

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

PRELIMINARY FINAL REPORT 30 JUNE 2003

APPENDIX 4E (ASX listing rules 4.3A)

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INSURANCE AUSTRALIA GROUP LIMITED

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Up/down	%	\$m
Revenue from ordinary activities	Up	39.7%	5,780
Profit from ordinary activities after tax attributable to members	Up	N/A	153
Net profit attributable to shareholders of Insurance Australia Group Limited	Up	N/A	153

Dividends – ordinary shares	Amount per security	Franked amount per security
Final dividend	7.0 cents	7.0 cents
Interim dividend	4.5 cents	4.5 cents

The record date of the dividend is 10 September 2003. The dividend will be paid on 13 October 2003. The last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan is 10 September 2003.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 2003

APPENDIX 4E COMPLIANCE MATRIX

Appendix 4E disclosure requirements	Insurance Australia Group Appendix 4E	Page Number	Note Number
1. Details of the reporting period and the previous corresponding period.	All financial data headings		
2. Key information in relation to the following. This information must be identified as "Results for announcement to the market". 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities. 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members. 2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members. 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends. 2.5 The record date for determining entitlements to the dividends (if any). A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	"Results for announcement to the market" page 1 Appendix 4E		
3. A statement of financial performance together with notes to the statement, prepared in compliance with AASB 1018 or the equivalent foreign accounting standard.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Statement of financial performance • Notes to the financial statements <ul style="list-style-type: none"> - Summary of significant accounting policies - Revenue - Result from life insurance operation - Profit from ordinary activities before income tax - Analysis of total expenses - Claims expense - Individually significant items - Income tax 	P.10 P.13 P.22 P.23 P.23 P.23 P.24 P.25 P.25	Note 1 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 9
4. A statement of financial position together with notes to the statement. The statement of financial position may be condensed but must report as line items each significant class of asset, liability, and equity element with appropriate sub-totals.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Statement of financial position • Notes to the financial statements <ul style="list-style-type: none"> - Current assets – receivables - Current assets – investments - Current assets – current tax assets - Current assets – other - Non-current assets – receivables 	P.11 P.30 P.30 P.31 P.31 P.31	Note 14 Note 15 Note 16 Note 17 Note 18

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 2003

Appendix 4E disclosure requirements	Insurance Australia Group Appendix 4E	Page Number	Note Number
(4. Continued)	<ul style="list-style-type: none"> - Non-current assets – investments - Non-current assets – plant and equipment - Non-current assets – deferred tax assets - Non-current assets – intangible assets - Non-current assets – other - Current liabilities – payables - Current liabilities – interest-bearing liabilities - Current liabilities – current tax liabilities - Current liabilities – provisions - Outstanding claims - Non-current liabilities – interest-bearing liabilities - Non-current liabilities – deferred tax liabilities - Non-current liabilities – provisions - Contributed equity 	<ul style="list-style-type: none"> P.31 P.32 P.32 P.32 P.32 P.33 P.33 P.33 P.33 P.33 P.34 P.34 P.34 P.35 	<ul style="list-style-type: none"> Note 19 Note 20 Note 21 Note 22 Note 23 Note 24 Note 25 Note 26 Note 27 Note 28 Note 29 Note 30 Note 31 Note 32
5. A statement of cash flows together with notes to the statement. The statement of cash flows may be condensed but must report as line items each significant form of cash flow and comply with the disclosure requirements of AASB 1026 Statement of Cash Flows, or for foreign entities, the equivalent foreign accounting standard.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Statement of cash flows • Notes to the financial statements <ul style="list-style-type: none"> - Reconciliation to net cash provided by operating activities to profit from ordinary activities after income tax - Reconciliation of cash 	<ul style="list-style-type: none"> P.12 P.39 P.40 	<ul style="list-style-type: none"> Note 36 Note 37
6. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Dividends and dividend franking account 	<ul style="list-style-type: none"> P.26 	<ul style="list-style-type: none"> Note 10
7. Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Contributed equity - Dividend and dividend franking account 	<ul style="list-style-type: none"> P.35 P.26 	<ul style="list-style-type: none"> Note 32 Note 10
8. A statement of retained earnings showing movements.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Retained profits / accumulated losses 	<ul style="list-style-type: none"> P.36 	<ul style="list-style-type: none"> Note 33
9. Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Net tangible assets 	<ul style="list-style-type: none"> P.62 	<ul style="list-style-type: none"> Note 54
10. Details of entities over which control has been gained or lost during the period, including the following. 10.1 Name of the entity. 10.2 The date of the gain or loss of control.	Attachment A: Financial report 30 June 2003: <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Business acquired - Business disposed 	<ul style="list-style-type: none"> P.40 P.42 	<ul style="list-style-type: none"> Note 38 Note 39

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 2003

Appendix 4E disclosure requirements	Insurance Australia Group Appendix 4E	Page Number	Note Number
<p>(10. Continued)</p> <p>10.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.</p>	<p>Attachment A: Financial report 30 June 2003:</p> <ul style="list-style-type: none"> • Notes to the financial statements - Business acquired - Business disposed 	<p>P.40 P.42</p>	<p>Note 38 Note 39</p>
<p>11. Details of associates and joint venture entities including the following.</p> <p>11.1 Name of the associate or joint venture entity.</p> <p>11.2 Details of the reporting entity's percentage holding in each of these entities.</p> <p>11.3 Where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.</p>	<p>Attachment A: Financial report 30 June 2003:</p> <ul style="list-style-type: none"> • Notes to the financial statements - Details of controlled entities and joint ventures 	<p>P.47</p>	<p>Note 44</p>
<p>12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.</p>	<p>Attachment A: Financial report 30 June 2003</p>		
<p>13. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).</p>	<p>Not applicable</p>		
<p>14. A commentary on the results for the period. The commentary must be sufficient for the user to be able to compare the information presented with equivalent information for previous periods. The commentary must include any significant information needed by an investor to make an informed assessment of the entity's activities and results, which would include but not be limited to discussion of the following.</p> <p>14.1 The earnings per security and the nature of any dilution aspects.</p>	<p>Attachment A: Financial report 30 June 2003</p> <p>Attachment A: Financial report 30 June 2003:</p> <ul style="list-style-type: none"> • Notes to the financial statements - Earnings per share 	<p>P.37</p>	<p>Note 35</p>

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Appendix 4E disclosure requirements	Insurance Australia Group Appendix 4E	Page Number	Note Number
<p>(14. Continued)</p> <p>14.2 Returns to shareholders including distributions and buy backs.</p> <p>14.3 Significant features of operating performance.</p> <p>14.4 The results of segments that are significant to an understanding of the business as a whole.</p> <p>14.5 A discussion of trends in performance.</p> <p>14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.</p>	<p>Attachment A: Financial report 30 June 2003:</p> <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Contributed equity - Dividends and dividend franking account <p>Attachment A: Financial report 30 June 2003:</p> <ul style="list-style-type: none"> • Directors' report <p>Attachment A: Financial report 30 June 2003:</p> <ul style="list-style-type: none"> • Notes to the financial statements <ul style="list-style-type: none"> - Segmental reporting <p>Attachment A: Financial report 30 June 2003</p> <ul style="list-style-type: none"> • Directors' report <ul style="list-style-type: none"> - Result and review of operations <p>Attachment A: Financial report 30 June 2003</p> <ul style="list-style-type: none"> • Directors' report 	<p>P.35 P.26</p> <p>P.1</p> <p>P.53</p> <p>P.1 P.3</p> <p>P.1</p>	<p>Note 32 Note 10</p> <p>Note 48</p>
<p>15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.</p>	<p>The financial report 30 June 2003 has been fully audited.</p> <ul style="list-style-type: none"> • Independent auditors' report 	<p>P.64</p>	
<p>16. if the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.</p>	<p>Not applicable</p>		
<p>17. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.</p>	<p>Not applicable</p>		

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 2003

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

FINANCIAL REPORT – 30 JUNE 2003

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
AND CONTROLLED ENTITIES
FINANCIAL REPORT - 30 JUNE 2003

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

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of the Insurance Australia Group for the year ended 30 June 2003 and the auditors' report thereon.

The following terminology is used throughout the financial report.

* IAG, parent entity or the Company - Insurance Australia Group Limited.

* IAG Group, Group or consolidated entity - the consolidated entity constituted by Insurance Australia Group Limited and its controlled entities.

Directors of Insurance Australia Group Limited

The following persons held office as Directors at any time during or since the financial year:

Chairman:

Mr JA (James) Strong, age 59 – Independent non-executive Director

Mr James Strong was appointed Chairman of IAG on 2 August 2001. He is also Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company and the Australian Business Arts Foundation. He is a Director of the Australian Grand Prix Corporation and Opera Australia.

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

Mr Strong is Chairman of the IAG Chairman's Committee.

Other Directors:

Mr JF (John) Astbury FAICD, age 59 – Independent non-executive Director

Mr John Astbury was appointed as a Director of IAG in July 2000.

Mr Astbury was previously the Finance Director of Lend Lease Corporation Limited and a Chief General Manager of National Australia Bank Limited. He has a long career in banking and financial services in both the UK and Australia.

Mr Astbury is currently Chairman of the IAG Audit Committee and also serves on the IAG Chairman's Committee.

Mrs MC (Maree) Callaghan FAICD, age 57 – Independent non-executive Director

Mrs Maree Callaghan has been a Director of IAG since June 2000 and Insurance Australia Limited (formerly NRMA Insurance Limited) since 1993.

Mrs Callaghan is a member of the NSW Coal Compensation Board and was a director of National Roads and Motorists' Association Limited from 1991-2002 (President, July-October, 2002). Mrs Callaghan currently manages a division of Life Activities Inc. (supporting people with disability), worked with the NSW Cancer Council (1995-2000) and was Mayor of Cessnock from 1987-1995.

Mrs Callaghan is a member of the IAG Risk Management & Compliance Committee.

Mr GA (Geoffrey) Cousins, age 60 – Independent non-executive Director

Mr Geoffrey Cousins was appointed as a Director of IAG in July 2000 and has more than 26 years experience as a company Director. He is currently on the Board of NM Rothschild and Sons Limited.

Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network and Hoyts Cinemas group. He was the first Chief Executive of Optus Vision and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia.

Mr Cousins is a consultant to the Prime Minister on the communication of Government policy.

Mr Cousins is a member of the IAG Audit Committee.

Mrs M (Mary) Easson MAICD, age 48 – Independent non-executive Director

Mrs Mary Easson was appointed as a Director of IAG in June 2000 and a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1997.

A former member of Federal Parliament, Mrs Easson is currently the Managing Director of Probity International and is on the Board of Professional Standards Resource Group. Mrs Easson has held a number of executive positions including the National Government Relations Manager for Australian Consolidated Industries (ACI) and the Human Resources Executive for Ansett Transport Industries. She is a recipient of the Prime Minister's Centennial Medal for Services to Business and Commerce.

Mrs Easson is a member of the IAG Audit Committee.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors of Insurance Australia Group Limited (continued)

Ms DG (Dominique) Fisher BA (Hons) age 46 – Independent non-executive Director

Ms Dominique Fisher has been a Director of IAG since June 2000 and a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) since 1996.

Ms Fisher has wide-ranging business experience to general management level, more than 20 years experience in electronic commerce and telecommunications and now manages her own business. Her company, EC Strategies Pty Ltd, advises companies, primarily in Australasia and the United States, on electronic commerce strategies, on major commercial transactions and on business application of technology and commercialisation of software and other technology.

Ms Fisher is also a Director of the Playbox Theatre and the Prostate Cancer Research Foundation Victoria. She was previously Chairman of the Management Committee, Royal Hospital for Women, Director of AIDS Fundraising Management and the Communications and Media Law Associations and Trustee of the Sydney Opera House Trust.

Ms Fisher serves on the IAG Risk Management & Compliance Committee.

Mr ND (Neil) Hamilton LLB, age 51 – Independent non-executive Director

Mr Neil Hamilton was appointed as a Director of IAG in June 2000 and as a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1999.

Mr Hamilton is the Chairman of Iress Market Technology Limited, Western Australia Land Authority (Landcorp) and Integrated Group Limited. He is also Deputy Chairman of the Western Power Corporation.

Mr Hamilton is a member of the IAG Risk Management & Compliance Committee.

Ms AJ (Anne) Keating, age 49 – Independent non-executive Director

Ms Anne Keating was appointed as a Director of IAG in June 2000 and as a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) since 1997.

Ms Keating is currently a director of STW Communications Limited, Macquarie Leisure Management Limited, CN Holdings Pty Ltd and Mutual Community General Insurance Pty Ltd. She is an Advisory Council member of ABN AMRO Australia and New Zealand, an inaugural Board member of the Victor Chang Cardiac Research Institute. She manages her own consulting business, Anne Keating Consulting.

Ms Keating was the General Manager, Australia for United Airlines from 1993 to 2001.

Ms Keating is a member of the IAG Audit Committee.

Mr RA (Rowan) Ross BEc, BCom, FCPA, FSIA, age 54 – Independent non-executive Director

Mr Rowan Ross was appointed as a Director of IAG in July 2000 and acted as the Chairman from April to August 2001.

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

Mr Ross is Chairman of the IAG Risk Management & Compliance Committee and serves on the IAG Chairman's Committee.

Mr MJ (Michael) Hawker BSc, ASIA, FAICD, AAIBF (Snr.), age 43 – Chief Executive Officer and executive Director

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

Before joining Insurance Australia Group, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia. Mr Hawker is a Board member of the Insurance Council of Australia (ICA), and is the Chair of the New South Wales Juvenile Diabetes 'Walk to Cure' annual fundraising event and the Giant Steps Foundation. He was previously the Chairman of the Australian Financial Markets Association.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40, and in 2000, he was awarded the Australian Banking & Finance Magazine - Millennium Banker of the Year Award. He is a recipient of an Australian Sports Medal.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Principal activities

The principal continuing activities of the IAG Group are the underwriting of general insurance, retirement services and other corporate services and investing activities.

Result and review of operations

The Group recorded a net profit attributable to shareholders of \$153 million (2002 - \$25 million loss). Included within these results is the 6 months performance of the CGU Insurance Australia Limited Group (CGU) and Belves Investment Limited Group (NZI) which were acquired in January 2003.

The underlying business continues to perform strongly, with growth in general insurance underwriting profit to \$199 million compared with \$142 million in the previous period. This is despite an expense of \$45 million for restructuring costs in respect of the acquisition of CGU/NZI, which has been included in the current year underwriting result.

Highlights of the Group's performance include:

- Premium growth: Gross written premium was \$5,150 million, representing an increase of 45% on the previous year. Growth is attributable to the acquisition of CGU/NZI and the general growth of the business.
- The combined ratio of 95.7% includes \$45 million of integration costs. Adjusted for this the combined ratio was 94.7% for the year.
- The expense ratio of 23.2% for the year compared with 19.7% in the previous year. The increase in the expense ratio is primarily due to growth of an intermediary business through the acquisition of CGU/NZI, resulting in higher commissions expense.
- Short-tail underwriting continued to perform strongly with a combined ratio (claims and underwriting expenses to net earned premium) of 93.7%, which included \$37 million of integration costs accounting for 1.2% of the combined ratio (2002 – 95.5%).
- The long-tail portfolio performed strongly with the combined ratio of 102.2%.
- Our international results were also sound with a combined ratio of 95.3%, compared to 96.5% in 2002.

Total investment revenue included in the consolidated net profit for the year was \$296 million, compared to a loss of \$110 million in 2002. The IAG Group outperformed its fixed interest and international equity benchmarks and was marginally behind the Australian equity benchmark return. The negative returns on local and overseas equity markets resulted in lower than anticipated investment returns in the period. The policy of matching insurance claims liabilities with a high proportion of fixed interest investments has enabled the positive investment returns from this class to offset or immunise the increase in insurance liabilities associated with movements in interest rates.

Further information on the Group's result and review of operations can be found in the 30 June 2003 Investor Report on the Company's website, www.iag.com.au.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Likely developments and expected results of operations

Insurance and investment operations are, by their nature, volatile due to the exposure to natural disasters and industry cycles and thus profit predictions are difficult. However, the Directors concur with the market perception that following structural change in the market place and current low interest rates the coming few years are likely to be a favourable environment for general insurance in our region. We consider that the IAG Group is well placed to leverage opportunities in this environment.

The IAG Group is also exposed to significant regulatory changes over the next few years. In particular, we will be addressing:

- (i) changes to International Financial Reporting Standards;
- (ii) recommendations of the HIH Royal Commission;
- (iii) tax consolidation legislation change;
- (iv) governance changes through recommendations of the ASX Corporate Governance Council;
- (v) recommendations from the various Corporation Law Economic Reform Programs; and
- (vi) terrorism cover and tort reform.

Dividends

Details of dividends paid or declared by the Company are set out in note 10.

Significant changes

Significant changes in the state of affairs of the IAG Group during the financial year were as follows:

(a) On 18 October 2002, IAG announced that it had entered into an agreement to purchase the general insurance businesses in Australia and New Zealand ("the Acquisition of CGU/NZI") from Aviva plc for \$1,862 million including costs. The acquisition date was 2 January 2003. Further details of the impact on IAG from this acquisition are disclosed in note 38.

(b) The Acquisition of CGU/NZI was funded by the issue of ordinary equity and reset preference shares, raising of long-term debt and use of existing internal funds. Fund raisings included:

- \$500 million of ordinary share capital issued through an institutional placement at \$2.55 per ordinary shares (in two stages, completed 24 October and 19 November 2002 respectively);
- \$300 million of domestic subordinated term notes, issued by Insurance Australia Limited (formerly NRMA Insurance Limited) (a wholly owned subsidiary of IAG) (completed 27 November 2002);
- \$380 million of ordinary share capital issued through an underwritten Share Purchase Plan at \$2.40 per ordinary share (completed 12 December 2002);
- \$75 million of ordinary share capital issued through an underwritten dividend reinvestment plan for ordinary shares at \$2.79 per ordinary share (completed 14 April 2003);
- \$401 million (US \$240 million) of US subordinated term notes, issued by NRMA Insurance Funding 2003 Limited (a wholly owned subsidiary of IAG) (completed 28 April 2003); and
- \$200 million of reset preference shares issued which were listed on the Australian Stock Exchange on 20 June 2003.

Matters subsequent to the end of the financial year

Since the end of the financial year,

(a) On 1 July 2003, IAG announced the sale of NRMA Health Pty Limited for \$100 million to MBF, effective 25 July 2003. IAG has entered into a six-year marketing alliance, including a possible four year extension, with MBF.

(b) On 21 August 2003, a final dividend of 7 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 13 October 2003.

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

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Meetings of directors

The number of meetings each Director was eligible to attend and actually attended during the financial year is summarised as follows:

Directors	Board of Directors		Audit Committee		Chairman's Committee		Risk Management & Compliance Committee		Dividend Reinvestment Plan and Reinsurance Committee	
	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	23	23	-	-	5	5	-	-	3	3
Mr MJ Hawker	23	23	-	-	-	-	-	-	3	2
Mr JF Astbury	23	22	5	5	5	5	-	-	-	-
Mrs MC Callaghan	23	21	-	-	-	-	7	7	-	-
Mr GA Cousins	23	22	5	5	-	-	-	-	-	-
Mrs M Easson	23	22	5	4	-	-	-	-	-	-
Ms DG Fisher	23	20	-	-	-	-	7	6	-	-
Mr ND Hamilton	23	18	-	-	-	-	7	7	3	3
Ms AJ Keating	23	21	5	5	-	-	-	-	3	3
Mr RA Ross	23	23	-	-	5	5	7	7	3	3

Directors	IAG Board Sub-Committees	
	A	B
Mr JA Strong	10	7
Mr MJ Hawker	11	7
Mr JF Astbury	2	2
Mrs MC Callaghan	-	-
Mr GA Cousins	-	-
Mrs M Easson	-	-
Ms DG Fisher	2	2
Mr ND Hamilton	-	-
Ms AJ Keating	-	-
Mr RA Ross	8	5

A - Meetings eligible to attend as a member

B - Meetings attended as a member

For the year ended 30 June 2003, the following meetings of Directors were held:

Nature of meetings	Number of meetings held during the year
Board of Directors	23
Audit Committee	5
Chairman's Committee	5
Risk Management & Compliance Committee	7
Dividend Reinvestment Plan and Reinsurance Committee	3
IAG Board Sub-Committees	11

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Indemnification and insurance of directors and officers

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

- (a) a Director of the Company;
 - (b) a secretary of the Company;
 - (c) a person making or participating in making decisions that affect the whole or a substantial part of the business or Company; or
 - (d) a person having the capacity to affect significantly the financial standing of the Company or any of its wholly-owned subsidiaries.
- The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings.

In addition, the Company has granted deeds of indemnity to certain current and former Directors and secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company indemnifies to the maximum extent permitted by the law the former or current Directors or secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

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

Under a deed of indemnity referred to above, the Company has, during the financial year ended 30 June 2003, advanced amounts totalling \$0.1 million (2002 - \$0.2 million) in respect of reasonable legal costs incurred by a former Director of the Company (Mr Nicholas Whitlam) in relation to an alleged liability. During the financial year ended 30 June 2003, that former Director has claimed additional legal costs incurred in certain proceedings. The Company has sought further information from that former Director in order to determine the amount payable to that former Director, and has not yet paid the amount claimed. Amounts advanced by the Company to the former Director are repayable under the deed of indemnity if the costs become costs for which the Company, as a matter of law, must not give the former Director an indemnity.

On 10 July 2003, the Court of Appeal of New South Wales dismissed proceedings against the former Director with costs. Unless that decision is set aside by the High Court of Australia, the advances made by the Company to the former Director will not be repayable by the former Director, but the Company will be entitled to be repaid any amount recoverable by the former Director in respect of the costs of the proceedings (so far as they concerned his conduct as a Director of the Company) awarded by the court.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors' and executive officers' emoluments

Directors

Non-executive Directors of IAG receive a base fee of \$70,000 per annum (unchanged from 2001). The Chairman receives three times the base fee.

By resolution passed at the Company's 2001 AGM, non-executive Directors are required to receive at least 20%, and are allowed to receive up to 90%, of their base fee in the form of shares under the Non-executive Directors' Share Plan, rather than in cash.

In addition to the base fee, fees are payable for participation in certain committees and some subsidiary boards of IAG. The setting of all fees is based on advice from external remuneration advisers, which takes into account the level of fees paid to directors of other substantial companies operating in the financial services sector and the responsibilities and time commitment of Directors.

The table set out below shows the fees paid by IAG Group to non-executive Directors for the year ended 30 June 2003.

Non-executive Director	Base fee			Other fees ⁽¹⁾	Superannuation Contributions	Total
	Cash	Non-executive Directors Share Plan	Total			
	\$000	\$000	\$000	\$000	\$000	\$000
Mr JA Strong	70	140	210	100	39	349
Mr JF Astbury	56	14	70	23	11	104
Mrs MC Callaghan	49	21	70	10	10	90
Mr GA Cousins	56	14	70	10	10	90
Mrs M Easson	56	14	70	10	7	87
Ms DG Fisher	7	63	70	10	7	87
Mr ND Hamilton	7	63	70	10	7	87
Ms AJ Keating	56	14	70	10	7	87
Mr RA Ross	35	35	70	23	8	101

(1) Separate fees are payable for some of the IAG committees and some subsidiary boards.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors' and executive officers' emoluments (continued)

Executive director and officers

The Chairman's Committee is responsible for recommending remuneration policies and packages applicable to the Chief Executive Officer (CEO) and executives who report directly to the CEO of the Company. The broad remuneration policy is to ensure the remuneration package reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executives may receive performance bonuses based on the achievement of specific goals related to the individual's business unit and the performance of the consolidated entity in the context of its business plan. A long-term incentive plan is also in place, the purpose of which is to promote improvements in areas of financial and strategic performance.

The CEO of IAG does not receive fees for his service on the Board. The responsibilities of board membership are considered in determining remuneration provided as part of his normal employment conditions.

Set out below is the remuneration of the CEO and each of the five most highly remunerated current officers of the IAG Group for the year ended 30 June 2003.

Executive director	Base pay⁽¹⁾	Bonuses⁽²⁾	Other Compensation⁽³⁾	Valuation of total PSRs/PARs granted⁽⁴⁾	Total	PARs granted during the year⁽⁵⁾	Date first exercisable
<i>Chief Executive Officer:</i>	\$000	\$000	\$000	\$000	\$000	Number	
Mr MJ Hawker	1,004	350	135	860	2,349	300,000	24 Dec 2005

Officers	Base pay⁽¹⁾	Bonuses⁽²⁾	Other Compensation⁽³⁾	Valuation of total PSRs/PARs granted⁽⁴⁾	Total	PARs granted during the year⁽⁵⁾	Date first exercisable
Mr IF Brown	\$000	\$000	\$000	\$000	\$000	Number	
Mr G Venardos	587	771	201	108	1,667	81,265	24 Dec 2005
Mr RJ Jackson	566	696	89	140	1,491	119,189	24 Dec 2005
Mr DJP Smith	464	785	88	-	1,337	-	-
Mr DRA Pearce	547	552	109	97	1,305	86,716	24 Dec 2005
	421	598	85	107	1,211	87,553	24 Dec 2005

(1) Base pay includes cash salary, annual leave and long service leave.

(2) Bonuses reflect payments made during the period in respect of the previous performance period, accrual of long-term incentive bonuses.

(3) Other compensation includes superannuation contributions and the provision of cars, parking and related fringe benefits tax.

(4) Performance Share Rights (PSRs – related to unissued shares) and Performance Award Rights (PARs – related to issued shares) are valued in accordance with the Australian Securities & Investments Commission (ASIC) guidance and the Australian Accounting Standards Board Exposure Draft ED108 "Request for comment on IASB ED2 share-based payment". An allocated portion of unvested PSRs and PARs are included in the total remuneration disclosure above. This is a change in measurement method which results in certain PSRs granted and disclosed in prior periods being included in the above table in valuation of PSRs/PARs. The total amount involved is \$1,099,000. To determine these values the Monte-Carlo Value model has been applied. The valuation takes into account the share price at grant date, the expected life of the option, the volatility in price of the underlying shares of IAG and expected dividends.

(5) The Company has issued PARs to certain executives during the financial year. Each executive who participates in the PARs becomes eligible to receive a number of shares by paying \$1 per tranche of rights allocated, subject to a specific performance hurdle met.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors' interests

The relevant interest of each Director in the shares and/or options issued by the Company, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001, at the date of this report is as follows:

Directors	Ordinary shares directly held	Ordinary shares indirectly held*	Reset preference shares	Performance share rights	Performance award rights
Mr JA Strong	12,083	104,623	-	-	-
Mr JF Astbury	10,083	33,652	-	-	-
Mrs MC Callaghan	2,365	18,619	-	-	-
Mr GA Cousins	150,000	13,652	-	-	-
Mrs M Easson	5,802	8,835	-	-	-
Ms DG Fisher	4,799	44,578	-	-	-
Mr ND Hamilton	4,817	39,761	-	-	-
Ms AJ Keating	709	13,652	-	-	-
Mr RA Ross	102,557	28,553	-	-	-
Mr MJ Hawker	180,919	-	-	1,000,000	300,000

* - Ordinary shares indirectly held include shares held in the Non-executive Directors' Share Plan.

Environmental regulation

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

Rounding of amounts

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

Signed at Sydney this 21st of August 2003 in accordance with a resolution of the Directors.

..... Director

..... Director

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Notes	PARENT		CONSOLIDATED	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
Premium revenue	3(a)(i)	-	-	4,885	3,448
Reinsurance expense	6	-	-	(249)	(253)
Net premium revenue		-	-	4,636	3,195
Claims expense	6, 7	-	-	(3,743)	(3,000)
Reinsurance and other recoveries	3(a)(i)	-	-	380	575
Net claims expense	7	-	-	(3,363)	(2,425)
Acquisition costs	6	-	-	(700)	(389)
Other underwriting expenses	6	-	-	(241)	(165)
Fire brigade charges	6	-	-	(133)	(74)
Underwriting expenses		-	-	(1,074)	(628)
Profit from underwriting		-	-	199	142
Investment income	3(a)(ii)	102	248	332	255
Realised gains / (losses) on investments	3(a)(ii)	-	45	1	(290)
Unrealised losses on investments	3(a)(ii)	-	-	(37)	(75)
Financial services revenue	3(a)(iii)	-	-	30	37
Other operating revenue	3(a)(iv)	-	-	177	173
Borrowing costs expense		-	-	(46)	(46)
Life insurance business expenses	4, 6	-	-	(11)	-
Corporate and administration expenses	6	-	-	(348)	(297)
Profit / (loss) from ordinary activities before income tax	5	102	293	297	(101)
Income tax credit / (expense)	9	4	(9)	(80)	18
Net profit / (loss)		106	284	217	(83)
Net (profit) / loss attributable to outside equity interests		-	-	(64)	58
Net profit / (loss) attributable to shareholders of Insurance Australia Group Limited		106	284	153	(25)
Non-owner transaction changes in equity:					
Total revenue, expenses and valuation adjustments attributable to shareholders of Insurance Australia Group Limited recognised directly in equity		-	-	-	-
Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity		106	284	153	(25)
				CONSOLIDATED	
				2003	2002
				cents	cents
Basic earnings per ordinary share	35(a)			8.65	(1.78)
Basic earnings per reset preference share	35(b)			587.36	-
Diluted earnings per ordinary share	35(a)			8.61	(1.77)

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

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2003

	<u>Notes</u>	PARENT		CONSOLIDATED	
		2003	2002	2003	2002
		\$m	\$m	\$m	\$m
Current assets					
Cash assets		2	2	626	253
Receivables	14	-	-	2,548	1,519
Investments	15	-	-	2,585	1,619
Current tax assets	16	3	-	40	6
Other	17	-	-	823	313
Total current assets		5	2	6,622	3,710
Non-current assets					
Receivables	18	-	-	401	192
Investments	19	4,246	3,387	7,246	6,471
Plant and equipment	20	-	-	139	95
Deferred tax assets	21	-	-	326	206
Intangible assets	22	-	-	1,626	632
Other	23	-	-	32	1
Total non-current assets		4,246	3,387	9,770	7,597
Total assets		4,251	3,389	16,392	11,307
Current liabilities					
Payables	24	-	-	891	1,281
Interest-bearing liabilities	25	-	-	136	224
Current tax liabilities	26	-	9	106	49
Provisions	27	-	-	174	84
Outstanding claims	28	-	-	2,147	1,268
Unearned premium		-	-	3,223	1,839
Total current liabilities		-	9	6,677	4,745
Non-current liabilities					
Loan from related body corporate		133	315	-	-
Interest-bearing liabilities	29	-	-	744	86
Deferred tax liabilities	30	-	-	59	135
Provisions	31	-	-	43	18
Gross life insurance policy liabilities		-	-	910	927
Outstanding claims	28	-	-	3,828	2,417
Unearned premium		-	-	78	-
Total non-current liabilities		133	315	5,662	3,583
Total liabilities		133	324	12,339	8,328
Net assets		4,118	3,065	4,053	2,979
Equity					
Contributed equity	32	3,973	2,852	3,973	2,852
Foreign currency translation reserve		-	-	(2)	(1)
Retained profits / (accumulated losses)	33	145	213	(396)	(375)
Equity attributable to shareholders of Insurance Australia Group Limited		4,118	3,065	3,575	2,476
Outside equity interests in controlled entities:					
- Contributed equity		-	-	180	179
- Retained profits		-	-	20	22
- Unitholders' funds		-	-	278	302
Total equity	34	4,118	3,065	4,053	2,979

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

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2003

	Notes	PARENT		CONSOLIDATED	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
Cash flows from operating activities					
Premium received		-	-	5,395	3,750
Reinsurance and other recoveries received		-	-	466	421
Claims costs paid		-	-	(3,891)	(2,894)
Outwards reinsurance premium paid		-	-	(348)	(255)
Dividends received		102	248	82	126
Interest and similar items received		-	-	385	296
Interest and other costs of finance paid		-	-	(39)	(65)
Income taxes paid		-	(1)	(108)	(91)
Other operating receipts		-	-	423	414
Other operating payments		-	-	(1,540)	(1,171)
Net cash provided by operating activities	36	102	247	825	531
Cash flows from investing activities					
Net cash flows on acquisition of controlled entities	38(b)	-	-	(1,644)	-
Net cash flows on disposal of controlled entities	39	-	133	-	(67)
Proceeds from disposal of investments and plant and equipment		-	-	26,872	26,080
Dividend received from pre-acquisition profits of a controlled entity		33	27	-	-
Outlays for investments and plant and equipment acquired		(892)	(275)	(26,405)	(26,278)
Repayment of loans by policyholders		-	-	126	-
Loans to policyholders		-	-	(116)	-
Repayment of mortgage loans		-	-	-	253
Drawdown of mortgage loans		-	-	-	(308)
Net cash used in investing activities		(859)	(115)	(1,167)	(320)
Cash flows from financing activities					
Proceeds from issues of shares		1,080	350	1,080	353
Outlays for buy-back of shares		-	(301)	-	(301)
Proceeds from issues of trust units		-	-	578	552
Outlays for redemption of trust units		-	-	(673)	(576)
Proceeds from borrowings		-	-	1,509	1,195
Repayment of borrowings		(190)	(27)	(1,597)	(1,370)
Net decrease in depositor funds		-	-	-	(3)
Proceeds from securitisation		-	-	-	28
Share issue costs paid		(34)	(7)	(34)	(7)
Dividends paid to IAG shareholders*		(99)	(147)	(99)	(147)
Dividends paid to outside equity interests		-	-	(48)	(26)
Net cash provided by / (used in) financing activities		757	(132)	716	(302)
Net increase / (decrease) in cash held		-	-	374	(91)
Effects of exchange rate changes on balances of cash held in foreign currencies		-	-	(1)	-
Cash at the beginning of the financial year		2	2	253	344
Cash at the end of the financial year	37	2	2	626	253

* - Dividends paid to IAG shareholders exclude dividends reinvested under the Dividend Reinvestment Plan.

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

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies

(a) Basis of preparation of financial report

(i) This general purpose financial report has been prepared in accordance with applicable Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001, except as described in note 1(a)(ii).

The accounting policies adopted have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year unless otherwise mentioned. Except for certain assets which, as noted in the financial statements, are at fair value, the financial statements have been prepared in accordance with historical cost convention.

(ii) Insurance Australia Group Limited obtained an order, dated 14 February 2000, from the Australian Securities & Investments Commission exempting the Company from compliance with certain sections of the Corporations Act 2001. These exemptions allowed the Company to acquire the shares in Insurance Australia Limited (formerly NRMA Insurance Limited) at an amount equal to the sum of the carrying amounts of the assets and liabilities as shown in the consolidated statement of financial position of Insurance Australia Limited immediately prior to the date of acquisition. This order also allows dividends paid by Insurance Australia Limited to the Company out of distributable reserves of Insurance Australia Limited at the time of acquisition of its shares by the Company (pre-acquisition reserves) to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by Insurance Australia Limited to the Company to \$575 million of which \$561 million in total (2002 - \$561 million) has been paid by Insurance Australia Limited from pre-demutualisation profits. During the year ended 30 June 2003, the Company received dividends of \$Nil (2002 - \$248 million) from Insurance Australia Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

(b) Principles of consolidation

The financial statements of controlled entities are included from the date control commences until the date control ceases. Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Outside interests in the equity and results of entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Significant accounting policies applicable to general insurance activities only

(c) Premium revenue

Direct premium and inwards reinsurance premium comprise amounts charged to policyholders or other insurers and include fire service levies, but exclude stamp duties and taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium is recognised as earned based on time from the date of attachment of risk. Premium on unclosed business is brought to account with due allowance for any changes in the pattern of new business and renewals.

Unearned premium is determined by apportioning the premiums written over the period of risk.

(d) Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Where appropriate, an unearned portion of outwards reinsurance premium is treated at the balance date as a prepayment.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(e) Claims

Provision is made for the estimated cost of all unsettled claims including incurred claims not yet reported. The provision is based on the ultimate cost of settling claims and account is taken of the effect on the ultimate claim size of future inflation as well as increases in the real levels of compensation awarded by the courts. In setting the provision, allowance is also made for future investment earnings. The details of the inflation and discount rates used are included in note 28. The estimate for outstanding claims includes the anticipated direct and indirect costs of settling these claims.

Claims expense represent claim payments adjusted for movement in the provision as described above.

(f) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred claims not yet reported are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates applied are included in note 28.

(g) Insurance premium acquisition costs

Acquisition costs are incurred in obtaining and recording policies of insurance. They include commission or brokerage expenses, advertising, risk assessment and other administrative costs.

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. These costs are amortised on the same basis as the earning pattern of the premium.

(h) Fire brigade and other charges

A liability for fire brigade and other charges is recognised on business written to the balance date. Levies and charges payable by the entity are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

Significant accounting policies applicable to life insurance activities only

(i) Premium revenue

Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as outstanding premiums in the statement of financial position. Premiums due after but received before the end of the financial year are shown as other creditors in the statement of financial position.

(j) Claims

Claims in respect of life risk business are recognised in the statement of financial performance when the Company is notified of the insured event. Claims are shown gross of reinsurance recoverable from another life insurance company registered in Australia. Any reinsurance recoveries applicable to the claims are included in receivables.

Claims on non investment-linked business are recognised when the liability to the policyholder under the policy contract has been established.

Claims under investment-linked business are recognised within increase/decrease in policy liabilities in the statement of financial performance.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(k) Policy acquisition costs

Life insurance policy acquisition costs incurred are recorded in the statement of financial performance and represent the fixed and variable costs of acquiring new business. The policy acquisition costs include commission, advertising, policy issue and underwriting costs, agency expenses and sales costs.

The Appointed Actuary, in determining the policy liabilities, takes into account the deferral and future recovery of acquisition costs, resulting in policy liabilities being lower than otherwise and those costs being amortised over the period that they will be recoverable. The deferral and amortisation of acquisition costs are recognised within increase/decrease in policy liabilities in the statement of financial performance.

The acquisition costs deferred are determined as the lower of actual costs incurred and the allowance for the recovery of those costs from the policy charges (as appropriate for each policy class), subject to an overall limit that the value of future profits at inception cannot be negative (acquisition losses will be recognised at inception to the extent the latter situation arises).

(l) Policy liabilities

Life insurance policy liabilities are measured at net present value of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Life insurance policy liabilities in the statement of financial position and the increase or decrease in policy liabilities in the statement of financial performance have been calculated in accordance with Actuarial Standard AS 1.03 Valuation of Policy Liabilities ("AS 1.03").

(m) Basis of expense apportionments

All expenses of the life insurance business charged to the statement of financial performance have been apportioned in accordance with Part 6, Division 2 of the Life Insurance Act 1995 ("Life Act").

The basis is as follows:

- expenses relating specifically to either the shareholder's fund or the statutory funds are allocated directly to the respective funds;
- expenses excluding investment management fees, which are directly identifiable, are apportioned between policy acquisition costs and policy maintenance costs with regard to the objective when incurring each expense and the outcome achieved;
- expenses subject to apportionment under Section 80 of the Life Act are allocated between the funds in proportion to activities to which they relate. Activities are based on direct measures such as transactions processed and business volumes; and
- the apportionment basis is in line with the principles set out in accordance with AS 1.03.

All expenses relate to non-participating business as NRMA Life Limited only writes this category of business.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

Significant accounting policies applicable to all companies in the group

(n) Investment income

Investment revenue is brought to account on an accruals basis. Income on investment units and shares is deemed to accrue on the date the dividends/distributions are declared, which for quoted shares is deemed to be the ex-dividend date.

(o) Leased assets

Payments relating to leased assets classified as operating leases are charged as an expense in the period in which they are incurred.

(p) Depreciation

Plant and equipment is depreciated using the straight line method at rates based on the expected useful lives of the assets to the entity.

The depreciation rates used for each class of asset are as follows:

Motor vehicles	15%
Office and other plant and equipment	6.67% - 40%

(q) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and foreign exchange differences net of hedged amounts on borrowings.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

(r) Taxation

(i) Income tax

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

(ii) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of current receivables and payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(s) Recoverable amount of non-current assets

Non-current assets, other than investments (refer to note 1(u)), are recorded at cost. The carrying amounts of all non-current assets are reviewed to ensure that they are not in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value.

The expected cash flows used in determining recoverable amount have been discounted to their present value for claims recoveries and goodwill. For all other non-current assets, the relevant cash flows have not been discounted to their present value in assessing their recoverable amount.

(t) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

(u) Investments

Investments, integral to insurance business, are stated at fair value at each balance date. Fair value is derived after deduction of the estimated costs of realisation and equates to net market value.

Fair values are determined as follows:

Listed, government and semi-government securities	- by reference to market quotations;
Unlisted securities	- at valuation based on current economic conditions and the latest available information on the investments; and
Land and buildings	- at valuation, based on existing use, vacant possession (except for existing external tenancies), a willing buyer and willing seller and a review by an independent valuer.

Where AASB 1023: Financial Reporting of General Insurance Activities and AASB 1038: Financial Reporting of Life Insurance Activities apply, changes in fair values of these investments at the balance date, from their fair value at the previous balance date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of financial performance.

Investments in controlled entities which are non-integral to insurance business are stated at lower of cost or recoverable amount.

(v) Derivative financial instruments

Some entities in the IAG Group utilise derivative financial instruments (interest rate, currency and equity swap agreements, Share Price Index futures, equity options bank bill future and bond futures and forward foreign exchange contracts) to enhance portfolio returns and hedge against foreign currency exchange rates, interest rate and equity market exposures. Derivative financial instruments are not held for speculative purposes.

The accounting for foreign exchange contracts is in accordance with note 1(cc).

The net amounts receivable or payable under interest rate swap agreements are charged to the statement of financial position on a daily basis over the term for which the swap arrangement is effective as a hedge of the underlying borrowings.

Gains and losses on all other derivatives transactions are brought to account as they arise and are marked to market at balance date by reference to movement in the relevant underlying securities, indices and rates.

(w) Goodwill

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired, of a controlled entity or business, is amortised on a straight line basis over the period of time during which benefits are expected to arise subject to a maximum of 20 years.

(x) Other intangibles

Intangibles other than goodwill, representing mainly contractual rights, are amortised on a straight line basis over the period in which the related benefits are expected to be realised, being 3 to 6 years.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(y) Employee entitlements

(i) Wages and salaries, annual leave and sick leave

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

(ii) Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made for services provided by employees up to the balance date. The estimated future cash outflows are discounted using interest rates on national government guaranteed securities which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as the expected future increases in remuneration rates, experience of employee departures and period of service are incorporated in the measurement.

(iii) Superannuation

The IAG Group participates in the NRMA Superannuation Plan, RACV Superannuation Fund, MTAA Industry Superannuation Fund, CGU Superannuation Fund and CGU-VACC Pension Fund.

The IAG Group contributes to these plans in accordance with their respective rules and recommendations from their respective actuaries which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities. Contributions are expensed as incurred.

(iv) Share-based remuneration plans

Staff allocation share plan

Under the Staff Allocation Share Plan, all eligible employees participating in this plan were allocated ordinary shares of IAG valued at 5% of their total salary during the year ended 30 June 2001. The cost of shares acquired by the relevant companies has been carried as a prepayment in the statement of financial position. This prepayment was expensed in the statement of financial performance over a 2 year period ending 30 June 2003, being the period during which employees had to remain with the IAG Group to become entitled to ownership of the shares allocated.

Non-executive directors' share plan

Under the Non-executive Directors' Share Plan, non-executive Directors are required to receive at least 20%, and are allowed to receive up to 90%, of their base fee in the form of ordinary shares of IAG. Shares are bought on the market annually and held in trust for future allocation to the Directors. The cost of shares acquired by the relevant companies is carried as a prepayment in the statement of financial position. This prepayment is expensed in the statement of financial performance over a twelve month period.

Performance award rights plan

Under the Performance Award Rights Plan, nominated executives and managers are offered a right to acquire ordinary shares of IAG subject to specific performance and employment conditions being met. Shares are bought on the market and held in trust for future exercise. The cost of shares acquired by the relevant companies is carried as a prepayment in the statement of financial position. This prepayment is expensed in the statement of financial performance over a 3 year period.

(z) Provision for dividends

Provisions for dividends in respect of all types of contributed equities are recorded for the amount which is declared on or before the end of the financial year but not distributed at balance date.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(aa) Provision for restructure costs

A provision for restructure costs, including employee termination benefits, related to an acquired entity or operation is recognised at the date of acquisition where:

- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered by the date of acquisition; and
- a detailed formal plan is developed by the earlier of three months after the date of the acquisition and the completion of this financial report.

The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired. The provision includes liabilities for termination benefits that will be paid to employees of the acquired entity as a result of the restructuring. No provisions are made for costs related to ongoing activities.

In the event of a reversal of part or all of a provision for restructure costs relating to an acquisition because the costs are no longer expected to be incurred as planned, an adjustment will be made against the goodwill on acquisition. The adjusted carrying amounts of goodwill or non-monetary assets are then amortised or depreciated from the date of reversal.

Other provisions for restructure costs not related to acquisitions, including termination benefits, are only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced, or firm contracts related to the restructuring have been entered into. No provisions are made for costs related to ongoing activities. The liabilities for termination benefits that will be paid as a result of these restructuring has been included in the provision for employee benefits.

(bb) Reset preference shares

The reset preference shares have no fixed maturity, are redeemable only at the option of IAG and have no cumulative dividend obligations. Accordingly, they are classified as equity with related distributions classified as dividends.

(cc) Foreign currency translation

(i) Transactions

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

(ii) Hedge transactions

Anticipated transactions

Transactions are designated as a hedge of an anticipated specific acquisition of foreign controlled entities, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs arising at the time of entering into the hedge, are deferred and included in the measurement of the transaction. Any gains or losses on the hedge transaction after the transaction date are included in the statement of financial performance. If the transaction does not occur as anticipated, the costs are immediately expensed.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency exchange rate current at reporting date.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(cc) Foreign currency translation (continued)

(ii) Hedge transactions (continued)

Cross currency swaps

The Group has entered into cross currency swaps to hedge foreign currency borrowings. Interest receipts and payments are charged to the statement of financial performance on a daily basis over the term for which the swap is effective and are included within the interest expense on borrowings. Revaluation gains and losses are recognised in the statement of financial position as other assets or liabilities.

(iii) Translation of controlled foreign entities

The statements of financial position of controlled foreign entities that are self-sustaining foreign operations are translated at the rates of exchange ruling at balance date. The statements of financial performance are translated at a weighted average rate for the financial period. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal or partial disposal of the operations.

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

(dd) Financial instruments included in assets and liabilities

(i) Trade and other debtors

Trade and other debtors are stated at the amounts due and are normally settled between 30 days and 12 months. The collectibility of debts is assessed and specific provision is made for any doubtful debts.

(ii) Payables

Payables are stated at the amounts to be paid in the future for goods or services received and are normally settled within 30 days.

(iii) Bank bills

Bank bills are stated at cost and have maturities of 30 days. Interest expense is brought to account on an accruals basis.

(iv) Commercial paper

Commercial paper issues are stated at cost and have maturities of 30 to 90 days. Interest expense is brought to account on an accruals basis.

(v) Senior notes / subordinated term notes

Senior notes / subordinated term notes are stated at cost and have maturity of 5 to 12 years. Interest expense is brought to account on an accruals basis.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies (continued)

(ee) Acquisition costs for non-life retirement services products

Acquisition costs are deferred for certain retirement services products, subject to future fees and margins being expected to exceed the ongoing costs.

(ff) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the net result after income tax attributable to ordinary and reset preference shareholders of the Company, excluding any costs of servicing equity (other than ordinary shares and reset preference shares classified as a different type of ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 2. Changes in accounting policy

(a) Employee entitlements

The IAG Group has applied the revised AASB 1028: Employee Benefits (issued in June 2001) for the first time from 1 July 2002.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and sick leave are recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when these liabilities are settled, including on-costs. This is a change from prior periods when remuneration rates existing at balance date were used. The impact of this change resulted in an increase of expense of approximately \$1 million to the statement of financial performance of the IAG Group.

Accounting policies for long service leave, superannuation and the Staff Allocation Share Plan have not changed since 30 June 2002.

(b) Provision for restructure costs

The IAG Group has applied the new accounting standard AASB 1044: Provisions, Contingent Liabilities and Contingent Assets (issued on October 2001) for the first time from 1 July 2002.

Accordingly, a provision for restructure costs on the acquisition that occurred during the financial year was recognised at the date of acquisition as there was a demonstrable commitment and a formal plan such that there was little or no discretion to avoid payments to other parties and the amount can be reliably estimated. Specific details of this accounting policy are contained within note 1 (aa).

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	Notes	PARENT		CONSOLIDATED	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
Note 3. Revenue					
(a) Revenue from ordinary activities					
(i) General insurance revenue					
Gross written premium		-	-	5,150	3,558
Movement in unearned premium reserve		-	-	(265)	(110)
Premium revenue		-	-	4,885	3,448
Direct premium		-	-	4,860	3,406
Inwards reinsurance premium		-	-	25	42
Premium revenue		-	-	4,885	3,448
Reinsurance and other recoveries		-	-	380	575
Total general insurance revenue		-	-	5,265	4,023
(ii) Investment revenue					
Dividend income					
- related bodies corporate		102	248	-	-
- other corporations		-	-	38	22
Interest income					
- other parties		-	-	282	219
Trust income					
- other parties		-	-	12	14
Total investment income		102	248	332	255
Changes in net market values of investments					
- realised gains / (losses)		-	45	1	(290)
- unrealised losses	1(u)	-	-	(37)	(75)
Total investment revenue		102	293	296	(110)
(iii) Financial services revenue					
Life insurance business revenue	4	-	-	30	12
Interest income on loans		-	-	-	25
Total financial services revenue		-	-	30	37
(iv) Other operating revenue					
- other parties		-	-	177	173
Total other operating revenue		-	-	177	173
Total revenue from ordinary activities		102	293	5,768	4,123
(b) Revenue from outside ordinary activities					
Proceeds from disposal of plant and equipment		-	-	12	15
Total revenue from outside ordinary activities		-	-	12	15
Total revenue		102	293	5,780	4,138

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Note 4. Result from life insurance operations				
Premium revenue	-	-	25	23
Investment revenue	-	-	5	(11)
Total life insurance business revenue	-	-	30	12
Policy payments	-	-	(8)	(9)
Decrease in policy liabilities	-	-	23	33
Administration and other expenses	-	-	(26)	(24)
Total life insurance business expenses	-	-	(11)	-
Net profit of life insurance business	-	-	19	12

Note 5. Profit / (loss) from ordinary activities before income tax

Profit / (loss) from ordinary activities before income tax includes the following specific net gains and expenses:

Depreciation of motor vehicles	-	-	7	5
Depreciation of office and other plant and equipment	-	-	28	26
Amortisation of goodwill	-	-	64	26
Amortisation of intangibles	-	-	17	17
Loss on disposal of plant and equipment	-	-	3	4
Operating lease rentals	-	-	114	96
Transfer to provision - employee entitlements	-	-	41	34
Foreign exchange losses	-	-	13	31
Bad and doubtful debts	-	-	5	5

Note 6. Analysis of total expenses

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

Reinsurance expense	-	-	249	253
Claims expense	-	-	3,743	3,000
Acquisition costs	-	-	700	389
Other underwriting expenses	-	-	241	165
Fire brigade charges	-	-	133	74
Life insurance business expenses	-	-	11	-
Corporate and administration expenses	-	-	348	297
Total expenses	-	-	5,425	4,178

Analysis of expenses by function:

General insurance business expenses				
- Reinsurance expense	-	-	249	253
- Claims expense	-	-	3,743	3,000
- Underwriting expenses	-	-	1,074	628
Life insurance business expenses	-	-	11	-
Administration expenses	-	-	348	297
Total expenses	-	-	5,425	4,178

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED					
	Current year \$m	2003 Prior years \$m	Total \$m	Current year \$m	2002 Prior years \$m	Total \$m
Note 7. Claims expense						
(a) Direct business						
Gross claims and related expenses - undiscounted	4,105	(466)	3,639	3,149	(305)	2,844
Discount	(200)	262	62	(177)	150	(27)
Gross claims and related expenses - discounted	3,905	(204)	3,701	2,972	(155)	2,817
Reinsurance and other recoveries - undiscounted	(449)	99	(350)	(534)	56	(478)
Discount	37	(33)	4	7	(13)	(6)
Reinsurance and other recoveries - discounted	(412)	66	(346)	(527)	43	(484)
Net claims incurred	3,493	(138)	3,355	2,445	(112)	2,333

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial periods.

A major component of the prior year movement is the release of prudential margins in respect of claims payments during the year (largely offset by inclusion of prudential margins in respect of current year claims).

	CONSOLIDATED	
	2003 \$m	2002 \$m
(b) Inwards reinsurance business		
Gross claims and related expenses - undiscounted	40	209
Discount	2	(26)
Gross claims and related expenses - discounted	42	183
Reinsurance and other recoveries - undiscounted	(33)	(91)
Discount	(1)	-
Reinsurance and other recoveries - discounted	(34)	(91)
Net claims incurred	8	92
(c) Total		
Direct business	3,355	2,333
Inwards reinsurance business	8	92
Net claims incurred	3,363	2,425

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	<u>Note</u>	PARENT		CONSOLIDATED	
		2003	2002	2003	2002
		\$m	\$m	\$m	\$m
Note 8. Individually significant items					
Income:					
Reinsurance recoveries under a whole of account aggregate stop loss contract		-	-	-	185
Profit on sale of NRMA Building Society Limited		-	45	-	45
Expenses:					
Restructuring costs in relation to redundancy, property and other associated costs	27	-	-	45	-
Costs in relation to the settlement of "Share the Future" litigation		-	-	-	12
Insurance protection tax levied by the NSW State Government		-	-	20	21

Note 9. Income tax

(a) The prima facie tax on the statement of financial performance differs from the income tax provided in the financial statements and is reconciled as follows:

Profit / (loss) from ordinary activities before income tax	102	293	297	(101)
Prima facie tax thereon at 30% (2002 - 30%)	31	88	89	(30)
Tax effect of permanent differences:				
Rebateable dividends	(28)	(74)	(12)	(11)
Capital profits not subject to income tax	-	(6)	(1)	(6)
Other non-deductible items	-	1	22	17
Other	(3)	-	(9)	10
Future income tax benefit not recognised	-	-	-	1
Income tax expense / (credit) applicable to current year	-	9	89	(19)
Adjustment to prior year	(4)	-	(9)	1
Income tax (credit) / expense attributable to profit / (loss) from ordinary activities	(4)	9	80	(18)

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 9. Income tax (continued)

(b) Tax consolidation

During the year, legislation was enacted to allow groups, comprising of a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes. The legislation, which includes both mandatory and elective elements, is applicable to the IAG Group.

As at reporting date, the Directors have not made a decision to elect to be taxed as a single entity. In accordance with Urgent Issues Group (UIG) Consensus Views, UIG 39 "Effect of proposed tax consolidation legislation on deferred tax balances", the financial effect of the legislation has therefore not been brought to account in the financial statements for the year ended 30 June 2003, except to the extent that the adoption of the tax consolidation would impair the carrying value of any deferred tax assets.

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Note 10. Dividends and dividend franking account				
(i) Ordinary shares				
Final dividend for year ended 30 June 2002 of 6 cents (2002 - nil) per fully paid ordinary share, paid on 21 October 2002 Fully franked at 30%	78	-	78	-
Interim dividend of 4.5 cents (2002 – 4.5 cents) per fully paid ordinary share, paid on 14 April 2003 Fully franked at 30% (2002 - 30%)	75	63	75	63
(ii) Reset preference shares				
Dividend paid at 5.8% per annum, fully franked at 30%	21	-	21	-
Total dividends declared	174	63	174	63
Less: Dividend reinvested under the Dividend Reinvestment Plan	(75)	-	(75)	-
Total dividends paid by cash	99	63	99	63
Franking credits available for subsequent financial years	68	110	443	391

On 21 August 2003, a final dividend of 7 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 13 October 2003. The last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan is 10 September 2003.

The balance of the franking account arises from:

- (i) franked income received or recognised as a receivable at the reporting date;
- (ii) income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
- (ii) franking debits from the payment of dividends recognised as a liability at the reporting date.

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on an after-tax distributable profits basis. As a result, the franking credits available for the Company and the IAG Group were converted from \$257 million to \$110 million and \$913 million to \$391 million, respectively, for comparatives as at 30 June 2002.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Note 11. Auditors' remuneration				
Auditing the financial statements and consolidated financial statements				
- current year	-	-	2,820	1,507
- prior year	-	-	-	456
Assurance services in accordance with regulatory requirements	-	-	628	205
Other assurance services	-	-	1,475	755
	-	-	4,923	2,923
Other services				
- taxation services	-	-	318	457
- due diligence and other services on acquisitions, divestment and capital transactions	-	-	1,288	538
- legislative and regulatory changes	-	-	219	710
- review of enterprise valuation model	-	-	-	202
- corporate culture review	-	-	-	254
- other	-	-	264	370
- related practice of the parent entity auditors	-	-	-	13
	-	-	2,089	2,544

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Note 12. Directors' remuneration				
(a) Information on remuneration of the Directors is as follows: Income of Directors of Insurance Australia Group Limited from the entity and all related parties in relation to the management of the affairs of the IAG Group	3,433	3,080	-	-
Income of all Directors of IAG Group entities in relation to the management of the affairs of the IAG Group	-	-	3,720	3,405

	PARENT	
	Total remuneration in relation to the management of the affairs of the IAG Group	
	2003	2002
(b) Number of Directors of Insurance Australia Group Limited whose remuneration was within the following bands:		
\$ 70,000 - \$ 79,999	-	2
\$ 80,000 - \$ 89,999	4	5
\$ 90,000 - \$ 99,999	2	1
\$ 100,000 - \$ 109,999	2	-
\$ 120,000 - \$ 129,999	-	1
\$ 300,000 - \$ 309,999	-	1
\$ 340,000 - \$ 349,999	1	-
\$1,970,000 - \$1,979,999	-	1
\$2,340,000 - \$2,349,999	1	-

The Company acts as a holding company for the consolidated entity and does not provide remuneration in its own right. All remuneration is paid by other entities within the consolidated entity.

(c) Share-based remuneration plans

The following plans have been approved at Annual General Meetings:

(i) The non-executive Directors are to receive at least 20%, but not in excess of 90%, of their annual base fee in ordinary shares of the Company under the Non-executive Directors' Share Plan, rather than in cash. This has been approved for the three years to November 2005.

(ii) The Executive Director was granted rights under the Performance Share Rights Plan and Performance Awards Rights Plan (refer to note 47 for details of these plans). Allocations were approved at both the 2001 and 2002 Annual General Meetings.

Note 13. Remuneration of executives

	CONSOLIDATED	
	2003	2002
	\$000	\$000
(a) Total of the remuneration in excess of \$100,000 received or due and receivable from the IAG Group by executive officers of the IAG Group for the financial year	18,630	18,407

The parent entity is a non-operating holding company which does not employ any staff.

Executives' remuneration does not include premiums paid by the IAG Group in respect of directors' and officers' liabilities and legal expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual executives. The remuneration of executives who work wholly or mainly outside Australia are also not included in this disclosure.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 13. Remuneration of executives (continued)

CONSOLIDATED
2003 **2002**

(b) The number of executive officers of the IAG Group whose remuneration is in excess of \$100,000 and falls within the following bands:

\$ 120,000 - \$ 129,999	-	1
\$ 190,000 - \$ 199,999	-	1
\$ 210,000 - \$ 219,999	-	1
\$ 240,000 - \$ 249,999	-	1
\$ 320,000 - \$ 329,999	-	1
\$ 330,000 - \$ 339,999	-	1
\$ 340,000 - \$ 349,999	-	1
\$ 350,000 - \$ 359,999	2	-
\$ 370,000 - \$ 379,999	1	-
\$ 390,000 - \$ 399,999	-	1
\$ 400,000 - \$ 409,999	2	-
\$ 420,000 - \$ 429,999	-	1
\$ 480,000 - \$ 489,999	-	1
\$ 520,000 - \$ 529,999	1	1
\$ 540,000 - \$ 549,999	-	1
\$ 560,000 - \$ 569,999	1	-
\$ 590,000 - \$ 599,999	1	-
\$ 600,000 - \$ 609,999	1	1
\$ 630,000 - \$ 639,999	1	-
\$ 640,000 - \$ 649,999	1	-
\$ 650,000 - \$ 659,999	1	-
\$ 670,000 - \$ 679,999	-	1
\$ 680,000 - \$ 689,999	-	1
\$ 690,000 - \$ 699,999	1	-
\$ 750,000 - \$ 759,999	1	-
\$ 770,000 - \$ 779,999	-	1
\$ 800,000 - \$ 809,999	-	1
\$ 890,000 - \$ 899,999	-	1
\$ 930,000 - \$ 939,999	1	-
\$ 950,000 - \$ 959,999	-	1
\$ 960,000 - \$ 969,999	1	-
\$ 1,060,000 - \$ 1,069,999	-	1
\$ 1,150,000 - \$ 1,159,999	1	-
\$ 1,210,000 - \$ 1,219,999	1	-
\$ 1,330,000 - \$ 1,339,999	1	-
\$ 1,490,000 - \$ 1,499,999	1	-
\$ 1,610,000 - \$ 1,619,999	-	1
\$ 1,660,000 - \$ 1,669,999	1	-
\$ 1,750,000 - \$ 1,759,999	-	1
\$ 1,970,000 - \$ 1,979,999	-	1
\$ 2,340,000 - \$ 2,349,999	1	-
\$ 2,410,000 - \$ 2,419,999	-	1

The Company has issued rights under the Performance Share Rights Plan (“PSRs” – related to unissued shares) and Performance Award Rights Plan (“PARs” – related to unissued shares) to certain executives during the current and prior years. Each executive who participates in the PSRs and/or PARs becomes eligible to receive a number of shares by paying \$1 per tranche of rights allocated, subject to a specific performance hurdle.

In accordance with Australian Securities & Investment Commission guidance which is based on the Australian Accounting Standards Board Exposure draft “Request for comment on IASB ED2 share-based payments” an actuarial valuation of PSRs and PARs was undertaken. The valuation uses a Monte-Carlo Value method which takes into account the share price at grant date, expected life of the options, the volatility in price of the underlying shares of IAG and expected dividends.

An allocated portion of the PSRs and PARs is included in the total remuneration of executives disclosed above for both periods as required by Australia Securities & Investment Commission guidance. Allocation is based on services received for the period. Refer to note 1 (y) (iv) for details of accounting policies on various share-based remuneration plans in operation for the IAG Group.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 13. Remuneration of executives (continued)

(c) Termination payment to a former officer

The previous Chief Executive Officer (Mr Eric Dodd) instituted proceedings against the Company claiming damages in relation to the termination of his contract of employment in April 2001. This dispute (which was comprised of the termination claim as well as other claims against the Company) was settled during the year for \$1.2 million.

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Reinsurance and other recoveries	-	-	350	241
Provision for doubtful debts	-	-	(2)	(2)
	-	-	348	239
Trade debtors	-	-	117	170
Provision for doubtful debts	-	-	(10)	(5)
	-	-	107	165
Premium funding loans secured on policies	-	-	77	-
Provision for doubtful debts	-	-	(1)	-
	-	-	76	-
Premium receivable	-	-	1,505	739
Other debtors	-	-	512	376
	-	-	2,548	1,519

Note 15. Current assets - investments

Quoted

Government and semi-government stocks and bonds	-	-	427	-
Shares in other parties	-	-	16	221
Options for shares	-	-	24	3
Unit trusts	-	-	8	118
Bonds	-	-	111	-
Other	-	-	85	-
	-	-	671	342

Unquoted

Shares in other parties	-	-	-	3
Options for shares	-	-	20	-
Unit trusts	-	-	111	79
Deposits in other parties	-	-	156	51
Commercial bills	-	-	1,456	1,140
Unsecured notes	-	-	113	-
Other investments (gross of unearned income)	-	-	58	4
	-	-	1,914	1,277
	-	-	2,585	1,619

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Note 16. Current assets - current tax assets				
Income tax recoverable	3	-	40	6
Note 17. Current assets - other				
Prepayments	-	-	337	90
Deferred acquisition costs	-	-	484	221
Inventories	-	-	2	2
	-	-	823	313
Note 18. Non-current assets - receivables				
Reinsurance and other recoveries	-	-	407	198
Provision for doubtful debts	-	-	(6)	(6)
	-	-	401	192
Note 19. Non-current assets - investments				
<i>Quoted</i>				
Government and semi-government stocks and bonds	-	-	2,732	1,703
Shares in other parties	-	-	2,228	2,406
Unit trusts	-	-	165	123
Bonds	-	-	362	-
	-	-	5,487	4,232
<i>Unquoted</i>				
Shares in other parties	-	-	127	626
Shares in controlled entities	4,246	3,387	-	-
Unit trusts	-	-	159	155
Deposits in other parties	-	-	874	821
Unsecured notes	-	-	206	464
Other investments (gross of unearned income)	-	-	348	127
	4,246	3,387	1,714	2,193
Freehold properties	-	-	37	39
Leasehold properties	-	-	8	7
	-	-	45	46
	4,246	3,387	7,246	6,471

The properties were valued at 30 June 2003 by the independent valuer, Mr Scott Fullarton F.A.P.I. of Scott Fullarton Valuations Pty Limited.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Note 20. Non-current assets - plant and equipment				
Motor vehicles	-	-	54	36
Accumulated depreciation	-	-	(15)	(7)
Written down value	-	-	39	29
Office and other plant and equipment	-	-	287	193
Accumulated depreciation	-	-	(187)	(127)
Written down value	-	-	100	66
	-	-	139	95
Reconciliations:				
(i) Motor vehicles				
Balance at the beginning of the financial year	-	-	29	29
Additions	-	-	27	22
Depreciation expense	-	-	(7)	(5)
Disposals	-	-	(10)	(17)
Balance at the end of the financial year	-	-	39	29
(ii) Office and other plant and equipment				
Balance at the beginning of the financial year	-	-	66	75
Additions	-	-	67	22
Depreciation expense	-	-	(28)	(26)
Disposals	-	-	(5)	(5)
Balance at the end of the financial year	-	-	100	66
Note 21. Non-current assets - deferred tax assets				
Future income tax benefits relating to				
- tax losses carried forward	-	-	84	28
- other	-	-	242	178
	-	-	326	206
Note 22. Non-current assets - intangible assets				
Goodwill - at cost	38(b)	-	1,678	603
Accumulated amortisation	1(w)	-	(95)	(31)
		-	1,583	572
Intangibles - at cost		-	101	101
Accumulated amortisation	1(x)	-	(58)	(41)
		-	43	60
		-	1,626	632
Note 23. Non-current assets - other				
Deferred acquisition costs		-	29	1
Prepayments		-	3	-
		-	32	1

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Note 24. Current liabilities - payables				
Trade creditors	-	-	482	321
Other creditors	-	-	331	199
Loan from other party	-	-	78	761
	-	-	891	1,281
Note 25. Current liabilities – interest-bearing liabilities				
Unsecured Commercial paper	-	-	136	224
Note 26. Current liabilities - current tax liabilities				
Provision for income tax	-	9	106	49
Note 27. Current liabilities - provisions				
Restructure costs	-	-	53	-
Employee entitlements	-	-	121	84
	-	-	174	84
Movements in provision for restructure costs:				
Balance at the beginning of the financial year	-	-	-	-
Provisions established at acquisition of CGU/NZI	38(b)	-	48	-
Additional provisions recognised	8	-	45	-
Paid during the year	-	-	(40)	-
Balance at the end of the financial year	-	-	53	-
A provision for restructure costs of \$48 million was established for restructuring the operations of CGU/NZI, involving rationalisation of employees in both Australia and New Zealand, decommissioning of IT systems and exiting surplus premises. A balance of \$34 million remains in the provision as at 30 June 2003.				
Note 28. Outstanding claims				
(a) Expected future claims payments (undiscounted)	-	-	6,579	4,178
Discount to present value	-	-	(604)	(493)
Liability for outstanding claims	-	-	5,975	3,685
Current	-	-	2,147	1,268
Non-current	-	-	3,828	2,417
	-	-	5,975	3,685

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 28. Outstanding claims (continued)

(b) The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims and recoveries at balance date:

	Notes	PARENT		CONSOLIDATED	
		2003 %	2002 %	2003 %	2002 %
For the succeeding year:					
- normal inflation rate		-	-	3.0 - 4.0	2.8 - 3.6
- superimposed inflation rate		-	-	3.0 - 7.5	4.5 - 6.5
- discount rate		-	-	4.4 - 4.5	4.5 - 6.4
For subsequent years:					
- normal inflation rate		-	-	3.0 - 4.0	2.8 - 4.0
- superimposed inflation rate		-	-	3.0 - 7.5	4.5 - 6.3
- discount rate		-	-	4.3 - 5.7	4.5 - 6.4

(c) The weighted average expected term to settlement of the gross outstanding claims from the balance date is estimated to be 35 months (2002 – 28 months). The movement from 28 months to 35 months is largely attributable to the acquisition of CGU/NZI.

	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Note 29. Non-current liabilities - interest-bearing liabilities				
Unsecured				
Senior term notes	(i) -	-	87	86
Subordinated term notes	(ii) -	-	299	-
US subordinated term notes	(iii) -	-	358	-
	-	-	744	86

(i) The senior term notes were issued through IAG (NZ) Holdings Limited (formerly NRMA (NZ) Holdings Limited) medium-term note programme. NZ\$100 million of notes were issued, of which NZ\$50 million are maturing in August 2005 and NZ\$50 million are maturing in August 2008. This programme is denominated in NZ dollars and translated into the equivalent A\$ using balance date exchange rate.

(ii) The subordinated term notes (\$300 million) were issued through Insurance Australia Limited (formerly NRMA Insurance Limited) debt issuance programme, maturing November 2012. \$250 million is at fixed rate and \$50 million is at floating rate. These notes qualify as Lower Tier 2 capital for the purposes of the IAG Group's APRA regulatory capital position.

(iii) The US subordinated term notes (US\$240 million) were issued by NRMA Insurance Funding 2003 Limited (a wholly-owned subsidiary of Insurance Australia Limited), maturing April 2015. These notes qualify as Lower Tier 2 capital for the purposes of the IAG Group's APRA regulatory capital position. These are fixed rate notes with the principal and interest flows denominated in US dollars which are then hedged with cross currency swaps.

Note 30. Non-current liabilities - deferred tax liabilities

Provision for deferred income tax	-	-	59	135
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Note 31. Non-current liabilities - provisions

Employee entitlements	-	-	43	18
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INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003**

	PARENT/CONSOLIDATED			
	2003		2002	
	Number of shares million	\$m	Number of shares million	\$m
Note 32. Contributed equity				
Share capital				
Issued and fully paid ordinary shares	1,683	3,434	1,301	2,509
Issued and fully paid reset preference shares	6	539	4	343
	1,689	3,973	1,305	2,852
Movements in ordinary shares:				
Balance at the beginning of the financial year	1,301	2,509	1,399	2,687
Ordinary shares issue	355	880	-	-
Ordinary shares issued under Dividend Reinvestment Plan	27	75	-	-
Shares bought back off-market	-	-	(98)	(175)
Less: transaction costs arising on share issues	-	(30)	-	-
Less: transaction costs arising on share buy-back	-	-	-	(3)
Balance at the end of the financial year	1,683	3,434	1,301	2,509
Movements in reset preference shares:				
Balance at the beginning of the financial year	4	343	-	-
Shares issued	2	200	4	350
Less: transaction costs arising on share issue	-	(4)	-	(7)
Balance at the end of the financial year	6	539	4	343

(i) Ordinary shares:

Ordinary shares entitle the holder to participate in the dividends and the proceeds on winding up the Company in proportion to the number of, and amounts paid on, the shares held. Dividends, if declared, are subject to there being distributable profits, such payment not causing the IAG Group to breach the APRA capital adequacy guidelines, the amount of the dividend not exceeding the profit after tax of the IAG Group for the immediately preceding financial year less the aggregate amount of dividends paid by IAG in the then current financial year (unless APRA indicates it has no objection) and APRA not otherwise objecting to the payment.

(ii) Reset preference shares:

The reset preference shares entitle the holder to a preferred, but not cumulative, dividend (currently 5.8% per annum for the first issue in June 2002 ("IAGPA") and 4.51% for the second issue in June 2003 ("IAGPB")). Dividends, if declared, are subject to there being profits available for payment of a dividend on the reset preference shares, such payment not causing the IAG Group to breach the APRA capital adequacy guidelines, the amount of the dividend not exceeding the profit after tax of the IAG Group for the immediately preceding financial year less the aggregate amount of dividends paid by IAG in the then current financial year (unless APRA has no objection) and APRA not otherwise objecting to the payment. The rate, frequency and timing of the payment of dividends can be reset by the Company on a reset date. Dividends will be paid in priority to any dividends on ordinary shares. If dividends are not paid for reset preference shares, no dividends can be paid and no returns of capital can be made on ordinary shares until such time as the dividend stop is released in accordance with the terms of reset preference shares issue. Reset preference shares rank before ordinary shares in the event of the Company being wound up. The reset preference shares do not carry voting rights at general meetings. The first reset dates are 15 June 2007 for IAGPA and 15 June 2008 for IAGPB.

(iii) Dividend reinvestment plan:

During the year ended 30 June 2003, the Company launched a Dividend Reinvestment Plan. Shareholders can elect to take their dividend entitlement by way of shares on the average share market price, less discount (if any as the Directors may determine) calculating over the pricing period (which will be at least five trading days) as determined by the Directors for each dividend payment date.

(iv) Share buy-back:

During the year ended 30 June 2002, 98 million ordinary shares representing 6.99% of issued share capital were bought back and cancelled under the terms of a share buy-back plan. The plan was an off-market buy-back. The buy-back price per share was \$3.05 which comprised a capital component of \$1.78 and the balance of \$1.27 as a fully franked dividend. There was no share buy-back plan during the year ended 30 June 2003.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 32. Contributed equity (continued)

(v) Performance share rights plan:

A Performance Share Rights Plan, which was approved at the Annual General Meeting held on 28 November 2000 was in operation. During the financial year, a total of 0.1 million rights (2002 - 1 million) was issued for nil consideration (2002 - nil consideration). One right can be converted into one unissued ordinary share of the Company at the date of exercise of the right. These rights lapse upon the termination of employment with IAG Group, other than termination due to redundancy. Refer to note 47 (f) for details.

	<u>Notes</u>	PARENT		CONSOLIDATED	
		2003	2002	2003	2002
		\$m	\$m	\$m	\$m
Note 33. Retained profits / (accumulated losses)					
Retained profits / (accumulated losses)		145	213	(396)	(375)
Movements in retained profits / (accumulated losses)					
Balance at the beginning of the financial year		213	115	(375)	(164)
Net profit / (loss) attributable to shareholders of					
Insurance Australia Group Limited		106	284	153	(25)
Utilised in shares bought back off-market		-	(123)	-	(123)
Dividends declared	10	(174)	(63)	(174)	(63)
Balance at the end of the financial year		145	213	(396)	(375)

Retained profits:

During the year, the Company received total dividends of \$Nil (2002 - \$248 million) from Insurance Australia Limited (formerly NRMA Insurance Limited) from its pre-demutualisation retained profits.

The treatment of this dividend has been in accordance with an order dated 14 February 2000, obtained from the Australian Securities & Investments Commission as explained in note 1 (a) (ii).

Note 34. Total equity reconciliation

Total equity at the beginning of the financial year		3,065	2,802	2,979	3,388
Total changes in equity recognised in the statement of financial performance		106	284	153	(25)
Transactions with owners as owners:					
- contributions of equity, inclusive of transaction costs	32	925	-	925	-
- reset preference shares, inclusive of transaction costs	32	196	343	196	343
- share buy-back, inclusive of transaction costs		-	(301)	-	(301)
- dividends declared	10	(174)	(63)	(174)	(63)
Movement in foreign currency translation reserves on foreign controlled entities		-	-	(1)	(1)
Total changes in outside equity interest		-	-	(25)	(362)
Total equity at the end of the financial year		4,118	3,065	4,053	2,979

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED	
	2003	2002
	cents	cents
Note 35. Earnings per share		
(a) Ordinary shares		
Basic earnings per share	8.65	(1.78)
Diluted earnings per share	8.61	(1.77)
	2003	2002
	Number	Number
	of shares	of shares
(i) Reconciliation between basic earning per share denominator and weighted earnings per share denominator		
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share	1,528,509,810	1,397,600,949
Potential ordinary shares		
Expiry date 21 December 2010	1,712,116	1,712,117
Expiry date 30 April 2011	3,796,147	3,796,152
Expiry date 2 August 2011	190,696	173,978
Expiry date 22 October 2011	134,998	93,204
Expiry date 13 December 2011	1,000,000	547,945
Expiry date 5 March 2012	521,893	168,722
Expiry date 15 July 2012	98,300	-
Cancelled potential ordinary shares	(671,223)	(390,290)
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share	1,535,292,737	1,403,702,777
Potential ordinary shares consist of rights granted to employees under the Performance Share Rights Plan.		
	2003	2002
	\$m	\$m
(ii) Reconciliation of earnings used in calculating earnings per share		
Net (loss) / profit	217	(83)
Net loss / (profit) attributable to outside equity interests	(64)	58
Net profit attributable to reset preference shares	(21)	-
Earnings used in calculating basic and diluted earnings per share	132	(25)

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

CONSOLIDATED

2003 2002
cents cents

Note 35. Earnings per share (continued)

(b) Reset preference shares

Basic earnings per share

587.36 -

2003 2002
Number Number
of shares of shares

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

Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share

3,560,274 249,315

2003 2002
\$m \$m

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

Net profit used in calculating basic earnings per share

21 -

There are no potential reset preference shares on issue.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Note 36. Reconciliation of net cash provided by operating activities to profit / (loss) from ordinary activities after income tax				
Net cash provided by operating activities	102	247	825	531
Depreciation	-	-	(35)	(31)
Amortisation of goodwill and intangibles	-	-	(81)	(43)
Realised gains / (losses) on disposal of investments	-	45	(44)	(302)
Unrealised (losses) / gains on revaluation of investments	-	-	(52)	(143)
Loss on disposal of plant and equipment	-	-	(3)	(4)
Foreign exchange losses	-	-	(13)	(31)
Bad and doubtful debts	-	-	(5)	(5)
Other	-	-	(4)	(6)
Increase / (decrease) in operating assets				
Receivables	-	-	(127)	12
Other	-	-	19	82
Decrease / (increase) in operating liabilities				
Payables	-	-	115	97
Provisions	4	(8)	19	230
Outstanding claims	-	-	(137)	(360)
Unearned premium	-	-	(277)	(119)
Gross life insurance policy liabilities	-	-	17	9
Profit / (loss) from ordinary activities after income tax	106	284	217	(83)

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m

Note 37. Reconciliation of cash

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

Cash	2	2	626	253
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Note 38. Business acquired

(a) Parent entity

During the year ended 30 June 2002, the parent entity acquired 100% of the ordinary shares of Insurance Australia Group Services Pty Limited from Insurance Australia Limited (formerly NRMA Insurance Limited) at a purchase price of \$0.2 million being equal to the fair value of net assets acquired.

(b) Consolidated entity

2003

The consolidated entity acquired the following on 2 January 2003:

- (i) 100% of the ordinary shares of CGU Insurance Australia Limited and its controlled entities in Australia;
- (ii) 100% of the ordinary shares of Belves Investments Limited and its controlled entities in New Zealand; and
- (iii) the New South Wales workers compensation statutory fund managed by Zurich Insurance Limited.

2002

Effective 30 June 2002, the consolidated entity reorganised its corporate structure. The details were as follows:

- (i) Insurance Australia Limited (formerly NRMA Insurance Limited) acquired 100% of ordinary shares of NRMA (Western Australia) Pty Limited and its controlled entities (being SGIO Insurance Limited group) from NRMA Life Limited at a purchase price of \$476 million. This change created goodwill on consolidation of \$302 million equal to the excess of net market of an interest in a controlled entity previously recognised by NRMA Life Limited under AASB1038: Life Insurance Business.
- (ii) Insurance Australia Group Services Pty Limited acquired 100% of ordinary shares of NRMA Financial Management Limited, NRMA Information Services Pty Limited and NRMA Asset Management Limited and its controlled entities from Insurance Australia Limited (formerly NRMA Insurance Limited) at a total purchase price of \$275 million. This change has no impact on goodwill in the consolidated entity.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 38. Business acquired (continued)

(b) Consolidated entity (continued)

Details of the acquisitions are as follows:

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Consideration:				
Purchase price paid	-	-	1,834	-
Other acquisition costs paid	-	-	28	-
	-	-	1,862	-
Fair value of net assets of entities acquired:				
Cash assets	-	-	218	-
Receivables	-	-	1,366	-
Investments	-	-	2,449	-
Plant and equipment	-	-	44	-
Payables	-	-	(405)	-
Provisions	-	-	(67)	-
Unearned premium	-	-	(1,185)	-
Outstanding claims	-	-	(2,155)	-
Other	-	-	567	-
Provision for restructure costs	-	-	(48)	-
Outside equity interests	-	-	(4)	-
	-	-	780	-
Goodwill	-	-	1,082	-
	-	-	1,862	-
Net cash flow on acquisition of controlled entities:				
Cash consideration paid	-	-	(1,862)	-
Cash balance acquired	-	-	218	-
	-	-	(1,644)	-
Profit from ordinary activities before tax of the acquired entities contributed to the IAG Group	-	-	88	-

The profit from ordinary activities before tax of the acquired entities contributed to the IAG Group has been determined based on the results of the entities from the date of acquisition to 30 June 2003 after allowing for amortisation of goodwill, restructuring costs and borrowing costs associated with the acquisition.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 39. Business disposed

During the year ended 30 June 2002, the parent entity disposed 100% of the ordinary shares in NRMA Building Society Limited and its controlled entities.

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Details of the disposals are as follows (in aggregate):				
Sale proceeds:				
Cash	-	138	-	138
Fair value of net assets of controlled entities disposed:				
Cash assets	-	30	-	30
Receivables	-	2	-	2
Loans	-	1,196	-	1,196
Investments	-	170	-	170
Plant and equipment	-	2	-	2
Deposits	-	(827)	-	(827)
Payables	-	(43)	-	(43)
Borrowings	-	(448)	-	(448)
Provisions	-	(13)	-	(13)
Other	-	19	-	19
	-	88	-	88
Add: Costs associated with disposal including restructure of operations	-	5	-	5
	-	93	-	93
Profit on disposal	-	45	-	45
Net cash flow on disposal of controlled entities:				
Cash proceeds received (net of disposal costs)	-	133	-	133
Cash balance disposed	-	-	-	(200)
Inflow / (outflow) of cash	-	133	-	(67)

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	<u>Notes</u>	PARENT		CONSOLIDATED	
		2003	2002	2003	2002
		\$m	\$m	\$m	\$m
Note 40. Financing arrangements					
Facilities available:					
(a) Standby letter of credit facility	(i)	-	-	30	36
(b) Standby facility	(ii)	-	-	50	50
(c) Debt issuance programme	(iii)	-	-	750	750
(d) NZ short-term note programme	(iv)	-	-	175	259
(e) NZ medium-term note programme	(v)	-	-	175	259
Facilities drawn at balance date:					
(a) Standby letter of credit facility		-	-	3	14
(b) Standby facility		-	-	-	-
(c) Debt issuance programme		-	-	435	110
(d) NZ short-term note programme		-	-	-	114
(e) NZ medium-term note programme		-	-	87	86

(i) The standby letter of credit facility is denominated in US dollars and was translated into equivalent A\$ using the balance date exchange rate.

(ii) Interest on this standby facility when drawn down is charged at a margin over the bank bill rate. The facility type is for liquidity support in the event that Insurance Australia Limited (formerly NRMA Insurance Limited) (and previously by NRMA Insurance Group Finance Limited) is unable to refinance maturing obligations under the debt issuance programme due to a market disturbance. This facility was novated across to Insurance Australia Limited on 30 July 2003.

(iii) Insurance Australia Limited has a \$750 million debt issuance programme. In previous years, this programme was under NRMA Insurance Group Finance Limited. Standard & Poor's has assigned its "AA" long-term and "A-1+" short-term ratings to the programme's senior obligations and "AA-" to its subordinated notes. Insurance Australia Limited is rated "AA" for its insurer financial strength and counterparty credit ratings.

(iv) NRMA (NZ) Holdings Limited has a NZ\$200 million (2002 - NZ\$300 million) short-term note programme. Standard & Poor's has assigned a "A-1+" short-term rating to the programme. The programme is guaranteed by Insurance Australia Limited. The programme is supported by a NZ\$50 million liquidity backup facility. This programme is denominated in NZ dollars and was translated into equivalent A\$ using the balance date exchange rate.

(v) NRMA (NZ) Holdings Limited has a NZ\$200 million (2002 - NZ\$300 million) medium-term note programme. Standard & Poor's has assigned a "AA" long-term rating to the guaranteed and unsubordinated series of wholesale notes issued under the programme. The programme is guaranteed by Insurance Australia Limited. This programme is denominated in NZ dollars and was translated into equivalent A\$ using the balance date exchange rate.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Note 41. Commitments				
(a) Capital commitments:				
Property				
- due within 1 year	-	-	23	6
(b) Lease and rental commitments:				
Property				
- due within 1 year	-	-	82	59
- due within 1 to 2 years	-	-	72	51
- due within 2 to 5 years	-	-	159	122
- due after 5 years	-	-	61	56
Plant and equipment				
- due within 1 year	-	-	21	15
- due within 1 to 2 years	-	-	13	5
- due within 2 to 5 years	-	-	9	2
	-	-	417	310
(c) Other commitments:				
- due within 1 year	-	-	8	6
- due within 1 to 2 years	-	-	9	7
	-	-	17	13

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 42. Contingencies

(a) In the normal course of business the IAG Group is exposed to legal issues, including litigation arising out of insurance policies. Other than those matters referred to below, the Directors do not believe that there are any potential material litigation exposures to the IAG Group.

(b) In the normal course of business, the IAG Group enters into various types of investment contracts that can give rise to contingent liabilities. These include forward exchange contracts, financial futures, interest rate swaps, exchange traded options and forward rate agreements. These contracts are generally entered into in the normal management of the investment portfolio. Accordingly, details of such contingent liabilities have not been included in this note.

(c) In the normal course of business, the IAG Group enters into various types of business contracts that give rise to contingent liabilities. These include guarantees for performance obligations and undertakings for maintenance for net worth and liquidity support to controlled entities in the IAG Group.

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

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

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

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

The arbitration involving IAL is being heard in two parts. The arbitration panel in November 2002 ruled in favour of IAL in relation to the preliminary issue, that the Treaty is not retroactive and therefore does not cover loss occurrences prior to 1 July 1997. The second part of the case is scheduled to be heard in October 2003 and will examine whether the Treaty should in any event be rescinded.

IAL holds a letter of credit for US\$25 million (A\$37 million) as security if it is successful in its claim. Whilst IAL believes its case is strong, if IAL was wholly unsuccessful in its claim, it could lose the amount of US\$25 million (A\$37 million) recognised as an asset in the financial report and record a further loss of US\$13 million (A\$19 million). In stating these amounts IAL has not taken into account the recent ruling of the arbitration panel in its favour. IAL is currently unable to quantify the effect this ruling may have on its potential losses if it were to be wholly unsuccessful in the second part of the case.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 43. New South Wales worker's compensation managed funds

During the financial year, three (2002 - two) controlled entities were licensed insurers under the New South Wales Workers' Compensation Act 1987 ("the Act"). In accordance with the requirements of the Act, the controlled entities established and maintained statutory funds in respect of the issue and renewal of policies of insurance. On 1 July 2003, two of the three licensed insurers handed back the licences to WorkCover Authority of New South Wales. The three statutory funds managed have been merged and are managed under the retained licence held by CGU Workers Compensation (NSW) Limited, a wholly-owned controlled entity of the IAG Group.

The application of the statutory funds is restricted to the payment of claims, related expenses and other payments authorised under the Act. WorkCover New South Wales advises that the licensed insurers have no liability under the Act in the event of a deficiency in statutory funds and the Australian Taxation Office confirmed that the statutory funds are exempt from income tax as WorkCover New South Wales holds a vested interest in the income of the statutory funds. For these reasons, the statutory funds are of a separate and distinct nature and therefore it is not appropriate to include the assets and liabilities of these funds with the other assets and liabilities of the consolidated entity. Accordingly, the income and expenses of the statutory funds have been excluded from the consolidated statement of financial performance and the assets and liabilities of the funds have been excluded from the consolidated statement of financial position.

Under the Act, the controlled entities are required to have an actuarial valuation of the financial position of the statutory funds, including a valuation of liabilities, at least once in each three year period or such other period as may be prescribed by Regulation. Accordingly, a fund method of accounting is adopted whereby the balance of the statutory funds is carried forward until the financial positions of the statutory funds are determined after actuarial investigation. Following this determination, WorkCover New South Wales may direct the transfer of any surplus in accordance with the Act, including transfers to other statutory funds of the controlled entities or to the statutory funds of another licensed insurer.

The Australian Securities & Investments Commission has, by class order 00/321, exempted the controlled entities and the consolidated entity from compliance with the Corporations Act 2001 to the extent it is necessary to adopt the above method of fund accounting.

	2003	2002
	\$m	\$m
Unaudited consolidated statutory funds statement of financial position (which are not consolidated into the IAG consolidated statement of financial position)		
Current assets		
Cash and short-term deposits	11	5
Receivables	80	31
Non-current assets		
Investments, at market value	1,033	633
Total assets	1,124	669
Current liabilities		
Payables	23	16
Unearned premium	96	45
Statutory funds to meet outstanding claims and statutory transfers	1,005	608
Total liabilities and statutory funds	1,124	669

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 44. Details of controlled entities and joint ventures

The following entities constitute the IAG Group:

	Notes	Country of incorporation / formation	Percentage of shares / units held	
			2003 %	2002 %
Parent entity				
Insurance Australia Group Limited		Australia	-	-
Controlled entities				
Insurance Australia Limited (formerly NRMA Insurance Limited)		Australia	100.00	100.00
IAG Re Limited	C	Ireland	100.00	100.00
NRMA Information Services Pty Limited		Australia	100.00	100.00
NRMA Financial Planning Pty Limited	A	Australia	100.00	100.00
NRMA Financial Management Limited		Australia	100.00	100.00
IAG Asset Management Limited (formerly NRMA Asset Management Limited)		Australia	100.00	100.00
IAG Nominees Pty Limited (formerly NRMA Nominees Pty Limited)		Australia	100.00	100.00
NRMA Woden Pty Limited	A	Australia	100.00	100.00
NRMA Investment Management Cash Management Trust	(i), B	Australia	90.83	90.55
NRMA Investment Management Fixed Interest Trust	(i), B	Australia	58.87	60.39
NRMA Investment Management Property Trust	(i), B	Australia	100.00	100.00
NRMA Investment Management Private Equity Trust	(i), B	Australia	84.46	86.73
NRMA Investment Management Equity Trust Australia	(i), B	Australia	87.45	83.68
Insurance Australia Group Services Pty Limited	A	Australia	100.00	100.00
NRMA Life Limited		Australia	100.00	100.00
NRMA Life Nominees Pty Limited		Australia	100.00	100.00
NRMA (Western Australia) Pty Limited		Australia	100.00	100.00
SGIO Insurance Limited		Australia	100.00	100.00
NRMA Health Pty Limited		Australia	100.00	100.00
SGIC Holdings Limited		Australia	100.00	100.00
SGIC General Insurance Limited		Australia	100.00	100.00
SGIC Services Pty Limited	A	Australia	100.00	100.00
SGIC Insurance Limited		Australia	100.00	100.00
SGIC Brand Pty Limited	A	Australia	100.00	100.00
NRMA Personal Lines Holdings Pty Limited		Australia	100.00	100.00
Insurance Manufacturers of Australia Pty Limited		Australia	70.00	70.00
IMA Investments Pty Limited	A	Australia	70.00	70.00
World Class Accident Repairs (Cheltenham North) Pty Limited	C	Australia	70.00	70.00
Help Insurance Limited		Australia	100.00	-
NRMA Insurance Services Limited (formerly Insurance Australia Limited)		Australia	100.00	-
NRMA Insurance Group Finance Limited		Australia	100.00	100.00
NRMA Staff Superannuation Pty Limited	A	Australia	100.00	100.00
NRMA Superannuation Pty Limited	A	Australia	100.00	100.00
ACN 093 614 147 Pty Limited (formerly NRMA Workers Compensation (NSW) Pty Limited)	A	Australia	100.00	100.00
ACN 003 151 120 Pty Limited (formerly NRMA Workers Compensation (NSW) (No 2) Pty Limited)		Australia	100.00	100.00
NRMA Workers Compensation (NSW) (No 3) Limited		Australia	100.00	100.00
CGU Workers Compensation (VIC) Limited (formerly NRMA Workers Compensation (VIC) Limited)		Australia	100.00	100.00
CGU NRMA Workers Compensation (SA) Limited (formerly NRMA Workers Compensation (SA) Limited)		Australia	100.00	100.00
IAG (NZ) Holdings Limited (formerly NRMA (NZ) Holdings Limited)	C	New Zealand	100.00	100.00
IAG New Zealand Limited (formerly NRMA Insurance NZ Limited)	C	New Zealand	100.00	100.00
State Insurance Limited	C	New Zealand	100.00	100.00
New Zealand Car Parts Limited	C	New Zealand	100.00	100.00
Direct Insurance Services Limited	C	New Zealand	100.00	100.00
IAG (NZ) Share Plan Nominee Limited	C	New Zealand	100.00	-
NRMA Insurance International Pty Limited		Australia	100.00	100.00
NHCT Limited	(ii), C	Thailand	49.00	49.00
Beijing Continental Automobile Association Limited	C	China	99.00	99.00
IAG Share Plan Nominee Pty Limited (formerly NRMA Share Plan Nominee Pty Limited)	A	Australia	100.00	100.00
NRMA Insurance Funding 2003 Limited		Australia	100.00	-

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 44. Details of controlled entities and joint ventures (continued)

	<u>Notes</u>	Place of incorporation / formation	Percentage of shares / units held	
			2003 %	2002 %
Controlled entities (continued)				
CGU Insurance Australia Limited		Australia	100.00	-
CGU Insurance Limited		Australia	100.00	-
CGU Investments Pty Ltd		Australia	100.00	-
CGU Workers Compensation (NSW) Limited		Australia	100.00	-
ACN 081 979 053 Pty Limited (formerly CGU Workers Compensation (SA) Pty Ltd)	A	Australia	100.00	-
Union Insurance Company Ltd		Australia	100.00	-
Swann Insurance (Aust) Pty Ltd		Australia	100.00	-
CGU Premium Funding Pty Ltd		Australia	100.00	-
Mutual Community General Insurance Pty Ltd		Australia	51.00	-
Pacific Indemnity Underwriting Agency Pty Ltd	A	Australia	100.00	-
NZI Insurance Australia Limited		Australia	100.00	-
ACN 060 317 571 Limited (formerly CGU Workers Compensation (VIC) Limited)		Australia	100.00	-
Sitrof Australia Limited		Australia	100.00	-
CGU-VACC Insurance Limited		Australia	100.00	-
Clay Heath Pty Ltd	D	Australia	100.00	-
Sitrof Holdings Limited	D	Australia	100.00	-
Sitrof Equity Pty Ltd	D	Australia	100.00	-
Sitrof Superannuation Pty Ltd		Australia	100.00	-
Sitrof Life Holdings Limited	D	Australia	100.00	-
Commercial Union Holdings (NZ) Limited		New Zealand	100.00	-
SWAPL Pty Limited	A	Australia	100.00	-
Belvs Investments Limited	C	New Zealand	100.00	-
NZI Staff Superannuation Fund Nominees Limited	C	New Zealand	100.00	-
New Zealand Insurance Limited	C	New Zealand	100.00	-
NZIB Investments Limited	C	New Zealand	100.00	-
NZI Passive Funds Limited	C	New Zealand	100.00	-
NZI Investments Nominees Limited	C	New Zealand	100.00	-
Joint venture entities				
Associated Marine Insurers Agents Pty Limited		Australia	50.00	-
NTI Limited		Australia	50.00	-

A Controlled entities which are small proprietary companies and not required to prepare audited accounts.

B No audit required under the terms of its constitution.

C Audited by other KPMG related practices internationally.

D These companies are under the closed group by applying ASIC class order 98/1418 (as amended by class order 98/2017 and 00/321), preparation of financial report is exempted.

(i) As at the balance date, the IAG Group has a majority holding, and has the capacity to control, NRMA Investment Management Cash Management Trust, NRMA Investment Management Fixed Interest Trust, NRMA Investment Management Property Trust, NRMA Investment Management Private Equity Trust and NRMA Investment Management Equity Trust Australia.

(ii) NRMA Insurance International Pty Limited owns 49% of the share capital of NHCT Limited which gives it a majority voting right and the right to appoint the board of directors of NHCT Limited. Therefore, NHCT Limited is a controlled entity of NRMA Insurance International Pty Limited.

(iii) Unless otherwise stated, all controlled entities are audited by KPMG Australia.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 45. Outside equity interests

Outside equity interests represent the equity interests held by external parties in controlled entities of the IAG Group.

Note 46. Related party disclosures

(a) Directors

The Directors who held office during the year were:

Mr JA Strong, Mr JF Astbury, Mrs MC Callaghan, Mr GA Cousins, Mrs M Easson, Ms DG Fisher, Mr ND Hamilton, Ms AJ Keating, Mr RA Ross and Mr MJ Hawker.

Details of directors' remuneration are set out in note 12. Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

(b) Wholly-owned group

The wholly-owned group consists of Insurance Australia Group Limited and its wholly-owned controlled entities. Ownership interests in these wholly-owned controlled entities are set out in note 44.

All transactions that have occurred within the wholly-owned group have been eliminated for consolidation purposes.

Aggregate amounts included in the determination of profit / (loss) from ordinary activities before income tax that resulted from transactions with related parties within the wholly-owned group were as follows:

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Dividend revenue	102	248	-	-

Aggregate amounts receivable from, and payable to, related parties in the wholly-owned group were as follows:

Non-current loan payable	133	315	-	-
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(c) Non wholly-owned controlled entities

(i) Transactions with Insurance Manufacturers of Australia Group

The Insurance Manufacturers of Australia Group ("IMA") refers to Insurance Manufacturers of Australia Pty Limited and the entities it controls, being IMA Investments Pty Limited and World Class Accident Repairs (Cheltenham North) Pty Limited. IAG owns 70% of IMA.

The following entities in the IAG Group had the following transactions with IMA.

Aggregate amounts included in the determination of profit / (loss) from ordinary activities before income tax that resulted from transactions with IMA were as follows:

	2003	2002
	\$m	\$m
Insurance Australia Limited		
- Reinsurance premiums paid or payable	1,356	1,329
- Claims recoveries received or receivable	831	775
- Underwriting expenses received or receivable	54	62
- Management fees received	175	159
- Rental income	3	3
IAG Re Limited		
- Reinsurance recoveries received	92	78
- Reinsurance expenses paid	30	-
NRMA Personal Lines Holdings Pty Limited		
- Dividend revenue	113	61

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 46. Related party disclosures (continued)	2003	2002
	\$m	\$m
(c) Non wholly-owned controlled entities (continued)		
NRMA Information Services Pty Limited		
- Information services and communication recoveries received	79	83
IAG Asset Management Limited		
- Investment management fees received	3	5
IAG Nominees Pty Limited		
- Investment management fees received	1	1

The transactions referred to above were made on normal commercial terms and conditions or direct and actual cost recovery basis or time allocation basis.

The following entities in the IAG Group had the following outstanding balances with IMA:

Current receivable		
- NRMA Information Services Pty Limited	4	4
- SGIO Insurance Limited	1	-
Current payable		
- Insurance Australia Limited	12	10
- NRMA Investment Management Cash Management Trust	1	2
- IAG Re Limited	10	-
- IAG Asset Management Limited	-	1

(ii) Other transactions

NRMA Investment Management Trusts, as disclosed as controlled entities in note 44, were established to enable higher investment yields for smaller investment portfolios. All entities within the IAG Group can invest into the Trusts in accordance with their investment mandates. All investments in these Trusts were on normal commercial terms and conditions.

(d) Other transactions

Insurance and retirement services products provided by the IAG Group are also available to all Directors and their related entities on the same terms and conditions available to other employees.

	CONSOLIDATED	
	2003	2002
(e) Directors' holdings of shares	Number	Number
The interests of Directors of the reporting entity and their Director-related entities in shares of the Company at balance date are:	835,068	471,557

Share transactions of Directors and their Director-related entities during the year are:

Aggregated acquisitions	363,511	218,811
Aggregated disposals	-	11,139

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Note 47. Employee entitlements				
(a) Provision for employee entitlements				
Current	-	-	121	84
Non-current	-	-	43	18
	-	-	164	102

A liability of \$28 million for termination benefits has been included in the provision for restructure costs on acquisitions (refer to note 27).

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	PARENT		CONSOLIDATED	
	2003 Number	2002 Number	2003 Number	2002 Number
Note 47. Employee entitlements (continued)				
(b) Employee numbers				
Number of employees at balance date	-	-	10,793	7,295

(c) IMA long term incentive scheme

The IMA long term incentive scheme was in operation for IMA employees during the year ended 30 June 2003. The incentive is paid subject to a target based on the group performance over a three year period being achieved.

(d) Bonus equity share plan

A Bonus Equity Share Plan is in operation during the year ended 30 June 2003, the plan allows employees to elect to receive up to a maximum of 50% of their short-term incentive bonus in the form of ordinary shares of IAG.

(e) Performance award rights plan

The Performance Award Rights Plan commenced operation in the year ended 30 June 2003. On satisfaction of a performance hurdle and subject to meeting of certain employment conditions, the plan entitles executives to acquire one ordinary share of the Company for each right. The rights were issued for nil consideration. The exercise price is \$1 per tranche of rights at date of exercise. Exercise of rights entitles plan participants to participate in dividend distributions. Ordinary shares of IAG are bought on market in advance before grant date and held in trust for future exercise. The rights lapse upon termination of employment.

The rights issued under the Performance Award Rights Plan are summarised below:

Grant date	Expiry date	Exercise price	Rights issued during the year	Rights exercised during the year	Rights expired during the year	Rights on issue at the end of the year
24/12/2002	24/12/2012	\$1	4,044,435	-	150,554	3,893,881

(f) Performance share rights plan

A Performance Share Rights Plan was in operation from December 2000 and closed for further new rights issues during the year ended 30 June 2003. On the satisfaction of a performance hurdle, executives are able to exercise those rights, which convert into new ordinary shares of the Company. The rights were issued for nil consideration. The exercise price is \$1 per tranche of rights on issue at date of exercise.

No rights were vested or exercised during the financial year ended 30 June 2003.

The rights issued under the Performance Share Rights Plan are summarised below:

Grant date	Last expiry date	Exercise price	Rights on issue at the beginning of the year	Rights issued during the year	Rights exercised during the year	Rights lapsed during the year	Rights on issue at the end of the year
21/12/2000	21/12/2010	\$1	1,570,300	-	-	160,000	1,410,300
30/04/2001	30/04/2011	\$1	3,378,200	-	-	170,000	3,208,200
02/08/2001	02/08/2011	\$1	190,700	-	-	-	190,700
22/10/2001	22/10/2011	\$1	135,000	-	-	-	135,000
13/12/2001	13/12/2011	\$1	1,000,000	-	-	-	1,000,000
05/03/2002	05/03/2012	\$1	501,897	-	-	-	501,897
15/07/2002	15/07/2012	\$1	-	102,222	-	-	102,222
			6,776,097	102,222	-	330,000	6,548,319

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 47. Employee entitlements (continued)

(g) Superannuation commitments

Most existing employees of the consolidated entity are members of, and all joining employees are eligible to be members of, the NRMA Superannuation Plan on an accumulated benefits basis. A minority of employees participate in superannuation plans on a defined benefit basis.

The unaudited financial position of each fund which has or had the IAG Group employees as defined benefit members are summarised below:

	NRMA Superannuation Plan \$m	RACV Superannuation Funds * \$m	CGU Superannuation Fund \$m	CGU-VACC Pension Fund \$m	Total \$m
Date of last actuarial valuation	30 June 2003	30 June 2003	30 June 2003	30 June 2003	
Net market value of net assets held by the plan - 30 June 2003	541	22	242	23	828
Present value of employees' accrued benefits - 30 June 2003	(414)	(22)	(201)	(21)	(658)
Excess of net assets over accrued benefits	127	-	41	2	170
Vested benefits - 30 June 2003	408	22	197	19	646

The accrued benefits for defined benefit members of the plans are determined on the basis of the present value of expected future payments which arise from membership of the plan up to the measurement date. The accrued benefits are determined by reference to expected future salary levels and are discounted by using a market-based, risk-adjusted discount rate.

Vested benefits are the benefits which would be payable to plan members if all employees voluntarily resigned as at the reporting date.

Due to the surplus in these plans, contribution holidays were in place throughout the financial year. The surplus of these plans is not recognised in the statement of financial performance of the IAG Group.

* - The amount disclosed for RACV Superannuation Funds represents the IAG Group's employees' interests in the fund. The employees' accrued benefits and corresponding assets were transferred to NRMA Superannuation Plan on 1 July 2003.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 48. Segmental reporting

(a) Primary reporting - business segments

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

	Short-tail insurance 2003 \$m	Long-tail insurance 2003 \$m	International insurance 2003 \$m	Retirement services 2003 \$m	Corporate and investments 2003 \$m	Intersegment elimination 2003 \$m	Total 2003 \$m
External revenue	3,566	1,386	685	(12)	155	-	5,780
Intersegment revenue	-	-	209	-	14	(223)	-
Total revenue	3,566	1,386	894	(12)	169	(223)	5,780
Profit from underwriting	192	(22)	29	-	-	-	199
Investment income	88	269	15	-	(76)	-	296
Other operating result	-	5	-	3	(206)	-	(198)
Profit / (loss) from ordinary activities before income tax	280	252	44	3	(282)	-	297
Income tax expense							(80)
Net profit							217
Segment assets	3,848	4,854	575	1,078	6,037	-	16,392
Unallocated assets							-
Total assets							16,392
Segment liabilities	3,848	4,854	575	929	2,133	-	12,339
Unallocated liabilities							-
Total liabilities							12,339
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	-	1,176	-	1,176
Depreciation expense*	14	10	6	-	5	-	35
Amortisation of goodwill and intangibles	-	-	-	-	81	-	81
Total depreciation and amortisation expense	14	10	6	-	86	-	116
Other non-cash expenses	35	18	7	1	4	-	65

* - Depreciation expense is allocated to different business segments as management fees from the Corporate segment. Therefore all plant and equipment is treated as part of the Corporate segment.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 48. Segmental reporting (continued)

(a) Primary reporting - business segments (continued)

	Short-tail insurance	Long-tail insurance	International insurance	Retirement services	Corporate and investments	Intersegment elimination	Total
	2002	2002	2002	2002	2002	2002	2002
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
External revenue	2,553	1,204	401	19	(39)	-	4,138
Intersegment revenue	-	-	95	-	27	(122)	-
Total revenue	2,553	1,204	496	19	(12)	(122)	4,138
Profit / (loss) from underwriting	97	33	12	-	-	-	142
Investment income	34	87	15	-	(246)	-	(110)
Other operating result	-	11	-	(5)	(139)	-	(133)
Profit / (loss) from ordinary activities before income tax	131	131	27	(5)	(385)	-	(101)
Income tax expense							18
Net profit							(83)
Segment assets	1,805	3,427	299	1,146	4,637	(7)	11,307
Unallocated assets							-
Total assets							11,307
Segment liabilities	1,805	3,427	299	947	1,861	(11)	8,328
Unallocated liabilities							-
Total liabilities							8,328
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets*	-	-	-	-	44	-	44
Depreciation expense*	11	8	7	1	4	-	31
Amortisation of goodwill and intangibles	-	-	-	-	43	-	43
Total depreciation and amortisation expense	11	8	7	1	47	-	74
Other non-cash expenses	24	19	2	2	7	-	54

* - Depreciation expense is allocated to different business segments as management fees from the Corporate segment. Therefore all plant and equipment is treated as part of the Corporate segment.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 48. Segmental reporting (continued)

(b) Secondary reporting - geographical segments

The consolidated entity operates mainly in the Australian general insurance and retirement services industries and in the New Zealand general insurance industry. In the Australian market the Group operates in all states and territories. Australia and International (mainly New Zealand) markets are therefore separate reportable geographical segments.

	Australia		International		Intersegment elimination		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
External revenue	5,069	3,733	711	405	-	-	5,780	4,138
Segment assets	15,436	10,709	1,618	719	(662)	(121)	16,392	11,307
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	977	40	199	4	-	-	1,176	44

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 49. Financial instruments

The IAG Group is exposed to interest rate risk, equity risk, exchange rate risk and credit risk from its business, investment activities and foreign currency borrowings. To effectively manage the risk of significant negative movement, specifically in interest rates and equity prices, a combination of derivatives have been used.

(a) Interest rate risk

The IAG Group's exposure to interest rate risk results from the holding of financial assets and liabilities in the normal course of business.

(i) Interest rate swap agreements

Insurance Australia Limited (formerly NRMA Insurance Limited) has entered into interest rate swap agreements ("swap agreements") to manage the interest rate exposure on the IAG Group's borrowings. Insurance Australia Limited pays a fixed rate of interest under the swap agreements and receives a variable rate of interest equal to the amount payable on the underlying hedged borrowings. The interest income and expense associated with the swap agreements are charged to the statement of financial performance on a daily basis over the term for which the swap is effective as a hedge of the underlying borrowing. As at 30 June 2003, the weighted average fixed interest rate payable under the swap agreements was 6.92% and the weighted average floating rate receivable was 6.35%.

As at balance date, the notional principal amounts and period of expiry of the swap agreements are as follows:

	PARENT		CONSOLIDATED	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Interest rate swaps				
- Within 2 to 5 years	-	-	50	-
- Within 5 to 7 years	-	-	350	-
	-	-	400	-

(ii) Futures

At balance date, the notional principal amounts and period of expiry of the interest rate related contracts were as follows:

Futures				
- Within 1 year	-	-	217	790

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 49. Financial instruments (continued)

(a) Interest rate risk (continued)

(iii) The exposure to interest rate risk and the weighted average effective interest rates on the financial assets and liabilities of the consolidated entity are summarised in the table below.

	CONSOLIDATED					Total	Weighted average interest rate
	Fixed interest rate maturing in						
	Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non- interest bearing	\$m	%
2003	\$m	\$m	\$m	\$m	\$m	\$m	
Financial assets							
Cash and deposits	621	167	863	-	5	1,656	4.81
Receivables	76	-	-	-	619	695	4.10
Government and semi-government stocks and bonds	-	467	1,513	1,179	-	3,159	4.71
Bonds	3	111	261	98	-	473	4.86
Commercial bills	-	1,456	-	-	-	1,456	4.80
Other investments	-	256	438	116	-	810	5.63
	700	2,457	3,075	1,393	624	8,249	
Financial liabilities							
Payables	-	-	-	-	891	891	-
Commercial paper	136	-	-	-	-	136	4.82
Senior term notes	-	-	44	43	-	87	7.21
Subordinated term notes	50	-	249	-	-	299	6.32
US subordinated term notes	-	-	-	358	-	358	5.19
	186	-	293	401	891	1,771	
2002							
Financial assets							
Cash and deposits	281	30	596	106	1	1,014	5.64
Receivables	-	-	-	-	541	541	-
Government and semi-government stocks and bonds	-	-	917	786	-	1,703	5.82
Commercial bills	-	1,140	-	-	-	1,140	4.83
Other investments	33	4	527	143	-	707	5.82
	314	1,174	2,040	1,035	542	5,105	
Financial liabilities							
Payables	-	-	-	-	1,266	1,266	-
Commercial papers	200	110	-	-	-	310	5.28
	200	110	-	-	1,266	1,576	

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 49. Financial instruments (continued)

(b) Equity price risk

In addition to the effects of movements in interest rate and foreign exchange values, the IAG Group is also exposed to equity market volatility through its investment in equities.

At balance date, the notional principal amounts and period of expiry of the equity related contracts were as follows:

	PARENT		CONSOLIDATED	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
SPI futures				
- Within 1 year	-	-	47	407
Equity swap				
- Within 1 year	-	-	-	100
Options				
- Purchased - within 1 year	-	-	1,559	500
- Written - within 1 year	-	-	464	347
	-	-	2,070	1,354

(c) Exchange rate risk

Insurance Australia Limited has entered into cross currency swaps to fully hedge the Australian dollar value of principal and interest flows on the IAG Group's US subordinated term notes. The swaps mature in 2010. Over the term of the swaps, the company will receive US dollar payments equal to the interest payable on the notes and will pay interest at either a fixed rate or variable rate of the three month bank bill swap rate plus a margin on a principal amount totalling A\$401 million. On maturity of the swap, the IAG Group will repay the principal amount totalling A\$401 million and receive US\$240 million based on the original spot exchange rate at inception.

Insurance Australia Limited has also entered into short term currency swaps in order to provide New Zealand dollar denominated funding to the IAG Group's New Zealand operations, primarily in relation to the acquisition of the New Zealand businesses of Aviva plc. The average contractual exchange rate on the New Zealand dollar swaps is A\$1 to NZ\$1.128. Revaluation gains and losses on the currency swaps are taken up in the statement of financial performance and offset against the revaluation gains and losses of the underlying borrowings.

(d) Credit risk

The credit risk exposures of the IAG Group are in respect of the non-repayment of receivables, loans and advances due from third parties and the amounts are as indicated by the carrying amount of the financial assets. There is no significant concentration of credit risk as the IAG Group transacts with a large number of individual debtors without any single one being material.

As the primary purpose for using derivatives is hedging, any over-the-counter derivatives used have been transacted with investment grade quality financial institutions only. The IAG Group's credit policy and procedures ensure that exposures to counter party risks are being monitored constantly to be within the risk limits approved by the Board.

As the exchange traded derivatives are being settled on a daily basis with the clearing house of the exchange, credit risk associated with these contracts is minimal.

(e) Net fair values

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

The net fair value of financial assets and liabilities arising from the derivatives other than interest rate swaps (being currency and equity swap agreements, Share Price Index futures, equity options and bank bill futures and bond futures options and forward foreign exchange contracts) has been determined as the carrying value which represents the amount currently receivable or payable at the reporting date. The carrying value of all these derivatives is a net receivable of \$10 million (2002 - \$3 million). The net fair value of interest rate swaps is a net payable of \$5 million (carrying value \$Nil).

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 50. Summary of significant actuarial methods and assumptions applied to life insurance business

(a) Valuation of policy liabilities

Policy liabilities of NRMA Life Limited (“Life”) comprise the amounts, together with future premiums and investment earnings that are required to:

- (i) meet the payment of future benefits and expenses; and
- (ii) provide for future profits.

The policy liabilities have been calculated using methods in accordance with AS1.03 as required under section 114 of the Life Act.

Methods used to value policy liabilities

The methods used to value policy liabilities and profit carriers for particular policy types, all of which are individual business, are as follows:

Business type	Method (projection or other)	Profits carrier(s)
Fund 1 Lump sum risk	Projection	Premiums
Fund 2 Lump sum risk	Projection	Premiums
Fund 2 Investment account	Accumulation	N/A *
Fund 4 Investment – linked	Accumulation	N/A *

The projection method uses the discounted value of future policy cashflows (premiums, expenses and claims) with a reserve for expected future profits.

The policy liability under the accumulation method is equal to the face value of units less an allowance for the present value of future surrender charges and a deferred acquisition cost for new business. If the present value of expenses exceeds the present value of these charges an additional liability is held to cover this shortfall.

* - Profit in respect of this business is generated on a cashflow basis via fees earned by the shareholder less maintenance expenses incurred and tax with an allowance for the amortisation of recoverable acquisition expenses.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 50. Summary of significant actuarial methods and assumptions applied to life insurance business (continued)

(b) Actuarial assumptions

The assumptions used to determine policy liabilities have been set by the Appointed Actuary in accordance with AS 1.03. The assumptions incorporate the expected future operating experience of Life and are based on an analysis of Life's past experience and trends. The significant assumptions are set out below.

Fund 1

Investment earnings and discount rate - 3.2% after tax at 30% (2002 - 3.2% after tax at 30%) being the rate for cash investments at the valuation.

Tax - 30% (2002 - 30%) of expected operating profits.

Maintenance expenses - The expense assumption was based on the budgeted level of expenses for the upcoming year. Expense inflation of 4.0% (2002 - 4.0%) was assumed.

Voluntary discontinuance - Rates used vary by duration and have been based on an analysis of Life's experience over recent years.

Mortality - Rates used vary by sex, age and smoker status and have been based on an analysis of the Life's mortality experience. The underlying mortality table used was IA90-92 allowing for selection, and adjustments for smoking status.

Morbidity (TPD and Trauma) - Rates varying by age, sex, occupation (TPD only) and smoking status based on the Life's assumptions for the product.

Fund 2 and Fund 4

The following assumptions were used to determine the deferred acquisition cost and test for recoverability.

Investment earnings and discount rate - Rates are determined based on an estimate of the future earnings of the fund allowing for the asset mix and taxation.

Surrender rates - Rates used vary by product and statutory fund and have been based on an analysis of the Life's experience over recent years.

Acquisition expenses - After tax acquisition expenses were derived from the financial statements.

Maintenance expenses - The expense assumption was based on the budgeted level of expenses for the upcoming year. Expense inflation of 4.0% (2002 - 4.0%) was assumed.

Mortality - Rates used varied by sex and age. The underlying table used was ALT 85-87 for Investment Products and IA90-92 for Risk Products.

Tax - Rates of 30% (2002 - 30%) were assumed to apply on shareholder assessable income.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 51. Solvency and capital requirements of the life subsidiary's statutory funds

These are amounts required to meet the prudential standards specified by the Life Act to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life company.

The methods and assumptions for determining Management Capital Requirements are in accordance with Actuarial Standard 6.02 "Management Capital Standard", as required under section 65 of the Life Act.

(a) Solvency requirement

	CONSOLIDATED	
	2003	2002
	\$m	\$m
Solvency reserve	17	6
Assets available for solvency	58	48
	3.4	7.5

(b) Capital requirement

Management capital reserve	4	2
Assets available for capital requirement	19	87
	1.9	8.7

Note 52. Capital adequacy

The revised regulatory regime from APRA for general insurance companies came into force on 1 July 2002. New prudential standards were issued which sets out the basis for calculating the minimum capital requirement ("MCR") of licensed insurers. The MCR assumes a risk-based approach and is determined as the sum of the capital charges for insurance, investment, investment concentration and catastrophe risk.

As at 30 June 2003, the MCR of the IAG Group under the new prudential standards is as follows:

	<u>Notes</u>	CONSOLIDATED
		2003
		\$m
Statutory capital requirements		
Tier 1 capital		
Paid-up ordinary shares		3,434
Reset preference shares		539
Retained earnings and reserve		(398)
Excess technical provisions (net of tax)		353
Less: deductions		(1,838)
		2,090
Tier 2 capital		
Subordinated term notes		657
		2,747
Capital base		
Australia general insurance businesses		1,392
International insurance businesses	(i)	136
Other businesses	(ii)	165
		1,693
Minimum capital requirements (MCR)	(iii)	1,693
		1.62

(i) The capital for International insurance businesses is calculated on a similar basis to the Australian regulatory requirements.

(ii) Other businesses include the regulatory capital requirement of NRMA Life Limited and an allocation of capital for our fee based businesses.

(iii) The MCR excludes the capital requirement for NRMA Health Pty Limited, as the IAG Group announced the sale of this business to MBF on 1 July 2003.

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

Note 53. Events subsequent to reporting date

Since the end of the financial year,

(a) On 1 July 2003, IAG announced the sale of NRMA Health Pty Limited for \$100 million to MBF, effective 25 July 2003. IAG has entered into a six-year marketing alliance, including a possible four year extension, with MBF.

(b) On 21 August 2003, a final dividend of 7 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 13 October 2003.

As these transactions occurred after balance date and did not relate to conditions existing at balance date, no account has been taken of them in the financial statements for the year ended 30 June 2003.

	<u>Notes</u>	CONSOLIDATED	
		2003	2002
		\$	\$
Note 54. Net tangible assets			
Net tangible asset per ordinary share	(i)	<u>0.84</u>	<u>1.15</u>
Net tangible asset per reset preference share	(ii)	<u>100.00</u>	<u>100.00</u>

(i) Net tangible assets per ordinary share has been determined after adjusting for outside equity interests, intangible assets (being goodwill and other intangibles per note 22) and the value of reset preference shares on issue (note 32).

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

INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes, set out on pages 10 to 62, are in accordance with the Corporations Act 2001, (except as exempted by an order issued by the Australian Securities & Investments Commission as stated in note 1(a)(ii)), including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 21st day of August 2003 in accordance with a resolution of the Directors.

..... Director

..... Director

INDEPENDENT AUDITORS' REPORT

To the shareholders of Insurance Australia Group Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Insurance Australia Group Limited (the "Company") and IAG Group (the "Consolidated Entity"), for the year ended 30 June 2003. The Consolidated Entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

Independence

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

INDEPENDENT AUDITORS' REPORT

Audit opinion

In our opinion, the financial report of Insurance Australia Group Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

Dr Andries B Terblanché

Partner

Sydney

21st August 2003