NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial report

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

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

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

(b) Principles of consolidation

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

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

Significant accounting policies applicable to general insurance activities only

(c) Premium revenue

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

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

(d) Outwards reinsurance

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

(e) Claims

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Reinsurance and other recoveries receivable

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

(g) Insurance premium acquisition costs

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

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

(h) Fire brigade and other charges

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

Significant accounting policies applicable to life insurance activities only

(i) Premium revenue

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

(j) Claims

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

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

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

(k) Policy acquisition costs

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

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

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

(l) Policy liabilities

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

(m) Basis of expense apportionments

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

The basis is as follows:

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

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

Significant accounting policies applicable to all companies in the group

(n) Investment income

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

(o) Leased assets

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

(p) Depreciation

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

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

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

(q) Borrowing costs

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

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

(r) Taxation

(i) Income tax

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

(ii) Goods and services tax

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Fair values are determined as follows:

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

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

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

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

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

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

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

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

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

(y) Employee entitlements

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

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

(ii) Long service leave

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

(iii) Superannuation

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

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

(iv) Share-based remuneration plans

Staff allocation share plan

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

Non-executive directors' share plan

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

Performance award rights plan

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

(z) Provision for dividends

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Provision for restructure costs

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

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

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

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

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

(bb) Reset preference shares

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

(cc) Foreign currency translation

(i) Transactions

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

(ii) Hedge transactions

Anticipated transactions

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

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

Cross currency swaps

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

(iii) Translation of controlled foreign entities

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

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

(dd) Financial instruments included in assets and liabilities

(i) Trade and other debtors

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

(ii) Payables

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

(iii) Bank bills

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

(iv) Commercial paper

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

(v) Senior term notes/subordinated term notes

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

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

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

(ff) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

NOTE 2. CHANGES IN ACCOUNTING POLICY

(a) Employee entitlements

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

Wages, salaries, annual leave and sick leave

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

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

(b) Provision for restructure costs

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

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

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

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

NOTE 4. RESULT FROM LIFE INSURANCE OPERATIONS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Premium revenue	**–**	–	**25**	23
Investment revenue	**–**	–	**5**	(11)
Total life insurance business revenue	**–**	–	**30**	12
Policy payments	**–**	–	**(8)**	(9)
Decrease in policy liabilities	**–**	–	**23**	33
Administration and other expenses	**–**	–	**(26)**	(24)
Total life insurance business expenses	**–**	–	**(11)**	–
Net profit of life insurance business	**–**	–	**19**	12

NOTE 5. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Profit/(loss) from ordinary activities before income tax includes the following specific net gains and expenses:				
Depreciation of motor vehicles	**–**	–	**7**	5
Depreciation of office and other plant and equipment	**–**	–	**28**	26
Amortisation of goodwill	**–**	–	**64**	26
Amortisation of intangibles	**–**	–	**17**	17
Loss on disposal of plant and equipment	**–**	–	**3**	4
Operating lease rentals	**–**	–	**114**	96
Transfer to provision – employee entitlements	**–**	–	**41**	34
Foreign exchange losses	**–**	–	**13**	31
Bad and doubtful debts	**–**	–	**5**	5

NOTE 6. ANALYSIS OF TOTAL EXPENSES

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Expenses (excluding borrowing costs expense) disclosed on the face of the statements of financial performance:				
Reinsurance expense	**–**	–	**249**	253
Claims expense	**–**	–	**3,743**	3,000
Acquisition costs	**–**	–	**700**	389
Other underwriting expenses	**–**	–	**241**	165
Fire brigade charges	**–**	–	**133**	74
Life insurance business expenses	**–**	–	**11**	–
Corporate and administration expenses	**–**	–	**348**	297
Total expenses	**–**	–	**5,425**	4,178
Analysis of expenses by function:				
General insurance business expenses				
– reinsurance expense	**–**	–	**249**	253
– claims expense	**–**	–	**3,743**	3,000
– underwriting expenses	**–**	–	**1,074**	628
Life insurance business expenses	**–**	–	**11**	–
Administration expenses	**–**	–	**348**	297
Total expenses	**–**	–	**5,425**	4,178

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

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

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

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

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

NOTE 8. INDIVIDUALLY SIGNIFICANT ITEMS

	Note	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Income:					
Reinsurance recoveries under a whole of account aggregate stop loss contract		**–**	–	**–**	185
Profit on sale of NRMA Building Society Limited		**–**	45	**–**	45
Expenses:					
Restructuring costs in relation to redundancy, property and other associated costs	27	**–**	–	**45**	–
Costs in relation to the settlement of "Share the Future" litigation		**–**	–	**–**	12
Insurance protection tax levied by the NSW State Government		**–**	–	**20**	21

NOTE 9. INCOME TAX

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Profit/(loss) from ordinary activities before income tax	**102**	293	**297**	(101)
Prima facie tax thereon at 30% (2002 – 30%)	**31**	88	**89**	(30)
Tax effect of permanent differences:				
Rebateable dividends	**(28)**	(74)	**(12)**	(11)
Capital profits not subject to income tax	**–**	(6)	**(1)**	(6)
Other non-deductible items	**–**	1	**22**	17
Other	**(3)**	–	**(9)**	10
Future income tax benefit not recognised	**–**	–	**–**	1
Income tax expense/(credit) applicable to current year	**–**	9	**89**	(19)
Adjustment to prior year	**(4)**	–	**(9)**	1
Income tax (credit)/expense attributable to profit/(loss) from ordinary activities	**(4)**	9	**80**	(18)

NOTE 9. INCOME TAX (CONTINUED)

(b) Tax consolidation

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

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 10. DIVIDENDS AND DIVIDEND FRANKING ACCOUNT				
(a) Ordinary shares				
Final dividend for year ended 30 June 2002 of 6 cents (2002 – nil) per fully paid ordinary share, paid on 21 October 2002				
Fully franked at 30%	**78**	–	**78**	–
Interim dividend of 4.5 cents (2002 – 4.5 cents) per fully paid ordinary share, paid on 14 April 2003				
Fully franked at 30% (2002 – 30%)	**75**	63	**75**	63
(b) Reset preference shares				
Dividend paid at 5.8% per annum, fully franked at 30%	**21**	–	**21**	–
Total dividends declared	**174**	63	**174**	63
Less: Dividends reinvested under the Dividend Reinvestment Plan	**(75)**	–	**(75)**	–
Total dividends paid by cash	**99**	63	**99**	63

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

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

The balance of the franking account arises from:

(i) franked income received or recognised as a receivable at the reporting date;

(ii) income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and

(iii) franking debits from the payment of dividends recognised as a liability at the reporting date.

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

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

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

NOTE 11. AUDITORS' REMUNERATION

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

	Parent 2003 $000	Parent 2002 $000	Consolidated 2003 $000	Consolidated 2002 $000
NOTE 12. DIRECTORS' REMUNERATION				
(a) Information on remuneration of the Directors is as follows: Income of Directors of Insurance Australia Group Limited from the entity and all related parties in relation to the management of the affairs of the IAG Group	**3,433**	3,080	**–**	–
Income of all Directors of IAG Group entities in relation to the management of the affairs of the IAG Group	**–**	–	**3,720**	3,405

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

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

(c) Share-based remuneration plans

The following plans have been approved at Annual General Meetings:

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

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

	Consolidated 2003 $000	Consolidated 2002 $000
NOTE 13. REMUNERATION OF EXECUTIVES		
(a) Total of the remuneration in excess of $100,000 received or due and receivable from the IAG Group by executive officers of the IAG Group for the financial year	**18,630**	18,407

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

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

	Consolidated 2003	Consolidated 2002
(b) The number of executive officers of the IAG Group whose remuneration is in excess of $100,000 and falls within the following bands:		
$ 120,000 – $ 129,999	**–**	1
$ 190,000 – $ 199,999	**–**	1
$ 210,000 – $ 219,999	**–**	1
$ 240,000 – $ 249,999	**–**	1
$ 320,000 – $ 329,999	**–**	1
$ 330,000 – $ 339,999	**–**	1
$ 340,000 – $ 349,999	**–**	1
$ 350,000 – $ 359,999	**2**	–
$ 370,000 – $ 379,999	**1**	–
$ 390,000 – $ 399,999	**–**	1
$ 400,000 – $ 409,999	**2**	–
$ 420,000 – $ 429,999	**–**	1
$ 480,000 – $ 489,999	**–**	1
$ 520,000 – $ 529,999	**1**	1
$ 540,000 – $ 549,999	**–**	1
$ 560,000 – $ 569,999	**1**	–
$ 590,000 – $ 599,999	**1**	–
$ 600,000 – $ 609,999	**1**	1
$ 630,000 – $ 639,999	**1**	–
$ 640,000 – $ 649,999	**1**	–
$ 650,000 – $ 659,999	**1**	–
$ 670,000 – $ 679,999	**–**	1
$ 680,000 – $ 689,999	**–**	1
$ 690,000 – $ 699,999	**1**	–
$ 750,000 – $ 759,999	**1**	–
$ 770,000 – $ 779,999	**–**	1
$ 800,000 – $ 809,999	**–**	1
$ 890,000 – $ 899,999	**–**	1
$ 930,000 – $ 939,999	**1**	–
$ 950,000 – $ 959,999	**–**	1
$ 960,000 – $ 969,999	**1**	–
$ 1,060,000 – $ 1,069,999	**–**	1
$ 1,150,000 – $ 1,159,999	**1**	–
$ 1,210,000 – $ 1,219,999	**1**	–
$ 1,330,000 – $ 1,339,999	**1**	–
$ 1,490,000 – $ 1,499,999	**1**	–
$ 1,610,000 – $ 1,619,999	**–**	1
$ 1,660,000 – $ 1,669,999	**1**	–
$ 1,750,000 – $ 1,759,999	**–**	1
$ 1,970,000 – $ 1,979,999	**–**	1
$ 2,340,000 – $ 2,349,999	**1**	–
$ 2,410,000 – $ 2,419,999	**–**	1

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

In accordance with Australian Securities & Investments Commission guidance which is based on the Australian Accounting Standards Board Exposure Draft ED108: Request for comment on IASB ED2 share-based payments, an actuarial valuation of PSRs and PARs was undertaken. The valuation uses a Monte-Carlo Value method which takes into account the share price at grant date, expected life of the options, the volatility in price of the underlying shares of IAG and expected dividends.

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

NOTE 13. REMUNERATION OF EXECUTIVES (CONTINUED)

(c) Termination payment to a former officer

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

NOTE 14. CURRENT ASSETS – RECEIVABLES

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

NOTE 15. CURRENT ASSETS – INVESTMENTS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Quoted				
Government and semi-government stocks and bonds	**–**	–	**427**	–
Shares in other parties	**–**	–	**16**	221
Options for shares	**–**	–	**24**	3
Unit trusts	**–**	–	**8**	118
Bonds	**–**	–	**111**	–
Other	**–**	–	**85**	–
	–	–	**671**	342
Unquoted				
Shares in other parties	**–**	–	**–**	3
Options for shares	**–**	–	**20**	–
Unit trusts	**–**	–	**111**	79
Deposits in other parties	**–**	–	**156**	51
Commercial bills	**–**	–	**1,456**	1,140
Unsecured notes	**–**	–	**113**	–
Other investments (gross of unearned income)	**–**	–	**58**	4
	–	–	**1,914**	1,277
	–	–	**2,585**	1,619

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

NOTE 16. CURRENT ASSETS – CURRENT TAX ASSETS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Income tax recoverable	**3**	–	**40**	6

NOTE 17. CURRENT ASSETS – OTHER

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

NOTE 18. NON-CURRENT ASSETS – RECEIVABLES

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

NOTE 19. NON-CURRENT ASSETS – INVESTMENTS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Quoted				
Government and semi-government stocks and bonds	**–**	–	**2,732**	1,703
Shares in other parties	**–**	–	**2,228**	2,406
Unit trusts	**–**	–	**165**	123
Bonds	**–**	–	**362**	–
	–	–	**5,487**	4,232
Unquoted				
Shares in other parties	**–**	–	**127**	626
Shares in controlled entities	**4,246**	3,387	**–**	–
Unit trusts	**–**	–	**159**	155
Deposits in other parties	**–**	–	**874**	821
Unsecured notes	**–**	–	**206**	464
Other investments (gross of unearned income)	**–**	–	**348**	127
	4,246	3,387	**1,714**	2,193
Freehold properties	**–**	–	**37**	39
Leasehold properties	**–**	–	**8**	7
	–	–	**45**	46
	4,246	3,387	**7,246**	6,471

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

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 20. NON-CURRENT ASSETS – PLANT AND EQUIPMENT					
Motor vehicles		**–**	–	**54**	36
Accumulated depreciation		**–**	–	**(15)**	(7)
Written down value		**–**	–	**39**	29
Office and other plant and equipment		**–**	–	**287**	193
Accumulated depreciation		**–**	–	**(187)**	(127)
Written down value		**–**	–	**100**	66
		–	–	**139**	95
Reconciliations:					
(a) Motor vehicles					
Balance at the beginning of the financial year		**–**	–	**29**	29
Additions		**–**	–	**27**	22
Depreciation expense		**–**	–	**(7)**	(5)
Disposals		**–**	–	**(10)**	(17)
Balance at the end of the financial year		**–**	–	**39**	29
(b) Office and other plant and equipment					
Balance at the beginning of the financial year		**–**	–	**66**	75
Additions		**–**	–	**67**	22
Depreciation expense		**–**	–	**(28)**	(26)
Disposals		**–**	–	**(5)**	(5)
Balance at the end of the financial year		**–**	–	**100**	66
NOTE 21. NON-CURRENT ASSETS – DEFERRED TAX ASSETS					
Future income tax benefits relating to					
– tax losses carried forward		**–**	–	**84**	28
– other		**–**	–	**242**	178
		–	–	**326**	206
NOTE 22. NON-CURRENT ASSETS – INTANGIBLE ASSETS					
Goodwill – at cost	38(b)	**–**	–	**1,678**	603
Accumulated amortisation	1(w)	**–**	–	**(95)**	(31)
		–	–	**1,583**	572
Intangibles – at cost		**–**	–	**101**	101
Accumulated amortisation	1(x)	**–**	–	**(58)**	(41)
		–	–	**43**	60
		–	–	**1,626**	632
NOTE 23. NON-CURRENT ASSETS – OTHER					
Deferred acquisition costs		**–**	–	**29**	1
Prepayments		**–**	–	**3**	–
		–	–	**32**	1

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

NOTE 24. CURRENT LIABILITIES – PAYABLES

Trade creditors		**–**	–	**482**	321
Other creditors		**–**	–	**331**	199
Loan from other party		**–**	–	**78**	761
		–	–	**891**	1,281

NOTE 25. CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES

Unsecured					
Commercial paper		**–**	–	**136**	224

NOTE 26. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

Provision for income tax		**–**	9	**106**	49

NOTE 27. CURRENT LIABILITIES – PROVISIONS

Restructure costs		**–**	–	**53**	–
Employee entitlements		**–**	–	**121**	84
		–	–	**174**	84
Movements in provision for restructure costs:					
Balance at the beginning of the financial year		**–**	–	**–**	–
Provisions established at acquisition of CGU/NZI	38(b)	**–**	–	**48**	–
Additional provisions recognised	8	**–**	–	**45**	–
Paid during the year		**–**	–	**(40)**	–
Balance at the end of the financial year		**–**	–	**53**	–

A provision for restructure costs of $48 million was established for restructuring the operations of CGU/NZI, involving rationalisation of employees in both Australia and New Zealand, decommissioning of IT systems and exiting surplus premises. A balance of $34 million remains in the provision as at 30 June 2003.

NOTE 28. OUTSTANDING CLAIMS

(a) Expected future claims payments (undiscounted)		**–**	–	**6,579**	4,178
Discount to present value		**–**	–	**(604)**	(493)
Liability for outstanding claims		**–**	–	**5,975**	3,685
Current		**–**	–	**2,147**	1,268
Non-current		**–**	–	**3,828**	2,417
		–	–	**5,975**	3,685

NOTE 28. OUTSTANDING CLAIMS (CONTINUED)

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

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

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

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

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

Unsecured					
Senior term notes	(i)	**–**	–	**87**	86
Subordinated term notes	(ii)	**–**	–	**299**	–
US subordinated term notes	(iii)	**–**	–	**358**	–
		–	–	**744**	86

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

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

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

NOTE 30. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

Provision for deferred income tax		**–**	–	**59**	135

NOTE 31. NON-CURRENT LIABILITIES – PROVISIONS

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

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

(i) Ordinary shares

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

(ii) Reset preference shares

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

(iii) Dividend reinvestment plan

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

(iv) Share buy-back

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

NOTE 32. CONTRIBUTED EQUITY (CONTINUED)

(v) Performance share rights plan

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

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 33. RETAINED PROFITS/(ACCUMULATED LOSSES)					
Retained profits/(accumulated losses)		**145**	213	**(396)**	(375)
Movements in retained profits/(accumulated losses)					
Balance at the beginning of the financial year		**213**	115	**(375)**	(164)
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited		**106**	284	**153**	(25)
Utilised in shares bought back off-market		**–**	(123)	**–**	(123)
Dividends declared	10	**(174)**	(63)	**(174)**	(63)
Balance at the end of the financial year		**145**	213	**(396)**	(375)

Retained profits:

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

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

NOTE 34. TOTAL EQUITY RECONCILIATION

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Total equity at the beginning of the financial year		**3,065**	2,802	**2,979**	3,388
Total changes in equity recognised in the statement of financial performance		**106**	284	**153**	(25)
Transactions with owners as owners:					
– contributions of equity, inclusive of transaction costs	32	**925**	–	**925**	–
– reset preference shares, inclusive of transaction costs	32	**196**	343	**196**	343
– share buy-back, inclusive of transaction costs		**–**	(301)	**–**	(301)
– dividends declared	10	**(174)**	(63)	**(174)**	(63)
Movement in foreign currency translation reserves on controlled foreign entities		**–**	–	**(1)**	(1)
Total changes in outside equity interests		**–**	–	**(25)**	(362)
Total equity at the end of the financial year		**4,118**	3,065	**4,053**	2,979

NOTE 35. EARNINGS PER SHARE

	Consolidated 2003 cents	Consolidated 2002 cents
(a) Ordinary shares		
Basic earnings per share	**8.65**	(1.78)
Diluted earnings per share	**8.61**	(1.77)

	2003 Number of shares	2002 Number of shares
(i) Reconciliation between basic earnings per share denominator and weighted earnings per share denominator		
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share	**1,528,509,810**	1,397,600,949
Potential ordinary shares		
Expiry date 21 December 2010	**1,712,116**	1,712,117
Expiry date 30 April 2011	**3,796,147**	3,796,152
Expiry date 2 August 2011	**190,696**	173,978
Expiry date 22 October 2011	**134,998**	93,204
Expiry date 13 December 2011	**1,000,000**	547,945
Expiry date 5 March 2012	**521,893**	168,722
Expiry date 15 July 2012	**98,300**	–
Cancelled potential ordinary shares	**(671,223)**	(390,290)
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share	**1,535,292,737**	1,403,702,777

Potential ordinary shares consist of rights granted to employees under the Performance Share Rights Plan.

	2003 $m	2002 $m
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit/(loss)	**217**	(83)
Net (profit)/loss attributable to outside equity interests	**(64)**	58
Net profit attributable to reset preference shares	**(21)**	–
Earnings used in calculating basic and diluted earnings per share	**132**	(25)

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

	2003 Number of shares	2002 Number of shares
(i) Reconciliation between basic earnings per share denominator and weighted earnings per share denominator		
Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share	**3,560,274**	249,315

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

There are no potential reset preference shares on issue.

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

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

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

NOTE 37. RECONCILIATION OF CASH

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

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

NOTE 38. BUSINESS ACQUIRED

(a) Parent entity

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

(b) Consolidated entity

2003

The consolidated entity acquired the following on 2 January 2003:

(i) 100% of the ordinary shares of CGU Insurance Australia Limited and its controlled entities in Australia;

(ii) 100% of the ordinary shares of Belves Investments Limited and its controlled entities in New Zealand; and

(iii) the New South Wales workers compensation statutory fund managed by Zurich Insurance Limited.

2002

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

(i) Insurance Australia Limited (formerly NRMA Insurance Limited) acquired 100% of ordinary shares of NRMA (Western Australia) Pty Limited and its controlled entities (being SGIO Insurance Limited group) from NRMA Life Limited at a purchase price of $476 million. This change created goodwill on consolidation of $302 million equal to the excess of net market value of an interest in a controlled entity previously recognised by NRMA Life Limited under AASB1038: Life Insurance Business.

(ii) Insurance Australia Group Services Pty Limited acquired 100% of ordinary shares of NRMA Financial Management Limited, NRMA Information Services Pty Limited and NRMA Asset Management Limited and its controlled entities from Insurance Australia Limited (formerly NRMA Insurance Limited) at a total purchase price of $275 million. This change has no impact on goodwill in the consolidated entity.

Details of the acquisitions are as follows:

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

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

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

NOTE 39. BUSINESS DISPOSED

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

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

	Notes	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 40. FINANCING ARRANGEMENTS					
Facilities available:					
(a) Standby letter of credit facility	(i)	**–**	–	**30**	36
(b) Standby facility	(ii)	**–**	–	**50**	50
(c) Debt issuance programme	(iii)	**–**	–	**750**	750
(d) NZ short-term note programme	(iv)	**–**	–	**175**	259
(e) NZ medium-term note programme	(v)	**–**	–	**175**	259
Facilities drawn at balance date:					
(a) Standby letter of credit facility		**–**	–	**3**	14
(b) Standby facility		**–**	–	**–**	–
(c) Debt issuance programme		**–**	–	**435**	110
(d) NZ short-term note programme		**–**	–	**–**	114
(e) NZ medium-term note programme		**–**	–	**87**	86

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

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

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

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

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 41. COMMITMENTS				
(a) Capital commitments				
Property				
– due within 1 year	**–**	–	**23**	6
(b) Lease and rental commitments				
Property				
– due within 1 year	**–**	–	**82**	59
– due within 1 to 2 years	**–**	–	**72**	51
– due within 2 to 5 years	**–**	–	**159**	122
– due after 5 years	**–**	–	**61**	56
Plant and equipment				
– due within 1 year	**–**	–	**21**	15
– due within 1 to 2 years	**–**	–	**13**	5
– due within 2 to 5 years	**–**	–	**9**	2
	–	–	**417**	310
(c) Other commitments				
– due within 1 year	**–**	–	**8**	6
– due within 1 to 2 years	**–**	–	**9**	7
	–	–	**17**	13

NOTE 42. CONTINGENCIES

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

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

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

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

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

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

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

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

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

NOTE 43. NEW SOUTH WALES WORKERS' COMPENSATION MANAGED FUNDS

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

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

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

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

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

NOTE 44. DETAILS OF CONTROLLED ENTITIES AND JOINT VENTURE ENTITIES

The following entities constitute the IAG Group:

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

	Notes	Country of incorporation/formation	Percentage of shares/ units held 2003 %	2002 %
Controlled entities (continued)				
New Zealand Car Parts Limited	C	New Zealand	**100.00**	100.00
Direct Insurance Services Limited	C	New Zealand	**100.00**	100.00
IAG (NZ) Share Plan Nominee Limited	C	New Zealand	**100.00**	–
NRMA Insurance International Pty Limited		Australia	**100.00**	100.00
NHCT Limited	(ii), C	Thailand	**49.00**	49.00
Beijing Continental Automobile Association Limited	C	China	**99.00**	99.00
IAG Share Plan Nominee Pty Limited (formerly NRMA Share Plan Nominee Pty Limited)	A	Australia	**100.00**	100.00
NRMA Insurance Funding 2003 Limited		Australia	**100.00**	–
CGU Insurance Australia Limited		Australia	**100.00**	–
CGU Insurance Limited		Australia	**100.00**	–
CGU Investments Pty Ltd		Australia	**100.00**	–
CGU Workers Compensation (NSW) Limited		Australia	**100.00**	–
ACN 081 979 053 Pty Limited (formerly CGU Workers Compensation (SA) Pty Ltd)	A	Australia	**100.00**	–
Union Insurance Company Ltd		Australia	**100.00**	–
Swann Insurance (Aust) Pty Ltd		Australia	**100.00**	–
CGU Premium Funding Pty Ltd		Australia	**100.00**	–
Mutual Community General Insurance Pty Ltd		Australia	**51.00**	–
Pacific Indemnity Underwriting Agency Pty Ltd	A	Australia	**100.00**	–
NZI Insurance Australia Limited		Australia	**100.00**	–
ACN 060 317 571 Limited (formerly CGU Workers Compensation (VIC) Limited)		Australia	**100.00**	–
Sitrof Australia Limited		Australia	**100.00**	–
CGU-VACC Insurance Limited		Australia	**100.00**	–
Clay Heath Pty Ltd	D	Australia	**100.00**	–
Sitrof Holdings Limited	D	Australia	**100.00**	–
Sitrof Equity Pty Ltd	D	Australia	**100.00**	–
Sitrof Superannuation Pty Ltd		Australia	**100.00**	–
Sitrof Life Holdings Limited	D	Australia	**100.00**	–
Commercial Union Holdings (NZ) Limited		New Zealand	**100.00**	–
SWAPL Pty Limited	A	Australia	**100.00**	–
Belves Investments Limited	C	New Zealand	**100.00**	–
NZI Staff Superannuation Fund Nominees Limited	C	New Zealand	**100.00**	–
New Zealand Insurance Limited	C	New Zealand	**100.00**	–
NZIB Investments Limited	C	New Zealand	**100.00**	–
NZI Passive Funds Limited	C	New Zealand	**100.00**	–
NZI Investments Nominees Limited	C	New Zealand	**100.00**	–
Joint venture entities				
Associated Marine Insurers Agents Pty Limited		Australia	**50.00**	–
NTI Limited		Australia	**50.00**	–

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

B No audit required under the terms of its constitution.

C Audited by other KPMG related practices internationally.

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

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

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

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

NOTE 45. OUTSIDE EQUITY INTERESTS

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

NOTE 46. RELATED PARTY DISCLOSURES

(a) Directors

The Directors who held office during the year were:

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

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

(b) Wholly-owned group

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

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

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Dividend revenue	**102**	248	**–**	–
Aggregate amounts receivable from, and payable to, related parties in the wholly-owned group were as follows:				
Non-current loan payable	**133**	315	**–**	–

(c) Non wholly-owned controlled entities

(i) Transactions with Insurance Manufacturers of Australia Group

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

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

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

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

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

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

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

	2003 $m	2002 $m
Current receivable		
– NRMA Information Services Pty Limited	**4**	4
– SGIO Insurance Limited	**1**	–
Current payable		
– Insurance Australia Limited	**12**	10
– NRMA Investment Management Cash Management Trust	**1**	2
– IAG Re Limited	**10**	–
– IAG Asset Management Limited	**–**	1

(ii) Other transactions

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

(d) Other transactions

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

	2003 Number	2002 Number
(e) Directors' holdings of shares		
The interests of Directors of the reporting entity and their Director-related entities in shares of the Company at balance date are:	**835,068**	471,557
Share transactions of Directors and their Director-related entities during the year are:		
Aggregated acquisitions	**363,511**	218,811
Aggregated disposals	**–**	11,139

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

NOTE 47. EMPLOYEE ENTITLEMENTS

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
(a) Provision for employee entitlements				
Current	**–**	–	**121**	84
Non-current	**–**	–	**43**	18
	–	–	**164**	102

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

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

NOTE 47. EMPLOYEE ENTITLEMENTS (CONTINUED)

(b) Employee numbers

	Parent 2003 Number	Parent 2002 Number	Consolidated 2003 Number	Consolidated 2002 Number
Number of employees at balance date	**–**	–	**10,793**	7,295

(c) IMA long term incentive scheme

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

(d) Bonus equity share plan

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

(e) Performance award rights plan

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

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

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

(f) Performance share rights plan

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

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

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

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

(g) Superannuation commitments

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

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

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

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

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

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

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

NOTE 48. SEGMENTAL REPORTING

(a) Primary reporting – business segments

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

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

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

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

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

(b) Secondary reporting – geographical segments

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

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

NOTE 49. FINANCIAL INSTRUMENTS

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

(a) Interest rate risk

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

(i) Interest rate swap agreements

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

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
Interest rate swaps				
– Within 2 to 5 years	**–**	–	**50**	–
– Within 5 to 7 years	**–**	–	**350**	–
	–	–	**400**	–

(ii) Futures

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

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

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

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

NOTE 49. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Equity price risk

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

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

	Parent 2003 $m	Parent 2002 $m	Consolidated 2003 $m	Consolidated 2002 $m
SPI futures				
– Within 1 year	**–**	–	**47**	407
Equity swap				
– Within 1 year	**–**	–	**–**	100
Options				
– Purchased – within 1 year	**–**	–	**1,559**	500
– Written – within 1 year	**–**	–	**464**	347
	–	–	**2,070**	1,354

(c) Exchange rate risk

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

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

(d) Credit risk

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

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

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

(e) Net fair values

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

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

NOTE 50. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS APPLIED TO LIFE INSURANCE BUSINESS

(a) Valuation of policy liabilities

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

(i) meet the payment of future benefits and expenses; and

(ii) provide for future profits.

The policy liabilities have been calculated using methods in accordance with AS 1.03 as required under section 114 of the Life Act.

Methods used to value policy liabilities

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

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

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

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

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

(b) Actuarial assumptions

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

Fund 1

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

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

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

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

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

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

Fund 2 and Fund 4

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

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

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

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

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

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

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

NOTE 51. SOLVENCY AND CAPITAL REQUIREMENTS OF THE LIFE SUBSIDIARY'S STATUTORY FUNDS

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

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

	Consolidated 2003 $m	Consolidated 2002 $m
(a) Solvency requirement		
Solvency reserve	**17**	6
Assets available for solvency	**58**	48
Coverage of solvency reserve (times)	**3.4**	7.5
(b) Capital requirement		
Management capital reserve	**4**	2
Assets available for capital requirement	**19**	87
Coverage of capital requirement	**1.9**	8.7

NOTE 52. CAPITAL ADEQUACY

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

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

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

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

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

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

NOTE 53. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year:

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

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

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

NOTE 54. NET TANGIBLE ASSETS

	Notes	Consolidated 2003 $	Consolidated 2002 $
Net tangible asset per ordinary share	(i)	**0.84**	1.15
Net tangible asset per reset preference share	(ii)	**100.00**	100.00

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

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