is anticipated following the signing of a distribution agreement with Elders in July 2002 and the planned opening of four regional branches in September 2002.
- The Group has a 100% market share in the Australian Capital Territory ('ACT').

- The CTP schemes in the remaining States and Territories are government underwritten.

B.2. Underwriting and distribution strategy

- The key underwriting philosophy for CTP in NSW is to control the mix of business in the portfolio by actively targeting the better risk customer segments through competitive pricing and cross-marketing into IAG's motor vehicle insurance portfolio. This results in a claims frequency which is consistently lower than the rest of the industry, which in turn enables IAG to be the cheapest in the market for the best risks.
- The success of this strategy is demonstrated by the fact that the percentage of IAG motor vehicle insurance customers in NSW with CTP insurance has increased from 65% in FY00 to 78% in FY02.
- Also of significance is that, over four years, the Group has been able to substantially grow its portfolio in NSW while at the same time maintaining the overall quality of the portfolio. In that period, IAG's total number of policies in force has increased by over 25%, and, simultaneously, the proportion of 25-54 year olds (regarded as a good risk segment) in the portfolio has also increased.

B.3. NSW CTP scheme performance

- Another crucial factor underpinning the CTP results has been the performance of the current NSW CTP scheme in operation since October 1999. While there is still some element of uncertainty about the impacts of the 1999 reforms, the results of industry monitoring have been encouraging, as shown by the following indicators (taken from industry monitoring reports to either December 2001 or March 2002):
 - Claim frequency has fallen significantly under the new scheme - reported claim frequency fell by 15% in the first year of the new Act compared with the final year of the old Act and by a further 14% in the second year (*PricewaterhouseCoopers Actuarial scheme monitoring report to 31 March 2002*);
 - Average incurred claims cost is 19% lower under the new Act than under the old Act. (*Trowbridge Consulting presentation to the Insurance Council Australia ('ICA') based on experience to 31 December 2001*);
 - A major reason for the cost savings has been the success of the new scheme in meeting the key objective of limiting access to non-economic loss payments for minor injuries. A recent audit by the Motor Accidents Authority found that the number of claims receiving non-economic loss payments under the new scheme is in line with the scheme objective that only 10% of claims would result in compensation for non-economic loss; and

- The outcomes from the medical assessment and dispute resolution systems established for this scheme are in line with expectations.

B.4. Claims management strategies

- While the overall performance of the NSW scheme has helped to create a favourable operating environment, the Group has generated additional value by implementing claims management strategies that enable it to achieve superior outcomes compared to the rest of the industry. The specific areas of focus in its claims management which have contributed to the strong performance include:
 - careful management of staff file loads to optimise the balance between operating expenses and overall claims costs;
 - an emphasis on early medical intervention together with treatment that promotes rehabilitation and thereby minimises the severity and cost of injuries;
 - the use of injury management and rehabilitation specialists within the claims units;
 - the adoption of settlement practices which encourage the finalisation of claims;
 - using our scale and national presence to identify best practices and apply these across all jurisdictions;
 - A comprehensive, competency based, staff training system;
 - the establishment of medical and legal service provider networks to control costs;
 - the use of a dedicated specialist unit for managing large claims.
- The impact of these practices on financial performance is evident from a range of indicators of IAG's performance in the NSW CTP scheme compared to the rest of the industry. For example (*statistics taken from Motor Accident Authority statistics to 31 March 2002*):
 - IAG has finalised 34% of its reported claims under the new NSW scheme compared with an overall industry finalisation rate of 30%;
 - The average payment by IAG on finalised claims under the new scheme is 28% lower than for the whole industry;
 - Similarly, for the 'old' (pre-October 1999) NSW scheme IAG has finalised 95.2% of its reported claims compared to an industry average of 92.7%, and the average payment on IAG's finalised claims was 1% lower than the industry average; and
 - For accident notification claims (minor injuries), IAG's average payment is 17% below the industry average.

B.5. Performance of other CTP schemes

- The Group is the sole underwriter of CTP in the ACT. This scheme, which is a common law scheme, is operating quite stably at present. The Group has some concerns about the sustainability and stability of the current scheme in Queensland and, for this reason, is taking a cautious approach to expansion there and concentrating primarily on rural areas. With a current market share of under 2%, the Group's exposure is not material.

C. WORKERS' COMPENSATION

- Several main factors contributed to a strong financial result for the workers' compensation business. Firstly, there is a generally favourable scheme environment in most of the risk states (ie. states with private rather than government underwritten schemes), particularly the key WA scheme. The second reason is the Group's ability to generate value through a range of operational measures in both the underwriting and claims areas. Much of this value has been derived from the successful integration of the national workers' compensation portfolio acquired in March 2001 into IAG's existing statutory classes business, and from its ability to apply IAG's strengths in areas such as research and actuarial analysis to these acquired businesses.
- The Group's market shares in the risk states are 27% in Western Australia, 14% for the Northern Territory, 18% in Tasmania and 16% in the ACT.
- The Group's market shares in the government underwritten States ('non-risk states') of Victoria, New South Wales and South Australia are 22%, 13% and 16%, respectively.

C.1 WA Performance

- The 1999 reforms to the WA scheme have led to a significant improvement in claims experience. This is evident from the fact that, across the whole scheme, claims frequency has dropped by over 20% since the reforms were implemented (data from the regulator, Workcover). In addition, the reforms have been successful in restricting access to common law, which was a major objective of the reforms. This is evidenced by payments for common law falling by almost 50% in FY01 compared to the previous year, such that they represented only 20% of total payments in FY01 compared to 32% the previous year.
- These scheme-wide trends are consistent with the recent experience for the Group's portfolio:
 - claim frequency for the three most recent accident years is about half that of the 1997 and 1998 accident years; and
 - the average common law payment per claim incurred in each accident year since 1999 has been less than 50% that of the 1997 year.

C.2. Performance of other workers' compensation schemes

- The performance of the other risk state schemes has been generally satisfactory, although there has not been quite the same level of certainty and stability as in WA. Reforms were introduced in Tasmania in July 2001 that are intended to restrict access to common law, but it is too early to assess their success with confidence. New legislation was introduced for the ACT scheme from July 2002. This scheme has been relatively stable but premiums have been rising and the objective of the reform was to achieve reductions. Whether this objective will be achieved remains to be seen as the scheme retains unrestricted access to common law, which is typically a major cause of scheme deterioration.

C.3. Underwriting and distribution strategies

- Following the acquisition of a national workers' compensation portfolio in March 2001, the Group now has a major national presence and has the largest aggregate market share in the risk states. A major contributing factor to FY02's strong performance was the Group's ability to apply successful underwriting and distribution strategies across each State portfolio. Some specific examples include:
 - IAG's research and actuarial capabilities have been used to develop pricing models that more accurately price risk. This has enabled the targeting of profitable industry and customer groups;
 - The Group's research and analysis skills are also used to develop portfolio monitoring skills and to provide value-adding services to individual clients. For example, an employer 'scorecard' is provided to clients which includes data and analysis on the leading indicators of claims costs and premiums;
 - An important focus of client management is on servicing larger national clients, and working closely with them on risk and claims management strategies; and
 - A strong emphasis has also been put on promoting NRMA Insurance Limited's AA+ insurer financial strength rating from Standard & Poor's as a marketing tool in the broking community.
- The success of these strategies is evident from the fact that the renewal retention rate in FY02 was about 91% and over 99% for national clients. In addition, a number of major 'blue-chip' national clients were acquired during the year. As a result of these measures the Group has been able to at least hold market share, and in some states improve market share (e.g. SA market share increased by 1% which is a significant achievement given that employers in that state can only change insurers once a year).

C.4. Claims management strategies

- As with CTP, the emphasis in managing workers' compensation claims is on early notification and treatment, and rehabilitation that promotes return to work. To this end many of the practices that have been implemented in CTP have also been applied to workers' compensation. Some additional more specific measures include.
 - Following the 2001 acquisition, alignment of claims support services such as training and reporting on a national basis to gain efficiencies from these services and ensure that a consistent service and client support is provided.
 - Benchmarking of claims practices and costs across states and the implementation of best practice approaches - a national research group has been established within the business to facilitate this objective.
 - The claims focus has been shifted to early intervention in the 0-8 weeks post-injury. This has involved targeting employers and employees to lodge claims as soon as possible after incident and the establishment of a 24 hour-7 day national telephone/fax/e-mail lodgement group to facilitate early notification.
 - A "national client" unit has been implemented to provide consistent service delivery to national clients, with other claims units now free to target SME support, which requires different skills and management.
 - Actively seeking precedents in WA on the new impairment thresholds in order to influence overall scheme outcomes.
- The success of these strategies is evident in a number of areas. For example, the Group was one of only three of the existing eight claims managers in the Victorian market to have their contract renewed from 1 July 2002. In SA the Group outperformed the overall scheme average result in three out of four incentive payment categories in FY02.

D. SUSTAINABILITY OF RESULTS

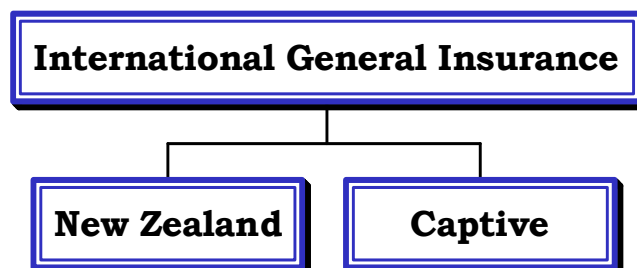
- The Group has a specialised statutory policy unit that carefully monitors and researches the drivers of personal injury compensation scheme performance. This information is used to assist government and scheme regulators to ensure that scheme design is based on sustainable principles. This plays a critical part in ensuring the sustainability of scheme performance and thereby the Group's operating performance. The operational practices in underwriting and claims have also been developed around the principle of supporting the long-term viability of the business.
- IAG's research strengths are an important source of ongoing sustainability. Examples of this include the detailed pricing analysis that is used to support profitable underwriting, as well as the fact that the Group closely links the claims management and reserving processes.

- Finally, the development of the national underwriting and claims management computer system that is now underway should also enhance sustainability by allowing for further process improvement efficiencies and a greater capability in areas such as data analysis.

E. DISCONTINUED BUSINESS - INWARDS REINSURANCE RUN-OFF

- The Group had an inwards reinsurance portfolio for about 15 years. The cessation of new business and renewals was announced on 19 January 2001. As the Group had participated in the January 2001 renewal season (including some proportional contracts), the book was 'live' throughout calendar 2001.
- By 1 January 2002, through a combination of expiring policies and commutations and the contractual expiry of policies, the number of in-force treaties was less than 10 and in-force premium was under \$10m. As of 1 July 2002, there are no in-force premiums.
- The Group continues to actively seek commutations of the remaining tail. However, the changed conditions in the reinsurance market since the events of September 11 have made it more difficult to successfully negotiate commutations at acceptable prices.
- As the portfolio was on-risk at 11 September, the Group suffered losses from the World Trade Center tragedy. In 1H02, the Group expensed \$40m net of recoveries in respect of this event. This provisioning was based on reserving up to 100% on all contracts with specified limits and making what was considered prudent reserves on all other open treaties. As the portfolio included some proportional and whole of account covers and in view of the recent substantial increases in reserves for September 11 by large reinsurers, the Group has increased its provisioning by a further \$20m net of recoveries. This cautious approach has been taken in view of the relatively poor information on how the losses from this event will develop.
- The Group's total provision for outstanding claims, net of recoveries, on this portfolio now stands at \$260m. The provisioning on the World Trade Center and some other treaties in run-off are not suitable for standard statistical modelling given their nature and the Group's lack of scale in this field. The Group believes that these reserves are set at conservative levels and the balance of the tail is also believed to be conservatively reserved at a probability of sufficiency of 90%.

International General Insurance



A. INTERNATIONAL

International Operations	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance
	A\$m	A\$m	A\$m	A\$m
Gross written premium	-	139	487	251
Gross earned premium	-	122	462	244
Reinsurance expense	-	(12)	(121)	(26)
Net premium revenue	-	110	341	218
Net claims expense	-	(72)	(242)	(166)
Underwriting expense	-	(45)	(87)	(45)
Underwriting profit/(loss)	-	(7)	12	20
Investment income on technical reserves	-	1	15	13
Insurance profit	-	(6)	27	33
Insurance ratios				
Loss ratio	-	65.9%	71.0%	5.1%
Expense ratio	-	40.8%	25.5%	(15.3%)
Combined ratio	-	106.7%	96.5%	(10.2%)
Insurance margin (before tax)	-	(5.4%)	7.9%	13.3%

¹IAG acquired the State Insurance operations on 15 February 2001.

- The international segment results include the consolidated operations of NRMA Insurance NZ Limited, being the State Insurance group of companies, and the operations of IAG Re Limited – IAG’s Irish based captive insurer. The New Zealand businesses were acquired in February 2001 and IAG Re commenced operations with effect from 1 July 2001. Consequently, the comparatives for FY01 represent less than four months of the New Zealand operations and there are no comparatives for FY00.

- The captive's gross written premium for the year is less than \$100m and most of this was written in 1H02, in line with the Group's reinsurance protections generally operating on a financial year basis. Net earned premium is less than \$15m as the vast bulk of premium sourced from the Group's businesses is covered by reinsurance bought on the open market. Net claims and expenses are also small, resulting in a small profit for the period.
- Consequently, whilst the ratios relate to the segment as a whole, the commentary focuses on the results of the New Zealand operations.
- Despite operating in a mature market and reorganising the business onto a national operating platform in FY02, premium growth of 12% has been achieved. Growth in the State direct business was flat but commercial business sold under the Circle brand grew by 38% and business sold through banking partners grew by 15%.
- The business is now focused on continued profitable growth through the significantly improved rating, underwriting, claims and sales capabilities which will be delivered over the next twelve months by the introduction of a new IT platform. Recent employee satisfaction results confirm that morale has improved significantly and customer satisfaction monitoring, particularly in the claims environment, is now at desired levels. This will further support efforts to grow revenues in FY03.
- The increased loss ratio is in line with that for 1H02. The increase over FY01 reflects the effect of having a full year's operations included (ie including winter), exacerbated by record rains in December in the North Island, heavy snows in early winter in the South Island and a catastrophic weather bomb in the North Island in June. The latter event cost the Group \$3m.
- The expense ratio of 25.5% is much improved on FY01, but that was distorted by the incurrence of significant expenses incurred as part of re-shaping the business for the future. The FY01 results included \$12m of such costs (mainly for implementation of a national operating model and consequent staff costs) and FY02 includes a further \$10m (mainly for a new system). Expenses of this order were foreseen as part of the business case prepared for the acquisition.
- The combined ratio for the whole International segment of 96.5% is lower than the prior year but still a few percentage points higher than generally expected from this segment for the reasons set out above.

B. THAILAND & CHINA

- As part of its international strategy, the Group also has investments in Thailand and China.
- In Thailand, the Group has a 20.21% interest in Safety Insurance Public Company Limited, a publicly listed general insurer. Safety Insurance is a leading provider of motor insurance in Thailand. It currently has a 4% share of Thailand's general insurance market and is the country's fourth largest non-life insurer.

- In 1999, an investment was made in a roadside assistance organisation in the Chinese market through an entity called Beijing Continental Automobile Association Limited. This investment was made with a view to facilitate potential long-term entry into the Chinese motor insurance market by building brand, customer base and knowledge of the motor industry in China. The Group now owns 99% of the operation, which is the largest roadside assistance organisation in the People's Republic of China, having doubled in size since the Group made its investment.
- The investments in these two markets are small in scale (both less than \$10 million) and therefore not core to the Group's operations. Their significance lies in their role in proving the ability of the Group to transfer its skills successfully to overseas markets and in providing a footprint in these developing markets for the Group to explore opportunities with minimum risks.
- To date, both investments are performing well with minimal burden on the Group's capital. The success in driving significant improvements in the underwriting performance of Safety Insurance through initiatives such as providing them with access to IAG's intellectual property in the form of the Group's pricing models is encouraging.

Retirement Services Analysis

Profit Before Tax	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance
	A\$m	A\$m	A\$m	A\$m
ClearView Retirement Solutions	24	19	(6)	(25)
Building Society	(3)	1	1	0
Total	21	20	(5)	(25)

ClearView Retirement Solutions	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance
	A\$m	A\$m	A\$m	A\$m
Managed investments ¹	5	5	5	-
Risk products	3	9	12	3
Shareholders funds investment income	6	5	1	(4)
Retirement Solutions development costs	(2)	(9)	(12)	(3)
Distribution channel (licensed advisers)	(1)	-	(8)	(8)
Net profit/(loss) after statutory fund tax and before income tax	11	10	(2)	(12)
Statutory fund tax	13	9	(4)	(13)
Net profit/(loss) before statutory fund and income tax	24	19	(6)	(25)
Funds under management (\$m)	1,144	1,282	1,246	(36)
Life embedded value (\$m)	150	185	215	32

¹ Includes all single premium business including retail unit trusts

A. STRATEGY UPDATE

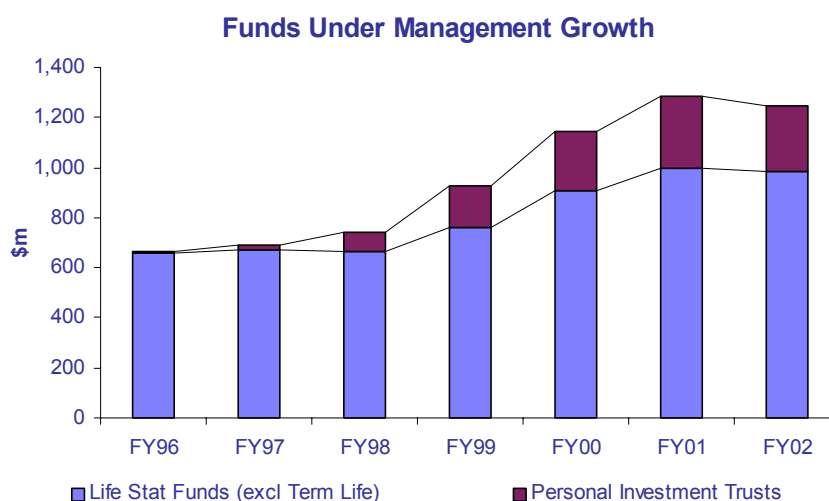
- In early February 2002, the Group launched ClearView Retirement Solutions ('ClearView') as a specialist division of NRMA Financial Management.
- The ClearView sales process encompasses a three step phase:
 - Create brand and product awareness;
 - Make customer contact and arrange appointment with financial planner; and
 - Sale of financial product.
- Since the launch, the Group's brand awareness tracking measures have indicated a significant increase in consumer response to the ClearView brand. This result is also reflected in the higher than expected number of appointments made with financial planners to date.

- This period's results for ClearView do not fully reflect the performance of the business, as there is a lag between the period from appointment to sale and receipt of funds. Therefore, sales from this period's appointments will carry over to the 2002/03 financial year.

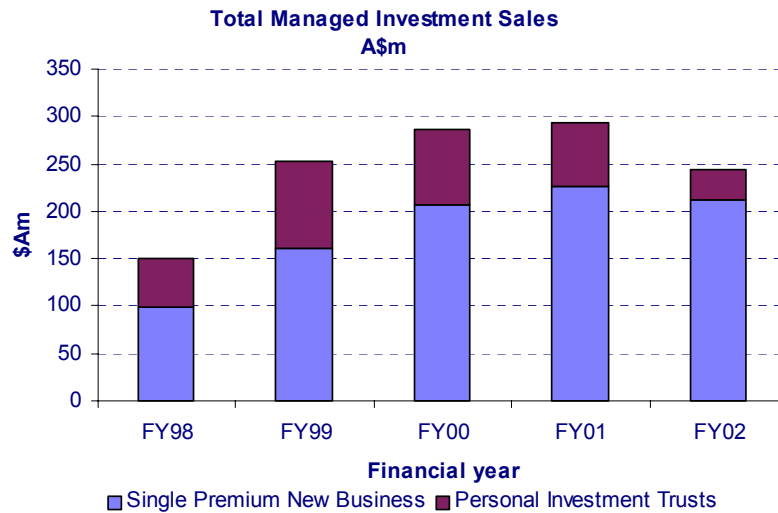
B. OPERATIONAL RESULTS

- The net result before tax for ClearView was down \$25m to a loss of \$6m when compared to the prior corresponding period. This includes the fully expensed development costs of \$12m.
- The new business model operates with 22% lower staff levels and 30% lower distribution costs.
- A high level of awareness has been created by the ClearView campaign in NSW and the level of appointments booked to 30 June 2002 was 31% above expectations.
- The current run rate for overall operating expenses is 21% lower than the prior comparative period.
- The combined impact of poor investment market conditions and the one-off development expenses incurred in the process of implementing the new business model generated this loss.
- The events of September 11 marked the beginning of the trail of negative news flow that were to impact market sentiment, creating poor investment market conditions. These had an adverse impact on ClearView investment returns.

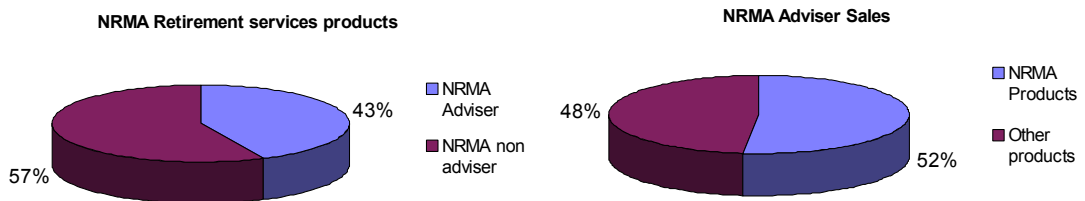
C. FUNDS UNDER MANAGEMENT



- The Group continued to receive positive net inflows during FY02. However, there was a marginal decrease in funds under management during the year, directly attributable to the combined effects of poor investment market performance and negative market sentiment.

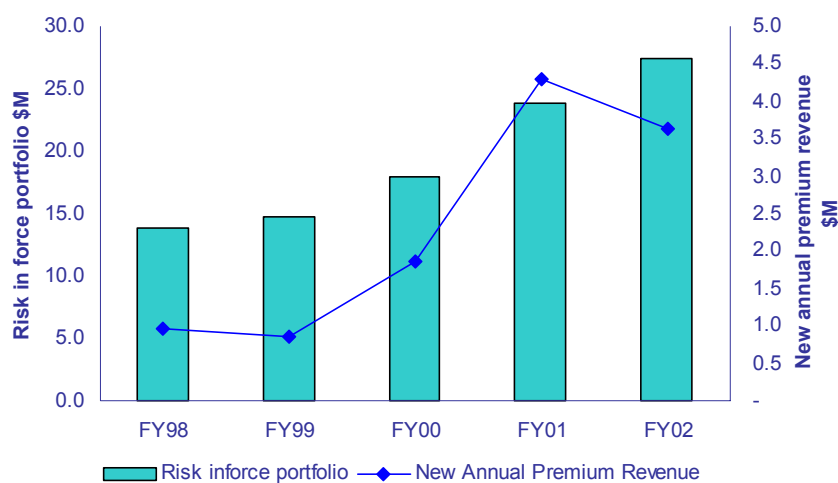


- Total sales is reflective of the impact of poor market sentiment on fund flows and lower sales during the transition to ClearView when promotion of the existing products was put ‘on-hold’.
- Single premium includes all non-renewing premium received by NRMA Life and the new funds invested in the ClearView retail investment trusts.



- The shift in focus away from external products to IAG products under the new business model is reflected in the increased composition of IAG products sold from 42% to 52% since December 2001.
- ClearView is currently a NSW only business which must prove to be successful in NSW before the Group would be willing to make the investment necessary to take it national. There is no intention to expand this business beyond Australia.

D. RISK PRODUCTS



- Risk products continue to generate profits and have maintained persistency rates in excess of 90% on total in force risk premium of \$27m at 30 June 2002.
- The profit before tax for risk products was \$12m, which was \$3m more than FY01. This is a positive result, despite poor investment returns with a significant improvement in the underlying expenses.

E. EMBEDDED VALUE

- The embedded value of NRMA Life Limited has increased from \$185m at June 2001 to \$215m at June 2002 (both using a discount rate of 11.5%). The increase reflects an improvement in maintenance expenses delivered by the new low cost ClearView business model, as well as the value added by new business during the year.

Corporate and Investments

CORPORATE

Corporate	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02	Variance
	A\$m	A\$m	A\$m	A\$m
Head Office	(66)	(121)	(42)	79
Fee based business profit/(loss)	(42)	15	32	17
Amortisation	(13)	(24)	(43)	(19)
Interest	(15)	(15)	(24)	(9)
Total corporate expenses	(136)	(145)	(76)	69

A. CORPORATE

- The Group has continued to reduce the expenses incurred, in or allocated to, head office corporate expenses with a \$79m reduction to \$42m for FY02 and 2H02 expenses of \$18m compared with \$24m for 1H02.
- Apart from ongoing cost control, the key contributors to this reduction were:
 - The migration of eCommerce expenses to form part of the operating costs of the domestic business units on completion of the initial development and implementation of the Group's websites and capacity to complete business over the internet; and
 - The absence of a shortfall in recoveries from the businesses for the running costs of the Group's distribution network. This was achieved following the NSW and ACT branch consolidation programme which saw 19 branches closed without compromising the quality of service to customers. Ongoing investment in customer service is occurring through the Group's Getting It Right project. The costs of this project are included in the insurance expense ratio.
- Fee based businesses continued to generate profits in line with 1H02. This level of profitability is expected to be recurring whilst the Group retains its current external asset management mandates and IT contracts together with the claims management contracts from various Australian State and Territory governments for government underwritten workers' compensation and CTP schemes.
- The amortisation expense for FY02 includes a full year's charge for goodwill arising on the New Zealand business and workers' compensation portfolio acquisitions, which occurred in February and March 2001, respectively.

- The FY03 amortisation charge will increase from \$43m to \$58m following the corporate restructure, which was completed on 28 June 2002. As a result of this restructure the goodwill associated with the SGIO Group, formally owned by the life company, will be amortised over 20 years.
- The background to this is that the businesses were purchased by the Group in 1998 but held by the Group's life insurance company until the end of FY02. As a result of the current accounting standards applicable to life insurers in Australia, the asset representing goodwill was required to be marked to market rather than amortised. For reasons of capital efficiency and organisational management, the investment in SGIO was relocated within the Group and, as a consequence, goodwill of \$302m is now required to be amortised.
- The increase in interest expense mainly comprises of the full 12 months interest charge in respect of the 100% debt funding of the Group's New Zealand acquisition. The borrowings are New Zealand dollar denominated except to the extent of the Australian denominated investment assets of the New Zealand business. These provide a natural hedge for Australian dollar denominated borrowings of \$110m.

INVESTMENTS

A. INVESTMENT RETURNS

Investment returns	Actual Return FY00	Benchmark Return FY00	Actual Return FY01	Benchmark Return FY01	Actual Return FY02	Benchmark Return FY02	Notes
	%	%	%	%	%	%	
Australian equities	14.6	15.5	10.5	9.1	(4.5)	(4.7)	a
International equities	39.4	23.8	(5.7)	(6.0)	(24.5)	(23.5)	b
Fixed interest	5.2	6.2	7.6	7.0	6.7	6.2	c
Cash	5.5	5.6	6.1	6.1	4.8	4.8	d
Total	12.3	11.9	6.5	5.9	(1.4)	(1.7)	
Currency hedge ¹	(0.3)	-	(0.7)	-	-	-	
Put option ¹	-	-	-	-	(0.2)	-	
Asset overlay ¹	-	-	-	-	0.3	-	
Total (incl derivatives)	12.0	11.9	5.8	5.9	(1.3)	(1.7)	

Notes:

a) *S&P/ASX200 Accumulation Index*

b) *MSCI World (exl Australia) net dividend reinvested Index in Australian dollars*

c) *Internal benchmark. The portfolio is marked to a benchmark of government securities constructed to reflect the target duration of the portfolio (matching insurance technical reserves).*

d) *UBSW Bank Bill index*

1. Calculated as a contribution to total return

Portfolio Return (Pre-tax) and incl hedge & put option	FY00	FY01	FY02
	%	%	%
Technical reserves	8.3	6.7	3.5
Shareholder funds	18.2	4.5	(8.2)

- ◆ For the financial year 2002, the S&P/ASX 200 Accumulation index fell by 4.7%, which is the worst performance for the Australian equity market since the 1987/88 financial year, when the index fell by 8.6%.
- ◆ The international equity markets also exhibited extreme volatility, finishing down 23.5% for the financial year 2002 as measured by the MSCI World (ex Australia) index in Australian dollars. This poor performance was exacerbated by the strength of the Australian dollar, accounting for approximately 4.7% of the loss. The international equity portfolio was not hedged during the year.
- ◆ The poor equity markets' performance affected the Group's result with returns on technical reserves and shareholder funds both down from the previous corresponding period.
- ◆ In terms of active return over the financial year:
 - The fixed interest portfolio outperformed the benchmark by 45 basis points;

- The Australian equity portfolio outperformed the benchmark by 22 basis points, which includes the cost of implementing changes in the structure of the portfolio (refer below); and
- The international equity portfolio under-performed the benchmark by 101 basis points.
- Whilst the underperformance for international equities is disappointing, our principal international fund manager, Wellington Management Company, still has an excellent long-term track record of adding value above the benchmark.

B. PORTFOLIO RESTRUCTURING

- The shareholder funds portfolio went through a major restructure during the financial year. It involved changing the management of the Australian and international equity portfolios from a higher risk long-term growth strategy to a more actively managed lower risk style-neutral approach. Although the cost of the restructure was approximately \$18m (included in the returns above), the portfolio returns would have been significantly below the benchmark for both Australian equities and international equities had the restructure not been undertaken.
- Recognising the weakness in equity markets, the Group took pre-emptive actions to protect its investment portfolios by implementing the following strategic transactions:
 - In October 2001, put options were purchased to protect part of the Group's equity exposure against a fall in market indices of greater than 20%. These put option contracts expired worthless on 28 June 2002. The cost of the transaction was \$14.6 million, of which around \$12 million was expensed by 31 December 2001.
 - Between March and June 2002, the Group sold some of the equities backing its technical reserves.
 - The Group executed a derivative overlay strategy in June 2002 over the remaining Australian equities backing its technical reserves. This was designed to swap Australian equity benchmark exposure in favour of fixed interest benchmark exposure. It allows the Group to retain the benefits arising from any active return produced relative to the S&P/ASX200 benchmark on the Australian equities portfolio.
 - Over June and July 2002, the Group also entered into an Australian equity protection strategy by implementing a series of structured collar options over assets held as part of shareholders funds. The purpose of the collars is to limit the impact of large movements in the Australian equity market on the performance of the portfolio being covered. The strategy is designed to have a minimal impact on the portfolio performance if the market return remains in a range broadly consistent with the long-term market behaviour. The collars basically consist of a series of purchased out-of-the-money put options that provide the downside protection, funded by the sale of a series of out-of-the-money call options. In effect, the collar provides an 'effective floor' for the return on the underlying assets, by giving away some of their potential upside performance, hence the 'collar' nature of the transaction.

- The Group is in discussions with APRA concerning the possibility of obtaining regulatory capital relief for the last two structures. These transactions should reduce the actual capital required to operate the business, as the potential volatility of our investment returns has been significantly reduced. Provision of regulatory capital, relief would be consistent with relief provided by APRA to the banking industry for similar structures.

C. ASSET RETURN EXPOSURE

Asset return exposure	Technical Reserves FY00	Shareholder Funds FY00	Technical Reserves FY01	Shareholder Funds FY01	Technical Reserves FY02	Shareholder Funds FY02
	%	%	%	%	%	%
Australian equities	15.4	71.2	14.2	67.5	-	68.3
International equities	7.9	24.4	6.7	24.1	-	22.6
Fixed interest	65.6	0.3	69.7	5.7	94.8	3.4
Cash	11.1	4.1	9.4	2.7	5.2	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

* This table represents the Group's asset class exposure (net of derivatives).

- As previously announced to the market, the Group has undertaken to reduce its exposure to the equity markets and hence reduced the volatility in the technical reserves portfolio.
- The overall asset mix at the June 2002 balance date shows a significant reduction in the Group's exposure to equities. The percentage of total Group assets invested in equities has fallen to 23.3% from 32.8% since 30 June 2001.
- Whilst the long term yield from a more conservative investment mix will be lower, the impact on ROE should be negligible given the commensurate reduction in capital requirements relative to a more aggressive/equity based portfolio.

D. GROUP ASSETS UNDER MANAGEMENT

Assets under management As at Financial Year ended	30 June 2000	30 June 2001	30 June 2002
	\$bn	\$bn	\$bn
Technical reserves	3.5	3.7	3.9
Financial Services	1.2	1.1	1.0
Outside equity interest - Unitholders' funds	0.4	0.7	0.3
Shareholders' funds	3.3	2.9	2.2
Other	0.4	0.2	0.9
Total investments - on balance sheet	8.8	8.6	8.3
ClearView Managed Investments (formerly NRMA Personal Investment Trusts)	0.3	0.3	0.3
External wholesale mandates	0.8	1.0	1.5
Total assets under management	9.9	9.9	10.1

- Technical reserves balances have grown in line with the business and the performance of the claims reserves.
- The funds managed for the Group's financial services business reduced slightly as negative market performance out-weighed net inflows.
- The OEI for unitholders' funds reduced due to the negative equity markets and a restructure of the 'internal' wholesale assets trusts to avoid additional capital charges under APRA's new regime. This restructure led to the deconsolidation of certain unit trusts as the Group no longer controls more than 50% of the issued units.
- The growth in funds managed under wholesale mandates is attributable to both additional funds now managed on behalf of the NSW State government's underwritten workers' compensation scheme and the increase in directly held investments previously managed through the wholesale trusts.
- Included under "other" of \$0.9bn at 30 June 2002 is \$0.6bn, which represents the assets of a wholly owned subsidiary, which was not consolidated as the entity is in voluntary liquidation. This investment is supported by a loan to the same wholly owned subsidiary. The entity concerned is ACN98 000 409 638 Pty Limited (formerly NRMA Investments Pty Limited). This company, which used to hold equities on behalf of the Group, is no longer required as it is now more efficient under APRA's new requirements to have equities held directly by the licensed insurers.

Balance Sheet

Balance Sheet As at Financial Year Ended	30 June 2000	30 June 2001	30 June 2002
	\$bn	\$bn	\$bn
Investments	8.8	8.7	8.3
Other assets	2.9	3.2	2.4
Intangibles	0.4	0.7	0.6
Total assets	12.1	12.6	11.3
Claims outstanding and unearned premium	4.4	5.0	5.5
Borrowing and other liabilities	4.2	4.2	2.8
Total liabilities	8.6	9.2	8.3
Net assets	3.5	3.4	3.0
Equity attributable to shareholders	2.9	2.5	2.5
Outside equity interest	0.6	0.9	0.5
Total equity	3.5	3.4	3.0

- Significant movements in the balance sheet between 30 June 2001 and 30 June 2002 are:
 - Sale of the Building Society in October 2001 which reduced 'Other Assets' (loans receivable) and 'Borrowings and Other Liabilities' (borrowings and customer deposits) by about \$1bn each.
 - Claims and unearned premium grew due to the increase in the business (eg accumulation of reserves on the workers' compensation 2001 acquisition) and the events of September 11 (only very small amount of loss incurred has been paid).
 - The OEI balance has reduced due to the reduced use of the Group's 'internal' wholesale asset trusts and ongoing dividends paid by Insurance Manufacturers of Australia Pty Limited.

A. DIVIDEND

- The Group has resolved to again pay a final dividend of 6.0 cents per share, fully franked, in spite of the very poor equity market performance, which led to the reported loss for the year.
- Maintenance of a dividend payout ratio in excess of 100% is facilitated by the Group's strong capital position and the strength and prospects of the underlying insurance operations. The improvement in the stability of the insurance returns and the reduced level of corporate overhead should enable the business operations to support the dividend going forward.

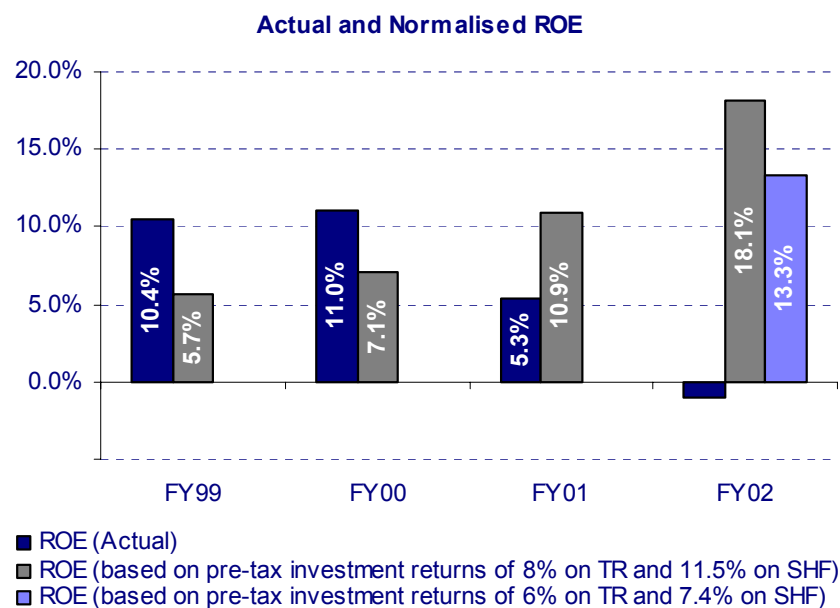
Period	Dividend per share	Franking
	cents	%
Final - FY 2002	6.0	100
Interim - FY 2002	4.5	100
Final - FY 2001	6.0	100
Interim - FY 2001	4.0	100

The full year dividend represents 44% of normalised earnings of \$318m. This is within the published dividend policy guidelines of 40-70% of normalised earnings. The basis of normalising profit is set out below.

B. RETURN ON EQUITY

- The effects of poor investment market returns has reduced the Group's ROE from 5.32% to -1.0% for the financial year ended 30 June 2002.
- The extent to which the Group's ROE was affected by the investment market can be seen in the following graph showing the Group's normalised ROE, which has been calculated by substituting the actual returns on technical reserves and shareholder funds with rates reflecting medium term expectations.
- The rates used to normalise the results are set out below. The FY02 results are presented under both sets of assumptions.

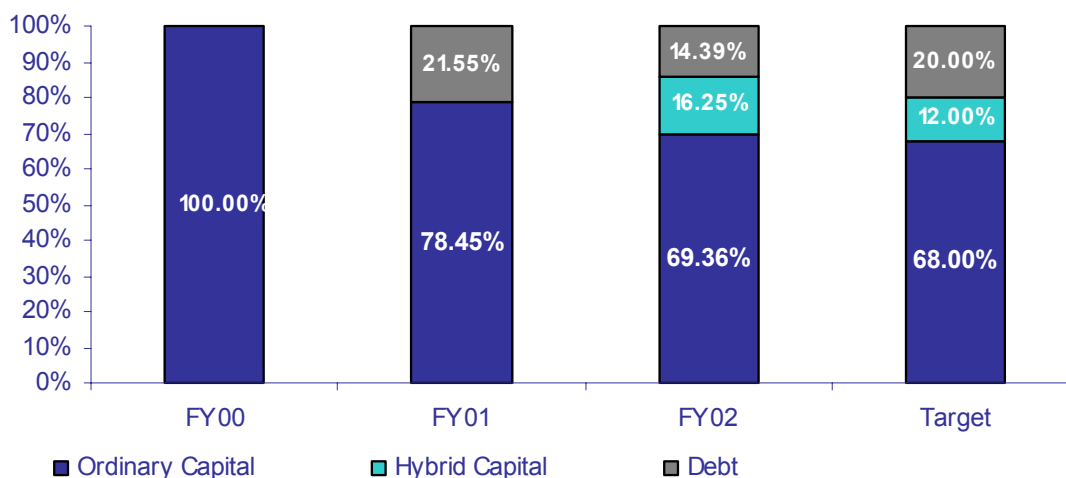
	FY99 – FY01	FY02
Technical reserves	8.0%	6.0%
Shareholders' funds	11.5%	7.4%



C. CAPITAL MANAGEMENT

- ◆ In the second half of the financial year, the Group executed and completed four significant capital initiatives:
 - Issue of \$350m reset preference shares;
 - Buy-back of \$300m ordinary shares; and
 - Internal restructure of asset trusts and location of the life insurance subsidiary; and
 - Implementation of measures to reduce the Group's exposure to equity market volatility.
- ◆ The first two capital initiatives were undertaken to move the Group closer to the Group's target capital mix and reduce the Group's weighted average cost of capital.
- ◆ The reset preference share (RPS) issue was completed and the shares began trading on the 5 June 2002 under the code IAGPA. The dividend rate on the RPS was set at 5.80% per annum and has been fixed until the first reset date of 15 June 2007. The dividend is expected to be fully franked.
- ◆ The proceeds from the issue of the RPS were subsequently used to buy-back some of the Group's shares. This was completed on 21 June 2002 at a buy-back price of \$3.05 per share (\$1.78 capital and a fully franked dividend of \$1.27). A total of 97.9m shares (equivalent to 6.99% of ordinary capital then on issue) were bought back for a consideration of \$298.6m. The buy-back reduced the Group's number of registered shareholders by 6% or 78,000 shareholders.
- To improve the efficiency and flexibility of the Group's capital structure, in June, the Group reorganised its corporate structure so that NRMA Insurance Limited and its subsidiaries undertake all the general insurance underwriting of IAG in Australia. This was achieved by NRMA Life Limited selling its subsidiary, NRMA (Western Australia) Pty Limited ('NRMA WA') to NRMA Insurance.
 - Following the confirmation by APRA that new regulatory minimum capital requirements for life companies were to be implemented with effect from 30 June 2002, if the Group had retained its previous structure it would have had to hold in excess of \$200 million of additional capital in NRMA Life for NRMA (WA).
 - The internal sale resulted in a change in the accounting treatment applied to the difference between the net assets of the SGIO businesses and their value at the time of the sale between the Group companies. The goodwill included in the balance sheet is \$302 million.
 - As a result, the Group expects to recognise an annual amortisation charge of \$15 million per year, which is not tax deductible.
- Since the new APRA requirement became effective, the Group has set a target minimum capital requirement ('MCR') multiple range of 1.4-1.7 and as at 30 June 2002, the Group's consolidated MCR multiple was within this target zone (1.56 at 30 June 2002).

IAG Capital Mix



Equity capital = Equity attributable to ordinary shareholders – outside equity interest – intangibles (100% of goodwill) - dividends

C.1 REINSURANCE IN CAPITAL MANAGEMENT

The Group treats its reinsurance protections as an integral part of its capital management process.

- Over the last four years the Group's reinsurance protections were a combination of:
 - Excess of loss ('XOL') catastrophe protections for the property portfolios;
 - XOL for large loss exposures on single policies, eg a catastrophic injury in one of the CTP portfolios. Some of the smaller portfolios also had XOL covers to manage down the exposure of portfolios to individual losses that are considered large in the context of that portfolio (but not necessarily large in a Group context);
 - Proportional covers which had been initiated by some of the companies acquired by IAG over this period. The acquired companies generally had relatively lower levels of capital and the proportional covers provided them with additional capacity; and
 - A whole of account aggregate stop loss contract ('WAASL'), that was effective from 1 July 1998 until terminated on 31 July 2002 with effect from 30 June 2002.
- In 2H01, the Group established a captive insurer, now known as IAG Re Limited ('IAG Re'). This company is situated and licensed in Ireland. It is also licensed by APRA in Australia. The objectives of IAG Re include:
 - Acting as reinsurer for the Group's businesses;
 - Assisting the Group's businesses in the selection of appropriate reinsurance arrangements; and
 - Taking out reinsurance protections on behalf of the Group,

to ensure that the Group's reinsurance arrangements are efficient and effective from risk management and capital protection perspectives in the context of the Group's risk appetite.

- For FY02, IAG Re arranged most of the Group's reinsurance covers. For FY03, IAG Re has arranged the entirety of the Group's covers following the expiry of all the multi-year contracts that the acquired businesses had in place. This has enabled IAG to obtain efficiencies by purchasing as a group and to decide which risks should be retained and borne by IAG Re's own capital backing.
- There have been a number of changes in the Group's reinsurance arrangements for FY03. This has been influenced not only by the actions of IAG Re on behalf of the Group but also by the changes in the reinsurance market and in the perceived usefulness of the WAASL to the Group in the context of the Group's current performance and prospects.
- The key elements of the changes from a Group perspective are as follows:
 - No proportional covers have been purchased. This reflects the capital strength of IAG, the expectation of reasonably stable and sub-100% loss ratios in the property classes, the focus on the SME segment of the market in the Group's commercial insurances and the synergies available through the Group's catastrophe programmes;
 - Restructuring of the earthquake and non-earthquake perils protections to include more cover for Australia (ex-NSW) and New Zealand;
 - Extension of the "hours clause" for bushfires (relates to how long a period can be deemed to be one event – a factor that led to issues following the December 2001 bushfires in NSW exceeding previous duration records);
 - Increasing the event retention for property catastrophes in Australia to \$40m, of which \$10m resides with IAG Re. This compares with \$30m on each of motor and home two years ago in NSW. One free reinstatement applies to this cover up to \$750m;
 - Inclusion of New Zealand in the Group's catastrophe programme, with a deductible of \$16m, of which \$10m is retained by IAG Re; and
 - Increasing the counter-party security profile with 68% of cover provided by AAA/AA rated reinsurers and the balance by A rated reinsurers.
- In addition, as announced to the market on 31 July, the Group has cancelled its WAASL as it was no longer providing sufficient capital protection to be of value to the Group given the valuation of recoveries of \$185m recognised during FY02, the stable outlook for the Group's key insurance portfolios and the Group's extensive catastrophe reinsurance protections. This does mean that the Group does not have a reinsurance protection for deterioration in the statutory classes' experience (other than to the extent covered by the XOL covers). However, the current cost of an appropriate cover for this purpose, relative to the reduction in economic capital it would provide, makes it inefficient.

- The aggregate effect of all these changes, and allowing for the hardening of reinsurance rates over the last year, is that the Group's reinsurance expense is expected to drop by approximately 40% from the FY02 expense of \$253m. Approximately 60% of the saving will relate to the long tail classes.
- IAG has obtained relief from APRA which results in reinsurance arrangements between IAG Re and the Group's other licensed insurers not attracting a duplication of the capital charges that would otherwise occur for balances owing between the companies in respect of the Group's reinsurance arrangements.
- The Group is confident that the changes effected in its reinsurance arrangements have added value in terms of the efficient use of capital and management of risk.

D. SENSITIVITY ANALYSIS

The following table indicates the impact of an immediate change in the market value of equities and changes in interest rates as at the specified dates.

Sensitivity on NPBT	Change in assumption	31-Dec-01	30-Jun-02
	%	A\$m	A\$m
Equity market values:			
Australian equities	+1%	23.1	15.6
International equities	+1%	8.3	5.1
Interest rates			
Investment returns	-1% or 100 basis points	75.0	108.0
Outstanding claims	-1% change in net discount rate	70.5	(75.0)

- The removal of equities exposure from the Group technical reserve allocation has reduced the Group's sensitivity to a 1% movement in the equity markets from \$31m as at December 2001 to \$21m as at June 2002 for domestic and international equities.
- The exposure to changes in interest rates has increased following the reduction in the equities exposure. The extent of the increase is greater than the reduction of the equities exposure as a 1% movement in equities is a simple 1% of the market value of the equities whereas the effect a 1% change in interest rates across the yield curve must also include the duration of the underlying investments.

The following table indicates the impact of an immediate change in the insurance ratio as at the specified dates:

Sensitivity on NPBT	Change in assumption	31-Dec-01	30-Jun-02
	%	A\$m	A\$m
Loss ratio - short tail	-1%	21.4	21.2
Loss ratio - long tail	-1%	7.1	7.3
Underwriting expenses	-1%	6.3	6.3

APPENDICIES

Appendix A - Key ASX Releases

- 31 July 2002** **IAG benefits from reinsurance contract and reduces exposure to equity markets**
IAG confirmed that the FY02 results, which were expected to be a loss attributable to shareholders in the range of \$15-40m, would include a further \$70-80m benefit, pre-tax, in respect of the valuation of its whole of account aggregate stop loss contract which has now been terminated. IAG also confirmed that it had completed measures to reduce its exposure to equity market volatility using derivatives.
- 16 July 2002** **Elders to distribute CTP Insurance in regional Queensland for NRMA Insurance**
NRMA Insurance and Elders entered to a distribution agreement to distribute CTP insurance in regional Queensland. All policies will be underwritten by NRMA Insurance.
- 1 July 2002** **IAG confirms insurance operations will be impacted by the performance of equity markets**
IAG announced that their FY02 results will be significantly impacted by the poor performance of the equity markets, however it was too early to determine the extent. IAG reiterated that the underlying business continued to perform strongly.
- 28 June 2002** **IAG announces further changes in capital management and confirms continuing strength of insurance operations**
The Group has reorganised its corporate structure so that NRMA Insurance Limited and its subsidiaries undertake all the general insurance underwriting of IAG in Australia. This was achieved by NRMA Life Limited selling its subsidiary, NRMA (Western Australia) Pty Limited to NRMA Insurance. Under new APRA regulations, this will free up in excess of \$200m in capital for the group.
- 26 June 2002** **IAG enters into cooperation agreement with Aioi in Japan**
IAG today announced it has entered into discussions with Aioi Insurance Company Ltd to explore areas for mutual cooperation and development of their personal lines insurance business, in particular motor insurance.

- 24 June 2002** **IAG buys back around \$300 million of ordinary shares**
IAG's buy-back offer closed on Thursday, 20 June with more than 78,000 shareholders selling around \$300 million worth of shares back to the company.
IAG bought back all shares for which a valid acceptance form was received and no scaleback was applied to the acceptances.
- 21 June 2002** **IAG's Buy-back closes and final price set at \$3.05**
The final price of \$3.05 comprised of a capital component of \$1.78 and a \$1.27 fully franked dividend
- 6 June 2002** **IAG appoints general counsel and group company secretary**
Insurance Australia Group Limited (IAG) announced the appointment of Ms Karen Den-Toll as General Counsel and confirmed the current Head of Investor Relations, Ms Anne O'Driscoll, would also become Group Company Secretary. These appointments will take effect from 2 July 2002.
- 5 June 2002** **IAG's RPS to begin trading on the ASX under the code IAGPA**
- 27 May 2002** **IAG's buy-back of ordinary shares opens**
- 17 May 2002** **IAG comments on unsolicited offers to buy IAG shares**
IAG announced it was not involved or associated with the National Exchange Pty Limited offer to buy IAG shares. National Exchange Pty Limited has recently made offers to some IAG shareholders to buy their IAG ordinary shares.
- 15 May 2002** **IAG's RPS dividend rate announced and offer set to open**
The initial dividend rate is 5.80% per annum, fully franked.
- 14 May 2002** **IAG announced its appointment of Head of Asset Management and Retirement Services**
IAG announced the appointment of Mario Pirone as Head of Asset Management and Retirement Services. The CEO commented that the internal appointment was a logical step in more closely aligning the asset management and insurance businesses.
- 6 May 2002** **IAG announces details of capital management initiatives**
IAG unveiled its plan to issue around \$300 million of reset preference shares (RPS). It expects to use the funds to buy-back IAG ordinary shares, creating a more efficient capital structure. IAG has the ability to accept oversubscriptions of up to \$50 million for the RPS.

- 19 April 2002** **IAG announces executive restructure and an executive departure**
As part of an internal restructure, Ms Gaye Morystn would depart the group on 1 July 2002.
- 4 April 2002** **IAG announces executive departure**
IAG announced Ms Sue Doyle's departure from the role of Head of NRMA Asset Management to pursue a career outside of IAG. This coincided with the Group's plan to change the focus of the asset management function. Mr David Dixon will take on the role in the interim whilst the Group seeks replacement for the role.
- 28 March 2002** **Resignation of Ian Stanwell from Board of Directors**
Insurance Australia Group Limited (IAG) Chairman, Mr James Strong advised that Mr Ian Stanwell had resigned from 31 March 2002 from his position as a Director of the company due to health considerations.
- 1 March 2002** **IAG announces interim results to 31 December 2001**
- 21 February 2002** **IAG confirms it has no financial reinsurance**
- 8 February 2002** **IAG executive team changes**
Insurance Australia Group Limited (IAG) Chief Executive Officer, Michael Hawker, announced two external appointments to his executive team and an interim executive structure. The external appointments were Ms Karyn Baylis as Head of Sales & Marketing and Ms Sam Mostyn as Head of Culture & Reputation
- 15 January 2002** **NRMA Insurance Group Limited listed company renamed Insurance Australia Group Limited**
*NRMA Insurance Group Limited, the ultimate holding company for NRMA Insurance, SGIO, SGIC and State Insurance, was renamed Insurance Australia Group Limited (IAG). The change relates only to the name of the publicly listed company and will not affect the retail brands or the way customers interact with the Group or their policies.
The ASX code changed from NRM to IAG on 18 January 2002.*
- 21 December 2001** **NRMA Recovers \$90-\$120m for Reinsurance Contract**
NRMA Insurance Group Limited ("the Group") announced it would bring between \$90 to 120 million (pre-tax) in reinsurance recoveries to account at the end of the month. Due to the continued strength of the Group's overall underwriting performance, it expects to generate the recoveries from its whole of account aggregate stop loss contract (WAASL).

- 2 November 2001** **NRMA Insurance Group Limited Annual General Meeting**
Majority of shareholders voted to change the holding company's name to Insurance Australia Group Limited (IAG) to better reflect both the Group's diversity and its aspirations.
- 5 October 2001** **NIGL offers small shareholders free, simple share sale facility**
A facility to sell shares, free of transaction costs, was offered to shareholders registered with 1,000 or less shares. (The facility, which closed in December 2001, processed 55.1 million shares on behalf of 116,551 eligible shareholders.)
- 28 September 2001** **NRMA Insurance Group Limited agrees to sell Building Society to HSBC for \$138m**
The sale proceeds of around \$138m were to be used to retire debt and would generate an accounting profit of around \$50m.
- 14 September 2001** **High Court refuses NRMA Insurance Special Leave**
High Court refuses NRMA Insurance Special Leave to appeal against the decision of the NSW Court of Appeal regarding the 1994 restructuring proposal to demutualise NRMA Insurance Limited and NRMA Limited. (Consequently \$12m was expensed in legal fees.)
- 12 September 2001** **NRMA Insurance Group outlines exposure on US Attack**
- 7 September 2001** **NIGL CEO Appointed**
NRMA Insurance Group announces appointment of new CEO, Mr Michael Hawker to take effect in December 2001.
- 31 August 2001** **NIGL announces FY01 results**
- 16 August 2001** **NRMA Insurance Group establishes medium term note programme for New Zealand**
NRMA Insurance Group has established a NZ\$300 million Medium Term Note (MTN) programme. The Issuer under the MTN programme is NRMA (NZ) Holdings Limited, the New Zealand ultimate holding company of State Insurance Limited.
- 2 August 2001** **NRMA Insurance Group announces James Strong as Chairman**
- 13 July 2001** **NRMA Insurance Group establishes short term note programme in New Zealand**
NRMA Insurance Group has established a NZ\$300 million short-term note programme. The Issuer under the MTN programme is NRMA (NZ) Holdings Limited, the New Zealand ultimate holding company of State Insurance Limited.

Appendix B – Financial Statements 30 June 2002 – Insurance Manufacturers of Australia Pty Limited

Insurance Manufacturers of Australia Pty Limited and Controlled Entities Statement of Financial Performance For the Year Ended 30 June 2002	PARENT		CONSOLIDATED	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Premium revenue	1,790,582	1,667,242	1,790,582	1,667,242
Reinsurance expense	(97,370)	(55,130)	(97,370)	(55,130)
Net premium revenue	1,693,212	1,612,112	1,693,212	1,612,112
Claims expense	(1,427,923)	(1,470,865)	(1,427,923)	(1,470,865)
Reinsurance and other recoveries	184,549	222,693	184,549	222,693
Net claims expense	(1,243,374)	(1,248,172)	(1,243,374)	(1,248,172)
Acquisition costs	(222,669)	(190,742)	(222,669)	(190,742)
Other underwriting expenses	(23,070)	(70,759)	(23,070)	(70,759)
Fire brigade charges	(75,640)	(68,768)	(75,640)	(68,768)
Underwriting expenses	(321,379)	(330,269)	(321,379)	(330,269)
Profit from underwriting	128,459	33,671	128,459	33,671
Investment income	85,864	61,441	85,864	61,441
Realised (losses) / gains on investments	(85,174)	14,041	(85,174)	14,041
Unrealised (losses) / gains on investments	(30,509)	2,839	(30,509)	2,839
Other operating revenue	89	500	96	500
Corporate and administration expenses	(15,050)	(1,054)	(15,050)	(1,054)
Profit from ordinary activities before income tax	83,679	111,438	83,686	111,438
Income tax expense	(18,727)	(31,732)	(19,348)	(31,122)
Net profit attributable to members of Insurance Manufacturers of Australia Pty Limited	64,952	79,706	64,338	80,316
Non-owner transaction changes in equity:				
Total revenue, expense and valuation adjustments attributable to members of Insurance Manufacturers of Australia Pty Limited recognised directly in equity	-	-	-	-
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	64,952	79,706	64,338	80,316

Insurance Manufacturers of Australia Pty Limited and Controlled Entities Statement of Financial Position as at 30 June 2002	PARENT		CONSOLIDATED	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Current assets				
Cash assets	41,679	26,826	41,679	26,826
Receivables	576,747	591,768	576,767	591,771
Investments	247,647	553,971	247,647	553,971
Other	172,545	158,354	172,545	158,354
Total current assets	1,038,618	1,330,919	1,038,638	1,330,922
Non-current assets				
Receivables	15,184	2,708	15,184	2,708
Investments	1,128,944	764,410	1,128,944	764,410
Plant and equipment	15,802	16,727	15,802	16,727
Deferred tax assets	35,883	17,544	36,128	17,544
Total non-current assets	1,195,813	801,389	1,196,058	801,389
Total assets	2,234,431	2,132,308	2,234,696	2,132,311
Current liabilities				
Payables	105,163	83,900	104,562	83,284
Current tax liabilities	18,112	10,997	18,170	10,997
Provision for employee entitlements	21,466	18,105	22,073	18,105
Outstanding claims	322,108	356,943	322,108	356,943
Unearned premium	969,803	927,101	969,803	927,101
Total current liabilities	1,436,652	1,397,046	1,436,716	1,396,430
Non-current liabilities				
Deferred tax liabilities	6,513	2,833	6,513	2,833
Provisions for employee entitlements	4,775	4,999	4,971	4,999
Outstanding claims	116,572	39,464	116,572	39,464
Total non-current liabilities	127,860	47,296	128,056	47,296
Total liabilities	1,564,512	1,444,342	1,564,772	1,443,726
Net assets	669,919	687,966	669,924	688,585
Equity				
Contributed equity	596,053	581,771	596,053	581,771
Shareholder's loan	-	10,670	-	10,670
Retained profits	73,866	95,525	73,871	96,144
Total equity	669,919	687,966	669,924	688,585

Appendix C – Financial Statements 30 June 2002 – NRMA Life Limited

NRMA Life Limited and Consolidated Entities Statement of Financial Performance for the Year Ended 30 June 2002	COMPANY		CONSOLIDATED	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
Insurance premium revenue for Life business	25,602	21,527	25,602	21,527
Outward reinsurance expense for Life business	(2,630)	(2,060)	(2,630)	(2,060)
	22,972	19,467	22,972	19,467
Investment revenue	3,293	107,664	8,329	90,422
Other revenue	-	-	16,411	18,532
Total revenue	26,265	127,131	47,712	128,421
Claims expense	(9,655)	(8,173)	(9,655)	(8,173)
Reinsurance recoveries revenue	538	817	538	817
	(9,117)	(7,356)	(9,117)	(7,356)
Administration expenses	(34,751)	(35,472)	(46,667)	(52,249)
Decrease / (increase) in net policy liabilities	32,793	(39,340)	32,793	(39,340)
Underwriting result from general insurance	-	-	(3,438)	789
Total operating expense	(11,075)	(82,168)	(26,429)	(98,156)
Profit from ordinary activities before income	15,190	44,963	21,283	30,265
Income tax benefit / (expense) attributable to operating profit	7,670	(6,736)	10,489	(16,154)
Net profit	22,860	38,227	31,772	14,111
Net profit attributable to outside equity interests	-	-	(8,160)	-
Net Profit attributable to members of the Company	22,860	38,227	23,612	14,111
Non-owner transaction changes in equity: Total revenue, expenses and valuation adjustments attributable to members of the Company recognised directly in equity	-	-	-	-
Total changes in equity from non-owner related transactions attributable to members of the Company	22,860	38,227	23,612	14,111

NRMA Life Limited and Controlled Entities Statement of Financial Position as at 30 June 2002	COMPANY		CONSOLIDATED	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Assets				
Cash assets	52,435	6,889	53,729	17,307
Outstanding premiums	589	679	589	34,733
Receivables	25,813	25,360	26,207	78,194
Investment assets				
Equity securities	535,197	1,013,756	542,454	686,060
Debt securities	449,138	474,120	660,792	613,639
Property	60,032	64,627	72,985	72,312
Total investment assets	1,044,367	1,552,503	1,276,231	1,372,011
Gross policy liabilities ceded under reinsurance	(14,035)	(12,545)	(14,035)	(12,545)
Excess of net market value of interest i of	-	-	-	282,760
Deferred tax assets	9,299	1,162	9,299	7,107
Other	-	-	-	29,514
Total assets	1,118,468	1,574,048	1,352,020	1,809,081
Liabilities				
Payables	9,521	14,282	36,198	46,037
Premiums in advance	339	297	339	297
Unearned premiums for general insura premiums	-	-	-	92,671
Tax liabilities	3,739	15,923	3,739	25,383
Provisions	-	2,000	-	2,904
Borrowings	-	450,000	-	450,000
Gross policy liabilities	913,516	923,053	913,516	923,053
Outstanding general insurance claims	-	-	-	100,304
Total liabilities	927,115	1,405,555	953,792	1,640,649
Net assets	191,353	168,493	398,228	168,432
Equity				
Contributed equity	63,425	63,425	63,425	63,425
Retained profits	127,928	105,068	128,619	105,007
Equity attributable to members of NRM attributable	191,353	168,493	192,044	168,432
Outside equity interest in controlled ent equity				
- Unitholders' funds	-	-	206,184	-
Total equity	191,353	168,493	398,228	168,432