WHAT DOES IAG STAND FOR?

IAG
Insurance
Australia
Group

Annual Report 2003

INSURANCE AUSTRALIA GROUP

Insurance Australia Group Limited ABN 60 090 739 923

We are Australasia's leading general insurance group. We provide personal, commercial and rural insurance, and retirement financial products and services. We have around 11 million policies in force across Australia and New Zealand, own some of the region's most respected brands and employ around 11,000 people.

That is what we are. This report is about something more. It's about what we stand for.

swann insurance

ClearView Retirement Solutions

STATE an IAG NZ business

NZI an IAG NZ business

IAG STANDS FOR...

HELP WHEN YOU NEED IT MOST

Our business is to pay claims as quickly as possible and provide insurance to the community at an affordable cost. But we don't stop there. We look for practical opportunities to help beyond just paying claims.

Jan 03

After bushfires ravaged almost one-third of Canberra, our first full claim was paid within 3 days.

2,000

2,000 claims were received following the New Zealand weather bomb. IAG NZ is working with Thames Council to mitigate future risk.

Whether it's a day-to-day claim or a life-changing emergency, we try to empathise with our customers, business partners, brokers and agents, and find a way to offer the 'right' kind of help at the right time. That may mean providing straightforward product information. Or it may mean setting up a temporary office in a community struck by disaster and dedicating resources to help communities prevent future damage.

ON THE GROUND AT THE CANBERRA BUSHFIRES

In January, the Australian Capital Territory (ACT) and surrounding regions experienced the seventh largest insured catastrophe in Australian history when firestorms ravaged almost one-third of the national capital.

When news of the fires emerged, our first priority was to contact the people insured with us, through NRMA Insurance and CGU, and help process claims, provide emergency funds of up to $5,000 per claim and organise temporary accommodation and trauma counselling. Extra Teleclaims operators volunteered from surrounding areas to help manage the 350 enquiries we received daily. Our mobile claims processing van, the Help Van, joined local assessors in the devastated areas as soon as emergency services permitted access. A specialised claims operation was also set up at the Braddon branch to provide personal assistance to affected customers. In all, we received more than 1,800 personal insurance claims and more than 100 commercial insurance claims as a result of these fires. And we are proud to say we paid our first full claim within three days of the event.

PAVING THE ROAD TO RECOVERY

Once the immediate threat of the fires passed, we found our customers were asking some questions about rebuilding their homes that we really couldn't answer. We responded with the NRMA Insurance Help Expo, which was a free event for the community to come together for advice on the rebuilding and recovery process.

With the support of the ACT Bushfire Recovery Taskforce, more than 50 exhibitors attended the Help Expo. They included building and architectural organisations, legal advisers, community safety and security specialists, financial planners, environmental experts, social welfare and trauma counsellors, and state and local government representatives. An information kit was also provided to help our customers along their road to recovery.

In a similar way, we worked with CGU's business partner, Bendigo Bank, to host an information session for customers and the local community, following the mini-tornado in Northern Bendigo in May this year.

WEATHERING THE STORM IN NEW ZEALAND

When a weather bomb – a short storm causing severe damage – struck New Zealand's Thames/Corommandel region in late June last year, more than 2,000 claims were received from policyholders insured with State Insurance and NZI.

Immediately following the storm, David Smith, the CEO of IAG New Zealand Limited (IAG NZ), went to the area at the centre of the damage and met with local customers and the Thames Council Mayor. Soon after, IAG NZ agreed to join a project team set up by local authorities to examine risk mitigation options, including insurance, in the event of future catastrophe. That team's work is now under way and an IAG NZ employee has been seconded to the Thames Council on a full-time basis.

"When people have trauma, the one thing they need is accurate information in an easy format that they can just sit down and understand – and I think the Help Expo has given people that."

Amanda Tobler
Lifeline Manager and
NRMA Insurance Help Expo participant.

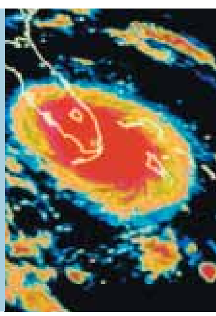
IAG STANDS FOR...

MAKING COMMUNITIES SAFER

We live here too. So safe communities are high on our agenda. It's in all our interests that we share our experience and understanding to reduce the risk of accidents, catastrophes and other insurable events, such as theft, happening in the first place. We also support the businesses we rely on, to ensure their sustainability and the fabric of the communities in which we operate.

19 out of 20

of the top major insurance catastrophes in Australian history have been weather related.



We're working with one of the world's top weather modelling teams on key weather research.

Rural stars

For more than 15 years, we've supported local businesses in Ballarat, Orange and Tamworth through the CGU Business Awards.

RINGING THE WARNING BELL ON CLIMATE CHANGE

Global warming, and its link with greenhouse emissions, is increasing the frequency and severity of weather related events such as storms, cyclones, hail and drought across Australia and New Zealand.

Claims research from Insurance Australia Group and the work of leading experts, nationally and overseas, show how just a slight change in the climate can dramatically affect weather and the threat of damage.

This has serious implications for the lives, health, personal property and basic commercial infrastructure of Australians and New Zealanders – especially when you consider that 19 of the top 20 major insured catastrophes in Australian history have been weather related.

We think we can help. We're carrying out more research, in conjunction with one of the world's top weather modelling teams. We'll use the findings with key national and global leaders and the community, so we can work together to reduce the likelihood of severe weather impacts to properties and lives. We're also exploring new products and services that can create business value and encourage sustainable behaviour. In our own backyard, we have adopted a proactive sustainability policy and are modifying business practices to reduce greenhouse gas emissions.

HELPING COMMUNITIES REDUCE CRIME

Crime is another major cause of claims, and we're working with local communities to find ways to reduce it. In 2002/2003, through our national SGIO/SGIC/NRMA Insurance CrimeSafe grant programme, we provided 47 grants to local communities, projects and groups supporting crime reduction initiatives.

In some instances, CrimeSafe projects have been so successful that we continue our support with a long-term commitment beyond the grant. The Helping Young People Engage (HYPE) programme in Kalgoorlie is a great example. HYPE, which is run by the Safer WA Committee, provides a positive approach to issues facing young people by building relations between young people, HYPE workers, Safer WA, businesses and the police. The team of HYPE workers patrol the Hannan Street Central Business District of Kalgoorlie every Thursday night, talking to young people and helping them appreciate there are alternatives to illegal behaviour. In doing so, the number of police callouts to the CBD has reduced significantly.

Our work to reduce crime fits in with our broader community support programme that is focused on using our expertise to reduce risk at home, on the road and at work. Further information can be found in the Safety, Environment, Community section of this report.

SUPPORTING THE FUTURE BUSINESS STARS OF RURAL COMMUNITIES

It's a fact that, in rural Australia, young people are moving away to metropolitan centres because they no longer see clear job prospects or opportunities. We don't consider this as an inevitable trend. And we think by supporting rural communities and rebuilding confidence in local businesses, that we can even do something to reverse it.

For more than 15 years, we've sponsored the CGU Business Awards in Ballarat, Tamworth and Orange. This year alone, we've given more than $100,000 to promising businesses through these awards. These help to dispel the myth that you need to leave rural communities to succeed in business.

> "We knew something had to be done about crime in the Kalgoorlie community, but we just didn't have the funding to keep the HYPE programme running. The CrimeSafe grant from SGIO gave us the funding we needed to make HYPE workers visible and reduce anti-social and criminal behaviour in the CBD."

Esther Roadnight
Chairman, Safer WA Goldfields District Committee.

IAG STANDS FOR...

BUILDING HIGH PERFORMANCE

We are building a culture that allows our 11,000 people to realise their potential and makes Insurance Australia Group a compelling place to work.

5 values

Honesty;
Transparency;
Teamwork;
Meritocracy; and
Social responsibility.

Learning

Our learning programme includes a focus on building leadership skills at all levels of the Company.

Encouraging development and innovation, and rewarding achievement, will not only drive high performance, it will ensure we are able to pay our customers' claims and deliver value to shareholders and the community for many years to come.

To realise our cultural goals, we are focusing on three areas:

- Providing consistent processes for managing and developing our people;
- Ensuring our people feel safe while doing their jobs by improving workplace safety; and
- Uniting our people around our focus on helping our customers.

SETTING THE GROUND RULES

We are building a shared company culture based on five values: honesty, transparency, teamwork, meritocracy and social responsibility. To support this common framework, we have introduced a comprehensive system for managing and developing our people.

All our people receive periodic feedback on their performance and have the opportunity to discuss their development objectives and any concerns with their supervisor.

The talent management matrix forms the cornerstone of our approach for developing managers. It allows us to identify high performers, as well as opportunities for development across the Group. During the past year, more than 300 managers' career opportunities have been reviewed using the talent development matrix. We are gradually expanding the reach of this process throughout the organisation.

One of the by-products of the matrix is access to our comprehensive learning programme, also introduced during the past year. The programme covers the range of learning, from frontline supervisory training to executive coaching, to ensure we attract and retain talented people across all areas of the organisation.

PRACTISING WHAT WE PREACH ON SAFETY

As a leading adviser on occupational health and safety issues, we understand the impact of unsafe workplaces. As a result, we are taking steps to make Insurance Australia Group's workplaces safer for our people.

Following an external audit of our workplace safety in October 2002, we developed a three year safety programme to address problem areas identified in the audit. An Organisational Safety Committee was also established to oversee the programme implementation, including our Chief Executive Officer as Head of Safety.

The first phase of that programme was implemented in 2002/2003. More than 600 managers received safety training. We reinvigorated our Occupational Health and Safety (OHS) Committees, and introduced a safety charter to our people. We are also leveraging our national partnership with St John Ambulance, which is making first aid kits and training available to our people.

The result to date has been greater awareness of safety among our people and a clear plan to ensure a standard level of national compliance in the future.

THERE IS ALWAYS ROOM FOR IMPROVEMENT

Customers judge us every day according to their latest experience of us and our people play a key role in delivering on that customer experience.

That's why, when we launched the Getting it Right programme to improve the customer experience, we took the opportunity to capture our people's feedback, no matter how big or small the event.

Through a series of workshops and ongoing dialogue, more than 1,500 people in our Australian operations have helped to develop simpler, effective processes that will make it easier to provide excellent customer service.

After only nine months of operation, Getting it Right has resulted in numerous initiatives that are now being progressively implemented. We have already had some successes such as an improved process to locate customers whose mail is returned to us. Thanks to the help and commitment of our people, real customer service benefits will be delivered. That should help us get it right every time!

> "Through integration, we have seen two businesses come together to create more opportunities. This will also allow us to contribute to the community on a bigger scale."

Ganesh Doddi
Analyst Programmer, CGU.

IAG STANDS FOR...

SOLID UNDERLYING PERFORMANCE

We recorded a net profit attributable to shareholders of $153 million for the year ended 30 June 2003 (2002 – loss of $25 million), confirming the sound logic of the CGU and NZI acquisition and reflecting the ongoing success of initiatives to improve business fundamentals. A fully franked final dividend of 7 cents per share will be paid to ordinary shareholders* on 13 October 2003. This takes the total dividend for the year to 11.5 cents per share, a 9.5% increase on the previous year.

HOW INSURANCE WORKS

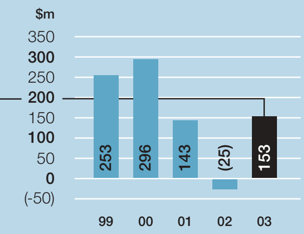
PREMIUMS	–	CLAIMS & CLAIMS EXPENSES	–	UNDERWRITING EXPENSES	=	UNDERWRITING RESULT	+	INVESTMENT RETURNS FROM TECHNICAL RESERVES	=	INSURANCE RESULT	+	INVESTMENT INCOME FROM SHAREHOLDERS	–	TAX	=	NET PROFIT/ LOSS

* registered on 10 September 2003

Net profit attributable to shareholders

$153m

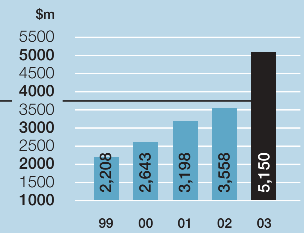
Net profit attributable to shareholders increased to $153m, compared with a loss of $25m in the previous year.



Gross written premium

$5,150m

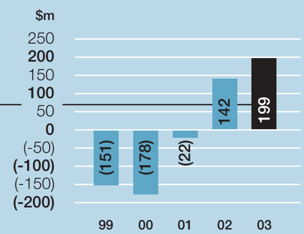
Gross written premium increased 45% to $5,150m from $3,558m in the previous year. Around 9% of this was organic growth, with the remaining 36% from the CGU/NZI acquisition.



Underwriting result

$199m

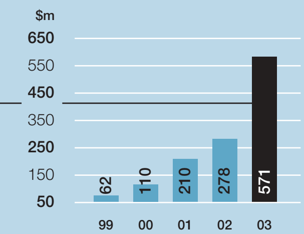
Underwriting profit increased to $199m from $142m in the previous year.



Insurance result

$571m

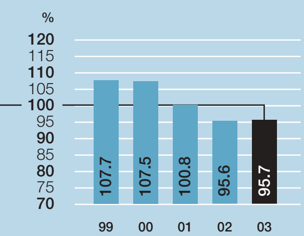
Insurance profit rose to $571m from $278m in the previous year.



Combined ratio

95.7%

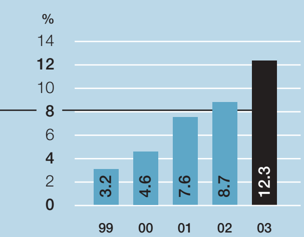
The Group's combined ratio was 95.7%, consistent with 95.6% in the previous year.



Insurance margin

12.3%

Insurance margin – the insurance result as a percentage of net earned premium – rose to 12.3%, up from 8.7% in the previous year.



IAG STANDS FOR...

STABILITY

It has been another eventful year for Insurance Australia Group, with major progress in the directions we had previously indicated to shareholders and to the market.

James Strong,
Chairman.

Chairman's view

A WATERSHED YEAR

The Group demonstrated its new stability and focus on improved operations by the performance of our insurance business.

In the same period, we carried out a major acquisition, with the addition of CGU and NZI transforming the combined business to become clearly the leading general insurance group in this part of the world.

The management and Board considered that this was the right purchase at the right time to seize a limited opportunity. Despite complexities and some initial adverse market reaction to the transaction and associated capital raising, subsequent financial performance and market reaction has emphatically endorsed the strategy, to the benefit of shareholders.

In a broad sense, 2002/2003 can be seen as a watershed for Insurance Australia Group in positioning itself for the future.

In less than ten years, what was a three-product company servicing only New South Wales (NSW) and the ACT has become a truly national operation, in both Australia and New Zealand, fully diversified by product and distribution channel, with one of the region's highest financial strength ratings for an insurance company from Standard & Poor's.

GROUP PERFORMANCE AND DIVIDENDS

For the 2002/2003 financial year our business performed very well, reflecting improvements made to the underlying performance of the business and the benefits of our acquisition of CGU and NZI. Our overall returns from investments increased, reflecting both the change to our asset mix and improved market performance. The CEO's report provides more detail around this pleasing result.

We will pay a final dividend of 7 cents per ordinary share, fully franked, on 13 October 2003. This brings our total annual dividend to 11.5 cents per ordinary share, a 9.5% increase on the previous year. This is in keeping with the Board's policy to return between 40% and 70% of normalised earnings to shareholders as dividends.

The Board also introduced a Dividend Reinvestment Plan (DRP) in January 2003 in response to ordinary shareholder requests. The Company's 1.1 million ordinary shareholders can now elect to reinvest in the company all or part of any future dividend payments they receive while the DRP is operational.

BOARD AND MANAGEMENT STRATEGY

Insurance Australia Group's performance during the past year reflects the results of the strategy your Board and management confirmed in May 2002.

We are pleased with our progress, particularly the acquisition and integration of CGU and NZI. The sound logic of that transaction is being confirmed through our results and by our increased confidence that we will realise the anticipated $160 million pre-tax per annum in sustainable expense synergies.

We recognise we still have a long way to go in terms of full implementation of our five year strategy. Importantly, your Board and management team are working together effectively to deliver on it. We hold twice yearly strategy sessions and work closely to improve our operations for the benefit of shareholders, policyholders and our people.

A COMMITMENT TO SOUND GOVERNANCE

Within Insurance Australia Group we understand the importance of proper governance to ensure discipline and predictability in performance. A key issue is building a sound structural framework for decision making and carrying out transactions. This area has received a great deal of attention across our business with two very active Board Committees covering Audit, and Risk Management & Compliance matters.

Ultimately, the integrity of individuals remains paramount, placing great emphasis on selection, training, corporate ethics and leadership of people right across the Group.

We have moved quickly to adopt recent developments in corporate governance, to respond to both public concerns and consequential regulatory guidelines. This includes the principles released earlier this year by the ASX Corporate Governance Council.

During the year, we commissioned an independent assessment of the performance of the Board as a whole, and of individual contributions by Directors, as part of ensuring future effectiveness.

Subsequent to the end of the reporting period, we decided to cease the operation of the retirement benefits scheme for non-executive Directors. This means there will be no future accrual of benefits, and the scheme will phase out as it will not apply to new Directors. We have also introduced new clear practices in relation to engagement terms for Directors, length of service, and peer review.

On the retirement of two longer-term Directors, Maree Callaghan and Mary Easson, we have also decided to reduce the size of the Board to eight Directors, including the Managing Director (the CEO). I take this opportunity to again express my appreciation of the contribution by Maree and Mary over the years, especially during my term as Chairman since August 2001. They have worked effectively with all other Board members to achieve great progress in this period as outlined earlier.

Directors also met during the year with our appointed external auditor, KPMG, to discuss the auditor's comments on the Group's risk culture and ethos, including risk reporting procedures.

OUR FUTURE PRIORITIES

I wish to express my appreciation to Board members, and to all our employees and management, for a very solid year of hard work and real progress which has built a great foundation for the future. Michael Hawker has provided excellent leadership as Chief Executive Officer.

This has been an important year of demonstrating stability and decisive action to create a new platform for our future. Our focus now has to remain on consolidation, achieving the full potential available to us and reaching high standards of operating performance in every area of our business.

I can assure shareholders that the whole Board and management are very clear as to these priorities and committed to realising maximum benefits from all of the opportunities now within our Group.

James Strong

James Strong
Chairman

IAG STANDS FOR...

CLEAR DIRECTION

As an insurance group, our business is to pay claims. But, as you can see from this annual report, to fulfil this role we must stand for more:

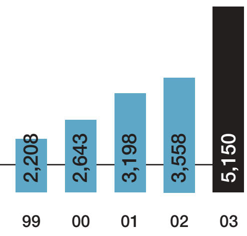
- We need to help our customers and the community beyond just paying claims.
- We need to share our experience and knowledge with the community to help manage and reduce risks.
- We need to build a culture of which our people can be proud – one that allows them to develop and work to the best of their abilities.
- And, we need to ensure our business is sustainable and can deliver ongoing value to our shareholders.

Michael Hawker,
Chief Executive Officer.

CEO’s report

Gross written premium

$5,150m



Acknowledging simply and publicly what we stand for, and aligning all our efforts around this, can generate enormous power. That power and united focus is fundamental to ensuring we sustain our place in the broader community in the long-term.

Keeping it simple is also what allows us to keep our direction clear, in what is a very complex industry and operating environment.

THE OPERATING ENVIRONMENT

In last year’s annual report, I talked about what had taken place in the industry since I took the helm at Insurance Australia Group in December 2001. These events have continued to play out during the past 12 months.

In response to the tragic events of the World Trade Center and the Bali bombings, we’ve seen the introduction of new federal terrorism legislation which took effect from 1 July 2003. This will lead to increases in commercial insurance premiums from 1 October 2003, principally so that the Australian Government can build a fund to pay for possible future losses from terrorism.

Last year, we experienced the crisis in the public liability, medical indemnity and builders’ warranty insurance classes. In response, we’ve seen ongoing reform of personal injury laws, and Insurance Australia Group has played an instrumental role in effecting changes to benefit the entire community. In addition, we’ve joined forces with two other insurers to provide public liability cover to not-for-profit organisations through the Community Care Underwriting Agency.

We’ve seen continuing issues with professional indemnity and directors’ indemnity insurance this year. While these classes account for around 1% of our business, the issues highlight the difficulties created when insurance classes are unprofitable.

Also last year, the investigation into the collapse of HIH Insurance continued at the HIH Royal Commission. This year, we have received the recommendations of the HIH Royal Commission which are already having a substantial impact on the regulation of the insurance industry in Australia. In line with Insurance Australia Group’s submissions to the Commission, the recommendations include proposed changes to fire services levies and stamp duty charges on insurance policies. The adoption of these recommendations would distribute the costs of services more equally across the community and help make insurance more affordable.

We’ve also seen further consolidation in the local insurance market. This incorporated the withdrawal of three UK-based insurers through a series of transactions, including our own acquisition of CGU and NZI completed on 2 January 2003. Having said that, the sector still includes more than 100 competitors in Australia and 17 in New Zealand.

OUR PROGRESS AGAINST OUR STRATEGY

In the face of this complexity, Insurance Australia Group’s direction remains clear.

In May 2002 we confirmed our business strategy to grow quality earnings, extend our scale and diversity in general insurance, reinvigorate our customer focus, leverage our core capabilities, and manage risk.

We believe the strategy will support the financial goals we set to:

- Achieve top-quartile total shareholder returns;
- Deliver a normalised 13% to 15% return on capital per annum;
- Double gross written premium (GWP) to $6.6 billion by 2007;
- Maintain a combined ratio at less than 100%; and
- Maintain ‘AA’ category insurer financial strength rating.

I am pleased to report we have made significant progress against this strategy over the past 12 months.

Growth in quality earnings

We have continued to improve the quality of our operational earnings, as shown through our financial results for the 2002/2003 financial year.

As a Group, we exceeded all operating targets for the year. We recorded a net profit attributable to shareholders of $153 million, improving from a loss of $25 million for the previous year. Our insurance margin rose to 12.3%, up from 8.7% in the previous year and exceeding our current target range of 9% – 11%. And we ended the year with a Group combined ratio of 95.7%, consistent with 95.6% in the previous year.

There were two primary drivers of these results. First, the performance of CGU and NZI, included in our results since 2 January 2003, was better than expected. Second, our existing business also performed strongly, underpinned by improved customer retention, continued stability in major personal injury classes, the realisation of targeted business improvements in our New Zealand operations and largely benign weather conditions which sustained a reduced claims frequency.

That we were able to simultaneously maintain the improvement in the underlying business while managing a major acquisition is a particularly satisfying aspect of these results. Our GWP increased by 45% for the year, from $3.6 billion to $5.2 billion, with approximately 9% being from organic growth – over half of

THE ROLE OF INSURANCE IN THE COMMUNITY

Insurance is the ultimate community product. People pool money with us so that, if an individual suffers a hardship, he or she is protected. People expect and hope they won't have to make a claim. But, with appropriate insurance, they can live their lives knowing their home, car or business is protected in case they do.

As an insurer, our role is to pay that money when it is needed. It's our role to pay claims.

To pay claims, we need to be able to do two things well. First, we need to price risk fairly and appropriately. If risk is under-priced, the available funds won't match claims and business will fail to the detriment of policyholders. If risk is over-priced, people will take their insurance business elsewhere. Or they will choose not to insure at all, which puts them, and the community, at risk.

Second, we need to keep our operating costs down. The price of premiums includes not only the measure of risk, but also the costs that go into providing the policy in the first place. Keeping our own overhead and infrastructure costs per policy down ensures we can offer affordable insurance.

However, there are other things that impact on the price of insurance. Such as government taxes and charges. And the increased risk in the community due to elements like weather, crime (which, for example, costs the Australian motor insurance industry around $1 billion a year) and cases of fraud, where people try and claim more than they are entitled. As you will see from this annual report, we are taking numerous steps to help the community understand and reduce these risks.

Understanding the role of insurance gets to the heart of clear direction.

which was new policy growth – and the remaining 36% coming from the acquisition of CGU and NZI. We also locked in annualised runrate synergies of $54 million against our first six month target of $21 million, and we are on track to deliver the anticipated $160 million pre-tax per annum in sustainable integration synergies by June 2004.

At the same time, our overall returns from investments increased, reflecting both the change in our asset mix and improved market performance. Investment returns from technical reserves, which are now wholly invested in cash and fixed interest assets, increased to $372 million from $136 million in the previous year. However, shareholders' funds, which are substantially invested in equities, returned a loss of $120 million due to another year of declining equity markets both locally and internationally, as well as from the cost of the tactical derivatives programme designed to protect the Group's capital while completing the fundraising for the CGU and NZI acquisition.

The $1.86 billion aquisition of CGU and NZI was funded by a capital raising programme which included the issue of:

• $500 million	Institutional placement – ordinary shares
• $300 million	Dated subordinated debt
• $380 million	Share Purchase Plan – ordinary shares
• $200 million	Reset preference shares
• US$240 million	Dated subordinated debt
• $75 million	Underwritten Dividend Reinvestment Plan – ordinary shares.

Based on the momentum in the business, and our expectation of a continued low interest rate environment, we have upgraded our Group combined ratio target to 93% – 96% for the coming 12 months. Operating within that range should enable us to maintain an insurance margin of 9% – 12%. Ultimately, our goal remains to provide our shareholders with a top-quartile shareholder return throughout the cycle.

Scale and diversity in core general insurance

It's our view that, unless you have a competitive edge in a niche area, scale is crucial to succeeding in general insurance.

There are considerable infrastructure costs in running an insurance company well. Spreading these across a greater premium base is beneficial, allowing us to keep our costs per policy down.

Clearly, our acquisition of CGU and NZI from Aviva plc, along with the NSW workers compensation management business we acquired from Zurich Insurance in January 2003, has added significantly to the Group's scale and diversity by product, geography and distribution channel in both Australia and New Zealand.

We now enjoy a strong presence in a range of general insurance classes, with the composition of our business by GWP consisting of 57% personal, 20% commercial, 16% personal injury, 3% health and 4% other short-tail business, as at 30 June 2003. We are also well represented in both the direct and indirect distribution channels, with nearly 60% of our business distributed directly through our branches, country service centres, call centres and the Internet. The remainder of our business is distributed through our broker network and third party partners, including financial institutions and alliances.

Reflecting this increased presence as a provider of indirect insurance, we have appointed two new Group Executives who joined the Group through the CGU acquisition. They are Group Executive, Business Partners, Lou Power, and Group Executive, Intermediary Business, Bob Wagstaffe.

Importantly, we have achieved our goal of having at least 80% of our business in short-tail insurance (such as motor, home and rural), with the remainder in long-tail insurance (such as professional indemnity, compulsory third party motor liability and workers compensation). This balance, combined with our reinsurance protections, provides a greater likelihood that we will be able to deliver combined ratios of less than 100% throughout any insurance cycle.

The fact we didn't enjoy the same advantages of scale in health insurance led us to sell our health manufacturing and claims operations to MBF. At the same time, we have entered a marketing alliance to enable us to continue to promote and sell health insurance products, now underwritten by MBF, to our customers.

A PHASED APPROACH TO GROWTH

GENERATION OF DOMESTIC SCALE		GENERATION OF DOMESTIC ORGANIC GROWTH AND PROFITABILITY	GENERATION OF INTERNATIONAL GROWTH AND PROFITABILITY
Delivered	**June 2003**	We believe that there are substantial opportunities locally for a few years	Progressing this will depend on being able to show internationally applicable core competencies

This decision, announced on 1 July 2003, followed a thorough review of our health insurance operations and allows us to continue to service our more than 95,000 health insurance customers with no changes expected to cover or policies.

Reinvigorating our customer focus

The Getting it Right programme, one of the Group's primary initiatives to reinvigorate how we help our customers, completed its review of our end-to-end customer systems and processes. Out of that review more than 400 initiatives designed to improve the customer experience are now being implemented progressively across the Group. The programme is explained further on page 7.

We also completed the rollout of our Productivity & Efficiency Promotes Service (PEPS) programme in our Australian call centres and branches. The PEPS programme, which was successfully trialled in the 2001/2002 financial year, allows us to identify our customers' needs early in the interaction, so we can quickly direct them to relevant specialists.

We are already seeing results from our efforts to date. Strong customer renewal rates have been sustained at around 90% in all major products for the past two years.

At the same time, customer satisfaction, a key predictor in building long-term customer relationships, has consistently risen over the past 18 months. In the Victorian motor insurance portfolio, for example, customer satisfaction with claims service was 86% at June 2003, reflecting an average increase of 3.5% each six months since November 2001.

In Australia, we launched major advertising campaigns supporting our direct general insurance brands – NRMA Insurance, SGIO and SGIC – and our indirect general insurance brand, CGU. To date, the campaigns have been successful in reinforcing our shared customer propositions of help and confidence.

These are examples of how we are improving the customer experience, when purchasing products or making claims. But we're also focusing on reducing the risk of accidents or other insurable events from occurring in the first place.

Our launch of the Reversing Visibility Index is one such example. Based on detailed research, this index compares 50 of the most popular vehicle models in terms of their safety performance when reversing. One of the key research findings was the link with fatal reversing visibility accidents involving children. By highlighting the link between reversing and vehicle accidents, we aim to improve road and vehicle safety. This work was very well received and an information brochure is available through childcare centres as well as our branches and websites.

Pilot Theft Forums were another risk reduction initiative organised during the year, aimed at reducing the impact of crime in local communities. Working with local councils, police, members of parliament and local groups in the Dubbo, Shellharbour and South Sydney areas, the forums facilitated discussion around combating home burglaries and car theft. The success of those discussions means we are now working with the local organisations to develop practical and locally relevant crime prevention initiatives.

Overall, our commitment to our customers and what we stand for was no more evident than during the ACT bushfires, the seventh largest insured catastrophe in Australian history. We were able to play an integral role in helping our customers and the community in Canberra to 'get back on their feet', through both direct claims support and events such as the NRMA Insurance Help Expo, which is discussed on page 3. We continue to play a role in the recovery process through ongoing cooperative dialogue with the ACT Government initiated ACT Bushfire Recovery Taskforce.

Leveraging our core capabilities

Our core capabilities in underwriting, and claims and asset management – as well as the capabilities of our people – need to be maintained and developed on an ongoing basis.

As an insurance group, one of our core responsibilities is to price risk fairly. Our ability in this field was recognised during the year by our high rankings in the Deloitte Touche Tohmatsu/JP Morgan 2002 General Insurance Survey.

We also continued to extend our claims management skills across the Group, including CGU and NZI. For example, we introduced our proven preferred supplier model into new areas of the business, tailored for the extent of our presence in each region. In June 2003, it was adopted for the tow truck industry in NSW, following a successful trial over the previous year. The preferred smash repairer scheme was introduced into Victoria, South Australia and Western Australia. We also launched a national code of practice governing our dealings with preferred suppliers.

As well as pricing risk and paying claims, we also need to generate investment returns on the funds backing our insurance liabilities and our capital. We aim to generate returns ahead of the benchmarks while limiting the risks we take and maintaining high quality liquid portfolios. This year our fund managers again outperformed internal benchmarks on the overall funds under management. However, the total return for the year was hampered by the cost of capital protection measures in place while we completed our fundraising for the acquisition of CGU and NZI. As the funding is now complete and the capital position is strong, we have no plans to take out further protections of this nature.

We are also focused on having an effective and efficient infrastructure to support everything we do. During the past year we committed to an overhaul of our technology services strategy and, under our new Chief Information Officer, David Issa, the transformation is well underway.

Our 11,000 people are just as important as any technical capability when it comes to delivering on our promise to customers. As a result, during the year we invested significant time and energy on setting the framework for a common culture after the series of acquisitions. Examples of initiatives to date are included on page 7.

Risk management

Strong risk management is the backbone of any insurance company. Understanding risk allows policies to be priced appropriately and ensures sufficient reserves so we can always deliver on our business of paying claims.

It also underpins the reinsurance arrangements we put in place and ensures we have the required capital backing.

The new Australian Prudential Regulation Authority (APRA) prudential guidelines came into effect from 1 July 2002. We have extended the practices across all our general insurance entities, including New Zealand.

Even within the context of the APRA requirements, we continue to reserve conservatively, maintaining our claims reserves at a level that gives us a minimum probability of sufficiency of 90%, well above the minimum APRA requirement of 75%. As at 30 June 2003, our Australian operations had capital equivalent to 2.03 times the risk-weighted minimum capital requirement. At the same time, our Group's capital was 1.62 times the minimum determined on the same basis as the APRA requirement. This is very comfortably within our target range of 1.35–1.65 times, set applying APRA principles to the consolidated operations of the Group, not just our individual licensed entities which is the APRA approach.

In July 2003, a number of our major businesses began operating under their licences issued under new Australian Financial Services Reform (FSR) legislation. This legislation is designed to instil consistent standards for licensing, training and customer disclosure to the financial services industry. Despite the extensive workload and resources involved, this FSR implementation programme has been delivered on schedule and ahead of the maximum timeframe set down in legislation. That the necessary changes have been aligned with existing company processes should mean that customer protection is sustainable. The remainder of our businesses in Australia are on track to obtain their licences ahead of the March 2004 deadline.

Our reinsurance programme has been adjusted following the acquisition of CGU and NZI and shows clearly how scale and diversity benefit our risk management. Despite an environment of rising reinsurance costs globally, we secured a more extensive Groupwide catastrophe reinsurance programme at the same cost. Both the depth of coverage for a single event and the breadth of coverage for multiple events have improved.

For example, Australasia's worst ever insured catastrophe was the 1999 NSW hailstorms, for which the insured cost was about $1.9 billion. Insurance Australia Group's share of the impact was about $400 million. The net impact after reinsurance was $93 million (pre-tax), including the cost of reinstating our reinsurance protection, a 4.7% effect on our Group combined ratio. Were those hailstorms to occur today, our current reinsurance programme would mean our maximum net loss would be $70 million (pre-tax), which is less than a 1.5% impact on our combined ratio.

Our risk management team's focus on the environment and global warming is breaking new ground in terms of the community's understanding of climate change impacts and increased catastrophe risks. Further information can be found on page 5.

And we are sharing our risk management expertise in our national partnerships with St John Ambulance and the Salvation Army Emergency Services, helping to promote safety and risk reduction in the community.

LOOKING AHEAD – OPPORTUNITIES AND CHALLENGES

While there is still much work to do, our financial result and the initiatives completed or underway demonstrate we are delivering on the strategic objectives we set ourselves in May last year.

We have completed our goal to generate domestic scale in Australia and New Zealand. Our task for the next year is to consolidate our achievements and secure domestic organic growth and profitability before we consider further growth internationally.

We will do this by completing the integration of CGU and NZI during the current financial year, and continuing to extend our core capabilities in underwriting and claims management to improve the quality and efficiency of all our business operations. We will seek to leverage our competitive advantage to drive further cost synergies in our procurement strategy and around our own infrastructure. And we will continue to focus on working with relevant parties to minimise the costs associated with fraud and crime, and government taxes and charges, and to prevent the risk of insured events occurring in the first place.

In summary, by optimising what we have and remaining focused on what Insurance Australia Group stands for, we will deliver sustainable earnings growth and cement our ability to pay claims for the long-term.

THANKS TO OUR PEOPLE

Of course, our results could not have been achieved without the extraordinary efforts of our people. That we maintained and exceeded our performance targets while integrating our businesses are a testament to their commitment and ability. I would like to take this opportunity to thank everyone for their contribution to what has been an exciting and historic year.

Michael Hawker
Chief Executive Officer

REVIEW OF OPERATIONS

As part of the integration of CGU and NZI, acquired on 2 January 2003, the Group's business operations have been reorganised into seven key segments.

PERSONAL INSURANCE

Business description

Our Personal Insurance operation develops and underwrites short-tail insurance products, and provides claims and assessing services for Insurance Australia Group's customers in Australia. Its key products are motor and home insurance and it also provides niche insurance such as pleasure-craft, caravan and travel. Customers are serviced directly, through our NRMA Insurance, SGIO and SGIC brands and our RACV partner brand in Victoria, and indirectly under the CGU brand. Personal Insurance is Australia's largest insurance underwriting and claims and assessing operation. It has a presence in every state and territory.

Year in review

Responding to the ACT bushfires was a major undertaking for our Personal Insurance business in the past year. As demonstrated on page 3 of this report, the team was able to deliver on its commitment to exceptional customer service, when managing claims and after the claim through the NRMA Insurance Help Expo. But the team's achievements during the past year don't end there – here are just a few of the highlights.

The redesign of all personal insurance renewal certificates for customers was a key project for the year. Working with the Communication Research Institute of Australia, the redesign focused on making it easier for customers to locate policy information such as expiry and validity dates and encouraging policyholders to check their details before payment. Prototype documents, incorporating business requirements, were tested among policyholders before being released. New renewal documents took effect from March 2003, with other documents released in May 2003.

Considerable work has also been conducted during the year to better understand the risk of bushfire, storm, flood and burglary so that we can improve our home product cover, provide more equitable pricing and help the community reduce the impact of major events.

We also introduced a range of customer-oriented improvements to our personal insurance discounts and product suite. New products included the Motor Prime product in Victoria for those aged 50 and over, to match our existing Home Prime insurance cover. For our car policyholders, we introduced a no-claim discount for the life of the policy. Greater policy discounts also now apply for homes with alarm systems, as part of our aim to reduce risk through an enhanced focus on safety. These initiatives are in addition to our existing multi-policy and loyalty discounts.

Considerable work has also been conducted during the year to better understand the risk of bushfire, storm, flood and burglary so that we can improve our home product cover, provide more equitable pricing and help the community reduce the impact of major events.

Help when making a claim is one of the most important experiences for our customers. As a result, we are focused on ensuring all claims processes and systems include a balanced approach to cost, quality and enhanced customer service. During the year, we extended our Online Repair Management technology to the Smithfield and Gateshead salvage centres and significantly improved assessment processing times from 10-plus days to an average 24-hour turnaround. We also introduced a Preferred Towing programme in NSW to ensure our customers requiring a tow receive a hassle-free, fast-track process and that, if it is their choice, their vehicles are quickly repaired by one of our Preferred Smash Repairers.

We are Australia's largest purchaser of white and brown goods and a significant buyer of glass. To make sure we can purchase home replacement and repair items at competitive prices, we have utilised an electronic network of suppliers. This network database, called E-Claims, has been available to insurance companies in NSW and Victoria for some time. Following our acquisition of CGU, E-Claims has now been implemented in all states and the ACT. This means that when we require a particular item to settle a claim, we merely enter the model number and the system ensures the supplier with the most competitive price listed on the site receives the purchase order for the item. The system also provides the necessary detail to identify the current equivalent model for superseded items.

Insurance fraud is a dishonourable and costly part of our business. The overwhelming majority of claims are genuine, and we are determined to protect honest policyholders who end up paying for fraudulent claims. During the year, NRMA Insurance, established in 1925 to provide motor insurance for motoring club members, is the leading motor, home and CTP insurer in NSW and the ACT. Along with SGIO and SGIC, NRMA Insurance provides motor, home and small business insurance over the phone, in branches and on the web, and distributes health insurance, now underwritten by MBF. NRMA Insurance also sells CTP insurance in NSW, the ACT and Queensland.

SGIO is a leading insurer in Western Australia and has been a part of the Western Australian community for 76 years. Its origins were as a public entity, providing workers compensation insurance to miners in the Goldfields. SGIO was acquired by IAG in 1998. Along with the NRMA Insurance and SGIC brands, SGIO provides motor, home and small business insurance over the phone, in branches and on the web, and distributes health insurance, now underwritten by MBF.

we highlighted the problem of fraud and car dumping on NSW waterways through a one day operation with NSW Water Police and NSW Waterways Authority on the Georges River in Sydney. More than 12 submerged vehicles were dragged from the river, demonstrating the prevalence of fraud as well as the danger to the waterways environment and boats.

Next steps

Looking ahead, we are focused on achieving the full integration of the CGU personal insurance businesses by 30 June 2004. Building on the sound footing of our existing business, we will also focus on enhancing our ability to provide seamless, repeatable, and excellent customer service. We will be reviewing all of our business processes to make it easier for customers to take out, renew or change a policy. This will be supported by an increase in spending on training at all levels across our organisation, with particular focus on our team managers who are in primary control of our customer interface. As well, significant resources will be applied to ensuring our cycle times on all repair categories are minimised so our customers' claims are settled faster.

BUSINESS PARTNERS

Business description

Created as a separate unit following the acquisition of CGU, our Business Partners operation develops and manages our relationship with more than 100 financial institutions and alliance partners. This makes us Australia's leading provider of general insurance products sold through financial institutions.

Products provided through our business partner network can carry the CGU brand or are co-branded as a way of extending the business partner's value proposition to its customer base. Those business partners include financial institutions – banks, mortgage originators, building societies and credit unions. Our alliances cover not-for-profit organisations, affinity groups and international and national brokers that require personalised sales and customer service support.

> Help when making a claim is one of the most important experiences for our customers. As a result, we are focused on ensuring all claims processes and systems include a balanced approach to cost, quality and enhanced customer service.

The Business Partners operation includes Swann Insurance (Swann), Australia's leading provider of retail insurance products through the retail motor trade, motor financiers and motor manufacturers, for both motor vehicle and motorcycle networks. Swann also provides its niche products through our financial institutions network and more than 1,000 other agents.

And through Mutual Community General Insurance (MCGI), a joint venture with BUPA Health, we distribute personal insurance products to members of its Mutual Community and HBA health funds.

Year in review

During the year, our Business Partners division continued to prosper, retaining and growing key relationships and business profitability. This is a reflection of the consistent efforts of the team during the challenging integration process, as well as market confidence in the expanded Insurance Australia Group.

Since the announcement of the CGU acquisition by Insurance Australia Group, we have secured 18 new accounts and retained all key existing customers. We were appointed as Aon's primary supplier of personal insurance in Australia – in the past, this business had been placed through a panel of insurers. Through Swann, we have also secured a number of significant new relationships, including a three year badging agreement with Toyota Financial Services. Under the arrangement, Swann will provide a comprehensive range of consumer and commercial insurance products, including warranty insurance, to participating Toyota dealerships across Australia. Swann also extended the alliance with GMAC to include branded insurance product offering to complement Suzuki and Subaru Finance.

In the face of the increasingly competitive motor retail market, Swann has developed innovative product and relationship solutions. This has resulted in key partnerships with Mercedes and Chrysler Jeep, amongst others. At the same time, Swann's product sales through financial institutions grew by 10% for the year.

In August 2002 we cemented our MCGI alliance when we extended our agency agreement with BUPA Health for another 10 years. This was a positive development for the Group, given MCGI's improved sales

SGIC was established by South Australian Parliament in 1971 to provide the community with an insurer that was dedicated to the State. SGIC was acquired by IAG in 1998. Along with the NRMA Insurance and SGIO brands, SGIC provides motor, home and small business insurance over the phone, in branches and on the web, and distributes health insurance, now underwritten by MBF.

CGU is one of Australia's largest intermediary-based insurers. It offers a diverse mix of personal, commercial and rural insurance products, sold through a comprehensive distribution network of brokers, agents and business partners. The CGU brand is now also used for our workers compensation products (the CGU NRMA brand is used in South Australia). CGU has been protecting the Australian way of life for over 130 years and has a proud tradition of supporting people through difficult times. IAG acquired CGU in January 2003.

performance during the year. To 30 June 2003, MCGI sales improved by 8.3% over the same period last year.

Next steps

During the next 12 months, our priorities are to:

- Continue improving our web enabled point of sale system – now used by more than 100 business partners nationally – and expanding our use of web-based technology into new areas;
- Centralise our systems platforms as part of the broader Group's technology services overhaul;
- Focus on identifying new product opportunities for Swann sales through financial institutions and grow the reach of Swann's motor dealer business; and
- Maximise opportunities for MCGI to provide the Group's diverse product offering to BUPA's health insurance customers.

INTERMEDIARY BUSINESS

Business description

Our Intermediary Business division manages and develops our relationships with more than 1,700 insurance intermediaries (brokers and agents). It distributes all products sold through intermediaries including commercial, personal and rural insurance, and workers compensation, and underwrites all commercial products (except workers compensation).

The division also manages our 50% stake in the Associated Marine Insurers Agents and National Transport Insurance businesses. Associated Marine is the leading agent for marine insurance in Australia and is a joint venture between CGU and Zurich Australian Insurance. National Transport Insurance is Australia's leading truck insurance company and is a joint venture with Promina.

Year in review

The Intermediary Business division performed strongly across all insurance lines during the year by maintaining strong customer relationships and a commitment to disciplined underwriting. This was achieved even as the intermediary landscape altered in the face of competitor acquisition programmes and broker consolidation triggered by the Australian FSR legislation.

We took a proactive approach to assisting our agents with their business and compliance obligations related to the rollout of FSR legislation.

Our focus on the customer saw us negotiate enhanced relationships with international broker facilities in Australia. We were also appointed as the preferred insurer by key broker cluster groups, including IBNA, OAMPS, Austbrokers, Steadfast and RIBA. These achievements, combined with our ongoing partnerships with heartland customers and rural alliances, including Wesfarmers Landmark, Roberts and Canegrowers, served to stimulate GWP growth.

We took a proactive approach to assisting our agents with their business and compliance obligations related to the rollout of FSR legislation. Associated FSR training was implemented across the 80 strong branch network and across our extensive authorised representative network.

At the same time, following research among our key intermediaries in NSW and Victoria, we introduced more consistent claims management processes in all states and territories. This has delivered faster and easier access for clients to lodge claims through their chosen intermediary. We also introduced a telelodgement pilot for commercial claims in Victoria, with a view to a national rollout when the results are evaluated.

Next steps

During the next 12 months, opportunities in regional and rural areas will be constrained because of the ongoing impact of the drought. Increased market competition in all areas is expected, particularly in the small to medium enterprises and mid-sized commercial segments, but conditions remain favourable for growing sales and maintaining satisfactory profitability. We will help to drive sales by continuing to innovate with a broad range of market relevant products, particularly driven by web-based delivery.

PERSONAL INJURY

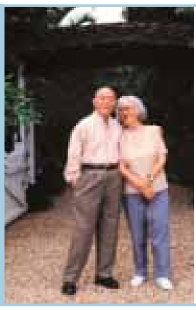
Business description

Our Personal Injury operation incorporates compulsory third party motor liability (CTP) and workers compensation products and services. Public liability claims associated with home policies also form part of this operation.

We have emerged as the leading insurance group in Australian workers compensation, and we operate in every state and territory scheme with private sector involvement. Our workers compensation business trades as CGU Workers Compensation in all locations apart from South Australia. At the request of SA Workers Corporation, we operate in South Australia as CGU NRMA Workers Compensation as an interim step before moving to the CGU brand.

swann insurance

Swann Insurance is one of Australia's largest niche insurers, offering a range of quality consumer credit and motor vehicle related products. Working in partnership with financial institutions, motor vehicle and motorcycle manufacturers, dealers and financiers, Swann stands behind many of the most-respected insurance products on the Australasian market. IAG acquired Swann Insurance in January 2003 when it purchased the CGU Insurance Group.



ClearView Retirement Solutions

ClearView Retirement Solutions is a specialist division of NRMA Financial Management Limited. ClearView specialises in retirement advice and provides superannuation, allocated pension and managed investment products to customers nearing, or in, retirement. ClearView's financial advisers help customers make the most of their financial assets regardless of their amount of savings.

Using the NRMA Insurance brand, we are the largest CTP insurer in NSW. We also have a 100% market share of CTP in the ACT and are currently maintaining our small Queensland business. As of 4 July 2003, we no longer manage CTP claims in South Australia. After more than 30 years, the State Government made the decision earlier this year not to renew its Motor Accidents Commission CTP claims management contract with SGIC.

Year in review

During the past year, the industry environment has remained very competitive, both for CTP and workers compensation.

Despite this, we further expanded our position in the CTP market, increasing policy numbers by about 100,000 so that we now have approximately 1.7 million policyholders in NSW. The primary reasons for this market growth are increased vehicle registrations and that we continue to offer the most competitive rates for most risks, evidenced by the fact that we are the cheapest provider for about 70% of the NSW market.

The workers compensation business achieved very good outcomes during the recent 30 June 2003 renewal period, a critical time for our operations because about 90% of national policies renew during June each year. Notable achievements during this period include:

- The retention rate for national accounts was over 97%;
- Several large new national and state accounts were obtained;
- In South Australia, the only opportunity for companies to change agents is at 30 June each year, and we increased market share by almost 2%; and
- Our market share in NSW has increased by almost 1%.

The success of this renewal period means we now provide workers compensation insurance to more than 167,000 employers nationally, covering an estimated 1.7 million employees. It also suggests the CGU acquisition has been well received by employers and brokers, and that they are confident the combined group will be able to deliver an even higher level of service and competitiveness.

> As the largest personal injury insurer in Australia, we are well placed to participate in discussions with governments and the community about the future direction of the industry's policy environment.

As the largest personal injury insurer in Australia, we are well placed to participate in discussions with governments and the community about the future direction of the industry's policy environment. Among our recent work in this area was the detailed submission to the current Productivity Commission inquiry into OHS and workers compensation. The submission argues for more nationally consistent workers compensation arrangements, which would improve efficiency and allow private insurers to play a greater role in underwriting. The inquiry is expected to be completed in 2004.

Reflecting our focus on safety and development of new customer services, during 2002/2003 we gained accreditation in Victoria for our Health & Safety course. This course, which aims to help employers minimise the incidence and cost of workplace accidents, provides basic OHS training to managers and safety staff on a fee for service basis. The courses commenced in February 2003 and, to date, four series have been conducted.

We also piloted a Workplace Health and Recovery programme, which is now being rolled out more widely. By sharing detailed information on injury treatment and ways to improve risk management between the injured worker, treating doctor, employer and insurer, the programme aims to improve health outcomes. Tangible benefits of this approach are being seen, with one of the large employers that participated in the pilot experiencing a 64% reduction in its average claims cost.

Next steps

We will continue to cement the integration of our acquired workers compensation operations nationally, as well as CGU's CTP claims portfolios. Particular areas of focus include managing the change in brand for workers compensation nationally and further improving the performance of our combined operations.

The acquisition of CGU provides us with another opportunity to expand our distribution networks. For CTP, we are exploring partnership arrangements with a number of organisations in Queensland. We will also work closely with the Intermediary Business operation to identify distribution and sales opportunities for our workers compensation products.

State is the brand under which all of IAG NZ's direct insurance business is now sold. State has played a significant role in the New Zealand community since it began as the Government's State Insurance Office in 1905 and grew to become the largest general insurer in New Zealand. State has a flexible range of products and services available through a nationwide network of sales centres and call centres. IAG acquired State in February 2000.

NZI was formed in 1859 and is one of New Zealand's largest and longest serving general insurers with a leading position in commercial insurance. It is now the brand under which IAG NZ distributes all its indirectly sold insurance, in particular commercial insurance, through brokers, agents and financial institutions. IAG acquired NZI in January 2003.

Another major priority for the year ahead is to develop further new products and services, which focus on improving safety, and reducing claims costs for employers. Significant attention will also be placed on enhancing our data analysis capabilities to enable better risk assessing and analysis of trends in claims performance.

IAG NEW ZEALAND

Business description

The IAG NZ business has grown and strengthened significantly as a result of the acquisition of NZI which was completed in January 2003. With approximately 40% market share, we are now the leading general insurer in New Zealand in both the direct and intermediated channels, and hold strong positions in all geographic markets, including the very important Auckland market.

Through the New Zealand integration process, we have maintained State as our direct brand and NZI as our indirect brand, capturing the heritage and customer loyalty those brands carry in New Zealand. Our Circle brand, which was launched in April 2001 to specifically focus on distributing our products through broker networks, is being folded in under NZI. We also retained our ‘AA’ Standard & Poor’s financial insurer strength rating. A scheme of arrangement, approved by the New Zealand High Court on 21 May 2003, means NZI policies are now assigned the ‘AA’ rating too.

Year in review

The hallmark achievement for IAG NZ during the year has been its success with the integration of the State and NZI businesses, while delivering improvements across all key business indicators. Our customers’ continuing satisfaction with our insurance service is reflected in our research for the year ended 30 June 2003. State delivered renewal rates of 93% and claims satisfaction of 88%. NZI reported renewal rates of 88% and claims satisfaction at 84%. We believe NZI’s lower scores on these measures reflect the fact that we have less ability to influence the customer experience through the broker network.

> During the year, we launched a new focus to deliver on our social responsibility as New Zealand’s leading insurer. This is consistent with Insurance Australia Group’s commitment to safety, the environment and the community.

Integral to these overall successes, we continued to build on the foundation created by our national operating model, introduced in 2001 to ensure consistent policies, processes and people management.

Project Endeavour, which was launched in 2002 to re-engineer all our processes end to end from a customer perspective and replace our legacy information technology systems, was expanded to include the NZI business. We are on track to launch our single integration technology platform for IAG NZ by 30 June 2004.

Supporting our efforts to move to a single culture under the IAG NZ brand, we began the initial rollout of the ‘Good2Great’ people programme. As indicated by the programme’s name, it is aimed at supporting the transformation of two very good organisations, State and NZI, into one truly great one.

We also successfully renewed our key corporate partners relationships with ASB Bank and Bank of New Zealand, and moved them to a more commercially sustainable footing. Our new agreements take into account the true cost of distribution and introduce mutuality in the relationship.

During the year, we launched a new focus to deliver on our social responsibility as New Zealand’s leading insurer. This is consistent with Insurance Australia Group’s commitment to safety, the environment and the community. One of the major initiatives currently under way is a national partnership with NZ Fire Service aimed at encouraging the use of smoke alarms and domestic sprinkler systems. Another is our work with the Thames Council, following last year’s weather bomb, detailed on page 3.

Next steps

We are on schedule to complete the integration of NZI and deliver the targeted synergy benefits of $20 million pre-tax per year. Hand in hand with integration, we will continue to implement the ‘Good2Great’ people programme. We will also focus on completing Project Endeavour and improving operating efficiencies.

OTHER INTERNATIONAL OPERATIONS

During the year, we continued to nurture our other international business interests, including the CAA roadside assistance venture in China, a strategic shareholding in the publicly-listed Safety Insurance in Thailand, and a cooperative agreement with AIOI Insurance of Japan.

The CAA joint venture is the largest roadside rescue organisation in China and is providing Insurance Australia Group the chance to participate in the new business environment in one of the world's fastest growing economies. Similar to our own origins, our CAA strategy is to extend our roadside assistance service to a number of provinces in China and, once we have obtained scale, consider applying for a licence to supply motor insurance to our own clients in that market.

Safety Insurance is the fifth largest motor insurer in Thailand. Our interest in this business is starting to contribute positively to our results and, with our technical assistance, we believe it will continue profitable growth in the Thailand general insurance market.

Finally, our alliance with AIOI Insurance played an integral role in assisting the Group's Business Partners team to secure the three year exclusive contract with Toyota Finance in Australia for the insurance needs of Toyota and its customers.

While the Group's focus for the next year is on improving the businesses we already own, we are undertaking research on potential international opportunities for the medium term. We will seek opportunities to leverage our core competencies with partners for whom these can add value.

CLEARVIEW RETIREMENT SOLUTIONS

Business description

ClearView Retirement Solutions specialises in retirement financial advice, providing personalised, practical investment solutions to help customers maintain their lifestyle and financial position in retirement. ClearView currently operates in NSW and the ACT. Life risk insurance products are also distributed and managed through this business unit under the NRMA Life brand.

> ClearView introduced a variety of communication materials to help continue to demonstrate the value of a practical and relevant approach to advising customers on their financial future.

Year in review

Despite a promising response by customers to the ClearView brand launched in February 2002, the past year has been a challenging one for the financial planning industry in Australia. Global economic uncertainty surrounding the Iraqi conflict, SARS and the threat of terrorism, and the poor performance of global and domestic equity markets during the year, have resulted in negative annual growth for the industry.

Faced with this challenging operating environment and what was still a very new brand in the market, it is to the ClearView team's credit that since July 2002 ClearView has been rated among the top three companies considered for retirement advice by customers in NSW and the ACT, according to independent research organisation, Millward Brown.

This achievement was made possible because of the flexibility and dedication of the ClearView team to finding new ways to build sales and inspire confidence with customers, while continuing to meet and exceed all relevant legislative requirements.

ClearView introduced a variety of communication materials to help continue to demonstrate the value of a practical and relevant approach to advising customers on their financial future. There was ongoing training and education for our consultants to keep them informed about current market issues such as business cycles, risk and return, and compliance.

ClearView continued its efforts to build brand awareness through marketing. Building on last year's Australian Advertising Association gold award-winning campaign, ClearView launched a series of successful campaigns to further highlight its focus on helping everyday Australians secure their future.

The life risk insurance business has continued to perform very well, returning solid profits on a small, growing book of business.

Next steps

With a difficult investment environment expected to continue during the next year, ClearView is developing its sales and service model to improve its sales results and customer satisfaction, while maximising shareholder value.

SAFETY, ENVIRONMENT, COMMUNITY

REDUCING RISK IN OUR COMMUNITIES

Insurance Australia Group is strongly committed to achieving its business goals while protecting and promoting the social, economic and environmental wellbeing of the many communities in which we operate. Our aim is to create further value in the Company and for all stakeholders, including shareholders.

Our key focus areas for aligning shareholder and societal value are the environment and safety. This is a logical fit on two fronts. First, it makes sense to invest our efforts in areas in which we have expertise. This is where we will have the greatest impact. Equipped with our understanding of risk and claims, we can help make our roads, homes and communities safer.

Second, changes in the environment and safety factors such as crime have an enormous impact on our business. They influence our ability to calculate risk, pay claims and provide affordable insurance – our primary business purpose. By helping reduce environmental damage and improve safety in our communities, we will hopefully reduce their impact on our business in the years to come. This will cement our ability to pay claims and build value for our shareholders in the future.

Before committing to goals and actions in these key areas, we had to develop a deeper understanding of the social and environmental impacts of our business, including our environmental impact and our workplace safety record. Part and parcel of this process was building a new appreciation of how major societal issues and challenges, like climate change and crime, can affect our core business operations and stakeholder relationships.

Following our interrogation of these issues, we developed a Groupwide strategy to address the growing expectations of our people and the community for us to perform better on social and environmental issues. This is a long term strategy, although we have made important progress this year through the initiatives outlined below.

IMPROVING SAFETY

Safety starts at home. We are Australasia's leading private sector provider of workers compensation services, so the onus is on us to use our expertise and build leading safety practices in our own organisation. Our goal is simple: to ensure no employee at Insurance Australia Group suffers an accident in any of our workplaces.

During the past year, we have made significant inroads into improving our workplace safety. Our CEO is the Chief Safety Officer, signalling the importance of safety to the entire organisation. We initiated an audit of our safety performance, developed a safety programme that began with safety training for all managers, and established an Organisational Safety Committee. And we rolled out a safety charter, which provides the blueprint for developing and maintaining systems that will lead industry practice. Added to this, all New Zealand employees were given a home smoke alarm in May. IAG NZ's partner, NZ Fire Service, actively supported this intiative by making its personnel throughout the country available to employees who required assistance to fit an alarm.

> Outside our own domain, we are looking to increase safety on the road, in the home and workplace.

We have numerous education programmes and activities that aim to build awareness around how people can reduce risk in their lives and businesses. These include small business seminars, information on our website, and theft forums.

Our community programmes and partnerships also reflect our commitment. Our national Community Help and CrimeSafe grant programmes in Australia support local community projects and groups in their efforts to reduce crime. And through our new partnership with St John Ambulance – Australia's leading provider of first aid training services – we are promoting first aid courses and materials to our customers and our people across the country. By supporting St John's volunteer first aid and emergency services, and providing for local crime prevention initiatives, we go a long way towards achieving our goal of making our communities safer for all.

Our community portfolio also includes important regional programmes and partnerships. These initiatives include NRMA Careflight Emergency Services helicopters in NSW and the ACT, Surf Life Saving in South Australia, and State Emergency Services and Kidsafe in Queensland, Western Australia and NSW.

LOOKING AFTER THE ENVIRONMENT

The severe impacts suffered by the community as a result of extreme weather are compelling evidence of climate change at work. We are a leading advocate for reducing the risk of further climate change, which we discuss in more detail in an earlier section of this report. As an insurer, we also believe it is our responsibility to address our own energy efficiency, water usage, greenhouse gas emissions and product design, all of which have a significant impact on climate change. This year, we started down this path with recycling programmes, energy efficiency reviews, lower paper use targets and reduced travel.

Significantly, in May we also became signatories to the United Nations Environment Programme's Finance Initiative (UNEP FI). We are the only Australian-headquartered insurance company to be part of UNEP FI.

Our primary aspirational target is to reduce the amount of greenhouse emissions for each of our employees (our CO_2 footprint) by 15% in 2003/2004 and 10% in the following year, as measured by tonnes CO_2 per full-time equivalent position.

We are also working with other important stakeholders, such as our suppliers, to reduce their environmental impact. For example, we partnered with the smash repair industry to develop more efficient waste disposal and recycling strategies. And we launched the 'Greensafe' Car Profiler (www.nrma.com.au/carprofiler), which helps motorists compare the environmental, safety, economy and security features of a range of vehicles. This world-first online tool helps consumers make educated and environmentally aware decisions about their next car purchase.

BOARD OF DIRECTORS

^
James Strong
age 59, Chairman and
Non-executive Director

John Astbury
FAICD, age 59,
Non-executive Director
v

^
Anne Keating
age 49,
Non-executive Director

Michael Hawker
BSc, AAIBF (Snr), ASIA, FAICD,
MCT, age 43, Chief Executive
Officer and Executive Director
v

^
Maree Callaghan
FAICD, age 57,
Non-executive Director

Mr 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 Chairman of the IAG Audit Committee and serves on the IAG Chairman's Committee.

Mrs 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 to 2002 (President, July-October, 2002).

Mrs Callaghan currently manages a division of Life Activities Inc. (supporting people with disability), has worked with the NSW Cancer Council (1995-2000) and was Mayor of Cessnock from 1987 to 1995.

Mrs Callaghan has retired from the Board, effective from 1 September 2003.

Mr 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 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 the Australian 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 has retired from the Board, effective from 1 September 2003.

Ms 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, and 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 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

Neil Hamilton
LLB, age 51,
Non-executive Director
V

Λ
Mary Easson
MAICD, age 48,
Non-executive Director

Rowan Ross
BEc, BCom, FCPA, FSIA,
age 53, Non-executive Director
V

Λ
Dominique Fisher
BA (Hons), age 46,
Non-executive Director

Geoffrey Cousins
age 60, Non-executive Director
V

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 Western Power Corporation.

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

Mr Michael Hawker
BSc, AAIBF (Snr), ASIA, FAICD, MCT, 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.

Ms Anne Keating
age 49 – Independent Non-executive Director

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

Ms Keating is currently a director of STW Communications Group Ltd, 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, and an inaugural board member of the Victor Chang Cardiac Research Institute. She also 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 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 James Strong
age 59 – Chairman and Independent Non-executive Director

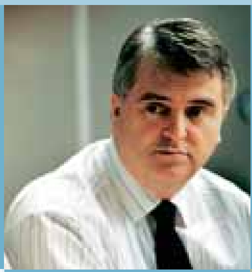
Mr James Strong was appointed Chairman of IAG in August 2001. He is also Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company and the Australian Business Arts Foundation. He is a director of the Australian Grand Prix Corporation and Opera Australia.

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 Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council. Mr Strong has been admitted as a barrister and solicitor.

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

THE CEO'S EXECUTIVE TEAM

Tony Coleman
BA, MBA, FIA, FIAA,
Chief Risk Officer
and Group Actuary
v



Ian Brown
ANZIIF, FAIM,
Deputy Chief
Executive Officer
v

Rick Jackson
DipT, BEd, AAIBF (Snr),
GradDipMan Bus
Group Executive,
Personal Insurance,
Chief Executive Officer,
Insurance Manufacturers
of Australia Pty Limited
v

^
Douglas Pearce
BSc, MBA, ASA, MACS,
FCIS, Group Executive,
Personal Injury

^
David Smith
BBus, MBA,
FAIM, FNZIM,
Chief Executive Officer,
IAG New Zealand Limited

^
Karyn Baylis
Group Executive,
Sales & Marketing

Ms Karyn Baylis has extensive experience in both marketing and general management. Ms Baylis is responsible for the strategic direction of Insurance Australia Group's Sales & Marketing division including the Australian direct distribution network and branding activities.

Prior to her appointment at Insurance Australia Group in February 2002, Ms Baylis led Qantas' largest overseas operation as Senior Vice President and Regional General Manager, The Americas. Before this, she was General Manager, Customer and Marketing Services for Qantas. During her seven years with Qantas, Ms Baylis had responsibility for product and brand management, market research, customer strategy, customer relations and internal communication.

Prior to joining Qantas, Ms Baylis was the principal of her own marketing consultancy and also held a number of management positions with Australian Airlines (formerly Trans Australian Airlines).

Ms Baylis is a director of NRMA Life Nominees Pty Limited and NRMA Financial Management Limited.

Mr Ian Brown has over 36 years experience in the general insurance sector. He was the Acting CEO of Insurance Australia Group from April to December 2001, and before this was Chief General Manager, International and Corporate Services.

Prior to joining Insurance Australia Group in 1999, Mr Brown held the position of Managing Director of SGIO Insurance Limited.

Previously, he was General Manager for New Zealand at Security & General Insurance (The Lumley Group), State Manager Western Australia for QBE Insurance Limited and General Manager of Western Underwriters Insurance Limited.

Mr Brown serves on a number of Insurance Australia Group subsidiary boards, including SGIO Insurance Limited, and is currently Deputy President of the Australian and New Zealand Institute of Insurance and Finance. He is a former President of the Insurance Council of Australia and the Australian Institute of Management, Western Australia.

Mr Tony Coleman has more than 26 years experience in the insurance, investment and finance sectors. Mr Coleman is responsible for the overall risk management, capital allocation, actuarial and research and development functions of Insurance Australia Group. This includes the operating risk, fraud and security risk and compliance functions. He joined Insurance Australia Group in December 2000 after holding the position of senior partner at PricewaterhouseCoopers.

Mr Coleman serves on the board of NRMA Life Limited and is a former President of the Institute of Actuaries of Australia.

Mr David Issa was appointed Chief Information Officer of Insurance Australia Group in October 2002.

Mr Issa's responsibilities include ebusiness, information technology and telecommunications. He has more than 20 years experience in the ebusiness and IT&T industries.

Before joining Insurance Australia Group, Mr Issa was CEO of Qvalent, a financial supply chain software company.

He also has experience in the financial services and banking sector, having worked at Westpac Banking Corporation for 13 years.

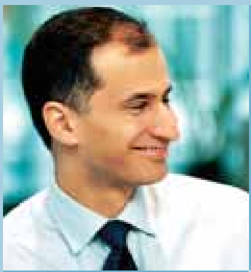
During his time at Westpac, Mr Issa was responsible for the introduction of the online share trading service 'Westpac Broking'. He also held roles as the head of ebusiness and IT&T for the Institutional Bank and the Global Financial Markets businesses.

Mr Rick Jackson has more than 16 years experience in the financial services, banking and general insurance sectors.

Mr Jackson is currently Group Executive, Personal Insurance and Chief Executive Officer of Insurance Manufacturers of Australia Pty Limited. He is responsible for the manufacture and underwriting of personal lines general insurance products and the claims and assessing services for Insurance Australia Group motor, home and niche customers in Australia. Prior to joining Insurance Australia Group in 1999, Mr Jackson held several senior positions with RACV, including Executive General Manager, Sales & Marketing and Executive General Manager, Commercial Services.

Ms Sam Mostyn has an extensive background in law, corporate affairs, human resources and politics. She is currently the Group Executive, Culture & Reputation at Insurance Australia Group where she has responsibility for managing human resources, corporate communication, internal communication, media relations, government and policy, and corporate social responsibility.

Prior to joining Insurance Australia Group in February 2002, she was the Director of Corporate Development and Acting Human Resources Director at Cable & Wireless Optus (now SingTel Optus Pty Limited). She also spent two years in London in the role of Group Director, Human Resources for Cable & Wireless Plc. Prior to joining Cable & Wireless Optus, she was a senior adviser (communications) to the Prime Minister, The Hon P J Keating.



George Venardos
BCom, FCA, DipCM,
FCIS, FTIA, MAICD,
Chief Financial Officer
v

David Issa
BSc,
Chief Information Officer
v

Lou Power
BComm, ANZIIF,
AFAMI, SIA aff,
Group Executive,
Business Partners
v

^
Mario Pirone
BBus, DipInsMgt,
FCPA, Group Executive,
Asset Management
& Retirement Services

^
Sam Mostyn
BA, LLB,
Group Executive,
Culture & Reputation

^
Bob Wagstaffe
AAII,
Group Executive,
Intermediary Business

Ms Mostyn serves on the Academic Advisory Board of the Australian Institute of Management and is a Trustee of the Australian Museum. She is also a board member of the State Rail Authority of New South Wales, and the Sydney Festival.

She is a director of Insurance Australia Group Services Pty Limited, NRMA Life Limited and NRMA Staff Superannuation Pty Limited.

Mr Douglas Pearce has been with Insurance Australia Group for 24 years. He is responsible for CTP and workers compensation insurance in Australia. He has held General Manager positions at Insurance Australia Group in a number of areas, and has been responsible for insurance research, information services, internal audit, finance, taxation, road service and motor and home insurance.

Mr Pearce is a member of the Motor Accident Council and Chairman of the Motor Accidents Insurers Standing Committee. Mr Pearce is a director on a number of the Group's subsidiary boards, including all of the workers compensation companies.

Mr Mario Pirone has 23 years experience in general insurance and financial services. He has held several senior positions with Insurance Australia Group and is currently responsible for asset management and retirement services. Before joining Insurance Australia Group in 1999, Mr Pirone held senior positions with SGIO Insurance Limited and was involved in the listing of SGIO Insurance Limited in 1994.

Mr Pirone is a director on a number of Insurance Australia Group subsidiary boards, including IAG Asset Management Limited, NRMA Insurance International Pty Limited, NRMA (Western Australia) Pty Limited, NRMA Financial Planning Pty Limited and SGIC Insurance Limited.

Mr Lou Power has an extensive background in general insurance, financial services and marketing. He joined Insurance Australia Group following the Group's acquisition of CGU Group from Aviva plc in January 2003. Before joining Insurance Australia Group, he held senior positions at CGU and Commercial Union Insurance (prior to its merger with NZI Group to form CGU Group). Mr Power is responsible for business written through financial institutions and affinity partners, and the CGU Customer Care Centre that supports these channels.

He also has responsibility for the subsidiaries, Swann Insurance Limited and Mutual Community General Insurance Pty Ltd.

Mr David Smith has 25 years experience in financial services. He joined Insurance Australia Group in 1999 as General Manager, Human Resources. In February 2001, Mr Smith was appointed Chief Executive Officer of IAG New Zealand Limited.

Prior to joining Insurance Australia Group, Mr Smith held senior positions with Westpac Banking Corporation, including Regional General Manager, Retail Banking Queensland.

He is a director of IAG (NZ) Holdings Limited, IAG New Zealand Limited, Belves Investments Limited, First Rescue and Emergency (NZ) Limited and Loyalty New Zealand Limited. Mr Smith is also Vice President of the Insurance Council of New Zealand Inc, Chairman of New Zealand Car Parts Limited and a Trustee of NZI Staff Superannuation Fund Nominees Limited.

Mr George Venardos joined Insurance Australia Group in 1998. As Chief Financial Officer, he oversees all aspects of Insurance Australia Group finances as well as the legal, company secretarial, investor relations, corporate services, group strategy, and mergers and acquisitions areas, and is Chairman of the Project Board for the integration of the CGU and NZI businesses in Australia.

Prior to joining Insurance Australia Group, Mr Venardos held the position of Executive Director and General Manager, Finance and Corporate Services, with the Legal & General Group.

He serves on most of Insurance Australia Group subsidiary boards, including IAG New Zealand Limited, and is the Chairman of the Finance and Accounting Standing Committee for the Insurance Council of Australia.

Mr Bob Wagstaffe manages all business sourced through insurance brokers and agents in Australia, and is responsible for national commercial and rural product development. He has 37 years experience in the insurance industry, joining Insurance Australia Group in January 2003 through the acquisition of CGU Group from Aviva plc.

He began his career with Commercial Union Group in 1965 (which joined forces with NZI in Australia in 1998 to form CGU Group), holding a wide range of roles in sales, underwriting and management, ultimately becoming a member of the CGU executive team.

Mr Wagstaffe is the Chairman of NTI Limited, a joint venture business with Promina specialising in heavy transport insurance, and a director of Associated Marine Insurers Agents Pty Limited, a joint venture marine insurance business with Zurich Australian Insurance.

CORPORATE GOVERNANCE

Insurance Australia Group's corporate governance structure and supporting risk management framework provide a sustainable balance of our core business function of paying claims and providing insurance at an affordable cost with our responsibility to provide fair and stable returns to shareholders.

The Board delegates responsibility for the day-to-day operations and administration of the Group to the CEO.

THE ROLE OF THE BOARD AND MANAGEMENT

The Insurance Australia Group Board is accountable to shareholders for the performance, operations and affairs of the Group:

- The Board drives the strategic direction of the Group by approving corporate strategies and setting goals and policies. Specific policy areas include risk management, internal compliance and control, codes of conduct and legal compliance.
- The Board monitors management's performance and strategy implementation and is responsible for appointing and removing the Chief Executive Officer (CEO), the Chief Financial Officer and the Company Secretary.
- The Board approves management recommendations on major expenditure, capital management, and acquisitions and divestments as well as monitoring the financial performance and reporting of the Group.

The Board delegates responsibility for the day-to-day operations and administration of the Group to the CEO.

The Board is committed to ensuring individual Directors clearly understand their term of office, duties, rights and responsibilities as a member of the Board. To that end, the Board has developed a charter to preserve existing practices. At the same time, all current Directors have been issued a formal letter acknowledging responsibilities. Formal appointment letters have also been developed for new Directors.

ETHICAL AND RESPONSIBLE DECISION MAKING

Insurance Australia Group takes ethical and responsible decision making very seriously. It expects its employees, including Directors and executive management, to do the same, as reflected in the Group's internal policies around conduct, continuous disclosure and insider trading.

Insurance Australia Group's Code of Conduct extends to all people employed by the Group. The code is designed to encourage ethical and appropriate behaviour in all avenues of work, based on the following principles:

- Acting honestly and openly in all dealings;
- Complying with all laws and industry codes that regulate our activities;
- Abiding by our rules to prevent insider trading;
- Maintaining confidentiality; and
- Avoiding conflicts of interest.

In keeping with the Code of Conduct and the spirit of continuous disclosure, Insurance Australia Group is committed to ensuring shareholders are informed of significant developments for the Group. All announcements to the Australian Stock Exchange are immediately posted on the Group website, www.iag.com.au, and proactively relayed to registered shareholders through an email messaging service. Briefings are webcast where practical and copies retained on the website for ease of access. Media coverage of key events is also sought as a means of delivering information to shareholders and the market. Formal communication with shareholders is also conducted via the annual report, interim report and at the Annual General Meeting (AGM) of shareholders.

Insurance Australia Group takes ethical and responsible decision making very seriously. It expects its employees, including Directors and executive management, to do the same, as reflected in the Group's internal policies around conduct, continuous disclosure and insider trading.

The Group's Continuous Disclosure and Insider Trading Policy reinforces our commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading. The policy includes a protocol outlining how information is released to the public and focuses on improving continuous disclosure and access to information for all investors. The policy also provides examples of what could constitute price sensitive information and how knowledge of such information prohibits share trading. A Share Trading Protocol sets the framework for employee dealings in IAG shares and related interests, and aims to prevent the inadvertent breaching of insider trading laws. The protocol specifies that, subject to not being in possession of price sensitive information, Directors and designated employees may only buy or sell shares or options in the two to 30 day period immediately following the Group's six monthly results announcements and the AGM.

> In keeping with the Code of Conduct and the spirit of continuous disclosure, Insurance Australia Group is committed to ensuring shareholders are informed of significant developments for the Group.

During the past year, both the Code of Conduct and Continuous Disclosure and Insider Trading Policy were recirculated to all employees and are displayed on the Group's intranet system.

BOARD COMPOSITION

With the exception of the CEO, the Board was comprised of nine non-executive Directors, including the Chairman, during the year to 30 June 2003. The Board has subsequently introduced a standard tenure of around two full three-year terms or approximately seven years, with any further extensions only by invitation of the Board. In this context and in view of their length of service, Directors Maree Callaghan and Mary Easson advised they would not stand for re-election at the November AGM and retired from the Board, effective from 1 September 2003. Following this, the Board has resolved to reduce the number of Directors to a total of eight.

Importantly, the roles of Chairman and CEO are separate, as set down in the Board charter and consistent with our aim to maintain an appropriate division between the roles and responsibilities of the Board and management. The Chairman acts as a mentor to the CEO, facilitated by contact at least weekly, and as the primary conduit between the individual Directors and management.

The non-executive Directors are all independent. The specific experience and expertise of each Director is set out on pages 24 and 25 of this report.

HOW THE BOARD OPERATES

The Board is scheduled to meet formally approximately 10 times during the year.

Supplementing these meetings are the biannual Board strategy forums with the executive team, which were held in September and April during the past financial year. These two day strategy forums facilitate in-depth education on and analysis of areas of the business as well as longer-term focus areas and strategic initiatives.

Directors are also involved in a number of due diligence meetings around specific Company developments, which during the past year included the CGU and NZI acquisition and associated funding initiatives.

In addition, Insurance Australia Group has three standing Board Committees, each with charters and established operating procedures. The number of Board and committee meetings held during the year is set out on page 35.

The Chairman's Committee can have up to five members, who must be non-executive Directors. Currently, the members of this committee are James Strong (Chairman), John Astbury and Rowan Ross. Committee meetings must be held at least four times a year.

> The Board approves management recommendations on major capital expenditure, capital management, and acquisitions and divestments as well as monitoring the financial performance and reporting of the Group.

The main responsibilities of the Chairman's Committee include:

- Ensuring the Group's overall remuneration policy and approach fit the strategic goals of the Company;
- Monitoring the effectiveness, integrity and compliance of the Group's remuneration and human resource policies and practices;
- Reviewing Board performance and composition, and recommending candidates for appointment to the Board; and

- Considering social and ethical impacts of the Group's business practices and setting standards for social and ethical practices.

The Audit Committee can have up to five members, who must be non-executive Directors. Currently, the members of this committee are John Astbury (Chairman), Geoffrey Cousins and Anne Keating.

Directors are also involved in a number of due diligence meetings around specific Company developments, which during the past year included the CGU and NZI acquisition and associated funding initiatives.

The main responsibilities of the Audit Committee include:

- Exercising due care, diligence and skill in relation to the Group's full and half year financial reporting to ensure it is consistent with committee members' information and knowledge and sufficient for shareholder needs;
- Monitoring the application of accounting and actuarial standards, policies and practices by senior financial management when preparing full and half year financial statements;
- Reviewing the internal audit function and external financial reporting arrangements including auditor engagement, remuneration, independence and effectiveness;
- Meeting with each of the external auditor, Approved Actuary and consulting actuaries on at least an annual basis without management being present; and
- Reporting to the Board on all matters relevant to the committee's responsibilities.

The Risk Management & Compliance Committee can have up to five members, who must be non-executive Directors. Currently, the members of this committee are Rowan Ross (Chairman), Dominique Fisher and Neil Hamilton. Committee meetings must be held at least four times a year.

The main responsibilities of the Risk Management & Compliance Committee include:

- Overseeing the Group's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;
- Reviewing and evaluating the Group's internal control systems to ensure effectiveness;
- Approving and monitoring progress against the operational risk plan on an annual basis;
- Meeting with each of the Head of Group Risk Compliance and the Group General Counsel on at least an annual basis without other management being present; and
- Reporting to the Board on all matters relevant to the committee's responsibilities.

MANAGING RISK

Insurance Australia Group's approach to managing risk is a key criterion in evaluating the performance of executive and senior management. The Board actively promotes a culture of transparency, encouraging early and open communication of risk. To facilitate this open culture, the Board provides open access to the Chairs of the Board, the Audit Committee, and the Risk Management & Compliance Committee. In particular, the Group has established mechanisms for rapid escalation of important matters to relevant executives and/or Board members.

The Chairman's and Board's approach to understanding risk management translates directly into the selection and appointment of candidates to key executive positions.

BOARD AND EXECUTIVE PERFORMANCE

Insurance Australia Group strives to ensure its Board collectively possesses the necessary expertise in insurance as well as a range of related and more generalist skills.

Insurance Australia Group's approach to managing risk is a key criterion in evaluating the performance of executive and senior management.

To that end, before Directors are appointed they must demonstrate a range of skills including industry knowledge, strategic planning, executive management, customer relations, finance, and legal and human resources expertise. Within these areas, the following experience is regarded as important though not exhaustive:

- Long term planning in social, business and regulatory frameworks;
- Ability to work in team environments;
- Knowledge of, or experience in, accounting and reporting issues;
- Working with executives, internal audit and risk teams, and external auditors;
- Working with industry bodies, regulators and government;

- Establishing policies and ethical standards of corporate behaviour; and
- Challenging views and proposals and taking well researched risks.

The Group also encourages the ongoing education and development of its Directors and management team to ensure they can expand and renew their skills and carry out their duties effectively.

From the outset, new Directors and senior executives have access to an orientation programme to introduce the management team and detail the Insurance Australia Group business. A programme introducing the fundamentals of general insurance is available to Directors and executives.

As required, Directors may take independent professional advice to assist with discharging their duties efficiently. A Board-agreed procedure allows Directors to obtain advice at the Group's expense, subject to prior clearance with the Chairman.

Every year, an independent party, commissioned by the Chairman's Committee undertakes an evaluation of the Board's performance. This year's review was carried out by Rosemary A Grieve & Associates. The Chairman has since met with each Director to discuss the recommendations flowing from the review and agree action plans as required.

COMPENSATION ARRANGEMENTS

Insurance Australia Group's approach to compensation arrangements for all employees, including Directors and executives, is based on ensuring we can attract and retain the best people to drive corporate performance and deliver returns to shareholders.

Compensation for executives is structured as a mix of fixed remuneration, short and long-term incentives and is focused on reward for performance. Base pay is targeted at the market median for executive roles in similar-sized Australian companies.

Compensation for all other employees is structured as a mix of fixed remuneration and short-term incentives.

> The Group also encourages the ongoing education and development of its Directors and management team to ensure they can expand and renew their skills and carry out their duties effectively.

Every employee (excluding Directors) has the capacity to earn at least 10% of their base pay as a short-term incentive. Short-term incentives are used to reward excellent performance. Incentive payments are determined based on a range of corporate, team and individual measures that relate to financial performance, customer service, people management, risk management and community engagement.

The Performance Award Rights Plan is used to provide a long-term incentive opportunity for the CEO and other selected executives. Performance Award Rights are rights over issued ordinary shares. Rights granted under the plan may be exercised for shares if a performance hurdle is met and a nominal amount is paid. The performance hurdle is based on the performance of the company (measured by total shareholder return) in comparison with the other companies that comprise the S&P/ASX 100. The performance hurdle is tested in the period between three and five years after the rights are granted.

Insurance Australia Group no longer issues share options to executives over unissued shares.

Non-executive Directors

Base fees for non-executive Directors are set according to external advice. The payment of Directors' fees also seeks to align the interests of Directors with those of shareholders by requiring them to receive at least 20%, and up to 90%, of their annual base fee in IAG shares, rather than cash. No other equity-based remuneration is available to non-executive Directors.

Following consideration of changing views on non-executive Directors retirement benefit arrangements, the decision has been made to freeze the operation of the non-executive Directors retirement benefits scheme with effect from 1 September 2003. This means we will permit no further accruals to existing benefits and any new Directors will not be admitted to the scheme.

In consideration of the cessation of retirement benefits and the increased size and complexity of the Group, including additional duties on subsidiary boards, remuneration for non-executive Directors is being increased with effect from 1 September 2003. This is the first change since the Company listed three years ago. The base fee will increase from $70,000 to $100,000 per annum, with the Chairman's fee being maintained at three times the base fee per annum. Under the new fee arrangement, the Chairman does not receive additional fees for serving on the Chairman's Committee or for serving as a director of IAG Re.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 30 June

Insurance Australia Group Five Year Performance	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m
Gross written premium	2,208	2,643	3,198	3,558	**5,150**
Gross earned premium	2,114	2,573	3,036	3,448	**4,885**
Reinsurance expense	(150)	(189)	(260)	(253)	**(249)**
Net earned premium	1,964	2,384	2,776	3,195	**4,636**
Net claims expense	(1,645)	(2,048)	(2,234)	(2,425)	**(3,363)**
Underwriting expenses	(470)	(514)	(564)	(628)	**(1,074)**
Underwriting profit/(loss)	(151)	(178)	(22)	142	**199**
Investment income from technical reserves	213	288	232	136	**372**
Insurance profit	62	110	210	278	**571**
Investment income from shareholders' and external funds	458	471	204	(291)	**(76)**
Financial services revenue	78	217	182	37	**30**
Other operating revenue	74	188	164	173	**177**
Life insurance business expenses	–	(93)	(72)	–	**(11)**
Borrowing costs expenses	(64)	(80)	(88)	(46)	**(46)**
Corporate and administration expenses	(154)	(345)	(317)	(242)	**(267)**
Amortisation of goodwill and intangibles	(22)	(13)	(28)	(43)	**(81)**
Non-recurring items[2]	(71)	19	–	33	**–**
Profit/(loss) before income tax	361	474	255	(101)	**297**
Income tax (expense)/credit	(99)	(128)	(44)	18	**(80)**
Net profit/(loss)	262	346	211	(83)	**217**
Net (profit)/loss attributable to outside equity interests	(9)	(50)	(68)	58	**(64)**
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited	253	296	143	(25)	**153**
Ordinary shareholders' or members' equity ($ million)	2,540	2,853	2,523	2,476	**3,575**
Total assets ($ million)	9,217	12,130	12,586	11,307	**16,392**
Number of general insurance risks in force ('000)	5,237	6,802	8,619	8,671	**18,213**
Premium growth					
– gross written	8.2%	19.7%	21.0%	11.3%	**44.7%**
– net earned	6.6%	21.4%	16.4%	15.1%	**45.1%**
Key ratios					
Loss ratio	83.8%	85.9%	80.5%	75.9%	**72.5%**
Expense ratio	23.9%	21.6%	20.3%	19.7%	**23.2%**
Combined ratio	107.7%	107.5%	100.8%	95.6%	**95.7%**
After tax return on ordinary equity[3]	10.4%	11.0%	5.3%	(1.2%)	**5.1%**
Share information					
Dividends per ordinary share – fully franked (cents)	n/a	n/a	10.00	10.50	**11.50**
Basic earnings per ordinary share (cents)[4]	n/a	n/a	9.40	(1.78)	**8.65**
Ordinary share price at 30 June ($)	n/a	n/a	3.40	3.15	**3.40**
5.80% Reset preference share (IAGPA) price at 30 June ($)	n/a	n/a	n/a	100.10	**107.94**
4.51% Reset preference share (IAGPB) price at 30 June ($)	n/a	n/a	n/a	n/a	**100.10**
Issued ordinary share capital (million shares)	n/a	n/a	1,399	1,301	**1,683**
Issued reset preference share capital (million shares)	n/a	n/a	n/a	4	**6**
Market capitalisation (ordinary shares) at 30 June ($ million)	n/a	n/a	4,761	4,100	**5,722**
Net tangible assets backing per ordinary share ($)	n/a	n/a	1.33	1.15	**0.84**

1 The 2001 disclosure represents the consolidated result of Insurance Australia Group Limited assuming it acquired Insurance Australia Limited (formerly NRMA Insurance Limited) and its controlled entities on 1 July 2000. This will differ to the reported statutory result that is based on the date of acquisition, 22 July 2000. All other prior years represent the consolidated results of Insurance Australia Limited (formerly NRMA Insurance Limited).

2 This includes an initial GST expense on outstanding claims of $56 million in 1999, demutualisation expenses of $15 million in 1999 and $61 million in 2000, the recognition of deferred acquisition costs for certain general insurance portfolios of $80 million in 2000 and profit on disposal of NRMA Building Society Limited of $45 million and "Share the Future" litigation expenses of $12 million in 2002.

3 Net profit/(loss) attributable to ordinary shareholders to average ordinary shareholders' equity.

4 The 2001 figure reflects a full year operating period assuming the acquisition of Insurance Australia Limited (formerly NRMA Insurance Limited) occurred on 1 July 2000. The reported statutory figure is 8.62 cents.

DIRECTORS' REPORT

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.

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 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	appointed 2 August 2001

Other Directors

Mr JF (John) Astbury	appointed 25 July 2000
Mrs MC (Maree) Callaghan	appointed 19 June 2000
Mr GA (Geoffrey) Cousins	appointed 25 July 2000
Mrs M (Mary) Easson	appointed 19 June 2000
Ms DG (Dominique) Fisher	appointed 19 June 2000
Mr ND (Neil) Hamilton	appointed 19 June 2000
Ms AJ (Anne) Keating	appointed 19 June 2000
Mr RA (Rowan) Ross	appointed 25 July 2000
Mr MJ (Michael) Hawker	appointed 1 December 2001

Particulars of the Directors' qualifications and experience are set out on pages 24 and 25.

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.

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:

(a) changes to International Financial Reporting Standards;

(b) recommendations of the HIH Royal Commission;

(c) tax consolidation legislation change;

(d) governance changes through recommendations of the ASX Corporate Governance Council;

(e) recommendations from the various Corporation Law Economic Reform Programs; and

(f) 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.

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		IAG Board Sub-Committees	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	23	23	–	–	5	5	–	–	3	3	10	7
Mr MJ Hawker	23	23	–	–	–	–	–	–	3	2	11	7
Mr JF Astbury	23	22	5	5	5	5	–	–	–	–	2	2
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	–	–	2	2
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	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

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.

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:

	Base fee					
Non-executive Director	Cash $000	Non-executive Directors' Share Plan $000	Total $000	Other fees (1) $000	Superannuation contributions $000	Total $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.

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

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

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(1)	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

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

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

James Strong

Mr J A Strong
Chairman

Mr M J Hawker
Director

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2003

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 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 shareholders of the parent entity		**106**	284	**153**	(25)

	Notes	Consolidated 2003 cents	Consolidated 2002 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.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2003

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2003

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 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.

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.

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

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.

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: Life Insurance Business 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 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 recognised in 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.

(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 Funds, 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 at or before the end of the financial year but not distributed at balance date.

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 the 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 controlled foreign 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.

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 profits 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 term notes/subordinated term notes

Senior term 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.

(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 (“EPS”) 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 in 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).

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m

NOTE 4. RESULT FROM LIFE INSURANCE OPERATIONS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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

NOTE 7. CLAIMS EXPENSE

	Consolidated 2003 Current year $m	Consolidated 2003 Prior years $m	Consolidated 2003 Total $m	Consolidated 2002 Current year $m	Consolidated 2002 Prior years $m	Consolidated 2002 Total $m
(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 expense 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	Consolidated 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 expense incurred	**8**	92
(c) Total		
Direct business	**3,355**	2,333
Inwards reinsurance business	**8**	92
Net claims expense incurred	**3,363**	2,425

	Note	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m

NOTE 8. INDIVIDUALLY SIGNIFICANT ITEMS

	Note	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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:

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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)

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 for IAG and its wholly-owned entities 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.

NOTE 10. DIVIDENDS AND DIVIDEND FRANKING ACCOUNT

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
(a) 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
(b) Reset preference shares				
Dividend paid at 5.8% per annum, fully franked at 30%	**21**	–	**21**	–
Total dividends declared	**174**	63	**174**	63
Less: Dividends reinvested under the Dividend Reinvestment Plan	**(75)**	–	**(75)**	–
Total dividends paid by cash	**99**	63	**99**	63

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.

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Franking credits available for subsequent financial years	**68**	110	**443**	391

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

(iii) 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.

	Parent 2003 $000	Parent 2002 $000	Consolidated 2003 $000	Consolidated 2002 $000

NOTE 11. AUDITORS' REMUNERATION

	Parent 2003 $000	Parent 2002 $000	Consolidated 2003 $000	Consolidated 2002 $000
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

	Parent 2003 $000	Parent 2002 $000	Consolidated 2003 $000	Consolidated 2002 $000

NOTE 12. DIRECTORS' REMUNERATION

	Parent 2003 $000	Parent 2002 $000	Consolidated 2003 $000	Consolidated 2002 $000
(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

	Total remuneration in relation to the management of the affairs of the IAG Group	
	Parent 2003	Parent 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 $000	Consolidated 2002 $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.

	Consolidated 2003	Consolidated 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 issued 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 & Investments Commission guidance which is based on the Australian Accounting Standards Board Exposure Draft ED108: 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 Australian Securities & Investments 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.

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.

NOTE 14. CURRENT ASSETS – RECEIVABLES

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 16. CURRENT ASSETS – CURRENT TAX ASSETS				
Income tax recoverable	**3**	–	**40**	6

NOTE 17. CURRENT ASSETS – OTHER

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Prepayments	**–**	–	**337**	90
Deferred acquisition costs	**–**	–	**484**	221
Inventories	**–**	–	**2**	2
	–	–	**823**	313

NOTE 18. NON-CURRENT ASSETS – RECEIVABLES

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Reinsurance and other recoveries	**–**	–	**407**	198
Provision for doubtful debts	**–**	–	**(6)**	(6)
	–	–	**401**	192

NOTE 19. NON-CURRENT ASSETS – INVESTMENTS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Quoted				
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
Unquoted				
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.

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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:					
(a) 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
(b) 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

NOTE 24. CURRENT LIABILITIES – PAYABLES

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Trade creditors		**–**	–	**482**	321
Other creditors		**–**	–	**331**	199
Loan from other party		**–**	–	**78**	761
		–	–	**891**	1,281

NOTE 25. CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Unsecured					
Commercial paper		**–**	–	**136**	224

NOTE 26. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Provision for income tax		**–**	9	**106**	49

NOTE 27. CURRENT LIABILITIES – PROVISIONS

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
(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

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 2003 %	Parent 2002 %	Consolidated 2003 %	Consolidated 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.

NOTE 29. NON-CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES

		2003 $m	2002 $m	2003 $m	2002 $m
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 the 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

NOTE 31. NON-CURRENT LIABILITIES – PROVISIONS

Employee entitlements	**–**	–	**43**	18

	Parent/ Consolidated 2003 Number of shares million	Parent/ Consolidated 2003 $m	Parent/ Consolidated 2002 Number of shares million	Parent/ Consolidated 2002 $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 issued	**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% per annum 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 issued. 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.

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.

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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 dividend 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

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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 controlled foreign entities		**–**	–	**(1)**	(1)
Total changes in outside equity interests		**–**	–	**(25)**	(362)
Total equity at the end of the financial year		**4,118**	3,065	**4,053**	2,979

	Consolidated 2003 cents	Consolidated 2002 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 Number of shares	2002 Number of shares
(i) Reconciliation between basic earnings 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 $m	2002 $m
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit/(loss)	**217**	(83)
Net (profit)/loss 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)

	2003 cents	2002 cents
(b) Reset preference shares		
Basic earnings per share	**587.36**	–

	2003 Number of shares	2002 Number 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 $m	2002 $m
(ii) Reconciliation of earnings used in calculating earnings per share		
Earnings used in calculating basic earnings per share	**21**	–

There are no potential reset preference shares on issue.

NOTE 36. RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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 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)

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.

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Cash	**2**	2	**626**	253

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 value 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.

Details of the acquisitions are as follows:

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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**	–
Outflow of cash	**–**	–	**(1,644)**	–
Profit from ordinary activities before income tax of the acquired entities contributed to the IAG Group	**–**	–	**88**	–

The profit from ordinary activities before income 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.

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m

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 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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)

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m

NOTE 40. FINANCING ARRANGEMENTS

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
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) IAG (NZ) Holdings Limited (formerly 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) IAG (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.

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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

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.

NOTE 43. NEW SOUTH WALES WORKERS' 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 Authority of 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 Authority of 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 Authority of 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 $m	2002 $m
Unaudited consolidated statutory funds statements 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

	Notes	Country of incorporation/formation	Percentage of shares/units held 2003 %	2002 %

NOTE 44. DETAILS OF CONTROLLED ENTITIES AND JOINT VENTURE ENTITIES

The following entities constitute the IAG Group:

	Notes	Country of incorporation/formation	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		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

	Notes	Country of incorporation/formation	Percentage of shares/ units held 2003 %	2002 %
Controlled entities (continued)				
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**	–
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**	–
Belves 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 propriety 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 orders 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.

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 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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	**–**	–

(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 $m	2002 $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

	2003 $m	2002 $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:

	2003 $m	2002 $m
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.

	2003 Number	2002 Number
(e) Directors' holdings of shares		
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 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m

NOTE 47. EMPLOYEE ENTITLEMENTS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
(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).

	Parent 2003 Number	Parent 2002 Number	Consolidated 2003 Number	Consolidated 2002 Number

NOTE 47. EMPLOYEE ENTITLEMENTS (CONTINUED)

(b) Employee numbers

	Parent 2003 Number	Parent 2002 Number	Consolidated 2003 Number	Consolidated 2002 Number
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 was 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 lapsed 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

(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.

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.

	Short-tail insurance 2002 $m	Long-tail insurance 2002 $m	International insurance 2002 $m	Retirement services 2002 $m	Corporate and investments 2002 $m	Intersegment elimination 2002 $m	Total 2002 $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 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 credit							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.

(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 2003 $m	Australia 2002 $m	International 2003 $m	International 2002 $m	Intersegment elimination 2003 $m	Intersegment elimination 2002 $m	Total 2003 $m	Total 2002 $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

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 has 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% per annum and the weighted average floating rate receivable was 6.35% per annum.

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $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:

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Futures				
– Within 1 year	**–**	–	**217**	790

(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						
		Fixed interest rate maturing in					
	Floating interest rate $m	1 year or less $m	Over 1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Total $m	Weighted average interest rate %
2003							
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 paper	200	110	–	–	–	310	5.28
	200	110	–	–	1,266	1,576	

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 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 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, bank bill 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 of $Nil).

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 AS 1.03 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.

(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.

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 Life.

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.

	Consolidated 2003 $m	Consolidated 2002 $m
(a) Solvency requirement		
Solvency reserve	**17**	6
Assets available for solvency	**58**	48
Coverage of solvency reserve (times)	**3.4**	7.5
(b) Capital requirement		
Management capital reserve	**4**	2
Assets available for capital requirement	**19**	87
Coverage of capital requirement	**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:

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

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.

	Notes	Consolidated 2003 $	Consolidated 2002 $
NOTE 54. NET TANGIBLE ASSETS			
Net tangible asset per ordinary share	(i)	**0.84**	1.15
Net tangible asset per reset preference share	(ii)	**100.00**	100.00

(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.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes, set out on pages 38 to 83, 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.

James Strong

Mr J A Strong
Chairman

Mr M J Hawker
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 shareholders 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:

(a) examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and

(b) assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Independence

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

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

SHAREHOLDER INFORMATION

You can access information about Insurance Australia Group Limited and your holdings via the Internet.

Insurance Australia Group's website, **www.iag.com.au**, has the latest information on Company announcements, presentations and reports. We also have an email messaging service which distributes key Company information to shareholders. To register for this service, just visit **www.iag.com.au** and click on 'Shareholder Services' and follow the link for email updates.

SHARE REGISTRY INFORMATION

Visit ASX Perpetual's website **www.asxperpetual.com.au** and access a wide variety of holding information, make changes to your holding record and download forms. You can:

- Check your current and previous holding balances
- Find out (and change if necessary) the type of annual report you will receive
- Confirm whether you have lodged your Tax File Number (TFN), Australian Business Number (ABN) or exemption
- Check dividend information (instructions and history)
- Enter your email address
- Check the share prices and graphs
- Request a variety of forms.

You can access this information via a security login using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as well as your surname or company name and postcode (must be the postcode recorded on your holding record).

What forms can I download?

You can download a number of forms including the change of address notification, deceased estate and dividend instruction forms.

Can I make email enquiries?

You can make enquiries via the website or by emailing the registry directly at **iag@asxperpetual.com.au**.

Unpresented cheques

Dividend monies that are not banked are required to be handed over to the State Trustee under the Unclaimed Monies Act. You are reminded to bank cheques immediately. Better still, you can have your payments deposited directly into your bank account.

Have us bank your dividend and distribution payments for you

Dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia. For further information about this service, or to request a *Request for Direct Credit of Payments* form, you can call our registry or visit its web site.

Lodge your TFN, ABN or exemption

You are strongly advised to lodge your TFN, ABN or exemption. If you choose not to lodge these details with the share registry, then Insurance Australia Group Limited is obliged to deduct tax at the highest marginal rate (plus the medicare levy) from the unfranked portion of any dividend payment.

Annual report mailing lists

Any change in the type of annual report information you wish to receive can be made over the phone or via our registry's website.

Website registration

Member registration is free. Registered members benefit by receiving additional online services such as the ability to create flexible portfolios for easy management of their holdings.

DIVIDEND DETAILS

Event	Amount per share	DRP issue price*	Payment date
Ordinary shares interim dividend – fully franked	4.5 cents	$2.97	14 April 2003
Ordinary shares final dividend – fully franked	7.0 cents		13 October 2003
IAGPA reset preference shares interim dividend – fully franked	$3.0827		15 December 2002
IAGPA reset preference shares final dividend – fully franked	$2.8921		15 June 2003

* The DRP issue price for the final dividend will be announced on 29 September 2003.

ORDINARY SHARES INFORMATION

Twenty largest shareholders as at 31 August 2003	No of shares	% of issued capital
J P Morgan Nominees Australia Limited	182,002,446	10.82
Westpac Custodian Nominees Limited	121,575,484	7.22
National Nominees Limited	111,188,186	6.61
Queensland Investment Corporation	36,618,231	2.18
Citicorp Nominees Pty Limited	36,539,177	2.17
Commonwealth Custodial Services Limited	35,818,058	2.13
AMP Life Limited	27,076,753	1.61
Citicorp Nominees Pty Limited <CFS Wsle Imputation Fnd A/C>	17,799,644	1.06
ANZ Nominees Limited	16,217,837	0.96
Westpac Financial Services Limited	13,778,322	0.82
Citicorp Nominees Pty Limited <CFS Imputation Fund A/C>	10,358,378	0.62
Cogent Nominees Pty Limited	9,002,309	0.53
Cogent Nominees Pty Limited <SMP Accounts>	8,716,155	0.52
RBC Global Services Australia Nominees Pty Limited <RA A/C>	8,491,179	0.50
Government Superannuation Office <State Super Fund A/C>	7,789,809	0.46
Citicorp Nominees Pty Limited <CFS Wsle Aust Share Fnd A/C>	7,755,753	0.46
RBC Global Services Australia Nominees Pty Limited <MLWSIF A/C>	7,511,993	0.45
Citicorp Nominees Pty Limited <CFS Wsle Geared Shr Fnd A/C>	6,702,641	0.40
Citicorp Nominees Pty Limited <CFS Wsle Industrial Shr Fnd A/C>	5,601,540	0.33
Victorian Workcover Authority	5,238,569	0.31
Total for Top 20	**675,782,464**	**40.16**

Range of shareholdings as at 31 August 2003	No of holders	No of shares	% of issued capital
1 – 1,000	779,390	419,641,961	24.94
1,001 – 5,000	299,375	417,248,268	24.80
5,001 – 10,000	2,764	19,666,979	1.17
10,001 – 100,000	1,383	29,740,594	1.77
100,001 and over	158	796,423,411	47.32
Total	**1,083,070**	**1,682,721,213**	**100.00**

	No of holders	No of shares
Shareholders with less than a marketable parcel of 126 shares as at 31 August 2003	4,356	191,352

IAGPA RESET PREFERENCE SHARES INFORMATION

Twenty largest shareholders as at 31 August 2003	No of shares	% of issued capital
Westpac Custodian Nominees Limited	605,675	17.31
Citicorp Nominees Pty Limited	175,000	5.00
AMP Life Limited	173,087	4.95
Commonwealth Custodial Services Limited	165,000	4.71
RBC Global Services Australia Nominees Pty Limited <JBENIP A/C>	140,540	4.02
Citibank Limited	115,000	3.29
Share Direct Nominees Pty Ltd <National Nominees A/C>	100,000	2.86
Net Nominees Limited	60,510	1.73
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	60,200	1.72
J P Morgan Nominees Australia Limited	56,078	1.60
UBS Private Clients Australia Nominees Pty Ltd	48,057	1.37
J B Were Capital Markets Limited	46,563	1.33
Merrill Lynch (Australia) Nominees Pty Ltd	41,820	1.19
Perpetual Trustee Company Limited	32,827	0.94
Argo Investments Limited	30,800	0.88
Kaplan Equity Limited	25,500	0.73

SHAREHOLDER INFORMATION

(continued)

IAGPA RESET PREFERENCE SHARES INFORMATION (CONTINUED)

Twenty largest shareholders as at 31 August 2003 (continued)	No of shares	% of issued capital
Brencorp No 11 Pty Limited	22,500	0.64
RBC Global Services Australia Nominees Pty Limited <PP A/C>	21,190	0.61
RBC Global Services Australia Nominees Pty Limited <RA A/C>	18,250	0.52
Equity Trustees Limited <EQT Hight Inc Wholesale A/C>	15,000	0.43
Total for Top 20	**1,953,597**	**55.83**

Range of shareholdings as at 31 August 2003	No of holders	No of shares	% of issued capital
1 – 1,000	4,063	1,044,765	29.85
1,001 – 5,000	169	373,237	10.66
5,001 – 10,000	16	128,401	3.67
10,001 – 100,000	14	579,295	16.55
100,001 and over	6	1,374,302	39.27
Total	**4,268**	**3,500,000**	**100.00**

	No of holders	No of shares
Shareholders with less than a marketable parcel of 5 shares as at 31 August 2003	0	0

IAGPB RESET PREFERENCE SHARES INFORMATION

Twenty largest shareholders as at 31 August 2003	No of shares	% of issued capital
AMP Life Limited	183,882	9.19
Commonwealth Custodial Services Limited	128,866	6.44
J P Morgan Nominees Australia Limited	105,650	5.28
Citicorp Nominees Pty Limited	97,500	4.88
UBS Private Clients Australia Nominees Pty Ltd	91,660	4.58
Share Direct Nominees Pty Ltd <National Nominees A/C>	85,456	4.27
Westpac Custodian Nominees Limited	56,670	2.83
Net Nominees Limited	50,067	2.50
Permanent Nominees (Aust) Limited	50,000	2.50
J B Were Capital Markets Limited	49,572	2.48
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	49,500	2.48
UBS Nominees Pty Ltd <Prime Broking A/C>	46,844	2.34
Zurich Investment Management Limited <Zurich Aust Fixed Int A/C>	39,544	1.98
IOOF Investment Management Limited	35,000	1.75
Cogent Nominees Pty Limited <SMP Accounts>	33,523	1.68
RBC Global Services Australia Nominees Pty Limited <PP A/C>	30,000	1.50
Mulgara Pty Limited	24,360	1.22
Mrs Fay Cleo Martin-Weber	20,000	1.00
Permanent Trustee Australia Limited <KAPOO1 A/C>	17,000	0.85
Zurich Australia Limited	16,286	0.81
Total for Top 20	**1,211,380**	**60.56**

Range of shareholdings as at 31 August 2003	No of holders	No of shares	% of issued capital
1 – 1,000	1,469	389,625	19.48
1,001 – 5,000	76	195,522	9.78
5,001 – 10,000	13	110,603	5.53
10,001 – 100,000	24	885,852	44.29
100,001 and over	3	418,398	20.92
Total	**1,585**	**2,000,000**	**100.00**

	No of holders	No of shares
Shareholders with less than a marketable parcel of 6 shares as at 31 August 2003	0	0

CORPORATE DIRECTORY

Share Registry Contact Details

ASX Perpetual Registrars Limited
Locked Bag A 14
Sydney South NSW 1232
(Hand deliveries to Level 8, 580 George Street, Sydney)

Telephone 1300 360 688
Fax (02) 9287 0303 (general)
(02) 8280 7646 (for proxies only)
Email iag@asxperpetual.com.au

Registered Office

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Level 21, 388 George Street
Sydney NSW 2000

Telephone (02) 9292 9222
Fax (02) 9292 8072
Website www.iag.com.au

Group Company Secretary

Anne O'Driscoll FCA, ANZIIF (Fellow)

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