

**INSURANCE AUSTRALIA GROUP LIMITED**  
**ABN 60 090 739 923**  
**AND CONTROLLED ENTITIES**  
**HALF YEAR FINANCIAL REPORT - 31 DECEMBER 2002**

**CONTENTS**

	<b>Page No.</b>
Directors' Report	1
Statement of Financial Performance	3
Statement of Financial Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
Directors' Declaration	18
Independent Auditors' Review Report	19

Insurance Australia 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 AND CONTROLLED ENTITIES**

### **DIRECTORS' REPORT**

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited ("IAG / the Company") and its controlled entities ("the IAG Group") for the half year ended 31 December 2002 and the auditors' review report thereon.

#### **Directors**

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

Mr JA Strong (Director since 2 August 2001), Mr JF Astbury (Director since 25 July 2000), Mrs MC Callaghan (Director since 19 June 2000), Mr GA Cousins (Director since 25 July 2000), Mrs M Easson (Director since 19 June 2000), Ms DG Fisher (Director since 19 June 2000), Mr ND Hamilton (Director since 19 June 2000), Ms AJ Keating (Director since 19 June 2000), Mr RA Ross (Director since 25 July 2000) and Mr M Hawker (Director since 1 December 2001).

#### **Result and review of operations**

The IAG Group net profit for the half year was \$97 million (2001 - \$58 million). After adjusting for outside equity interests in the IAG Group result, the net profit attributable to shareholders of the Company was \$62 million (2001 - \$49 million).

The underlying business has performed strongly, producing an underwriting profit of \$71 million compared to \$37 million in 2001.

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

- Premium growth: Gross written premium was \$1,886 million, representing an increase of 13.3% on the same period last year (\$1,665 million). Organic growth has been the major driver of this growth.
- Expenses: the expense ratio (underwriting expenses to net earned premium) of 19.2% compares favourably to 20.1% for the same period last year.
- Short-tail underwriting continues to perform soundly with a combined ratio (claims and underwriting expenses to net earned premium) of 92.3% (2001 - 98.0%).
- The long-tail portfolio is also continuing strong performance with the combined ratio of 105.2%, which is at the lower end of our long term operating target of 105% - 110%.
- The international portfolio also performed soundly with a combined ratio of 98.1% compared to 96.3% in 2001.
- The IAG Group's financial services products delivered a profit before tax of \$2 million (2001 - \$8 million).
- There were no major loss events in the current period.

Realised and unrealised investment income included in the consolidated net profit for the half year was \$113 million (2001 - \$92 million). The IAG Group outperformed its fixed interest and international equity benchmarks and was marginally behind the Australian equity benchmark return. The negative returns on local and overseas equity markets resulted in lower than anticipated investment returns in the period. The policy of matching insurance claims liabilities with a high proportion of fixed interest investments has enabled the positive investment returns from this class to offset or immunise the increase in insurance liabilities associated with movements in interest rates.

Further information on the IAG Group's result and review of operations can be found in the 31 December 2002 Investor Report on the Company's website, [www.iag.com.au](http://www.iag.com.au).

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**Events subsequent to reporting date**

On 18 October 2002, IAG announced that it had entered into an agreement to purchase the general insurance businesses in Australia and New Zealand from Aviva plc (formerly CGNU plc) for \$1,855 million. The acquisition date was 2 January 2003. Further details of the impact on IAG from this acquisition are disclosed in note 14.

On 18 and 19 January 2003, the IAG Group was impacted by the bushfires in the Australian Capital Territory and New South Wales. We estimate the IAG Group's losses from these bushfires would not exceed \$42 million after tax.

**Dividends**

Details of dividend declared are set out in note 7.

**Rounding of amounts**

Unless otherwise stated, amounts in the financial report and Directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 27th day of February 2003 in accordance with a resolution of the Directors.

..... Director

..... Director

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

	<u>Notes</u>	<b>CONSOLIDATED</b> <b>2002</b> <b>\$m</b>	2001 \$m
Premium revenue	3(a)(i)	1,868	1,696
Reinsurance expense		(69)	(128)
<b>Net premium revenue</b>		<b>1,799</b>	<b>1,568</b>
Claims expense		(1,524)	(1,580)
Reinsurance and other recoveries	3(a)(i)	142	364
<b>Net claims expense</b>		<b>(1,382)</b>	<b>(1,216)</b>
Acquisition costs		(229)	(212)
Other underwriting expenses		(78)	(60)
Fire brigade charges		(39)	(43)
<b>Underwriting expenses</b>		<b>(346)</b>	<b>(315)</b>
<b>Profit from underwriting</b>		<b>71</b>	<b>37</b>
Investment income	3(a)(ii)	168	152
Realised losses on investments	3(a)(ii)	(51)	(99)
Unrealised (losses) / gains on investments	3(a)(ii)	(4)	39
Financial services revenue	3(a)(iii)	(1)	56
Other operating revenue	3(a)(iv)	77	90
Borrowing costs expense		(12)	(37)
Life insurance business	4	11	(21)
Corporate and administration expenses		(144)	(154)
<b>Profit from ordinary activities before income tax</b>		<b>115</b>	<b>63</b>
Income tax expense		(18)	(5)
<b>Net profit</b>		<b>97</b>	<b>58</b>
Net profit attributable to outside equity interests		(35)	(9)
<b>Net profit attributable to shareholders of Insurance Australia Group Limited</b>		<b>62</b>	<b>49</b>
<b>Non-owner transaction changes in equity:</b>			
<b>Total revenue, expenses and valuation adjustments attributable to shareholders of Insurance Australia Group Limited recognised directly in equity</b>		<b>-</b>	<b>-</b>
<b>Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity</b>		<b>62</b>	<b>49</b>
		<b>cents</b>	<b>cents</b>
<b>Basic earnings per ordinary share</b>	5(a)	<b>3.64</b>	<b>3.52</b>
<b>Basic earnings per reset preference share</b>	5(b)	<b>308.27</b>	<b>-</b>
<b>Diluted earnings per ordinary share</b>	5(a)	<b>3.62</b>	<b>3.50</b>

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

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2002**

		<b>CONSOLIDATED</b>	
	<u>Notes</u>	<b>31 Dec 2002 \$m</b>	<b>30 Jun 2002 \$m</b>
<b>Current assets</b>			
Cash assets		1,400	253
Receivables		1,334	1,519
Investments		2,119	1,619
Current tax assets		9	6
Other		397	313
<b>Total current assets</b>		<b>5,259</b>	<b>3,710</b>
<b>Non-current assets</b>			
Receivables		231	192
Investments		5,406	6,471
Plant and equipment		97	95
Deferred tax assets		218	206
Intangible assets		616	632
Other		3	1
<b>Total non-current assets</b>		<b>6,571</b>	<b>7,597</b>
<b>Total assets</b>		<b>11,830</b>	<b>11,307</b>
<b>Current liabilities</b>			
Payables		447	1,281
Interest-bearing liabilities		301	224
Current tax liabilities		87	49
Provisions		71	84
Outstanding claims		1,346	1,268
Unearned premium		1,877	1,839
<b>Total current liabilities</b>		<b>4,129</b>	<b>4,745</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities		393	86
Deferred tax liabilities		72	135
Provisions		18	18
Gross life insurance policy liabilities		909	927
Outstanding claims		2,521	2,417
<b>Total non-current liabilities</b>		<b>3,913</b>	<b>3,583</b>
<b>Total liabilities</b>		<b>8,042</b>	<b>8,328</b>
<b>Net assets</b>		<b>3,788</b>	<b>2,979</b>
<b>Equity</b>			
Contributed equity	8	3,707	2,852
Foreign currency translation reserve		(3)	(1)
Accumulated losses	9	(402)	(375)
<b>Equity attributable to shareholders of Insurance Australia Group Limited</b>		<b>3,302</b>	<b>2,476</b>
Outside equity interests in controlled entities:			
- Contributed equity		179	179
- Retained profits		19	22
- Unitholders' funds		288	302
<b>Total equity</b>	10	<b>3,788</b>	<b>2,979</b>

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

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

	<u>Note</u>	<b>CONSOLIDATED</b> <b>2002</b> <b>\$m</b>	2001 \$m
<b>Cash flows from operating activities</b>			
Premium received		2,063	1,812
Reinsurance and other recoveries received		159	237
Claims costs paid		(1,550)	(1,422)
Outwards reinsurance premium paid		(65)	(118)
Dividends received		45	76
Interest and similar items received		198	179
Interest and other finance costs paid		(9)	(40)
Income taxes paid		(58)	(58)
Income tax refunds		5	-
Other operating receipts		306	220
Other operating payments		(801)	(740)
<b>Net cash provided by operating activities</b>		<b>293</b>	<b>146</b>
<b>Cash flows from investing activities</b>			
Net cash flows on disposal of controlled entities	11	-	(67)
Proceeds from disposal of investments and plant and equipment		14,456	11,137
Outlays for investments and plant and equipment acquired		(13,974)	(11,198)
Repayment of mortgage loans		-	252
Drawdown of mortgage loans		-	(308)
<b>Net cash provided by / (used in) investing activities</b>		<b>482</b>	<b>(184)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		880	-
Proceeds from issues of trust units		337	367
Outlays for redemption of trust units		(365)	(283)
Proceeds from borrowings		592	806
Repayment of borrowings		(935)	(984)
Net decrease in depositor funds		-	(3)
Proceeds from securitisation		-	29
Share issue costs paid		(24)	-
Dividends paid		(114)	(84)
<b>Net cash provided by / (used in) financing activities</b>		<b>371</b>	<b>(152)</b>
<b>Net increase / (decrease) in cash held</b>		<b>1,146</b>	<b>(190)</b>
<b>Cash at the beginning of the financial period</b>		<b>253</b>	<b>344</b>
Effects of exchange rate changes on the balances of cash held in foreign currencies		1	-
<b>Cash at the end of the financial period</b>		<b>1,400</b>	<b>154</b>

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

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

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

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

**Basis of preparation of half-year financial report**

The half year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. This half year financial report is to be read in conjunction with the 30 June 2002 Annual Financial Report and any public announcements by Insurance Australia Group Limited and its controlled entities during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

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

Accounting policies have been consistently applied by each entity in the IAG Group and, except where there is a change in accounting policy as disclosed in note 2, are consistent with those applied in the 30 June 2002 Annual Financial Report.

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

**Note 2. Changes in accounting policies**

**Employee entitlements**

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

*Wages, salaries, annual leave and sick leave*

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

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

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

	<b>CONSOLIDATED</b>	
	<b>2002</b>	<b>2001</b>
	<b>\$m</b>	<b>\$m</b>
<b>Note 3. Revenue</b>		
<b>(a) Revenue from ordinary activities</b>		
<b>(i) General insurance revenue</b>		
Gross written premium	<b>1,886</b>	1,665
Movement in unearned premium reserve	<b>(18)</b>	31
Premium revenue	<b>1,868</b>	1,696
Direct premium	<b>1,854</b>	1,682
Inwards reinsurance premium	<b>14</b>	14
Premium revenue	<b>1,868</b>	1,696
Reinsurance and other recoveries	<b>142</b>	364
Total general insurance revenue	<b>2,010</b>	2,060
<b>(ii) Investment revenue</b>		
Dividend income		
- other corporations	<b>18</b>	11
Interest income		
- other parties	<b>145</b>	135
Trust income		
- other parties	<b>5</b>	6
Total investment income	<b>168</b>	152
Changes in net market values of investments		
- realised losses	<b>(51)</b>	(99)
- unrealised (losses) / gains	<b>(4)</b>	39
Total investment revenue	<b>113</b>	92
<b>(iii) Financial services revenue</b>		
Interest income on loans	<b>-</b>	25
Life insurance business revenue		
- premium revenue	<b>12</b>	11
- investment revenue	<b>(13)</b>	20
	<b>(1)</b>	31
Total financial services revenue	<b>(1)</b>	56
<b>(iv) Other operating income</b>		
- other parties	<b>77</b>	90
Total other operating income	<b>77</b>	90
<b>Total revenue from ordinary activities</b>	<b>2,199</b>	2,298
<b>(b) Revenue from outside ordinary activities</b>		
Proceeds from disposal of plant and equipment	<b>8</b>	7
<b>Total revenue from outside ordinary activities</b>	<b>8</b>	7
<b>Total revenue</b>	<b>2,207</b>	2,305



**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

	<b>CONSOLIDATED</b>	
	<b>2002</b>	<b>2001</b>
	<b>\$m</b>	<b>\$m</b>
<b>Note 4. Analysis of total expenses</b>		
Expenses (excluding borrowing costs expense) disclosed on the face of the statement of financial performance:		
Reinsurance expense	69	128
Claims expense	1,524	1,580
Acquisition costs	229	212
Other underwriting expenses	78	60
Fire brigade charges	39	43
Life insurance business expenses	(11)	21
Corporate and administration expenses	144	154
Total expenses	<u>2,072</u>	<u>2,198</u>
Analysis of expenses by function:		
General insurance business expenses		
- Reinsurance expense	69	128
- Claims expense	1,524	1,580
- Underwriting expenses	346	315
	<u>1,939</u>	<u>2,023</u>
Life insurance business expenses		
- Policy payments	3	3
- (Decrease) / increase in policy liabilities	(27)	4
- Administration and other expenses	13	14
	<u>(11)</u>	<u>21</u>
Administration expenses	144	154
	<u>2,072</u>	<u>2,198</u>
	<b>2002</b>	<b>2001</b>
	<b>cents</b>	<b>cents</b>
<b>Note 5. Earnings per share</b>		
(a) Ordinary shares		
Basic earnings per share	<u>3.64</u>	<u>3.52</u>
Diluted earnings per share	<u>3.62</u>	<u>3.50</u>
	<b>2002</b>	<b>2001</b>
	<b>Number</b>	<b>Number</b>
	<b>of shares</b>	<b>of shares</b>
(i) Reconciliation between basic earning per share denominator and weighted diluted earnings per share denominator		
Weighted average number of ordinary shares outstanding during the financial period used in calculation of the basic earnings per share	<u>1,391,265,083</u>	<u>1,399,386,835</u>
Potential ordinary shares:		
Expiry date 21 December 2010	1,712,116	1,712,117
Expiry date 30 April 2011	3,796,145	3,796,152
Expiry date 2 August 2011	190,696	157,532
Expiry date 22 October 2011	134,998	52,092
Expiry date 13 December 2011	1,000,000	103,261
Expiry date 5 March 2012	521,892	-
Expiry date 15 July 2012	94,443	-
Cancelled potential ordinary shares	<u>(771,347)</u>	<u>(277,029)</u>
Weighted average number of ordinary shares outstanding during the financial period in calculation of the diluted earnings per share	<u>1,397,944,026</u>	<u>1,404,930,960</u>

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

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

	<b>CONSOLIDATED</b>	
	<b>2002</b>	<b>2001</b>
	<b>\$m</b>	<b>\$m</b>
<b>Note 5. Earnings per share (continued)</b>		
(a) Ordinary shares (continued)		
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit	<b>97</b>	<b>58</b>
Net profit attributable to outside equity interests	<b>(35)</b>	<b>(9)</b>
Net profit attributable to reset preference shares	<b>(11)</b>	<b>-</b>
Earnings used in calculating basic and diluted earnings per share	<b>51</b>	<b>49</b>
	<b>2002</b>	<b>2001</b>
	<b>cents</b>	<b>cents</b>
(b) Reset preference shares		
Basic earnings per share	<b>308.27</b>	<b>-</b>
	<b>2002</b>	<b>2001</b>
	<b>Number</b>	<b>Number</b>
	<b>of shares</b>	<b>of shares</b>
(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 period used in calculation of the basic earnings per share	<b>3,500,000</b>	<b>-</b>
	<b>2002</b>	<b>2001</b>
	<b>\$m</b>	<b>\$m</b>
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit used in calculating basic earnings per share	<b>11</b>	<b>-</b>
There are no potential reset preference shares on issue.		

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

		<b>CONSOLIDATED</b>	
		<b>2002</b>	<b>2001</b>
	<u>Note</u>	<b>\$m</b>	<b>\$m</b>
<b>Note 6. Individually significant items</b>			
Income:			
Reinsurance recoveries under the Whole of Account			
Aggregate Stop Loss contract		-	110
Profit on sale of NRMA Building Society Limited	11	-	45
Expenses:			
Costs in relation to the settlement of "Share the Future"			
litigation		-	12
Insurance protection tax levied by the NSW State Government		9	10

**Note 7. Dividends**

(i) Ordinary shares

- Final dividend for year ended 30 June 2002 of 6 cents (2001 - nil) per fully paid ordinary share, paid on 21 October 2002
- Fully franked at 30% (2001 - nil)

78 -

(ii) Reset preference shares (RPS)

- Dividend of \$3.0827 (2001 - nil) per fully paid RPS, paid on 16 December 2002
- Fully franked at 30% (2001 - nil)

11 -

Total dividends paid or provided for

89 -

Event subsequent to reporting date:

On 27 February 2003, an interim dividend of 4.5 cents per ordinary share, 100% franked, was declared by the Company. The dividend will be paid on 14 April 2003.

<b>CONSOLIDATED</b>			
<b>31 Dec 2002</b>		<b>30 Jun 2002</b>	
<b>Number of shares million</b>	<b>\$m</b>	<b>Number of shares million</b>	<b>\$m</b>

**Note 8. Contributed equity**

Share capital

Issued and fully paid ordinary shares	1,656	3,364	1,301	2,509
Issued and fully paid reset preference shares	4	343	4	343
	<b>1,660</b>	<b>3,707</b>	<b>1,305</b>	<b>2,852</b>

Movements in ordinary shares:

Balance at the beginning of the financial period	1,301	2,509	1,399	2,687
Ordinary shares issued	355	880	-	-
Shares bought back off-market	-	-	(98)	(175)
Less: transaction costs arising on share issues	-	(25)	-	-
Less: transaction costs arising on share buy-back	-	-	-	(3)
Balance at the end of the financial period	<b>1,656</b>	<b>3,364</b>	<b>1,301</b>	<b>2,509</b>

Movements in reset preference shares:

Balance at the beginning of the financial period	4	343	-	-
Shares issued	-	-	4	350
Less: transaction costs arising on share issue	-	-	-	(7)

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

Balance at the end of the financial period	<b>4</b>	<b>343</b>	<b>4</b>	<b>343</b>
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**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

**Note 8. 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) Share buy-back:

During the year ended 30 June 2002, 98 million ordinary shares representing 6.99% of issued share capital were bought back and cancelled under the terms of a share buy-back plan. The plan was an off-market buy-back. The buy-back price per share was \$3.05 which comprised a capital component of \$1.78 and the balance of \$1.27 as a fully franked dividend.

(iv) Performance share rights plan ("PSR"):

A PSR, which was approved at the Annual General Meeting held on 28 November 2000 was in operation. During the financial period ended 31 December 2002, a total of 102,222 rights were issued for nil consideration. Each right can be converted into one ordinary share of the Company at the date of exercise of the right provided specified performance hurdles have been met. These rights lapse upon the termination of employment with IAG Group, other than termination due to redundancy. A total of 230,000 rights were cancelled during the period on termination of employees' employment. There were no rights exercised during the period.

	<u>Note</u>	<b>CONSOLIDATED</b>	
		<b>31 Dec 2002 \$m</b>	<b>30 June 2002 \$m</b>
<b>Note 9. Accumulated losses</b>			
Accumulated losses		<b>(402)</b>	<b>(375)</b>
Movements in accumulated losses			
Balance at the beginning of the financial period		<b>(375)</b>	<b>(164)</b>
Net profit / (loss) attributable to shareholders of			
Insurance Australia Group Limited		<b>62</b>	<b>(25)</b>
Utilised in shares bought back off-market		<b>-</b>	<b>(123)</b>
Dividends paid or provided for	7	<b>(89)</b>	<b>(63)</b>
Balance at the end of the financial period		<b>(402)</b>	<b>(375)</b>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

		<b>CONSOLIDATED</b>	
	<u>Notes</u>	<b>31 Dec 2002 \$m</b>	<b>30 June 2002 \$m</b>
<b>Note 10. Total equity reconciliation</b>			
Total equity at the beginning of the financial period		<b>2,979</b>	3,388
Total changes in equity recognised in the statement of financial performance		<b>62</b>	(25)
Transactions with owners as owners:			
- contributions of equity, net of transaction costs	8	<b>855</b>	-
- dividends paid or provided for	7	<b>(89)</b>	(63)
- reset preference shares, net of transaction costs		-	343
- share buy-back, net of transaction costs		-	(301)
Movement in foreign currency translation reserves on foreign controlled entities		<b>(2)</b>	(1)
Total changes in outside equity interest		<b>(17)</b>	(362)
Total equity at the end of the financial period		<b>3,788</b>	2,979

**Note 11. Changes in the composition of the consolidated entity**

During the financial period ended 31 December 2002 there were no acquisitions or disposals.

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

	<b>CONSOLIDATED</b>	
	<b>2002 \$m</b>	<b>2001 \$m</b>
Details of the disposals are as follows (in aggregate):		
Sale proceeds:		
Cash	-	138
Fair value of net assets of controlled entities disposed	-	88
Add: Costs associated with disposal including restructure of operations	-	5
	-	93
Profit on disposal	-	45
Net cashflow on disposal of controlled entities		
Cash received (net of disposal costs)	-	133
Cash balance disposed	-	(200)
Outflow of cash	-	(67)

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

**Note 12. Contingent liabilities and contingent assets**

Other than the matter referred to below, there have been no other material changes in contingent liabilities or contingent assets since 30 June 2002.

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 is being heard in two parts. The arbitration panel in November 2002 ruled in favour of NRMAI in relation to the preliminary issue, that the Treaty is not retroactive and therefore does not cover loss occurrences prior to 1 July 1997. As a result of this ruling the Ceding Insurer is required to provide a new accounting for the Treaty to NRMAI. The second part of the case is scheduled to be heard in October 2003 and will examine whether the Treaty should in any event be rescinded.

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 were wholly unsuccessful in its claim, it could lose the amount of US\$25 million recognised as an asset in the financial report and record a further loss of US\$13 million. In stating these amounts NRMAI has not taken into account the recent ruling of the arbitration panel in its favour. NRMAI is currently unable to quantify the effect this ruling may have on its potential losses if it were to be wholly unsuccessful in the second part of the case.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

**Note 13. Segmental reporting**

Primary reporting - business segments

The IAG Group 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 IAG Group's capital funds form a separate segment.

	<b>Short-tail insurance</b>		<b>Long-tail insurance</b>		<b>International insurance</b>		<b>Retirement services</b>		<b>Corporate and investments</b>	
	<b>2002</b>	2001	<b>2002</b>	2001	<b>2002</b>	2001	<b>2002</b>	2001	<b>2002</b>	2001
	<b>\$m</b>	\$m	<b>\$m</b>	\$m	<b>\$m</b>	\$m	<b>\$m</b>	\$m	<b>\$m</b>	\$m
External revenue	<b>1,359</b>	1,301	<b>642</b>	653	<b>228</b>	191	<b>(20)</b>	47	<b>(2)</b>	113
Intersegment revenue	-	-	-	-	<b>128</b>	62	-	-	<b>7</b>	19
Total revenue	<b>1,359</b>	1,301	<b>642</b>	653	<b>356</b>	253	<b>(20)</b>	47	<b>5</b>	132
Profit / (loss) from underwriting	<b>89</b>	21	<b>(22)</b>	10	<b>4</b>	6	-	-	-	-
Investment income	<b>46</b>	22	<b>169</b>	61	<b>4</b>	5	-	-	<b>(106)</b>	4
Other operating result	-	-	-	-	-	-	<b>2</b>	8	<b>(71)</b>	(74)
Profit / (loss) from ordinary activities before income tax	<b>135</b>	43	<b>147</b>	71	<b>8</b>	11	<b>2</b>	8	<b>(177)</b>	(70)
	<b>Inter-segment elimination</b>		<b>Total</b>							
	<b>2002</b>	2001	<b>2002</b>	2001						
	<b>\$m</b>	\$m	<b>\$m</b>	\$m						
External revenue	-	-	<b>2,207</b>	2,305						
Intersegment revenue	<b>(135)</b>	(81)	-	-						
Total revenue	<b>(135)</b>	(81)	<b>2,207</b>	2,305						
Profit from underwriting	-	-	<b>71</b>	37						
Investment income	-	-	<b>113</b>	92						
Other operating result	-	-	<b>(69)</b>	(66)						
Profit from ordinary activities before income tax	-	-	<b>115</b>	63						



**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

**Note 14. Events subsequent to reporting date**

(a) On 18 October 2002, IAG announced that it had entered into an agreement to purchase the general insurance businesses in Australia and New Zealand from Aviva plc (formerly CGNU plc) for \$1,855 million. The acquisition date was 2 January 2003.

***Business acquired***

The business acquired include the general insurance business of CGU Insurance Australia Limited group ("CGU") in Australia and Belves Investments Limited group ("NZI") in New Zealand. The Australian and New Zealand businesses have been acquired by the IAG Group subsidiaries, NRMA Insurance Limited and IAG (NZ) Holdings Limited (formerly NRMA Insurance NZ Limited), respectively.

***Funding***

The acquisition is being funded by the IAG Group as follows:

	\$m
Issue of shares to institutions and retail shareholders	1,040
Issue of hybrid equity	250
Issue of term subordinated notes (debt)	735
Use of internal funds	124
Repayment of existing debt	(224)
	<hr/> 1,925
Fund raising and transaction costs	(70)
	<hr/> 1,855
Purchase price	<hr/> <hr/> 1,855

As at the date of this report, 355 million ordinary shares have been issued to institutions and retail shareholders, representing an increase in shareholder funds of \$855 million (net of transaction costs) by the Company.

IAG has passed the funds raised above from the issue of shares to NRMA Insurance Limited by way of subscribing for new ordinary shares, increasing the Company's investment in NRMA Insurance Limited by \$880 million. NRMA Insurance Limited has also raised debt by issuing term subordinated notes to the value of \$300 million. To fund the acquisition on 2 January 2003, NRMA Insurance Limited borrowed \$480 million through a short term senior bridge debt funding facility. Part of this debt was loaned to IAG (NZ) Holdings Limited to fund its purchase of the New Zealand business. The IAG Group intends to refinance the majority of short term senior debt obligations with a combination of hybrid equity and term subordinated debt that are expected to qualify as APRA regulatory capital. This is expected to be completed by 30 June 2003.

***Proforma statement of financial position***

The acquisition of CGU in Australia and NZI in New Zealand will result in a material change to the financial position of IAG and the IAG Group as reflected in the proforma statement of financial position as at 31 December 2002 below. The proforma statement of financial position includes, in addition to the reviewed financial position of the IAG Group prior to acquisition at 31 December 2002, the audited financial position of CGU and NZI as at 31 December 2002 (audited by Ernst & Young), adjustments for the funding of the acquisition as set out above and certain fair value adjustments.

The overall impact is summarised as follows:

	\$m
Original purchase price	1,855
Less: reinsurance cover provided by Aviva plc	(21)
Add: acquisition costs	10
	<hr/> 1,844
Net tangible assets and identifiable assets acquired	768
Goodwill	<hr/> 1,076

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

**Note 14. Events subsequent to reporting date (continued)**

***Proforma statement of financial position(continued)***

	<b>CONSOLIDATED</b>	
	<b>Unaudited</b>	
	<b>Proforma</b>	
	<b>IAG Group</b>	<b>IAG Group</b>
	<b>31 Dec 2002</b>	<b>31 Dec 2002</b>
	<b>\$m</b>	<b>\$m</b>
<b>Current assets</b>		
Cash assets	425	1,400
Receivables	2,511	1,334
Investments	2,995	2,119
Current tax assets	20	9
Other	778	397
<b>Total current assets</b>	<b>6,729</b>	<b>5,259</b>
<b>Non-current assets</b>		
Receivables	355	231
Investments	6,976	5,406
Plant and equipment	141	97
Deferred tax assets	350	218
Intangible assets	1,692	616
Other	39	3
<b>Total non-current assets</b>	<b>9,553</b>	<b>6,571</b>
<b>Total assets</b>	<b>16,282</b>	<b>11,830</b>
<b>Current liabilities</b>		
Payables	839	447
Interest-bearing liabilities	77	301
Current tax liabilities	88	87
Provisions	230	71
Outstanding claims	2,375	1,346
Unearned premium	2,965	1,877
<b>Total current liabilities</b>	<b>6,574</b>	<b>4,129</b>
<b>Non-current liabilities</b>		
Interest-bearing liabilities	824	393
Deferred tax liabilities	90	72
Provisions	43	18
Gross life insurance policy liabilities	909	909
Unearned premium	97	-
Outstanding claims	3,645	2,521
<b>Total non-current liabilities</b>	<b>5,608</b>	<b>3,913</b>
<b>Total liabilities</b>	<b>12,182</b>	<b>8,042</b>
<b>Net assets</b>	<b>4,100</b>	<b>3,788</b>
<b>Equity</b>		
Contributed equity	4,094	3,707
Foreign currency translation reserve	(3)	(3)
Accumulated losses	(477)	(402)
<b>Equity attributable to shareholders of Insurance Australia Group Limited</b>	<b>3,614</b>	<b>3,302</b>
Outside equity interests in controlled entities:		
- Contributed equity	179	179
- Retained profits	19	19
- Unitholders' funds	288	288
<b>Total equity</b>	<b>4,100</b>	<b>3,788</b>

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2002**

**Note 14. Events subsequent to reporting date (continued)**

(b) On 18 and 19 January 2003, the IAG Group was impacted by the bushfires in the Australian Capital Territory and New South Wales. We estimate the IAG Group's losses from these bushfires would not exceed \$42 million after tax.

**INSURANCE AUSTRALIA GROUP LIMITED AND CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

In the opinion of the Directors of Insurance Australia Group Limited:

- (a) the financial statements and notes, set out on pages 3 to 17, are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the financial position of the IAG Group as at 31 December 2002 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 27th day of February 2003 in accordance with a resolution of the Directors.

..... Director

..... Director

***Independent Auditors' Review Report to the members of Insurance Australia Group Limited***

***Scope***

We have reviewed the financial report of Insurance Australia Group Limited for the half year ended 31 December 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes and the Directors' Declaration set out on pages 3 to 18. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half year or from time to time during the half year. The Company's Directors are responsible for the financial report.

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

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

***Statement***

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2002 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**KPMG**

**Dr Andries B Terblanché**  
***Partner***

Sydney  
27th February 2003