INSURANCE AUSTRALIA GROUP LIMITED
(FORMERLY NRMA INSURANCE GROUP LIMITED)
ABN 60 090 739 923
AND CONTROLLED ENTITIES
FINANCIAL REPORTS - 30 JUNE 2002

CONTENTS

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

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

DIRECTORS' REPORT

The Directors present their report together with the financial report of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited) and the consolidated financial report of the Insurance Australia Group for the year ended 30 June 2002 and the auditors' report thereon.

The following terminology is used throughout the financial reports.

* Parent entity or the Company - Insurance Australia Group Limited ("IAG").

* IAG Group, Group or consolidated entity - the consolidated entity constituted by Insurance Australia Group Limited and its controlled entities.

Directors of Insurance Australia Group Limited

The following persons held office as Directors at any time during or since the financial year:

Chairman:
Mr JA (James) Strong, age 58
Mr James Strong was appointed Chairman of IAG on 2 August 2001. He is also Chairman of Insurance Manufacturers of Australia Pty Limited and IAG Re Limited.

Mr Strong is Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company and the Australian Business Arts Foundation. He is a Director of the Australian Grand Prix Corporation and Opera Australia.

Mr Strong was Chief Executive and Managing Director of Qantas Airways Limited from 1993 to 2001. Previous positions he has held include Group Chief Executive of DB Group Limited in New Zealand, National Managing Partner and later Chairman of law firm Corrs Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council. Mr Strong has been admitted as a barrister and solicitor. Mr Strong is Chairman of the IAG Chairman's Committee.

Other Directors:
Mr JF (John) Astbury FAICD, age 58
Mr John Astbury was appointed as a Director of IAG in July 2000. He is also a Director of MIM Holdings Ltd and the Treasury Corporation of Victoria. Mr Astbury was previously the Finance Director of Lend Lease Corporation and a Chief General Manager of National Australia Bank. He has a long career in banking and financial services in both the UK and Australia. He is currently Chairman of the IAG Audit Committee and also serves on the IAG Chairman's Committee.

Mrs MC (Maree) Callaghan FAICD, age 56
Mrs Maree Callaghan has been a Director of IAG since June 2000 and NRMA Insurance Limited since 1993. She is on the Board of SGIO Insurance Limited and was a Director of two of the IAG Group's NSW Workers' Compensation companies for the financial year.

Mrs Callaghan was appointed the President of National Roads and Motorists' Association Limited on 29 July 2002 and is a member of the NSW Coal Compensation Board. She was Mayor of Cessnock from 1987 to 1995 and currently manages a division of Life Activities Inc, supporting people with disabilities. Mrs Callaghan is a member of the IAG Risk Management and Compliance Committee.

Mr GA (Geoffrey) Cousins, age 59
Mr Geoffrey Cousins was appointed as a Director of IAG in July 2000 and has more than 26 years experience as a company Director. He is currently on the Board of N.M. Rothschild and Sons Limited and is Director and Chairman of Globe International Limited.

Mr Cousins was previously Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network and Hoyts Cinema group. He was the Chief Executive of Optus Vision from 1995 to 1996 and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia. Mr Cousins is a consultant to the Prime Minister on the Communication of Government Policy. He is a member of the IAG Audit Committee.

Mrs M (Mary) Easson MAICD, age 47
Mrs Mary Easson was appointed as a Director of IAG in June 2000 and a Director of NRMA Insurance Limited in 1997.

A former member of Federal Parliament, Mrs Easson is currently the Managing Director of Probity International and is on the Board of Professional Standards Resource Group. She is also on the Board of National Roads and Motorists' Association Limited. Mrs Easson has held a number of executive positions including the National Government Relations Manager for Australian Consolidated

Industries (ACI) and the Human Resources Executive for Ansett Transport Industries. She is a member of the IAG Audit Committee.

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

DIRECTORS' REPORT

Directors of Insurance Australia Group Limited (continued)

Ms DG (Dominique) Fisher BA (Hons) age 45
Ms Dominique Fisher has been a Director of IAG since June 2000 and a Director of NRMA Insurance Limited since 1996. She is Deputy Chairman of the NRMA Insurance Limited Board.

Ms Fisher is also a Director of the Playbox Theatre and the Prostate Cancer Research Foundation Victoria. She was previously Chairman of the Management Committee, Royal Hospital for Women, Director of AIDS Fundraising Management and the Communications and Media Law Associations and Trustee of the Sydney Opera House Trust. Ms Fisher was formerly a member of the National Roads and Motorists' Association Limited Board and served as Deputy President during her term.

Ms Fisher has more than 20 years experience in electronic commerce and telecommunications. Her company, EC Strategies Pty Ltd, advises companies, primarily in Australasia and the United States, on electronic commerce strategies and transactions. Ms Fisher serves on the IAG Risk Management and Compliance Committee.

Mr ND (Neil) Hamilton LLB, age 50
Mr Neil Hamilton was appointed as a Director of IAG in June 2000 and as a Director of NRMA Insurance Limited in 1999. He is also the Chairman of SGIO Insurance Limited.

Mr Hamilton is the Chairman of Iress Market Technology Limited, D'Orsogna Limited, Western Australia Land Authority (Landcorp), AFL Players Association Advisory Board and Integrated Workforce Limited, and is a Director of Wescorp Holdings Limited and Western Power Corporation. He is also the Managing Director of Chieftain Securities Limited. Mr Hamilton was previously the Chief Executive of Pacific Mutual Australia Limited, the Chairman of Challenge Bank Limited and a Director of MMI Limited.

Ms AJ (Anne) Keating, age 48
Ms Anne Keating was appointed as a Director of IAG in June 2000. She had previously served on the Board of NRMA Insurance Limited since 1997 and is currently a Director of National Roads and Motorists' Association Limited.

Ms Keating was the General Manager, Australia for United Airlines from 1993 to 2001. She is currently a Director of STW Communications (formerly Singleton Group Limited) and Macquarie Leisure Management Limited. She is an advisory council member of ABN AMRO, Australia and New Zealand and an advisory board member of Epiphany.com. Ms Keating is an inaugural Board member of the Victor Chang Cardiac Research Institute and is a former Board member of WorkCover Authority of Australia. She is a member of the IAG Audit Committee.

Mr RA (Rowan) Ross BEc, BCom, FCPA, FSIA, age 53
Mr Rowan Ross was appointed as a Director of IAG in July 2000 and acted as the Chairman from April to August 2001. He previously served on the Board of Insurance Manufacturers of Australia Pty Limited.

Mr Ross is currently a Director of the Securities Institute of Australia and Sydney IVF Limited. He is the former Chairman of Bankers Trust Investment Bank, former National President of the Securities Institute of Australia and former Chairman of the Sydney Dance Company and the Australian Major Performing Arts Group. He has more than 30 years experience in investment banking and is an executive director of Macquarie Bank Limited.

Mr Ross is Chairman of the IAG Risk Management and Compliance Committee and serves on the IAG Chairman's Committee.

Mr MJ (Michael) Hawker BSc, FAICD, ASIA, MCT, age 42
Mr Michael Hawker was appointed Chief Executive Officer of IAG in December 2001. He has more than 18 years experience in the financial services industry. Before joining IAG, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions he has held include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia. He was previously Chairman of the Australian Financial Markets Association.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under 40, and in 2000, Mr Hawker was awarded the Australian Banking & Finance Magazine - Millennium Banker of the Year Award. He is a member of the Australian Rugby Union Board and is a recipient of an Australian Sports Medal.

Former Director resigned during the financial year:

Mr IF (Ian) Stanwell (Director from 25 July 2000 to 31 March 2002).

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

DIRECTORS' REPORT

Principal activities

The principal continuing activities of the IAG Group are the underwriting of general insurance, investing and retirement services.

Result and review of operations

The Group recorded a net loss attributable to shareholders of $25 million (2001 - $122 million profit).

The underlying business has performed strongly, producing a general insurance underwriting profit of $142 million compared with a breakeven result in the previous period. However, the positive underwriting result was offset by the impact of poor investment market returns, on the Group's Australian and international equities portfolios.

The Company acquired NRMA Insurance Limited ("NRMAI") upon the demutualisation of NRMAI on 22 July 2000. The comparative figures in the financial statements include the results of the major operating subsidiary NRMAI for the period from 22 July 2000 to 30 June 2001.

Highlights of the Group's performance over the year are as follows:
- Premium growth: Gross written premium was $3,558 million, representing an increase of 18% on the previous year. Premiums from the acquisitions of State Insurance (February 2001) and a national workers' compensation portfolio (March 2001) and the growth in core products have been major drivers of this growth.
- Expenses: the expense ratio (underwriting expenses to net earned premium) of 19.7% compares favourably to 20.2% for the previous year.
- Fee based businesses have generated $32 million in profit before tax which is an increase of $18 million from last year. This result includes the full year contribution from workers' compensation premium and claims management contracts assumed in March 2001.
- Short tail underwriting continued to perform soundly with a combined ratio (claims and underwriting expenses to net earned premium) of 95.5% (2001 - 98.4%).
- The long tail portfolio performed strongly with the combined ratio of 95.4%, which is below the Group's long term operating target range of 105% - 110%. This result includes the Group's inwards reinsurance portfolio, together with a reinsurance recovery from the Group's whole of account aggregate stop loss reinsurance contract.
- The Company sold NRMA Building Society Limited in November 2001 for $138 million. This resulted in a profit before tax on sale of the Building Society of $45 million.

There are several other significant items affecting the result:
- The continued strong underwriting performance of the Group resulted in reinsurance recoveries of $185 million through the Group's whole of account aggregate stop loss reinsurance contract.
- A $21 million expense for the year for the Insurance Protection Tax imposed by the NSW Treasury to fund the shortfall on Compulsory Third Party and builders' warranty claims following the HIH collapse.
- A $12 million expense incurred in the settlement of defendant legal costs for failed litigation concerning the 1994 "Share the Future" restructuring proposal.
- The inwards reinsurance portfolio incurred a net claim expense of $60 million in respect of the September 11 World Trade Center tragedy.

Net realised and unrealised investment losses included in the consolidated result for the year were $110 million, compared to $364 million of income in the previous year. The Australian and overseas sharemarkets exhibited extreme volatility during the year, culminating in the worst performing year since 1987/88. In terms of performance relative to benchmarks, fixed interest and Australian equity returns exceeded benchmarks while international equities underperformed.

The policy of matching insurance claims liabilities with fixed interest investments has enabled the positive investment returns from this class to offset or immunise some of the increase in insurance liabilities associated with movements in interest rates.

The Group undertook a process to eliminate equities exposure from its technical insurance reserves portfolio in the second half of the year. In addition, a hedge was placed on a portion of the shareholder portfolio in June 2002. These actions will partly reduce the Group's future exposure to equity market volatility.

Further information on the Group's result and review of operations can be found in the 30 June 2002 Investor Report on the Company's website, www.iag.com.au.

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

DIRECTORS' REPORT

Likely developments and expected results of operations

Insurance and investment operations are, by their nature, volatile due to the exposure to natural disasters and industry cycles and thus profit predictions are difficult. Otherwise, the Directors agree with the market perception that the coming few years will be a favourable environment for general insurance in our region and believe that the IAG Group is well placed to leverage opportunities in this environment.

Dividends

The IAG Group have declared a final dividend of 6.0 cents (2001 - 6 cents) per share which will be paid on 21 October 2002 and an interim dividend of 4.5 cents (2001 - 4 cents) was paid on 29 April 2002. Both dividends are fully franked. The Directors declared these dividends in accordance with the policy to pay 40% - 70% of profits, normalised for fluctuation in investment returns, as dividends.

Significant changes

(a) The Company appointed Mr James Strong, Chairman and Mr Michael Hawker, Chief Executive Officer on 2 August 2001 and 1 December 2001, respectively.

(b) In November 2001, the Company sold NRMA Building Society Limited for $138 million. This sale resulted in a profit before tax of $45 million and reduced both assets and liabilities by approximately $1 billion each;

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

(d) On 4 June 2002, the Company issued a total of $350 million in reset preference shares which were listed on the Australian Stock Exchange;

(e) On 24 June 2002, the Company completed an off-market buy-back of shares whereby 98 million shares, which represented 6.99% of the shares on issue, were bought back at a price of $3.05 per share (comprised of a $1.78 capital component and a $1.27 fully franked dividend);

(f) On 28 June 2002, the Company announced it had reorganised its corporate structure so that NRMA Insurance Limited and its controlled entities undertake all the general insurance underwriting of IAG Group in Australia. As a consequence, previously recognised "excess of net market value of an interest in a controlled entity" by the life company has now been capitalised as goodwill in the IAG Group which is expected to result in a goodwill amortisation expense of $15 million per annum for 20 years.

Other than the matters identified above, there was no significant change to the state of affairs of the IAG Group during the year ended 30 June 2002.

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

DIRECTORS' REPORT

Matters subsequent to the end of the financial year

Since the end of the financial year,

(a) In July 2002, the IAG Group's whole of account aggregate stop loss reinsurance contract was terminated.

(b) On 20 August 2002, a final dividend of 6.0 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 21 October 2002.

(c) Subsequent to year end, the IAG Group's investment portfolio has experienced continued volatility in returns in line with Australian and international equity markets. The sensitivities of the Group's results to these market fluctuations has been disclosed separately to the market.

Other than the matters as noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the IAG Group, the results of those operations, or the state of affairs of the IAG Group in future financial years.

Meetings of directors

The number of meetings each Director was eligible to attend and actually attended during the financial year is summarised as follows:

Directors	Board of Directors		Audit Committee (formerly Audit and Risk Management Committee)		Chairman's Committee (formerly Remuneration Committee)		Risk Management and Compliance Committee (formerly Compliance Committee)		Share Plan Sub-Committee	
	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	13	12	-	-	5	5	-	-	-	-
Mr JF Astbury	14	13	5	5	1	1	-	-	-	-
Mrs MC Callaghan	14	13	-	-	-	-	5	5	-	-
Mr GA Cousins	14	13	5	5	-	-	-	-	-	-
Mrs M Easson	14	14	5	5	4	4	-	-	-	-
Ms DG Fisher	14	14	-	-	-	-	5	4	-	-
Mr ND Hamilton	14	12	-	-	4	3	-	-	-	-
Ms AJ Keating	14	14	-	-	-	-	-	-	-	-
Mr RA Ross	14	12	5	4	1	1	5	4	2	2
Mr IF Stanwell	11	7	-	-	3	3	3	2	2	2
Mr MJ Hawker	7	7	-	-	-	-	-	-	-	-

A - Meetings eligible to attend
B - Meetings attended

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

DIRECTORS' REPORT

Meetings of directors (continued)

For the year ended 30 June 2002, the following meetings of Directors were held:

Nature of meetings	Number of meetings held during the year
Board of Directors	14
Audit Committee (formerly Audit and Risk Management Committee)	5
Chairman's Committee (formerly Remuneration Committee)	5
Risk Management and Compliance Committee (formerly Compliance Committee)	5
Share Plan Sub-Committee	2

Indemnification and insurance of directors and officers

The Company's constitution contains an indemnity in favour of every person who is or has been:

(a) a Director of the Company;
(b) a secretary of the Company;
(c) a person making or participating in making decisions that affect the whole or a substantial part of the business or Company; or
(d) a person having the capacity to affect significantly the financial standing of the Company or any of its wholly owned subsidiaries.

The indemnity applies to liabilities incurred by the person in the relevant capacity to the maximum extent permitted by law.

In addition the Company is party to deeds of indemnity with certain current and former Directors and members of senior management of the Company or its subsidiaries. Under these deeds the Company indemnifies to the maximum extent permitted by the law the former or current Director or member of senior management against liabilities incurred by the person in the relevant capacity (and, in some cases, liabilities arising as a result of the person proposing to act in the relevant capacity). The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

Under each deed the Company is also required to maintain and pay the premiums on a contract of insurance covering the current or former Director or member of senior management against liabilities incurred in respect of the relevant office. The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance is prohibited by the relevant contract of insurance.

Under a deed of indemnity referred to above, the Company has during the financial year ended 30 June 2002 advanced amounts totalling $0.2 million in respect of reasonable legal costs incurred by a former Director of the Company in relation to an alleged liability. These amounts are repayable under the deed of indemnity if the costs become costs for which the Company, as a matter of law, must not give the former Director an indemnity. As the former Director was wholly relieved by the Supreme Court of New South Wales from the alleged liability, the advances totalling $0.2 million may not be repayable by the former Director.

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

DIRECTORS' REPORT

Directors' and executive officers' emoluments

Directors

Non-executive Directors of IAG receive a base fee of $70,000 per annum (unchanged from 2001). The Chairman receives three times the base fee.

By resolution passed at the Company's 2001 AGM, non-executive Directors are required to receive at least 20%, and are allowed to receive up to 90%, of their base fee in the form of shares under the Non-executive Directors' Share Plan, rather than in cash.

In addition to the base fee, fees are payable for participation in certain committees and some subsidiary boards of IAG. The setting of all fees is based on advice from external remuneration advisers, which takes into account the level of fees paid to directors of other substantial companies operating in the financial services sector and the responsibilities and time commitment of Directors.

The table set out below shows the fees paid by IAG Group to non-executive Directors for the year ended 30 June 2002.

Non-executive Directors	Base fee			Other fees (1)	Superannuation contributions	Total
	Cash	Non-executive Directors' Share Plan	Total			
	$000	$000	$000	$000	$000	$000
Mr JA Strong	103	89	192	86	22	300
Mr JF Astbury	56	14	70	15	8	93
Mrs MC Callaghan	52	18	70	10	9	89
Mr GA Cousins	56	14	70	10	8	88
Mrs M Easson	56	14	70	17	2	89
Ms DG Fisher	40	30	70	10	6	86
Mr ND Hamilton	40	30	70	8	6	84
Ms AJ Keating	56	14	70	1	5	76
Mr RA Ross	56	26	82	32	12	126
Mr IF Stanwell	42	10	52	17	6	75

(1) Separate fees are payable for some of the IAG committees and some subsidiary boards.

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

DIRECTORS' REPORT

Directors' and executive officers' emoluments (continued)

Executive director and officers

The Chairman's Committee (formerly Remuneration Committee) is responsible for recommending remuneration policies and packages applicable to the Chief Executive Officer (CEO) and executives who report directly to the CEO of the Company. The broad remuneration policy is to ensure the remuneration package reflects the person's duties and responsibilities; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executives may receive performance bonuses based on the achievement of specific goals related to the individual's business unit and the performance of the consolidated entity in the context of the business plan. A long-term incentive plan is also in place, the purpose of which is to promote improvements in areas of financial and strategic performance.

The CEO of IAG does not receive fees for his service on the Board. The responsibilities of board membership are considered in determining remuneration provided as part of his normal employment conditions.

Set out below is the remuneration of the CEO and each of the five most highly remunerated current officers of the IAG Group for the year ended 30 June 2002.

Executive director	Base pay (1)	Bonuses (2)	Other compensation (3)	Total	PSRs granted during the year (4)	Date first exercisable
	$000	$000	$000	$000	Number	
Chief Executive Officer:						
Mr MJ Hawker	546	-	1,042(5)	1,588	1,000,000	13/12/2004

Officers	Base pay (1)	Bonuses (2)	Other compensation (3)	Total	PSRs granted during the year (4)	Date first exercisable
	$000	$000	$000	$000	Number	
Mr IF Brown	738	620	175	1,533	-	-
Mr G Venardos	516	262	76	854	-	-
Mr DRA Pearce	522	202	95	819	-	-
Mr DJP Smith	469	220	61	750	-	-
Mr RJ Jackson	407	214	59	680	-	-

(1) Base pay includes cash salary, annual leave and long service leave.
(2) Bonuses reflect payments made during the period in respect of the previous performance period, accrual of long-term incentive bonuses.
(3) Other compensation includes superannuation contributions and the provision of cars, parking and related fringe benefits tax.
(4) The Company has issued Performance Share Rights (PSRs) to certain executives during the financial year. PSRs can be converted into ordinary share capital of IAG depending on certain performance hurdles being met. The fair value of PSRs granted during the year has been determined as approximately $0.97. This valuation takes into account the price at grant date (which is nil), the exercise price ($1 per parcel), the expected life of the option, the volatility in price of the underlying shares of IAG and expected dividends. These PSRs were issued on 13 December 2001 and expire on 13 December 2011. The fair value of PSRs granted to Mr MJ Hawker during the year is estimated to be $970,000.
(5) This amount includes a one-off compensation payment of $975,000 for direct losses suffered in separation from a prior employment contract in order to take the position as CEO of IAG.

During the financial year, a number of executive officers ceased employment with the IAG Group. They are Ms S Doyle, Ms GS Morstyn, Mr T Higgins and their remuneration, excluding termination payments, for the period up to their termination were $863,000, $540,000 and $285,000, respectively. Termination payments made, having regard to their employment contracts, were $1,556,000, $1,148,000 and $762,000, respectively.

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

DIRECTORS' REPORT

Directors' interests

The relevant interest of each Director in the shares issued by the Company, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001, at the date of this report is as follows:

Directors	Ordinary shares directly held
Mr JA Strong	61,157
Mr JF Astbury	15,857
Mrs MC Callaghan	11,250
Mr GA Cousins	157,857
Mrs M Easson	8,842
Ms DG Fisher	21,214
Mr ND Hamilton	18,498
Ms AJ Keating	8,566
Mr RA Ross	64,538
Mr MJ Hawker	100,736

Environmental regulation

The consolidated entity's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the consolidated entity's operations. The Board of Directors believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Rounding of amounts

Unless otherwise stated, amounts in the financial reports and Directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 20th of August 2002 in accordance with a resolution of the Directors.

.... Director

.... Director

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

STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2002

	Notes	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Premium revenue	3(a)(i)	-	-	**3,448**	2,882
Reinsurance expense	6	-	-	**(253)**	(248)
Net premium revenue		-	-	**3,195**	2,634
Claims expense	6, 7	-	-	**(3,000)**	(2,397)
Reinsurance and other recoveries	3(a)(i)	-	-	**575**	295
Net claims expense	7	-	-	**(2,425)**	(2,102)
Acquisition costs	6	-	-	**(389)**	(292)
Other underwriting expenses	6	-	-	**(165)**	(169)
Fire brigade charges	6	-	-	**(74)**	(71)
Underwriting expenses		-	-	**(628)**	(532)
Profit from underwriting		-	-	**142**	-
Investment income	3(a)(ii)	**248**	400	**292**	350
Realised gains / (losses) on investments	3(a)(ii)	**45**	-	**(327)**	(90)
Unrealised (losses) / gains on investments	3(a)(ii)	-	-	**(75)**	104
Financial services revenue	3(a)(iii)	-	-	**37**	165
Other operating revenue	3(a)(iv)	-	2	**173**	157
Borrowing costs expense		-	-	**(46)**	(84)
Life insurance business expenses	4, 6	-	-	-	(64)
Corporate and administration expenses	6	-	-	**(297)**	(323)
Profit / (loss) from ordinary activities before income tax	5	**293**	402	**(101)**	215
Income tax (expense) / credit	9	**(9)**	(1)	**18**	(31)
Net profit / (loss)		**284**	401	**(83)**	184
Net loss / (profit) attributable to outside equity interests		-	-	**58**	(62)
Net profit / (loss) attributable to shareholders of Insurance Australia Group Limited		**284**	401	**(25)**	122
Non-owner transaction changes in equity:					
Total revenue, expenses and valuation adjustments attributable to shareholders of Insurance Australia Group Limited recognised directly in equity		-	-	-	-
Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity		**284**	401	**(25)**	122

		CONSOLIDATED 2002 cents	CONSOLIDATED 2001 cents
Basic earnings per ordinary share	35(a)	**(1.78)**	8.62
Basic earnings per reset preference share	35(b)	-	-
Diluted earnings per ordinary share	35(a)	**(1.77)**	8.61

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

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

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2002

		PARENT		CONSOLIDATED	
	Notes	**2002**	2001	**2002**	2001
		$m	$m	**$m**	$m
Current assets					
Cash assets		**2**	2	**253**	223
Receivables	14	**-**	-	**1,519**	1,439
Investments	15	**-**	-	**1,619**	1,338
Current tax assets	16	**-**	-	**6**	13
Other	17	**-**	-	**313**	263
Total current assets		**2**	2	**3,710**	3,276
Non-current assets					
Receivables	18	**-**	-	**192**	1,273
Investments	19	**3,387**	3,222	**6,471**	7,118
Plant and equipment	20	**-**	-	**95**	104
Deferred tax assets	21	**-**	-	**206**	149
Intangible assets	22	**-**	-	**632**	658
Other	23	**-**	-	**1**	8
Total non-current assets		**3,387**	3,222	**7,597**	9,310
Total assets		**3,389**	3,224	**11,307**	12,586
Current liabilities					
Payables	24	**-**	-	**1,281**	592
Interest-bearing liabilities	25	**-**	-	**224**	1,970
Current tax liabilities	26	**9**	1	**49**	71
Provisions	27	**-**	84	**84**	183
Outstanding claims	28	**-**	-	**1,268**	1,068
Unearned premium		**-**	-	**1,839**	1,720
Total current liabilities		**9**	85	**4,745**	5,604
Non-current liabilities					
Loan from related body corporate		**315**	337	**-**	-
Interest-bearing liabilities	29	**-**	-	**86**	55
Deferred tax liabilities	30	**-**	-	**135**	328
Provisions	31	**-**	-	**18**	18
Gross life insurance policy liabilities		**-**	-	**927**	936
Outstanding claims	28	**-**	-	**2,417**	2,257
Total non-current liabilities		**315**	337	**3,583**	3,594
Total liabilities		**324**	422	**8,328**	9,198
Net assets		**3,065**	2,802	**2,979**	3,388
Equity					
Contributed equity	32	**2,852**	2,687	**2,852**	2,687
Foreign currency translation reserve		**-**	-	**(1)**	-
Retained profits / (accumulated losses)	33	**213**	115	**(375)**	(164)
Equity attributable to shareholders of Insurance Australia Group Limited		**3,065**	2,802	**2,476**	2,523
Outside equity interests in controlled entities:					
- Contributed equity		**-**	-	**179**	167
- Shareholder's loan		**-**	-	**-**	11
- Retained profits		**-**	-	**22**	29
- Unitholders' funds		**-**	-	**302**	658
Total equity	34	**3,065**	2,802	**2,979**	3,388

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

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2002

		PARENT		CONSOLIDATED	
	Notes	**2002**	2001	**2002**	2001
		$m	$m	**$m**	$m
Cash flows from operating activities					
Premium received		**-**	-	**3,750**	3,061
Reinsurance and other recoveries received		**-**	-	**421**	423
Claims costs paid		**-**	-	**(2,894)**	(2,498)
Outwards reinsurance premium paid		**-**	-	**(255)**	(198)
Dividends received		**248**	400	**126**	125
Interest and similar items received		**-**	2	**296**	398
Interest and other costs of finance paid		**-**	-	**(65)**	(118)
Income taxes paid		**(1)**	-	**(91)**	(52)
Other operating receipts		**-**	-	**414**	455
Other operating payments		**-**	-	**(1,171)**	(1,250)
Net cash provided by operating activities	36	**247**	402	**531**	346
Cash flows from investing activities					
Net cash flows on acquisition of controlled entities	38(b)	**-**	(268)	**-**	423
Net cash flows on disposal of controlled entities	39	**133**	-	**(67)**	-
Proceeds from disposal of investments and plant and equipment		**-**	-	**26,080**	25,491
Dividend received from pre-acquisition profits of a controlled entity		**27**	-	**-**	-
Outlays for investments and plant and equipment acquired		**(275)**	(81)	**(26,278)**	(25,622)
Repayment of mortgage loans		**-**	-	**253**	641
Drawdown of mortgage loans		**-**	-	**(308)**	(855)
Net cash (used in) / provided by investing activities		**(115)**	(349)	**(320)**	78
Cash flows from financing activities					
Proceeds from issues of shares		**350**	152	**353**	152
Outlays for buy-back of shares		**(301)**	(410)	**(301)**	(410)
Proceeds from issues of trust units		**-**	-	**552**	1,087
Outlays for redemption of trust units		**-**	-	**(576)**	(962)
Proceeds from borrowings		**-**	336	**1,195**	839
Repayment of borrowings		**(27)**	-	**(1,370)**	(1,038)
Net (decrease) / increase in depositor funds		**-**	-	**(3)**	118
Proceeds from securitisation		**-**	-	**28**	291
Share issue costs paid		**(7)**	(67)	**(7)**	(67)
Dividends paid		**(147)**	(62)	**(173)**	(90)
Net cash used in financing activities		**(132)**	(51)	**(302)**	(80)
Net (decrease) / increase in cash held		**-**	2	**(91)**	344
Cash at the beginning of the financial year		**2**	-	**344**	-
Cash at the end of the financial year	37	**2**	2	**253**	344

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2002

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 1. Summary of significant accounting policies

(a) Basis of preparation of financial reports

(i) These general purpose financial reports have 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 are consistent with those of the previous year unless otherwise mentioned. Except for certain assets which, as noted in the financial statements, are at valuation, the financial statements have been prepared in accordance with historical cost convention.

(ii) Insurance Australia Group Limited (formerly NRMA Insurance 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 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 NRMA Insurance Limited immediately prior to the date of acquisition. This order also allows dividends paid by NRMA Insurance Limited to the Company out of distributable reserves of NRMA Insurance Limited at the time of acquisition of its shares by the Company (pre-acquisition reserves) to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by NRMA Insurance Limited to the Company to $575 million. During the year ended 30 June 2002, the Company received dividends of $248 million (2001 - $313 million) from NRMA Insurance Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

(b) Principles of consolidation

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

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

The consolidated entity was formed on 22 July 2000 when the Company acquired 100% of the share capital of NRMA Insurance Limited upon that company’s demutualisation.

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 treated as earned from the date of attachment of risk. Premium on unclosed business is brought to account with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, as this closely approximates the pattern of risk underwritten.

(d) Outwards reinsurance

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

Note 1. Summary of significant accounting policies (continued)

(e) Claims

Provision is made for the estimated cost of all unsettled claims. The provision is based on the ultimate cost of settling claims and account is taken of the effect on the ultimate claim size of future inflation as well as increases in the real levels of compensation awarded by the courts. In setting the provision, allowance is also made for future investment earnings. The details of the inflation and discount rates used are included in note 28. The estimate for outstanding claims includes the anticipated direct and indirect costs of settling these claims.

In respect of health insurance business, outstanding claims include provision for an estimated amount that will be payable to the Private Health Insurance Administration Council in relation to NRMA Health Pty Limited's outstanding claims as at balance date.

(f) Reinsurance and other recoveries receivable

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

(g) Insurance premium acquisition costs

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

(h) Fire brigade and other charges

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

Significant accounting policies applicable to life insurance activities only

(i) Premium revenue

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

For risk business policies, an actuarial model is used as at reporting date to determine a reliable measure of the revenue, expense and change in policy liability components.

From 1 July 2001, for non-risk business policies, income generated is recognised in changes in policy liabilities. Please refer to note 2(a) regarding the financial impact on this change.

(j) Claims

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

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

From 1 July 2001, claims under investment-linked business are recognised in changes in policy liabilities. Please refer to note 2(a) regarding the financial impact on this change.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 1. Summary of significant accounting policies (continued)

(k) Policy acquisition costs

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

The Appointed Actuary, in determining the policy liabilities, takes into account the deferral and future recovery of acquisition costs, resulting in policy liabilities being lower than otherwise and those costs being amortised over the period that they will be recoverable.

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

(l) Policy liabilities

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

(m) Basis of expense apportionments

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

The basis is as follows:

- expenses relating specifically to either the Shareholder's Fund or the Statutory Funds should be allocated directly to the respective funds;

- expenses excluding investment management fees, which are directly identifiable, should be apportioned between policy acquisition costs and policy maintenance costs with regard to the objective when incurring each expense and the outcome achieved;

- expenses subject to apportionment under Section 80 of the Life Act should be allocated between the funds in proportion to activities to which they relate. Activities are based on direct measures such as transactions processed and business volumes; and

- the apportionment basis is in line with the principles set out in the Life Insurance Actuarial Standards Board valuation standard (Actuarial Standard AS 1.03 Valuation of Policy Liability).

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 1. Summary of significant accounting policies (continued)

Significant accounting policies applicable to all companies in the group

(n) Investment income

Investment revenue is brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue on the date the dividend is declared. Income from investments in NRMA Investment Management Asset Trusts is deemed to accrue on the date the distribution is due.

(o) Leased assets

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

(p) Depreciation

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

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

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

(q) Borrowing costs

Costs directly associated with obtaining financing facilities are expensed immediately in the statement of financial performance, including interest charged on the outstanding borrowings.

(r) Taxation

(i) Income tax

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

(ii) Goods and services tax

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

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

(s) Recoverable amount of non-current assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 1. Summary of significant accounting policies (continued)

(t) 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: Financial Reporting of Life Insurance Activities 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.

(u) Derivative financial instruments

Some entities in the IAG Group utilise derivative financial instruments (swap agreements, Share Price Index futures, equity options and bill/bond futures) to enhance portfolio returns and hedge against foreign currency exchange rates, fixed interest rate and equity market exposures.

Gains and losses on all derivatives transactions, except interest rate swaps 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.

The interest expense and income associated with the interest rate swap agreements are charged to the statement of financial performance on a daily basis over the term of the individual swap agreements.

(v) Goodwill

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

(w) Other intangibles

Intangibles, 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.

(x) Scrip borrowing

Scrip borrowing activity involves the acquisition of securities from a third party scrip lender. Amounts outstanding in respect of funds borrowed are disclosed in the statement of financial position as current liabilities. The scrip borrowed is reflected in the statement of financial position as investments.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 1. Summary of significant accounting policies (continued)

(y) Loans and advances

(i) Unsecured loans and advances
Unsecured loans and advances are recognised when the loan document is signed and the funds have been advanced to the customer. The loans and advances are at fixed rates of up to 5 years. The carrying amount of the debt includes unearned income which is shown as a deduction.

Unearned income on personal lending and leasing is brought to account progressively over the term of the loans in proportion to the outstanding loan balance.

(ii) Bad and doubtful debts
Collectibility of loans and advances is reviewed on an ongoing basis. All bad debts are written off immediately when determined. Specific provisions are made for the expected loss on all accounts recognised to be doubtful, whilst a general provision is maintained to provide for possible future bad debts that may emerge on accounts currently not in default.

(z) Employee entitlements

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

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

(iii) Superannuation
The IAG Group participates in the NRMA Superannuation Plan, RACV Superannuation Fund and MTAA Industry Superannuation Fund.

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

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

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

(bb) Reset preference shares

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

Note 1. Summary of significant accounting policies (continued)

(cc) Foreign currency translation

(i) Transactions
Foreign currency transactions are initially translated into Australian currency at the rates of exchange at the dates of the transactions. At balance date, amounts payable to and by the IAG Group in foreign currencies are translated to Australian currency at rates of exchange current at balance date. Resulting exchange differences are brought to account in the statement of financial performance.

(ii) Translation of controlled foreign entities
The statements of financial position of controlled foreign entities that are self-sustaining foreign operations are translated at the rates of exchange ruling at balance date. The statements of financial performance are translated at a weighted average rate for the financial year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(dd) Financial instruments included in assets and liabilities

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

(ii) Deposits
Deposits include call and term deposits. Deposits are at call or for terms of 3 months to 5 years. They are stated at the gross value of the outstanding balance. Interest expense is brought to account on an accruals basis.

(iii) 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.

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

(v) 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.

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

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

(ff) Earnings per share

(i) Basic earnings per share
Basic earnings per share is determined by dividing the net result after income tax attributable to shareholders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

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

(gg) Comparative figures

IAG acquired all the share capital of NRMA Insurance Limited upon its demutualisation on 22 July 2000. Comparatives for the consolidated statement of financial performance, statement of financial position and statement of cash flows and all relevant notes to financial statements include the profit and loss of NRMA Insurance Limited and its controlled entities from 22 July 2000 to 30 June 2001.

Note 2. Changes in accounting policy

(a) Life insurance business revenue and expenses

From 1 July 2001, NRMA Life Limited (a wholly-owned subsidiary of IAG) has recognised all premiums and claims arising in respect of non-risk investment business as changes in policy liabilities. Previously, under the transitional provisions of AASB 1038: Life Insurance Business, these premiums and claims were recognised as premium revenue and expenses. The impact of the change in accounting policy is that life insurance business revenue has decreased by $212 million (2001 - $212 million) and life insurance business expense has decreased by $212 million (2001 - $212 million). There is no impact on the net result from life insurance operations.

(b) Earnings per share

The consolidated entity has applied the revised AASB 1027: Earnings Per Share (issued June 2001) for the first time from 1 July 2001. Basic and diluted earnings per share ("EPS") for the comparative year ended 30 June 2001 have been adjusted so that the basis of calculation used is consistent with that of the current year.

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

(c) Segment reporting

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Notes	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Note 3. Revenue					
(a) Revenue from operating activities					
(i) General insurance revenue					
Gross written premium		**-**	-	**3,558**	3,015
Movement in unearned premium reserve		**-**	-	**(110)**	(133)
Premium revenue		-	-	**3,448**	2,882
Direct premium		**-**	-	**3,406**	2,784
Inwards reinsurance premium		**-**	-	**42**	98
Premium revenue		**-**	-	**3,448**	2,882
Reinsurance and other recoveries		**-**	-	**575**	295
Total general insurance revenue		**-**	-	**4,023**	3,177
(ii) Investment revenue					
Dividend income					
- related bodies corporate		**248**	400	-	-
- other corporations		**-**	-	**22**	53
Interest income					
- other parties		**-**	-	**256**	272
Trust income					
- other parties		**-**	-	**14**	25
Total investment income		**248**	400	**292**	350
Changes in net market values of investments					
- realised gains / (losses)		**45**	-	**(327)**	(90)
- unrealised (losses) / gains	1(t)	**-**	-	**(75)**	104
Total investment revenue		**293**	400	**(110)**	364
(iii) Financial services revenue					
Interest income on loans		**-**	-	**25**	81
Life insurance business revenue	4	**-**	-	**12**	84
Total financial services revenue		**-**	-	**37**	165
(iv) Other operating revenue					
- other parties		**-**	2	**173**	157
Total other operating revenue		**-**	2	**173**	157
Total revenue from operating activities		**293**	402	**4,123**	3,863
(b) Revenue from outside operating activities					
Proceeds from disposal of plant and equipment		**-**	-	**15**	7
Total revenue from outside operating activities		**-**	-	**15**	7
Total revenue		**293**	402	**4,138**	3,870

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 4. Result from life insurance operations				
Premium revenue	**-**	-	**23**	19
Investment revenue	**-**	-	**(11)**	65
Total life insurance business revenue	**-**	-	**12**	84
Policy payments	**-**	-	**(9)**	(7)
Decrease / (increase) in policy liabilities	**-**	-	**33**	(32)
Administration and other expenses	**-**	-	**(24)**	(25)
Total life insurance business expenses	**-**	-	**-**	(64)
	-	-	**12**	20
Note 5. Profit / (loss) from ordinary activities before income tax				
Profit / (loss) from ordinary activities before income tax includes the following specific net gains and expenses:				
Depreciation of motor vehicles	**-**	-	**5**	6
Depreciation of office and other plant and equipment	**-**	-	**26**	26
Amortisation of goodwill	**-**	-	**26**	8
Amortisation of intangibles	**-**	-	**17**	19
Loss / (profit) on disposal of plant and equipment	**-**	-	**4**	(1)
Operating lease rentals	**-**	-	**96**	85
Transfer to provision - employee entitlements	**-**	-	**34**	26
Foreign exchange losses	**-**	-	**31**	9
Bad and doubtful debts	**-**	-	**5**	9
Note 6. Analysis of total expenses				
Expenses (excluding borrowing costs expense) disclosed on the face of the statements of financial performance:				
Reinsurance expense	**-**	-	**253**	248
Claims expense	**-**	-	**3,000**	2,397
Acquisition costs	**-**	-	**389**	292
Other underwriting expenses	**-**	-	**165**	169
Fire brigade charges	**-**	-	**74**	71
Life insurance business expenses	**-**	-	**-**	64
Corporate and administration expenses	**-**	-	**297**	323
Total expenses	**-**	-	**4,178**	3,564
Analysis of expenses by function:				
Expenses for general insurance business				
- Reinsurance expense	**-**	-	**253**	248
- Claims expense	**-**	-	**3,000**	2,397
- Underwriting expenses	**-**	-	**628**	532
Life insurance business expense	**-**	-	**-**	64
Administration expenses	**-**	-	**297**	323
	-	-	**4,178**	3,564

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	CONSOLIDATED					
		2002			2001	
	Current year $m	**Prior years $m**	**Total $m**	Current year $m	Prior years $m	Total $m
Note 7. Claims expense						
(a) Direct business						
Gross claims and related expenses - undiscounted	**3,149**	**(305)**	**2,844**	2,616	(333)	2,283
Discount	**(177)**	**150**	**(27)**	(155)	160	5
Gross claims and related expenses - discounted	**2,972**	**(155)**	**2,817**	2,461	(173)	2,288
Reinsurance and other recoveries - undiscounted	**(517)**	**(104)**	**(621)**	(322)	40	(282)
Discount	**40**	**97**	**137**	3	(12)	(9)
Reinsurance and other recoveries - discounted	**(477)**	**(7)**	**(484)**	(319)	28	(291)
Net claims incurred	**2,495**	**(162)**	**2,333**	2,142	(145)	1,997

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	
	2002 $m	2001 $m
(b) Inwards reinsurance business		
Gross claims and related expenses - undiscounted	**209**	126
Discount	**(26)**	(17)
Gross claims and related expenses - discounted	**183**	109
Reinsurance and other recoveries - undiscounted	**(91)**	(4)
Discount	**-**	-
Reinsurance and other recoveries - discounted	**(91)**	(4)
Net claims incurred	**92**	105
(c) Total		
Direct business	**2,333**	1,997
Inwards reinsurance business	**92**	105
Net claims incurred	**2,425**	2,102

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 8. Individually significant items				
Income:				
Reinsurance recoveries under a whole of account aggregate stop loss contract	**-**	-	**185**	-
Profit on sale of NRMA Building Society Limited	**45**	-	**45**	-
Expenses:				
Restructuring costs in relation to redundancy, property and other associated costs	**-**	-	**-**	25
Costs in relation to the settlement of "Share the Future" litigation	**-**	-	**12**	-
Insurance protection tax levied by the NSW State Government	**-**	-	**21**	-

Note 9. Income tax

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

	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Profit / (loss) from ordinary activities before income tax	**293**	402	**(101)**	215
Prima facie tax thereon at 30% (2001 - 34%)	**88**	137	**(30)**	73
Tax effect of permanent differences:				
Rebateable dividends	**(74)**	(136)	**(11)**	(11)
Capital (profits) / losses not subject to income tax	**(6)**	-	**(6)**	2
Other non-deductible items	**1**	-	**17**	5
Other	**-**	-	**10**	(14)
Change in income tax rate	**-**	-	**-**	(14)
Future income tax benefit not recognised	**-**	-	**1**	(1)
Income tax expense / (credit) applicable to current year	**9**	1	**(19)**	40
Adjustment to prior year	**-**	-	**1**	(9)
Income tax expense / (credit) attributable to profit / (loss) from ordinary activities	**9**	1	**(18)**	31
(b) The potential future income tax benefits relating to tax losses at 30 June 2002 not brought to account are:	**-**	-	**-**	3

The benefits will only be obtained if:
(i) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses and timing differences to be realised;
(ii) the economic entity continues to comply with the conditions for deductibility imposed by tax legislation; and
(iii) no changes in tax legislation adversely affect the economic entity in realising the benefits from the deductions for the losses.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
Note 10. Dividends and dividend franking account	**$m**	$m	**$m**	$m
Ordinary shares				
Interim dividend of 4.5 cents (2001 - 4 cents) per fully paid ordinary share, paid on 29 April 2002				
Fully franked @ 30% (2001 - 34%)	**63**	62	**63**	62
Final dividend of (2001 - 6 cents) per fully paid ordinary share				
Fully franked (2001 - 30%)	**-**	84	**-**	84
Total dividends paid or provided for	**63**	146	**63**	146

On 20 August 2002, a final dividend of 6.0 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 21 October 2002.

Franking credits available for subsequent financial years	**257**	240	**913**	524

The balance of the franking account arises from:
(i) franked income received or recognised as a receivable at the reporting date;
(ii) income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
(iii) franking debits from the payment of dividends recognised as a liability at the reporting date.

From 1 July 2002 the New Business Tax System (Imputation) Act 2002, requires measurement of franking credits based on the amount of income tax paid, rather than on an after-tax distributable profits basis.

As a result the franking credits available for the Company and the consolidated entity were converted from $257 million to $110 million and $913 million to $391 million, respectively, as at 1 July 2002.

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

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Note 11. Auditors' remuneration				
Amounts received or due and receivable by the auditors for:				
Auditing the financial statements and consolidated financial statements				
- current year	**-**	-	**1,507**	1,079
- prior year	**-**	-	**456**	244
Assurance services in accordance with regulatory requirements	**-**	-	**205**	115
Acquisition completion accounts and other review services	**-**	-	**755**	278
	-	-	**2,923**	1,716
Other services				
- taxation services	**-**	-	**457**	222
- due diligence	**-**	-	**296**	1,117
- legislative and regulatory changes	**-**	-	**710**	299
- services in respect of demutualisation	**-**	-	**-**	172
- Investigating Accountant’s Reports on capital transactions	**-**	-	**242**	74
- review of enterprise valuation model	**-**	-	**202**	-
- corporate culture review	**-**	-	**254**	-
- other	**-**	-	**370**	512
- related practice of the parent entity auditors	**-**	-	**13**	150
	-	-	**2,544**	2,546

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Note 12. Directors' remuneration				
(a) Information on remuneration of the relevant Directors is as follows:				
Income of Directors of Insurance Australia Group Limited from the entity and all related parties in relation to the management of the affairs of the IAG Group	**3,667**	5,769	**-**	-
Income of all Directors of IAG Group entities in relation to the management of the affairs of the IAG Group	**-**	-	**3,991**	6,214

	PARENT Total remuneration in relation to the management of the affairs of the IAG Group	
	2002	2001
(b) Number of Directors of Insurance Australia Group Limited whose remuneration was within the following bands:		
$ 70,000 - $ 79,999	**2**	2
$ 80,000 - $ 89,999	**5**	3
$ 90,000 - $ 99,999	**1**	1
$ 100,000 - $ 109,999	**-**	1
$ 120,000 - $ 129,999	**1**	-
$ 130,000 - $ 139,999	**-**	1
$ 140,000 - $ 149,999	**-**	1
$ 300,000 - $ 309,999	**1**	-
$ 330,000 - $ 339,999	**-**	1
$2,550,000 - $2,559,999*	**1**	-
$4,540,000 - $4,549,999*	**-**	1

The Company acts as a holding company for the consolidated entity and does not provide remuneration in its own right. All remuneration is paid by other entities within the consolidated entity.
* Relates to the current (2002) and former (2001) Chief Executive Officer and Executive Director.

(c) Ownership-based remuneration plans

The following plans were approved at the Annual General Meeting held on 2 November 2001:

(i) The non-executive Directors are to receive at least 20%, but not in excess of 90%, of their annual base fee in ordinary shares of the Company under the Non-Executive Directors' Share Plan, rather than in cash.

(ii) The Executive Director was granted rights under the Performance Share Rights Plan (refer to note 47 for details of this plan).

Note 13. Remuneration of executives

The remuneration of executives who work wholly or mainly outside Australia is not included in this disclosure.

	CONSOLIDATED	
	2002	2001
	$000	$000
(a) Total of the remuneration in excess of $100,000 received or due and receivable from the IAG Group by executive officers of the IAG Group for the financial year	**22,141**	20,569

The parent entity is a non-operating holding company which does not employ any staff.
Executives' remuneration does not include premiums paid by the IAG Group in respect of directors' and officers' liabilities and legal expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual executives.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 13. Remuneration of executives (continued)

	CONSOLIDATED	
	2002	2001
(b) The number of executive officers of the IAG Group whose remuneration is in excess of $100,000 and falls within the following bands:		
$ 120,000 - $ 129,999	**1**	-
$ 130,000 - $ 139,999	**-**	1
$ 240,000 - $ 249,999	**1**	-
$ 280,000 - $ 289,999	**2**	-
$ 310,000 - $ 319,999	**2**	-
$ 330,000 - $ 339,999	**1**	2
$ 340,000 - $ 349,999	**-**	2
$ 350,000 - $ 359,999	**-**	1
$ 360,000 - $ 369,999	**1**	-
$ 370,000 - $ 379,999	**1**	-
$ 380,000 - $ 389,999	**-**	1
$ 420,000 - $ 429,999	**1**	-
$ 430,000 - $ 439,999	**1**	-
$ 440,000 - $ 449,999	**1**	-
$ 450,000 - $ 459,999	**1**	1
$ 470,000 - $ 479,999	**-**	1
$ 480,000 - $ 489,999	**-**	1
$ 490,000 - $ 499,999	**2**	-
$ 510,000 - $ 519,999	**1**	-
$ 530,000 - $ 539,999	**-**	1
$ 540,000 - $ 549,999	**1**	1
$ 600,000 - $ 609,999	**1**	-
$ 610,000 - $ 619,999	**2**	-
$ 620,000 - $ 629,999	**-**	1
$ 630,000 - $ 639,999	**-**	1
$ 670,000 - $ 679,999	**2**	1
$ 690,000 - $ 699,999	**-**	1
$ 740,000 - $ 749,999	**1**	-
$ 790,000 - $ 799,999	**-**	1
$ 810,000 - $ 819,999	**1**	1
$ 820,000 - $ 829,999	**1**	-
$ 830,000 - $ 839,999	**-**	1
$ 850,000 - $ 859,999	**1**	-
$ 920,000 - $ 929,999	**-**	1
$ 930,000 - $ 939,999	**-**	1
$ 940,000 - $ 949,999	**-**	2
$ 1,040,000 - $ 1,049,999	**1**	-
$ 1,160,000 - $ 1,169,999	**-**	1
$ 1,280,000 - $ 1,289,999	**-**	1
$ 1,530,000 - $ 1,539,999	**1**	-
$ 1,680,000 - $ 1,689,999	**1**	-
$ 2,410,000 - $ 2,419,999	**1**	-
$ 2,550,000 - $ 2,559,999	**1**	-
$ 4,540,000 - $ 4,549,999	**-**	1

The Company has issued Performance Share Rights (PSRs) to certain executives during the financial year. PSRs can be converted into ordinary shares capital of IAG depending on certain performance hurdles being met. The estimated total fair of value of all PSRs granted during the financial year amounted to $1,265,000.

An actuarial valuation was undertaken which takes into account the price at grant date (which is nil), the exercise price ($1 per parcel), the expected life of the PSRs, the relativity in price of the underlying shares of IAG and expected dividends.

The fair value of these PSRs is regarded as the cost of employment and therefore included in the total remuneration of executives disclosed above. Current Australian Accounting Standards preclude the fair value of these PSRs from being recorded as an expense in the statement of financial performance.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 14. Current assets - receivables				
Reinsurance and other recoveries	**-**	-	**241**	203
Provision for doubtful debts	**-**	-	**(2)**	(3)
	-	-	**239**	200
Trade debtors	**-**	-	**170**	219
Provision for doubtful debts	**-**	-	**(5)**	(5)
	-	-	**165**	214
Secured loans, leases and loan agreements	**-**	-	**-**	41
Unearned finance income	**-**	-	**-**	(4)
	-	-	**-**	37
Premium receivable	**-**	-	**739**	627
Other debtors	**-**	-	**376**	361
	-	-	**1,519**	1,439
Note 15. Current assets - investments				
Quoted				
Government and semi-government stocks and bonds	**-**	-	**-**	233
Shares in other parties	**-**	-	**221**	260
Options for shares	**-**	-	**3**	-
Unit trusts	**-**	-	**118**	21
Bonds	**-**	-	**-**	1
	-	-	**342**	515
Unquoted				
Shares in other parties	**-**	-	**3**	1
Unit trusts	**-**	-	**79**	-
Deposits in other parties	**-**	-	**51**	47
Commercial bills	**-**	-	**1,140**	763
Unsecured notes	**-**	-	**-**	4
Other investments (gross of unearned income)	**-**	-	**4**	8
	-	-	**1,277**	823
	-	-	**1,619**	1,338
Note 16. Current assets - current tax assets				
Income tax recoverable	**-**	-	**6**	13
Note 17. Current assets - other				
Prepayments	**-**	-	**90**	91
Deferred acquisition costs	**-**	-	**221**	170
Inventories	**-**	-	**2**	2
	-	-	**313**	263

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 18. Non-current assets - receivables				
Reinsurance and other recoveries	**-**	-	**198**	303
Provision for doubtful debts	**-**	-	**(6)**	(6)
	-	-	**192**	297
Secured loans, leases and loan agreements	**-**	-	**-**	981
Unearned finance income	**-**	-	**-**	(3)
General provision for doubtful debts	**-**	-	**-**	(2)
	-	-	**-**	976
	-	-	**192**	1,273

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
Note 19. Non-current assets - investments				
Quoted				
Government and semi-government stocks and bonds	**-**	-	**1,703**	1,524
Shares in other parties	**-**	-	**2,406**	3,855
Unit trusts	**-**	-	**123**	248
Bonds	**-**	-	**-**	5
	-	-	**4,232**	5,632
Unquoted				
Shares in other parties	**-**	-	**626**	14
Shares in controlled entities	**3,387**	3,222	**-**	-
Unit trusts	**-**	-	**155**	3
Deposits in other parties	**-**	-	**821**	798
Unsecured notes	**-**	-	**464**	480
Other investments (gross of unearned income)	**-**	-	**127**	143
	3,387	3,222	**2,193**	1,438
Freehold properties	**-**	-	**39**	44
Leasehold properties	**-**	-	**7**	4
	-	-	**46**	48
	3,387	3,222	**6,471**	7,118

The properties were valued at 30 June 2002 by the independent valuer, Mr Scott Fullarton F.A.P.I. of Scott Fullarton Valuations Pty Limited.

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
Note 20. Non-current assets - plant and equipment				
Motor vehicles	**-**	-	**36**	36
Accumulated depreciation	**-**	-	**(7)**	(7)
Written down value	**-**	-	**29**	29
Office and other plant and equipment	**-**	-	**193**	215
Accumulated depreciation	**-**	-	**(127)**	(140)
Written down value	**-**	-	**66**	75
	-	-	**95**	104

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Notes	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Note 20. Non-current assets - plant and equipment (continued)					
Reconciliations:					
(i) Motor vehicles					
Balance at the beginning of the financial year		**-**	-	**29**	-
Additions		**-**	-	**22**	47
Depreciation expense		**-**	-	**(5)**	(6)
Disposals		**-**	-	**(17)**	(12)
Balance at the end of the financial year		**-**	-	**29**	29
(ii) Office and other plant and equipment					
Balance at the beginning of the financial year		**-**	-	**75**	-
Additions		**-**	-	**22**	112
Depreciation expense		**-**	-	**(26)**	(26)
Disposals		**-**	-	**(5)**	(11)
Balance at the end of the financial year		**-**	-	**66**	75
Note 21. Non-current assets - deferred tax assets					
Future income tax benefits relating to					
- tax losses carried forward		**-**	-	**28**	1
- other		**-**	-	**178**	148
		-	-	**206**	149
Note 22. Non-current assets - intangible assets					
Goodwill - at cost	38(b)	**-**	-	**591**	311
Accumulated amortisation	1(v)	**-**	-	**(19)**	(31)
		-	-	**572**	280
Intangibles - at cost		**-**	-	**101**	105
Accumulated amortisation	1(w)	**-**	-	**(41)**	(29)
		-	-	**60**	76
Excess of net market value of an interest in a controlled entity	38(b)	**-**	-	**-**	302
		-	-	**632**	658
Note 23. Non-current assets - other					
Deferred acquisition costs		**-**	-	**1**	7
Prepayments		**-**	-	**-**	1
		-	-	**1**	8
Note 24. Current liabilities - payables					
Trade creditors		**-**	-	**321**	418
Other creditors		**-**	-	**199**	174
Loan from other party		**-**	-	**761**	-
		-	-	**1,281**	592

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 25. Current liabilities - interest-bearing liabilities				
(a) Secured				
Debenture stock	**-**	-	**-**	6
(b) Unsecured				
Bank overdraft	**-**	-	**-**	48
Bank loans	**-**	-	**-**	286
Commercial paper	**-**	-	**224**	599
Deposits	**-**	-	**-**	779
Scrip borrowing	**-**	-	**-**	252
	-	-	**224**	1,970

Debenture stock was secured by a floating charge over the undertaking's property and assets of NRMA Finance Limited, a controlled entity until November 2001.

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
Note 26. Current liabilities - current tax liabilities				
Provision for income tax	**9**	1	**49**	71
Note 27. Current liabilities - provisions				
Dividend	**-**	84	**-**	84
Restructuring	**-**	-	**-**	23
Employee entitlements	**-**	-	**84**	76
	-	84	**84**	183
Note 28. Outstanding claims				
(a) Expected future claims payments (undiscounted)	**-**	-	**4,178**	3,824
Discount to present value	**-**	-	**(493)**	(499)
Liability for outstanding claims	**-**	-	**3,685**	3,325
Current	**-**	-	**1,268**	1,068
Non-current	**-**	-	**2,417**	2,257
	-	-	**3,685**	3,325

(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:

	2002	2001	**2002**	2001
	%	%	**%**	%
For the succeeding year:				
- normal inflation rate	**-**	-	**2.8 - 3.6**	3.0 - 3.5
- superimposed inflation rate	**-**	-	**4.5 - 6.5**	4.5 - 6.5
- discount rate	**-**	-	**4.5 - 6.4**	4.7 - 5.4
For subsequent years:				
- normal inflation rate	**-**	-	**2.8 - 4.0**	3.0 - 4.0
- superimposed inflation rate	**-**	-	**4.5 - 6.3**	4.5 - 6.3
- discount rate	**-**	-	**4.5 - 6.4**	5.5 - 6.3

(c) The weighted average expected term to settlement of the gross outstanding claims from the balance date is estimated to be 28 months (2001 – 27 months). This includes the period from incident date (which may be some time prior to the notification of claims) to their final settlement.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 29. Non-current liabilities - interest-bearing liabilities				
(a) Secured				
Debenture stock	**-**	-	**-**	5
(b) Unsecured				
Commercial paper	**-**	-	**86**	-
Deposits	**-**	-	**-**	50
	-	-	**86**	55

Debenture stock was secured by a floating charge over the undertaking's property and assets of NRMA Finance Limited, a controlled entity until November 2001.

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 30. Non-current liabilities - deferred tax liabilities				
Provision for deferred income tax	**-**	-	**135**	328
Note 31. Non-current liabilities - provisions				
Employee entitlements	**-**	-	**18**	18

	PARENT			
	2002		2001	
	Number of shares million	**$m**	Number of shares million	$m
Note 32. Contributed equity				
Share capital				
Issued and fully paid ordinary shares	**1,301**	**2,509**	1,399	2,687
Issued and fully paid reset preference shares	**4**	**343**	-	-
	1,305	**2,852**	1,399	2,687
Movements in ordinary shares:				
Balance at the beginning of the financial year	**1,399**	**2,687**	*	-
Ordinary shares issued on demutualisation of NRMA Insurance Limited	**-**	**-**	1,493	2,873
Other issue	**-**	**-**	51	139
Ordinary shares issued under Staff Allocation Share Plan	**-**	**-**	4	13
Shares bought back off-market	**(98)**	**(175)**	(149)	(264)
Less: transaction costs arising on share issues	**-**	**-**	-	(68)
Less: transaction costs arising on share buy-back	**-**	**(3)**	-	(6)
Balance at the end of the financial year	**1,301**	**2,509**	1,399	2,687

* - The number of issued shares as at 1 July 2000 was 1.

	PARENT			
	Number of shares million	**$m**	Number of shares million	$m
Movements in reset preference shares:				
Balance at the beginning of the financial year	**-**	**-**	-	-
Shares issued	**4**	**350**	-	-
Less: transaction costs arising on share issue	**-**	**(7)**	-	-
Balance at the end of the financial year	**4**	**343**	-	-

Note 32. Contributed equity (continued)

(i) Ordinary shares:
Ordinary shares entitle the holder to participate in the dividends and the proceeds on winding up the Company in proportion to the number of, and amounts paid on, the shares held. Dividends, if declared, are subject to there being distributable profits, such payment not breaching the Australian Prudential Regulatory Authority (APRA) capital adequacy guidelines and APRA not otherwise objecting to the payment.

(ii) Reset preference shares:
The reset preference shares entitle the holder to a preference, but not cumulative, dividend at 5.8% per annum. Dividends, if declared, are subject to there being distributable profits, such payment not breaching the Australian Prudential Regulatory Authority (APRA) capital adequacy guidelines and APRA not otherwise objecting to the payment. The frequency and timing of the payment of dividends can be reset by the Company on a reset date. Reset preference shares rank before ordinary shares in the event of the Company being wound up.

(iii) Staff allocation share plan:
During the prior year, 4 million ordinary shares of the Company were issued, at a price of $2.86, to participating employees of the Staff Allocation Share Plan. The cost of shares issued is amortised to the statement of financial performance over two years.

(iv) Share buy-back:
During the year 98 million (2001 - 149 million) ordinary shares representing 6.99% (2001 - 9.60%) of issued share capital were bought back and cancelled under the terms of a share buy-back plan. The plan was an off-market buy-back. The buy-back price per share was $3.05 (2001 - $2.72) which comprised a capital component of $1.78 (2001 - $1.78) and the balance of $1.27 (2001 - $0.94) as a fully franked dividend.

(v) Performance share rights plan:
A Performance Share Rights Plan, which was approved at the Annual General Meeting held on 28 November 2000 was in operation. During the financial year, a total of 1 million rights (2001 - 5 million) was issued for nil consideration (2001 - nil consideration). One right can be converted into one ordinary share of the Company at the date of exercise of the right. These rights lapse upon the termination of employment with IAG Group, other than termination due to redundancy. Refer to note 47 (e) for details.

	Note	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Note 33. Retained profits / (accumulated losses)					
Retained profits / (accumulated losses)		**213**	115	**(375)**	(164)
Movements in retained profits / (accumulated losses)					
Balance at the beginning of the financial year		**115**	-	**(164)**	-
Net profit / (loss) attributable to shareholders of Insurance Australia Group Limited		**284**	401	**(25)**	122
Utilised in shares bought back off-market		**(123)**	(140)	**(123)**	(140)
Dividends paid or provided for	10	**(63)**	(146)	**(63)**	(146)
Balance at the end of the financial year		**213**	115	**(375)**	(164)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 33. Retained profits / (accumulated loss) (continued)

Retained profits:
During the year, the Company received total dividends of $248 million (2001 - $313 million) from 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. This order exempts the Company from compliance with certain sections of the Corporations Act 2001 in that it allows dividends paid by NRMA Insurance Limited to the Company out of distributable reserves of NRMA Insurance Limited at the time of acquisition of its shares by the Company (pre-acquisition reserves) to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by NRMA Insurance Limited to the Company to $575 million.

		PARENT		**CONSOLIDATED**	
	Notes	**2002**	2001	**2002**	2001
		$m	$m	**$m**	$m
Note 34. Total equity reconciliation					
Total equity at the beginning of the financial year		**2,802**	-	**3,388**	-
Total changes in equity recognised in the statement of financial performance	33	**284**	401	**(25)**	122
Transactions with owners as owners:					
- contributions of equity, inclusive of transaction costs		**-**	2,957	**-**	2,957
- dividends paid or provided for	33	**(63)**	(146)	**(63)**	(146)
- reset preference shares, inclusive of transaction costs		**343**	-	**343**	-
- share buy-back, inclusive of transaction costs		**(301)**	(410)	**(301)**	(410)
Movement in foreign currency translation reserves on foreign controlled entities		**-**	-	**(1)**	-
Total changes in outside equity interest		**-**	-	**(362)**	865
Total equity at the end of the financial year		**3,065**	2,802	**2,979**	3,388

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	CONSOLIDATED	
	2002 cents	2001 cents
Note 35. Earnings per share		
(a) Ordinary shares		
Basic earnings per share	**(1.78)**	8.62
Diluted earnings per share	**(1.77)**	8.61

	2002 Number of shares million	2001 Number of shares million
(i) Reconciliation between basic earning per share denominator and weighted earnings per share denominator		
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share	**1,398**	1,423
Potential ordinary shares		
Expiry date 21 December 2010	**2**	1
Expiry date 30 April 2011	**4**	1
Expiry date 13 December 2011	**1**	-
Expiry date 5 March 2012	**-**	-
Cancelled potential ordinary shares	**(1)**	-
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share	**1,404**	1,425

	2002 $m	2001 $m
(ii) Reconciliation of earnings used in calculating earnings per share		
- Basic earnings per share		
Net (loss) / profit	**(83)**	184
Net loss / (profit) attributable to outside equity interests	**58**	(62)
Net profit attributable to reset preference shares	**-**	-
Earnings used in calculating basic earnings per share	**(25)**	122
- Diluted earnings per share		
Net (loss) / profit	**(83)**	184
Net loss / (profit) attributable to outside equity interests	**58**	(62)
Earnings used in calculating diluted earnings per share	**(25)**	122

Classification of securities as potential ordinary shares:

Rights granted to employees under the Performance Share Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	CONSOLIDATED	
	2002 cents	2001 cents

Note 35. Earnings per share (Continued)

(b) Reset preference shares

Basic earnings per share	**-**	-

	2002 Number of shares million	2001 Number of shares million
(i) Reconciliation between basic earnings per share denominator and weighted earnings per share denominator		
Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share	**-**	-

	2002 $m	2001 $m
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit used in calculating basic earnings per share	**-**	-

There are no potential reset preference shares on issue.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 36. Reconciliation of net cash provided by operating activities to profit / (loss) from ordinary activities after income tax				
Net cash provided by operating activities	**247**	402	**531**	346
Depreciation	**-**	-	**(31)**	(32)
Amortisation of goodwill and intangibles	**-**	-	**(43)**	(27)
Realised gains / (losses) on disposal of investments	**45**	-	**(302)**	(97)
Unrealised (losses) / gains on revaluation of investments	**-**	-	**(143)**	145
(Loss) / profit on disposal of plant and equipment	**-**	-	**(4)**	1
Foreign exchange losses	**-**	-	**(31)**	(9)
Bad and doubtful debts	**-**	-	**(5)**	(9)
Other	**-**	-	**(6)**	4
Increase / (decrease) in operating assets				
Receivables	**-**	-	**12**	164
Other	**-**	-	**82**	164
Decrease / (increase) in operating liabilities				
Payables	**-**	-	**97**	23
Provisions	**(8)**	(1)	**230**	(18)
Outstanding claims	**-**	-	**(360)**	(238)
Unearned premium	**-**	-	**(119)**	(155)
Gross life insurance policy liabilities	**-**	-	**9**	(78)
Profit / (loss) from ordinary activities after income tax	**284**	401	**(83)**	184

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	Note	PARENT **2002** **$m**	PARENT 2001 $m	CONSOLIDATED **2002** **$m**	CONSOLIDATED 2001 $m
Note 37. Reconciliation of cash					
For the purposes of the statements of cash flows, cash includes cash on hand and in banks, deposits at call and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.					
Cash		**2**	2	**253**	223
Commercial bills		**-**	-	**-**	169
Bank overdraft	25	**-**	-	**-**	(48)
		2	2	**253**	344

Note 38. Business acquired

(a) Parent entity

2002

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

2001

During the year ended 30 June 2001, the parent entity acquired 100% of the ordinary shares of NRMA Insurance Limited on 22 July 2000 when NRMA Insurance Limited was demutualised. The net assets acquired and consideration paid is disclosed in the table on the next page. Subsequent to this acquisition, the parent entity also acquired four wholly-owned subsidiaries (and their controlled entities) from NRMA Insurance Limited. The details of these acquisitions were as follows:

Company acquired	**Date of acquisition**	**Purchase price** $m	**Fair value of net assets acquired** $m
NRMA Building Society Limited	28 November 2000	87	87
NRMA Life Limited	28 June 2001	165	165
NRMA Insurance Group Finance Limited	28 June 2001	-	-
NRMA Insurance International Pty Limited	28 June 2001	11	11
		263	263

(b) Consolidated entity

2002

During the year ended 30 June 2002, the consolidated entity reorganised its corporate structure. The details are as follows:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 38. Business acquired (continued)

(b) Consolidated entity (continued)

2001

During the year ended 30 June 2001, the consolidated entity acquired the following:

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

(ii) 100% of the ordinary shares of NRMA Insurance NZ Limited (formerly Norwich Union NZ Holdings Limited) and its controlled entities; and

(iii) 100% of the ordinary shares of NRMA Workers Compensation (NSW) (No 2) Pty Limited, NRMA Workers Compensation (NSW) (No 3) Limited, NRMA Workers Compensation (VIC) Limited and NRMA Workers Compensation (SA) Limited; and

(iv) the unexpired risk of the Australian workers' compensation portfolio as at 15 March 2001 and all the new and renewal policies commencing 15 March 2001 from HIH Insurance Limited.

	PARENT		**CONSOLIDATED**	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Consideration:				
Cash	-	5	-	244
Other payable	-	-	-	25
Issue of shares	-	2,873	-	2,873
	-	2,878	-	3,142
Fair value of net assets of entities acquired:				
Cash assets	-	658	-	667
Receivables	-	2,556	-	2,669
Investments	-	8,585	-	8,808
Plant and equipment	-	86	-	108
Intangible assets	-	414	-	414
Payables	-	(719)	-	(762)
Interest-bearing liabilities	-	(2,203)	-	(2,366)
Provisions	-	(476)	-	(484)
Unearned premium	-	(1,409)	-	(1,555)
Outstanding claims	-	(3,127)	-	(3,200)
Gross life insurance policy liabilities	-	(847)	-	(847)
Other	-	(6)	-	52
Outside equity interests	-	(634)	-	(634)
	-	2,878	-	2,870
Goodwill	-	-	-	272
	-	2,878	-	3,142
Net cash flow on acquisition of controlled entities:				
Cash consideration paid	-	(5)	-	(244)
Cash consideration paid to NRMA Insurance Limited on acquisition of its four subsidiaries (see note 38(a))	-	(263)	-	-
Cash balance acquired	-	-	-	667
(Outflow) / inflow of cash	-	(268)	-	423

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 39. Business disposed

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

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Details of the disposals are as follows (in aggregate):				
Sale proceeds:				
Cash	**138**	-	**138**	-
Fair value of net assets of controlled entities disposed:				
Cash	**30**	-	**30**	-
Receivables	**2**	-	**2**	-
Loans	**1,196**	-	**1,196**	-
Investments	**170**	-	**170**	-
Plant and equipment	**2**	-	**2**	-
Deposits	**(827)**	-	**(827)**	-
Payables	**(43)**	-	**(43)**	-
Borrowings	**(448)**	-	**(448)**	-
Provisions	**(13)**	-	**(13)**	-
Other	**19**	-	**19**	-
	88	-	**88**	-
Add: Costs associated with disposal including restructure of operations	**5**	-	**5**	-
	93	-	**93**	-
Profit on disposal	**45**	-	**45**	-
Net cash flow on disposal of controlled entities:				
Cash proceeds received (net of disposal costs)	**133**	-	**133**	-
Cash balance disposed	**-**	-	**(200)**	-
Inflow / (outflow) of cash	**133**	-	**(67)**	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 40. Financing arrangements

	Notes	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Facilities available:					
(a) Standby letter of credit facility	(i)	**-**	-	**36**	118
(b) Group offset overdraft facilities	(ii)	**-**	-	**-**	18
(c) Standby facility	(iii)	**-**	-	**50**	100
(d) Securitisation programmes	(iv)	**-**	-	**-**	1,000
(e) Debt issuance programme	(v)	**-**	-	**750**	1,500
(f) NZ debt programme	(vi)	**-**	-	**-**	286
(g) NZ short-term note programme	(vii)	**-**	-	**259**	-
(h) NZ medium-term note programme	(viii)	**-**	-	**259**	-
Facilities drawn at balance date:					
(a) Standby letter of credit facility		**-**	-	**14**	45
(b) Group offset overdraft facility		**-**	-	**-**	-
(c) Standby facility		**-**	-	**-**	-
(d) Securitisation programmes		**-**	-	**-**	904
(e) Debt issuance programme		**-**	-	**110**	601
(f) NZ debt programme		**-**	-	**-**	286
(g) NZ short-term note programme		**-**	-	**114**	-
(h) NZ medium-term note programme		-	-	**86**	-

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

(ii) The group offset overdraft facilities were available to some entities within the IAG Group. The facilities have a variable interest rate. This facility was terminated during the year ended 30 June 2002. Bank overdraft disclosed in the statement of financial position includes unpresented cheques.

(iii) 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 NRMA Insurance Group Finance Limited is unable to refinance maturing obligations under the debt issuance programme due to a market disturbance. This facility is guaranteed by NRMA Insurance Limited and was reduced to $50 million in June 2002.

(iv) The securitisation programmes provided NRMA Building Society Limited with the ability to securitise its residential mortgage loan portfolio. A total of $904 million loans were securitised at balance date and are not included in the statement of financial position. These programmes are not applicable to IAG Group after the disposal of NRMA Building Society Limited.

(v) NRMA Insurance Group Finance Limited has a $750 million (2001 - $1.5 billion) debt issuance programme. Standard & Poor's has assigned its "AA+" long-term and "A-1+" short-term ratings to the programme's senior obligations. The programme is guaranteed by NRMA Insurance Limited which is rated "AA+" for its insurer financial strength and counterparty credit ratings.

(vi) During last year, NRMA (NZ) Holdings Limited had a bridging facility agreement which was guaranteed by NRMA Insurance Limited. This agreement was originally denoted in NZ dollars and was translated into equivalent A$ using balance date exchange rate. This facility has been replaced by the NZ short-term note and medium-term note programmes as per (vii) and (viii) below.

(vii) NRMA (NZ) Holdings Limited has a NZ$300 million short-term note programme. Standard & Poor's has assigned a "A-1+" short-term rating to the programme. The programme is guaranteed by NRMA Insurance Limited. The programme is supported by a NZ$50 million liquidity backup facility. The programme is used to refinance the NZ$360 million bridging facility agreement referred to in (vi) above. This programme was originally denoted in NZ dollars and was translated into equivalent A$ using balance date exchange rate. On 1 July 2002, this facility was reduced to NZ $200 million.

(viii) NRMA (NZ) Holdings Limited has a NZ$300 million medium-term note programme. Standard & Poor's has assigned a "AA+" long-term rating to the guaranteed and unsubordinated series of wholesale notes issued under the programme. The programme is guaranteed by NRMA Insurance Limited. The programme is used to refinance the NZ$360 million bridging facility agreement referred to in (vi) above. This programme was originally denoted in NZ dollars and was translated into equivalent A$ using balance date exchange rate. On 1 July 2002, this facility was reduced to NZ $200 million.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 41. Commitments				
(a) Capital commitments:				
Property				
- due within 1 year	**-**	-	**6**	-
(b) Lease and rental commitments:				
Property				
- due within 1 year	**-**	-	**59**	52
- due within 1 to 2 years	**-**	-	**51**	47
- due within 2 to 3 years	**-**	-	**47**	43
- due within 3 to 4 years	**-**	-	**41**	40
- due within 4 to 5 years	**-**	-	**34**	33
- due after 5 years	**-**	-	**56**	87
Plant and equipment				
- due within 1 year	**-**	-	**15**	17
- due within 1 to 2 years	**-**	-	**5**	11
- due within 2 to 3 years	**-**	-	**2**	3
	-	-	**310**	333
(c) Other commitments:				
- due within 1 year	**-**	-	**6**	4
- due within 1 to 2 years	**-**	-	**7**	2
	-	-	**13**	6
(d) Loan commitments:				
Loans approved but not advanced				
- due within 1 year	**-**	-	**-**	59
(e) Contingent commitments:				
Undrawn credit limits on secured loans	**-**	-	**-**	384
Undrawn credit limits on credit cards	**-**	-	**-**	166
	-	-	**-**	550

Note 42. Contingencies

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

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

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

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

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

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

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

The arbitration involving NRMAI will take place in two parts. The first part of the case, which is to be held in October 2002 will consider the proper meaning of the Treaty. The second part of the case has been deferred until the second half of 2003 and will examine whether the Treaty should be rescinded.

NRMAI holds a letter of credit for US$25 million as security if it is successful in its claim. Whilst NRMAI believes its case is strong, if NRMAI was wholly unsuccessful in its claim, it could lose the amount of US$25 million recognised in its accounts and record a further loss of US$13 million.

(e) The previous Chief Executive Officer has instituted proceedings against the Company in the Industrial Relations Commission of New South Wales claiming damages in relation to the termination of his contract of employment in April 2001. The claim is listed for hearing in November 2002.

Note 43. New South Wales worker's compensation managed funds

Two (2001 - three) controlled entities are licensed insurers under the New South Wales Workers' Compensation Act 1987 ("the Act"). In accordance with the requirements of the Act, the controlled entities have established and maintain statutory funds in respect of the issue and renewal of policies of insurance.

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

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

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

	2002	2001
	$m	$m
Consolidated statutory funds statement of financial position (which are not consolidated into the IAG consolidated statement of financial position)		
Current assets		
Cash and short-term deposits	**5**	1
Receivables	**31**	33
Non-current assets		
Investments, at market value	**633**	771
Total assets	**669**	805
Current liabilities		
Payables	**16**	25
Unearned premium	**45**	42
Statutory funds to meet outstanding claims and statutory transfers	**608**	738
Total liabilities and statutory funds	**669**	805

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 44. Details of controlled entities

The following entities constitute the IAG Group:

	Notes	Place of incorporation / formation	Percentage of shares / units held		Book value of parent entity's investments	
			2002	2001	**2002**	2001
Parent entity			**%**	%	**$m**	$m
Insurance Australia Group Limited (formerly NRMA Insurance Group Limited)		NSW	**-**	-	**-**	-
Controlled entities						
NRMA Insurance Limited		NSW	**100.00**	100.00	**2,851**	2,878
IAG Re Limited (formerly NRMA Re Limited)	C	Ireland	**100.00**	100.00	**81**	81
ACN000 409 638 Pty Limited (in liquidation) (formerly NRMA Investments Pty Limited)	(v)	NSW	**-**	100.00	**-**	-
NRMA Information Services Pty Limited		NSW	**100.00**	100.00	**-**	-
NRMA Financial Planning Pty Limited	A	NSW	**100.00**	100.00	**-**	-
NRMA Financial Management Limited		NSW	**100.00**	100.00	**-**	-
NRMA Asset Management Limited		NSW	**100.00**	100.00	**-**	-
NRMA Nominees Pty Limited		NSW	**100.00**	100.00	**-**	-
NRMA Woden Pty Limited	A	ACT	**100.00**	100.00	**-**	-
NRMA Investment Management Cash Management Trust	(i), B	NSW	**90.55**	84.00	**-**	-
NRMA Investment Management Equities Trust	(v)	NSW	-	73.60	**-**	-
NRMA Investment Management Fixed Interest Trust	(i), B	NSW	**60.39**	82.06	**-**	-
NRMA Investment Management Property Trust	(i), B	NSW	**100.00**	100.00	**-**	-
NRMA Investment Management Private Equity Trust	(i), B	NSW	**86.73**	88.19	**-**	-
NRMA Investment Management World Equity Trust	(v)	NSW	**-**	60.10	**-**	-
NRMA Investment Management Equity Trust Australia	(i), B	NSW	**83.68**	100.00	**-**	-
NRMA Building Society Limited	(iii)	VIC	**-**	100.00	**-**	87
NRMA Finance Limited	(iii)	NSW	**-**	100.00	**-**	-
NBS Securitisation Services Pty Limited	(iii)	NSW	**-**	100.00	**-**	-
Insurance Australia Group Services Pty Limited (formerly NRMA Sales & Services Pty Limited)	A	ACT	**100.00**	100.00	**275**	-
NRMA Life Limited		NSW	**100.00**	100.00	**165**	165
NRMA Life Nominees Pty Limited		NSW	**100.00**	100.00	**-**	-
NRMA (Western Australia) Pty Limited		NSW	**100.00**	100.00	**-**	-
SGIO Insurance Limited		WA	**100.00**	100.00	**-**	-
NRMA Health Pty Limited		WA	**100.00**	100.00	**-**	-
SGIC Holdings Limited		SA	**100.00**	100.00	**-**	-
SGIC General Insurance Limited		SA	**100.00**	100.00	**-**	-
SGIC Services Pty Limited	A	SA	**100.00**	100.00	**-**	-
SGIC Insurance Limited		SA	**100.00**	100.00	**-**	-
SGIC Brand Pty Limited	A	SA	**100.00**	100.00	**-**	-
NRMA Personal Lines Holdings Pty Limited		NSW	**100.00**	100.00	**-**	-
Insurance Manufacturers of Australia Pty Limited		VIC	**70.00**	70.00	**-**	-
IMA Investments Pty Limited	A	VIC	**70.00**	70.00	**-**	-
World Class Accident Repairs (Cheltenham North) Pty Limited	C	VIC	**70.00**	70.00	**-**	-
NRMA Insurance Group Finance Limited		NSW	**100.00**	100.00	**-**	-
NRMA Staff Superannuation Pty Limited	A	NSW	**100.00**	100.00	**-**	-
NRMA Superannuation Pty Limited	A	NSW	**100.00**	100.00	**-**	-
NRMA Workers Compensation (NSW) Pty Limited	A	NSW	**100.00**	100.00	**-**	-
NRMA Workers Compensation (NSW) (No 2) Pty Limited		NSW	**100.00**	100.00	**-**	-
NRMA Workers Compensation (NSW) (No 3) Limited		NSW	**100.00**	100.00	**-**	-
NRMA Workers Compensation (VIC) Limited		VIC	**100.00**	100.00	**-**	-
NRMA Workers Compensation (SA) Limited		SA	**100.00**	100.00	**-**	-
NRMA (NZ) Holdings Limited	C	New Zealand	**100.00**	100.00	**-**	-
NRMA Insurance NZ Limited	(iv), C	New Zealand	**100.00**	100.00	**-**	-
State Insurance Limited	(iv), C	New Zealand	**100.00**	100.00	**-**	-
New Zealand Car Parts Limited	C	New Zealand	**100.00**	100.00	**-**	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 44. Details of controlled entities (continued)

Controlled entities (continued)	Notes	Place of incorporation / formation	Percentage of shares / units held		Book value of parent entity's investments	
			2002 %	2001 %	**2002** $m	2001 $m
Direct Insurance Services Limited	C	New Zealand	**100.00**	100.00	**-**	-
NRMA Insurance International Pty Limited		NSW	**100.00**	100.00	**15**	11
NHCT Limited	(ii), C	Thailand	**49.00**	49.00	**-**	-
Beijing Continental Automobile Association Limited	C	China	**99.00**	99.00	**-**	-
					3,387	3,222

A Controlled entities which are small propriety companies and not required to prepare audited accounts.
B No audit required under the terms of its constitution.
C Audited by other firms.

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

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

(iii) During the year ended 30 June 2002, the parent entity disposed 100% of ordinary shares in NRMA Building Society Limited and its controlled entities (refer note 39).

(iv) On 1 December 2001, State Insurance Limited was amalgamated into NRMA Insurance NZ Limited.

(v) During the year, the IAG Group lost control of ACN 000 409 638 Pty Limited (in liquidation) (formerly NRMA Investments Pty Limited), NRMA Investment Management Equities Trust and NRMA Investment Management World Equity Trust.

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

Note 45. Outside equity interests

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

Note 46. Related party disclosures

(a) Directors
The Directors who held office during the year were:
Mr JA Strong, Mr JF Astbury, Mrs MC Callaghan, Mr GA Cousins, Mrs M Easson, Ms DG Fisher, Mr ND Hamilton, Ms AJ Keating, Mr RA Ross, Mr IF Stanwell and Mr MJ Hawker.

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

Transactions between Insurance Australia Group Limited and related parties in the wholly-owned group during the year ended 30 June 2002 consisted of:

(i) the lending and repayment of loans and receipt of interest thereon;
(ii) rent paid to NRMA Insurance Limited;
(iii) investment management and custodian fees paid to NRMA Asset Management Limited and NRMA Nominees Pty Limited;
(iv) management fees paid to NRMA Insurance Limited;
(v) information services and data communication expenses paid to NRMA Information Services Pty Limited; and
(vi) transfer of income tax losses amongst NRMA Information Services Pty Limited and NRMA Financial Management Limited.

The loans to Insurance Australia Group Limited and NRMA Woden Pty Limited by NRMA Insurance Limited are interest free. All other transactions were made either on normal commercial terms and conditions at market rates, or on a cost recovery basis.

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

	PARENT		**CONSOLIDATED**	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Dividend revenue	**248**	400	**-**	-

Aggregate amounts receivable from, and payable to, related parties in the wholly-owned group were as follows:

Non-current loan payable	**315**	337	**-**	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
Note 46. Related party disclosures (continued)	**$m**	$m	**$m**	$m

(c) Other related parties

Other aggregate amounts included in the determination of profit / (loss) from ordinary activities before income tax that resulted from transactions with National Roads and Motorists' Association Limited and its controlled entities ("NRMA Limited Group') before 22 July 2000.

	PARENT 2002 $m	PARENT 2001 $m	CONSOLIDATED 2002 $m	CONSOLIDATED 2001 $m
Income:				
Information services and data communication revenue from				
- NRMA Limited Group	**-**	-	**-**	1
Management fees from				
- NRMA Limited Group	**-**	-	**-**	1

(d) Other transactions

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

(e) Directors' holdings of shares	CONSOLIDATED	
	2002 Number held	2001 Number held
The interests of Directors of the reporting entity and their related entities in shares of the Company at balance date are:	**413,237**	239,572
Share transactions of Directors and their related entities during the year are:		
Aggregated acquisitions	**187,309**	248,526
Aggregated disposals	**13,259**	3,546

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
Note 47. Employee entitlements				
(a) Provision for employee entitlements				
Current	**-**	-	**84**	76
Non-current	**-**	-	**18**	18
	-	-	**102**	94
	Number	Number	**Number**	Number
(b) Employee numbers				
Number of employees at balance date	**-**	-	**6,058**	6,405

(c) IMA long term incentive scheme
The IMA long term incentive scheme was in operation for IMA employees during the year ended 30 June 2002. The incentive is paid subject to a target based on the group performance over a three year period being achieved.

(d) Staff allocation share plan
During the year ended 30 June 2001, a total of 4 million shares at an issue price of $2.86 were issued to participating employees of the Staff Allocation Share Plan for nil consideration. No further shares were issued under this plan during the year ended 30 June 2002.

Note 47. Employee entitlements (continued)

(e) Performance share rights plan
A Performance Share Rights Plan was in operation from December 2000. On the satisfaction of a performance hurdle, executives are able to exercise those rights which convert into ordinary equity of the Company. The rights were issued for nil consideration. The exercise price is $1 per tranche of rights on issue at date of exercise.

The rights issued under the Plan are summarised below:

Issue date	Expiry date	Exercise price	Rights issued	Rights exercised	Rights expired	Unissued rights available
21/12/2000	21/12/2010	$1	1,437,120	-	141,820	1,295,300
21/12/2000	21/03/2005	$1	275,000	-	-	275,000
30/04/2001	30/04/2011	$1	3,601,200	-	418,000	3,183,200
30/04/2001	29/07/2005	$1	195,000	-	-	195,000
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	521,897	-	20,000	501,897
			7,355,917	-	579,820	6,776,097

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

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

	NRMA Superannuation Plan $m	RACV Superannuation Funds $m	Total $m
Date of last actuarial valuation	1 July 2001	30 June 1999	
Net market value of net assets held by the plan - 30 June 2001	684	210	894
Present value of employees' accrued benefits - 30 June 2001	(432)	(130)	(562)
Excess of net assets over accrued benefits	252	80	332
Vested benefits - 30 June 2001	425	98	523
Vested benefits - 30 June 2002	403	N/A	N/A

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

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

No differentiation is made between plan members employed by different participating employers which include employers external to the consolidated entity. Accordingly, the information set out above represents the plans' total position.

Due to the surplus in these plans, contribution holidays were in place throughout the financial year.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 48. Segmental reporting

(a) Primary reporting - business segments

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

	Short-tail Insurance 2002 $m	Long-tail Insurance 2002 $m	International Insurance 2002 $m	Retirement Services 2002 $m	Corporate and Investments 2002 $m	Intersegment elimination 2002 $m	Total 2002 $m
External revenue	2,553	1,204	401	19	(39)	-	4,138
Intersegment revenue	-	-	95	-	27	(122)	-
Total revenue	2,553	1,204	496	19	(12)	(122)	4,138
Profit from underwriting	97	33	12	-	-	-	142
Investment income	34	87	15	-	(246)	-	(110)
Other operating result	-	-	-	(5)	(128)	-	(133)
Profit / (loss) from ordinary activities before income tax	131	120	27	(5)	(374)	-	(101)
Income tax credit							18
Net loss							(83)
Segment assets	1,805	3,427	299	1,146	4,637	(7)	11,307
Unallocated assets							-
Total assets							11,307
Segment liabilities	1,805	3,427	299	947	1,861	(11)	8,328
Unallocated liabilities							-
Total liabilities							8,328
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	-	44	-	44
Depreciation expense*	11	8	7	1	4	-	31
Amortisation of goodwill and intangibles	-	-	-	-	43	-	43
Total depreciation and amortisation expense	11	8	7	1	47	-	74
Other non-cash expenses	24	19	2	2	7	-	54

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 48. Segmental reporting (continued)

(a) Primary reporting - business segments (continued)

	Short-tail Insurance 2001 $m	Long-tail Insurance 2001 $m	International Insurance 2001 $m	Financial Services 2001 $m	Corporate and Investments 2001 $m	Intersegment elimination 2001 $m	Total 2001 $m
External revenue	2,287	958	132	172	321	-	3,870
Intersegment revenue	-	-	-	-	54	(54)	-
Total revenue	2,287	958	132	172	375	(54)	3,870
Profit / (loss) from underwriting	41	(34)	(7)	-	-	-	-
Investment income	50	155	1	-	158	-	364
Other operating result	-	-	-	20	(169)	-	(149)
Profit / (loss) from ordinary activities before income tax	91	121	(6)	20	(11)	-	215
Income tax expense							(31)
Net profit							184
Segment assets	1,663	3,147	234	2,953	5,443	(854)	12,586
Unallocated assets							-
Total assets							12,586
Segment liabilities	1,663	3,147	234	2,716	2,292	(854)	9,198
Unallocated liabilities							-
Total liabilities							9,198
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets*	-	-	-	-	431	-	431
Depreciation expense*	11	7	3	1	10	-	32
Amortisation of goodwill and intangibles	-	-	-	-	27	-	27
Total depreciation and amortisation expense	11	7	3	1	37	-	59
Other non-cash expenses	15	14	9	3	10	-	51

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

Note 48. Segmental reporting (continued)

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

	Australia		**International**		**Intersegment elimination**		**Total**	
	2002 $m	2001 $m	**2002 $m**	2001 $m	**2002 $m**	2001 $m	**2002 $m**	2001 $m
External revenue	**3,733**	3,738	**405**	132	**-**	-	**4,138**	3,870
Segment assets	**10,709**	11,948	**719**	638	**(121)**	-	**11,307**	12,586
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	**40**	409	**4**	22	**-**	-	**44**	431

Note 49. Financial instruments

The IAG Group is exposed to interest rate risk, equity risk and credit risk from its business and investment activities. To effectively manage the risk of significant negative movement specifically in the interest rate and equity price, a combination of derivatives have 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. In particular, the IAG Group's exposure to interest rate risk from the lending and borrowing activities arose from its subsidiaries, NRMA Building Society Limited and NRMA Finance Limited which were disposed during the year ended 30 June 2002 (refer note 39).

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

	PARENT		CONSOLIDATED	
	2002	2001	**2002**	2001
	$m	$m	**$m**	$m
- Futures				
Within 1 year	**-**	-	**790**	134
- Interest rate swap				
Within 1 year	**-**	-	**-**	350
Within 2 to 5 years	**-**	-	**-**	179
	-	-	**-**	529
	-	-	**790**	663

The exposure to interest rate risk and the weight average effective interest rates on the financial assets and liabilities of the consolidated entity are summarised in the table below.

	CONSOLIDATED						
		Fixed interest rate maturing in					
2002	**Floating interest rate $m**	**1 year or less $m**	**Over 1 to 5 years $m**	**More than 5 years $m**	**Non-interest bearing $m**	**Total $m**	**Weighted average interest rate %**
Financial assets							
Cash and deposits	**281**	**30**	**596**	**106**	**1**	**1,014**	**5.64**
Receivables	**-**	**-**	**-**	**-**	**541**	**541**	**-**
Government and semi-government stocks and bonds	**-**	**-**	**917**	**786**	**-**	**1,703**	**5.82**
Commercial bills	**-**	**1,140**	**-**	**-**	**-**	**1,140**	**4.83**
Other investments	**33**	**4**	**527**	**143**	**-**	**707**	**5.82**
	314	**1,174**	**2,040**	**1,035**	**542**	**5,105**	
Financial liabilities							
Payables	**-**	**-**	**-**	**-**	**1,266**	**1,266**	**-**
Interest-bearing liabilities	**200**	**110**	**-**	**-**	**-**	**310**	**5.28**
	200	**110**	**-**	**-**	**1,266**	**1,576**	

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

Note 49. Financial instruments (continued)

(a) Interest rate risk (continued)

	CONSOLIDATED						
		Fixed interest rate maturing in					
2001	Floating interest rate $m	1 year or less $m	Over 1 to 5 years $m	More than 5 years $m	Non-interest bearing $m	Total $m	Weighted average interest rate %
Financial assets							
Cash and deposits	250	8	706	93	11	1,068	5.48
Receivables	157	-	-	-	418	575	10.27
Secured and unsecured loans	662	26	111	214	-	1,013	7.33
Government and semi-government stocks and bonds	-	203	989	565	-	1,757	5.99
Commercial bills	731	32	-	-	-	763	5.21
Bonds	-	1	5	-	-	6	6.79
Other investments	1	8	485	141	-	635	5.52
	1,801	278	2,296	1,013	429	5,817	
Financial liabilities							
Bank overdraft	48	-	-	-	-	48	*
Deposits	216	563	50	-	-	829	4.85
Payables	-	-	-	-	592	592	-
Interest-bearing liabilities	286	599	-	-	-	885	5.77
Debenture	-	6	5	-	-	11	5.75
Scrip borrowing	-	252	-	-	-	252	2.37
	550	1,420	55	-	592	2,617	
Off statement of financial position item							
Interest rate swaps	-	159	(159)	-	-	-	

* While the general ledger account balance was a bank overdraft, the bank account was not overdrawn, therefore there was no overdraft interest charged by the bank.

(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		**CONSOLIDATED**	
	2002 $m	2001 $m	**2002 $m**	2001 $m
- SPI futures				
Within 1 year	**-**	-	**407**	-
- Equity swap				
Within 1 year	**-**	-	**100**	-
- Options				
Purchased - within 1 year	**-**	-	**500**	-
Written - within 1 year	**-**	-	**347**	19
	-	-	**1,354**	19

Note 49. Financial instruments (continued)

(c) Credit risk

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

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

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.

(d) Net fair values

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

The net fair value of financial assets and liabilities arising from the derivatives (being futures, SPI futures, equity swaps and equity options) has been determined as the carrying value which represents the amount currently receivable or payable at the reporting date. The carrying value of all these derivatives is a net receivable of $3 million.

Note 50. Summary of significant actuarial methods and assumptions applied to life insurance business

(a) Valuation of policy liabilities

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

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

(ii) provide for future profits.

The policy liabilities have been calculated using methods in accordance with Actuarial Standard 1.03 Valuation of Policy Liabilities as required under section 114 of the Life Act.

Methods used to value policy liabilities

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

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

Note 50. Summary of significant actuarial methods and assumptions applied to life insurance business (continued)

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

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

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

(b) Actuarial assumptions

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

Fund 1

Investment earnings and discount rate - 3.2% after tax at 30% (2001 - 3.4% after tax at 30%) being the rate for cash investments at the valuation.

Tax - 30% (2001 - 30%) of expected operating profits.

Maintenance expenses - The expense assumption was based on the budgeted level of expenses for the upcoming year. Expense inflation of 4.0% (2001 - 4%) was assumed.

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

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

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

Fund 2 and Fund 4

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

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

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

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

Maintenance expenses - The expense assumption was based on the budgeted level of expenses for the upcoming year. Expense inflation of 4.0% (2001 - 4%) was assumed.

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

Tax - Rates of 30% (2001 – 30%) were assumed to apply on shareholder assessable income.

Note 51. Solvency and capital requirements of the life subsidiary's statutory funds

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

The methods and assumptions for determining solvency and capital requirements are in accordance with the requirements of Actuarial Standard 2.03, Solvency Standard, under section 65 of the Life Act.

(a) Solvency requirement

	2002 $m	2001 $m
Solvency reserve	**6**	8
Assets available for solvency	**48**	42
Coverage of solvency reserve (times)	**7.5**	5.1

(b) Capital requirement

	2002 $m	2001 $m
Management capital reserve	**2**	-
Assets available for capital requirement	**87**	52
Coverage of capital requirement	**8.7**	5.2

Note 52. Events subsequent to reporting date

(a) In July 2002, the IAG Group's whole of account aggregate stop loss reinsurance contract was terminated.

(b) On 20 August 2002, a final dividend of 6.0 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 21 October 2002.

(c) The IAG Group's investment portfolio has experienced continued volatility in returns in line with Australian and International equity markets. The sensitivities of our results to these market fluctuations has been disclosed separately to the market.

As these transactions occurred after balance date and did not relate to conditions existing at balance date, no account has been taken of them in the financial statements for the year ended 30 June 2002.

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

DIRECTORS' DECLARATION

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

(a) the financial statements and notes, set out on pages 10 to 57, are in accordance with the Corporations Act 2001, (except as exempted by an order issued by the Australian Securities & Investments Commission as stated in note 1(a)(ii)), including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 20th of August 2002 in accordance with a resolution of the Directors.

.... Director

.... Director

INDEPENDENT AUDITORS' REPORT

To the shareholders of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited)

Scope

We have audited the financial report of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited) for the financial year ended 30 June 2002 consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes and the Directors' Declaration set out on pages 10 to 58. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the shareholders of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Insurance Australia Group Limited (formerly NRMA Insurance Group Limited) is in accordance with:

(a) the Corporations Act 2001, (except as exempted by an order issued by the Australian Securities & Investments Commission as stated in note 1(a)(ii)), including:

  (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

Dr Andries B Terblanché
Partner

Sydney
20th August 2002