

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA  
INSURANCE GROUP LIMITED)**

**ABN 60 090 739 923**

**AND CONTROLLED ENTITIES**

**HALF YEAR FINANCIAL REPORT - 31 DECEMBER 2001**

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

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited) ("the Company") and its controlled entities ("the Group") for the half year ended 31 December 2001 and the auditors' report thereon.

**Directors**

The Directors of the Company during or since the end of the half year are:

Mr JA Strong (appointed 2 August 2001), Mr JF Astbury, Mrs MC Callaghan, Mr GA Cousins, Mrs M Easson, Ms DG Fisher, Mr ND Hamilton, Ms AJ Keating, Mr RA Ross, Mr IF Stanwell and Mr M Hawker (appointed on 2 November 2001).

**Result and review of operations**

The Group net profit for the half year was \$58 million (2000 - \$6 million loss). After adjusting for outside equity interests in the Group result, the net profit attributable to shareholders of the Company was \$49 million (2000 - \$17 million loss).

The comparative figures in the financial statements only include the results of the major operating subsidiary NRMA Insurance Limited ("NRMAI") for the period from 22 July 2000 to 31 December 2000. This is the date the Company acquired NRMAI as part of the demutualisation of NRMAI.

Highlights of the Group's performance over the last six months are as follows:

- Premium growth: Gross written premium was \$1,665 million, representing an increase of 34% on the same period last year. Premiums from the acquisitions of State Insurance (February 2001) and workers compensation business from HIH (March 2001) have been the major drivers of this growth.
- Expenses: the expense ratio (underwriting expenses to net earned premium) of 20.1% compares favourably to 21.0% for the same period last year.
- Corporate costs: head office expenses have reduced from \$60 million to \$23 million compared to the same period last year.
- Fee based businesses have generated \$17 million in profit before tax which is an increase of \$10 million from the same period last year. This result includes a contribution from non-risk workers compensation business acquired in March 2001.
- Short tail underwriting continues to perform soundly with a combined ratio (claims and underwriting expenses to net earned premium) of 98% (2000 - 98%).
- The long tail portfolio is also continuing strong profitability with the combined ratio of 96.9%, which is below our long term operating target of 110%. This result includes our inwards reinsurance portfolio and the impact of claims from the September 11 terrorists attacks in the US.
- The Group's financial services products delivered a profit before tax of \$8 million (2000 - \$2 million).
- The Company sold NRMA Building Society Limited in November 2001 for \$138 million. This resulted in a profit before tax on sale of the building society of \$45 million.
- The result includes \$90 million in total net claims for the December bushfire, a number of large storms and the impact from the September 11 terrorists attacks.

There are several other significant items affecting the half year result:

- a \$110 million increase in reinsurance recoveries due to the continued strong underwriting performance of the Group. The mechanism for this reinsurance recovery is through the Group's Whole of Account Aggregate Stop Loss reinsurance contract.
- a \$10 million expense for the half year for the Insurance Protection Tax imposed by the NSW Treasury to fund the shortfall on CTP and Builders Warranty claims following the HIH collapse.
- \$12 million has been incurred in the settlement of defendant legal costs for failed litigation concerning the 1994 "Share the Future" restructuring proposal.

Realised and unrealised investment income included in the consolidated net profit for the half year was \$92 million (2000 - \$46 million). The 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 some of the increase in insurance liabilities associated with movements in interest rates.

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**Dividends**

Details of dividend declared are set out in notes 6 and 11.

**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 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 1st day of March 2002 in accordance with a resolution of the Directors.

..... Director

..... Director

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

	Notes	<b>CONSOLIDATED</b>	
		<b>2001</b>	2000
		<b>\$m</b>	\$m
Premium revenue		<b>1,696</b>	1,271
Reinsurance expense	3(a)(i)	<b>(128)</b>	(97)
<b>Net premium revenue</b>		<b>1,568</b>	1,174
Claims expense		<b>(1,655)</b>	(1,204)
Reinsurance and other recoveries	3(a)(i)	<b>439</b>	272
<b>Net claims expense</b>		<b>(1,216)</b>	(932)
Acquisition costs		<b>(212)</b>	(143)
Other underwriting expenses		<b>(60)</b>	(72)
Fire brigade charges		<b>(43)</b>	(32)
<b>Underwriting expenses</b>		<b>(315)</b>	(247)
<b>Profit / (loss) from underwriting</b>		<b>37</b>	(5)
Investment income	3(a)(ii)	<b>152</b>	176
Realised losses on investments	3(a)(ii)	<b>(99)</b>	(35)
Unrealised gains / (losses) on investments	3(a)(ii)	<b>39</b>	(95)
Financial services revenue	3(a)(iii)	<b>56</b>	63
Other operating revenue	3(a)(iv)	<b>90</b>	57
Borrowing costs expense		<b>(37)</b>	(39)
Life insurance business expenses		<b>(21)</b>	(20)
Other operating expenses		<b>(154)</b>	(123)
<b>Profit / (loss) from ordinary activities before income tax</b>		<b>63</b>	(21)
Income tax (expense) / benefit		<b>(5)</b>	15
<b>Net profit / (loss)</b>		<b>58</b>	(6)
Net profit attributable to outside equity interests		<b>(9)</b>	(11)
<b>Net profit / (loss) attributable to members of Insurance Australia Group Limited</b>		<b>49</b>	(17)
<b>Non-owner transaction changes in equity:</b>			
<b>Total revenue, expenses and valuation adjustments attributable to members of Insurance Australia Group Limited recognised directly in equity</b>		<b>-</b>	-
<b>Total changes in equity from non-owner related transactions attributable to the members of the parent entity</b>		<b>49</b>	(17)
		<b>cents</b>	cents
<b>Basic earnings per share</b>		<b>3.52</b>	(1.27)
<b>Diluted earnings per share</b>		<b>3.51</b>	(1.27)

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

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2001**

	Note	CONSOLIDATED	
		31 Dec 2001 \$m	30 Jun 2001 \$m
<b>Current assets</b>			
Cash assets		134	223
Receivables		1,228	1,439
Investments		1,397	1,338
Current tax assets		3	13
Other		271	263
<b>Total current assets</b>		<b>3,033</b>	<b>3,276</b>
<b>Non-current assets</b>			
Receivables		254	1,273
Investments		6,505	7,118
Plant and equipment		101	104
Deferred tax assets		154	149
Intangible assets		643	658
Other		2	8
<b>Total non-current assets</b>		<b>7,659</b>	<b>9,310</b>
<b>Total assets</b>		<b>10,692</b>	<b>12,586</b>
<b>Current liabilities</b>			
Payables		290	592
Interest-bearing liabilities		245	1,970
Current tax liabilities		197	71
Provisions		67	183
Outstanding claims		1,309	1,068
Unearned premium		1,686	1,720
<b>Total current liabilities</b>		<b>3,794</b>	<b>5,604</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities		83	55
Deferred tax liabilities		139	328
Provisions		19	18
Gross life insurance policy liabilities		950	936
Outstanding claims		2,290	2,257
<b>Total non-current liabilities</b>		<b>3,481</b>	<b>3,594</b>
<b>Total liabilities</b>		<b>7,275</b>	<b>9,198</b>
<b>Net assets</b>		<b>3,417</b>	<b>3,388</b>
<b>Equity</b>			
Contributed equity	7	2,687	2,687
Reserves		(2)	-
Accumulated losses		(115)	(164)
<b>Equity attributable to members of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited)</b>		<b>2,570</b>	<b>2,523</b>
Outside equity interests in controlled entities:			
- Contributed equity		167	167
- Shareholder's loan		11	11
- Retained profits		36	29
- Unitholders' funds		633	658
<b>Total equity</b>		<b>3,417</b>	<b>3,388</b>

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

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

	<u>Notes</u>	<b>CONSOLIDATED</b>	
		<b>2001</b>	2000
		<b>\$m</b>	\$m
<b>Cash flows from operating activities</b>			
Premium received		1,703	1,309
Reinsurance and other recoveries received		237	177
Claims costs paid		(1,259)	(1,042)
Outwards reinsurance premium paid		(118)	(49)
Dividends received		76	92
Interest and similar items received		179	188
Borrowing costs including interest and other finance costs paid		(40)	(50)
Income taxes paid		(58)	(31)
Other operating receipts		329	272
Other operating payments		(903)	(754)
<b>Net cash provided by operating activities</b>		<b>146</b>	<b>112</b>
<b>Cash flows from investing activities</b>			
Net cash flows on disposal of controlled entities	8(a)	(61)	-
Net cash flows on acquisition of controlled entities	8(b)	-	658
Proceeds from disposal of investments and fixed assets		11,131	14,657
Outlays for investments and fixed assets acquired		(11,198)	(14,634)
Repayment of mortgage loans		252	379
Drawdown of mortgage loans		(308)	(417)
<b>Net cash (used in) / provided by investing activities</b>		<b>(184)</b>	<b>643</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		-	139
Proceeds from issues of trust units		367	580
Outlays for redemption of trust units		(283)	(513)
Proceeds from borrowings		806	330
Repayment of borrowings		(984)	(828)
Net (decrease) / increase in depositor funds		(3)	121
Proceeds from securitisation		29	97
Share issue costs paid		-	(64)
Dividends paid		(84)	(17)
<b>Net cash used in financing activities</b>		<b>(152)</b>	<b>(155)</b>
<b>Net (decrease) / increase in cash held</b>		<b>(190)</b>	<b>600</b>
<b>Cash at the beginning of the financial period</b>		<b>344</b>	<b>-</b>
<b>Cash at the end of the financial period</b>		<b>154</b>	<b>600</b>

Note: Cash represents cash on hand and in banks, deposits at call and money market investments readily convertible to cash within two working days, net of bank overdraft.

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

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 1. Statement of significant accounting policies**

**(a) Basis of preparation of half-year financial report**

The half year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. This half year financial report is to be read in conjunction with the 30 June 2001 Annual Financial Report and any public announcements by Insurance Australia Group Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

Except for certain assets which, as noted in the financial statement are at valuation, the financial statements have been prepared in accordance with historical cost convention.

Accounting policies have been consistently applied and, except where there is a change in accounting policy as disclosed in note 2, are consistent with those applied in the 30 June 2001 Annual Financial Report.

The half year report does not include full note disclosures of the type normally included in an annual financial report.

**(b) Reclassification of financial information**

Some line items and sub-totals reported in the previous reporting periods have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2001 of the revised standard AASB 1029: Interim Financial Reporting and the first time application at 30 June 2001 of AASB 1018: Statement of Financial Performance and AASB 1040: Statement of Financial Position. Thus, revenue and expense items previously disclosed as abnormal have been reclassified and are now disclosed as individually significant items in note 5. These items are no longer identified separately on the face of the statement of financial performance.

**(c) Comparatives figures**

Comparatives for the consolidated statement of financial performance, statement of financial position and statement of cash flows and all relevant notes to financial statements includes the profit and loss of NRMA Insurance Limited and its controlled entities from 22 July 2000 when Insurance Australia Group Limited acquired all share capital of NRMA Insurance Limited upon its demutualisation.

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 2. Changes in accounting policy**

**(a) Life insurance business revenue and expenses**

From 1 July 2001, NRMA Life Limited (a wholly-owned subsidiary of Insurance Australia Group Limited) has recognised all premiums and claims arising in respect of non-risk investment business as changes in policy liabilities. Previously, under the transitional provisions of AASB 1038: Life Insurance Business, these premiums and claims were recognised as premium revenue and expenses. The impact of the change in accounting policy is that life insurance business revenue has decreased by \$123m (2000 - \$96m) and life insurance business expense has decreased by \$123m (2000 - \$96m). There is no impact on the net result from life insurance operations.

**(b) Earnings per share**

The consolidated entity has applied the revised AASB 1027: Earnings Per Share (issued June 2001) for the first time from 1 July 2001. Basic and diluted earnings per share ("EPS") for the comparative period ended 31 December 2000 has been adjusted so that the basis of calculation used is consistent with that of the current period.

The adoption of the revised AASB 1027 did not have material impact on the calculation of basic or diluted earnings per share for the Company.

**(c) Segment reporting**

The consolidated entity has applied the revised AASB 1005: Segment Reporting (issued in August 2000) for the first time from 1 July 2001. Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns. The adoption of the revised AASB 1005 has led to the identification of three reportable segments under general insurance, being short-tail, long-tail and international insurance businesses. Other than this change, all other reportable segments are the same as those reported in the previous reporting periods.

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

	<b>CONSOLIDATED</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$m</b>	<b>\$m</b>
<b>Note 3. Revenue</b>		
<b>(a) Revenue from operating activities</b>		
<b>(i) General insurance revenue</b>		
Premium income	1,665	1,239
Movement in unearned premium reserve	31	32
Premium revenue	<u>1,696</u>	<u>1,271</u>
Direct premium	1,682	1,218
Inwards reinsurance premium	14	53
Premium revenue	<u>1,696</u>	<u>1,271</u>
Reinsurance and other recoveries	439	272
Total general insurance revenue	<u>2,135</u>	<u>1,543</u>
<b>(ii) Investment revenue</b>		
Dividend income		
- other corporations	11	54
Interest income		
- other parties	135	115
Trust income		
- other parties	6	7
Total investment income	<u>152</u>	<u>176</u>
Changes in net market values of investments		
- realised losses	(99)	(35)
- unrealised gains / (losses)	39	(95)
Total investment revenue	<u>92</u>	<u>46</u>
<b>(iii) Financial services revenue</b>		
Interest income on loans	25	40
Life insurance business revenue	31	23
Total financial services revenue	<u>56</u>	<u>63</u>
<b>(iv) Other operating income</b>		
- other parties	90	57
Total other operating income	<u>90</u>	<u>57</u>
<b>Total revenue from operating activities</b>	<u>2,373</u>	<u>1,709</u>
<b>(b) Revenue from outside operating activities</b>		
Proceeds from disposal of assets	7	4
<b>Total revenue from outside operating activities</b>	<u>7</u>	<u>4</u>
<b>Total revenue</b>	<u>2,380</u>	<u>1,713</u>

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 4. Proforma consolidated statement of financial performance**

This proforma consolidated statement of financial performance represents the statement of financial performance of the Group for the half year ending 31 December 2000 assuming Insurance Australia Group Limited (formerly NRMA Insurance Group Limited) had acquired NRMA Insurance Limited and its controlled entities at 1 July 2000.

	<b>CONSOLIDATED</b>		
	<b>2001</b>	(A)	(B)
	<b>\$m</b>	2000 \$m	Proforma 2000 \$m
Premium revenue	<b>1,696</b>	1,271	1,424
Reinsurance expense	<b>(128)</b>	(97)	(109)
<b>Net premium revenue</b>	<b>1,568</b>	1,174	1,315
Claims expense	<b>(1,655)</b>	(1,204)	(1,369)
Reinsurance and other recoveries	<b>439</b>	272	305
<b>Net claims expense</b>	<b>(1,216)</b>	(932)	(1,064)
Acquisition costs	<b>(212)</b>	(143)	(161)
Other underwriting expenses	<b>(60)</b>	(72)	(80)
Fire brigade charges	<b>(43)</b>	(32)	(36)
<b>Underwriting expenses</b>	<b>(315)</b>	(247)	(277)
<b>Profit / (loss) from underwriting</b>	<b>37</b>	(5)	(26)
Investment income	<b>152</b>	176	189
Realised losses on investments	<b>(99)</b>	(35)	(37)
Unrealised gains / (losses) on investments	<b>39</b>	(95)	(34)
Financial services revenue	<b>56</b>	63	79
Other operating revenue	<b>90</b>	57	63
Borrowing costs expense	<b>(37)</b>	(39)	(43)
Life insurance business expenses	<b>(21)</b>	(20)	(21)
Other operating expenses	<b>(154)</b>	(123)	(152)
<b>Profit / (loss) from ordinary activities before income tax</b>	<b>63</b>	(21)	18
Income tax (expense) / benefit	<b>(5)</b>	15	2
<b>Net profit / (loss)</b>	<b>58</b>	(6)	20
Net profit attributable to outside equity interests	<b>(9)</b>	(11)	(17)
<b>Net profit / (loss) after income tax attributable to members of Insurance Australia Group Limited</b>	<b>49</b>	(17)	3

Note:

(A) Represents Insurance Australia Group Limited's consolidated result in accordance with AASB 1024 and is the same as disclosed in the consolidated statement of financial performance on page 3. This recognises that the Company acquired NRMA Insurance Limited ("NRMAI") and its controlled entities on 22 July 2000 and does not include the results of NRMAI and its controlled entities for the period 1 July 2000 to 21 July 2000 (capitalised as equity of the Company).

(B) Represents the consolidated result of Insurance Australia Group Limited, assuming it acquired NRMAI and its controlled entities on 1 July 2000. This proforma is provided to allow a direct comparison of the current period results to a full prior period results on the basis that the Company gained control of NRMAI on 1 July 2000.

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

		CONSOLIDATED	
	Note	2001	2000
		\$m	\$m
<b>Note 5. Individually significant items</b>			
Income:			
Reinsurance recoveries under the Whole of Account			
Aggregate Stop Loss contract		110	-
Profit on sale of NRMA Building Society Limited	8(a)	45	-
Expenses:			
Costs in relation to the settlement of "Share the Future" litigation		12	-
Insurance protection tax levied by the NSW State Government		10	-

**Note 6. Dividends**

No interim dividends were paid in, or declared in respect of, the period to 31 December 2001 (2000 - \$Nil). However, subsequent to the period end an interim dividend has been declared as reflected in note 11.

**Note 7. Contributed equity**

	COMPANY			
	31 Dec 2001		30 Jun 2001	
	Number of shares million	\$m	Number of shares million	\$m
(i) Share capital				
Issued and fully paid ordinary shares	1,399	2,687	1,399	2,687
Balance at the beginning of the financial period	1,399	2,687	-	-
Ordinary shares issued on demutualisation of NRMA Insurance Limited	-	-	1,493	2,873
Other issue	-	-	51	139
Ordinary shares issued under Staff Allocation Share Plan	-	-	4	13
Shares bought back off-market	-	-	(149)	(264)
Less: transaction costs arising on share issues	-	-	-	(68)
Less: transaction costs arising on share buy-back	-	-	-	(6)
Balance at the end of the financial period	1,399	2,687	1,399	2,687

(ii) Performance Share Rights Plan ("PSR")

A PSR was in operation since 2001. On the satisfaction of a performance hurdle, executives are able to exercise those PSRs which convert into ordinary equity of the Company. The PSRs were issued for nil consideration.

During the period, a total of 1 million PSRs were issued for nil consideration. One PSR can be converted into one ordinary share of the Company at the date of exercise.

0.4 million PSRs expired during the period on the termination of employees' employment. There were no PSRs exercised during the period.

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 8. Changes in the composition of the consolidated entity**

(a) Business disposed

During the half year ended 31 December 2001, the parent entity disposed 100% of the ordinary shares in NRMA Building Society Limited and its controlled entities.

	<b>CONSOLIDATED</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$m</b>	<b>\$m</b>
Details of the disposals are as follows (in aggregate):		
Sale proceeds:		
Cash	<b>138</b>	-
Fair value of net assets of controlled entities disposed	<b>88</b>	-
Add: Costs associated with disposal including restructure of operations	<b>5</b>	-
	<b>93</b>	-
Profit on disposal	<b>45</b>	-
Net cashflow on disposal of controlled entities		
Cash received	<b>138</b>	-
Cash balance disposed	<b>(199)</b>	-
Outflow of cash	<b>(61)</b>	-

(b) Business acquired

During the half year ended 31 December 2000, the parent entity acquired 100% of the ordinary share capital of NRMA Insurance Limited and its controlled entities when NRMA Insurance Limited was demutualised on 22 July 2000.

Details of the acquisitions are as follows:

Consideration:		
Issue of shares	-	2,873
Cash	-	-
	<b>-</b>	<b>2,873</b>
Fair value of net assets of entities acquired:	<b>-</b>	<b>2,873</b>
Net cashflow on acquisition of controlled entities:		
Cash consideration paid	-	-
Cash balance acquired	-	658
Inflow of cash	<b>-</b>	<b>658</b>

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 9. Contingent liabilities and contingent assets**

Other than the matters referred to below, there have been no other material changes in contingent liabilities or contingent assets since 30 June 2001.

(a) In the normal course of its operations, NRMA Insurance Limited entered a quota share reinsurance contract with a US insurer for one year from 1 July 1997. Subsequent to 30 June 1998, notice of rescission was issued by NRMA Insurance Limited in respect of this contract on the basis that the ceding insurer fraudulently induced NRMA Insurance Limited to enter the contract by, amongst other things, withholding sensitive or critical information as well as providing financial information and explanations which it knew to be false. A statement of claim has been lodged against the ceding insurer and other parties. The hearing of this matter will be in October 2002. On legal advice no provision has been made in our financial statements for this matter.

A letter of credit held by the ceding insurer was exercised in July 1999 for US\$35 million. The Group utilised cash received from the ceding insurer of US\$11 million to make part of this payment and it holds a letter of credit for US\$25 million as security if NRMA Insurance Limited is successful in its claim. The ceding insurer has in the last six months provided accounts which claim an additional balance outstanding to it of US\$13 million.

(b) On 14 September 2001, the High Court of Australia rejected the application of NRMA Insurance Limited, National Roads and Motorists' Association Limited (formerly NRMA Limited) and NRMA Holdings Limited ("the companies") for special leave to appeal against the Judgment of the Court of Appeal of New South Wales in favour of the defendant lawyers in the proceedings brought by the companies in relation to the 1994 "Share the Future" restructure proposal. On 3 December 2001 the New South Wales Court of Appeal upheld the lawyers' claim against the companies for additional interest on the monies paid by them to the companies under the Judgment of the trial judge from the date of payment until the date of repayment. The total amount claimed by the defendants under the Judgments is \$16.7 million, some amounts of which are disputed.

Pursuant to agreements between the companies, 90% of the companies' liability in respect of the defendants' claims is attributable to NRMA Insurance Limited. NRMA Insurance Limited has expensed an amount of \$12 million it believes satisfies its liability pursuant to the agreement between the companies. That amount is reflected in the statement of financial performance in this period (see also note 5).

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 10. Segmental reporting**

Primary reporting - business segments

The consolidated entity operates in the general insurance and financial 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 financial services. Other activities, including corporate services, investment management and investment of the Group's capital funds form a separate segment.

	Short-tail Insurance		Long-tail Insurance		International Insurance		Financial Services		Corporate and Investments	
	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m	2001 \$m	2000 \$m
External revenue	1,376	1,200	653	443	191	-	47	62	113	8
Intersegment revenue	-	-	-	-	-	-	-	-	19	23
<b>Total revenue</b>	<b>1,376</b>	<b>1,200</b>	<b>653</b>	<b>443</b>	<b>191</b>	<b>-</b>	<b>47</b>	<b>62</b>	<b>132</b>	<b>31</b>
Profit / (loss) from underwriting	21	26	10	(31)	6	-	-	-	-	-
Investment income on technical reserves	22	25	61	78	5	-	-	-	-	-
Other operating result	-	-	-	-	-	-	8	2	(70)	(121)
<b>Profit / (loss) from ordinary activities before income tax</b>	<b>43</b>	<b>51</b>	<b>71</b>	<b>47</b>	<b>11</b>	<b>-</b>	<b>8</b>	<b>2</b>	<b>(70)</b>	<b>(121)</b>

	Inter-segment elimination		Total	
	2001 \$m	2000 \$m	2001 \$m	2000 \$m
External revenue	-	-	2,380	1,713
Intersegment revenue	(19)	(23)	-	-
<b>Total revenue</b>	<b>(19)</b>	<b>(23)</b>	<b>2,380</b>	<b>1,713</b>
Profit / (loss) from underwriting	-	-	37	(5)
Investment income on technical reserves	-	-	88	103
Other operating result	-	-	(62)	(119)
<b>Profit / (loss) from ordinary activities before income tax</b>	<b>-</b>	<b>-</b>	<b>63</b>	<b>(21)</b>

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2001**

**Note 11. Events subsequent to reporting date**

(a) On 15 January 2002, the Company changed its name from NRMA Insurance Group Limited to Insurance Australia Group Limited.

(b) On 1 March 2002, an interim dividend of 4.5 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 29 April 2002.

(c) On 1 March 2002, the Company announced it is investigating an off-market buy-back of approximately \$300 million of ordinary shares. The final price and the allocation of that amount between capital and a fully franked dividend will be determined under the terms and conditions of the buy-back offer. This buy-back will be funded from surplus capital and a potential issue of re-set preference shares.

(d) On 1 March 2002, the Company announced it is investigating an issue of approximately \$300 million of re-set preference shares. These preference shares are expected to qualify as Tier 1 capital and will be treated as equity.

As these transactions occurred after balance date and did not relate to conditions existing at balance date, no account has been taken of them in the financial statements for the half year ended 31 December 2001.

**INSURANCE AUSTRALIA GROUP LIMITED (FORMERLY NRMA INSURANCE GROUP LIMITED) AND  
CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

In the opinion of the Directors of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited):

- (a) the financial statements and notes, set out on pages 3 to 14, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2001 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 1st day of March 2002 in accordance with a resolution of the Directors.

..... Director

..... Director

*Independent Auditors' Review Report to the members of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited)*

**Scope**

We have reviewed the financial report of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited) for the half year ended 31 December 2001, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes and the Directors' Declaration set out on pages 3 to 15. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half year or from time to time during the half year. The Company's Directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the Company to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Statement**

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

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

**KPMG**

**Dr Andries B Terblanché**  
*Partner*

Sydney  
1st March 2002