Insurance Australia Group Limited

ABN: 60 090 739 923

Directory

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

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Key dates for shareholders

Interim dividend - ordinary shares	
- Ex-dividend date	6 March 2003
- Record date	12 March 2003
- Payment date	14 April 2003
Half-yearly reset preference shares dividend due	16 June 2003
Announcement of annual results to 30 June 2003	21 August 2003
Final dividend - ordinary shares	
- Ex-dividend date	4 September 2003
- Record date	10 September 2003
- Payment date	13 October 2003
Annual General Meeting	12 November 2003
Half-yearly reset preference shares dividend due	15 December 2003

CONTENTS

Introduction

The six month period ended 31 December 2002 was an important period in the development of Insurance Australia Group Limited ('IAG') and its controlled entities (together, 'the Group'). During the period, the Group:

- Generated a profit for shareholders of $62m after tax and outside equity interests, in spite of record low returns from equity markets;
- Delivered its fourth consecutive half-year underwriting profit;
- Improved its ROE measured on normalised investment returns;
- Undertook the acquisition of the CGU Insurance Australia Limited group ('CGU') and the Belves Investment Group Limited group ('NZI') in Australia and New Zealand, respectively, from Aviva plc; and
- As a consequence, is tracking well on the delivery of its five-year strategic goals.

Although announced on 18 October 2002, the acquisition of the CGU and NZI businesses was completed on 2 January 2003, following receipt of all necessary regulatory approvals. Consequently, the operations of the acquired businesses are not included in the results for the six months to 31 December 2002 and the statement of financial position as at that date. However, given the significance of the acquisition to the Group, information on the recent financial performance of the acquired businesses has been included in an Appendix to this report. This Appendix also includes an update on key transaction metrics reflecting the performance of the acquired businesses exceeding the base case used in the presentations on the transaction in October.

The improvement in the IAG business, including the newly acquired CGU and NZI businesses, has enabled the Group to move to a lower target combined ratio range for the consolidated group of 96 - 98% (rather than merely sub-100%) based on the following ranges for each segment:

- 94 – 96% for short-tail (domestic);
- 105 – 110% for long-tail (domestic); and
- 92 – 95% for international.

This should enable the delivery of insurance margins in the range of 9 – 11%. These ranges are based on the total insurance result, post completion of the integration of the CGU and NZI businesses.

OVERVIEW OF FINANCIAL RESULTS (EXCLUDING CGU/NZI)

The delivery of a profit after tax and outside equity interests ('OEI') of $62m in such difficult times in the investment markets is a testament to the sustained improvement in the operating results of the Group:

- Gross earned premium ('GEP') grew by 10.1% over the prior comparative period ('pcp');
- Reductions were achieved in both the loss and expense ratios relative to the pcp. Particularly benign weather was a contributory factor for the improved loss ratios but much of the improvement is sustainable from the Group's ongoing work to improve underwriting, claims and expense management. Of particular note in this period is the reduction in reinsurance expense following the restructure of its reinsurance programme for this financial year;

- The Group has delivered its fourth consecutive combined ratio ('COR') under 100%. The COR for the period of 96.0% compares with 99.8% when the first underwriting profit was delivered in 2H01. There has been an ongoing improvement in the COR since 2H01 (when one-off net benefits included in the intervening two periods –1H02 and 2H02 - are excluded);
- The increase in the insurance margin to 16.1%, relative to 8.0% for the pcp, is attributable to the improved operating performance and the benefits of the reduced exposure to equities in the Group's technical reserves during the current poor equity market conditions; and
- Poor equity market returns are the key constituent of the balance of the results.

OVERVIEW OF FINANCIAL POSITION

As at 31 December 2002, the Group's capital position was very strong with a consolidated minimum capital requirement multiple ('MCR') of 2.29x (the basis of this measurement is discussed in the Capital Management section of this report).

At balance date, the funding for the CGU/NZI acquisition had been partially completed but the acquisition itself did not take place until 2 January 2003, at which time the Group utilised short-term debt facilities of $480m. The longer term funding for the acquisition will be put in place in coming months.

The Group also has recently introduced a dividend reinvestment plan and has underwriting commitments of up to $160m in place in relation to the DRP.

On a pro-forma basis, i.e. including the CGU/NZI business and completion of the proposed funding structure, the combined IAG and CGU/NZI financial position at 31 December 2002 would have had an MCR of 1.41x. This is comfortably within the Group's target multiple range of 1.35x – 1.65x.

PROGRESS ON STRATEGY

In May 2002, the Group announced its five-year financial aspirational goals for the Group. These had been set having regard to a review of the Group's operations and outlook, the Board's risk appetite and the performance of very well regarded insurers locally and internationally. The Group is progressing well with the delivery of the operational elements of these goals, which should be reflected in the total shareholder return over time.

These goals – which are regarded as inter-twined, are as follows:

- Top quartile total shareholder return (measured against the ASX 100);
- Return of 13-15% on ordinary shareholder equity (normalised);
- Double gross written premium by 2007 to $6.6bn;
- Maintain a combined ratio under 100%; and
- Maintain an AA category insurer financial strength rating.

Five areas of improvement were highlighted for focus to deliver the goals.

1. Reinvigorate customer focus

With input from staff across the Group, a programme of initiatives to improve the Group's service delivery to customers has been established. These initiatives are now being prepared for implementation in conjunction with the integration process for the CGU and NZI businesses.

2. Extending scale and diversity in core general insurance

The Group has been making ongoing improvements in its scale and diversity of general insurance in recent years. The acquisition of the CGU and NZI businesses provides the Group with improved scale and diversity in terms of product, geography and distribution. The expanded Group now has the skills and reach, in terms of product and distribution channels, to service the full range of insurance customers in Australia and New Zealand that it wishes to service.

3. Leveraging core capabilities

The improvements delivered in the operational performance of the Group's business are a testament to the ongoing leveraging of core capabilities. The acquisition of CGU and NZI has expanded these capabilities. This is clear in areas such as commercial products and intermediated distribution. However, the acquisition has also brought skills in areas such as IT that are an added benefit.

4. Managing risk

The increased diversity of the business and the skills of its people improve the risk profile of the business. The Group has well-established risk management and compliance governance in place and is in the process of integrating the CGU and NZI businesses into these processes. This includes operational risk management processes for each business unit.

The Group has an acknowledged leadership position in the risks associated with personal lines and personal injury insurance issues. Ongoing investment is occurring in developing the Group's skills in these areas. This work provides the Group with quality information to better underwrite the insurance it sells, provide assistance to customers in the management of their risks and enables the Group to have a leadership position in the community in risk prevention and management for insurable risks and related matters, eg workplace safety, car safety and climate change.

5. Delivering high quality growth and earnings

The Group has delivered ongoing improvements in its operations and continuously improving returns on equity (when measured with normalised investment returns). This has been achieved whilst retaining a very strong insurer financial strength ratings for the key operating companies (AA category, Stable outlook from Standard & Poor's).

The expanded diversity of the Group's portfolios; focus on proper pricing for risk; continued work on the effectiveness and efficiency of processes; and ongoing capital management improvements, have ensured that the Group is positioned to deliver more sustainable and less volatile results in future periods.

Half-year results

Consolidated Financial Results	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02	*Variance Dec-01 vs Dec 02*
	A$m	A$m	A$m	*A$m*
Gross written premium	**1,665**	**1,893**	**1,886**	***221***
Gross earned premium	**1,696**	**1,752**	**1,868**	***172***
Reinsurance expense	(128)	(125)	(69)	*59*
Net premium revenue	**1,568**	**1,627**	**1,799**	***231***
Net claims expense	(1,216)	(1,209)	(1,382)	*(166)*
Underwriting expense	(315)	(313)	(346)	*(31)*
Underwriting profit	**37**	**105**	**71**	***34***
Investment income on technical reserves	88	48	219	*131*
Insurance profit	**125**	**153**	**290**	***165***
Financial services	8	(13)	2	*(6)*
Net corporate expenses	(24)	(18)	(14)	*10*
Amortisation and interest	(36)	(31)	(39)	*(3)*
Profit from fee based businesses	17	15	2	*(15)*
Investment income/(loss) on shareholders' funds	(54)	(180)	(129)	*(75)*
Investment income/(loss) on external funds	4	(79)	12	*8*
NSW Insurance Protection Tax	(10)	(11)	(9)	*1*
Non-recurring items	33	-	-	*(33)*
Profit/(loss) before income tax	**63**	**(164)**	**115**	***52***
Income tax (expense)/benefit	(5)	23	(18)	*(13)*
Profit/(loss) after income tax	**58**	**(141)**	**97**	***39***
Outside equity interests	(9)	67	(35)	*(26)*
Profit/(loss) attributable to shareholders	**49**	**(74)**	**62**	***13***
Dividends paid on reset preference shares	-	-	(11)	*(11)*

Financial Results/Ratios	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
GWP (A$m)	**1,665**	**1,893**	**1,886**
Profit attributable to shareholders (A$m)	49	(74)	62
ROE % (Average Equity)	1.9%	(2.9%)	2.1%
Basic EPS (cents)	3.52	(5.28)	3.64
Diluted EPS (cents)	3.50	(5.28)	3.62
DPS	4.5	6.0	4.5
Group insurance ratios			
Loss ratio	77.5%	74.3%	76.8%
Expense ratio - Group	20.1%	19.2%	19.2%
Expense ratio - Domestic	19.5%	18.4%	18.1%
Combined ratio - Group	97.6%	93.5%	96.0%
Insurance margin (before tax)	8.0%	9.4%	16.1%
Probability of sufficiency of general insurance claims reserves	>90%	>90%	>90%

A. KEY ELEMENTS OF RESULTS

- The Group reported profit after tax and OEI for the half-year ended 31 December 2002 ('1H03') increased to $62m from $49m for 1H02.
- Gross written premium ('GWP') increased by 13.3% relative to the pcp. GWP declined marginally on 2H02 due to seasonality in the timing of commercial renewals and a reduction in the price of compulsory third party ('CTP' or motor liability) premiums due to the continued stability and profitability of the New South Wales scheme. Decreases in the average CTP premiums are being offset by increased market share.
- Gross earned premium increased over both prior periods – by 10.1% relative to the pcp. The increase in gross earned premium is attributable to organic growth. This impact is augmented at the net earned premium level by a reduction in the Group's reinsurance expense. This was foreshadowed in the 2H02 results following the consolidation and restructure of the Group's reinsurance protections.
- The Group's insurance business delivered an insurance profit of $290m for 1H03, more than double the insurance profit of $125m for the pcp. This translates to an improvement in the insurance margin to 16.1% from 8.0% for 1H02. Restating 1H02 to exclude non-recurring items, the like with like improvement is greater – from 6.7% to 16.1%.
- The 1H03 result includes a reduction of $59m in reinsurance expense relative to the pcp. This is in line with expectations following the restructure of the Group's reinsurance protections effective 1 July 2002. Overall, this contributed over $50m to the result relative to the two prior periods.
- Benign weather conditions for motor insurance were a significant contributory factor in the increase in the underwriting profit from $37m to $71m. When the El Niňo weather cycle ends, more wet weather can be expected. This will moderate the improvement reported in this period. However, ongoing improvements in the Group's underwriting and expense management, which are considered sustainable, are also contributing to the improved performance.
- Whilst the total expense ratio shows improvement to 19.2% from 20.1% in 1H02, it is unchanged from 2H02. The 1H03 expense ratio includes investment of $21m in new systems in New Zealand and a customer oriented process review in Australia.
- An increase of $131m in investment income on technical reserves is included in the $165m improvement in the insurance result. Whilst there has been an increase in the technical reserves of some 15%, the key factor in the improved result has been the elimination of exposure to equity market performance from the technical reserves. This contributed around $98m to the outcome. The migration to an investment portfolio with a duration that more closely matches the expected duration of the claims liabilities reduces the exposure to volatility in future insurance margins.
- Falling equity markets continued to set new record lows, with the Australian equity market having its first calendar year loss in almost a decade and the US equity market producing its third successive fall for the first time since the 1940s. This led to a loss of $129m on shareholders' funds compared with a loss of $54m for the pcp.
- Whilst the $2m profit from the Group's financial services operation – ClearView Retirement Solutions – was a decline on the pcp, it was achieved against the backdrop of a new customer proposition and brand launched in February 2002 into what transpired to be a weak investment market. This created an adverse sales environment with which the business was better able to cope due to the low cost operating model implemented a year ago.

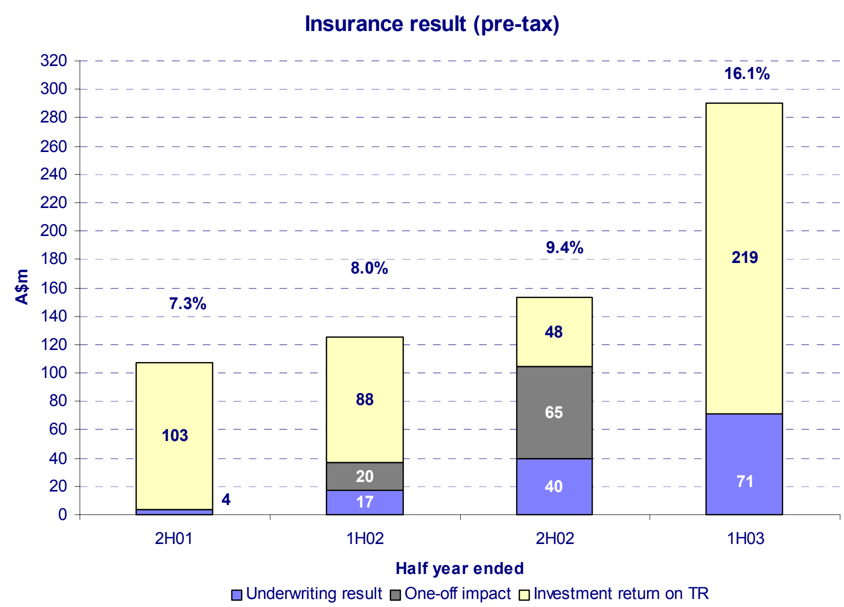
- In accordance with previously stated goals, the run rate of corporate expenses at $14m for 1H03 is significantly below that of 1H02 and is now 22% of the run-rate of two years ago.
- Amortisation and interest expense includes $8m in respect of goodwill amortisation relating to SGIO following recognition of $302m of goodwill subject to amortisation at 30 June 2002. Following completion of the acquisition of CGU/NZI on 2 January 2003, amortisation of the goodwill on this acquisition will commence in 2H03.
- Income from fee based businesses reduced following a change in focus away from fee generation from third parties for corporate services and reduced volume of business in this area.
- The effective tax rate of 16% includes a benefit of $10m from franked dividend income and $6m in respect of permanent differences arising from hedging by IAG NZ of the Australian dollar price of the acquired NZI business.
- IAG paid its maiden dividend of $11m on the $350m of reset preference shares issued in June 2002. These shares currently pay a fixed rate of dividend of 5.80% per annum, fully franked.
- The improvement in the quality of this period's earnings is based on the strong fundamentals that have been driving the Group's insurance earnings over the past two years. This has enabled the group to report an improved profit despite the continued negative impacts from investment markets.

B. UNUSUAL/NON-RECURRING ITEMS IN PRIOR PERIOD RESULTS

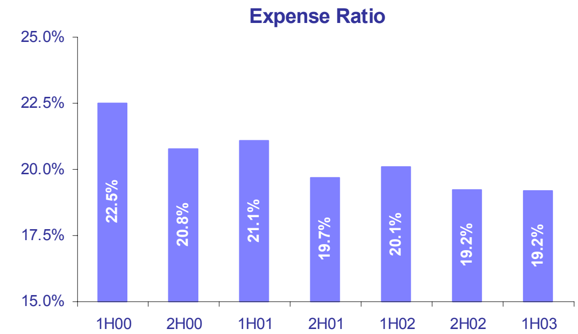
- A number of unusual or non-recurring items affected the results of the two prior periods. The following table is designed to provide the underlying comparative insurance results on a consistent basis:

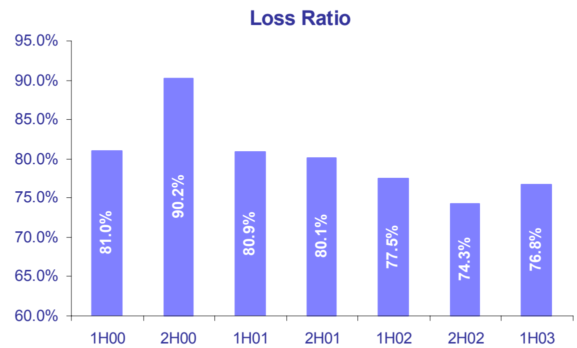
Impact of unusual/non-recurring items on insurance result	Half-year ended Jun-01	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02
	A$m	A$m	A$m	A$m
Net premium revenue	**1,460**	**1,568**	**1,627**	**1,799**
Underwriting profit/(loss)	**4**	**37**	**105**	**71**
One-off items:				
WAASL valuation adjustment	**-**	**(110)**	**(75)**	**-**
Net loss S11, storms & bushfires	**-**	**90**	**10**	**-**
Net one-off items	**-**	**(20)**	**(65)**	**-**
Adjusted underwriting profit	**4**	**17**	**40**	**71**
Investment income on technical reserves	103	88	48	219
Insurance profit/(loss)	**107**	**105**	**88**	**290**
Adjusted insurance ratios				
Loss ratio	80.1%	78.8%	78.3%	76.8%
Expense ratio	19.7%	20.1%	19.2%	19.2%
Combined ratio	99.8%	98.9%	97.5%	96.0%
Insurance margin (before tax)	7.3%	6.7%	5.4%	16.1%

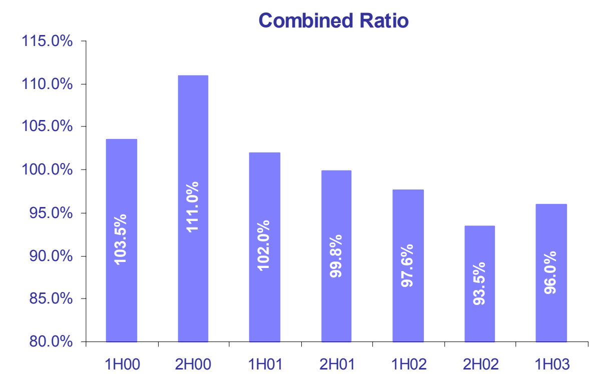
- The Group had a whole of account aggregate stop loss contract ('WAASL') for four years until it was terminated effective 30 June 2002 when the Group concluded that it would no longer add value. The contract provided protection if the loss ratio of the covered portfolios exceeded specified points. As the Group's underwriting results had continued to improve and the long-tail classes were stable, the probability of future claims by the Group on the contract had declined to such an extent that net future cash flows were a net asset to the Group and were brought to account. $110m was recognised in 1H02 and a further $75m in 2H02. In each period the respective reinsurance recovery was allocated 75:25 between long-tail and short-tail businesses in accordance with the underlying premiums and risks on the contract.
- Unusually severe storms, record duration bush-fires and net losses from the World Trade Center tragedy cost the Group $100m in FY02, of which $90m was recognised in 1H02 and $10m in 2H02.
- The 1H02 reported profit also included the following two non-recurring items reported below the insurance result:
  - Legal expenses of $12 million in relation to the 1994 "Share in the future" restructuring proposal; and
  - Profit on sale of the Building Society of $45 million.
- The following graph shows the insurance result separating the component contributed by the significant unusual/non-recurring items.

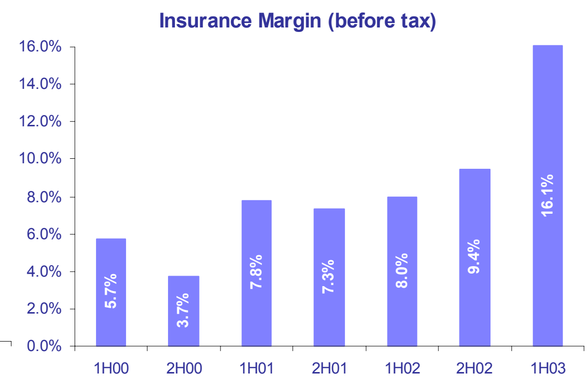


Group insurance ratios





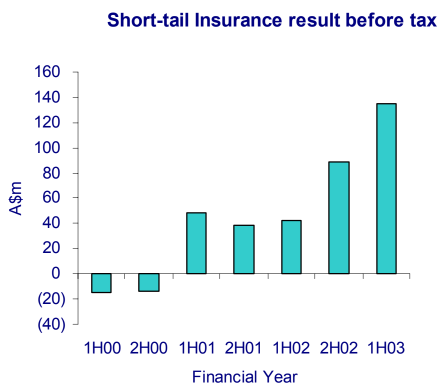


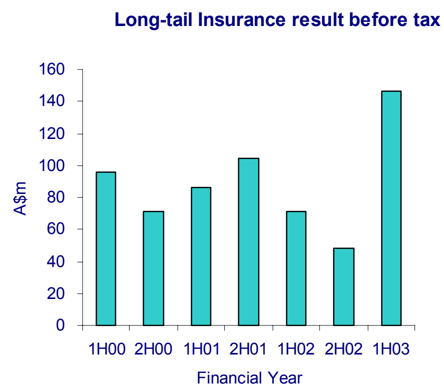


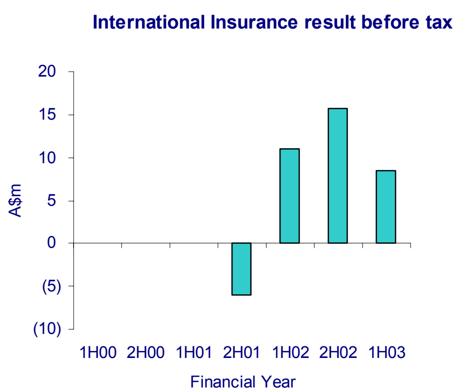
- These graphs are prepared from the reported results and therefore include the non-recurring/unusual items discussed above. Thus the marginal increases in the COR and its constituent expense and loss ratios shown in the above graphs should be viewed in this context. As shown in the table on non-recurring/unusual items, there has been ongoing underlying improvement in the COR.
- The expense ratios reported above include fire services levies in both premium and expenses. Excluding these, the expense ratio each period would be approximately 2% lower – 17.5% for 1H03. This compares very favourably with international benchmarks.
- The trend of improved underwriting results is consistent with the Group's stated intention to improve the level and sustainability of its business results by leveraging its strong franchises and capabilities. Four consecutive underwriting profits reflect this.
- The Group has directed increased resources to its asset:liability risk management. This led to the elimination of equity market exposure from the investments backing technical reserves during 2002. The combination of this work and the improved operating performance has generated an insurance margin of 16.1% for 2H02 – more than double the 8.0% achieved in the pcp.
- The CGU/NZI acquisition will enhance the sustainability of CORs of less than 100% due to the increased proportion of short-tail business in the Group's portfolio. However, the constituent elements of the ratio will change. As CGU/NZI generates a large proportion of its business through intermediaries, the expense ratio of the acquired businesses is higher and the loss ratio commensurately lower. On a pro-forma basis, the expense ratio for the combined group for 1H03 was 24.1%.
- The improvement in the existing businesses and the quality of the acquired businesses have led to the new post-integration target combined ratio of 96 – 98%.

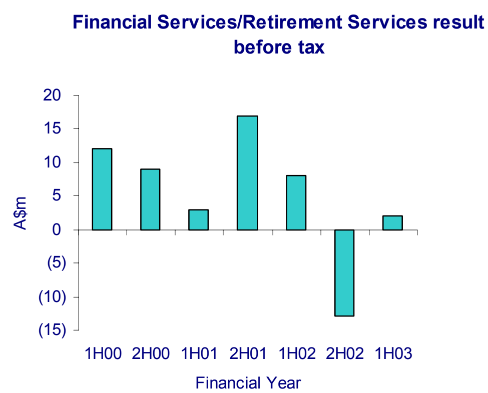
Analysis of group results

A. SEGMENT RESULTS OF OPERATIONS



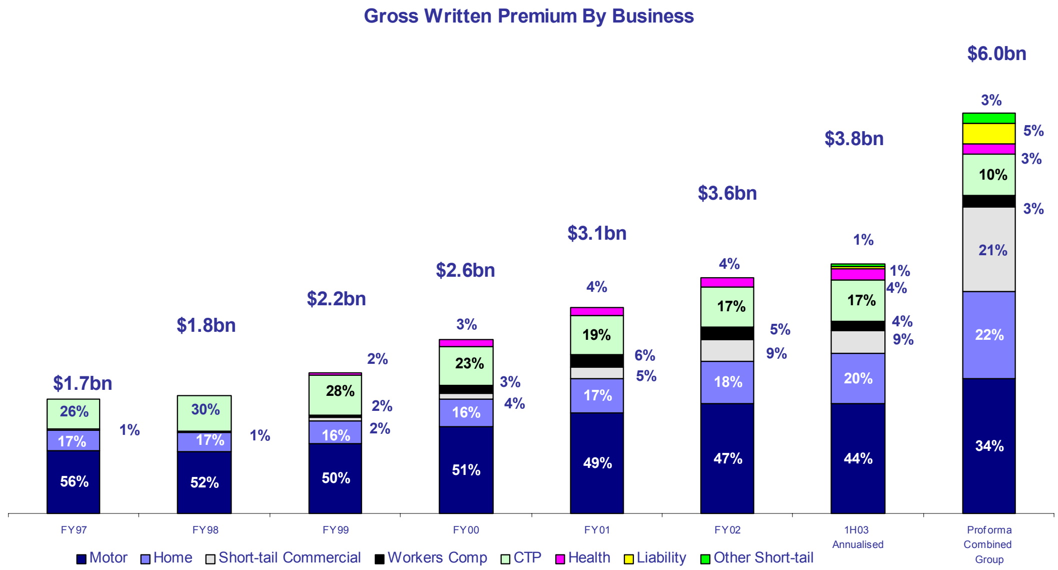






- The performance of each business segment is discussed in the relevant section of this report.

B. PREMIUM GROWTH AND DIVERSIFICATION



Notes:

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

Pro-forma combined group is based on 12 months to December 2002 for CGU/NZI and IAG's 1H03 premium doubled.

B.1 Premium growth

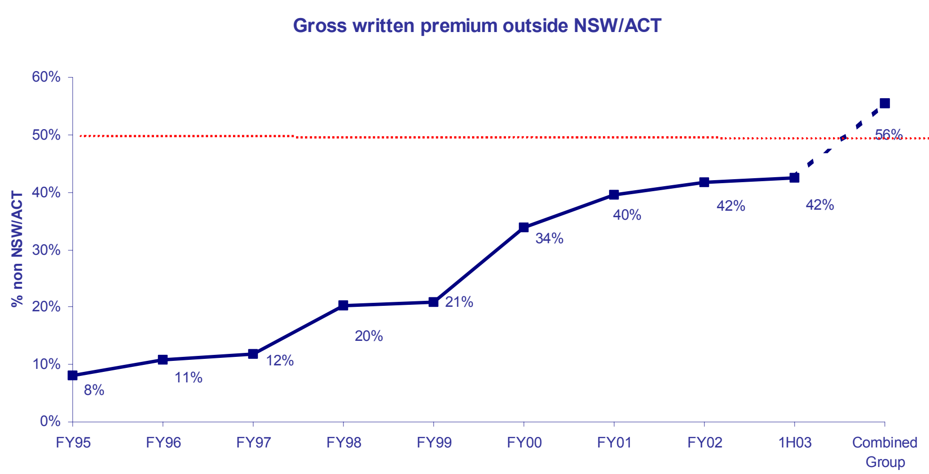
- Assuming the FY03 GWP is double that for 1H03, the Group has delivered compound growth of over 14% per annum in GWP for the five years from FY99. Including CGU/NZI's written premium of $2.27bn for calendar 2002 brings the pro-forma GWP for the Group to $6.0bn. This demonstrates that the Group is progressing well towards its financial aspiration of doubling premium to $6.6bn over the five years to 2007.
- Acquisitions contributed approximately 45% of the growth since 1999 (mainly the RACV Insurance business in Victoria and the State business in New Zealand). Whilst premium rates and asset values have contributed to the organic growth, the contribution of high retention of business from the Group's strong franchises, increased cross selling of products to preferred risks and the growth of new product lines (such as commercial and health) are also significant elements of the growth.
- The prospects of further GWP growth over the next few years are enhanced with the acquisition of the CGU/NZI business, where the group is set to more than double its exposure to the commercial insurance market (from 9% to 21% of GWP mix), which is continuing to experience hardening premium rates. The focus of the combined business will remain on the small to medium enterprise ('SME') segment of the market.
- Over the next year the Group will be focusing on integrating the CGU/NZI business, whilst continuing to deliver high levels of customer service to the expanded customer base.

B.2 Product diversification

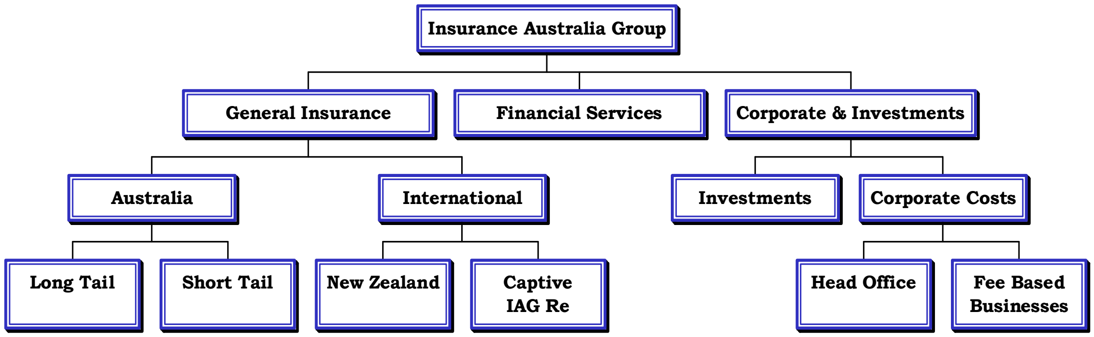
- The Group has moved from being dependent on three products in Australia as of 1998 to having substantially more product diversification. With the CGU/NZI acquisition, the Group has the market leading position in five key product groups in Australia – motor, home, compulsory third party ('CTP' or motor liability), workers' compensation and commercial for the small to medium enterprises ('SMEs'). It has also become the market leader in New Zealand.
- This range of businesses and scale in each enables the Group to provide comprehensive service to its customers and to leverage scale to improve underwriting, costs and risk management.
- The mix of the business between short-tail and long-tail – approximately 80:20 post-completion of the acquisition – also contributes to the Group's confidence of delivering CORs of less than 100% throughout any underwriting cycle.

B.3 Geographic diversification

- The risks inherent in the Group's historic product concentration were exacerbated by geographical concentration in New South Wales and the Australian Capital Territory ('NSW/ACT'). Geographical diversification has been improving in recent years towards the target of generating more than 50% of premium outside NSW/ACT. The CGU/NZI acquisition has led to the realisation of this target with a move up to 56%.



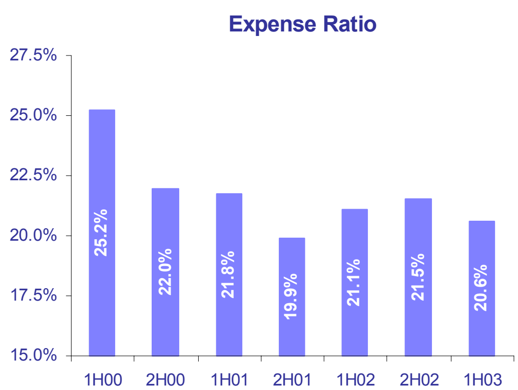
A. RESULTS BY BUSINESS AREA

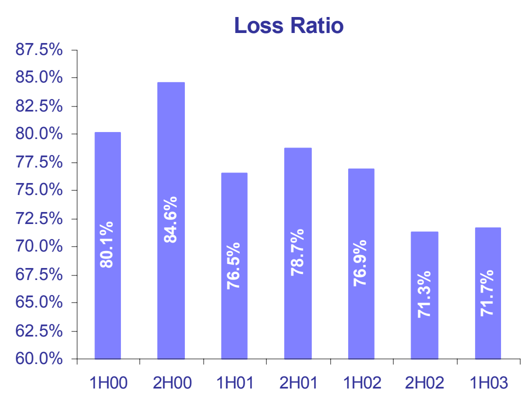


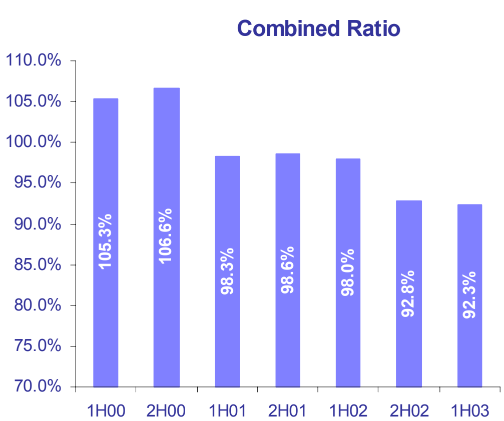
Insurance Australia Group Limited	Short-tail	Long-tail	Retirement Services	Corp & Inv't	Inter-national	Half-year ended Dec- 02	Half-year ended Dec- 01
	A$m	A$m	A$m	A$m	A$m	A$m	A$m
Net premium revenue	**1,163**	**423**			**213**	**1,799**	**1,568**
Net claims expense	(834)	(397)			(151)	(1,382)	(1,216)
Underwriting expense	(240)	(48)			(58)	(346)	(315)
Underwriting profit/(loss)	**89**	**(22)**			**4**	**71**	**37**
Investment income on technical reserves	46	169			4	219	88
Insurance profit	**135**	**147**			**8**	**290**	**125**
Financial services			2			2	8
Net corporate expenses				(14)		(14)	(24)
Amortisation and interest				(39)		(39)	(36)
Profit from fee based businesses		3		(1)		2	17
Investment income/(loss) on internal funds				(129)		(129)	(54)
Investment income/(loss) on external funds				12		12	4
NSW Insurance Protection Tax				(9)		(9)	(10)
Non-recurring items				-		-	33
Profit before income tax	**135**	**150**	**2**	**(180)**	**8**	**115**	**63**
Income tax (expense)/benefit				(18)		(18)	(5)
Profit after income tax						**97**	**58**
OEI: External funds						(12)	(1)
OEI: Insurance Manufacturers of Australia						(22)	(8)
Profit/(loss) attributable to shareholders						**62**	**49**
Dividend on reset preference shares						(11)	-
Profit/(loss) attributable to ordinary shareholders						**51**	**49**
Basic earnings per share (cents)						**3.64**	**3.52**
Diluted earnings per share (cents)						**3.62**	**3.50**

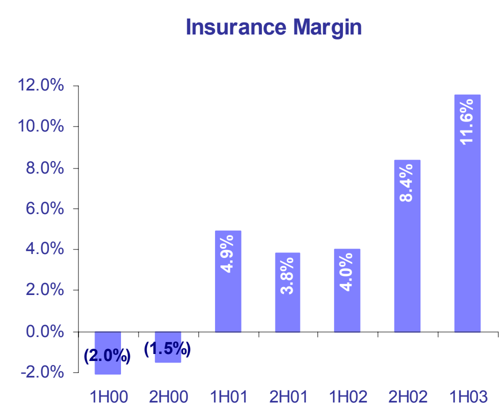
Domestic short-tail analysis

Domestic short-tail	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02	*Variance Dec-01 vs Dec 02*
	A$m	A$m	A$m	*A$m*
Gross written premium	**1,131**	**1,226**	**1,252**	***121***
Gross earned premium	**1,125**	**1,141**	**1,216**	***91***
Reinsurance expense	(65)	(76)	(53)	*12*
Net premium revenue	**1,060**	**1,065**	**1,163**	***103***
Net claims expense	(815)	(759)	(834)	*(19)*
Underwriting expense	(224)	(230)	(240)	*(16)*
Underwriting profit	**21**	**76**	**89**	***68***
Investment income on technical reserves	22	12	46	*24*
Insurance profit	**43**	**88**	**135**	***92***
Insurance ratios				
Loss ratio	76.9%	71.3%	71.7%	*(5.2%)*
Expense ratio	21.1%	21.5%	20.6%	*(0.5%)*
Combined ratio	98.0%	92.8%	92.3%	*(5.6%)*
Insurance margin (before tax)	4.0%	8.4%	11.6%	*7.6%*







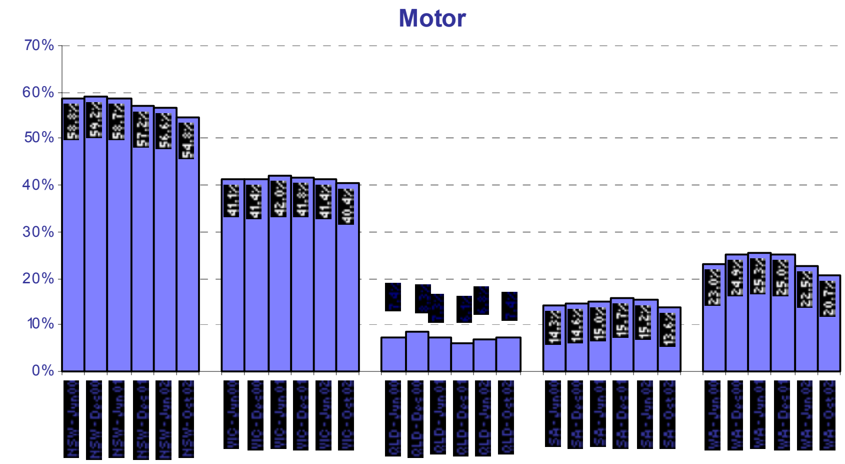


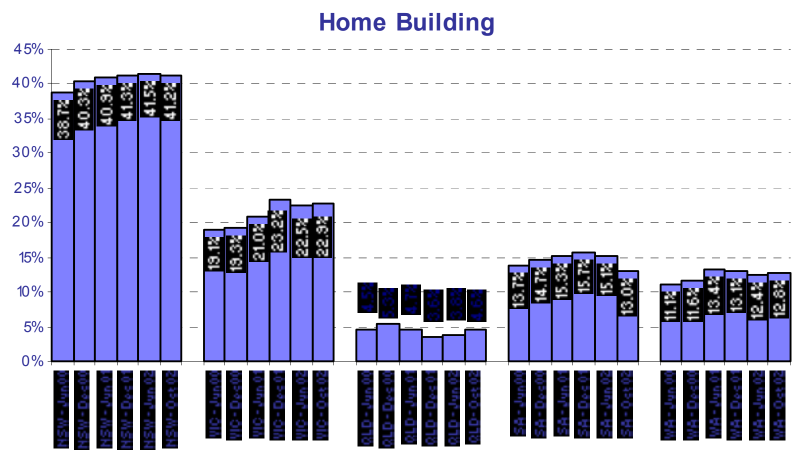
A. OPERATING RESULTS

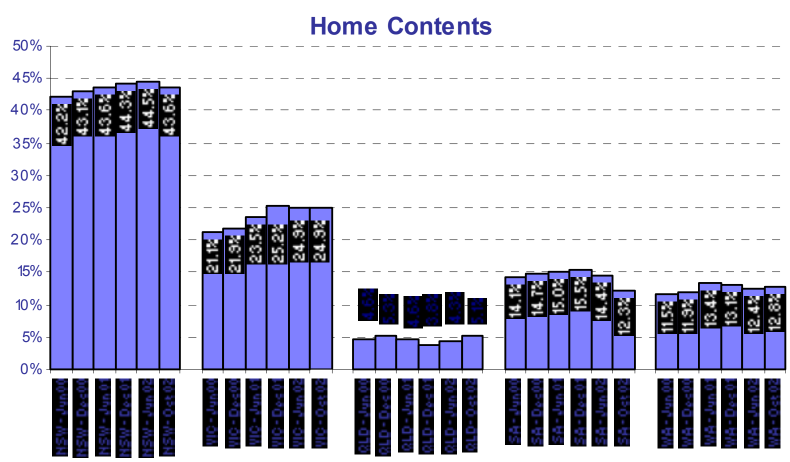
- The continued improvement in all key insurance ratios in the short-tail business reflects the fruition of initiatives to improve underwriting and risk-based pricing, as well as concentrated efforts on reducing average claims costs.
- The insurance margin for the short-tail business of 11.6% compares with 4.0% for the pcp and follows the increase to 8.4% for 2H02.
- All major business lines within the short-tail portfolio experienced GWP growth stemming from strong retention rates, premium increases and growth in new business in the commercial portfolio. The Group's short-tail retention rates are well in excess of 80% in all major products.
- The favourable performance of the 1H03 loss ratio relative to prior periods is largely attributable to lower claims frequency. This is attributable to both the ongoing work in underwriting as well as the weather experienced in 1H03, in particular:
  - Unprecedented dry weather conditions which reduces motor claims frequency; and
  - The relatively low occurrence of major weather events in 1H03, compared to the severe storm and record duration bushfires which occurred in 1H02.
- Average claims costs in the main motor portfolio have also continued to reduce in real terms.
- The above factors have contributed to the improvement in the loss ratio from 76.9% in 1H02 to 71.7% 1H03.
- Both 1H02 and 2H02 results included non-recurring/unusual items (see earlier analysis). The underlying loss ratio for 2H02 was 72.8% and 74.7% for 1H02. This analysis shows that the business performance, as measured by loss ratio, has maintained an improving trend.
- Short-tail also benefited from reduced reinsurance expense following the restructure of the Group's reinsurance programme effective 1 July 2002.
- The combination of effective initiatives to improve the short-tail portfolio's performance and the effect of favourable weather conditions, have combined to produce a result that exceeds the Group's published target COR range of 96-98%. The bushfires which have already occurred in 2H03 (in particular, the Canberra fires on 18 January 2003) and the expected end of the El Niňo cycle in coming months will lead to some reversion upwards of the COR.
- However, the Group has sufficient confidence in the sustainability of quality short-tail results, and the quality of the CGU business acquired, that it now believes that, post-integration, the short-tail business can deliver a COR in the range of 94 - 96%.

B. MARKET SHARE – MOTOR AND HOME

Source: Roy Morgan Research-12 month rolling averages, with October 2002 being the most recent available.







- The market share data shown above is based on extensive telephone interviews. It shows some minor variations in market share by region. In viewing these it is important to note that total policies in force in home and motor have each grown by 2% in the last year. Both reached milestones in the last six months in that home policies now exceed 2m and policies in force in motor exceed 3m.
- The growth in Queensland market share and policies is in line with the Group's strategy.
- The WA market has experienced increased competitor activity and Group market shares there have declined in motor in particular. This issue was exacerbated by the removal of a six-month policy option in this state, to bring it in line with the other regions where all home and motor policies are annual, usually with the option to pay monthly. Following reviews of the Group's pricing in this market and increased marketing activity, the Group expects to regain profitable market share.

C. CLAIMS EXPERIENCE AND MANAGEMENT

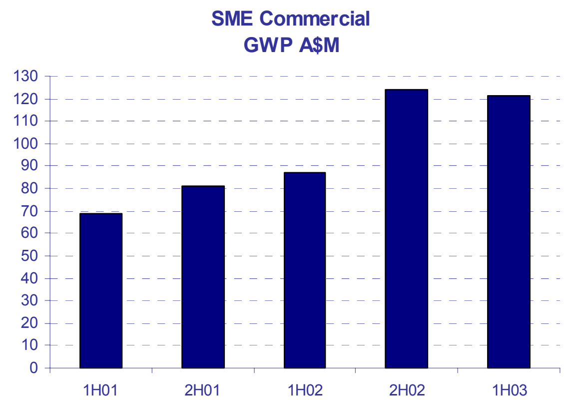
- As noted earlier, the short-tail result for 1H03 has benefited from lower claims frequency due to both:
  - Dry weather and relatively low occurrence of insurable catastrophes during 1H03; and
  - Benefits from improved underwriting, rational risk-pricing and focus on reducing claims frequency and costs per claim. This includes theft as well as repairs.
- The single largest portfolio in this segment, NSW motor, was the main beneficiary and has delivered an exceptional underwriting profit. The record low rainfall, combined with the improvements in underwriting processes and a reduction in theft, has resulted in unprecedented low claims frequency for the period.
- To put the dry weather in context, Bureau of Meteorology statistics show that, for Australia as a whole, 2002 rainfall was 339mm, close to 30% below the long-term average of 472mm. The mean for March to December 2002 period was the lowest for all equivalent periods on record.
- The result includes over $20m in respect of severe storms and bushfires that are treated as within normal allowances for such events.
- The Group's pursuit of continuous improvement in all aspects of claims management, from prevention to assessment and processing of claims, has led to an improvement in customer satisfaction rates across all business in the short-tail portfolio, as well as cost savings.
- The Group has independent surveys undertaken of claimants to monitor their satisfaction with its claims service. This process currently operates in NSW and Victoria and is an important element of measuring the effectiveness of the Group's preferred smash repairer ('PSR') programme that has been operating in these states for some time. The survey outcomes, summarised below, show that almost 90% of customers are likely to renew their policies with similar and increasing numbers indicating their satisfaction with the overall claims experience.

	Customer Satisfaction			Intention to Renew		
	Nov-01	Jun-02	Nov-02	Nov-01	Jun-02	Nov-02
NSW Motor	78%	86%	86%	82%	88%	89%
NSW Home	80%	84%	85%	88%	90%	90%
VIC Motor	75%	84%	89%	74%	88%	86%
VIC Home	84%	89%	89%	81%	86%	91%

Source: Claims surveys (Woolcott Research)

- Variations on the PSR programme have been implemented in the other states. These are tailored to the Group's business in these states. Enhancements to the programme also continue, eg:
  - Digital imaging for remote assessing is now in use by 85% of the PSRs in NSW and usage is growing;
  - Implementation of a programme of re-moulding bumper bars to reduce the immediate cost of repair and the longer term environmental impact of the contribution of discarded bumper bars to land-fill;
  - Introduction of a similar process to PSRs for towing; and
  - Courses are being run to assist PSRs with their business administration and planning to ensure they are well positioned to handle the business generated by their status as a PSR.

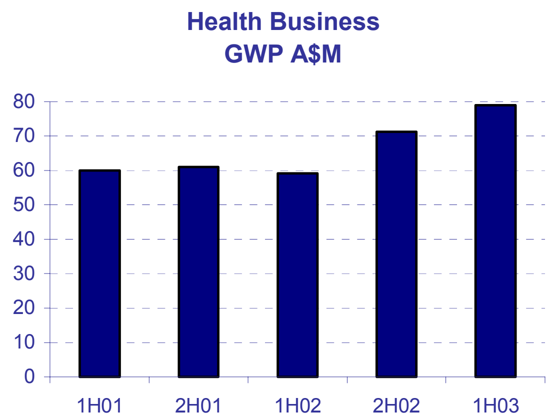
D. SME COMMERCIAL INSURANCE



- The SME commercial business continues to be a positive contributor to the Group's total underwriting result. The key insurance ratios are each trending positively leading to a significant improvement in the COR. It has delivered an underwriting profit in each period since 2H01.
- The slight fall in GWP in 1H03 is due to the volume of business renewing in 30 June, which is included in 2H02. GWP has grown by 40% relative to 1H02.
- The Group's initiative to sell commercial products directly to customers, when all commercial business had been traditionally perceived as too complex for sale other than through brokers, has provided the Group with a competitive advantage in the SME commercial market. These products are known as the Easybiz range.
- The Group's SME market share has grown since 30 June 2002, increasing from 6.2% to 7.3% as at 31 December 2002. The medium term target established when the product was launched in 2001 was 15%.

- The acquired CGU business includes $694m of commercial premium in Australia (calendar 2002 information). Most of this is short-tail and generated from the SME market. This customer base and the CGU team's experience and infrastructure for this market substantially enhances the Group's commercial operations in terms of growth and breadth of service. The Group can service the spectrum from the small businesses to which the Easybiz range is targeted through to larger commercial operations whose needs will continue to be met through intermediaries. The expanded Group expects to maintain a bias towards the SME segment.

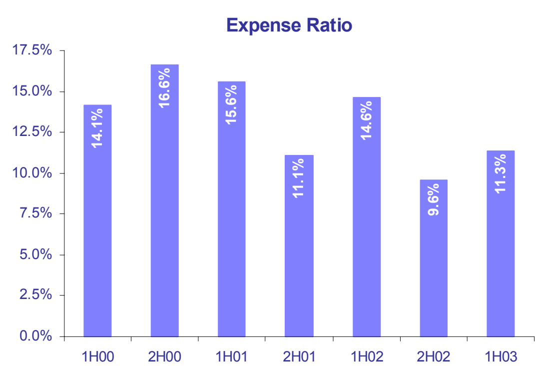
E. HEALTH INSURANCE

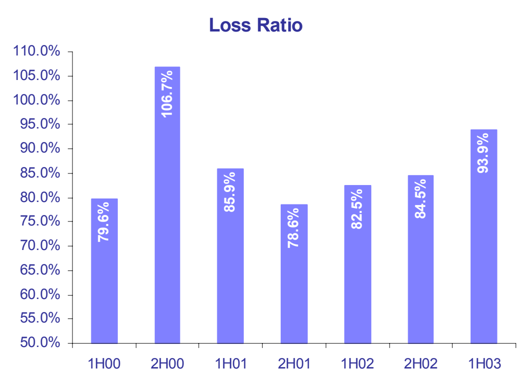


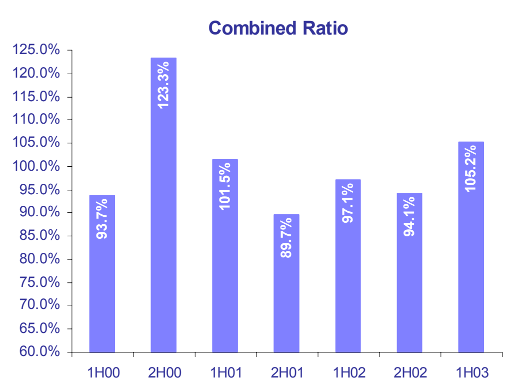
- The health business grew GWP by 34% from 1H02 to 1H03 with strong growth in policies in force of 24% compared with the pcp, but still represents only 4% of IAG premiums for 1H03.
- Consistent with industry experience, the recent profitability of the Group's health business has performed below acceptable levels due to higher claims experience and pricing issues, particularly for ancillary benefits.
- Similar to many competitors in the industry, the Group has lodged a submission to the Federal Government seeking approval for a more rational pricing structure of the product offerings. Approval for the changes is scheduled for mid-March with implementation to take effect from 1 April.
- If approval is not granted in line with the submission, the Group's health insurance product range and features will be restricted to mitigate exposure to continuing losses and position the business for a return to profitability.
- The Group is considering the future of its commitment to underwriting this business as the Group's lack of scale and the regulations governing the health sector gives the Group little basis on which to create a sustainable advantage in underwriting. However, as this is a product for which the Group's customers have demonstrated an appetite, any change in involvement will need to factor in meeting the needs of over 90,000 policyholders who already hold a health insurance policy with the Group.

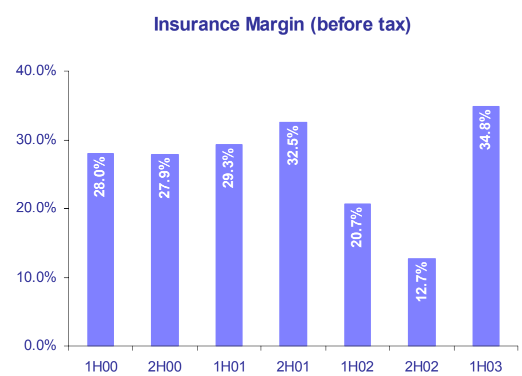
Domestic long-tail analysis

Domestic long-tail	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02	*Variance Dec-01 vs Dec 02*
	A$m	A$m	A$m	*A$m*
Gross written premium	**352**	**459**	**410**	***58***
Gross earned premium	**392**	**425**	**439**	***47***
Reinsurance expense	(49)	(39)	(16)	*33*
Net premium revenue	**343**	**386**	**423**	***80***
Net claims expense	(283)	(326)	(397)	*(114)*
Underwriting expense	(50)	(37)	(48)	*2*
Underwriting profit/(loss)	**10**	**23**	**(22)**	***(32)***
Investment income on technical reserves	61	26	169	*108*
Insurance profit	**71**	**49**	**147**	***76***
Profit from fee based businesses	6	5	3	*(3)*
Total long-tail result	**77**	**54**	**150**	***73***
Insurance ratios				
Loss ratio	82.5%	84.5%	93.9%	*11.4%*
Expense ratio	14.6%	9.6%	11.3%	*(3.3%)*
Combined ratio	97.1%	94.1%	105.2%	*8.2%*
Insurance margin (before tax)	20.7%	12.7%	34.8%	*14.1%*









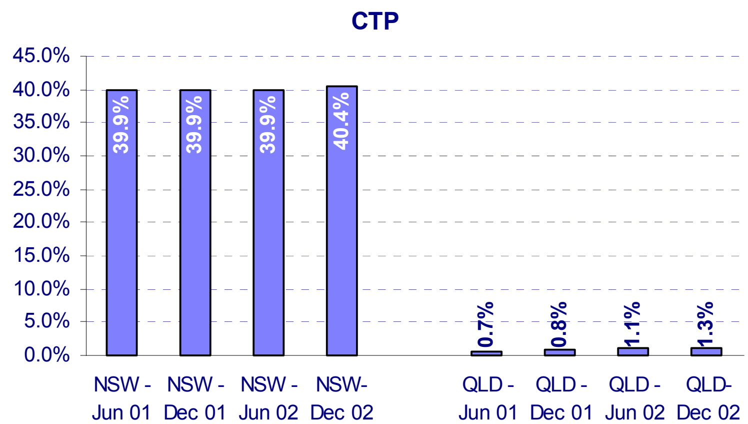
A. OPERATING RESULTS

- The 16.5% growth in GWP relative to the pcp is attributable to increased policies in force in CTP and increased premium and volumes in workers' compensation. The marginal decrease from 2H02 is due mainly to seasonal factors in workers' compensation – this is negated in gross earned premium where the growth is 12% relative to the pcp. A reduction in the average premium for NSW CTP has largely been offset by increased market share.
- To view the underlying trends, the non-recurring/unusual items in the 1H02 and 2H02 results need to be eliminated. The following one-off items were included in the 1H02 long-tail results:
  - The WAASL valuation adjustment of $139 million, of which $83m was recognised in 1H02 and the balance in 2H02; and
  - The net claims expense of $60m from the World Trade Center tragedy.
- Eliminating these factors, the reported loss ratios for 1H02 and 2H02 would have been 94.8% and 93.7% respectively.
- The long-tail portfolio's reinsurance expense benefited by about $30m from the savings generated by the restructure of the Group's reinsurance programme effective 1 July 2003.
- The claims expense for 1H03 includes $80m in respect of the reduction in market discount rates applied to the claims reserves relative to 30 June 2002. This added 19% to the loss ratio, but is offset by increases in investment income. There was a credit of $12m in 1H02 and an expense of $30m in 2H02 in respect of discount rate movements.
- The Group's policy on probability of sufficiency for the consolidated claims reserves remains unchanged at a minimum of 90% - with the long-tail claims reserves dominating the provisioning.
- The continuing stability of the two largest components of this segment, ie NSW CTP and Western Australian workers' compensation have again generated very strong results. This has also been translated into more stable and/or reducing premiums for customers. For example, the benchmark NSW CTP premium – the Sydney best metro rate - is now at its lowest level since 1989. Whilst this curtails growth in the top line, sustainable profitability and capital requirements are optimised when the schemes are stable.
- The expense ratio for 1H03 returned to more normal levels following some volatility in 1H02 and 2H02 due to the incurrence of software development costs and changes in the extent to which deferred acquisition costs were recognised.
- Investment income on technical reserves has increased significantly reflecting the increased capital value of fixed interest investments; the elimination of equity market exposure from this portfolio; and growth in the balance of technical reserves in line with the development of a tail on the business growth experienced in recent periods.
- The underlying performance of the Group's long-tail portfolios has been better than the Group's previously published view of the sustainable COR for this business of 105-110%. However, whilst interest rates remain subdued, the contribution of investment income to the return on capital can be expected to be lower. This will result in pricing submissions to the CTP regulator being based on the lower end of the 105 – 110% range to ensure that an adequate return on capital can be generated. Thus the Group's target COR for this business remains unchanged.

- Profit from fee based businesses represents the fees received from various statutory bodies and governments for management of elements of the government underwritten CTP and workers' compensation businesses in various states, net of the expenses of providing those services. The income stream has been reclassified from the Corporate & Investments segment to distinguish it as part of the core operations compared with the relatively incidental fee income generated from the provision of information technology and asset management to third parties.

B. COMPULSORY THIRD PARTY

B.1 Market share



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

- Whilst maintaining its strong market share position at 40.4% in NSW for the 12 months to 31 December 2002, the Group has also been able to maintain its desired balance of risk in the CTP portfolio, due to preferred risk groups being targeted.
- The trend in the composition of the NSW CTP portfolio shows continued growth in the lower-risk classes with no increase in higher-risk classes.
- The growth in NSW CTP market share reflects in part higher renewal rates in 1H03. This reflects the competitive position of the Group's CTP business in terms of pricing and brand awareness.
- The Group holds a 100% market share in ACT; the remaining States in Australia remain government underwritten.
- Growth in Queensland CTP market share continues – off a very low base. In July 2002, the Group entered into a third party distribution agreement with Elders to distribute CTP product in Queensland, an arrangement that is being used to grow this business in the selected rural areas.

B.2 NSW CTP Scheme performance

- The Group has a lower claim frequency for NSW CTP than the industry. This is due to its mix of business and selection of risks within each vehicle class. The Group's market leading NSW motor portfolio provides the business with a competitive advantage for targeting preferred risks.

- As a result of the October 1999 reforms, the NSW Motor Accidents Scheme continues to deliver reductions in the prices for CTP. The best price available before the October 1999 reforms was $404 (a Sydney Metropolitan driver with an age between 30 and 54 years), with the best price after October 2002 of $299 (excluding GST) for the same risk category.
- The stability of the NSW scheme, with both improved internal and external claims management processes, has led to the Group's case estimate development being less than expected and claims are now being finalised at a higher rate than previously experienced.
- The outcomes from the medical assessment and dispute resolution systems established for the scheme are currently being monitored by the Group to ensure that any issues that may hamper their effectiveness are identified and addressed. These systems continue to be effective in reducing the level of payments to legal providers whilst maintaining benefit payments to the seriously injured.
- The CGU acquisition will provide additional distribution opportunities in both NSW and Queensland as CGU ceased providing this product some years ago whereas CGU customers can now obtain the full suite of products from the one Group and through their preferred distribution channel.

B.3 Performance of other CTP schemes

- The ACT scheme is also performing ahead of expectations with lower than expected large claim estimate development, lower average claims cost and claims finalisations being consistently higher than anticipated in the actuarial models.
- The Queensland scheme has shown some deterioration with other insurers also expressing concerns about it. Whilst the Group's market share means that any financial exposure is minimal, management will continue to monitor the scheme for stability, equity and sustainability of reasonable premiums and benefits before any significant growth will occur in the Group's participation.

C. WORKERS' COMPENSATION

- The Group provides workers' compensation in all Australian States and Territories, except for Queensland where the government both underwrites and distributes the product. Where the relevant government is the underwriter, that business is referred to as 'non-risk' with 'risk' States being those where the Group bears the underwriting risk for the business written in that state.

C.1 Market shares

- Market shares in the risk States have remained quite steady at 27% in Western Australia, 14% in the Northern Territory, 18% in Tasmania and 16% in the ACT.
- The market shares in the non-risk States of Victoria and South Australia have remained unchanged at 22% and 16% over the past 6 months whilst there has been a 1% decrease in the market share for NSW to 12%.
- The Group continues to target growth in its penetration of the SME market with continued cross selling from the commercial insurance business expected to contribute to further premium growth.

- In January 2003, the Group acquired Zurich Australia's NSW workers' compensation management unit involving nearly 70 staff. This sub-scale business has a market share of approximately 4.5% in NSW.
- The acquisition of CGU in January 2003 also adds to the Group's scale in this business line as CGU has workers' compensation management licences in each of NSW, ACT, Victoria, South Australia, Western Australia, Northern Territory and Tasmania.
- Post the acquisition of the CGU and Zurich businesses the Group's national market share is estimatded to be 28% for the risk States and 26% for the non-risk States.

C.2 Workers' compensation performance

- There continues to be growth in the risk states with GWP for the six months to December 2002 up by 3% relative to the pcp.
- There are no schemes causing major concerns at present. The 1999 reforms to the Western Australian scheme led to a significant improvement in claims experience, which has been sustained. This is evident from the fact that, across the whole scheme, claims frequency has dropped by over 20% since the reforms were implemented. In addition, the reforms have been successful in reducing the extent to which claims are brought under common law, a factor that had been significant in the extreme inflation in claims costs prior to the 1999 reforms.
- The Group's proven long-tail claims handling philosophy originally developed for NSW CTP has been implemented nationally. Efficiencies in the claims handling process and the creation of a national management structure continue to generate benefits for the Group.

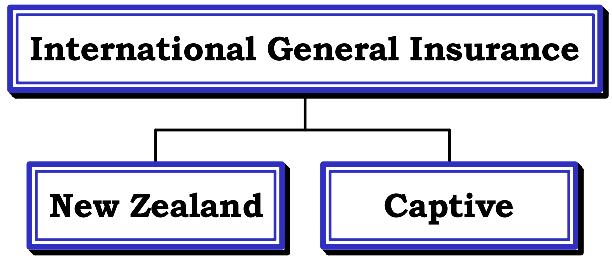
C.3 Fee based businesses/managed schemes

- The Group's performance in the management of personal injury claims ensured that performance bonuses were achieved in all States. In South Australia, the Group was the only workers' compensation agent to have achieved the WorkCover targeted level for the management of pre-2001/02 claims.
- The Group continues to act as the sole claims manager for the South Australian government's CTP scheme but this will cease when the current contract expires on 30 June 2003. Whilst disappointed to lose this contract after many years of service, the financial impact on future profits is negligible.
- The reduced market share in NSW led to a reduced net profit from the scheme management processes in that state during this period.
- The Group's increased scale in the provision of services to the the scheme underwriters provides it with a platform for improved efficiency of operation.

D. DISCONTINUED BUSINESS - INWARDS REINSURANCE RUN-OFF

- The inwards reinsurance run-off programme continues to progress with a number of contracts successfully commuted during the period.
- The Group continues to actively pursue cedants with a view to commute and the Group is in ongoing discussions with a number of cedants. The increased leverage given by the outwards programme for the combined CGU/NZI/IAG operation is expected to further facilitate this process.

International general insurance



A. INTERNATIONAL

International Operations	Half-year ended Dec-01	Half-year ended Jun-02	Half-year ended Dec-02	*Variance Dec-01 vs Dec 02*
	A$m	A$m	A$m	*A$m*
Gross written premium	**272**	**215**	**379**	***107***
Gross earned premium	**221**	**241**	**356**	***135***
Reinsurance expense	(56)	(65)	(143)	*(87)*
Net premium revenue	**165**	**176**	**213**	***48***
Net claims expense	(118)	(124)	(151)	*(33)*
Underwriting expense	(41)	(46)	(58)	*(17)*
Underwriting profit	**6**	**6**	**4**	***(2)***
Investment income on technical reserves	5	10	4	*(1)*
Insurance profit	**11**	**16**	**8**	***(3)***
Insurance ratios				
Loss ratio	71.5%	70.5%	70.9%	*(0.6%)*
Expense ratio	24.8%	26.1%	27.2%	*2.4%*
Combined ratio	96.3%	96.6%	98.1%	*1.8%*
Insurance margin (before tax)	6.7%	9.0%	4.0%	*(2.7%)*

- The growth in GWP over the year from 1H02 represents the combination of 23% growth in the New Zealand insurance operations and an increase of over 60% in reinsurance written for the Group through the Group's captive, IAG Re. The growth in the volume of reinsurance written by the captive reflects the consolidation of the Group's covers with effect from 1 July 2002.
- IAG NZ has experienced growth across all channels, but particularly in Circle (the broker brand/channel) and the corporate partnership channel (business sold under third party brands).
- The increase in the expense ratio – and consequently the combined ratio – is largely attributable to investment of $5m for the development of a new policy administration system, which accounts for over 2% to the expense ratio.
- Post-integration of the NZI business, the international segment is targeting a COR of 92 – 95%.

B. INTERNATIONAL BUSINESS DEVELOPMENT

- The Group's interests in Thailand (an ownership interest of 20% in Safety Insurance) and China (99% ownership of the company providing road service in Beijing) have been maintained. Safety's performance continues to improve and has consistently generated profits since 1999. The China Automobile Association continues to increase its customer base. It is now profitable and covers over 100,000 vehicles. Both investments remain immaterial to the Group's operations.
- Research into other opportunities for long-term expansion through leveraging of the Group's capabilities continues. However, there are no plans for significant expansion beyond Australia or New Zealand for at least a year.

Retirement Services analysis

Profit before tax	Half-year ended Dec-01	Half-year ended June-02	Half-year ended Dec-02
	A$m	A$m	A$m
ClearView Retirement Solutions	6	(13)	2
Building Society	2	(1)	-
Total	**8**	**(14)**	**2**

ClearView Retirement Solutions	Half-year ended Dec-01	Half-year ended June-02	Half-year ended Dec-02
	A$m	A$m	A$m
Managed investments [1]	1	3	2
Risk products	8	4	9
Shareholders funds investment income	1	-	-
Retirement Solutions development	(7)	(4)	(2)
Distribution channel	2	(10)	(7)
Net profit/(loss) after statutory fund tax and before income tax [2]	**5**	**(7)**	**2**
Statutory fund tax [2]	**1**	**(6)**	**-**
Net profit/(loss) before statutory fund and income tax	**6**	**(13)**	**2**
Funds under management ($m)	1,292	1,246	1,192
Life embedded value	195	215	225

1 Includes all single premium business including retail unit trusts
2 Statutory funds tax charged is included in the results from managed investments and risk products, it being an integral part of the result of the life operations. It is added back to reconcile to the pre-tax figures reported by the Group. For 1H03 the losses on investments in the life funds reduced the tax charge to the statutory funds.

A. INDUSTRY TRENDS

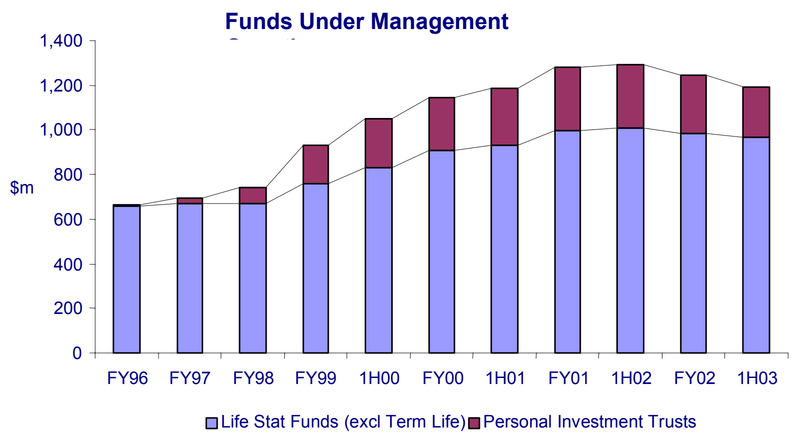
- The detailed Assirt industry statistics for the December quarter are not yet available but the preliminary data shows that funds under management ('FUM') grew by 2% in the quarter following a 3% decline in the September quarter. Total retail FUM declined 0.2% relative to a year ago. Net retail inflows for the December quarter were the lowest since March 1996. Flows on a rolling 12-month basis are the lowest since March 1998. In the absence of the detailed statistics, the following commentary relies on the September statistics.
- ClearView's key area of focus has been allocated pensions in the retirement management segment, which is consistent with its 'Retirement Specialist' marketing proposition. For the retail industry as a whole, the FUM size of the allocated pension market contracted by 4% from the June quarter to the September 2002 quarter with total inflows being down by 61%.
- Over the same period, and in contrast to the overall market trend, ClearView managed to grow the size of its allocated pension business by 1% and achieved a further 7% growth in the December quarter.

- ClearView's total FUM declined by $54m or 4.3% during 1H03. Of this, $42m was attributable to the fall in investment values. New FUM acquired during the period was $136m, whilst redemptions were $147m.

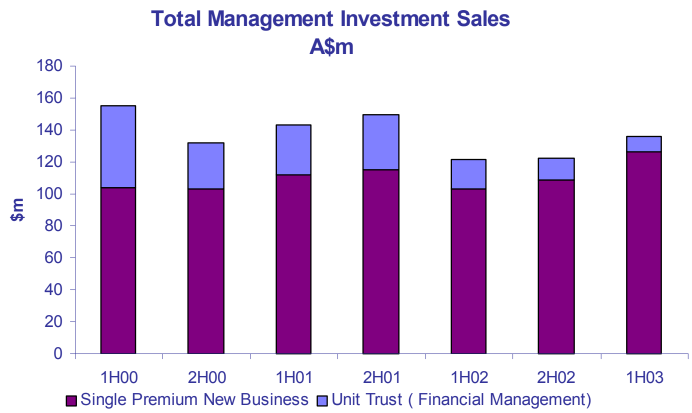
B. OPERATIONAL RESULTS

- The operating result of $2 million for 1H03 is reflective of the difficult operating environment referred to above. Recurring profits of the life risk business offset the loss from the Retirement Solutions operations. Operating costs were contained in the difficult environment by tight cost control but this was not sufficient to overcome the shortfall generated by lower income.
- The life risk business has consistently generated profits for many years. Claims experience was favourable, there have been reductions in the underlying expenses and strong persistency levels of over 90% have been maintained. This experience has contributed to the total increase of $10m in the embedded value of the life company.
- ClearView is currently a NSW only business that must prove successful in NSW before expansion into the national market will be considered.

C. FUNDS UNDER MANAGEMENT

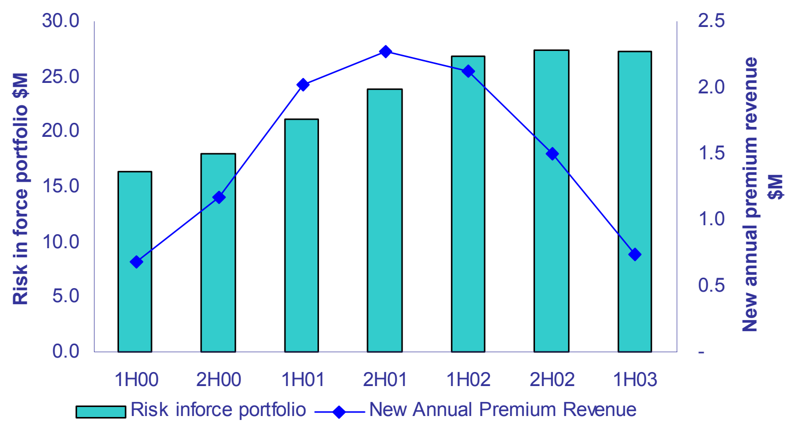


- ClearView's brand tracking results have been very strong over this period, with the key target market being the 50-64 year old retirement management segment. This supported 8% growth in ClearView's allocated pensions business for the six months to December 2002.
- However, the uncertainty in investment markets continues to hamper overall sales volumes and stagnate the growth in FUM for the total business. The managed investment sales for the period were below expectations, whilst redemptions more than offset inflows. This resulted in marginally negative FUM flow for 1H03.



- Single premium sales have held up well in spite of the market conditions.

D. RISK PRODUCTS



- The profitable risk business (term life) is a strategic complement to the new emerging growth model for the business. A number of initiatives focused on enhancing the Group's direct distribution capability are underway to ensure renewed uplift in business volumes from the risk business going forward. The sales focus on this product had been reduced during the ClearView launch period.

E. EMBEDDED VALUE

- The embedded value at 31 December 2002 was reported as $225m, an increase of $10m on the 30 June 2002 value of $215m.
- The embedded value was increased by $6m as a result of the discount rate reducing to 10.75% in December (the rate used for June being 11.5%). The increase in the embedded value due to new business written was offset by the reduction in the investment value due to redemptions, switches to segments with lower charges and reduced investment returns.

Corporate & Investments

A. CORPORATE

Corporate	Half-year ended Dec-01	Half-year ended June-02	Half-year ended Dec-02	*Variance Dec-01 vs Dec 02*
	A$m	A$m	A$m	*A$m*
Head Office	24	18	14	*(10)*
Fee based business (profit)/loss	(11)	(11)	1	*12*
Amortisation	21	22	27	*6*
Interest	15	9	12	*(3)*
Total corporate expenses	**49**	**38**	**54**	***5***

- The Group has continued to reduce head office expenses, achieving a reduction in head office expenses by $10 million, from $24 million in 1H02 to $14 million 1H03. These are now believed to be at a sustainable level given the size of the Group and, in particular, the size of its share register with over 1m shareholders continuing to require servicing.
- As noted in the report on the long-tail segment, the profit from provision of services to government underwritten personal injury schemes has been reclassified to that segment. The remainder of the fees and expenses that were included in this category relate to asset management and information technology services for third parties. In future, the information technology operations will revert to being a cost-recovery operation for the Group's operations except to the extent that ongoing contracts with third parties are still operational. The existing contracts should provide the Group with a small recurring profit in future years.
- As previously disclosed, the Group restructured its investment in the SGIO group of companies in June 2002 such that it was no longer held through the life company. This led to the recognition of $302m of goodwill subject to amortisation with effect from 1 July 2002. This is reflected in the increased amortisation charge for 1H03 relative to 2H02. This occurs because the restructure led to a different accounting standard being applied, ie the asset is now subject to AASB 1015:Accounting for Goodwill rather than AASB 1038: Life Insurance Business.
- With the acquisition of the CGU/NZI businesses on 2 January 2003, there will be a further increase in amortisation. Using the pro-forma figures in Appendix A, the annual charge for amortisation will increase by $54m to $108m based on a 20-year amortisation period for the CGU/NZI businesses. With the planned introduction of International Accounting Standards in 2005, this charge is expected to be replaced by a review of the carrying value of the goodwill each period rather than forced amortisation of an asset which has maintained its value.
- The interest expense will be servicing about $800m of debt once the current fund-raising programme is complete.

B. INVESTMENTS

B.1 Investment returns

Investment returns	Actual return 1H02	Benchmark return 1H02	Actual return 2H02	Benchmark return 2H02	Actual return 1H03	Benchmark return 1H03	Notes
	%	%	%	%	%	%	
Australian equities	(0.9)	(0.3)	(3.6)	(4.4)	(5.8)	(4.5)	a
International equities	(5.6)	(7.8)	(20.1)	(17.0)	(8.3)	(12.5)	b
Fixed interest	4.3	4.0	2.3	2.2	5.7	5.6	c
Cash	2.4	2.4	2.4	2.4	2.6	2.6	d
Total	**0.9**	**0.7**	**(2.3)**	**(2.3)**	**0.5**	**0.6**	
Strategic option positions[1]	(0.2)	-	-	-	0.1	-	
Asset overlay[1]	-	-	0.3	-	1.0	0.9	
Total (incl derivatives)	**0.7**	**0.7**	**(2.0)**	**(2.3)**	**1.6**	**1.5**	

1. Calculated as a contribution to total return

Notes:

a) S&P/ASX200 Accumulation Index

b) MSCI World Index (ex-Australia) Net Dividend Reinvested in Australian dollars

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

d) UBSW Bank Bill index

Portfolio return (Pre-tax) and incl hedge & put option	1H02	2H02	1H03
	%	%	%
Technical reserves	2.5	1.0	5.3
Shareholders' funds	(2.2)	(10.4)	(5.2)

Investment returns	1H02	2H02	1H03
	A$m	A$m	A$m
Technical reserves	88	48	219
Shareholders' funds	(54)	(180)	(129)

1H03 Investment returns	Income	Realised gain/(loss)	Unrealised gain/(loss)	Total
	A$m	A$m	A$m	A$m
Technical reserves	123	44	52	219
Shareholders' funds	48	(105)	(72)	(129)
Total	**171**	**(61)**	**(20)**	**90**

- The poor performance of equity markets continued to set new record lows, with the Australian equity market having its first calendar year loss in almost a decade and the US equity market producing its third successive fall for the first time since the 1940s.
- Following the Group's decision to reduce volatility in the underlying operations of the business by eliminating equity market exposure from the investments backing its technical reserves, it was able to take full advantage of the improvement in the yield on fixed interest assets, with a return on technical reserves for 1H03 of 5.3%. Over 2% of this return related to the bond rally during the period.
- If the asset allocation as at December 2001 had been retained, the income on technical reserves would have been approximately $98m lower.
- In terms of active return for 1H03:
  - The fixed interest portfolio outperformed benchmark by 13 basis points;
  - The Australian equity portfolio under-performed benchmark by 123 basis points;
  - The international equity portfolio outperformed the benchmark by 428 basis points.
- The strong out-performance of the international equities has compensated for the under-performance in Australian equities to keep the total shareholders' funds return around benchmark. In addition, the performance has benefited from a positive contribution from the mark-to-market valuation of the strategic option positions.

B.2 Derivatives

- The Group has two separate derivative strategies in operation:
  - An overlay to swap that portion of the technical reserves, which remain physically invested in equities, to the fixed interest liaibility marked benchmark. This is achieved by a swap with the S&P/ASX200 index return; and
  - A programme of structured collars, which were put in place during 2002 as a form of capital preservation.
- By ensuring that a substantial portion of the Group's equity holdings are protected from large falls in equity markets, less capital is required to provide the Group with sufficient certainty that its risk of ruin will not exceed its tolerable level. This leads to more efficient capital utilisation.
- The programme of structured collars consists of a group of put and call options whereby the cost of the put options for falling markets is partially funded by selling call options on rising markets. In this way, the cash costs of obtaining the capital preservation protection are minimised.
- The structured collar programme also incorporates some foreign currency protection for international equities.
- The put and call options have a range of maturities, counter-parties and durations to manage liquidity, credit and market exposures. The international equity options take into account the movements in currency markets. The positions are actively managed, for instance, the Group has taken the option to buy-back call options when they have been trading at prices considerably cheaper than their sale price. There are limits in place on the trading, a daily review of the position and regular reporting to the Group's Asset:Liability Committee and Board, as well as various regulatory authorities.
- By January 2003, the structured collars covered approximately 90% of the equities of the shareholders' funds, including those of CGU and NZI, having a notional value at inception of $1.5bn Australian equities and $0.5bn of international equities.

- As noted in the sensitivity section of this report, by January 2003 and including the CGU/NZI assets, a 1% movement in equity markets translated to a $16.7 million change in net profit before tax. The non-linear nature of the return on the structured collar options will have the effect of progressively reducing the Group's sensitivity to larger market movements.

B.3 Asset return exposure

- The above allocations do not include the assets acquired in January 2003 as part of the CGU/NZI acquisition.

Asset return exposure	Technical Reserves 1H02	Shareholder Funds 1H02	Technical Reserves 2H02	Shareholder Funds 2H02	Technical Reserves 1H03	Shareholder Funds 1H03
	%	%	%	%	%	%
Australian equities	13.7	70.2	-	68.3	-	62.6
International equities	6.4	23.0	-	22.6	-	26.8
Fixed interest	69.9	2.8	94.8	3.4	95.8	6.2
Cash	10.0	4.0	5.2	5.7	4.2	4.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

- The change in exposure between international and Australian equities for the Group's shareholders' funds was made to compensate for the absence of international equities exposure in the incoming CGU/NZI portfolios.

B.4 Group assets under management

Assets under management As at Financial Year ended	1H02	FY02	1H03
	$bn	$bn	$bn
Technical reserves	3.8	3.9	4.2
Financial Services	1.1	1.0	1.0
Outside equity interest - Unitholders' funds	0.6	0.3	0.3
Shareholders' funds	2.4	2.2	1.7
Other	0.1	0.9	1.7
Total investments - on balance sheet	**8.0**	**8.3**	**8.9**
ClearView Personal Investment Trusts	0.3	0.3	0.2
External wholesale mandates	1.5	1.5	1.0
Total assets under management	**9.8**	**10.1**	**10.1**

- The category 'Other' has increased mainly because the $1.1bn raised via the issue of share capital and term subordinated debt to fund the CGU/NZI acquisition was held on deposit as at balance date. The investment in a former subsidiary now in voluntary liquidation was the main constituent of the $0.9bn at 30 June 2002. A distribution received has reduced this balance.
- Technical reserves have increased over the period in line with the increase in the business.

- Most of the reduction in wholesale mandates reflects the decision by National Roads and Motorists Association Limited to use multiple managers for its funds rather than just the Group's fund manager.

Financial position, dividends and capital

A. STATEMENT OF FINANCIAL POSITION

IAG Group Balance Sheet As at	31-Dec-01	30-Jun-02	31-Dec-02
	A$m	A$m	A$m
Assets			
Investments	8,036	8,343	8,925
Premium receivables	612	739	719
Reinsurance and other recoveries	477	431	413
Deferred acquisition costs	182	222	239
Goodwill and other intangibles	643	632	616
Other assets	742	940	918
Total assets	**10,692**	**11,307**	**11,830**
Liabilities			
Outstanding claims	3,599	3,685	3,867
Unearned premium	1,686	1,839	1,877
Interest bearing liabilities	299	310	694
Gross life insurance policy liabilities	950	927	909
Other liabilities	741	1,567	695
Total liabilities	**7,275**	**8,328**	**8,042**
Net assets	**3,417**	**2,979**	**3,788**
Equity			
Equity attributable to shareholders	2,570	2,476	3,302
Outside equity interest	847	503	486
Total equity	**3,417**	**2,979**	**3,788**

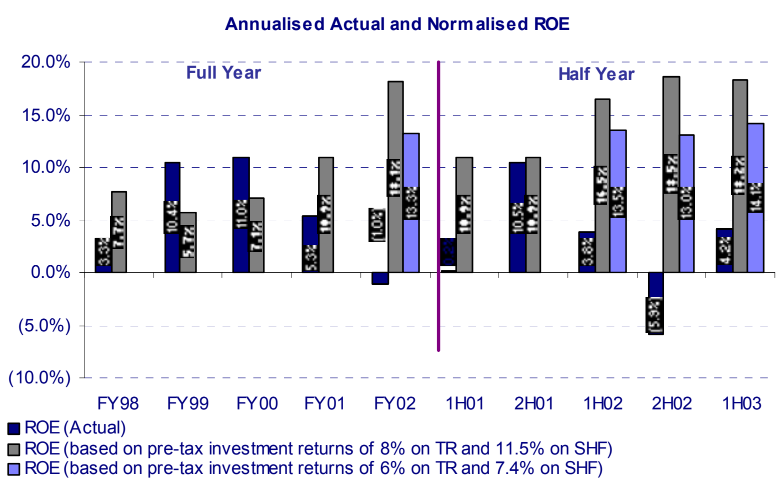
- Included in ‘Investments’ and ‘Other Liabilities’ in June 2002 were balances in respect of a subsidiary that was deconsolidated following voluntary liquidation. Distributions from, and settlements of liabilities of, this entity led to a reduction of approximately $700m in this balance. Normal operating creditors and employee liabilities are the other main constituent of the ‘Other Liabilties’.
- Increase in investments is mainly attributable to the $1.1bn raised via the issue of share capital and term subordinated notes to fund the CGU/NZI acquisition. These funds were held on deposit until settlement that occurred on 2 January 2003.
- The most significant components of ‘Other Assets’ continue to be deferred tax assets (approximately $200m), plant and equipment (approximately $100m), prepayments (over $160m) and GST recoverables on outstanding claims (over $200m) in each period.
- Debtors and premium receivable are subject to seasonal variation due to the bias of commercial renewals to the period around June each year.
- As at 31 December 2002, the Group’s technical reserves were allocated across the business segments as follows: 24% short-tail; 73% long-tail; and 3% international.

B. DIVIDEND

Period	Dividend per share	Franking
	cents	%
Interim - FY03	4.5	100
Final - FY 2002	6.0	100
Interim - FY 2002	4.5	100
Final - FY 2001	6.0	100
Interim - FY 2001	4.0	100

- The Group has continued to apply its dividend policy of paying 40 - 70% of normalised profits per annum, with a larger final dividend.
- The interim dividend has been maintained at 4.5 cents per share, fully franked. This reflects two counter-balancing effects:
  - ➢ The ongoing improvement in the operating performance to a level considerably higher than a few years ago which provides a more sustainable base for the future; and
  - ➢ The continued very poor performance of equity markets, which has led to no net contribution to the Group's wealth from its shareholders' funds in the last three consecutive half-years.
- Maintaining the dividend per share at 4.5 cents will lead to an increase in the dividend payment to $74.5m from $63.2m for the pcp as a consequence of the increase in issued shares. However, there will be no cash outlay (i.e. no reduction in shareholders' funds) as shares will be issued either pursuant to the Group's Dividend Reinvestment Plan or the existing underwriting agreement (see Section D below).
- As at 31 December 2002, i.e. before declaration of the interim dividend, the Group had sufficient franking credits to fully frank over $877m of dividends. Over $180m of this capacity was in the parent entity at balance date.

C. RETURN ON EQUITY



- The Group's ROE on a statutory basis for 1H03 is 4.2% on an annualised basis, which is an increase over each of the prior two periods. This is severely dampened by the poor performance of equity markets and has also been affected by the inclusion of the $880m of equity raised late in the period for the CGU/NZI acquisition.
- For the purpose of considering dividends and measuring the underlying performance of the operations, the Group also produces a 'normalised' ROE. On this basis, the Group's ROE has continued to improve reaching 14.2% annualised for 1H03 relative to 13.3% for FY02 on the same basis.
- To create the "normalised" ROE, the actual returns on technical reserves and shareholders' funds are replaced with the following returns and the profits and ROE re-calculated as if these "normalised" returns had been earned and a 50% dividend payout ratio assumed for the normalised result. The Group has used the following pre-tax rates of return to "normalise" its results.

	FY99 – FY01	FY02-1H03
Technical reserves	8.0%	6.0%
Shareholders' funds	11.5%	7.4%

  It should be noted that these returns are not the basis for the calculation of pricing for products.

- These returns are derived from the past two years' actual performance and expectations for the coming three years and not usually revised more than annually. They are prepared taking account of the asset allocation of the technical reserves and the shareholders' funds and active return expectations. They are stated pre-tax and are grossed up for dividend franking.

D. CAPITAL MANAGEMENT

D.1 Capital raising

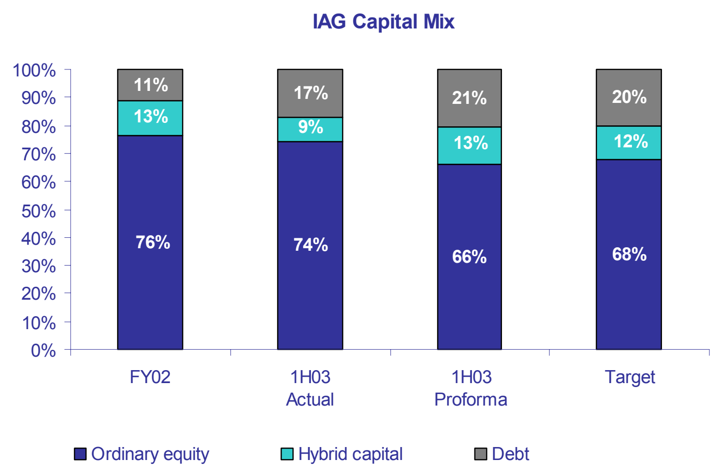
- During 1H03, the Group executed and completed three capital raising initiatives as part of the funding for the acquisition of CGU & NZI by issuing:
  - $500m of ordinary shares via an institutional book-build at $2.55 per share with the shares ranking pari pasu with the Company's existing ordinary shares upon allotment;
  - $380m of ordinary shares through a Share Purchase Plan at $2.40 per share with the shares ranking pari pasu with the Company's existing ordinary shares upon allotment; and
  - $300m of dated subordinated debt, issued by NRMA Insurance Limited.
- The Group settled the CGU/NZI acquisition on 2 January 2003 and on that date borrowed $480m of additional senior debt under an acquisition facility to complete the funding of the acquisition.
- During 2H03, the Group intends to raise additional long-term capital to refinance a substantial proportion of its existing outstanding senior debt obligations. To this end, the Group proposes to issue:
  - A hybrid equity security - it is expected that the security will qualify as APRA Tier 1 capital. This is expected to raise in the order of $250m; and

- Additional dated subordinated debt that is expected to qualify as APRA Lower Tier 2 capital, with these notes being targeted to foreign investors. This is expected to raise up to $500m.

- On 6 January 2003 the Group announced that it had established a dividend reinvestment plan ('DRP'). As at 25 February 2003, approximately 200,000 shareholders had elected to participate in the DRP. As part of the Group's CGU/NZI acquisition funding arrangements, the Group has arranged to have up to $160m of dividends underwritten during calendar 2003.

D.2 Target capital mix

- The Group has continued to set its target capital mix around what the rating agencies require for maintenance of an AA category rating, this being the Group's targeted rating category bearing in mind its risk appetite, business impact and access to reinsurance protections for its large catastrophe programme.



Ordinary equity = Total equity less hybrid equity less outside equity interests

- As disclosed in October 2002, goodwill is no longer included in the capital base for the purpose of calculating the capital mix. FY02 has been restated for consistent comparison with 1H03.
- The pro-forma figures reflect the capital mix following completion of the CGU/NZI acquisition and as if the funding had been completed as contemplated in the previous section on Capital Raising.
- It can be seen that the Group's position on completion of the funding will align closely with the target.

D.3 Capital adequacy

- The Group continues to target a minimum capital requirement ('MCR') multiple range of 1.35 – 1.65. Whilst the primary MCR is for each of the individual licensed Australian general insurers, the Group extends the principles of this process to all of its operations worldwide. The Australian general insurance requirements are those set by the Australian Prudential Regulation Authority ('APRA').

- An MCR equivalent is derived for each business and for the Group as a whole. The target multiple ranges is set from time to time by reference to the inter-action between the Group MCR and the risk of ruin parameters set by the Board. The Group's own dynamic financial analysis is the primary basis for economic capital modelling of all these parameters.
- The following table shows the primary constituent elements of capital and MCR as at 31 December 2002 and 30 June 2002, together with pro-forma figures prepared assuming that the CGU/NZI acquisition and funding had been completed as at 31 December 2002. This demonstrates that the Group's consolidated MCR multiple would have been comfortably within the target zone of 1.35 – 1.65.

Coverage of statutory capital requirements	IAG Group 30-Jun-02	IAG Group 31-Dec-02	Unaudited Proforma 31-Dec-02
	A$m	A$m	A$m
Tier 1 capital			
Paid-up ordinary shares	2,509	3,364	3,506
Hybrid debt/equity	343	343	588
Reserve	(1)	(3)	(3)
Retained earnings	(375)	(402)	(477)
Excess technical provisions (net of tax)	191	138	175
Less: deductions	(709)	(754)	(1,924)
	1,958	**2,686**	**1,865**
Tier 2 capital			
Term subordinated notes	-	300	735
Capital base	**1,958**	**2,986**	**2,600**
Minimum capital requirements (MCR):			
Australia licensed entities	1,040	1,109	1,653
Other minimum statutory requirements	142	122	122
Other businesses [1]	75	75	75
Minimum capital requirements	**1,257**	**1,306**	**1,850**
MCR multiple	**1.56**	**2.29**	**1.41**

[1]The capital of other businesses has been determined on a risk weighted capital basis. For general insurance businesses this is currently similar in principle to the approach applied in Australia.

- Each of the wholly-owned authorised general insurance entities generally maintains an MCR multiple which is higher than the Group multiple, eg at 31 December 2002, the main operating entities of NRMA Insurance Limited and Insurance Manufactuers of Australia Pty Limited had MCR multiples of 4.2x and 2.4x, respectively.
- As APRA has granted no relief to MCR for the Group's structured collar programme nor the overlay swapping out of equities into fixed interest, the MCR for the Group includes capital charges in respect of both derivative programmes. Relief recognising the reduced capital exposure of the Group would increase the MCR multiple.

D.4 Reinsurance protections

- The Group treats its reinsurance arrangements as a core part of its overall risk and capital management.

D4.1 Incorporating CGU/NZI into Group reinsurance arrangements

- Effective 1 January 2003, the Group combined large parts of the IAG and CGU reinsurance programmes. The priority was to deal with those covers where there was the greatest need (for example, catastrophe) or where the Group believed the greatest (and swiftest) pricing efficiencies could be extracted (eg casualty). This resulted in the implementation of a strategy whereby:
  - CGU/NZI's entire reinsurance programme was "rolled" at expiring terms into the Group – the risk period commenced 1 January 2003 and, effectively, finished with the completion of the purchase of CGU/NZI. This process was established prior to completion to ensure that CGU/NZI had covers in place at all times but the Group was also in a position to ensure early collection of pricing efficiencies;
  - The Group purchased a catastrophe programme to cover the entire portfolio post-acquisition to a 1 in 250 year return period; and
  - Only those contracts where there was 'overlap' between the merging organisations were renegotiated. For example, the CTP covers purchased by IAG for FY03 remain in place, as CGU/NZI do not write this class. The remaining contracts will be renegotiated for the 1 July 2003 renewals.

D4.2 Summary of catastrophe reinsurance programme

- The two tables below set out the reinsurance limits purchased, and (absolute worst case, in the most extreme event up to the Group's covered limits) losses retained by the Group. Also provided are the expiring numbers.

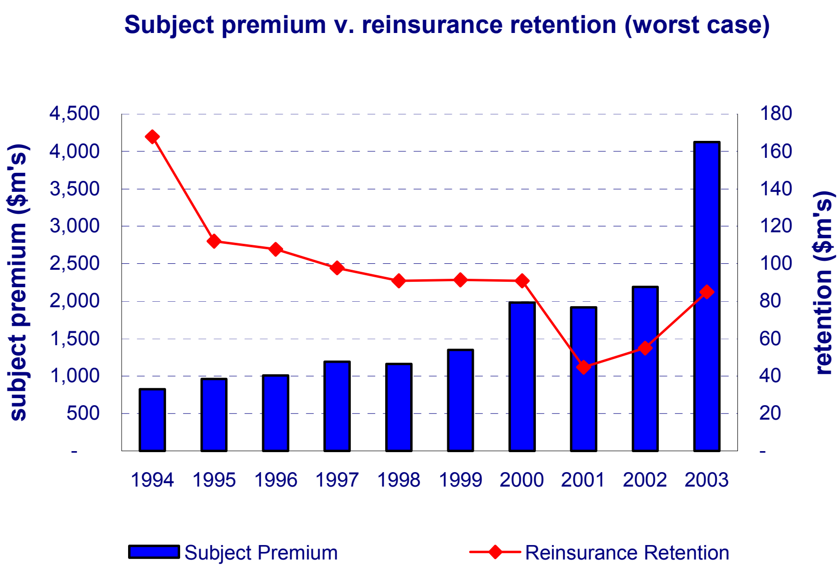
Table of limits	1st event
	A$m
IAG (expiring)	1,250
CGU/NZI (expiring)	950
Combined (expiring)	2,200
Combined (new basis)	**2,500**

Table of retentions	1st event	2nd event
	A$m	A$m
IAG (expiring)	40	15
CGU/NZI (expiring, incl reinstatements)	85	50
Combined (expiring)	125	65
Combined (new basis)	**85**	**50**

- As can be seen, the Group has both increased the level of cover in place and decreased the retentions of the combined Group relative to the expiring covers. This increased level of cover takes into account the Group's exposure to multiple independent catastrophes in any one year.
- The Group has continued last year's practice of organising free reinstatements of the bulk of the catastrophe programme as part of the premium. For the expanded programme, free reinstatements are in place for up to $1.25bn.
- The security of the reinsurers providing the covers is also a factor in considering the capital protection provided by the programme. Following the numerous downgrades of reinsurers over the past year or so and the expansion in the capacity required to fill the Group's programme, a decline in the average security of the reinsurers on the programme was inevitable.

Year	AAA/AA	A
2001/2	69%	31%
2002/3	68%	32%
2003	46%	54%
Change	**(32%)**	**69%**

- Underlying this summary table is a focus on increasing the quality of the security in line with the increasing remoteness of the modelled event and consideration of the reinsurers' aggregation of risks in the Australian and New Zealand markets, ie aiming to ensure that in the event of a really major catastrophe, the reinsurers on the upper levels of the programme would still have a strong claims paying ability.
- The following chart tracks the (negative) development of our catastrophe retention against the applicable subject (property short-tail) premiums. This demonstrates that the Group's retention relative to its exposed premium has not increased substantially and remains considerably lower than the years prior to demutualisation of NRMA Insurance Limited in 2000. The 2003 figures are pro-forma for the combined IAG and CGU/NZI group.



- The Group's catastrophe programme has some broad definitions of single events, for example:
  - In respect of bush fires, fires in one geographical region over a 4 week period can be treated as one event. This compares with market practice of a 7 day limit, which the Group used until two years ago; and
  - The geographical limits in which the event is measured are generally on a state by state basis, with the key exceptions that (i) NSW is deemed to include the ACT; and (ii) for the border between South Australia and Victoria, events within a 200km radius of the border count towards an event in the adjacent state.

  Provisions such as these provide the Group with protection against attritional losses from a series of events which are individually below the Group's retention levels.

E. SENSITIVITY ANALYSIS

E.1 Investment market sensitivities

- The following table indicates the exposure of the Group to an immediate change in the market value of equities and changes in interest rates as at the specified dates. All figures include the CGU/NZI operations as if they had been owned at 31 December 2002 and need to be considered in the context of the higher base assets and liabilities to which they apply.
- The following table indicates the impact of an immediate change in the profit before tax as at the specified dates.

Sensitivity on NPBT	Change in assumption	IAG 30-Jun-02	IAG 31-Dec-02	CGU/NZI 31-Dec-02	Proforma Combined Group 31-Dec-02
	%	A$m	A$m	A$m	A$m
Investment sensitivities					
Equity market values:					
Australian equities	+1%	15.6	8.6	4.9	13.5
International equities	+1%	5.1	2.6	-	2.6
New Zealand equities	+1%	-	-	0.6	0.6
Interest rates					
Investment returns	-1% or 100 bpts Δ in interest rates	108.0	103.0	55.4	158.4
Outstanding claims	-1% Δ in net discount rate	(75.0)	(79.4)	(72.1)	(151.5)

- The Group's exposure to equities has fallen substantially over the last few years. The pro-forma sensitivities noted above are as reported to the market on 16 January 2003. They take account of the structured collar programme and as such should be treated with caution, as the non-linear nature of the structured collar options will have the effect of progressively reducing the Group's sensitivity to larger market movements.

- The Group's investment policy for technical reserves is, from an interest rate exposure perspective, to broadly match the assets with the liabilities. It does this by investing:
    - ➢ The claims reserves with assets of a similar duration to the expected claim payments; and
    - ➢ The unearned premium reserves with assets that have regard to the likely duration of the claim payments that will ultimately develop from those premiums.
  - As $1.9bn of the $4.2bn in technical reserves relates to unearned premium, the impact of a 1% change in interest rates on claims can be expected to be considerably lower than that on the investments.
- The existence of a difference of less than $10m in the pro-forma information provided above arises because, at acquisition, the duration of CGU/NZI's investments was considerably shorter than the liabilities. As this business is brought in to line with the Group's philosophy, the relationship between the impact on investments and claims will be restored to a level similar to that shown for the IAG stand alone numbers.

E.2 Operational sensitivities

Sensitivity on NPBT	Change in assumption	IAG 30-Jun-02	IAG 31-Dec-02	CGU/NZI 31-Dec-02	Proforma Combined Group 31-Dec-02
	%	A$m	A$m	A$m	A$m
Insurance sensitivities					
Loss ratio - short-tail	-1%	21.2	23.3	13.8	37.1
Loss ratio - long-tail	-1%	7.3	8.5	2.3	10.8
Underwriting expenses	-1%	6.3	7.0	6.4	13.4

- This table indicates the effect of a 1% change in key elements of the insurance operational performance on the Group's profit before tax for the respective periods. The sensitivities provided are stated on an annualised basis.
- The CGU/NZI sensitivity is calculated from the table shown in appendix A, section B "Acquired Business - CGU/NZI Analysis".

APPENDICES

APPENDIX A: CGU/NZI acquisition

- This section deals with the acquisition of the CGU and NZI businesses. It is divided into a number of sub-sections:
  - Update on acquisition metrics and synergy benefits;
  - A pro-forma balance sheet for the consolidated group at 31 December 2002;
  - Summary commentary on the performance of CGU and NZI in 2002; and
  - Historical analysis of both the CGU and NZI businesses for the three years ended 31 December 2002.

A. UPDATE ON ACQUISITION METRICS AND SYNERGY BENEFITS

- The Group completed the acquisition of the general insurance businesses in Australia and New Zealand of CGU and NZI from Aviva plc on 2 January 2003 for a consideration of $1.855bn.
- The acquisition included:
  - CGU Insurance Australia Limited in Australia, holding company for the main operating entity, CGU Insurance Limited (CGU); and
  - Belves Investments Limited in New Zealand, whose primary operating entity is New Zealand Insurance Limited (NZI).
- Aviva's plc's Australia and New Zealand wealth creation and funds management arms, and life operations are not included in the acquisition.
- The acquisition brought together the first and the fourth largest general insurance groups in Australia and the first and third largest general insurance groups in New Zealand. As part of the acquisition, IAG acquired unrestricted use of the CGU and NZI brands in Australia and New Zealand.
- As a combined business, the Group expects to extract $160 million per annum in expense synergies. These synergies are expected to result from a combination of underwriting and operating efficiencies, including claims management, underwriting processes and rationalisation of corporate and shared service costs.
- The transaction is expected to become earnings per share (EPS) positive during 2H04 (pre-amortisation of goodwill). It is also expected to increase EPS in the range of 10%-15% in the third year following the acquisition.

A.1 Acquisition metrics

Certain key inputs to the acquisition business case have improved since the agreement to acquire CGU/NZI was announced:

Combined CGU/NZI	Business case	Actual result
GWP for 2002	A$2.1bn	A$2.3bn
Goodwill	A$1.2bn	A$1.1bn
Rate on $ 250m fixed rate Subordindated debt	7.55%	6.41%

- The growth and improving profitability of the acquired businesses has increased the value of the business acquired as the in-force business is greater and the net assets acquired are higher. This has reduced the anticipated goodwill on acqusition by over $90m.
- The issue price of the 354.4m shares issued as part of the capital raising for the acquisition took place at an average of $2.483 per share, which was within the tolerable limits in the business case.
- The $250m of fixed rate tranche of subordinated debt issue was priced very favourably at 108 basis points above the prevailing bank swap rate, reflecting the issuer's very strong credit rating. This outcome was 114 basis points better than the assumptions used in the business case. A further $50m was issued as floating rate security also at a margin of 108 basis points above the 3 month swap rate.

A.2 Synergy benefits update

- The Group remains committed to delivering the run-rate of $160m in annual pre-tax expense savings from the acquisition within 18 months. It is very possible that additional benefits will be derived but the Group will focus first and foremost on delivering on its commitment to $160m. Thus, the Group will keep separate account of the benefits delivery of the $160m until completion in 2H04. The benefits beyond that date will be factored into the Group's ongoing operating targets.
- Detailed planning and early implementation of the programmes necessary to deliver the synergies are under-way. Less than two months after the acquisition completed, the Group can report that:
    - The catastrophe reinsurance programme for the Group has been placed. No amounts were included in the $160m in respect of reinsurance but it is key to the continued risk management of the Group;
    - Information technology infrastructure alignment is under-way with the announcement of the restructure of the Group's out-sourcing arrangements with IBM;
    - The senior management structure in Australia and New Zealand has been implemented and the operating model principles for Australia are being finalised; and
    - A major IT project in CGU has been terminated. This will eliminate $20m from the budgeted expenditure of CGU for calendar 2003.

The current synergy realisation plan would result in the investment and collection of the expense synergies as follows:

Synergy realisation schedule	**2H03**	**1H04**	**2H04**
	A$m	**A$m**	**A$m**
Cumulative run-rate per annum			
Personal lines	6	41	75
Commercial	4	14	30
IT, shared services & overheads	8	26	35
Australia sub-total	**18**	**81**	**140**
International - New Zealand	**3**	**16**	**20**
Total synergies in run-rate	**21**	**97**	**160**
Reported income statement			
Synergy benefits collected	7	31	68
Costs of implementation expensed	(49)	(28)	(8)
Net impact on profit for period	**(43)**	**3**	**60**

A.3 IAG pro-forma balance sheet at 31 December 2002

IAG Group Balance Sheet As at	31-Dec-02
	A$m
Assets	
Investments	10,396
Premium receivables	1,410
Reinsurance and other recoveries	817
Deferred acquisition costs	503
Goodwill and other intangibles	1,692
Other assets	1,464
Total assets	**16,282**
Liabilities	
Outstanding claims	6,020
Unearned premium	3,062
Interest bearing liabilities	901
Gross life insurance policy liabilities	909
Other liabilities	1,290
Total liabilities	**12,182**
Net assets	**4,100**
Equity	
Equity attributable to shareholders	3,614
Outside equity interest	486
Total equity	**4,100**

- The pro-forma balance sheet reflects both acquisition costs and fair value adjustments which are in summary:
  - Fair value adjustments to outstanding claims provisions in line with the Group's methodology and assumptions. This adjustment increases the outstanding claims by approximately $244m. A tax benefit of 30% of this has also been recognised;
  - A provision for restructuring costs of $60m (before tax); and
  - Further direct transaction costs of the acquisition estimated at $10m which will be accounted for as a component of the goodwill recognised on the acquisition of $1,076m.
- The pro-forma balance sheet also reflects the anticipated completion of the funding arrangements outlined in the section of this report on capital, namely:
  - $250m from a hybrid security; and
  - $435m from dated subordinated debt.
- Estimated funding costs of $27m have also been anticipated. Of these, an estimated $4m will be amortised over the term of the debt. The balance of $23m has been offset against the proceeds anticipated from the fund raising.
- The interim dividend of 4.5 cents per ordinary share has also been recognised in the pro-forma balance sheet.

- The fair value adjustment of $244m to claims – to reflect IAG's claims reserving philosophy – is about $34m greater than anticipated at the time the transaction was announced. The primary reason for this is that the Group has decided to set aside additional reserves for CGU's residual asbestos exposure as the quotes for the reinsurance cover for the uncovered layer exceeds the reserve required to meet the Group's adopted minimum probability of sufficiency for this portfolio of 99.5%. The Group will continue to pursue opportunities to divest itself of the ongoing management of this portfolio.
- Other than the increase in the claims adjustment, the fair value adjustments are unchanged from the information provided to the market in October 2002.

B ACQUIRED BUSINESS – CGU/NZI ANALYSIS

Financial Performance Year ending 31 December	2000	2001	2002
Financial results	$Am	$Am	$Am
Gross written premium	**1,637**	**1,947**	**2,270**
Net premium revenue	**1,452**	**1,644**	**1,909**
Net claims expense	(1,014)	(1,089)	(1,295)
Underwriting expenses	(495)	(585)	(640)
Underwriting result	**(57)**	**(30)**	**(26)**
Investment income	256	191	90
Other operating revenue	-	-	-
Other	2	(10)	(8)
Profit from ordinary activities before tax	**201**	**151**	**56**
Income tax (expense)/benefit	(6)	(40)	(8)
Net profit	**195**	**111**	**48**
Insurance ratios			
Loss ratio	69.8%	66.2%	67.8%
Expense ratio	34.1%	35.6%	33.5%
Combined ratio	103.9%	101.8%	101.3%

Certain reclassifications have been made to align the CGU and NZI reporting more closely with that of the Group. In future periods, CGU business will be reported as part of Domestic Long-Tail and Domestic Short-Tail and NZI will be included in International. The following table shows the calendar 2002 results as if they had been reported within the IAG reporting segments.

CGU/NZI	Short-tail	Long-tail	Corp & Inv't	Inter-national	Year ended Dec - 02
	A$m	A$m	A$m	A$m	A$m
Gross written premium	1,594	292	-	382	2,268
Net premium revenue	**1,381**	**227**	**-**	**298**	**1,906**
Net claims expense	(804)	(187)	-	(194)	(1,186)
Underwriting expense	(490)	(66)	-	(85)	(641)
Underwriting profit/(loss)	**87**	**(26)**	**-**	**19**	**80**
Investment income on technical reserves	39	52	-	5	95
Insurance profit	**126**	**26**	**-**	**24**	**175**
Discontinued operations	-	(95)	-	-	(95)
Financial services	-	-	5	-	5
Amortisation and interest	-	-	(16)	-	(16)
Profit from fee based businesses	-	8	-	-	8
Investment income/(loss) on internal funds	-	-	(33)	15	(18)
NSW Insurance Protection Tax	-	-	(4)	-	(4)
Profit before income tax	**126**	**(62)**	**(48)**	**39**	**55**
Income tax (expense)/benefit	-	-	2	(9)	(7)
Profit after income tax	**126**	**(62)**	**(47)**	**30**	**48**
Profit/(loss) attributable to ordinary shareholders	**126**	**(62)**	**(47)**	**30**	**48**
Insurance ratios					
Loss ratio	**58.2%**	**82.6%**		**65.3%**	**62.2%**
Expense ratio	**35.5%**	**29.1%**		**28.4%**	**33.6%**
Combined ratio	**93.7%**	**111.7%**		**93.8%**	**95.8%**
Insurance margin (pre-tax)	**9.1%**	**11.3%**		**7.9%**	**9.2%**

- The discontinued operations refer to asbestos and inwards reinsurance business. The asbestos liabilities have now been reserved to 99.5% probability of sufficiency and the liability for the inwards reinsurance business has been retained by Aviva plc.
- The financial services component is the profit from CGU Premium Funding.
- The following results and commentary are all pre the fair value adjustments made in January 2003 and are presented for each of Australia and New Zealand in total. It covers three calendar years (being the CGU and NZI financial years) of results to provide investors with some background on the acquired businesses.

B.1 CGU- Australia

CGU Financial Performance Year ending 31 December	2000	2001	2002
Financial results	**$Am**	**$Am**	**$Am**
Gross written premium	**1,372**	**1,657**	**1,888**
Net premium revenue	**1,201**	**1,399**	**1,611**
Net claims expense	(850)	(934)	(1,100)
Underwriting expenses	(418)	(503)	(556)
Underwriting result	**(67)**	**(38)**	**(45)**
Investment income	205	159	69
Other	(1)	(10)	(8)
Profit from ordinary activities before tax	**137**	**111**	**16**
Income tax (expense)/benefit	(12)	(47)	2
Net profit	**125**	**64**	**18**
Insurance ratios			
Loss ratio	70.8%	66.8%	68.3%
Expense ratio	34.8%	36.0%	34.5%
Combined ratio	105.6%	102.8%	102.8%

B.1.1 Overview

- CGU has been operating in Australia for more than 130 years. Over 70% of its GWP is currently sourced from Queensland, New South Wales and Victoria, following a series of acquisitions that resulted in its expansion outside its primary business state of Victoria.
- CGU underwrites personal lines and commercial business in Australia under various brands including CGU, CGU Workers Compensation, Swann Insurance and VACC Insurance. It also provides finance through CGU Premium Funding.
- CGU writes building, contents and motor insurance in its personal lines business. The portfolio has recently been expanded through the acquisition in July 2001 of Fortis' Australian general insurance operations. The Fortis acquisition provided greater ability to supply insurance products to the retail motor trade.
- Other personal lines are written by Swann Insurance (a niche underwriter for consumer credit and motor vehicle related products such as extended warranty) and Mutual Community General Insurance (a joint venture with BUPA Australian Health - formerly AXA Health - supplying general insurance products to BUPA Australian Health customers).

- Within the commercial lines, CGU has a diverse portfolio of commercial insurance products including commercial fire, liability, professional risks and commercial motor, primarily directed at the SME market.
- In addition, marine business is written through the underwriting agency, Associated Marine Insurance Agency ('AMIA'), a joint venture with Zurich Insurance Australia Limited and specialist heavy road vehicle insurance is written by National Transport Insurance ('NTI'), a joint venture with the Royal & SunAlliance group.

B.1.2 Operating result

2001 compared to 2000

- The significant growth in the GWP in 2001 arose from the acquisition of Fortis in July 2001, which contributed $120m (a base GWP of approximately $280m per annum) and from rate improvements in commercial lines.
- Despite severe storms in Sydney and the Sydney bushfires in December 2001, the loss ratio improved from 70.8% in 2000 to 66.8% in 2001 partly due to net claims reserve releases, whilst the expense ratio increased slightly due to a one-off cost of $4 million arising from the sale of CGU Lenders Mortgage Insurance in June 2001 (completed in September 2001).
- The increase in operating expenses was impacted by significant one-off integration costs in respect of the acquisition of Fortis.
- The tax expense increased by $35m in 2001 as the prior year's tax expense included a one-off favourable tax benefit of $38m which arose from a change in basis for determining the deduction for claims expenses.
- Investment income of $159m decreased by $40 m from the prior year due to lower returns on fixed interest holdings.
- Despite the improvement in the combined ratio to 102.8% in 2001 from 105.6% in 2000 (an improvement in the underwriting result of $29m), the net profit after tax for the 2001 year of $64m was adversely affected by the reduction in investment income of $46m, an increase in other operating expenses of $19m and an increase in tax expense of $35m.

2002 compared to 2001

- GWP for 12 months to December 2002 grew by 14%. This includes the full effect of the acquisition of Fortis and continued improvement in premium rates (relative to exposure) and business retention.
- Increases in asbestos and inwards reinsurance claims $110m (inwards risk all retained by Aviva plc) and systems development costs of $21m masked the improvement in the underlying continuing operations.
- Excluding the asbestos claims provisioning, the loss ratio would be 62.2% in 2002, compared to 66.8% in 2001. This improvement is largely attributable to ongoing hardening of premium rates, providing increased premium relative to exposure. Benign weather also contributed to the improvement this year.
- Investment income for 2002 declined as a result of significant unrealised losses on the equity portfolio offsetting the positive contribution of the fixed interest portfolio.
- Net other operating revenue and expenses were impacted by goodwill amortisation in respect of the acquisition of Fortis.

B.2 New Zealand – Belves Investment Limited

- The tables and commentary in this section are in New Zealand dollars.

Belves Financial Performance Year ending 31 December	2000	2001	2002
Financial results	**$NZm**	**$NZm**	**$NZm**
Gross written premium	**337**	**357**	**448**
Net premium revenue	**321**	**302**	**349**
Net claims expense	(209)	(191)	(228)
Underwriting expenses	(99)	(101)	(99)
Underwriting result	**13**	**10**	**22**
Investment income	65	40	25
Other expenses	3	-	-
Profit from ordinary activities before tax	**81**	**50**	**47**
Income tax (expense)/benefit	8	8	(11)
Net profit	**89**	**58**	**36**
Insurance ratios			
Loss ratio	65.1%	63.2%	65.3%
Expense ratio	30.8%	33.4%	28.4%
Combined ratio	95.9%	96.6%	93.7%

B.2.1 Overview

- The holding company in New Zealand is Belves Investments Limited of which NZI is a wholly owned subsidiary and the main operating entity. Belves was the holding company for a number of run-off companies resulting from the purchase and restructure of NZI Corporation in the late 1980s.
- The financials of Belves Investment Limited primarily reflect the result of the NZI operations.
- NZI is the third largest insurer in New Zealand as measured by GWP, with a product mix similar to that of CGU Insurance in Australia, including motor, home, short-tail commercial and other short-tail products.
- NZI business has a diverse geographic spread but is biased towards the Auckland area and as such complements State Insurance's relatively more geographically spread business with a bias towards Wellington rather than Auckland. The greater Auckland area accounts for 32% of New Zealand's GDP.
- Distribution is through an extensive distribution network of 10 branches and 8 professional offices supporting its national broker presence. Personal lines direct business is conducted through a recently established Centre in Auckland's Northshore. Recent other developments include online marketing initiatives.
- NZI does not participate in underwriting personal injury liability classes. These are underwritten by a nationalised Accident Compensation Scheme. This scheme was privatised for about 12 months from July 1999 to July 2000 and contributed approximately NZ$48m GWP over that period.

- NZI's premium base is split equally between commercial (including rural insurance) and personal lines classes. NZI's primary strengths are its focused targeting of SME commercial businesses, its longstanding reputation as a preferred underwriter by the broking fraternity and its ability to consistently deliver underwriting profits throughout any insurance cycle.

B.2.2 Operating result

2001 compared to 2000

- Net earned premium of NZ$302m was slightly lower in 2001 compared to 2000 due to the final run off of accident insurance business.
- The loss ratio of 63.2% was lower than the 2000 year due to lower average claims costs and number of claims.
- The expense ratio increased due to an increase in commissions paid as a result of the change in product mix to be more weighted to commercial lines, which are mainly distributed through intermediaries, and one-off provisioning of NZ$9m for project costs relating to redesigning the distribution channels and restructuring head office.

2002 compared to 2001

- 2002 saw very strong premium growth GWP increased by 25.2% from NZ$357m in 2001 to NZ$448m. This included:
  - Commercial lines growth of 35.3% (NZ$65.6m) driven by 20-30% rate increases following September 11, but also included a 9.1% increase in policies in force driven by an increased focus on sales though NZI's restructured distribution network.;
  - Personal lines growth of 14.7% (NZ$24.4m) was primarily new business growth generated through brokers and the acquisition of personal lines portfolio from QBE, which generated GWP of NZ$9.2m in 2002; and
  - Rate increases were applied to personal lines in the final quarter of 2002 in response to a deteriorating out-turn from broker sourced business. These will have a positive impact on profitability in 2003.
- The underwriting profit of NZ$22m (93.7% COR) was NZI's twelfth consecutive underwriting profit and compared favourably to 2001's underwriting profit of $10m (96.6% COR). The 2001 included restructure costs of NZ$9.0m referred to above, however the 2002 result bore the impact of the Central North Island storms in June 2002.
- Profit continued to be generated from the management of the tail resulting from a one-year involvement in workers' compensation in 1999/2000. A release of reserves in 2002 resulted in an underwriting profit of $0.9m compared to a more substantial release of $6.3m in 2001. This portfolio was retained by Aviva as part of the purchase agreement and claims run-off portfolio subsequently sold to the Accident Insurance Corporation. There is no residual exposure to workplace injury insurance.
- The expense ratio (including commission but excluding one-off project costs) improved from 33.4% in 2001 to 28.4% in 2002. NZI is now benefiting from a series of restructures designed to improve efficiency and reduce internal costs.
- Lower investment returns reflect the impact of weak equity markets.

Appendix B - Key ASX Releases

This schedule only contains a summary of the announcements made to the ASX since 1H03 commenced. It does not include announcements of changes in Directors' interests. Reference should be made to a full copy of the ASX announcements should further information be required

20 January 2003 **Net exposure limited to $42 million on ACT bush fires**

Insurance Australia Group Limited ('IAG') advised the market that the Group's losses from the weekend bushfires in the ACT and NSW would not exceed $42 million (after tax).

The Group (including CGU and NZI) recently renegotiated its reinsurance program and has arrangements to cover up to $1.5 billion per event with a retention of $70 million (pre-tax).

IAG said that, as a result of these agreements, the weekend's devastating events would not affect the Group's ability to achieve its target short-tail combined operating ratio of between 96-98%. The maximum earnings per share effect is estimated at 2.5 cents.

16 January 2003 **Update of investment market sensitivities**

IAG has updated the sensitivities of the Group's shareholder funds to movements in equity markets. As at 31 December 2002, a 1% movement in equity markets translates to a $16.7 million change in net profit before tax (30 September 2002: $14.6 million) assuming no change in market volatility.

The change reflects the impact of the acquisitions of CGU and NZI, other portfolio movements and the market impact of the structured collar options.

Over the quarter to 31 December 2002, the program of structured collar options were expanded to cover approximately 90% of the equities of the shareholders funds held by the IAG Group (including CGU and NZI).

6 January 2003 **Launches dividend reinvestment plan**

IAG announced the terms of a dividend reinvestment plan ('DRP'). It also announced that the price at which DRP shares would be issued in respect of the 2003 interim dividend would be at a 2.5% discount to the average market price during the pricing period.

2 January 2003 **Confirms CGU and NZI transfer of ownership**

The transfer of ownership of CGU and NZI took effect as of 2 January 2003, in accordance with the terms of Insurance Australia's agreement with Aviva plc.

20 December 2002 **Gains final approval for acquisition of CGU and NZI**

The Federal Treasurer had approved IAG's acquisition of the general insurance businesses of CGU from Aviva plc.

This was the final approval required for IAG to complete its acquisition of the CGU and NZI businesses in Australia and New Zealand. The Treasurer's approval was required under the Financial Sector (Shareholdings) Act 1988, a standard requirement for takeovers of banks and insurers.

10, 11 & 12 December 2002	**Issue of shares** IAG confirmed the issue of 158,333,333 shares pursuant to its Share Purchase Plan. This occurred in two tranches – 39,909,707 from retail shareholders and 118,423,626 from underwriting and sub-underwriting. Proceeds of the issue were $380m.
9 December 2002	**Prices shares in Share Purchase Plan** IAG announced that shareholders who participated in its Share Purchase Plan (SPP) would pay $2.40 per share following the close of the ten-day pricing period. This represents a 5% discount to $2.53, which was the Average Market Price over the ten trading days from 25 November to 6 December 2002 inclusive.
28 November 2002	**ACCC announcement re proposed acquisition of CGU** The Australian Competition and Consumer Commission has advised that it did not intend to intervene in IAG's proposed acquisition of the general insurance businesses of CGU from Aviva plc.
22 November 2002	**Closes Share Purchase Plan** IAG announced it had closed the next stage of its funding for the proposed acquisition of CGU and NZI to raise $380 million through its underwritten Share Purchase Plan (SPP). Under the SPP, around $93 million of ordinary shares were taken up by retail shareholders. The SPP was fully underwritten by Deutsche Bank and UBS Warburg and institutional sub-underwriting was underway.
20 November 2002	**Prices $300m subordinated debt issue** IAG priced its fully subscribed A$300 million, dual tranche 10 year Subordinated Note issue, issuing A$250 million fixed rate Subordinated Notes and $50 million floating rate Subordinated Notes. The issue was assigned an 'AA-' rating by Standard & Poor's and qualified as lower Tier 2 capital under APRA's prudential standards for general insurers.
13 November 2002	**Issue of shares** IAG confirmed the issue of 13,457,612 shares at $2.55 each following approval of the necessary resolution by the shareholders at the Annual General Meeting. These shares represented the balance of the institutional placement of $500m initiated in October 2002 for the purchase of the CGU/NZI businesses.
13 November 2002	**Annual General Meeting – 2002** IAG Chairman, Mr James Strong, told shareholders that the Group had exceeded operating targets in first quarter but bottom-line earnings continued to be affected by falling equity markets

12 November 2002	**Dividend payable: reset preference shares**	

12 November 2002 — **Dividend payable: reset preference shares**

IAG declared a fully franked preferred dividend at a rate of 5.80% per annum, payable on 16 December 2002, in respect of 3,500,000 Reset Preference Shares with a face value of $100 each allotted on 4 June 2002. The record date to determine entitlements to the dividend was 29 November 2002.

25 & 28 October 2002 — **Issue of shares**

IAG confirmed the issue of 182,620,820 shares at $2.55 each. These shares are part of an institutional placement of $500m.

18 October 2002 — **IAG to purchase CGU and NZI from Aviva plc**

IAG announced it had entered into an agreement to purchase the general insurance businesses in Australia and New Zealand of CGU and NZI from Aviva plc (formerly CGU plc) for A$1.86bn. The acquisition is a strategic fit for the Group improving the product, distribution channel and geographical diversification.

The Group expects to extract $160m pa in synergies on completion of the integration and to be EPS positive in the second year following the acquisition (pre-amortisation of goodwill arising from the acquisition).

17 October 2002 — **Potential acquisition**

IAG confirmed that it was currently engaged in discussions with Aviva plc regarding a proposed acquisition of the Australian and New Zealand general insurance businesses of CGU and NZI.

16 October 2002 — **Request for a trading halt**

IAG requested and was granted a trading halt as it was in discussions regarding a potential acquisition and associated capital raising. Owing to the state of negotiations, the precise timing of any announcement was uncertain, but IAG committed to keeping the market informed as discussions progressed.

14 October 2002 — **Equity market sensitivities**

IAG advised the market that it had updated the sensitivities of its shareholder funds to movements in equity markets as at 30 September 2002 to reflect both market movements and actions taken by the Company since these sensitivities were last released to the market in the June 2002 Investor Report issues on 20 August 2002.

The implementation of a programme of structured collar options led to a reduction in the Group's sensitivity to a 1% movement in the equity market from $20.7m at 30 June 2002 to $14.6m at 30 September 2002.

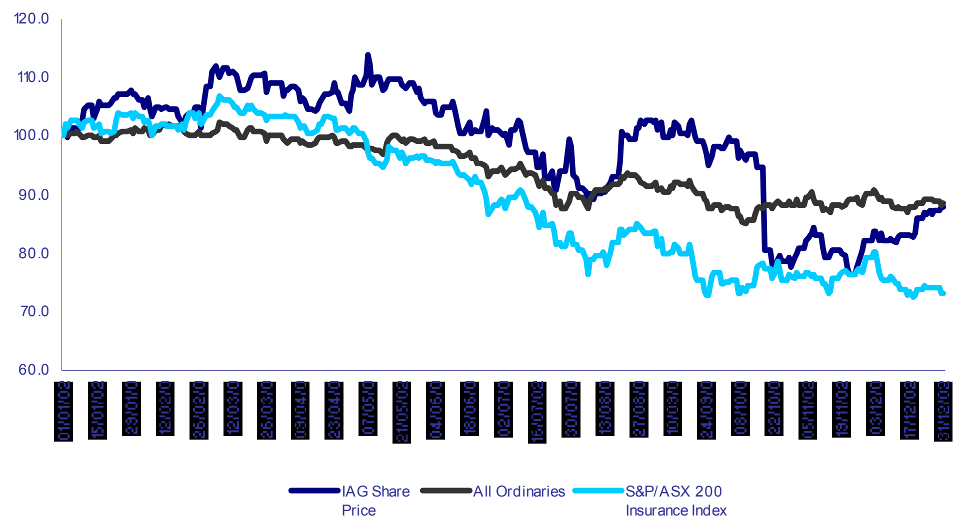
8 October 2002 — **IAG appoints Group Executive, Information Technology**

IAG announced a new addition to its executive team with the appointment on Mr David Issa as Group Executive, Information Technology.

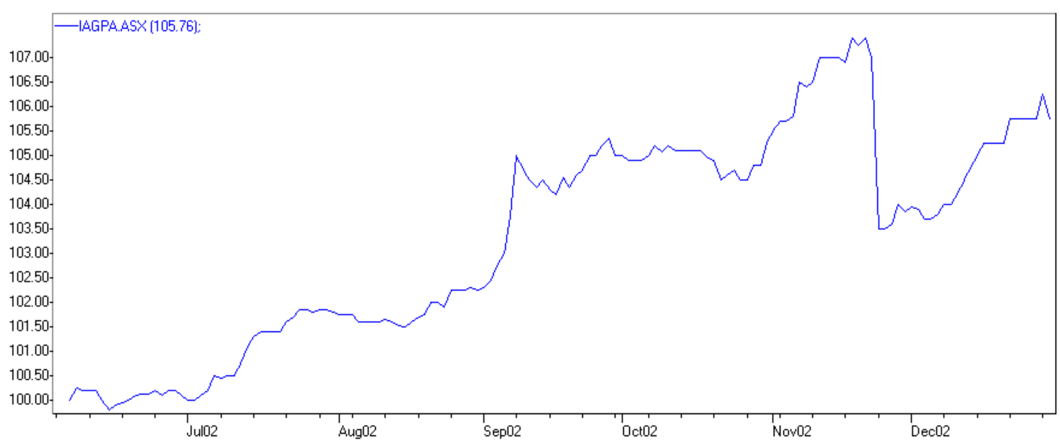
3 October 2002	**S&P rates NRMA Insurance as ‘AA’ (stable outlook)** Standard & Poor’s confirmed NRMA Insurance Limited and NRMA Insurance NZ Limited (trading as State Insurance Limited) had retained their very strong ‘AA’ category counterparty and insurer financial strength ratings, but that the ratings would change from ‘AA+’ (negative outlook) to AA (stable outlook). In its statement S&P said, “while IAG maintains clear market leadership in general insurance, a very strong capital position, and sound and conservatively based reserving practices, its overall business and financial strength is more reflective of the ‘AA’ rating.
5 September 2002	**Community insurance pool to help solve crisis of confidence in NSW public liability insurance** IAG announced that a major barrier to NSW and ACT based not-for-profit community groups being able to get public liability cover might soon be removed through a co-insurance pool proposed by three of Australia’s leading insurers. The proposed community insurance pool was announced today by the NSW Premier, Bob Carr, Insurance Australia Group on behalf of NRMA Insurance Limited, Allianz Australia, QBE Insurance (Australia) and the Insurance Council of Australia. Passage of the proposed NSW tort reforms would help to make offering this type of cover possible. IAG’s share of the total premium pool from the community insurance pool was not expected to be material.
20 August 2002	**Announces FY02 results**
31 July 2002	**Benefits from reinsurance contract and reduces exposure to equity markets** IAG announced that the FY02 results, which were expected to be a loss attributable to shareholders in the range of $15-40m, would include a further $70-80m benefit, pre-tax, in respect of the valuation of its whole of account aggregate stop loss contract which had been terminated. IAG also announced that it had completed measures to reduce its exposure to equity market volatility using derivatives.
16 July 2002	**Elders to distribute CTP Insurance in regional Queensland for NRMA Insurance** NRMA Insurance and Elders entered to a distribution agreement to distribute CTP insurance in regional Queensland. NRMA Insurance Limited will underwrite all policies.
1 July 2002	**IAG confirms insurance operations will be impacted by the performance of equity markets** IAG announced that its FY02 results would be significantly impacted by the poor performance of the equity markets, however it was too early to determine the extent. IAG reiterated that the underlying business continued to perform strongly.

Appendix C - Share price trends & top 20 registered holdings

A. ORDINARY SHARE PRICE PERFORMANCE RELATIVE TO THE AUSTRALIAN ALL ORDINARIES AND INSURANCE INDICES TO 31 DECEMBER 2002



B. RESET PREFERENCE SHARE PRICE PERFORMANCE



- The reset preference shares ('RPS') first listed on 5 June 2002. The shares pay a six monthly fully franked dividend, currently fixed at 5.80% per annum. As such, the performance of the RPS can be expected to be more directly influenced by the interest rate environment than the performance of IAG's business or the equity markets and the timing of payment of dividends.

C. ORDINARY SHAREHOLDERS AS AT 31 DECEMBER 2002

	INVESTOR	# Shares	% issued cap.
1	JP MORGAN NOMINEES AUSTRALIA LIMITED	166,915,845	10.08
2	NATIONAL NOMINEES LIMITED	109,897,706	6.64
3	WESTPAC CUSTODIAN NOMINEES LIMITED	73,683,317	4.45
4	COMMONWEALTH CUSTODIAL	41,184,901	2.49
5	QUEENSLAND INVESTMENT CORPORATION	36,673,044	2.21
6	CITICORP NOMINEES PTY LIMITED	28,209,082	1.7
7	AMP LIFE LIMITED	20,297,987	1.23
8	THE NATIONAL MUTUAL LIFE ASSOCIATION OF AUSTRALASIA LIMITED	15,118,721	0.91
9	MLC LIMITED	11,677,744	0.71
10	WESTPAC FINANCIAL SERVICES LIMITED	10,758,221	0.65
11	ANZ NOMINEES LIMITED	10,717,973	0.65
12	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOLED A/C>	10,529,222	0.64
13	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED <RA A/C>	7,892,211	0.48
14	COGENT NOMINEES PTY LIMITED	7,716,670	0.47
15	ING LIFE LIMITED	6,919,377	0.42
16	SUNCORP LIFE & SUPERANNUATION	6,256,802	0.38
17	GOVERNMENT SUPERANNUATION OFFICE <STATE SUPER FUND A/C>	5,948,398	0.36
18	CITICORP NOMINEES PTY LIMITED <CFS WSLE AUST SHARE FND A/C>	5,542,796	0.33
19	RBC GLOBAL SERVICE AUSTRALIA NOMINEES PTY LIMITED <MTRAEF A/C>	5,431,267	0.33
20	RBC GLOBAL SERVICE AUSTRALIA NOMINEES PTY LIMITED <AX A/C>	5,335,876	0.32

D. RESET PREFERENCE SHAREHOLDERS AS AT 31 DECEMBER 2002

	INVESTOR	# Shares	% issued cap.
1	WESTPAC CUSTODIAN NOMINEES LIMITED	461,912	13.20
2	COMMONWEALTH CUSTODIAL SERVICES LIMITED	355,000	10.14
3	THE NATIONAL MUTUAL LIFE ASSOCIATION OF AUSTRALASIA LIMITED	230,000	6.57
4	CITICORP NOMINEES PTY LIMITED	205,000	5.86
5	AMP LIFE LIMITED	191,080	5.46
6	SHARE DIRECT NOMINEES PTY LTD <STRUCTURED EQUITIES INV A/C>	100,000	2.86
7	JB WERE CAPITAL MARKETS LTD	96,000	2.74
8	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LTD <JBENIP A/C>	74,010	2.11
9	UBS WARBURG PRIVATE CLIENTS NOMINEES PTY LTD	57,810	1.65
10	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LTD	39,833	1.14
11	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LTD <PP A/C>	38,040	1.09
12	CITIBANK LIMITED	36,900	1.05
13	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LTD <BK CUST A/C>	27,500	0.79
14	KAPLAN EQUITY LIMITED	25,500	0.73
15	EQUITY TRUSTEES LIMITED	24,030	0.69
16	NATIONAL NOMINEES LIMITED	23,500	0.67
17	BRENCORP No 11 PTY LIMITED	22,500	0.64
18	ARGO INVESTMENTS LIMITED	20,800	0.59
19	JP MORGAN NOMINEES AUSTRALIA	16,296	0.47
20	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED <FLEXIPLAN A/C>	10,916	0.31