

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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 in the preparation of this financial report 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 on the basis of historical cost.

(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 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 \$575 million in total (2003 – \$561 million) has been paid by Insurance Australia Limited from pre-demutualisation retained profits. During the year ended 30 June 2004, the Company received dividends of \$14 million (2003 – \$Nil) from Insurance Australia Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

(b) Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all entities controlled by Insurance Australia Group Limited as at 30 June 2004 and the results of all controlled entities for the period then ended.

The effects of all transactions between group entities are eliminated on consolidation.

Outside equity interests represent the equity interests held by external parties in controlled entities of the IAG Group and are shown as a separate item in the consolidated financial statements.

The financial statements of controlled entities are included from the date control commences until the date control ceases.

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 based on previous years experience 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 from date of attachment of risk to the expiry of the policy term.

(d) Outwards reinsurance

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

(e) Claims

Provision is made for all outstanding claims based on the advice of the Group's Approved Actuary. Provision includes the estimated cost of all unsettled claims which includes claims incurred but not yet reported, the anticipated direct and indirect costs of settling these claims and an appropriate prudential margin. The provision is measured as the present value of the estimated ultimate cost of settling claims and takes into account 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 24.

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

(f) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred claims not yet reported are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims. The details of discount and inflation rates applied are included in note 24.

(g) Insurance premium acquisition costs

Acquisition costs are incurred in obtaining and recording policies of insurance. They include commission or brokerage expenses, product 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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 all entities in the group

(i) 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.

(j) Leased assets

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

(k) 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	12.5% – 20%
Office and other plant and equipment	6.67% – 40%

(l) 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.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

(m) 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 or other timing differences 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) Tax consolidation

IAG and its Australian resident wholly-owned entities have adopted tax consolidation legislation as of 1 July 2002.

As a consequence, IAG, as the head entity, recognises all current and deferred tax amounts relating to transactions, events and balances of the Australian resident wholly-owned entities in its tax consolidated group financial statements as if those transactions, events and balances were its own, in addition to the current and deferred tax balances arising in relation to its own transactions, events and balances. Amounts receivable or payable under the tax sharing agreement are recognised separately by IAG as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense or revenue. The tax sharing agreement does not have a material ongoing impact on the income tax expense and the results of IAG and on the consolidated entity's assets and liabilities and results. The impact of these expenses and revenues is disclosed in note 6.

The deferred tax balances recognised by IAG in relation to tax consolidated group subsidiaries joining the tax consolidated group are measured based on their carrying amounts at the level of the tax consolidated group before the implementation of the tax consolidation legislation, with one exception. The deferred tax balances relating to assets that had their tax values reset on joining the tax consolidated group, have been remeasured based on the carrying amount of those assets at the tax consolidated group level and their reset tax values. The remeasurement adjustments to these deferred tax balances are also recognised in the consolidated financial statements as income tax expense or revenue. The impact of the resetting on the income tax expense for the year is disclosed in note 6.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Recoverable amount of non-current assets

Non-current assets, other than investments (refer to note 1(p)), 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 net cash flows used in determining the recoverable amounts of assets are 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.

(o) 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.

(p) 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.

(q) 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(x).

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.

(r) 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, including any liability for restructuring costs, 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.

(s) 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. The amortisation periods are subject to review annually.

(t) 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 balance 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 contributes to various superannuation plans in accordance with their 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee entitlements (continued)

(iv) Share-based remuneration plans

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-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-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, being the minimum term before which rights can be exercised during continued employment.

(u) Provision for dividends

Provisions for dividends are made in respect of all types of contributed equity for amounts declared at or before the end of the financial year but not distributed at balance date.

(v) 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 the first financial report post the acquisition.

The provision relating to costs associated with the acquired entity is included in the determination of the fair value of the net assets acquired. 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.

The provision includes liabilities for termination benefits that will be paid to employees of the acquired entity or operation as a result of the restructuring. 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 entitlements.

(w) Reset preference shares

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

(x) 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 and 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 balance date.

Cross currency swaps

The IAG 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Foreign currency translation (continued)

(iii) Translation of controlled foreign entities

The assets and liabilities of controlled foreign entities that are self-sustaining foreign operations are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. 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.

(y) 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) 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.

(iv) Senior term notes / subordinated term notes

Senior term notes / subordinated term notes are stated at cost and have a residual contractual maturity of between 2 to 11 years. Interest expense is brought to account on an accruals basis.

(z) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share is determined by dividing the amount used in calculation of basic earnings per share, adjusted by the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

Note	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 2. REVENUE				
(a) Revenue from ordinary activities				
<i>(i) General insurance revenue</i>				
Gross written premium	-	-	6,427	5,150
Movement in unearned premium reserve	-	-	(162)	(265)
Premium revenue	-	-	6,265	4,885
Direct premium	-	-	6,259	4,860
Inwards reinsurance premium	-	-	6	25
Premium revenue	-	-	6,265	4,885
Reinsurance and other recoveries	-	-	550	380
Total general insurance revenue	-	-	6,815	5,265
<i>(ii) Investment revenue</i>				
Dividend income				
– related bodies corporate	812	102	-	-
– other corporations	-	-	52	38
Interest income				
– other parties	-	-	420	282
Trust income				
– other parties	-	-	13	12
Total investment income	812	102	485	332
Changes in net market values of investments				
– realised gains	64	-	116	1
– unrealised gains / (losses)	1(p)	-	212	(37)
Total investment revenue	876	102	813	296
<i>(iii) Retirement services revenue</i>				
Life insurance business revenue	-	-	70	30
Total retirement services revenue	-	-	70	30
<i>(iv) Other operating revenue</i>				
– other parties	-	-	216	177
Total other operating revenue	-	-	216	177
Total revenue from ordinary activities	876	102	7,914	5,768
(b) Revenue from outside ordinary activities				
Proceeds from disposal of plant and equipment	-	-	9	12
Total revenue from outside ordinary activities	-	-	9	12
Total revenue	876	102	7,923	5,780

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	Notes	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX					
(a) Individually significant (income) / expenses included in profit from ordinary activities before income tax:					
Profit on sale of ClearView retirement services businesses and NRMA Health Pty Limited	35	(64)	-	(59)	-
Restructuring / integration costs	23	-	-	52	45
Insurance protection tax levied by the NSW State Government		-	-	20	20
(b) Profit from ordinary activities before income tax includes the following specific net (gains) and expenses:					
Depreciation of motor vehicles		-	-	9	7
Depreciation of office and other plant and equipment		-	-	29	28
Amortisation of goodwill		-	-	91	64
Amortisation of intangibles		-	-	27	17
Net loss on disposal of plant and equipment		-	-	4	3
Operating lease rentals		-	-	130	114
Transfer to provision – employee entitlements		-	-	59	41
Foreign exchange (gains) / losses		-	-	(4)	13
Bad and doubtful debts		-	-	6	5
NOTE 4. ANALYSIS OF TOTAL EXPENSES					
Expenses (excluding borrowing costs expense) disclosed on the face of the statements of financial performance:					
Reinsurance expense		-	-	402	249
Claims expense		-	-	4,365	3,743
Acquisition costs		-	-	963	700
Other underwriting expenses		-	-	384	241
Fire brigade charges		-	-	153	133
Life insurance business expenses		-	-	52	11
Corporate and administration expenses		-	-	386	348
Total expenses		-	-	6,705	5,425

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 4. ANALYSIS OF TOTAL EXPENSES (CONTINUED)				
Analysis of expenses by function:				
General insurance business expenses				
– Reinsurance expense	-	-	402	249
– Claims expense	-	-	4,365	3,743
– Underwriting expenses	-	-	1,500	1,074
Life insurance business expenses	-	-	52	11
Corporate and administration expenses	-	-	386	348
Total expenses	-	-	6,705	5,425

	CONSOLIDATED					
	2004			2003		
	Current year \$m	Prior years \$m	Total \$m	Current year \$m	Prior years \$m	Total \$m
NOTE 5. CLAIMS EXPENSE						
(a) Direct business						
Gross claims and related expenses – undiscounted	4,923	(292)	4,631	4,105	(466)	3,639
Discount	(249)	(44)	(293)	(200)	262	62
Gross claims and related expenses – discounted	4,674	(336)	4,338	3,905	(204)	3,701
Reinsurance and other recoveries – undiscounted	(537)	(58)	(595)	(449)	99	(350)
Discount	24	30	54	37	(33)	4
Reinsurance and other recoveries – discounted	(513)	(28)	(541)	(412)	66	(346)
Net claims expense incurred	4,161	(364)	3,797	3,493	(138)	3,355

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 2004 \$m	CONSOLIDATED 2003 \$m
(b) Inwards reinsurance business		
Gross claims and related expenses – undiscounted	29	40
Discount	(2)	2
Gross claims and related expenses – discounted	27	42
Reinsurance and other recoveries – undiscounted	(9)	(33)
Discount	-	(1)
Reinsurance and other recoveries – discounted	(9)	(34)
Net claims expense incurred	18	8
(c) Total		
Direct business	3,797	3,355
Inwards reinsurance business	18	8
Net claims expense incurred	3,815	3,363

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	Note	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 6. INCOME TAX					
(a) The income tax for the financial year differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:					
Profit from ordinary activities before income tax		876	102	1,152	297
Income tax calculated at 30% (2003 – 30%)		263	31	346	89
Tax effect of permanent differences:					
Rebateable dividends		(246)	(28)	(14)	(12)
Capital profits not subject to income tax		(15)	-	(18)	(1)
Other non-deductible items		-	-	39	22
Other		-	(3)	3	(9)
Income tax expense applicable to current year		2	-	356	89
Adjustment to prior year		(2)	(4)	3	(9)
Income tax (credit) / expense attributable to profit from ordinary activities before impact of tax consolidation		-	(4)	359	80
Effect of resetting tax values on entering tax consolidation	(i)	-	-	(13)	-
Income tax expense related to current and deferred tax transactions of the tax consolidated group subsidiaries		196	-	-	-
Recovery of income tax expense from tax consolidated group subsidiaries		(196)	-	-	-
Income tax (credit) / expense attributable to profit from ordinary activities after impact of tax consolidation		-	(4)	346	80

(b) IAG and its Australian resident wholly-owned entities have decided to adopt tax consolidation legislation as of 1 July 2002 and the Australian Taxation Office has been informed of this decision. The accounting policy on implementation of the legislation is set out in note 1(m)(ii). The tax consolidated group subsidiaries have entered into a tax sharing agreement whereby IAG has been fully compensated for the deferred tax liabilities assumed from these subsidiaries on the date of implementation of the legislation and these subsidiaries have been fully compensated for any deferred tax assets transferred to IAG on implementation. Under the terms of the tax sharing agreement, the tax consolidated group subsidiaries reimburse IAG for any current income tax payable by IAG. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related receivable by IAG.

Note:

(i) The head entity was required to establish the tax cost of the assets of certain subsidiaries it acquired after the formation of the tax consolidated group by using the Allocable Cost Amount method. As a result, an income tax credit of \$13 million was recognised by these subsidiaries in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 7. DIVIDENDS AND DIVIDEND FRANKING ACCOUNT				
(a) Ordinary shares				
Final dividend for year ended 30 June 2003 of 7 cents (year ended 30 June 2002 – 6 cents) per fully paid ordinary share, paid on 13 October 2003				
Fully franked at 30% (year ended 30 June 2002 – 30%)	118	78	118	78
Interim dividend of 8 cents (2003 – 4.5 cents) per fully paid ordinary share, paid on 19 April 2004				
Fully franked at 30% (2003 – 30%)	135	75	135	75
(b) Reset preference shares				
Dividend paid at 5.8% and 4.51% on IAGPA and IAGPB (2003 – 5.8% on IAGPA) per annum				
Fully franked at 30% (2003 – 30%)	29	21	29	21
Total dividends declared	282	174	282	174
Less: dividends reinvested under the Dividend Reinvestment Plan	-	(75)	-	(75)
Total dividends paid by cash	282	99	282	99

Event subsequent to reporting date:

On 19 August 2004, a final dividend of 14 cents per ordinary share, 100% franked, was declared by the Company. The dividend will be paid on 18 October 2004. The last date for the receipt of an election notice for participation in any dividend reinvestment plan is 15 September 2004.

Franking credits available for subsequent financial years	407	402	465	443
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The balance of the franking account arises from:

- (i) franked income received or recognised as a receivable at the balance 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 balance date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Impact of Tax Consolidation legislation:

IAG and its Australian resident wholly-owned entities entered a tax consolidated group effective 1 July 2002. The Tax Consolidation legislation required the tax consolidated group to keep a single franking account. Franking credits of \$334 million were transferred to the parent entity from its Australian resident wholly-owned entities at the time these entities entered the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$000	PARENT 2003 \$000	CONSOLIDATED 2004 \$000	CONSOLIDATED 2003 \$000
NOTE 8. AUDITORS' REMUNERATION				
Auditing the financial statements and consolidated financial statements				
– current year	-	-	3,224	2,820
Assurance services in accordance with regulatory requirements	-	-	1,030	628
Other assurance services	-	-	2,272	1,475
	-	-	6,526	4,923
Other services				
– taxation services	-	-	595	318
– due diligence and other services on acquisitions, divestment and capital transactions	-	-	883	1,288
– legislative and regulatory changes	-	-	52	219
– other	-	-	64	264
	-	-	1,594	2,089

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of specified directors and specified executives

(i) During the financial year, the specified directors, all being Directors of the IAG were:

Chairman and non-executive director:

Mr JA Strong

Non-executive directors:

Mr JF Astbury

Mrs MC Callaghan (retired 1 September 2003)

Mr GA Cousins

Mrs M Easson (retired 1 September 2003)

Ms DG Fisher

Mr ND Hamilton

Ms AJ Keating

Mr RA Ross

Executive director:

Mr MJ Hawker – Chief Executive Officer (employed by Insurance Australia Group Services Pty Limited, a wholly-owned controlled entity of IAG).

(ii) During the financial year, the following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives"):

Name	Current title	Employer (wholly-owned controlled subsidiary of IAG)
Ms KL Baylis	Group Executive – Sales & Marketing	Insurance Australia Group Services Pty Limited
Mr IF Brown	Deputy Chief Executive Officer	Insurance Australia Group Services Pty Limited
Mr AM Coleman	Chief Risk Officer and Group Actuary	Insurance Australia Group Services Pty Limited
Mr DA Issa	Chief Information Officer	Insurance Australia Group Services Pty Limited
Mr RJ Jackson	Chief Executive Officer – Personal Insurance	Insurance Australia Group Services Pty Limited
Ms SJ Mostyn	Group Executive – Culture & Reputation	Insurance Australia Group Services Pty Limited
Mr DRA Pearce	Group Executive – Insurance Strategy	Insurance Australia Group Services Pty Limited
Mr MJ Pirone	Chief Executive Officer – CGU Insurance	Insurance Australia Group Services Pty Limited
Mr LF Power	Group Executive – Business Partners	Insurance Australia Group Services Pty Limited
Mr DJP Smith	Chief Executive Officer – IAG New Zealand Limited	IAG New Zealand Limited
Mr G Venardos	Chief Financial Officer	Insurance Australia Group Services Pty Limited
Mr RJ Wagstaffe	Group Executive – Intermediary Business	Insurance Australia Group Services Pty Limited

All specified executives held the positions above for the full financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(b) Principles used to determine the nature and amount of remuneration

(i) Non-executive directors

Base fees for non-executive Directors are set according to external advice. The payment of Directors' fees also seeks to align the interests of Directors with those of shareholders by requiring them to receive at least 20%, and up to 90%, of their annual base fee under the Non-executive Directors' Share Plan in IAG shares, rather than cash. Shareholders approved this arrangement in the 2002 Annual General Meeting for each fee period from December 2002 to November 2005 in respect of the current Directors. No other equity-based remuneration is available to non-executive Directors.

Following consideration of changing views on non-executive Directors' retirement benefit arrangements, the Board decided to freeze the operation of the non-executive Directors' retirement benefits scheme with effect from 1 September 2003. This means IAG no longer permits further accruals to existing benefits and new Directors will not be admitted to the scheme.

In consideration of the cessation of retirement benefits and the increased size and complexity of the IAG Group, including additional duties on subsidiary boards, remuneration for non-executive Directors was increased with effect from 1 September 2003. The base fee increased from \$70,000 to \$100,000 per annum, with the Chairman's fee of \$300,000 maintained at three times the base fee per annum. Under the new fee arrangement, the Chairman does not receive additional fees for serving on the Nomination, Remuneration & Corporate Governance Committee ("NRCGC") or for serving as a director of IAG Re Limited.

(ii) Executive director and executives

Executive reward framework

The Executive director and executive reward framework has four components:

- Salary and benefits, including the provision of cars and parking on a salary sacrifice basis;
- Short-term incentive bonus paid in cash or in IAG ordinary shares acquired on-market;
- Equity compensation, in the form of Performance Award Rights; and
- Superannuation contributions.

A long-term incentive bonus scheme was wound up during the financial year ended 30 June 2004. Units under this scheme were last issued in October 1999 and July 2002 for IAG executives and IMA executives, respectively.

Some executives also exercised their rights under the Performance Share Rights Plan which was in operation from December 2000 and closed for further new rights issues during the year ended 30 June 2003 (see note 42(h) for further details on these rights).

The NRCGC is a committee of the Board and provides assurance to it relating to the effectiveness, integrity and compliance of the Company's remuneration policies and practices. The NRCGC makes recommendations to the Board on the remuneration to be paid to the Executive Director who holds the office of Chief Executive Officer ("CEO") and approves the remuneration to be paid to executives who report to the CEO.

The CEO of IAG does not receive fees for his service on the Board. The responsibilities of Board membership are considered in determining remuneration provided as part of his normal employment. The broad remuneration policy is to ensure the remuneration package reflects the duties and responsibilities of the CEO, is market competitive and aligns reward with the achievement of the Company's strategic objectives and the creation of value for shareholders.

The base salary of the CEO and executives is reviewed annually with the assistance of external remuneration consultants. Base salary is targeted around the market median when compared with other similar sized Australian companies.

Short-term incentives are set for each financial year. A balanced scorecard approach is used that measures performance in relation to financial, customer, people management and community engagement goals. The goals are a mix of company, business unit and individual goals. For example, the corporate goals for the last financial year were set targets around insurance margin, operation risks, customer satisfaction, employee engagement and safety. Short-term incentives are assessed and paid in or around September each year based on the achievement of the goals.

As a long-term incentive, the CEO and executives were issued Performance Award Rights during the year ended 30 June 2004. Shareholder approval was given for the issue of Performance Award Rights to the CEO. The Performance Award Rights Plan links executive reward to the Company's goal of delivering top quartile shareholder return (see note 42(g) for further details on these rights).

(c) Service agreements

The remuneration and other terms of employment for the CEO and the executives are formalised in service agreements. These agreements provide for an annual review of base salary, participation in short and long-term incentive plans and the provision of other benefits (such as cars and parking) on a salary sacrifice basis.

The service agreements also specify the benefits due to the CEO and executives on termination of employment. In each case, on termination of employment for any reason, an amount will be payable calculated up to the effective date of termination representing salary, accrued annual and long service leave, superannuation benefits and any short-term incentives which had been determined but not yet paid as at the time of termination. If the short-term incentive assessment had not been determined before termination, a pro rata or average amount may be paid. Where employment has been terminated by the employee, a short-term incentive payment may be made, at the discretion of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(c) Service agreements (continued)

Each of the executives listed below, with the exception of Mr MJ Hawker, may at any time give 3 months written notice of termination of their employment. Mr Hawker may terminate his employment on giving 6 months written notice.

Retrenchment

In the event of retrenchment, the executives listed below (except for Mr MJ Hawker and Mr DJP Smith) are entitled to the greater of:

- (a) the written notice or payment in lieu of notice as provided in their employment agreement; or
- (b) the retrenchment benefits due under the relevant company retrenchment policy.

For Mr MJ Hawker and Mr DJP Smith, the retrenchment payment is up to a maximum of 12 months base salary.

Company retrenchment policy

On retrenchment, employees with less than 25 years service will receive:

- (a) at least eight weeks notice or payment in lieu of notice (calculated on the employee's base salary); plus
- (b) three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 11 weeks base salary and the maximum benefit that can be received is 83 weeks base salary.

On retrenchment, employees with 25 or more years of service or who are over 45 years of age will receive:

- (a) at least twelve weeks notice or payment in lieu of notice (calculated on the employee's base salary); plus
- (b) three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 15 weeks base salary and the maximum benefit that can be received is 87 weeks base salary.

Termination of employment without notice and without payment in lieu of notice

The employment of the executives listed below may be terminated without notice or payment in lieu of notice in some circumstances. Generally, this could occur where the executive is: charged with a criminal offence that is capable of bringing the organisation into disrepute; declared bankrupt; breaches a provision of their employment agreement; is guilty of serious and wilful misconduct; or unreasonably fails to comply with any material and lawful direction given by the Company.

Termination of employment with notice or payment in lieu of notice

The employment of the executives listed below may be terminated at any time by the Company with notice or payment in lieu of notice (which also include a pro rata short-term incentive bonus earned but not paid). The amount of notice the Company must provide or the payment in lieu of notice is specified below.

Mr MJ Hawker, Chief Executive Officer ("CEO")

Term of agreement – No set term of service, agreement effective 3 December 2001.

Remuneration – Base salary for the year ended 30 June 2004 was \$1,150,000 (at 30 June 2003 base salary – \$1,000,000). Base salary is reviewed annually by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – The Board may at any time give 12 months written notice terminating the engagement (including on the basis of redundancy) or a payment in lieu of notice. The termination amount will include an entitlement to annual leave, long service leave and short-term bonus that would have accrued for 12 months service if termination had not occurred. If the Board determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

Ms KL Baylis, Group Executive – Sales & Marketing

Term of agreement – No set term of service, agreement effective 11 February 2002.

Remuneration – Base salary for the year ended 30 June 2004 was \$462,463 (at 30 June 2003 base salary – \$440,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice or payment of 12 months salary in lieu of notice.

Mr IF Brown, Deputy Chief Executive Officer

Term of agreement – No set term of service, agreement effective 16 February 1999.

Remuneration – Base salary for the year ended 30 June 2004 was \$712,463 (at 30 June 2003 base salary – \$700,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice or payment of 12 months salary in lieu of notice. If the CEO determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(c) Service agreements (continued)

Mr AM Coleman, Chief Risk Officer and Group Actuary

Term of agreement – No set term of service, agreement effective 1 November 2000.

Remuneration – Base salary for the year ended 30 June 2004 was \$542,463 (at 30 June 2003 base salary – \$500,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on giving not less than 12 months written notice or payment of 12 months salary in lieu of notice. If the CEO determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

Mr DA Issa, Chief Information Officer

Term of agreement – No set term of service, agreement effective 21 October 2002.

Remuneration – Base salary for the year ended 30 June 2004 was \$462,463 (at 30 June 2003 base salary – \$440,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 6 months written notice (including on the basis of redundancy) or payment of up to 6 months salary in lieu of notice.

Mr RJ Jackson, Chief Executive Officer – Personal Insurance

Term of agreement – No set term of service, agreement effective 2 July 1999.

Remuneration – Base salary for the year ended 30 June 2004 was \$537,463 (at 30 June 2003 base salary – \$500,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice or payment of 12 months salary in lieu of notice.

Ms SJ Mostyn, Group Executive – Culture & Reputation

Term of agreement – No set term of service, agreement effective 5 February 2002.

Remuneration – Base salary for the year ended 30 June 2004 of \$462,463 (at 30 June 2003 base salary – \$420,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice or payment of 12 months salary in lieu of notice.

Mr DRA Pearce, Group Executive – Insurance Strategy

Term of agreement – No set term of service, agreement effective 30 June 1997.

Remuneration – Base salary for the year ended 30 June 2004 was \$470,000 (at 30 June 2003 base salary – \$452,500). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 6 months written notice or payment of 6 months salary in lieu of notice. A payment of three weeks salary for each completed year of service is also due provided that the total payment does not exceed 75 weeks of salary. If the CEO determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

Mr MJ Pirone, Chief Executive Officer – CGU Insurance

Term of agreement – No set term of service, agreement effective 20 May 2002.

Remuneration – Base salary for the year ended 30 June 2004 was \$502,463 (at 30 June 2003 base salary – \$440,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary. Mr Pirone's base salary was increased on 1 March 2004 as a result of his appointment to the position of Group Executive, Intermediary Business & Asset Management before his latest change in July to Chief Executive Officer – CGU Insurance.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice (including on the basis of redundancy) or payment of up to 12 months salary in lieu of notice. If the CEO determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

Mr LF Power, Group Executive – Business Partners

Term of agreement – No set term of service, agreement effective 1 January 2003.

Remuneration – Base salary for the year ended 30 June 2004 of \$440,000 (at 30 June 2003 base salary – \$367,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Mr Power is a member of a defined benefit superannuation fund. Company contributions are 12% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 6 months written notice or payment of 6 months salary in lieu of notice.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(c) Service agreements (continued)

Mr DJP Smith – Chief Executive Officer – IAG New Zealand Limited

Term of agreement – No set term of service, agreement effective 15 February 2001.

Remuneration – Base salary for the year ended 30 June 2004 was \$528,630 (NZ\$601,126) (at 30 June 2003 base salary – \$491,274 (NZ\$551,250)). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13.3% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice (including on the basis of redundancy) or payment of up to 12 months salary in lieu of notice. If the board of IAG New Zealand Limited determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

Mr G Venardos, Chief Financial Officer

Term of agreement – No set term of service, agreement effective 27 July 1998.

Remuneration – Base salary for the year ended 30 June 2004 was \$602,463 (at 30 June 2003 base salary – \$560,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Company contributions to superannuation are 13% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 12 months written notice or payment of 12 months salary in lieu of notice. If the CEO determines that it is necessary to enforce a restraint clause in the service agreement then an additional 6 months of base salary is payable.

Mr RJ Wagstaffe, Group Executive – Intermediary Business

Term of agreement – No set term of service, agreement effective 1 January 2003.

Remuneration – Base salary for the year ended 30 June 2004 of \$500,000 (at 30 June 2003 base salary – \$440,000). Base salary is reviewed annually by the CEO and approved by the NRCGC. Mr Wagstaffe is a member of a defined benefit superannuation fund. Company contributions are 12% of base salary.

Payment of termination benefit – Employment may be terminated at any time by the organisation on not less than 6 months written notice or payment of 6 months salary in lieu of notice.

(d) Other benefits

Remuneration does not include premiums paid by the IAG Group in respect of directors' and executives' liabilities and legal expenses insurance contract, as the insurance policies do not specify premiums paid in respect of individual directors and executives and the terms of the contract specifically prohibited the disclosure of the premium paid. Insurance products provided by the IAG Group are also available to all directors and executives on the same terms and conditions available to other employees.

Apart from the details disclosed in this note, no Director or specified executive 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 other material contracts involving directors' or specified executives' interests existing at year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(e) Details of remuneration

(i) Information on remuneration of each specified director for the financial year is:

Specified directors	Primary benefits			Post-employment benefits		Equity compensation			Total	
	Salary & fees ⁽¹⁾	Bonus ⁽²⁾	Long-term incentive plan ⁽³⁾	Non-monetary benefits ⁽⁴⁾	Superannuation ⁽⁵⁾	Retirement benefits ⁽⁶⁾	Value of NEDs vested ⁽⁷⁾	Value of bonus equity share plan ⁽⁸⁾		Value of PSRs / PARs granted ⁽⁹⁾
2004	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<i>Chairman and Non-executive Director:</i>										
Mr JA Strong	266	-	-	-	39	-	131	-	-	436
<i>Non-executive Directors:</i>										
Mr JF Astbury	106	-	-	-	12	-	18	-	-	136
Mrs MC Callaghan	10	-	-	-	2	269	3	-	-	284
Mr GA Cousins	89	-	-	-	10	-	18	-	-	117
Mrs M Easson	11	-	-	-	1	276	2	-	-	290
Ms DG Fisher	51	-	-	-	10	-	55	-	-	116
Mr ND Hamilton	46	-	-	-	11	-	79	-	-	136
Ms AJ Keating	101	-	-	-	11	-	17	-	-	129
Mr RA Ross	80	-	-	-	11	-	44	-	-	135
<i>Executive Director:</i>										
Mr MJ Hawker	1,128	800	-	5	146	-	-	-	1,296	3,375

(ii) Information on aggregated remuneration of specified directors for the financial year is:

Total remuneration	1,888	800	-	5	253	545	367	-	1,296	5,154
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- (1) Salary and fees includes amounts paid in cash plus annual leave and long service leave accruals, if applicable, as determined in accordance with AASB 1028: Employee benefits.
- (2) Bonuses reflect accrual of short-term incentive bonus to be settled in cash in respect of the current performance period. Refer to note 42(d) for details.
- (3) Long-term incentive payments reflect a pro-rata accrual made during the period, based on expected satisfaction of performance hurdles. Refer to note 42(f) for details.
- (4) Non-monetary benefits are valued in accordance with the cost to the IAG Group for provision of cars, parking and related fringe benefits tax on a salary sacrifice basis.
- (5) Superannuation includes the employer's contributions made and deemed contributions for the IAG & NRMA Superannuation Plan (formerly NRMA Superannuation Plan) participated by the executive director of IAG is on a contribution holiday.
- (6) The retirement benefits for Mrs MC Callaghan and Mrs M Easson who retired on 1 September 2003 were calculated in accordance with the Non-executive Directors' Retirement Benefits Policy and the Corporations Act 2001.
- (7) Non-executive directors participate in the Non-executive Directors' Share Plan ("NEDs"), remuneration is valued in accordance with the cost of acquiring the IAG shares on market at grant date. The appropriate amount will be vested on a pro-rata basis monthly. Refer to note 42(i) for details.
- (8) Only the executive director may participate in the Bonus Equity Share Plan, which vests immediately and is valued in accordance with market price at grant date. Refer to note 42(e) for details.
- (9) Performance Share Rights ("PSRs" – related to unissued shares) and Performance Award Rights ("PARs" – related to issued shares) are valued in accordance with AASB 1046: Director and executive disclosures by disclosing entities. An allocated portion of unvested PSRs and PARs is included in the total remuneration disclosure above. To determine these values the Black Scholes model has been applied. The valuation takes into account the share price at grant date, the expected life of the option, the exercise price of the option, the volatility in price of the underlying shares of IAG, expected dividends and the risk-free interest rate. Refer to notes 42(g) and 42(h) for details.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(e) Details of remuneration (continued)

(iii) Information on remuneration of each specified executive for the financial year is:

Specified executives	Primary benefits			Post-employment benefits			Equity compensation	Other benefits	Total	
	Salary ⁽¹⁾	Bonus ⁽²⁾	Long-term incentive plan ⁽³⁾	Non-monetary benefits ⁽⁴⁾	Superannuation ⁽⁵⁾	Retirement benefits	Value of bonus equity share plan ⁽⁶⁾	Value of PSRs / PARs granted ⁽⁷⁾		Other benefits
2004	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Ms KL Baylis	409	242	-	76	60	-	-	159	-	946
Mr IF Brown	598	185	40	142	92	-	185	163	-	1,405
Mr AM Coleman	528	325	-	5	69	-	-	185	-	1,112
Mr DA Issa	488	264	-	5	60	-	-	88	-	905
Mr RJ Jackson	454	350	254	63	88	-	-	14	-	1,223
Ms SJ Mostyn	477	235	-	5	59	-	-	145	-	921
Mr DRA Pearce	426	240	37	34	61	-	-	155	-	953
Mr MJ Pirone	446	183	32	38	61	-	46	152	-	958
Mr LF Power	421	352	-	50	32	-	-	26	-	881
Mr DJP Smith	534	355	30	-	70	-	-	156	124 ⁽⁸⁾	1,269
Mr G Venardos	592	392	42	36	77	-	-	212	-	1,351
Mr RJ Wagstaffe	511	390	-	39	36	-	-	26	-	1,002

(iv) Information on aggregated remuneration of specified executives for the financial year is:

Total remuneration	5,884	3,513	435	493	765	-	231	1,481	124	12,926
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(1) Salary includes amounts paid in cash plus annual leave and long service leave accruals as determined in accordance with AASB 1028: Employee benefits.

(2) Bonuses reflect accrual of short-term incentive bonus for the current performance period to be settled in cash. Refer to note 42(d) for details.

(3) Long-term incentive payments reflect a pro-rata accrual made during the period, based on expected satisfaction of performance hurdles. Refer to note 42(f) for details.

(4) Non-monetary benefits are valued in accordance with the cost to the IAG Group for provision of cars, parking and related fringe benefits tax on a salary sacrifice basis.

(5) Superannuation includes the employer's contributions which is recognised on a deemed basis as all superannuation plans in which the specified executives participated are on contribution holiday.

(6) Executives may participate in the Bonus Equity Share Plan, which vests immediately and is valued in accordance with market price at grant date. The amount included is calculated based on the accrued short-term incentive bonus for the participated amount for the current performance period. Refer to note 42(e) for details.

(7) Performance Share Rights ("PSRs" – related to unissued shares) and Performance Award Rights ("PARs" – related to issued shares) are valued in accordance with AASB 1046: Director and executive disclosures by disclosing entities. An allocated portion of unvested PSRs and PARs is included in the total remuneration disclosure above. To determine these values the Black Scholes model has been applied. The valuation takes into account the share price at grant date, the expected life of the option, the exercise price of the option, the volatility in price of the underlying shares of IAG, expected dividends and the risk-free interest rate. Refer to notes 42(g) and 42(h) for details.

(8) Represents an accommodation allowance on relocation to Auckland in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(f) Share-based compensation remuneration – rights

Rights under PARs and PSRs were issued by the IAG Group. Refer to notes 42(g) and 42(h) respectively for details of PARs and PSRs.

Rights under PARs

(i) The rights issued under the PARs during the financial year ended 30 June 2004 were:

	Grant date	Date first exercisable	Last expiry date	Value per right at grant date \$	Number of rights granted during the year Number
<i>Specified director:</i>					
Mr MJ Hawker	10/12/2003	29/09/2006	10/12/2013	3.395	400,000
<i>Specified executives:</i>					
Ms KL Baylis	22/09/2003	29/09/2006	22/09/2013	3.551	61,679
Mr IF Brown	22/09/2003	29/09/2006	22/09/2013	3.551	80,451
Mr AM Coleman	22/09/2003	29/09/2006	22/09/2013	3.551	80,451
Mr DA Issa	22/09/2003	29/09/2006	22/09/2013	3.551	67,042
Mr RJ Jackson	26/03/2004	29/09/2006	26/03/2014	4.062	80,451
Ms SJ Mostyn	22/09/2003	29/09/2006	22/09/2013	3.551	67,042
Mr DRA Pearce	22/09/2003	29/09/2006	22/09/2013	3.551	61,679
Mr MJ Pirone	22/09/2003	29/09/2006	22/09/2013	3.551	73,746
Mr LF Power	22/09/2003	29/09/2006	22/09/2013	3.551	53,634
Mr DJP Smith	22/09/2003	29/09/2006	22/09/2013	3.551	80,451
Mr G Venardos	22/09/2003	29/09/2006	22/09/2013	3.551	93,859
Mr RJ Wagstaffe	22/09/2003	29/09/2006	22/09/2013	3.551	53,634

The Company has issued rights to the executives during the financial year for nil consideration. Each executive who participates in the plan becomes eligible to receive an equivalent number of ordinary shares per right, by paying the exercise price of \$1 per tranche of rights exercised, subject to a specific performance hurdle being met. Refer to note 42(g) for details of the performance hurdle.

(ii) A summary of the movements in rights issued under the PARs to a specified director and specified executives is:

	Rights on issue at the beginning of the year Number	Rights granted during the year Number	Rights exercised during the year ⁽¹⁾ Number	Rights lapsed during the year Number	Rights on issue at the end of the year Number
<i>Specified director:</i>					
Mr MJ Hawker	300,000	400,000	-	-	700,000
<i>Specified executives:</i>					
Ms KL Baylis	85,135	61,679	-	-	146,814
Mr IF Brown	81,265	80,451	-	-	161,716
Mr AM Coleman	96,744	80,451	-	-	177,195
Mr DA Issa	85,135	67,042	-	-	152,177
Mr RJ Jackson	-	80,451	-	-	80,451
Ms SJ Mostyn	81,265	67,042	-	-	148,307
Mr DRA Pearce	87,553	61,679	-	-	149,232
Mr MJ Pirone	85,135	73,746	-	-	158,881
Mr LF Power	-	53,634	-	-	53,634
Mr DJP Smith	86,716	80,451	-	-	167,167
Mr G Venardos	119,189	93,859	-	-	213,048
Mr RJ Wagstaffe	-	53,634	-	-	53,634
Total	1,108,137	1,254,119	-	-	2,362,256

(1) \$1 per tranche of rights was payable to exercise PARs.

(iii) No rights under PARs vested during the financial year ended 30 June 2004 or in prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(f) Share-based compensation remuneration – rights (continued)

Rights under PSRs

(i) The PSRs was closed for issuing further rights from the financial year ended 30 June 2003. A summary of the movements in rights issued under the PSRs to a specified director and specified executives is:

	Rights on issue at the beginning of the year Number	Rights exercised during the year ⁽¹⁾ Number	Rights lapsed during the year Number	Rights on issue at the end of the year Number
<i>Specified director:</i>				
Mr MJ Hawker	1,000,000	-	-	1,000,000
<i>Specified executives:</i>				
Ms KL Baylis	85,837	-	-	85,837
Mr IF Brown	145,460	145,460	-	-
Mr AM Coleman	169,820	169,820	-	-
Mr DA Issa	-	-	-	-
Mr RJ Jackson	-	-	-	-
Ms SJ Mostyn	68,670	-	-	68,670
Mr DRA Pearce	140,000	140,000	-	-
Mr MJ Pirone	123,640	95,000	-	28,640
Mr LF Power	-	-	-	-
Mr DJP Smith	123,640	123,640	-	-
Mr G Venardos	181,820	181,820	-	-
Mr RJ Wagstaffe	-	-	-	-
Total	2,038,887	855,740	-	1,183,147

(1) The exercise price was \$1 per tranche of rights. Nil remains unpaid per issued share acquired. A total of one tranche was exercised by each holder during the year. For each right exercised, an equivalent number of shares are converted into new ordinary shares of IAG.

(ii) A summary of the number of vested rights under the PSRs is:

	Rights vested during the year ⁽¹⁾ Number	Rights vested and exercisable at the end of the year Number
<i>Specified director:</i>		
Mr MJ Hawker	-	-
<i>Specified executives:</i>		
Ms KL Baylis	-	-
Mr IF Brown	145,460	-
Mr AM Coleman	169,820	-
Mr DA Issa	-	-
Mr RJ Jackson	-	-
Ms SJ Mostyn	-	-
Mr DRA Pearce	140,000	-
Mr MJ Pirone	123,640	28,640
Mr LF Power	-	-
Mr DJP Smith	123,640	-
Mr G Venardos	181,820	-
Mr RJ Wagstaffe	-	-
Total	884,380	28,640

(1) All rights are exercisable on vesting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 9. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(g) Equity instrument disclosures relating to directors and specified executives

(i) Holdings of ordinary shares

The relevant interest of ordinary shares in IAG by each specified director and their personally-related entities are:

	Shares held at the beginning of the year	Shares granted as remuneration during the year	Shares received on exercise of PSRs	Net movement of shares due to other changes ⁽²⁾	Total shares held at the end of the year	Shares held nominally at the end of the year ⁽¹⁾
Mr JA Strong	116,706	34,499	*	-	151,205	139,122
Mr JF Astbury	43,735	4,600	*	-	48,335	38,252
Mrs MC Callaghan	20,984	-	*	-	**	**
Mr GA Cousins	163,652	4,600	*	-	168,252	18,252
Mrs M Easson	14,637	-	*	-	**	**
Ms DG Fisher	49,377	11,500	*	-	60,877	56,078
Mr ND Hamilton	44,578	20,699	*	-	65,277	60,460
Ms AJ Keating	14,361	4,600	*	-	18,961	18,252
Mr RA Ross	134,801	11,500	*	(794)	145,507	42,950
Mr MJ Hawker	202,688	-	-	3,169	205,857	21,866

(1) Nominally held shares are included in the column headed total shares held at the end of the year. These shares are indirectly held in the Non-executive Directors' Share Plan and held by Directors' personally-related entities.

(2) Net movement of shares relate to acquisition and disposal transactions by the Directors and their personally-related entities during the year.

* Non-executive Directors are not eligible to participate in PSRs.

** These two Directors retired during the financial year. Shares held information is only disclosed up to the date of retirement on 1 September 2003.

(ii) Holdings of reset preference shares

No specified directors had any interest in reset preference shares at any time during the financial year.

(iii) The relevant interest of ordinary shares in IAG by each specified executive and their personally-related entities are:

	Shares held at the beginning of the year	Shares granted as remuneration during the year	Shares received on exercise of PSRs	Shares received on exercise of PARs	Net movement of shares due to other changes ⁽²⁾	Total shares held at the end of the year	Shares held nominally at the end of the year ⁽¹⁾
Ms KL Baylis	-	-	-	-	-	-	-
Mr IF Brown	165,426	46,343	145,460	-	2,804	360,033	53,344
Mr AM Coleman	15,502	-	169,820	-	(57,794)	127,528	127,528
Mr DA Issa	-	-	-	-	-	-	-
Mr RJ Jackson	7,351	-	-	-	15,000	22,351	12,351
Ms SJ Mostyn	16,083	-	-	-	-	16,083	-
Mr DRA Pearce	9,250	-	140,000	-	(141,444)	7,806	7,806
Mr MJ Pirone	6,316	11,432	95,000	-	(95,000)	17,748	17,383
Mr LF Power	8,000	-	-	-	26,134	34,134	-
Mr DJP Smith	5,951	-	123,640	-	-	129,591	5,951
Mr G Venardos	11,787	-	181,820	-	(71,142)	122,465	8,751
Mr RJ Wagstaffe	-	-	-	-	-	-	-

(1) Nominally held shares are included in the column headed total shares held at the end of the year. These shares are held by the specified executives' personally-related entities.

(2) Net movement of shares relate to acquisition and disposal transactions by the Directors and their personally-related entities during the year.

(iv) Holdings of reset preference shares

No specified executives had any interest in reset preference shares at any time during the financial year.

(h) Payments to former director

During the financial year, the former director (Mr N Whitlam) was paid the appropriate retirement allowance for his period of service as chairman of IAG and its controlled entities. The payment amounted to approximately \$0.6 million, inclusive of his company-funded superannuation entitlements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 10. CURRENT ASSETS – RECEIVABLES				
Reinsurance and other recoveries	-	-	370	363
Provision for doubtful debts	-	-	(2)	(2)
	-	-	368	361
Trade debtors	-	-	158	65
Provision for doubtful debts	-	-	(10)	(10)
	-	-	148	55
Premium funding loans secured on policies	-	-	91	77
Provision for doubtful debts	-	-	(1)	(1)
	-	-	90	76
Amounts receivable from related bodies corporate	162	-	-	-
Premium receivable	-	-	1,606	1,540
Other debtors	-	-	504	565
	162	-	2,716	2,597
NOTE 11. CURRENT ASSETS – INVESTMENTS				
<i>Quoted</i>				
Government and semi-government stocks and bonds	-	-	472	427
Shares in other parties	-	-	-	16
Options for shares	-	-	-	24
Unit trusts	-	-	2	8
Bonds	-	-	1	111
Other	-	-	-	85
	-	-	475	671
<i>Unquoted</i>				
Options for shares	-	-	-	20
Unit trusts	-	-	-	111
Deposits in other parties	-	-	383	156
Commercial bills	-	-	1,502	1,456
Unsecured notes	-	-	11	113
Other investments (gross of unearned income)	-	-	103	58
	-	-	1,999	1,914
	-	-	2,474	2,585

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 12. CURRENT ASSETS – CURRENT TAX ASSETS				
Income tax recoverable	-	3	-	40
NOTE 13. CURRENT ASSETS – OTHER				
Prepayments	-	-	395	325
Deferred acquisition costs	-	-	527	484
Inventories	-	-	2	2
	-	-	924	811
NOTE 14. NON-CURRENT ASSETS – RECEIVABLES				
Reinsurance and other recoveries	-	-	553	441
Provision for doubtful debts	-	-	(6)	(6)
	-	-	547	435
Loans to related bodies corporate	5	-	-	-
	5	-	547	435
NOTE 15. NON-CURRENT ASSETS – INVESTMENTS				
<i>Quoted</i>				
Government and semi-government stocks and bonds	-	-	2,757	2,732
Shares in other parties	-	-	2,444	2,228
Unit trusts	-	-	112	165
Bonds	-	-	2	362
Unsecured notes	-	-	119	-
	-	-	5,434	5,487
<i>Unquoted</i>				
Shares in other parties	-	-	95	127
Shares in controlled entities	4,557	4,246	-	-
Unit trusts	-	-	47	159
Deposits in other parties	-	-	896	874
Unsecured notes	-	-	232	206
Other investments (gross of unearned income)	-	-	515	348
	4,557	4,246	1,785	1,714
Freehold properties	-	-	58	37
Leasehold properties	-	-	8	8
	-	-	66	45
	4,557	4,246	7,285	7,246

The properties were valued at 30 June 2004 by the independent valuer, Mr Scott Fullarton FAPI of Scott Fullarton Valuations Pty Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	Notes	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 16. NON-CURRENT ASSETS – PLANT AND EQUIPMENT					
Motor vehicles – at cost		-	-	63	54
Accumulated depreciation		-	-	(17)	(15)
Written down value		-	-	46	39
Office and other plant and equipment – at cost		-	-	265	287
Accumulated depreciation		-	-	(146)	(187)
Written down value		-	-	119	100
		-	-	165	139
Reconciliations:					
(i) Motor vehicles					
Balance at the beginning of the financial year		-	-	39	29
Additions		-	-	29	27
Depreciation expense		-	-	(9)	(7)
Disposals		-	-	(13)	(10)
Balance at the end of the financial year		-	-	46	39
(ii) Office and other plant and equipment					
Balance at the beginning of the financial year		-	-	100	66
Additions		-	-	63	67
Depreciation expense		-	-	(29)	(28)
Disposals		-	-	(15)	(5)
Balance at the end of the financial year		-	-	119	100
NOTE 17. NON-CURRENT ASSETS – DEFERRED TAX ASSETS					
Future income tax benefits relating to					
– tax losses carried forward		-	-	19	84
– other		246	-	277	249
		246	-	296	333
NOTE 18. NON-CURRENT ASSETS – INTANGIBLE ASSETS					
Goodwill – at cost		-	-	1,646	1,681
Accumulated amortisation	1(r)	-	-	(191)	(98)
		-	-	1,455	1,583
Intangibles – at cost		-	-	103	101
Accumulated amortisation	1(s)	-	-	(85)	(58)
		-	-	18	43
		-	-	1,473	1,626
NOTE 19. NON-CURRENT ASSETS – OTHER					
Deferred acquisition costs		-	-	31	29
Prepayments		-	-	-	3
		-	-	31	32

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	Notes	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 20. CURRENT LIABILITIES – PAYABLES					
Trade creditors		-	-	569	507
Other creditors		-	-	329	305
Loan from other party		-	-	83	78
Amounts payable to related bodies corporate		11	-	-	-
		11	-	981	890
NOTE 21. CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES					
<i>Unsecured</i>					
Commercial paper		-	-	-	136
NOTE 22. CURRENT LIABILITIES – CURRENT TAX LIABILITIES					
Provision for income tax		143	-	222	106
NOTE 23. CURRENT LIABILITIES – PROVISIONS					
Restructure costs		-	-	29	53
Employee entitlements		-	-	151	121
		-	-	180	174
Movements in provision for restructure costs:					
Balance at the beginning of the financial year		-	-	53	-
Provisions established at acquisition of CGU/NZI	34(b)	-	-	-	48
Additional provisions recognised	3	-	-	52	45
Paid during the year		-	-	(76)	(40)
Balance at the end of the financial year		-	-	29	53
<p>In the financial year ended 30 June 2003, a provision for restructure costs of \$48 million was established for restructuring the operations of the acquired entities, being CGU/NZI. No further provisions were raised in the acquired entities during the financial year ended 30 June 2004. A balance of \$18 million remains in this provision as at 30 June 2004 (2003 – \$34 million).</p> <p>The additional provisions recognised in prior and current year relate to restructuring activities in the acquiring entities, being Insurance Australia Limited (formerly NRMA Insurance Limited) and IAG New Zealand Limited. A balance of \$11 million remains in this provision as at 30 June 2004 (2003 – \$19 million).</p> <p>The restructuring activities involved rationalisation of employees in both Australia and New Zealand, decommissioning of IT systems and exiting surplus premises.</p>					
NOTE 24. OUTSTANDING CLAIMS					
(a) Expected future claims payments (undiscounted)		-	-	7,463	6,757
Discount to present value		-	-	(1,136)	(755)
Provision for outstanding claims		-	-	6,327	6,002
Current		-	-	2,202	2,153
Non-current		-	-	4,125	3,849
		-	-	6,327	6,002

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 24. 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 2004 %	PARENT 2003 %	CONSOLIDATED 2004 %	CONSOLIDATED 2003 %
For the succeeding year:				
– normal inflation rate	-	-	3.0 – 4.0	3.0 – 4.0
– superimposed inflation rate	-	-	2.5 – 6.0	3.0 – 7.5
– discount rate	-	-	5.3 – 5.5	4.4 – 4.5
For subsequent years:				
– normal inflation rate	-	-	3.0 – 4.0	3.0 – 4.0
– superimposed inflation rate	-	-	2.5 – 6.0	3.0 – 7.5
– discount rate	-	-	5.3 – 6.4	4.3 – 5.7

(c) The weighted average expected term to settlement of the gross outstanding claims from the balance date is estimated to be 34 months (2003 – 35 months).

	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 25. NON-CURRENT LIABILITIES – INTEREST-BEARING LIABILITIES				
<i>Unsecured</i>				
NZ senior term notes (i)	-	-	91	87
Subordinated term notes (ii)	-	-	301	301
US subordinated term notes (iii)	-	-	345	358
Cross currency swap hedge payable (iii)	-	-	56	43
	-	-	793	789

(i) The senior term notes were issued through IAG (NZ) Holdings Limited's medium-term note programme. NZ\$100 million of notes were issued, of which NZ\$50 million mature in August 2005 and NZ\$50 million mature 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 and mature in November 2012. \$250 million is at a fixed rate and \$50 million is at floating rate. These notes qualify as Lower Tier 2 capital for the purposes of the Insurance Australia Limited's Australian Prudential Regulation Authority ("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) and mature in April 2015. These notes qualify as Lower Tier 2 capital for the purposes of the Insurance Australia Limited's APRA regulatory capital position. They are fixed rate notes with the principal and interest flows denominated in US dollars, which are then hedged with cross currency swaps.

NOTE 26. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

Provision for deferred income tax	66	-	99	66
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NOTE 27. NON-CURRENT LIABILITIES – PROVISIONS

Employee entitlements	-	-	37	43
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT/CONSOLIDATED			
	2004		2003	
	Number of shares million	\$m	Number of shares million	\$m
NOTE 28. CONTRIBUTED EQUITY				
Share capital				
Issued and fully paid ordinary shares	1,591	3,263	1,683	3,434
Issued and fully paid reset preference shares	6	539	6	539
	1,597	3,802	1,689	3,973
Movements in ordinary shares:				
Balance at the beginning of the financial year	1,683	3,434	1,301	2,509
Ordinary shares issue	-	-	355	880
Ordinary shares issued under Dividend Reinvestment Plan	-	-	27	75
Ordinary shares issued on vested rights under Performance Share Rights Plan	2	-	-	-
Shares bought back off-market	(94)	(168)	-	-
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	1,591	3,263	1,683	3,434
Movements in reset preference shares:				
Balance at the beginning of the financial year	6	539	4	343
Shares issued	-	-	2	200
Less: transaction costs arising on share issue	-	-	-	(4)
Balance at the end of the financial year	6	539	6	539

(i) Ordinary shares

Ordinary shares entitle the holder to a vote at a general meeting of the Company and 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 available and not breaching APRA capital adequacy requirements.

(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 similar conditions as those for ordinary shares. However, reset preference share 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 return 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. The rate, frequency and timing of the payment of dividends can be reset by the Company on a reset date. The first reset dates are 15 June 2007 for IAGPA and 15 June 2008 for IAGPB.

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.

(iii) Dividend reinvestment

The Company operates a Dividend Reinvestment Plan ("DRP"). Shareholders can elect to take their dividend entitlement by way of shares. The price of those DRP shares is the average share market price, less discount if any (determined by the Directors) calculated over the pricing period (which will be at least five trading days) as determined by the Directors for each dividend payment date. Shares allocated to shareholders participating in the DRP during the financial year ended 30 June 2004 were purchased on-market (2004 – 19 million shares purchased on-market; 2003 – 27 million new shares issued).

(iv) Share buy-back

During the year ended 30 June 2004, 94 million ordinary shares representing 5.6% of issued share capital were bought back and cancelled under the terms of a share buy-back tender. The tender was an off-market buy-back. The buy-back price per share was \$4.40 which comprised a capital component of \$1.78 and the balance of \$2.62 as a fully franked dividend. There was no share buy-back during the year ended 30 June 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 28. CONTRIBUTED EQUITY (CONTINUED)

(v) Performance share rights

Refer to note 42(h) for details on the Performance Share Rights Plan and on rights on issue and exercised during the year.

	Notes	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 29. RETAINED PROFITS / (ACCUMULATED LOSSES)					
Balance at the beginning of the financial year		145	213	(396)	(375)
Net profit attributable to shareholders of Insurance Australia Group Limited		876	106	665	153
Utilised in shares bought back off-market		(246)	-	(246)	-
Dividends declared	7	(282)	(174)	(282)	(174)
Balance at the end of the financial year		493	145	(259)	(396)

Retained profits:

During the year, the Company received a total dividend of \$14 million (2003 – \$Nil) 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 30. TOTAL EQUITY RECONCILIATION

Total equity at the beginning of the financial year		4,118	3,065	4,053	2,979
Total changes in equity recognised in the statement of financial performance		876	106	665	153
Transactions with owners as owners:					
– contributions of equity, inclusive of transaction costs	28	-	925	-	925
– reset preference shares, inclusive of transaction costs	28	-	196	-	196
– share buy-back, inclusive of transaction costs		(417)	-	(417)	-
– dividends declared	7	(282)	(174)	(282)	(174)
Movement in foreign currency translation reserves on controlled foreign entities		-	-	(3)	(1)
Total changes in outside equity interests		-	-	208	(25)
Total equity at the end of the financial year		4,295	4,118	4,224	4,053

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 cents	CONSOLIDATED 2003 cents
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NOTE 31. EARNINGS PER SHARE

(a) Ordinary shares

Basic earnings per share	37.87	8.65
Diluted earnings per share	37.74	8.61

	2004 Number of shares million	2003 Number of shares million
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(i) Reconciliation between basic earning per share denominator and diluted earnings per share denominator

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

1,681 1,529

Potential ordinary shares:

Expiry date 21 December 2010

1 2

Expiry date 30 April 2011

4 4

Expiry date 13 December 2011

1 1

Expiry date 5 March 2012

1 -

Cancelled potential ordinary shares

(1) (1)

Weighted average number of ordinary shares and potential ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share

1,687 1,535

Potential ordinary shares consist of rights granted to employees under the Performance Share Rights Plan. The number of rights on issue and the last date on which each tranche may be exercised is set out in note 42(h).

Events subsequent to reporting date:

On 30 July 2004, a total of 1 million ordinary shares were issued as a result of the exercise of vested Performance Share Rights. At 30 June 2004, these shares were included as potential ordinary shares used in calculation of diluted earnings per share.

	2004 \$m	2003 \$m
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(ii) Reconciliation of earnings used in calculating earnings per share

Net profit	806	217
Net profit attributable to outside equity interests	(141)	(64)
Net profit attributable to shareholders of Insurance Australia Group Limited	665	153
Net profit attributable to reset preference shares	(29)	(21)
Earnings used in calculating basic and diluted earnings per share	636	132

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 cents	CONSOLIDATED 2003 cents
NOTE 31. EARNINGS PER SHARE (CONTINUED)		
(b) Reset preference shares		
Basic earnings per share	532.30	587.36
	2004 Number of shares million	2003 Number of shares million
Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share	6	4
	2004 \$m	2003 \$m
Net profit used in calculating basic earnings per share (based on dividends paid or payable on reset preference shares)	29	21
There are no potential reset preference shares on issue.		

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 32. RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX				
Net cash provided by operating activities	762	102	1,169	825
Depreciation	-	-	(38)	(35)
Amortisation of goodwill and intangibles	-	-	(118)	(81)
Realised gains / (losses) on disposal of investments	64	-	129	(44)
Unrealised gains / (losses) on revaluation of investments	-	-	229	(52)
Loss on disposal of plant and equipment	-	-	(4)	(3)
Foreign exchange gains / (losses)	-	-	4	(13)
Bad and doubtful debts	-	-	(6)	(5)
Other	-	-	18	(4)
Increase / (decrease) in operating assets				
Receivables	167	-	151	(127)
Other	246	-	67	19
Decrease / (increase) in operating liabilities				
Payables	(154)	-	(13)	115
Provisions	(209)	4	(197)	19
Outstanding claims	-	-	(351)	(137)
Unearned premium	-	-	(186)	(277)
Gross life insurance policy liabilities	-	-	(48)	17
Profit from ordinary activities after income tax	876	106	806	217

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 33. RECONCILIATION OF CASH				
For the purposes of the statements of cash flows, cash includes cash on hand and in banks, deposits at call and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.				
Cash	1	2	424	626

NOTE 34. BUSINESSES ACQUIRED

(a) Parent entity

On 30 September 2003, the parent entity acquired 100% of the ordinary shares of NRMA Financial Management Limited, NRMA Information Services Pty Limited and IAG Asset Management Limited and its controlled entities from Insurance Australia Group Services Pty Limited (a subsidiary of the parent entity) at a total purchase price of \$287 million. Immediately after this acquisition on 30 September 2003, the parent entity disposed 100% of the ordinary shares in Insurance Australia Group Services Pty Limited to Insurance Australia Limited (a subsidiary of the parent entity) for \$2 million. This disposal was effected after a return of capital by Insurance Australia Group Services Pty Limited of \$285 million.

This change had no impact on goodwill in the consolidated entity.

(b) Consolidated entity

2004

There was no acquisition from external parties by the consolidated entity during the year ended 30 June 2004.

2003

The consolidated entity acquired the following during the year ended 30 June 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 34. BUSINESS ACQUIRED (CONTINUED)		
(b) Consolidated entity (continued)		
Details of the acquisitions are as follows:		
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 the end of the financial year, after allowing for amortisation of goodwill, restructuring costs and borrowing costs associated with the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 35. BUSINESSES DISPOSED

(a) Parent entity

During the year ended 30 June 2004, the parent entity disposed 100% of the ordinary shares in NRMA Life Limited and its controlled entities, NRMA Financial Management Limited and Insurance Australia Group Services Pty Limited. There were no disposals in the year ended 30 June 2003.

(b) Consolidated entity

During the year ended 30 June 2004, the consolidated entity disposed 100% of the ordinary shares in NRMA Health Pty Limited (effective 25 July 2003), and NRMA Life Limited and its controlled entities and NRMA Financial Management Limited (effective 21 January 2004). There were no disposals in the year ended 30 June 2003.

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
Details of the disposals are as follows (in aggregate):				
Sale proceeds:				
Cash	220	-	317	-
Fair value of net assets of controlled entities disposed:				
Cash assets	320	-	357	-
Receivables	22	-	11	-
Investments	1,020	-	1,028	-
Plant and equipment	-	-	1	-
Payables	(30)	-	(12)	-
Unearned premium	-	-	(18)	-
Outstanding claims	(3)	-	(27)	-
Gross life insurance policy liabilities	(958)	-	(958)	-
Provisions	(56)	-	(4)	-
Other	28	-	12	-
Outside equity interests	(188)	-	(188)	-
	155	-	202	-
Add: goodwill written off in respect of NRMA Health Pty Limited	-	-	51	-
Add: costs associated with disposals	1	-	5	-
	156	-	258	-
Profit on disposals	64	-	59	-
Net cash flow on disposal of controlled entities:				
Cash proceeds received (net of disposal costs)	220	-	312	-
Cash balance disposed	-	-	(357)	-
Inflow / (outflow) of cash	220	-	(45)	-
Profit / (loss) from ordinary activities before income tax that the disposed entities contributed to the IAG Group:				
For the year ended 30 June 2004	-	-	15	-
For the year ended 30 June 2003	-	-	(7)	-

The profit / (loss) from ordinary activities before income tax that the disposed entities contributed to the IAG Group has been determined based on the results of the entities up to the date of disposal after allowing for amortisation of goodwill.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	Notes	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 36. FINANCING ARRANGEMENTS					
Facilities available:					
(a) Standby letter of credit facility	(i)	-	-	7	30
(b) Standby facility	(ii)	-	-	50	94
(c) Debt issuance programme	(iii)	-	-	750	750
(d) NZ short-term note programme	(iv)	-	-	-	175
(e) NZ medium-term note programme	(v)	-	-	91	175
Facilities drawn at balance date:					
(a) Standby letter of credit facility		-	-	3	3
(b) Standby facility		-	-	-	-
(c) Debt issuance programme		-	-	300	435
(d) NZ short-term note programme		-	-	-	-
(e) NZ medium-term note programme		-	-	91	87

(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) is unable to refinance maturing obligations under the debt issuance programme due to a market disturbance.

(iii) Insurance Australia Limited has a \$750 million debt issuance programme. 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 had a NZ\$200 million (2003 – NZ\$200 million) short-term note programme, which was terminated on 31 March 2004. Standard & Poor's had assigned a "A-1+" short-term rating to the programme. The programme was guaranteed by Insurance Australia Limited. The programme was supported by a NZ\$50 million liquidity backup facility. This programme was denominated in NZ dollars and was translated into equivalent A\$ using the balance date exchange rate.

(v) IAG (NZ) Holdings Limited has a NZ\$100 million (2003 – NZ\$200 million) medium-term note programme. The programme was reduced to NZ\$100 million from NZ\$200 million on 19 April 2004. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 37. COMMITMENTS				
(a) Capital commitments				
Property				
– due within 1 year	-	-	1	23
(b) Lease and rental commitments				
Property				
– due within 1 year	-	-	89	82
– due within 1 to 2 years	-	-	78	72
– due within 2 to 5 years	-	-	151	159
– due after 5 years	-	-	19	61
Plant and equipment				
– due within 1 year	-	-	28	21
– due within 1 to 2 years	-	-	21	13
– due within 2 to 5 years	-	-	12	9
	-	-	398	417
(c) Software licence and rental commitments				
– due within 1 year	-	-	40	8
– due within 1 to 2 years	-	-	36	2
– due within 2 to 5 years	-	-	23	2
	-	-	99	12
(d) Other commitments				
– due within 1 year	-	-	10	8
– due within 1 to 2 years	-	-	8	9
– due within 2 to 5 years	-	-	8	-
	-	-	26	17

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 38. CONTINGENCIES

- (a) In the normal course of business, the IAG Group enters into transactions that may generate a range of contingent liabilities. These include:
- (i) litigation arising out of insurance policies;
 - (ii) various types of investment contracts including forward exchange contracts, financial futures, interest rate swaps, exchange traded options and forward rate agreements, usually as part of the management of the IAG Group's investment portfolios; and
 - (iii) guarantees for performance obligations and undertakings for maintenance of net worth and liquidity support to controlled entities in the IAG Group.
- Notes 36 and 44 make reference to the IAG Group's exposures under (ii) and (iii) above. The Directors do not believe there are any other potential material exposures to the IAG Group.
- (b) IAG accepted settlement with a US insurer thereby resolving a dispute on an Inwards Treaty contract which has been disclosed as a contingency in prior periods. The settlement approximates the amount carried in the IAG Group's accounts and had no material impact on the IAG Group's result for the year ended 30 June 2004.

NOTE 39. NEW SOUTH WALES WORKERS' COMPENSATION MANAGED FUND

Previously, three controlled entities in the IAG Group were licensed insurers under the NSW Workers' Compensation Act 1987 ("Act"). On 1 July 2003, two of the three licensed insurers handed back the licences to WorkCover Authority of New South Wales and the three statutory funds were merged. The retained licence is held by CGU Workers Compensation (NSW) Limited, a wholly-owned controlled entity of the IAG Group, which maintains the statutory fund in respect of the issue and renewal of policies of insurance in accordance with the requirements of the Act.

Under the Act, the controlled entity is required to have an actuarial valuation of the financial position of the statutory fund, 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 fund is carried forward until the financial position of the statutory fund is 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 the statutory funds of another licensed insurer.

The application of the statutory fund is restricted to the payment of claims, related expenses and other payments authorised under the Act. The licensed insurer is not liable for any deficiency in the statutory fund, or entitled to any surplus, and the statutory fund is exempt from income tax. The IAG Group does not control nor have the capacity to control the statutory fund in terms of Australian Accounting Standards and for this reason the statutory fund is not consolidated and the information provided below in respect of the statutory fund is not included in the IAG Group's financial statements.

This treatment is supported by the Australian Securities & Investments Commission, under class order 00/321, which exempts the statutory fund's performance and financial position from having to be included in the statement of financial performance and the statement of financial position of the licensed insurer.

	2004 \$m	2003 \$m
Audited statutory fund statement of financial position		
Current assets		
Cash and short-term deposits	17	11
Receivables	77	80
Non-current assets		
Investments, at market value	1,154	1,033
Total assets	1,248	1,124
Current liabilities		
Payables	16	23
Unearned premium	96	96
Statutory fund to meet outstanding claims and statutory transfers	1,136	1,005
Total liabilities and statutory fund	1,248	1,124

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 40. DETAILS OF CONTROLLED ENTITIES AND JOINT VENTURE ENTITIES

The following entities constitute the IAG Group:

	Notes	Country of incorporation/formation	Extent of beneficial interest if not 100%	
			2004	2003
Parent entity			%	%
Insurance Australia Group Limited		Australia	-	-
Controlled entities				
Insurance Australia Limited (formerly NRMA Insurance Limited)		Australia		
NRMA Personal Lines Holdings Pty Limited		Australia		
Insurance Manufacturers of Australia Pty Limited		Australia	70.00	70.00
World Class Accident Repairs (Cheltenham North) Pty Limited		Australia	70.00	70.00
CGU Insurance Australia Limited		Australia		
CGU Insurance Limited		Australia		
Swann Insurance (Aust) Pty Ltd		Australia		
Mutual Community General Insurance Proprietary Limited		Australia	51.00	51.00
NZI Insurance Australia Limited		Australia		
Sitrof Australia Limited		Australia		
CGU-VACC Insurance Limited		Australia		
NRMA (Western Australia) Pty Limited		Australia		
SGIO Insurance Limited		Australia		
SGIC Holdings Limited		Australia		
SGIC General Insurance Limited		Australia		
SGIC Insurance Limited		Australia		
SGIC Brand Pty Ltd	A	Australia		
CGU Workers Compensation (NSW) Limited		Australia		
CGU Workers Compensation (VIC) Limited		Australia		
CGU Workers Compensation (SA) Limited (formerly CGU NRMA Workers Compensation (SA) Limited)		Australia		
CGU Premium Funding Pty Ltd		Australia		
IAG Re Limited	B	Ireland		
IAG International Pty Limited (formerly NRMA Insurance International Pty Limited)		Australia		
IAG (NZ) Holdings Limited	B	New Zealand		
IAG New Zealand Limited	B	New Zealand		
New Zealand Car Parts Limited	B	New Zealand		
State Insurance Limited	B	New Zealand		
Direct Insurance Services Limited	B	New Zealand		
IAG (NZ) Share Plan Nominee Limited	B	New Zealand		
Belves Investments Limited	B	New Zealand		
New Zealand Insurance Limited	B	New Zealand		
NZIB Investments Limited	B	New Zealand		
NZI Passive Funds Limited	B	New Zealand		
NZI Investment Nominees Limited	B	New Zealand		
NZI Staff Superannuation Fund Nominees Limited	B	New Zealand		
NZI – State Capital Limited	B	New Zealand		
NZI – State Finance Limited	B	New Zealand		
NHCT Limited	(ii), B	Thailand	49.00	49.00
Beijing Continental Automobile Association Limited	B	China		99.00
IAG Asset Management Limited		Australia		
IAG Asset Management Cash Management Trust (formerly NRMA Investment Management Cash Management Trust)	(i)	Australia	60.64	90.83
IAG Asset Management Private Equity Trust (formerly NRMA Investment Management Private Equity Trust)	(i)	Australia	89.74	84.46
IAG Nominees Pty Limited		Australia		
NRMA Information Services Pty Limited		Australia		
NRMA Insurance Funding 2003 Limited		Australia		
Insurance Australia Group Services Pty Limited		Australia		
NRMA Staff Superannuation Pty Limited	A	Australia		
IAG Share Plan Nominee Pty Limited	A	Australia		
Help Insurance Limited		Australia		
NRMA Insurance Services Limited (formerly Insurance Australia Limited)		Australia		
Sitrof Life Holdings Limited		Australia		
Sitrof Superannuation Pty Ltd		Australia		
SWAPL Pty Limited	A	Australia		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 40. DETAILS OF CONTROLLED ENTITIES AND JOINT VENTURE ENTITIES (CONTINUED)

	Notes	Country of incorporation/ formation	Extent of beneficial interest if not 100%	
			2004	2003
Controlled entities in de-registration process before 30 June 2004:			%	%
ACN 003 151 120 Pty Limited	A	Australia		
ACN 003 287 965 Pty Limited (formerly NRMA Workers Compensation (NSW) (No 3) Limited)		Australia		
ACN 060 317 571 Pty Limited (formerly ACN 060 317 571 Limited)		Australia		
ACN 081 979 053 Pty Limited	A	Australia		
ACN 093 614 147 Pty Limited	A	Australia		
ACN 091 050 396 Limited (formerly NRMA Insurance Group Finance Limited)		Australia		
ACN 006 633 567 Pty Limited (formerly IMA Investments Pty Limited)	A	Australia	70.00	70.00
ACN 007 078 140 Pty Limited (formerly Pacific Indemnity Underwriting Agency Pty Limited)	A	Australia		
ACN 004 478 979 Limited (formerly Union Insurance Company Limited)		Australia		
ACN 006 577 724 Pty Limited (formerly CGU Investments Pty Ltd)	A	Australia		
ACN 004 729 088 Pty Limited (formerly Clay Heath Pty Ltd)	A	Australia		
ACN 005 065 207 Pty Limited (formerly Sitrof Holdings Limited)		Australia		
ACN 006 268 926 Pty Limited (formerly Sitrof Equity Pty Ltd)	A	Australia		
Controlled entities de-registered before 30 June 2004:				
ACN 003 935 724 Pty Limited (formerly NRMA Financial Planning Pty Limited)	A	Australia	-	
ACN 008 634 937 Pty Limited (formerly NRMA Woden Pty Limited)	A	Australia	-	
ACN 003 309 895 Pty Limited (formerly NRMA Superannuation Pty Limited)	A	Australia	-	
ACN 008 124 687 Pty Limited (formerly SGIC Services Pty Limited)	A	Australia	-	
Controlled entities disposed of during the financial year:				
NRMA Health Pty Limited		Australia	-	
NRMA Life Limited		Australia	-	
NRMA Life Nominees Pty Limited		Australia	-	
NRMA Financial Management Limited		Australia	-	
IAG Asset Management Fixed Interest Trust (formerly NRMA Investment Management Fixed Interest Trust)		Australia	-	58.87
IAG Asset Management Property Trust (formerly NRMA Investment Management Property Trust)		Australia	-	
IAG Asset Management Equity Trust Australia (formerly NRMA Investment Management Equity Trust Australia)		Australia	-	87.45
Commercial Union Holdings (NZ) Limited	(iii)	New Zealand	-	
Joint venture entities				
NTI Limited		Australia	50.00	50.00
Associated Marine Insurers Agents Pty Limited		Australia	-	50.00

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

B Audited by other KPMG related practices internationally.

- (i) As at the balance date, the IAG Group has a majority holding, and has the capacity to control, IAG Asset Management Cash Management Trust and IAG Asset Management Private Equity Trust.
- (ii) IAG International Pty Limited owns 49% of the share capital of NHCT Limited and has a majority voting right and the right to appoint the board of directors of NHCT Limited. Therefore, NHCT Limited is a controlled entity of IAG International Pty Limited.
- (iii) Commercial Union Holdings (NZ) Limited was amalgamated into Belves Investments Limited in New Zealand during the year ended 30 June 2004.
- (iv) Unless otherwise stated, all controlled entities are audited by KPMG Australia.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 41. RELATED PARTY DISCLOSURES

(a) 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 40.

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

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

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
Dividend revenue	812	102	-	-
Aggregate amounts receivable from, and payable to, related parties in the wholly-owned group were as follows:				
Current amounts receivable	162	-	-	-
Current amounts payable	11	-	-	-
Non-current loans receivable	5	-	-	-
Non-current loans payable	456	133	-	-

(b) Non wholly-owned controlled entities

Transactions with Insurance Manufacturers of Australia Group

Insurance Manufacturers of Australia Group ("IMA") refers to Insurance Manufacturers of Australia Pty Limited and the entities it controls, being ACN 006 633 567 Pty Limited (formerly 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 from ordinary activities before income tax that resulted from transactions with IMA were as follows:

	2004 \$m	2003 \$m
Insurance Australia Limited		
– Reinsurance premiums paid or payable	1,450	1,356
– Claims recoveries received or receivable	862	831
– Underwriting expenses received or receivable	53	54
– Management fees received	160	175
– Rental income	5	3
SGIO Insurance Limited		
– Reinsurance premiums paid or payable	3	9
– Claims recoveries received or receivable	5	7
– Management fees paid	4	-
SGIC General Insurance Limited		
– Management fees paid	2	-
CGU Insurance Limited		
– Management fees paid	9	-
IAG Re Limited		
– Reinsurance recoveries received	75	30
– Reinsurance expense paid	99	92

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	2004 \$m	2003 \$m
NOTE 41. RELATED PARTY DISCLOSURES (CONTINUED)		
(b) Non wholly-owned controlled entities (continued)		
NRMA Personal Lines Holdings Pty Limited		
– Dividend revenue	168	113
NRMA Information Services Pty Limited		
– Information services and communication recoveries received	76	79
IAG Asset Management Limited		
– Investment management fees received	3	3
IAG Nominees Pty Limited		
– Custody fees received	1	1
The transactions referred to above were made on normal commercial terms and conditions or direct and actual cost recovery basis or time allocation basis.		
The following entities in the IAG Group had the following outstanding balances with IMA:		
Current receivable		
– NRMA Information Services Pty Limited	4	4
– Insurance Australia Limited	2	-
– SGIO Insurance Limited	1	1
Current payable		
– Insurance Australia Limited	-	12
– IAG Asset Management Cash Management Trust (formerly NRMA Investment Management Cash Management Trust)	1	1
– IAG Re Limited	-	10
– Swann Insurance (Aust) Pty Ltd	1	-

(c) Other transactions

IAG Asset Management Wholesale Trusts (formerly NRMA Investment Management Trusts), as disclosed as controlled entities in note 40, were established to enable higher investment yields for smaller investment portfolios. All entities within the IAG Group can invest in the trusts in accordance with their investment mandates. All investments in these trusts were on normal commercial terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
NOTE 42. EMPLOYEE ENTITLEMENTS				
(a) Provision for employee entitlements				
Current	-	-	151	121
Non-current	-	-	37	43
	-	-	188	164

A liability of \$3 million (2003 – \$28 million) for termination benefits has been included in the provision for restructure costs on acquisitions (refer to note 23).

	2004 number	2003 number	2004 number	2003 number
(b) Employee numbers				
Number of employees at balance date (on full time equivalent basis)	-	-	11,724	10,793

(c) Staff incentive plan

The staff incentive plan was in operation during the year ended 30 June 2004. Eligible employees have the capacity to earn up to 10% of their base pay as a cash incentive annually. The incentive payments are determined based on a range of corporate, team and individual measures and goals.

(d) Short-term incentive plan

The short-term incentive plan was in operation during the year ended 30 June 2004. Eligible employees have the capacity to earn a proportion (generally a maximum of either 20% or 30% with specified executives and the CEO generally having a range of 60% – 80%) of their base pay as a cash incentive annually. Part of the incentive may be provided in the form of IAG shares subject to the provisions of the Bonus Equity Share Plan (refer to (e) below). The incentive payments are determined based on a range of corporate, team and individual measures and goals.

(e) Bonus equity share plan

The Bonus Equity Share Plan was in operation during the year ended 30 June 2004. The plan allows employees to elect to receive up to a maximum of 50% of their short-term incentive bonus and 100% of their long-term incentive bonus (refer to (f) below) in the form of IAG shares rather than in cash. IAG shares are bought on-market, held in trust for the participants and subject to a restriction period of up to 10 years.

(f) IMA long-term incentive scheme

The scheme was in operation for IMA employees during prior years and was closed to new entitlements with effect from 30 June 2003. The incentive is paid as cash, bonus equity shares or as a contribution to superannuation at the end of the performance period, subject to IMA performance targets being met. The performance targets relate to the combined ratio and increase in pre-tax underwriting profit over a three year period. Eligible IMA employees now participate in the Performance Award Rights Plan (refer to (g) below).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 42. EMPLOYEE ENTITLEMENTS (CONTINUED)

(g) Performance award rights plan

The PARs Plan was in operation during the year ended 30 June 2004. On satisfaction of a performance hurdle and subject to meeting certain employment conditions, the plan entitles participating employees to acquire one ordinary share of IAG for each right. The rights were issued for nil consideration. The exercise price is \$1 per tranche of rights exercised. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG shares are bought on-market and held in trust to satisfy future exercise of the rights. The rights generally lapse upon termination of employment. The performance hurdle is based on a comparison of IAG's total shareholder return with the total shareholder return of the relevant companies in the S&P/ASX 100 Index.

The total rights issued under the PARs Plan are summarised below:

Grant date	Last expiry date	Exercise price	Rights on issue at the beginning of the year	Rights granted during the year	Rights lapsed during the year	Rights on issue at the end of the year
24/12/2002	24/12/2012	\$1	3,893,881	-	43,536	3,850,345
22/09/2003	22/09/2013	\$1	-	4,147,896	64,799	4,083,097
10/12/2003	10/12/2013	\$1	-	400,000	-	400,000
26/03/2004	26/03/2014	\$1	-	955,999	-	955,999
			3,893,881	5,503,895	108,335	9,289,441

(h) Performance share rights plan

The PSRs 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, participating employees are able to exercise those rights, which convert into new ordinary shares of IAG. The rights were issued for nil consideration. The exercise price is \$1 per tranche of rights exercised. For all Performance Share Rights issued prior to 13 December 2001, the performance hurdle related to the total shareholder return of IAG shares over a defined period. For all Performance Share Rights issued on or after 13 December 2001 the performance hurdle is based on a comparison of IAG's total shareholder return with the total shareholder return of the relevant companies in the S&P/ASX 100 Index.

Once exercised, trading in the shares of IAG will be covered by the restrictions for "designated employees" under the Protocol for Dealings in IAG shares.

4,618,500 rights were vested and 2,148,760 were exercised during the financial year ended 30 June 2004.

The total rights issued under the PSRs Plan are summarised below:

Grant date	Last expiry date	Exercise price	Rights on issue at the beginning of 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	1,410,300	1,381,660	-	28,640
30/04/2001	30/04/2011	\$1	3,208,200	767,100	-	2,441,100
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
			6,548,319	2,148,760	-	4,399,559

(i) Non-executive directors' share plan

By resolution passed at the Company's 2001 Annual General Meeting, non-executive Directors are required to receive at least 20%, but not in excess of 90%, of their annual base fee in IAG shares, rather than in cash. The IAG shares are bought on-market and held in trust on behalf of the Directors. The number of shares purchased is determined by the amount of the base fee each Director elected (taking into account the Director's preferences) to receive in IAG shares and the market price of the IAG shares at the date of allocation. This plan has been approved for all continuing non-executive Directors for the period from December 2002 to November 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 42. EMPLOYEE ENTITLEMENTS (CONTINUED)

(j) Superannuation commitments

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

During the financial year ended 30 June 2004, members of RACV Superannuation Funds, CGU Superannuation Fund and CGU-VACC Pension Fund were transferred into the Plan.

The IAG Group contributed to various other superannuation funds during the financial year but this involved a small number of employees and is insignificant to the IAG Group.

The unaudited financial position of that portion of the Plan, which is set out below represents the interest in the Plan of IAG Group employees.

	IAG & NRMA Superannuation Plan 30 June 2004 \$m
Date of last actuarial valuation	30 June 2004
Net market value of net assets held by the Plan	675
Present value of employees' accrued benefits	(605)
Excess of net assets over accrued benefits	70
Vested benefits	586

The accrued benefits for defined benefit members of the Plan are determined on the basis of the present value of expected future payments that 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 they all voluntarily resigned as at the reporting date.

Due to the surplus in the Plan, a contribution holiday was in place throughout the financial year. The surplus of the Plan is not recognised in the statement of financial performance of the IAG Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 43. SEGMENTAL REPORTING

(a) Primary reporting – business segments

The consolidated entity operates in the general insurance industry and formerly also operated in the retirement services industry before the sale of the ClearView retirement services businesses effective 21 January 2004. 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 IAG Group's capital funds, form a separate segment.

	Short-tail insurance 2004 \$m	Long-tail insurance 2004 \$m	International insurance 2004 \$m	Retirement services 2004 \$m	Corporate and investments 2004 \$m	Intersegment elimination 2004 \$m	Total 2004 \$m
External revenue	4,573	1,491	994	53	812	-	7,923
Intersegment revenue	-	-	251	-	6	(257)	-
Total revenue	4,573	1,491	1,245	53	818	(257)	7,923
Profit from underwriting	303	198	47	-	-	-	548
Investment income	89	134	21	-	569	-	813
Other operating result	5	16	-	15	(245)	-	(209)
Profit from ordinary activities before income tax	397	348	68	15	324	-	1,152
Income tax expense							(346)
Net profit							806
Segment assets	3,677	5,422	700	-	6,536	-	16,335
Unallocated assets							-
Total assets							16,335
Segment liabilities	3,677	5,422	700	-	2,312	-	12,111
Unallocated liabilities							-
Total liabilities							12,111
Acquisitions of property, plant and equipment, intangibles and other non- current segment assets	-	-	-	-	92	-	92
Depreciation expense*	14	10	6	-	8	-	38
Amortisation of goodwill and intangibles	-	-	-	-	118	-	118
Total depreciation and amortisation expense	14	10	6	-	126	-	156
Other non-cash expenses	56	26	5	1	6	-	94

* 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 43. SEGMENTAL REPORTING (CONTINUED)

(a) Primary reporting – business segments (continued)

	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 / (loss) 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	3,860	4,869	575	1,078	6,088	-	16,470
Unallocated assets							-
Total assets							16,470
Segment liabilities	3,860	4,869	575	929	2,184	-	12,417
Unallocated liabilities							-
Total liabilities							12,417
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 43. SEGMENTAL REPORTING (CONTINUED)

(b) Secondary reporting – geographical segments

The consolidated entity operates mainly in the Australian and New Zealand general insurance industry. It also operated in the retirement services industry in Australia before the sale of the ClearView retirement services business effective 21 January 2004. In the Australian market the IAG Group operates in all states and territories. Australia and International (mainly New Zealand) markets are therefore separate reportable geographical segments.

	Australia		International		Intersegment elimination		Total	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m	2004 \$m	2003 \$m	2004 \$m	2003 \$m
External revenue	6,882	5,069	1,041	711	-	-	7,923	5,780
Segment assets	15,254	15,514	1,908	1,618	(827)	(662)	16,335	16,470
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	90	977	2	199	-	-	92	1,176

NOTE 44. 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 2004, the weighted average fixed interest rate payable under the swap agreements was 6.77% per annum (2003 – 6.92% per annum) and the weighted average floating rate receivable was 7.02% per annum (2003 – 6.35% per annum).

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

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
Interest rate swaps				
– within 2 to 5 years	-	-	50	50
– within 5 to 7 years	-	-	350	350
	-	-	400	400

(ii) Futures

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

	PARENT 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
Futures				
– within 1 year	-	-	603	217
– within 1 to 2 years	-	-	169	-
	-	-	772	217

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 44. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk (continued)

(iii) The exposure to interest rate risk and the weighted average effective interest rates on the interest-bearing financial assets and liabilities of the consolidated entity are summarised in the table below. All other assets and liabilities disclosed on the statement of financial position are non-interest bearing.

2004	CONSOLIDATED						Total \$m	Weighted average interest rate %
	Floating interest rate \$m	Fixed interest rate maturing in			Non-interest bearing \$m			
		1 year or less \$m	Over 1 to 5 years \$m	More than 5 years \$m				
Financial assets								
Cash and deposits	429	376	854	42	2	1,703	5.63	
Premium funding loans	90	-	-	-	-	90	11.56	
Government and semi-government stocks and bonds	-	472	1,679	1,078	-	3,229	5.64	
Bonds	-	1	2	-	-	3	6.58	
Commercial bills	33	1,469	-	-	-	1,502	5.48	
Other investments	-	114	833	33	-	980	5.36	
	552	2,432	3,368	1,153	2	7,507		
Financial liabilities								
Senior term notes	-	-	91	-	-	91	7.12	
Subordinated term notes	50	-	249	2	-	301	6.39	
US subordinated term notes	-	-	-	345	-	345	5.19	
	50	-	340	347	-	737		
2003								
Financial assets								
Cash and deposits	621	167	863	-	5	1,656	4.81	
Premium funding loans	76	-	-	-	-	76	13.01	
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	5	7,630		
Financial liabilities								
Commercial paper	136	-	-	-	-	136	4.82	
Senior term notes	-	-	44	43	-	87	7.21	
Subordinated term notes	50	2	249	-	-	301	6.32	
US subordinated term notes	-	-	-	358	-	358	5.19	
	186	2	293	401	-	882		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 44. 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 2004 \$m	PARENT 2003 \$m	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
SPI futures				
– within 1 year	-	-	356	47
Options				
– purchased – within 1 year	-	-	9	1,559
– written – within 1 year	-	-	33	464
	-	-	398	2,070

(c) Exchange rate risk

(i) 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.

(ii) The IAG Group is exposed to foreign exchange risk on its investment in international equities and uses derivatives to help manage this exposure by entering into forward foreign exchange contracts. Contractual amounts for foreign exchange derivatives outstanding at balance date include forward foreign exchange contracts to purchase \$15 million (2003 – \$Nil). The maturity profile of these derivatives is as follows:

Forward foreign exchange contracts				
– within 1 year	-	-	15	-

(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 counterparty risks are monitored constantly to operate 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 44. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Net fair value

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 payable of \$60 million (2003 – net receivable of \$10 million). The net fair value of interest rate swaps is a net receivable of \$14 million (2003 – net payable of \$5 million) (carrying value of \$Nil, 2003 – carrying value of \$Nil).

NOTE 45. CAPITAL ADEQUACY

Existing prudential standards 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.

The MCR of the IAG Group applying consolidation principles to the prudential standards is as follows:

	Notes	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
Statutory capital requirements			
<i>Tier 1 capital</i>			
Paid-up ordinary shares		3,263	3,434
Reset preference shares		539	539
Accumulated losses and reserve		(264)	(398)
Excess technical provisions (net of tax)		375	353
Less: deductions		(1,663)	(1,838)
		2,250	2,090
<i>Tier 2 capital</i>			
Subordinated term notes		644	657
Capital base		2,894	2,747
Australian general insurance businesses		1,475	1,392
International insurance businesses	(i)	179	136
Other businesses	(ii)	-	165
Minimum capital requirements (MCR)		1,654	1,693
MCR multiple		1.75	1.62

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

(ii) The 2003 MCR includes the capital requirement for the ClearView business, which was sold to MBF during the 2004 financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	Notes	CONSOLIDATED 2004 \$	CONSOLIDATED 2003 \$
NOTE 46. NET TANGIBLE ASSETS			
Net tangible asset per ordinary share	(i)	0.96	0.84
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 18) and the value of reset preference shares on issue (note 28).

(ii) Net tangible assets per reset preference share has been reflected at the face value of \$100, as these shares have no further entitlement to the assets of the Company.

NOTE 47. EVENTS SUBSEQUENT TO REPORTING DATE

As the following 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 2004.

(a) On 19 August 2004, a final dividend of 14 cents per ordinary share, 100% franked, was declared by the Company. The dividend will be paid on 18 October 2004.

(b) International Financial Reporting Standards

(i) Overview

For reporting periods beginning on or after 1 January 2005, the IAG Group must comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") as issued by the Australian Accounting Standards Board. The IAG Group's financial report will be prepared in accordance with A-IFRS for the first time for the half year ending 31 December 2005 and the year ending 30 June 2006.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("Australian GAAP"). The differences between Australian GAAP and A-IFRS identified to date as potentially having a material effect on the IAG Group's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and A-IFRS as there is still work to be completed.

The potential impacts on the IAG Group's financial performance and financial position of the transition to A-IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of A-IFRS and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

It is important to understand that while the A-IFRS accounting requirements will change the IAG Group's reported results, this does not represent a change in the strength of the underlying business.

(ii) Management of the IAG Group's transition

The IAG Group has established a project team to manage the transition to the new standards, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports quarterly to the Audit Committee. The project team has prepared a detailed timetable for managing the transition to the new standards and is currently on schedule. To date the project team has analysed most of the new standards and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the IAG Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 47. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(iii) Key differences

The key implications of the conversion to A-IFRS on the IAG Group are as follows:

Insurance contracts The large majority, if not all, of the insurance products are expected to meet the new accounting definition of an "insurance contract" Changes to accounting for insurance products are not expected to be significant	<p>In respect of the IAG Group's core insurance business, the changes to financial reporting on conversion to A-IFRS are not expected to be significant.</p> <p>One of the key changes is that the standard provides a definition of an "insurance contract". General insurance products and reinsurance products that meet the definition will continue with current accounting treatments subject to a revised liability adequacy test. Those general insurance products and reinsurance products that fall outside the definition will be treated as investment contracts or service contracts and be accounted for as financial instruments or revenue contracts respectively.</p> <p>An analysis of the IAG Group's general insurance products and reinsurance products on offer, or utilised, is substantially complete with the expectation that most, if not all, will meet the definition of an insurance contract.</p> <p>This would mean that the IAG Group's accounting for unearned premium, deferred acquisition costs, outstanding claims, premium revenue, claims expense and reinsurance recoveries would continue without significant change, subject to a revised liability adequacy test.</p>
Reset preference shares Reclassified as debt Distributions treated as interest, not dividends	<p>The IAG Group's reset preference shares will be reclassified as debt. APRA has indicated they may grandfather the current regulatory capital treatment for existing instruments that are adversely affected by the accounting standard change. Distributions on those instruments (refer note 7(b)) will be treated as interest rather than dividends.</p>
Financial assets More choices around accounting policies for investment assets Accounting policy selection still to be made	<p>Under current accounting standards the IAG Group is required to measure at net market value (fair value less disposal costs) all investments integral to general insurance activities with movements in the net market value recorded in the statement of financial performance. Under A-IFRS the IAG Group will be required to measure at fair value only those assets held to back insurance liabilities and only where a fair value measurement option is available under the relevant accounting standards. Those financial assets that are not held to back insurance liabilities will move to a system of purpose led accounting. The new standards require classification of the investments based on the purpose for which they are held. The different classifications have different accounting treatments, being fair value through the statement of financial performance, fair value through equity, and amortised cost. The IAG Group has not yet finalised its accounting policy in response to these changes.</p> <p>All derivative contracts, regardless of the purpose for which they are used, will be measured at fair value.</p>
Goodwill No amortisation moving forward resulting in lower expenses, subject to impairment charges	<p>The IAG Group will not restate the accounting for business combinations transacted prior to 1 July 2004, as permitted under first time adoption. Goodwill will not be amortised but will be tested for impairment at least annually. Using A-IFRS impairment methodology the balance of goodwill shown in this report of \$1,455 million (refer note 18) is supportable.</p> <p>The IAG Group had a goodwill amortisation expense for the year to 30 June 2004 of \$91 million (refer note 3). The elimination of the requirement to amortise goodwill under A-IFRS will increase reported profits, subject to any impairment charge that may be required.</p>
Non-goodwill intangibles All current non-goodwill intangible assets qualify for recognition	<p>Existing non-goodwill intangible assets on the IAG Group's statement of financial position at 30 June 2004 meet the recognition and measurement requirements of A-IFRS and so the accounting treatment, including amortisation, will remain unchanged. They will be subject to impairment testing.</p> <p>In certain circumstances under A-IFRS, development phase expenditure will be capitalised and so recognised as an internally generated intangible asset. Software development is the largest component of development expenditure for the IAG Group. The IAG Group is not currently carrying any capitalised software development costs in the statement of financial position but may have to review this position.</p>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

NOTE 47. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(iii) Key differences (continued)

Superannuation surplus	Under A-IFRS the relevant net position of defined benefit superannuation plans will be recognised in the statement of financial position with movements recognised in the statement of financial performance. While information regarding the financial position of the IAG & NRMA Superannuation Plan ("Plan") sponsored by the IAG Group is provided in the notes to financial statements (refer note 42(j)), the net position of the Plan is not recognised in the IAG Group's results.
Positive impact to retained earnings at 1 July 2004	
New asset/liability recognised	The relevant surplus in the Plan as at 30 June 2004 under A-IFRS will pass through retained earnings as at 1 July 2004. The surplus calculated under A-IFRS will be different to that calculated in accordance with current accounting standards because of different measurement requirements with the principal difference being the discount rate applied. Only a small minority of employees of the IAG Group participate in the Plan on a defined benefit basis.
Share-based payments	Under A-IFRS the fair value at grant date of share-based remuneration is required to be recognised as an expense over the period from grant date until the equity instruments vest fully to the employee.
Trust likely to be consolidated	The IAG Group has, during the last two years, simplified its approach to share-based remuneration. The cost to the IAG Group of acquiring shares to fund future obligations for share-based remuneration is expensed in full, generally over the period during which the employees provide related services.
Overall expense likely to be reduced	Under A-IFRS it is likely that the equity remuneration trust used to manage the share-based arrangements will be consolidated by the IAG Group. The impact of this would be that the shares purchased by the equity remuneration trust would likely be accounted for as a reduction in equity. The requirement to determine the fair value of the share-based remuneration and recognise this expense over the period from grant date to vesting date will likely result in a reduction in the overall expense recognised for the IAG Group in relation to share-based payments. The IAG Group will not retrospectively apply the A-IFRS expense treatment to the Performance Share Rights Plan (refer note 42(h)) because the rights were granted prior to 7 November 2002, as permitted with A-IFRS first time adoption.
Property	Under current accounting treatments, all property, regardless of the purpose for which it is used, must be designated as an investment integral to general insurance activities and so is measured at fair value. This designation will not continue under A-IFRS and property will be classified according to the purpose for which it is held. All of the property within the IAG Group will be classified as owner-occupied property under A-IFRS.
All property classified as owner-occupied	Under A-IFRS, the IAG Group has the option to continue to measure the property at fair value, but with movements being recorded through equity, or to apply a cost approach under which the property would be depreciated over its useful life and also be subject to impairment testing.
Taxation	Income tax will be calculated based on the "balance sheet approach" replacing the "income statement approach" currently used. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base (being the amount attributed to an asset or liability for tax purposes). This may result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
More deferred tax assets and liabilities may be recognised	
Retained earnings	In transitioning to A-IFRS the basic principle (there are exceptions) is that the IAG Group must apply the new standards as if the IAG Group had always applied them. There will therefore be some retrospective adjustments that will affect the retained earnings balance as at 1 July 2004.
The retained earnings balance as at 30 June 2004 will change	