Promina Group Limited
ASX Preliminary Final Report
31 December 2005

Contents

Promina Group Limited
Year ended 31 December 2005

Results for Announcement to the Market

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Revenue from ordinary activities	up	1.5%	to	4,728.7
Profit from ordinary activities after tax attributable to members	up	9.8%	to	504.8
Net profit for the period attributable to members	up	9.8%	to	504.8

Dividends/distributions	Amount per security	Franked amount per security
Final dividend – ordinary shares	13.0 cents	13.0 cents
Special dividend – ordinary shares	5.0 cents	5.0 cents
Semi-annual payment – reset preference shares	$2.4657	$2.4657

Record date for determining entitlements to the final dividend and special dividend re ordinary shares payable on 31 March 2006	**10 March 2006**
Record date for determining entitlements to the semi-annual payment re reset preference shares payable on 1 May 2006	**11 April 2006**

Explanation of any of the figures reported above

- The December 2005 full year financial statements are the first set of financial statements to be prepared for the consolidated entity in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards has been applied in preparing the financial statements. The date of adoption of AIFRS was 1 January 2005. All prior year comparatives in the full year financial report have been restated to be compliant with AIFRS.

- On 20 June 2005, capital to the value of $244.2 million, representing 23 cents per ordinary share was returned to shareholders in accordance with the Group's capital management strategy.

- On 7 September 2005, the Group raised net proceeds of $249.6 million relating to the issue of subordinated notes.

- Further in line with the Group’s capital management strategy, during the months of September through to November 2005, the Group participated in a $100.0 million on-market share buy back programme.

- Further information on the Promina Group result and review of operations can be found in the 31 December 2005 Promina Group Limited Investor Report available on our website at www.promina.com.au.

Revenue

- General Insurance gross written premium was $3.3 billion. Total investment revenue was $780.2 million.

Profit from ordinary activities after tax

- The General Insurance consolidated operating profit after income tax was $374.5 million (2004: $339.3 million). An underwriting profit of $186.2 million was achieved, representing a combined operating ratio ("COR") of 93.7%. This compares to $140.6 million profit achieved for the same period last year, which represented a COR of 94.9%.

- The Financial Services consolidated operating profit after income tax was $130.3 million (2004: $120.5 million).

Cash Flows

- Cash flows from operations were $703.5 million. In accordance with the Group's capital management strategy, a return of capital and an on-market share buy back programme was undertaken during the year resulting in combined net cash outflows from financing activities of $343.3 million. A subordinated note issue was undertaken on 7 September 2005 raising $249.6 million.

Dividends

- The Directors have declared a final ordinary dividend of 13.0 cents per share, 100% franked to Australian shareholders.

- The Directors have declared a further special ordinary dividend of 5.0 cents per share, 100% franked to Australian shareholders.

- The ability to pass on New Zealand imputation credits to New Zealand shareholders through the final dividend is now possible due to changes in the tax laws operating between New Zealand and Australia (Trans-Tasman Triangular Tax Relief) that were enacted at the end of 2003. The final dividend will reflect the calculation of imputation credits available to New Zealand shareholders as a proportion of Promina's total shareholder base.

Promina Group Limited
Year ended 31 December 2005

Notes to the preliminary consolidated financial statements

Material factors affecting the revenues and expenses of the economic entity for the current period

None.

Material factors affecting the assets, liabilities and equity of the economic entity for the current period

On 20 June 2005, capital to the value of $244.2 million, representing 23 cents per ordinary share was returned to shareholders in accordance with the Group's capital management strategy.

On 7 September 2005, the Group raised net proceeds of $249.6 million relating to the issue of subordinated notes.

Further in line with the Group's capital management strategy, during the months of September through to November 2005, the Group participated in a $100.0 million on-market share buy back programme.

Material factors affecting the cash flows of the economic entity for the current period

On 20 June 2005, capital to the value of $244.2 million, representing 23 cents per ordinary share was returned to shareholders in accordance with the Group's capital management strategy.

On 7 September 2005, the Group raised net proceeds of $249.6 million relating to the issue of subordinated notes.

Further in line with the Group's capital management strategy, during the months of September through to November 2005, the Group participated in a $100.0 million on-market share buy back programme.

Changes in accounting policies

The December 2005 full year financial statements are the first set of financial statements to be prepared for the consolidated entity in accordance with AIFRS. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standard has been applied in preparing the financial statements. The date of adoption of AIFRS was 1 January 2005. All prior year comparatives in the full year financial report have been restated to be compliant with AIFRS.

Fundamental errors

No fundamental errors were recorded during the financial year.

Extraordinary items

No extraordinary items were recorded during the financial year.

Reconciliation of income tax expense

Refer to attached Annual Financial Report, per note 10.

Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities

Refer to attached Annual Financial Report, per note 41.

Segment note

Refer to attached Annual Financial Report, per note 9.

Discontinuing operations

None.

Events occurring after reporting date

None.

Promina Group Limited
Year ended 31 December 2005

Supplementary Appendix 4E information

Retained Earnings

	2005 $	2004 $
Retained earnings at the beginning of the financial year	**682.0**	**422.9**
Net profit attributable to members of Promina Group Limited	504.8	459.8
Dividends provided for or paid	(237.6)	(200.7)
Retained profits at the end of the financial year	**949.2**	**682.0**

NTA Backing

	2005	2004
Net tangible asset backing per ordinary share	$2.06	$2.08

Controlled entities acquired or disposed of

Acquired	Standard Pacific Financial Services (NSW) Limited and its controlled entities
Date control gained	30 September 2005
Contribution to profit from ordinary activities after tax in current period, where material	Not material
Profit from ordinary activities after tax during the whole of the previous corresponding period, where material	N/A

Disposed of	
Date control lost	None
Contribution to profit from ordinary activities after tax in current period, where material	
Profit from ordinary activities after tax during the whole of the previous corresponding period, where material	

Promina Group Limited
Year ended 31 December 2005

Supplementary Appendix 4E information (continued)

Additional dividend information

Details of dividend declared or paid during or subsequent to the year ended 31 December 2005 with respect to ordinary shares were as follows

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
4 April 2005	2 May 2005	Final	12.0 cents	$127.0m	12.0 cents	-
14 October 2005	31 October 2005	Interim	10.5 cents	$110.6m	10.5 cents	-
10 March 2006	31 March 2006	Final	13.0 cents	$135.4m	13.0 cents	-
10 March 2006	31 March 2006	Special	5.0 cents	$52.1m	5.0 cents	-

The ability to pass on New Zealand imputation credits to New Zealand shareholders through the final dividend is possible due to changes in the tax laws operating between New Zealand and Australia (Trans-Tasman Triangular Tax Relief) that were enacted at the end of 2003. The final dividend will reflect the calculation of imputation credits available to New Zealand shareholders as a proportion of Promina's total shareholder base.

Dividend Reinvestment Plan

Promina Group’s dividend reinvestment plan will be activated in respect of the final and special dividend to be paid on 31 March 2006.

The last date to lodge notices electing to participate or varying the participation in the Group’s dividend reinvestment plan in respect of this final and special dividend is 10 March 2006.

Associates and Joint Venture entities

Name	Ownership interest		Aggregate share of profits/(losses), where material		Contribution to net profit, where material	
	2005 %	2004 %	2005 $	2004 $	2005 $	2004 $
NTI Limited	50	50	Not material	Not material	Not material	Not material
RAC Insurance Pty Ltd	50	50	Not material	Not material	Not material	Not material
Axiom Risk & Insurance Management Limited	50	50	Not material	Not material	Not material	Not material
Mariner Underwriters Limited	50	50	Not material	Not material	Not material	Not material
Comprehensive Travel Insurance (2004) Limited	50	50	Not material	Not material	Not material	Not material
AA Warranty Limited	50	N/A	Not material	N/A	Not material	N/A
AA Life Services Limited	50	N/A	Not material	N/A	Not material	N/A

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Supplementary Appendix 4E information (continued)

Other significant information
Refer to attached Investor Report.

Commentary on results
Earnings per share
There were no dilutionary effects on Earnings per Share to consider.

Returns to shareholders
Refer to Investor Report as attached.

Significant features of operating performance
Refer to Investor Report as attached.

Results of segments
Refer to note 9 of Annual Financial Report and attached Investor Report.

Trends in performance
Refer to Investor Report as attached.

Other factors that affected results in the period or which are likely to affect results in the future
None.

Audit
This report is based on accounts that have been audited.

Promina Group Limited

ABN 79 000 746 092

Annual Financial Report

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This financial report covers both Promina Group Limited as an individual entity and the consolidated entity consisting of Promina Group Limited and its controlled entities.

Promina Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Promina Group Limited
465 Victoria Avenue
Chatswood NSW 2067
Australia

Your Directors present their report on the consolidated entity consisting of Promina Group Limited ("Promina" or the "Company") and the entities it controlled at the end of, or during, the year ended 31 December 2005.

Directors

The following persons were Directors of Promina during the whole of the financial year and up to the date of this report:

Mr L E Tutt
Mr M J Wilkins
Mr A W Diplock
Ms P J Dwyer
Ms A Hynes
Mr E J Kulk
Mr G T Ricketts

Adoption of Australian equivalents to IFRS (AIFRS)

These financial statements are the first set of full year financial statements to be prepared for the consolidated entity in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements. The date of adoption of AIFRS was 1 January 2005. All prior year comparatives in the full year financial report have been restated to be compliant with AIFRS.

Principal Activities

The principal activities of the companies in the consolidated entity (also referred to as the "Group") during the course of the financial year were the underwriting of general and life insurance and the investment and administration of insurance and non-insurance funds. There has been no significant change in the nature of these activities during the year.

Review of Operations

The consolidated net profit after income tax for the year ended 31 December 2005 was $504.8 million compared with $459.8 million for the prior comparative period.

General Insurance

The General Insurance consolidated operating profit after income tax was $374.5 million, which compares favourably to the $339.3 million operating profit after income tax recorded for the prior comparative period.

Gross written premium was $3.3 billion for the year compared to $3.1 billion for the prior comparative period. The growth has been primarily driven by direct businesses through an increase in market share across all personal lines in Australia and New Zealand. The premium base for the intermediated lines of business was marginally above the prior comparative period, with strong organic growth and acquisitions in New Zealand offset by the anticipated reduction in Australian premium base.

An underwriting profit of $186.2 million was achieved, representing a combined operating ratio ("COR") of 93.7%. This compares to the $140.6 million underwriting profit achieved for the prior comparative period, which represented a COR of 94.9%. The prior year result included a $59.7 million strengthening of reserves following development in asbestos claims relating to business exited in the early 1980's, release of CTP reserves of $36.0 million and a release of $13.0 million from the exited New Zealand Workers Compensation portfolio. The underwriting result for 2005 includes a favourable impact of $98.0 million from the prior year net incurred costs. This includes material releases from provisions for the long tail classes of Compulsory Third Party (CTP), Liability and Workers Compensation, and favourable run-off against the provisions for short tail classes. The current year has experienced a higher incidence of weather related losses and the normalisation of large losses within the portfolios following a benign claims environment in the prior comparative period. The underlying result is comparable to prior year, reflecting continued innovation in products and services, superior customer service execution and a focus on the long-term strategy of prudent risk selection and pricing amidst an environment of continued competitive pressure in the commercial segments.

Investment revenue was $327.2 million compared to $329.1 million for the prior comparative period. Investment return in the prior comparative period was characterised by capital gains from falling interest rates and uplift in equities in Australia. Further, there was a net reduction in investable funds attributable to Group capital transactions in the current year, with the full year benefit of the $300.0 million proceeds of Reset Preference Shares and the issue of subordinated notes of $250.0 million in September 2005 offset by capital reduction of $244.2 million in June 2005 and share buy back of $100.0 million between September and November 2005. The reduction in investable funds in Australia was offset by higher investment income on the fixed interest portfolio from falling interest rates in New Zealand.

Review of Operations (continued)

Financial Services

The Financial Services consolidated operating profit after income tax was $130.3 million, which compares favourably to the $120.5 million profit after income tax recorded for the prior comparative period.

This improved profitability is a reflection of the continuing program of customer/adviser centric strategic initiatives and a disciplined focus on profitable business. The improvement has been derived from both the life risk, primarily in New Zealand as a result of the remediation efforts over the last two years, and wealth management businesses.

Investment income on shareholders' funds decreased marginally following a weaker earning period for Australian and New Zealand equities compared with exceptionally strong growth in the prior corresponding period. Returns from international equities were lower, however, significant turnaround was experienced in the latter half of the year.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the consolidated entity that occurred during the financial period, and which are reported in the consolidated financial statements are:

1) A return of capital to shareholders on 20 June 2005 to the value of $244.2 million, representing 23.0 cents per ordinary share. This capital reduction was in accordance with the Group's capital management strategy;
2) Vero Insurance Limited, a subsidiary of Promina, issued subordinated notes of $250.0 million in September 2005. This issue was in accordance with the Group's capital management strategy; and
3) An on-market share buy back program was undertaken in the second half of the year by Promina where 20,703,941 ordinary shares were bought. The total net share capital bought back amounted to $100.0 million.

Earnings Per Share

	Consolidated	
	2005 Cents	**2004 Cents**
Basic earnings per share	47.7	43.3
Diluted earnings per share	47.7	43.3

Matters Subsequent to the End of the Financial Year

There is, at the date of this Report, no matter or circumstance that has arisen since 31 December 2005 that has significantly affected, or may significantly affect:
(a) the consolidated entity's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the consolidated entity's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Information on likely developments in the consolidated entity's operations in future financial years, the expected results of those operations and the entity's business strategies and prospects for future financial years have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to Promina.

Dividends

Dividends paid to members during the financial year were as follows[1]

	Consolidated	
	2005 $m	**2004 $m**
Fully franked final ordinary dividend for the year ended 31 December 2004 of 12.0 cents (2003: 9.0 cents) per fully paid ordinary share paid on 2 May 2005 (2003: 15 April 2004)	127.0	94.8
Fully franked interim ordinary dividend for the half year ended 30 June 2005 of 10.5 cents (2004: 10.0 cents) per fully paid ordinary share paid on 31 October 2005 (2004: 1 November 2004)	110.6	105.9
	237.6	200.7
Dividends declared but not recognised at year end are as follows:		
Fully franked final ordinary dividend for the year ended 31 December 2005 of 13.0 cents (2004: 12.0 cents) per fully paid ordinary share to be paid on 31 March 2006 (2004: 2 May 2005)	135.4	127.0
Fully franked special ordinary dividend for the year ended 31 December 2005 of 5.0 cents (2004: Nil) per fully paid ordinary share to be paid on 31 March 2006	52.1	-

1 In accordance with AIFRS, Reset Preference Shares are classified as Financial Liabilities and "dividends" paid/payable of $16.9 million (2004: $10.7 million) in respect of these are classified as finance costs.

Information on Directors and Company Secretary

Leo Tutt, Chairman, age 67
FCA, FAIM, FAICD

Chairman of the Board Remuneration and Nomination Committee.
Member of Board Audit, Risk and Compliance Committee from January 2006.

Mr Tutt has been Chairman of Promina since its listing in May 2003. Mr Tutt was appointed Chairman in 1996 of the entity that became Promina and has been a non-executive Director of Promina and other companies within the Group in Australia since February 1994.

Prior to joining the Board of Promina, Mr Tutt was an executive Director and the Chief Executive Australasia and Asia of Rexam plc (formerly Bowater plc) of the United Kingdom, from 1978 to 1996. Mr Tutt has over 29 years' experience in the insurance sector as a non-executive Director or Chairman with Phoenix Assurance Company Australia (1974 – 1982), Chairman of Friends Provident Life Assurance Co Ltd and a Director of Friends Provident (UK) Life Office (1984 – 1994). He was formerly the chairman of MIM Holdings Limited until that company's acquisition in 2003. Mr Tutt is also Chairman of Crane Group Limited.

Michael Wilkins, Managing Director and Chief Executive Officer, age 49
BComm, MBA, DLI, FCA

Mr Wilkins has been Managing Director and Chief Executive Officer of Promina since its listing in May 2003. Mr Wilkins was appointed Managing Director in August 1999 of the entity that became Promina. Prior to this appointment, he was the Managing Director of Tyndall Australia Limited (now known as Asteron Limited), which was acquired by the then named Royal & Sun Alliance Group. Mr Wilkins had held the position of Tyndall Managing Director from April 1994 after having joined the company in 1989. Mr Wilkins has over 25 years' experience in the insurance and financial services sector and retired as President of the Insurance Council of Australia in December 2004. In July 2005, Mr Wilkins was appointed a non-executive director of Alinta Limited, a listed energy company.

Allan Diplock, Non-Executive Director, age 64
FAIBF, FAICD

Member of the Board Audit, Risk and Compliance Committee.
Member of Board Remuneration and Nomination Committee from January 2006.

Mr Diplock has been a non-executive Director of the entity that became Promina since 1996. Prior to joining the Promina Board, Mr Diplock was Chief General Manager of National Australia Bank Limited. Mr Diplock has over 40 years' experience in the banking and finance industry both in Australia and internationally. He is also a Director of Arab Bank Australia Limited and a former Director of Mercury Asset Management Limited, Victorian Plantations Corporation and AMCAL.

Paula Dwyer, Non-Executive Director, age 45
BComm, FCA, FAICD, ASIA

Chairman of the Board Audit, Risk and Compliance Committee.
Member of the Board Remuneration and Nomination Committee from January 2006.

Ms Dwyer was appointed a non-executive Director of Promina on 14 February 2003. Ms Dwyer has extensive experience in the securities, investment management and investment banking sectors. In particular, Ms Dwyer specialised in the provision of corporate financial advice to companies operating in regulated industries, including financial institutions and utilities. Ms Dwyer is also a non-executive Director of a number of other companies including Tabcorp Limited, David Jones Limited and Babcock & Brown Japan Property Management Limited.

Anna Hynes, Non-Executive Director, age 47
BSc (Hons), MBA , GAICD

Member of the Board Audit, Risk and Compliance Committee.
Member of Board Remuneration and Nomination Committee from January 2006.

Ms Hynes was appointed a non-executive Director of Promina on 6 December 2004. Ms Hynes has over 20 years' experience in marketing and general management with organisations such as Unilever, Johnson & Johnson, McKinsey & Company and Chemical Bank (JP Morgan Chase). Most recently Ms Hynes held a number of senior positions with American Express including those of Vice President/Country Manager – New Zealand, Vice President – Indonesia/Malaysia and Pakistan, Vice President – International and Vice President Consumer Marketing – Australia/New Zealand. Ms Hynes was also formerly a non-executive Director of Country Road Limited.

Information on Directors and Company Secretary (continued)

Ewoud Kulk, Non-Executive Director, age 59
BEcon

Member of the Board Remuneration and Nomination Committee.
Member of Board Audit, Risk and Compliance Committee from January 2006.

Mr Kulk was appointed a Director of the entity that became Promina in June 1994. Mr Kulk has worked for entities that now comprise the Group in Australia since 1989 and was Managing Director of the Australian General Insurance Group from 1994 to 1998. Mr Kulk was appointed Group Director, Asia Pacific for Royal & Sun Alliance Insurance Group plc in March 1998 and continued in that role until his retirement in September 2003, whereupon he became a non-executive Director of Promina. Mr Kulk is also a past president of the Insurance Council of Australia, and has over 25 years' experience in the insurance industry.

Geoffrey Ricketts, Non-Executive Director, age 60
LLB (Hons)

Member of the Board Remuneration and Nomination Committee.
Member of the Board Audit, Risk and Compliance Committee.

Mr Ricketts was appointed a non-executive Director of Promina on 14 February 2003. Prior to joining Promina, Mr Ricketts was Chairman of Royal & Sun Alliance's New Zealand ("R&SA NZ") operations, having been a non-executive Director of R&SA NZ for over ten years. Mr Ricketts is also Chairman of Lion Nathan Limited and a non-executive Director of Spotless Group Limited, Taylors Group Limited and the Todd Corporation Limited. He is also a Director of the Centre for Independent Studies. Mr Ricketts is a lawyer and a consultant for Russell McVeagh, Solicitors (Auckland and Wellington, New Zealand) and was Partner in that firm from 1973 until 2000.

Michael Blair, Company Secretary and General Counsel, age 48
DipLaw (SAB) ANZIF (Snr Assoc) LLM

Mr Blair has been the interim company secretary since 30 September 2005. Mr Blair is the General Counsel of Promina and has extensive legal, insurance and financial services experience.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Standing Committee held during the year ended 31 December 2005 and the number of meetings attended by each Director are detailed in the table below:

	Board		Board Audit Risk and Compliance Committee (BARCC)		Board Remuneration and Nomination Committee (BRNC)	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr L E Tutt	11	11	-	-	3	3
Mr M J Wilkins	11	11	-	-	-	-
Mr A W Diplock	11	11	4	4	-	-
Ms P J Dwyer	10	11	4	4	-	-
Ms A Hynes	11	11	4	4	-	-
Mr E J Kulk	10	11	-	-	3	3
Mr G T Ricketts	11	11	4	4	3	3

A Indicates the number of meetings attended during the period the Director was a member of the Board or Committee.
B Indicates the number of meetings held during the period the Director was a member of the Board or Committee.

Remuneration Report

Details of the Company's and the Group's remuneration philosophy, policies and practices together with details of Directors' and Executives' Remuneration for the year ended 31 December 2005 are as follows:

1. Overview – Remuneration Philosophy, Policies and Practices

Promina's Board of Directors has established a general philosophy on remuneration within the Group which is that fixed remuneration is benchmarked at the median, with exceptional performance recognised by incentives that target an employee's total reward into the upper quartile as compared with peers for the role performed. Within this philosophy, processes have been established to ensure that the levels and composition of remuneration are sufficient and reasonable and explicitly linked to the achievement of personal and corporate objectives. The short and long term incentive plans are specifically aligned to shareholder interests.

Promina's Board Remuneration and Nomination Committee advises the Board on remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Promina's non-executive Directors, the Managing Director, secretaries, senior managers, senior executives and certain other employees, including other group executives of the consolidated entity.

Executive remuneration and other terms of employment are reviewed annually by the Committee in conjunction with recommendations by the Managing Director, having regard to the Board's remuneration philosophy, individual and Company performance against short and long term goals set as well as other relevant comparative information. The Committee also reviews and recommends any annual payments to be made under the Group's incentive schemes.

The Committee has access to the advice of independent remuneration consultants to ensure the Group's remuneration and incentive schemes are consistent with its philosophy as well as current market practices.

Promina's remuneration and incentive policies and practices are aligned to its vision, values and overall business objectives and performance by being designed to attract and retain key Directors and employees to motivate them to pursue the long term growth and success of Promina. These policies and practices are also designed to demonstrate a clear relationship between overall Group performance, an individual's performance and his or her remuneration.

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years. In particular, the level of reward for each annual offer under the Senior Management Performance Share Plan (SMPSP) is dependent upon the performance of the consolidated entity over the previous three financial years. In addition, the Short Term Incentives (STI) Scheme is dependent on, among other things, the return on capital for the consolidated entity for the financial year under review.

Since listing in 2003, remuneration of Key Management Personnel grew at a compound annual rate of 26.9%. Against this, the Group's performance has been as follows:

- Total Shareholder Return, measured as an appreciation in share price including reinvestment of dividends, grew at a compound annual rate of 56.5% since listing on 12 May 2003 to 31 December 2005; and
- Net profit after income tax grew at a compound annual rate of 30.2% per annum from 2003 to 2005, with the 2003 result based on the pro forma result contained in the Group's 2003 Annual Report.

In the first quarter of 2003, the Board approved the introduction of the following executive and employee share plans across the Group:

- Senior Management Performance Share Plan (SMPSP)
- Australian Employee Share Purchase Plan (Deferral 2003)
- Australian Employee Share Purchase Plan (Exemption 2003)
- New Zealand Employee Share Plan

The SMPSP operates as Promina's long term incentive scheme for the Managing Director, Executives and eligible senior managers. This scheme is directly linked to shareholder wealth in that an entitlement to any performance shares is only realised upon satisfaction of a condition that Promina's total shareholder return is equal to or greater than the 50th percentile for total shareholder returns of a group of comparative companies, over the relevant three year period.

Each of the Group's share plans is designed to:

- align the interests of employees with those of Promina's shareholders by encouraging employees to acquire shares in Promina;
- create a culture of ownership and pride in Promina by encouraging employees to take an active interest in Promina's results;
- encourage executives and others who are eligible to participate in the SMPSP to adopt a longer term approach to decision making by measuring the satisfaction of performance conditions over a three year period; and
- improving retention of high performing executives and senior managers by encouraging a longer holding period until incentive entitlements vest

Remuneration Report (continued)

Details of the operation of these Plans are contained in later sections of this report.

The Company does not operate any other incentive share acquisition or share option plans on behalf of the Managing Director, executives and other employees.

Non-executive Directors do not participate in these or any other share acquisition or incentive plans operated by the Group (other than the Dividend Reinvestment Plan open to all qualifying Promina shareholders).

2. Non-Executive Directors

Promina's Constitution provides that non-executive Directors are entitled to such remuneration as they determine, but that the total amount provided to all Directors for their services as Directors must not exceed in the aggregate in any financial year the amount set out in Promina's Constitution or such higher amount as may be fixed by shareholders in a general meeting. This amount currently stands at $1.5 million (2004: $1.5 million).

Promina's non-executive Directors currently receive fees plus, where applicable, a superannuation benefit equal to 9% of fees received except for Mr Kulk who does not receive any superannuation benefit (see "Details of remuneration" below).

On the recommendation of the Board Remuneration and Nomination Committee, which received external independent advice, Directors have set non-executive Directors' remuneration, excluding the Chairman, at $124,800 per annum (2004: $120,000 per annum), inclusive of any Superannuation payment. The Chairman receives $312,000 per annum (2004: $300,000 per annum) also inclusive of Superannuation. These fees are benchmarked in March each year against fees paid by similar companies in the S&P/ASX 100 index to ensure relativities are maintained, and best practice adhered to, in the composition of non-executive Directors' remuneration.

Non-executive Directors have not received any fees in addition to those set out above in respect of other duties performed or services provided within the scope of the ordinary duties of a Director (such as Board Standing Committee membership), do not receive bonuses or any other incentive payments or retirement benefits and are not eligible to participate in any of the executive or employee share acquisition plans established by Promina. However, non-executive Directors are reimbursed for expenses properly incurred in performing their duties as a Director of Promina.

3. Executives

The objective of Promina's executive reward system is to ensure remuneration for performance is competitive and appropriate for the results delivered.

The process is designed to follow best practice by aligning executive rewards to individual performance, as well as measures of economic returns to Promina and increased shareholder value.

Remuneration packages, known as Total Employment Cost (TEC), include a base (or fixed) salary, superannuation, and other minor fringe benefits. In addition, executives and certain senior managers can participate in both short and long term performance based incentive schemes.

Executives' base pay structure is targeted to the median level compared with their peers, with the ability to achieve upper quartile status through the short and long term incentive schemes rewarding superior performance.

The Managing Director and Chief Executive Officer of Promina, Mr M J Wilkins, does not receive fees for his service on the Board. The responsibilities of Board membership are considered in determining remuneration provided as part of Mr Wilkins' normal employment conditions.

Promina has granted conditional entitlements to Promina's ordinary shares to the Managing Director, Executives and other eligible senior managers who participate in the SMPSP. Participants will become eligible to receive these ordinary shares at the end of the relevant performance period upon the satisfaction of specific performance hurdles. Set out below are the conditional entitlements to Promina's ordinary shares granted during the year under the SMPSP to the Key Management Personnel of the Group. The entitlements specified in the table below indicate the maximum number of shares to which each participant may become entitled in each of the years. Each participant may become entitled to a lesser number of shares depending on the extent to which the performance criteria are satisfied.

Remuneration Report (continued)

	Conditional Entitlements (Number of Shares)	
	2005	**2004**
Executive Director		
Mr M J Wilkins	120,000	171,559
Other current Key Management Personnel		
Mr R H Bell	61,883	77,212
Mr R C Belleville	71,704	93,578
Mr H G Bentley	81,522	106,422
Mr D P Fox	71,941	93,578
Mr D G West	73,539	96,330
Officers who ceased to be Key Management Personnel during the year[1]		
Mr J H English	67,698	88,991
Mr R A Flannagan	61,569	77,212
Mr M A Good	69,180	93,578
Mr D H Richards	59,970	73,394

1 Messrs Flannagan, Good and Richards continue with the Group but ceased to be Key Management Personnel on 31 August 2005 due to changes in the Group Executive management team announced on that date. Mr English ceased to be employed by the Group on that date. This disclosure relates to the period during which they were Key Management Personnel.

4. Short Term Incentive (STI) Scheme

Promina Group has established a STI scheme whereby currently its Managing Director and Executives can earn a cash payment of up to 120% of their TEC, subject to the satisfaction of specific conditions. Eligible senior managers can also participate in the STI up to a maximum of 60% of TEC, subject to the satisfaction of specific conditions. Participation in the scheme is on an annual basis.

A participant's entitlement to an STI payment is based on the following components:
- achievement of Personal Performance objectives that are relevant to meeting Promina's business objectives;
- achievement of the Promina Financial Performance target; and where applicable; and
- achievement of an individual's business unit Financial Performance target.

For the 2005 year, the Group Financial Performance target is a 9.5% Return on Capital (ROC), which equates to Promina's cost of capital. Below this threshold return, no entitlement to this component of a participant's STI is achieved. ROC of 150% of this cost of capital, or 14.25%, is considered an outstanding performance, which entitles a participant to 100% of this component of their STI payment. Between 9.5% and 14.25% ROC, a participant's entitlement increases on a straight line basis.

5. Senior Management Performance Share Plan (SMPSP)

Promina's SMPSP, introduced in the first quarter of 2003, acts as Promina's long term incentive scheme for its Managing Director, Executives and other eligible senior managers.

Under the SMPSP participants are offered conditional entitlements to ordinary shares of Promina Group Limited each year. These entitlements are conditional upon the satisfaction of performance conditions measured over a three year period.

The maximum potential value of entitlements offered to participants under the SMPSP is between 20% and 60% of their TEC (based on the share price on the first trading day of the performance period), depending on each role, responsibility and level of seniority within the Group. The maximum potential value of entitlements will vary over time in accordance with the price for Promina's ordinary shares. The number of employees eligible to participate in the SMPSP will also vary due to qualifying reasons and the addition of, or cessation of employment of, participants over the performance period. Accordingly, the maximum number of shares that may be issued under SMPSP is dependent upon the conditional entitlements held and the degree to which the performance conditions at the end of the performance period have been satisfied.

Remuneration Report (continued)

Promina's Board, on the advice of external remuneration consultants, has determined that two performance conditions will be imposed on the entitlement to receive shares under the SMPSP being:

a) an external measure based on total shareholder returns (TSR); and
b) an internal measure based on Promina's return on capital (ROC) measured against its cost of equity (in 2003 when Promina was debt free) and against its weighted average cost of capital in 2004 and in 2005 (when debt had been incurred).

The satisfaction of each condition is given an equal weighting in terms of the total number of shares to which a participant may be entitled.

TSR is the total return to shareholders provided by share price appreciation and reinvested dividends expressed as a percentage of investment. Under this condition Promina's TSR is measured against the TSR of each company in a comparator group (being the ASX Top 100 companies excluding mining and resource companies, property and investment companies and trusts) over the three year period.

Promina's TSR ranking will determine whether there is any entitlement to shares under this measure. An entitlement under this external measure will only arise if Promina's TSR ranking is at or above the 50th percentile of the comparator group. Below the 50th percentile no entitlement to shares is achieved. At the 50th percentile an entitlement is created to 25% of the shares subject to this performance condition. At the 75th percentile or above the entitlement is to the full 50% portion of the offered shares. Between the 50th percentile and 75th percentile participants are entitled to shares on a straight line basis.

The performance period for the external component is 12 May 2003 to 31 December 2005 for the first tranche, 1 January 2004 to 31 December 2006 for the second tranche and 1 January 2005 to 31 December 2007 for the third tranche of conditional entitlements.

ROC is the internal component assessed by comparing Promina's return on capital against its cost of equity (COE) for the 2003 tranche and against its weighted average cost of capital (WACC) for the 2004 and 2005 tranches.

For the purposes of the initial offer of conditional entitlements that was made in 2003, Promina's COE was set at 10% and for both the second offer made in 2004 and the third one in 2005, WACC was set at 9.5% as adjusted by Promina Treasury from time to time.

An achievement of a ROC 10% higher than Promina's COE/WACC is the threshold level of performance for this component of the Plan.

Achievement of a ROC of this threshold level, will entitle a participant to 10% of the offered shares.

An achievement of a ROC of 50% or above the COE/WACC will be regarded as an exceptional level of performance and will create an entitlement to the full 50% of the offered shares.

Between the threshold of 10% and a ROC of 50% above the COE/WACC, participants will become entitled to shares on a straight line basis.

The performance period for the internal component is 1 January 2003 to 31 December 2005 for the first tranche, 1 January 2004 to 31 December 2006 for the second tranche and 1 January 2005 to 31 December 2007 for the third tranche of conditional entitlements awarded.

Prior to satisfaction of the performance conditions any shares acquired will be held on trust. Upon satisfaction of the performance conditions, the participant becomes beneficially entitled to the shares, and enjoys the rights attaching to the shares subject to the terms and conditions of the SMPSP but will only be entitled to sell or transfer their shares on the earliest of the following:

- the tenth anniversary of 1 July of the year in which the Executive or senior manager became a SMPSP participant in respect of the particular shares;
- the time when the participant ceases to be employed by any company in the Group;
- after a capital event (as described in the SMPSP rules) has occurred and the participant notifies the trustee that he or she wishes to sell or transfer the shares; and
- the Board approves a sale or transfer following a request from a participant.

The SMPSP rules provide for the sale or transfer of the shares once the disposal restrictions cease to apply.

If the Board determines that a participant has acted fraudulently or dishonestly or is in serious breach of duty to a company within the Group, or if in the Board's reasonable opinion, the participant has brought a company within the Group into serious disrepute, any share entitlements of the participant and any other entitlements under the SMPSP are forfeited by the participant.

Remuneration Report (continued)

In the event of a reorganisation of capital, a participant's conditional entitlement to shares may be adjusted, as set out in the SMPSP rules. The SMPSP rules also set out what will happen to the participant's entitlements in the case of a capital event (generally a takeover or a scheme of arrangement) and if Promina conducts a rights issue or bonus issue.

Where a participant ceases to be employed by a company within the Group because of a "qualifying reason" prior to satisfaction of the performance conditions, any entitlements of the participant to any offered shares will be pro-rated in accordance with the rules and allocated subject to the relevant performance criteria over the reduced performance period.

"Qualifying reasons" include death, total and permanent disability or redundancy, cessation of employment with the Group because the employer company ceases to be part of the Group or sells its business, and any other reason determined by the Board. Where a participant ceases to be employed by a company within the Group, other than because of a "qualifying reason", prior to satisfaction of the performance conditions any conditional entitlements held by the participant to any shares will automatically lapse.

No payment will be required from the participant upon allocation of shares or upon the grant of the conditional entitlements to shares.

If the performance conditions are not met within the performance period, the conditional entitlement to the offered shares will lapse.

Conditional entitlements to 2,707,257 ordinary shares of Promina were granted to the Managing Director, executives and eligible senior managers during the year ended 31 December 2005 (2004: 3,429,049 conditional entitlements granted).

No shares have been issued under the SMPSP to the Managing Director or to any other participants since the Plan's inception in 2003. No Promina ordinary shares were purchased on market during the year ended 31 December 2005 for the purposes of the SMPSP. In 2004, 4,256,891 ordinary shares were purchased on market in anticipation of conditional entitlements for the 2003 tranche being satisfied at a total cost $15.0 million. Promina shares purchased for this purpose are being held in the SMPSP Trust until the entitlements vest.

Conditional entitlements to 1,199,723 ordinary shares (2004: 292,341 ordinary shares) were either forfeited or converted to ordinary shares in satisfaction of a qualifying reason in respect of former participants in the SMPSP who left the Group's employ during the year. No additional ordinary shares were issued by Promina in respect of the conditional entitlements that were converted. These entitlements were satisfied by the transfer of 598,526 Promina ordinary shares to the former participants (or, at their option, the sale of those shares on their behalf) previously held in the SMPSP Trust at no additional cost to the Group.

The total number of conditional entitlements on issue as at 31 December 2005 was 10,415,206 (2004: 8,942,901 conditional entitlements).

6. Other Equity Schemes in Promina

As previously disclosed in this report, Promina has two Australian and one New Zealand employee share plans in operation which were introduced in the first quarter of 2003.

The two Australian plans are the Exemption Plan and the Deferral Plan. It is the Board's current intention that shares offered under each of these Plans be acquired on market rather than satisfied by issues of new shares to participants.

The Exemption Plan is a share purchase plan pursuant under which offers are made to eligible Australian based employees (but not to non-executive Directors) to acquire shares at a discount to market (currently 10%) under a salary sacrifice arrangement of up to $1,000 tax free per annum in accordance with current Australian tax legislation. Shares acquired under the Plan must be held in the Plan for a minimum of three years (or earlier cessation of employment with the Group) during which time the shares are subject to a restriction on disposal but otherwise holders generally enjoy the same rights and benefits as other holders of Promina's ordinary shares.

The Deferral Plan is a share purchase plan pursuant to which offers are made to eligible Australian based employees (but not to non-executive Directors) to acquire shares at a discount to market (currently 10%) under a salary sacrifice arrangement. This Plan enables participants to defer tax on the value of shares acquired in accordance with current Australian tax legislation.

Remuneration Report (continued)

Shares purchased on behalf of, or issued to, participating employees under the Deferral Plan are held by a Trustee on behalf of the participant. The Board of Promina has determined that shares acquired under this Plan are subject to disposal restrictions such that a participant is not entitled to deal in the shares acquired for a period of three years from the date of acquisition (or earlier cessation of employment with the Group) but may continue to have their shares held on trust beyond the three year period until the earlier of the following:

a) the tenth anniversary of 1 July prior to becoming a Deferral Plan participant in respect of the particular shares;
b) the time when the participant ceases employment with the Group;
c) the occurrence of a capital event (as defined in the Plan rules) and the participant notifying the trustee that he or she wishes to sell or transfer the shares; and
d) the Board approving a sale or transfer of shares following a request from the participant.

In addition shares acquired under the Deferral Plan are subject to conditions that could result in the participant forfeiting ownership of the shares. Under this Plan if the participant is dismissed for cause, has acted fraudulently or dishonestly, is, in the Board's reasonable opinion, in serious breach of duty to a company within the Group or has brought a company within the Group into serious disrepute, the participant's shares and any other entitlements under the Deferral Plan are forfeited. If a participant in the Deferral Plan requests a sale or transfer of his or her shares, the Board will consider whether the forfeiture conditions have been breached before determining whether to approve or reject the request. If the request is rejected the shares are forfeited.

Both sets of Plan rules provide for the sale or transfer of the shares once the disposal restrictions cease to apply. A participant may make a written request to the Board to cease to be a participant at any time. Participation ceases after the Board accepts the request for cessation. A participant shall also cease to be a participant upon ceasing to be an "eligible employee" under a Plan. The Plan rules set out the process that is followed once an employee ceases to participate in the relevant Plan.

Under each Plan, financial assistance may be provided to participants or the Trustee for the purpose of acquiring shares. Financial assistance may include making a loan, setting the acquisition price for shares at a discount to current market price or inviting employees to sacrifice salary or bonus in return for shares. Currently no loans have been provided to acquire shares in either of the two Plans but the acquisition price for shares for the participant has been set at a 10% discount to the market price at the date of acquisition of the shares. Participants can also apply any cash bonus received to acquire additional shares under the Deferral Plan, but the acquisition price will not be discounted by 10% for shares acquired using these bonuses.

If Promina is subject to takeover or other similar business arrangement, the Board may determine either that Promina must do all things necessary on its own part to ensure that the participant is provided with shares in the acquiring company, its parent or other relevant entity in substitution for the shares acquired under a Plan, or that participants may participate directly in the takeover in respect of their shares.

Eligible Australian employees may participate in either the Exemption Plan or the Deferral Plan but not both in any one income tax year.

The New Zealand plan is a general employee tax exempt share purchase plan through which eligible New Zealand based full-time and permanent part-time employees (but not non-executive Directors) are offered the opportunity to purchase Promina shares.

Shares may be offered under the Plan at a discount to market price, as an approved DF7 Plan under the Income Tax Act 1974, in which case any discount benefit will not be subject to income tax. Shares acquired under the Plan must be held for three years (or earlier upon cessation of employment in some circumstances) and must be sold by the Trustee if employment ceases on the grounds of resignation or termination with cause during the period. During this three year period shares will be held on trust on behalf of participating employees and are subject to restrictions on transfer and sale. While shares are held on trust, the Trustee may exercise any voting rights attaching to the shares. Participants have in general all other rights and entitlements attaching to the shares, including the right to dividends in respect of shares held on trust on their behalf.

Promina may, but is not required to, provide financial assistance for the acquisition of shares under the New Zealand Plan. The financial assistance may take the form of a loan. Since inception of the Plan no loans have been provided to any participant in the Plan, however financial assistance in the form of a discount on the acquisition price of shares, pre-tax remuneration arrangements and the payment of leaving bonuses to certain participants has been provided.

Remuneration Report (continued)

7. Details of Remuneration

Details of remuneration of Key Management Personnel of the consolidated entity, including their personally-related entities, are set out in the following tables.

2005

Name	Short term benefits: Cash, salary and fees [1] $	Short term benefits: Cash bonus[2] $	Short term benefits: Non-monetary benefits [3] $	Post-employment benefits: Pension and Superannuation benefits[4] $	Other long-term benefits [4] $	Termination benefits $	Share based payments: Equity settled; share and units; options and rights[5] $	Total remuneration $
Non-Executive Directors								
Mr L E Tutt	283,318	-	13,153	25,499	-	-	-	321,970
Mr A W Diplock	113,327	-	-	10,199	-	-	-	123,526
Ms P J Dwyer	113,327	-	22,897	10,199	-	-	-	146,423
Ms A Hynes	113,327	-	-	10,199	-	-	-	123,526
Mr E J Kulk	123,526	-	-	-	-	-	-	123,526
Mr G T Ricketts	113,327	-	-	10,199	-	-	-	123,526
Executive Director								
Mr M J Wilkins	1,050,638	1,210,000	30,070	11,862	17,758	-	455,332	2,775,660
Executives								
Mr R H Bell	384,730	499,068	15,866	68,265	-	-	217,802	1,185,731
Mr R C Belleville	465,750	579,470	13,744	75,917	10,752	-	259,288	1,404,921
Mr H G Bentley	506,963	629,200	10,600	91,787	10,077	-	291,322	1,539,949
Mr D P Fox	529,805	574,100	35,700	11,862	9,661	-	262,563	1,423,691
Mr D G West	491,337	606,600	10,700	65,330	9,911	-	263,964	1,447,842
Officers who ceased to be Key Management Personnel during the year Pro-rated to 31st August 2005 [6]								
Mr J H English	286,480	-	7,133	44,442	-	1,673,244	163,698	2,174,997
Mr R A Flannagan	299,609	-	3,522	-	-	-	146,723	449,854
Mr M A Good	342,092	-	7,133	7,908	8,828	-	174,324	540,285
Mr D H Richards	258,512	-	7,133	33,155	7,495	-	137,151	443,446

Remuneration Report (continued)

2004

	Short term benefits			Post-employment benefits			Share based payments	
Name	Cash, salary and fees [1] $	Cash Bonus [2] $	Non-monetary benefits [3] $	Pension and Superannuation benefits[4] $	Other long-term benefits[4] $	Termination benefits $	Equity settled; share and units; options and rights[5] $	Total remuneration $
Non-Executive Directors								
Mr L E Tutt	259,986	-	7,886	23,399	-	-	-	291,271
Mr A W Diplock	105,772	-	-	9,520	-	-	-	115,292
Ms P J Dwyer	145,772	-	-	13,120	-	-	-	158,892
Mr E J Kulk	115,292	-	-	-	-	-	-	115,292
Mr G T Ricketts	105,772	-	-	9,520	-	-	-	115,292
Ms J L Chugg (Resigned 30/7/04)	61,313	-	-	5,518	-	-	-	66,831
Ms A Hynes (Appointed 6/12/04)	6,351	-	-	572	-	-	-	6,923
Executive Director								
Mr. M J Wilkins	932,889	1,045,000	9,365	11,294	15,867	-	254,336	2,268,751
Executives								
Mr R H Bell	354,681	475,992	5,404	62,674	-	-	113,607	1,012,358
Mr R C Belleville	431,792	530,400	-	66,382	9,478	-	137,090	1,175,142
Mr H G Bentley	476,234	609,000	9,365	85,402	9,687	-	153,070	1,342,758
Mr J H English	407,074	480,150	8,161	63,319	8,101	-	130,012	1,096,817
Mr R A Flannagan	419,348	441,374	4,357	-	-	-	115,745	980,824
Mr D P Fox	501,330	550,800	10,586	11,294	8,518	-	139,496	1,222,024
Mr M A Good	495,346	561,000	9,086	11,294	8,518	-	138,705	1,223,949
Mr D H Richards	341,196	432,000	9,853	43,809	6,681	-	105,839	939,378
Mr D G West	446,402	577,500	9,365	59,669	8,769	-	139,012	1,240,717

1 Reflects the total remuneration package consisting of both basic salary and packaged benefits, which could otherwise be taken as cash.

2 Reflects performance based remuneration paid/payable in respect of the current financial year. Officers who ceased to be Key Management Personnel during the year did not become entitled to profit sharing or other bonuses in their capacity as Key Management Personnel.

3 In the case of Mr Wilkins and other executives, non-monetary benefits include car parking, payment for health checks, club membership and similar expenses. The amount disclosed includes applicable fringe benefits tax. For Non-executive Directors, Mr Tutt was provided with office accommodation and car parking and Ms Dwyer attended a short program on Governance at Harvard University in Boston USA.

4 Mr Wilkins and the other executives (other than Messrs Bell and Flannagan) are entitled to Long Service Leave at the rate of 43.33 days paid leave after 10 years' service (and a further 21.66 days for every 5 years thereafter) or, with the consent of the Company, the cash equivalent of that entitlement based on the executive's TEC at the time the payment is made. If the executive is terminated after 5 years' service other than for retirement, resignation, fraud or wilful misconduct, the executive is entitled to a pro rata payment for the period of employment as a termination payment. The amount disclosed represents the amount that would have been payable to the executive had his employment been terminated on the last day of the period.

5 These amounts represent the disclosure of the fair value of conditional entitlements to Promina Group Limited's ordinary shares under the Senior Management Performance Share Plan (SMPSP) in the above table has been based upon guidelines issued by ASIC in June 2003. These guidelines have regard to AASB 2 *Share-based Payment* issued by the Australian Accounting Standards Board (AASB). The fair value calculation was also conducted in accordance with the requirements of the Guidance Note GN510, Valuation Share Based Payments, issued by the Institute of Actuaries of Australia.

6 Messrs Flannagan, Good and Richards continue with the Group but ceased to be Key Management Personnel on 31st August 2005 due to changes in the Group Executive management team announced on that date Mr English ceased to be employed by the Group on that date. This disclosure relates to the period during which they were Key Management Personnel.

Remuneration Report (continued)

The conditional entitlements granted under the SMPSP have been valued using the Monte Carlo simulation technique. This technique takes into account a number of factors including the entitlement's exercise price, the expected life of the entitlement, the current price of the underlying share, the expected volatility of the underlying share price, the dividends expected on the underlying share, the risk free interest rate for the life of the entitlement and the probability of the performance hurdles being reached, in determining the fair value of the entitlements. In accordance with these standards and guides, each year a portion of the fair value of these conditional entitlements is included in the remuneration of senior managers for disclosure purposes.

8. Other Benefits

Fees paid by Promina for Directors' and Officers' liability insurance are not itemised for each Director and, as their disclosure would breach the terms of the policy, they are not set out in this report. Executives and Directors (including non-executive Directors) are entitled to insurance and other financial services from Promina Group companies generally on the same terms and conditions as the staff of the Group company concerned. This includes discounts on services and the provision of some services (for example Secure Sentinel and superannuation administration) at no charge. The value of these benefits (if any) is not set out in this report.

9. Employment Agreements

Promina's executives are listed below. The executives' terms of employment are detailed in agreements evidenced by formal employment agreements or, in the case of two executives, other documents that are in the process of being replaced by such formal employment agreements. Each agreement is of continuing duration and has no set term of service (subject to the termination provisions in the agreement).

Each agreement covers (in addition to other standard matters) the relevant executives':
- general duties;
- remuneration and other benefits; and
- termination of employment and termination benefits.

Under each agreement, remuneration and other benefits are determined on the TEC basis (including applicable Company superannuation) referred to above. Remuneration is reviewed annually by the Board.

The employer may generally terminate an executive's employment without notice or payment in lieu of notice in the case of serious and wilful misconduct by the executive or in certain other circumstances. The employer may otherwise terminate the executive's employment (including in the case of redundancy) with eighteen months notice (or payment in lieu of such notice), except in the cases of Mr M J Wilkins where twenty-four months' notice is required, Mr R H Bell where it is one hundred and sixteen weeks and Mr D G West where six months notice is required.

The termination benefit generally consists of such notice or payment in lieu plus the executives' STI on a pro rated basis, accrued leave benefits and, if applicable, for nine months the benefit of any staff relocation mortgage subsidies - except in the cases of Mr R H Bell who is in addition entitled to certain extra pension entitlements and Mr D G West where the benefit consists of (a) the greater of (i) three weeks remuneration for each year of service and (ii) annual remuneration less any payment in lieu of notice and (b) a possible extra superannuation benefit. An executive may terminate their employment on three months notice, except in the cases of Mr R A Flannagan who must give eighteen months notice and Mr D G West who must give two months notice.

Name	Position	Superannuation benefit
Key Management Personnel		
Mr M J Wilkins	Managing Director and Chief Executive Officer	9.0% of Total Remuneration capped at the maximum salary upon which superannuation must be paid by law (currently $33,720 per quarter). Therefore, the maximum contribution by the Company is currently $12,319 per annum. Superannuation payments are made by the Company out of Mr Wilkins' Total Employment Cost (see above).
Mr R H Bell	Chief Executive Vero (New Zealand)	Company contributions on the New Zealand Defined Benefits Fund were 20.0% of 90.0% of Total Remuneration.
Mr R C Belleville	Chief Executive AAMI	Company contributions on the AAMI Defined Benefits Fund were 16.3% of Total Remuneration.
Mr H G Bentley	Chief Financial Officer	Company contributions on the Promina Defined Benefits Fund were 20.3% of 90.0% of Total Remuneration.
Mr D P Fox	Chief Executive Asteron	9.0% of Total Remuneration capped at the maximum salary upon which superannuation must be paid by law (currently $33,720 per quarter). Therefore, the maximum contribution by the Company is currently $12,319 per annum. Superannuation payments are made by the Company out of Mr Fox's Total Employment Cost (see above).
Mr D G West	Chief Executive Vero (Australia)	Company contributions on the Promina Defined Benefits Fund were 14.9% of 90.0% of Total Remuneration.

Remuneration Report (continued)

Name	Position	Superannuation benefit
Officers who ceased to be Key Management Personnel during the year[1]		
Mr J H English	Chief Executive, Corporate and Strategic Services	Company contributions on the Promina Defined Benefits Fund were 17.4% of 90.0% of Total Remuneration.
Mr R A Flannagan	Chief Information Officer	There were no superannuation contributions made for Mr Flannagan who is based in New Zealand.
Mr M A Good	Chief Executive Asset Management	9.0% of Total Remuneration capped at maximum salary upon which superannuation must be paid by law (currently $33,720 per quarter). Therefore, the maximum contribution by the Company is currently $12,319 per annum. Superannuation payments are made by the Company out of Mr Good's Total Employment Cost (see above).
Mr D H Richards	Chief Executive Direct Insurance (Australia)	Company contributions on the Promina Defined Benefits Fund were 14.5% of 90.0% of Total Remuneration.

10. Equity Instrument Held by Key Management Personnel

Share holdings

Name of Director	Balance at the start of the year	Changes during the year	Balance at the end of the year
Directors of Promina Group Limited			
Ordinary shares			
Mr L E Tutt	118,450	16,009	134,459
Mr M J Wilkins	616,154	38,788	654,942
Mr A W Diplock	30,000	10,000	40,000
Ms P J Dwyer	10,000	15,000	25,000
Mr E J Kulk	25,200	-	25,200
Mr G T Ricketts	52,411	2,452	54,863
Ms A Hynes	-	5,000	5,000
Reset Preference Shares			
Mr M J Wilkins	750	-	750
Ms P J Dwyer	300	(300)	-
Executives			
Ordinary shares			
Mr R H Bell	2,489	177	2,666
Mr R C Belleville	7,814	1,554	9,368
Mr H G Bentley	194,800	10,028	204,828
Mr D P Fox	359,817	13,498	373,315
Mr D G West	10,143	1,130	11,273
Reset Preference Shares			
Mr H G Bentley	500	-	500
Officers who ceased to be Key Management Personnel during the year[1]			
Mr J H English	74,523	200,972	275,495
Mr R A Flannagan	209	10	219
Mr M A Good	34,096	-	34,096
Mr D H Richards	13,478	2,104	15,582

1 Messrs Flannagan, Good and Richards continue with the Group but ceased to be Key Management Personnel on 31 August 2005 due to changes in the Group Executive management team announced on that date. Mr English ceased to be employed by the Group on that date. This disclosure relates to the period during which they were Key Management Personnel.

11. Loans to Key Management Personnel

Nil.

Remuneration Report (continued)

12. Other Transactions with Key Management Personnel

Nil.

13. Directors' Interests

Particulars of Directors' relevant interests in shares of Promina or a related body corporate, in debentures of (or interests in a registered scheme made available by) Promina or a related body corporate and their rights or options over any such shares, debentures or registered scheme interests as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the *Corporations Act 2001*, as at the date of this report are as follows:

Director	Ordinary Shares	Reset Preference Shares	Conditional Entitlements to Shares		
			2003	2004	2005
Mr L E Tutt	134,459	-	-	-	-
Mr M J Wilkins	660,200	750	283,333	171,559	120,000
Mr W A Diplock	40,000	-	-	-	-
Ms P J Dwyer	25,000	-	-	-	-
Ms A Hynes	5,000	-	-	-	-
Mr E J Kulk	25,200	-	-	-	-
Mr G T Ricketts	54,863	-	-	-	-

Mr Wilkins participates in Promina's Senior Management Performance Share Plan (SMPSP), Promina's Australian Employee Share Purchase Plan (Deferral 2003) and Promina's Australian Employee Share Purchase Plan (Exemption 2003).

For the period from 1 January 2005 to the date of this report Mr Wilkins acquired 26,712 ordinary shares in Promina through his participation in the Australian Employee Share Purchase Plan (Deferral 2003), 67,404 shares in 2004 and 23,593 shares in 2003. In 2003, Mr Wilkins received 200 shares through his participation in the Australian Employee Share Purchase Plan (Exemption 2003). These shares remain in this Plan and Mr Wilkins does not have any other participation in this Plan.

No shares have been issued to Mr Wilkins, or to any other participant under the SMPSP since its inception in 2003.

However, during the year ended 31 December 2005, Mr Wilkins was granted conditional entitlements under the SMPSP to up to 120,000 shares. Shareholders approved the grant of up to 120,000 shares at Promina's Annual General Meeting on 29 April 2005.

Promina's non-executive Directors do not participate in any share purchase plans operated by Promina other than the Dividend Reinvestment Plan on the same terms and conditions as are available to other Promina shareholders.

No Director has entered into any contract under which the Director is entitled to a benefit and that confers a right to call for or deliver shares in, or debentures of or interests in a registered scheme made available by Promina or a related body corporate other than Mr Wilkins, details of which are provided above.

14. Options over Unissued Shares

No options over unissued shares or interests of Promina or any of its controlled entities were granted during, or since, the year ended 31 December 2005.

No options over unissued shares or interests of Promina or any of its controlled entities were granted to any of the Directors or to any of the Key Management Personnel of the Company, and no options were granted during or since the year ended as part of their remuneration.

No unissued shares or interests of Promina or any of its controlled entities are under option as at the date of this report.

No shares in Promina or any of its controlled entities were issued during or since the year ended 31 December 2005 as a result of the exercise of an option over unissued shares.

Other Directorships

Details of all directorships of other listed companies held by each Director in the 3 years immediately before 31 December 2005 and the period for which each directorship was held are as follows:

Director	Company	Date Appointed	Date Ceasing
Mr L E Tutt	Crane Group Limited	14/09/2001	Current
	MIM Holdings Limited	17/07/1991	24/6/2003
Mr M J Wilkins	Alinta Limited	18/07/2005	Current
Ms P J Dwyer	Babcock & Brown Japan Property Trust[1]	19/02/2005	Current
	David Jones Limited	25/11/2003	Current
	Tabcorp Holdings Limited	30/08/2005	Current
Ms A Hynes	Country Road Limited	05/02/2003	31/01/2006
Mr G T Ricketts	Lion Nathan Limited	13/06/1998	Current
	Spotless Group Limited	08/07/1996	Current
	Taylors Group Limited[2]	13/01/1992	Current

1 A Listed Managed Investment Scheme, Ms Dwyer is a Director of the unlisted Responsible Entity (trustee).
2 Listed on the New Zealand Stock Exchange.

Indemnities and Insurance Premiums

The Company's Constitution contains an indemnity for current or former Directors, Alternate Directors and executive officers of the Company and such other current or former officers of the Company or its related bodies corporate as the Promina Directors in each case determine. Under the Constitution, a person acting in the above capacity is indemnified to the full extent permitted by law for liabilities to another party (other than the Company or its related bodies corporate) incurred by that person as an officer of the Company, its subsidiaries, related bodies corporate or joint venture companies. The Constitution provides that the Company will also meet the reasonable legal costs incurred in respect of certain legal proceedings. The indemnity is subject to certain limitations.

The Company has in addition executed deeds of access, indemnity and insurance with employees who are Directors and Secretaries of the Company, subsidiaries, related bodies corporate and joint venture companies which provide an indemnity to the full extent permitted by law for liabilities incurred by that person as an officer of the Company, its subsidiaries, related bodies corporate or joint venture companies. The deeds provide that the Company will also meet the reasonable legal costs incurred in respect of certain legal proceedings. The deeds are subject to certain conditions and limitations. The Company has during the financial year maintained or arranged to maintain insurance contracts indemnifying current or former Directors, Secretaries and certain other officers of the Company. Disclosure by the Company of the amount of the insurance premium and the nature of the liabilities covered by the insurance contracts is prohibited by the relevant contract of insurance.

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit and non-audit services to any entity that is part of the consolidated entity provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Board Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- Non-audit services have been reviewed by the Board Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2005 $'000	2004 $'000
Assurance services		
1 Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
Audit or review of financial reports of the Company or any entity in the consolidated entity	1,934.5	1,647.0
Fees paid to related practices of PricewaterhouseCoopers Australian firm	1,546.4	1,161.7
Fees paid to non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the consolidated entity	-	1.2
Total remuneration for audit services of the consolidated entity	3,480.9	2,809.9
2 Other assurance services		
Fees paid to PricewaterhouseCoopers Australian firm:		
Audit of regulatory returns	473.0	367.9
Other services	135.9	94.6
AIFRS accounting advice	173.3	487.9
Fees paid to related practices of PricewaterhouseCoopers Australian firm	152.5	48.0
Fees paid to non-PricewaterhouseCoopers audit firms	8.3	-
Total remuneration for other assurance services of the consolidated entity	943.0	998.4
Total remuneration for assurance services of the consolidated entity	4,423.9	3,808.3
Taxation services		
Fees paid to PricewaterhouseCoopers Australian firm	99.1	278.4
Total remuneration for taxation services of the consolidated entity	99.1	278.4
Advisory services		
PricewaterhouseCoopers Australian firm:		
Due diligence services	-	82.0
Other services	190.0	275.5
Fees paid to related practices of PricewaterhouseCoopers Australian firm	20.3	65.0
Total remuneration for advisory services of the consolidated entity	210.3	422.5
Total remuneration for services provided to the consolidated entity	**4,733.3**	**4,509.2**
Audit services of non-consolidated registered schemes and funds		
Fees paid to PricewaterhouseCoopers Australian firm	818.0	773.0
Fees paid to related practices of PricewaterhouseCoopers Australian firm	182.0	181.0
Total audit services of non-consolidated registered schemes and funds	1,000.0	954.0
Total remuneration of auditors	**5,733.3**	**5,463.2**

Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation.

Rounding of Amounts

The entity is of a kind referred to in the ASIC Class Order 98/0100 relating to the "rounding off" of amounts in the Directors' report. Amounts have been rounded off in the Directors' report in accordance with that Class Order to the nearest tenth of a million dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors.

L E Tutt
Chairman

M J Wilkins
Director

Sydney, 28 February 2006

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Promina Group Limited for the year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Promina Group Limited and the entities it controlled during the period.

RChowdry

R Chowdry
Partner
PricewaterhouseCoopers

Sydney
28 February 2006

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Audit opinion

In our opinion:

1. the financial report of Promina Group Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Promina Group Limited and the Promina Group Limited Group (defined below) as at 31 December 2005, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

2. the remunerations disclosures that are contained in pages 7 to 17 of the Directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and Class Order 06/50 issued by the Australian Securities and Investments Commission.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and Directors' responsibility

The financial report comprises the Balance Sheet, Income Statement, Cash Flow statements, Statement of Changes in Equity, accompanying notes to the financial statements, and the Directors' declaration for both Promina Group Limited (the Company) and the Promina Group Limited Group (the consolidated entity), for the year ended 31 December 2005. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Company has disclosed information about the remuneration of Directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 7 to 17 of the Directors' report, as permitted by the Class Order 06/50.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the Directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and Class Order 06/50. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and Class Order 06/50.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

R Chowdry

R Chowdry
Partner

Sydney
28 February 2006

Liability limited by a scheme approved under Professional Standards Legislation

In the Directors opinion:

1 the financial statements and notes set out on pages 25 to 105 are in accordance with the *Corporations Act 2001*, including:

a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

b) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

3 the audited remuneration disclosures set out on pages 7 to 17 of the Directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and Class Order 06/50 Issued by the Australian Securities and Investments Commission.

The Directors' have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporation Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

L E Tutt
Chairman

M J Wilkins
Director

Sydney, 28 February 2006

PROMINA GROUP LIMITED
INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated		Parent entity	
		2005	**2004**	**2005**	**2004**
		$m	**$m**	**$m**	**$m**
General Insurance					
Premium revenue	5(a)	3,205.9	3,063.3	-	-
Outwards reinsurance premium expense	6	(265.6)	(316.1)	-	-
Net premium revenue		**2,940.3**	**2,747.2**	**-**	**-**
Claims expense	13(a)	(1,986.5)	(1,989.4)	-	-
Reinsurance and other recoveries revenue	5(a)	49.3	137.0	-	-
Net claims incurred	**13(b)**	**(1,937.2)**	**(1,852.4)**	**-**	**-**
Acquisition costs		(607.7)	(563.1)	-	-
Other underwriting expenses		(209.2)	(191.1)	-	-
Underwriting expenses		**(816.9)**	**(754.2)**	**-**	**-**
General Insurance underwriting result		**186.2**	**140.6**	**-**	-
Investment revenue	5(a)	327.2	329.1	253.6	269.1
Share of net profit of associates and joint ventures	21(a)	15.5	20.2	-	-
Fee for service and other income	5(a)	30.2	36.3	-	-
Other expenses		(31.8)	(43.1)	(0.5)	(4.8)
General Insurance result from operating activities		**527.3**	**483.1**	**253.1**	**264.3**
Financial Services					
Insurance premium revenue	5(b)	416.3	395.4	-	-
Outwards reinsurance premium expense		(96.7)	(99.0)	-	-
Net premium revenue		**319.6**	**296.4**	**-**	**-**
Investment revenue	5(b)	453.0	450.1	-	-
Fee income & other revenue	5(b)	150.9	131.8	-	-
		603.9	581.9	-	-
Net revenue		**923.5**	**878.3**	**-**	**-**
Claims expense		(241.0)	(230.0)	-	-
Reinsurance recoveries	5(b)	95.9	113.7	-	-
Net claims incurred		**(145.1)**	**(116.3)**	**-**	**-**
Acquisition costs		(82.0)	(85.4)	-	-
Maintenance expenses		(151.3)	(145.9)	-	-
Investment management and non statutory funds expense		(114.7)	(104.8)	-	-
Changes in policy liabilities		(200.5)	(228.1)	-	-
		(548.5)	(564.2)	-	-
Financial Services result from operating activities		**229.9**	**197.8**	**-**	**-**
Finance costs	7	(28.3)	(10.7)	(17.1)	(11.7)
Net profit for the year from ordinary activities before income tax		**728.9**	**670.2**	**236.0**	**252.6**
Income tax (expense)/benefit	10	(221.8)	(207.5)	0.6	(0.2)
Net profit for the year from ordinary activities after income tax		**507.1**	**462.7**	**236.6**	**252.4**
Net profit attributable to minority interests		(2.3)	(2.9)	**-**	-
Net profit for the year from ordinary activities after tax attributable to members of Promina Group Limited		**504.8**	**459.8**	**236.6**	**252.4**

Earnings per share for profit attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	11	47.7	43.3
Diluted earnings per share	11	47.7	43.3

The above Income Statements should be read in conjunction with the accompanying notes.

PROMINA GROUP LIMITED
BALANCE SHEETS
AS AT 31 DECEMBER 2005

	Note	Consolidated		Parent entity	
		2005	2004	2005	2004
		$m	$m	$m	$m
Assets					
Cash and cash equivalents	14	264.6	330.6	4.3	1.8
Receivables	15	653.9	619.1	184.8	409.5
Financial assets at fair value through profit or loss	16(a)	8,442.3	7,754.6	-	-
Reinsurance recoveries on outstanding claims liabilities and other recoveries	19	583.5	624.8	-	-
Reinsurance recoveries - life insurance policyholder liabilities	30(a)	190.2	183.3	-	-
Deferred reinsurance premiums - General Insurance		70.8	77.5	-	-
Investment properties	18	4.1	3.7	-	-
Deferred acquisition costs	20	277.1	275.0	-	-
Investments in associates and joint ventures	21(a)	108.6	104.7	-	-
Investments in controlled entities		-	-	1,945.6	1,945.6
Plant and equipment	23	66.0	56.6	-	-
Deferred tax assets	10(d)	95.4	87.2	-	-
Intangible assets	24(a)	282.7	277.5	-	-
Other assets	22	116.7	109.5	4.2	5.5
Total assets		**11,155.9**	**10,504.1**	**2,138.9**	**2,362.4**
Liabilities					
Payables	25(a)	380.7	406.2	293.3	175.8
Current tax liabilities		39.1	33.6	33.8	36.5
Financial liabilities	25(b)	671.0	421.2	314.0	314.0
Unearned premium liabilities	26	1,710.1	1,621.9	-	-
Outstanding claims liabilities	27(a)	2,803.9	2,701.0	-	-
Life insurance policy liabilities	30(a)	2,859.3	2,644.5	-	-
Employee benefit obligations	29(a)	75.3	73.6	-	-
Deferred tax liabilities	10(d)	152.4	101.8	0.3	-
Total liabilities		**8,691.8**	**8,003.8**	**641.4**	**526.3**
Net assets		**2,464.1**	**2,500.3**	**1,497.5**	**1,836.1**
Equity					
Share capital	31(a)	1,445.9	1,790.1	1,445.9	1,790.1
Treasury shares	38(c)	(12.2)	(15.3)	-	-
Reserves	32(a)	39.6	27.2	118.1	110.7
Retained profits/(accumulated losses)	32(b)	949.2	682.0	(66.5)	(64.7)
Parent entity interest		**2,422.5**	**2,484.0**	**1,497.5**	**1,836.1**
Minority interests		41.6	16.3	-	-
Total equity		**2,464.1**	**2,500.3**	**1,497.5**	**1,836.1**

The above Balance Sheets should be read in conjunction with the accompanying notes.

PROMINA GROUP LIMITED
STATEMENTS OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2005

	Note	Consolidated		Parent entity	
		2005	2004	2005	2004
		$m	$m	$m	$m
Total equity at the beginning of the year		**2,500.3**	**2,203.4**	**1,836.1**	**1,771.4**
Profit for the year after tax		507.1	462.7	236.6	252.4
Cash flow hedge reserve	32(a)	(0.3)	(1.7)	(0.3)	(1.7)
Foreign currency translation reserve	32(a)	7.2	35.8	-	-
Total recognised income and expense for the year		514.0	496.8	236.3	250.7
Transactions with equity holders in their capacity as equity holders:					
Ordinary shares issued	31(b)	-	10.6	-	10.6
Capital reduction	31(b)	(244.2)	-	(244.2)	-
Share buy back	31(b)	(100.0)	-	(100.0)	-
Treasury shares	38(c)	3.1	(15.3)	-	-
Share plan reserve	32(a)	5.5	4.8	7.7	4.8
Dividends paid	12(a)	(237.6)	(200.7)	(238.4)	(201.4)
Minority interests		23.0	0.7	-	-
		(550.2)	(199.9)	(574.9)	(186.0)
Total equity at the end of the year		**2,464.1**	**2,500.3**	**1,497.5**	**1,836.1**
Total recognised income and expenditure for the year is attributable to:					
Members of the parent entity		511.7	493.9	236.3	250.7
Minority interests		2.3	2.9	-	-
		514.0	**496.8**	**236.3**	**250.7**

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

PROMINA GROUP LIMITED
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated		Parent entity	
		2005	2004	2005	2004
		$m	$m	$m	$m
Cash flows from operating activities					
General Insurance					
Premiums received		3,270.4	3,055.8	-	-
Outwards reinsurance paid		(253.6)	(329.9)	-	-
Claims paid		(1,886.6)	(1,692.9)	-	-
Reinsurance and other recoveries received		81.5	138.5	-	-
Payments to suppliers and employees		(857.5)	(734.6)	-	-
Interest received		240.0	243.8	0.3	1.7
Dividends received		51.3	35.3	253.3	198.3
Finance costs paid		(2.7)	-	-	-
Income tax (paid)/refund		(101.2)	(132.9)	-	0.7
Financial Services					
Premiums received on life insurance and investment contracts		729.7	730.3	-	-
Outwards reinsurance paid		(93.8)	(99.4)	-	-
Policy payments		(529.4)	(499.1)	-	-
Reinsurance recoveries received		106.1	130.9	-	-
Payments to suppliers and employees		(259.0)	(250.4)	-	-
Agent commissions and bonuses paid		(78.6)	(78.6)	-	-
Interest received		93.1	84.7	-	-
Dividends received		125.3	73.9	-	-
Other income received		145.5	118.9	-	-
Finance costs paid		(6.3)	-	-	-
Income tax paid		(70.7)	(42.2)	-	-
Net cash flows from operating activities	41	**703.5**	**752.1**	**253.6**	**200.7**
Cash flows from investing activities					
Payment for purchase of businesses, net of cash acquired	37(b)	(4.8)	(58.4)	-	-
Capital reduction from associates		4.0	-	-	-
Proceeds from sale or part sale of interest in controlled entities, net of cash disposed	37(c), 43(b)(iv)	23.1	2.0	-	-
Net cash received from controlled entities		-	-	346.5	-
Investment in controlled entities		-	-	-	(294.6)
Payments for financial assets		(12,512.0)	(20,807.7)	-	-
Proceeds from sale of financial assets		11,995.3	20,021.6	-	-
Proceeds from sale of plant and equipment		2.9	3.9	-	-
Purchases of plant, equipment and capitalisation of software costs		(34.8)	(27.3)	-	-
Net cash flows from investing activities		**(526.3)**	**(865.9)**	**346.5**	**(294.6)**
Cash flows from financing activities					
Proceeds from issue of Reset Preference Shares		-	300.0	-	300.0
Reset Preference Share issue transaction costs		(0.1)	(6.3)	(0.1)	(6.3)
Capital repatriation from controlled entity		-	-	-	300.0
Loan to controlled entity		-	-	-	(300.0)
Capital reduction and share buy back		(343.3)	-	(344.2)	-
Proceeds from issue of subordinated notes		249.6	-	-	-
Subordinated notes transaction costs		(1.4)	-	-	-
Proceeds from borrowings		103.2	16.5	-	-
Purchase of treasury shares	38(c)	-	(15.3)	-	-
Dividends paid on ordinary shares		(237.6)	(190.0)	(238.5)	(190.8)
Finance costs paid on Reset Preference Shares		(14.8)	(7.5)	(14.8)	(7.5)
Net cash flows from financing activities		**(244.4)**	**97.4**	**(597.6)**	**95.4**

PROMINA GROUP LIMITED
CASH FLOW STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2005

		Consolidated		Parent entity	
		2005	2004	2005	2004
	Note	$m	$m	$m	$m
Net increase/(decrease) in cash and cash equivalents held		**(67.2)**	**(16.4)**	**2.5**	**1.5**
Cash and cash equivalents at beginning of financial year		330.6	343.0	1.8	0.3
Effect of exchange rate changes on cash and cash equivalents		1.2	4.0	-	-
Cash and cash equivalents at end of financial year	14	**264.6**	**330.6**	**4.3**	**1.8**

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements **Page**

1 Summary of Significant Accounting Policies

This general purpose financial report for the year ended 31 December 2005 has been prepared in accordance with Australian equivalents International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group interpretations corresponding to the interpretations approved by the International Accounting Standards Board (IASB) and the *Corporations Act 2001*.

a) Basis of preparation of the full year financial report

The principal accounting policies adopted in the preparation of the general purpose financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

This general purpose financial report is the Group's first full year financial report prepared in accordance with AIFRS'. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Group until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Group's financial report for the year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. Comparative figures have been restated to reflect these adjustments. Reconciliations and descriptions of the effect of transition from AGAAP to AIFRS on the Group's equity and its net income are provided in note 44.

Where necessary, prior year comparatives have been reclassified to facilitate more meaningful comparison.

b) Application of Interpretation 112 of the Urgent Issues Group

In 2004, the Urgent Issues Group of the AASB amended the scope of Interpretation 112 *Consolidation – Special Purpose Entities* to include equity compensation plans from 1 January 2005. Accordingly, the Senior Management Performance Share Plan Trust (SMPSP Trust) has been consolidated into the Group's financial statements from this date. Comparative figures have been restated to reflect this adjustment.

(i) Early adoption of standard

The Group has elected to apply the revised AASB 119 *Employee Benefits* to the reporting periods beginning 1 January 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(ii) Application of exemptions

The Group has not applied the exemption available under AASB 1 in respect of restatement of comparatives for AASB 4 *Insurance Contracts*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1023 *General Insurance Contracts and* AASB 1038 *Life Insurance Contracts*. The Group has taken the exemption available under AASB 1 to prospectively apply AASB 3 *Business Combinations* from 1 January 2004.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, and investment properties, policyholder liabilities of life operations, outstanding claims liabilities of General Insurance operations and employee entitlements which are at present value.

The accompanying Balance Sheets have been prepared using the liquidity format of presentation.

The Company is of a kind referred to in the ASIC *Class Order 98/0100* relating to the "rounding off" of amounts in the financial report. Amounts have been rounded off to millions in the financial report in accordance with that class order.

All amounts are presented in Australian dollars, which is the Group's presentation currency, unless otherwise stated.

1 Summary of Significant Accounting Policies (continued)

(iv) Australian Accounting Standards issued but not yet effective

The AASB has issued the following amendments to Australian Accounting Standards:

	Title	Operative Date
2005-1	Amendments to Australian Accounting Standard (AASB 139)	1 January 2006
2005-5	Amendments to Australian Accounting Standards (AASB 1 and AASB 139)	1 January 2006
2005-6	Amendments to Australian Accounting Standards (AASB 3)	1 January 2006
2005-7	Amendments to Australian Accounting Standards (AASB 134)	30 June 2005
2005-9	Amendments to Australian Accounting Standards (AASB 4, AASB 1023, AASB 139 and AASB 132)	1 January 2006
2005-10	Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 January 2007
AASB 7	Financial instruments: Disclosures	1 January 2007

These amendments are not effective for the annual reporting period ended 31 December 2005 and have not been applied in preparing the Group's financial statements. These standards impact on disclosure only. The Group will apply these standards for the annual reporting periods beginning on or after the operative dates set out above.

c) Principles of consolidation

(i) Subsidiaries

The consolidated financial report incorporates the assets and liabilities of all subsidiaries of the Company as at 31 December 2005 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(x)).

Where control of an entity is obtained during a financial year, its results are included in the financial statements from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

The effects of all transactions between entities in the consolidated entity are eliminated in full.

Minority interests (previously referred to as outside equity interests) in the results and equity of controlled entities are shown separately in the financial statements.

The financial statements of life insurance subsidiaries, comprising policyholder funds and shareholders' funds are included in the consolidated financial report on a line by line basis, except for the following, which are separately identified in the Group's Balance Sheet:
a) Reinsurance recoveries – life insurance policyholder liabilities; and
b) Life insurance policyholder liabilities

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent to 50 per cent of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's Income Statements, while in the consolidated financial statements they reduce the carrying amount of the investment.

1 Summary of Significant Accounting Policies (continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(iii) Joint venture operations

The proportionate interests in the assets, liabilities, revenue and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

Significant accounting policies applicable to General Insurance activities only

d) Principles of General Insurance business

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The General Insurance activities of the Group consist of all transactions arising from writing General Insurance contracts.

e) Premium revenue

Primary and inwards reinsurance premium comprises amounts charged to the policyholders or insurers, including fire service levies, but excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is accounted for based upon the pattern of processing renewals and new business.

Premium is earned in accordance with the expected pattern of risk insured and is pro-rated daily over the term of the policy except for the lenders mortgage business where premium is earned from the date of attachment of risk, using the Wisconsin method over an 11 year period. The earning pattern is unchanged from prior years.

The portion not earned as determined by the above methods is classified in the Balance Sheet as unearned premium (see note 1(i)).

A liability for fire brigade and other charges is recognised on business written up to the reporting date. Levies and charges payable are expended on the same basis as the recognition of premium revenue. The portion relating to unearned premium is treated as a prepayment.

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

Where unbundling of multi-year reinsurance contracts into insurance and deposit components is required, the deposit component is treated as either a financial asset or liability and is designated at fair value through profit and loss.

f) Claims

Claims expense represents payment for claims and the movement in outstanding claims liabilities.

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claim payments and associated claim handling costs in respect of claims reported but not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER).

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. Features and trends of claim experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present values by applying risk free discount rates.

A risk margin is added to the net central estimate in determining the net outstanding claims liabilities. The risk margin increases the probability that the net outstanding claims liabilities ultimately prove to be adequate.

1 Summary of Significant Accounting Policies (continued)

g) Reinsurance and other recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, incurred but not reported claims (IBNR), incurred but not enough reported claims (IBNERs) and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

h) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Income Statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the General Insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

i) Unearned premium liabilities

Unearned premium liability is determined by apportioning the premium written over the period from date of attachment of risk to the expiry of the policy term.

Liability adequacy testing is performed in order to recognise any deficiencies in the Income Statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

j) NSW Workers Compensation Statutory Funds

During 2005, a controlled entity, Vero Workers Compensation (NSW) Limited (“VWC”) was licensed under the New South Wales Workers’ Compensation Act 1987 (“the Act”) and maintained statutory funds for workers compensation insurance.

The Act was amended during 2005 to provide for the creation of a ‘nominal insurer’ and the establishment of a statutory fund maintained by the nominal insurer. The statutory fund maintained by VWC was transferred to the nominal insurer and VWC was appointed as a temporary agent of the nominal insurer. VWC has ceased to act as a temporary agent for the nominal insurer since 31 December 2005.

The application of the statutory funds by VWC was restricted to the payment of claims, related expenses and other payments authorised under the Act. VWC is not liable for any deficiency in the funds, or entitled to any surplus. Accordingly, the statutory funds are of a separate and distinct nature and the income and expenses of the statutory funds are excluded from the Income Statement and the assets and liabilities of the statutory funds have been excluded from the Balance Sheet.

Significant accounting policies applicable to Financial Services activities only

k) Principles of life insurance business

The life insurance operations of the Group comprise the selling and administration of life insurance and life investment contracts. Life insurance contracts include products regulated by the *Life Insurance Act 1995* that involve the acceptance of significant insurance risk. Products regulated by the *Life Insurance Act 1995* that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts are all contracts regulated by the *Life Insurance Act 1995* that do not involve the acceptance of significant insurance risk. They include investment-linked contracts where the benefit amount is directly linked to the market value of the investment held in the particular investment-linked fund. While the underlying assets are registered in the name of the entity and the investment-linked policyholder has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the fund’s investment performance. The entity derives fee income from the administration of investment-linked policies and funds.

Policy contracts that include both investment and insurance elements are separated into these two elements, when practicable and when components can be reliably measured, and reported accordingly.

1 Summary of Significant Accounting Policies (continued)

l) Premium revenue

Premiums are separated into their revenue and deposit business components. Premium revenues with regular due dates are recognised as revenue on an accrual basis. Premium revenues with no due date are recognised as revenue on a cash received 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 receivables in the Balance Sheet.

m) Fee Income and investment revenue

Fees received for asset management and fund management business are recognised as revenue in the accounting periods in which the services are rendered.

Income received from holders of investment contracts that relate to an investment management or service element of that contract are recognised in the Income Statement as revenue over the period that reflects the pattern of service provided to the contract holder.

n) Claims expense

Incurred claims are recognised as expenses in the Income Statement. Claims are recognised in the Income Statement when the company is notified of the insured event and the liability to the policyholder under the contract has been established.

o) Policy liabilities

(i) Life insurance policy liabilities

Policy liabilities, arising from insurance contracts, are measured at the net present value of estimated future cash flows and planned margins. Policy liabilities are remeasured periodically and changes are recognised in the Income Statement in a manner that allows for the systematic release of planned margins over a period that reflects the services provided to, and premiums received from, the policyholders.

(ii) Liability adequacy test

Expected future cash flows are reviewed to establish the present value of estimated future expenses for the group of related products against the present value of estimated future revenues. Where there is a shortfall in the liabilities, a loss is recognised in the Income Statement in the reporting period in which the assessment is made.

(iii) Life investment policy liabilities

Policy liabilities, arising from life investment contracts, are designated at fair value through profit or loss.

p) Deferred acquisition costs

(i) Life insurance contracts

The costs incurred in acquiring specific life insurance contracts include adviser fees, commission payments, underwriting costs, application processing costs, relevant advertising costs, and promotion of products and related activities.

Life acquisition costs are deferred provided that these amounts are recoverable out of future product margins. The deferred amounts are recognised in the Balance Sheet as a reduction in policy liabilities and are amortised through the Income Statement over the expected duration of the relevant policies.

(ii) Life investment contracts

Incremental costs incurred in selling new life investment contracts are deferred. These deferred incremental costs or transaction costs are recognised in the Balance Sheet as deferred acquisition costs and are amortised as the revenue to which those costs relate is recognised.

1 Summary of Significant Accounting Policies (continued)

q) Acquisition and maintenance expenses

Expenses are incurred in relation to the acquisition and maintenance of life insurance and life investment contracts, in addition to expenses incurred with respect to investment management and other administrative activities. Acquisition costs are the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies. Investment management costs include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio. All other expenses are considered to be maintenance costs incurred to administer existing life insurance and life investment contracts.

Indirect costs for life insurance and life investment contracts are apportioned across the acquisition, maintenance and investment management expense categories in accordance with the requirements of Division 2 Part 6 of the Life Act. To carry out this apportionment, discussions are held with the cost centre managers to determine the proportions that relate to the various business activities. Statistics, such as policy counts, annual premiums, funds under management and claims payments, are used to apportion the expenses to individual life insurance and life investment products.

Significant accounting policies applicable to all companies in the Group.

r) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Australian dollars, which is the Company’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement.

(iii) Group companies

The results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

s) Finance costs

Finance costs include interest on financial liabilities (borrowing costs) and amortisation of discounts or premiums and transaction costs relating to borrowings.

t) Financial assets at fair value through profit or loss

(i) Financial assets backing General Insurance liabilities and policy liabilities

Assets backing General Insurance liabilities and assets in the life statutory funds are segregated from other assets.

Financial assets are held to back General Insurance liabilities on the basis that these assets are valued at fair value in the Balance Sheet. All financial assets held in life statutory funds are valued at fair value in the Balance Sheet.

Financial assets backing General Insurance liabilities consist of liquid and high quality investments such as cash and fixed income securities. Financial assets backing policy liabilities are invested to reflect the nature of the policy liabilities.

The management of financial assets, General Insurance liabilities and policy liabilities are closely monitored to ensure that investments are appropriate given the expected pattern of future cash flows arising from General Insurance liabilities and policy liabilities.

1 Summary of Significant Accounting Policies (continued)

(ii) Other financial assets

All other financial assets, including related derivatives, that are outside the statutory policyholder funds and are not backing General Insurance activities, are designated at fair value through profit or loss upon initial recognition.

Derivatives not designated as hedging instruments, are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value, with any resulting gain or loss recognised in the Income Statement.

Securities sold under agreements to repurchase (repurchase agreements) are retained within the investment portfolio and the obligation to repurchase is included in the Balance Sheet as financial liabilities.

The net amount receivable or payable under swap agreements is progressively brought to account over the period and included in other assets or payables at each reporting date.

(iii) Determination of fair value

Fair value for the various types of financial assets is determined as follows:

Cash assets and bank overdrafts – at face value of the amounts deposited or drawn;
Listed, government and semi government securities – by reference to quoted bid price;
Unlisted equity securities – at valuation based on recent arm's length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis and other pricing models; and
Freehold land and buildings – at valuation based on independent valuations.

(iv) Recognition and de-recognition

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset.

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the consolidated entity has transferred substantially all risks and rewards of ownership.

u) Investment properties

Investment properties are held to earn rental income and/or capital appreciation. They are initially recorded at cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition, and subsequently measured at fair value at the Balance Sheet date.

Gains or losses arising from changes in the fair value of investment property are included in the Income Statement, as part of investment revenue, for the period in which they arise.

v) Financial liabilities

(i) Financial liabilities arising from investment contracts

Financial liabilities arising from investment contracts are measured at fair value based on future settlement amount under the contract. Changes to the fair value are recognised in the Income Statement in the period in which they occur.

(ii) Reset Preference Shares (RPS)

RPS are classified as financial liabilities based on certain redemption, buy back and cancellation trigger clauses contained in the RPS offering. The RPS is measured at amortised cost using the effective interest rate method. RPS distributions are classified as a finance cost.

An interest rate swap contract associated with the RPS qualifies for cash flow hedge accounting. The movement in the net swap position is recorded as other assets or payables, with an equivalent amount recorded in equity as a reserve.

(iii) Subordinated notes

Subordinated notes are measured at amortised cost using the effective interest rate method. Interest payments and accruals in relation to subordinated notes are classified as finance costs.

1 Summary of Significant Accounting Policies (continued)

(iv) Other borrowings

Other borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

w) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets (finance leases), and operating leases under which the lessor effectively retains substantially all such risks and benefits. Operating lease payments are charged to the Income Statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

x) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price at the date of exchange unless it is demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1 (ac)). If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

y) Taxation

(i) Income tax

Promina Group Limited, as the head entity in the tax consolidation group, recognises current tax amounts relating to transactions, events and balances of the controlled entities in the Group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under the terms of the Tax Sharing Agreement with the tax consolidated entities are recognised separately as amounts receivable or payable. Expenses and revenues arising under the Tax Sharing Agreement are recognised as a component of income tax expense or benefit.

(ii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of receivables and payables.

(iii) Deferred tax

Deferred tax is provided in full, using the Balance Sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated Balance Sheet.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled, with deferred tax assets recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred taxes attributable to amounts recognised directly in equity are recognised in equity.

1 Summary of Significant Accounting Policies (continued)

z) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, other short-term highly liquid investments with original maturities of three months or less, deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within financial liabilities in the Balance Sheet unless there exists a right of offset.

aa) Receivables

Amounts due from policyholders, intermediaries and other receivables are recognised at the amounts receivable. A provision for impairment of receivables is established when there is objective evidence that the consolidated entity will not be able to collect amounts receivable according to the original terms of the receivables. The impairment charge is recognised in the Income Statement.

ab) Plant and equipment

Plant and equipment are carried at cost, less any subsequent accumulated depreciation and impairment losses. The depreciation periods used range from 3 to 10 years.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

ac) Intangibles

(i) Goodwill

The consolidated entity uses the purchase method of accounting to account for the acquisition of subsidiaries. Where an entity or operation is acquired, the cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The identifiable net assets acquired, including other intangibles, are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired, including other intangibles, represents goodwill. Goodwill on acquisitions of controlled subsidiaries is brought to account as goodwill, or included in the value of the investment in associate for the acquisition of an associate.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the consolidated entity’s investment in each country of operation by each primary reporting segment or at a lower level at which goodwill can be separately identified. Goodwill is tested for impairment at least annually or earlier if there is any evidence to suggest potential impairment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Other intangible assets

Other intangible assets are non-monetary assets other than goodwill with no physical substance, that are separately identifiable, controlled by the consolidated entity and have future economic benefits.

Where the intangible asset is deemed to have indefinite life, it is not amortised but tested for impairment at least on an annual basis. If it is deemed to have finite useful life, it is to be amortised over its useful life and tested for impairment whenever there is an indication that the asset may be impaired.

ad) Impairment of assets

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. Any resultant write-down is recognised as an expense in the reporting period in which it occurs, unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expensed.

The recoverable amount is the higher of an asset’s fair value, less direct selling costs, and its value in use. In assessing the value-in-use of assets, the relevant cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable operational cash flows (cash generating units).

1 Summary of Significant Accounting Policies (continued)

ae) Payables

Payables represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid.

af) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the capital reduction of shares are shown in equity as an addition to the payment to shareholders.

ag) Treasury shares

The consolidated entity operates several senior management performance share plans. A Trust has been set up to manage the purchase of shares for the plans and forms part of the consolidated entity.

Where the Trust purchases the parent entity's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the parent entity's equity holders until the shares are cancelled, reissued or disposed. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the parent entity's shareholders.

ah) Employee benefits

(i) Superannuation commitments

All employees of the consolidated entity are entitled to benefits on retirement, disability or death from the Group's superannuation plans. The Group has defined benefit plans and defined contribution plans. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary. The defined contribution plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to the Income Statement. Past service costs are recognised immediately in the Income Statement.

Future costs that are funded by the consolidated entity and are part of the provision of the existing benefit obligation (eg taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

For defined contribution plans, the consolidated entity pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary bases. The consolidated entity has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation

The consolidated entity operates several share-based compensation plans. The fair value of the employee services received in exchange for the entitlement to shares is recognised as an expense, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares at grant date.

The fair value at grant date is determined using the Monte Carlo simulation technique that takes into account the current share price, the expected dividend stream, the risk adjusted discount rate to apply to the dividend stream, the volatility of the share price and the vesting and performance criteria.

The fair value of the conditional entitlements granted excludes the impact of non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of conditional entitlements that are expected to vest. At each Balance Sheet date, the consolidated entity revises its estimate of the number of conditional entitlements that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

The fair value of the discount paid by the consolidated entity for shares purchased by employees under employee share purchase plans is charged to the Income Statement in the year the shares are purchased.

1 Summary of Significant Accounting Policies (continued)

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The consolidated entity recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after Balance Sheet date are discounted to present value.

(iv) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave are recognised, and are measured at the present value of the amounts expected to be paid when the liabilities are settled.

(v) Long service leave provision

A liability for long service leave is recognised, and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

ai) Segment reporting

(i) Business segment

Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns. Two reportable segments have been identified under General Insurance, being Direct and Intermediated insurance business. Financial Services is reported as a distinct segment.

(ii) Geographical segment

The consolidated entity operates in two main geographic areas, Australia, being the country of domicile of the parent entity, and New Zealand.

aj) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the 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 financial 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.

ak) Dividends

A provision is made for the amount of any dividend declared, by the Directors on or before the end of the financial period but not distributed at balance date.

2 Critical Accounting Estimates and Judgements

Significant estimates and judgements are made by the consolidated entity to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modelling techniques.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

a) Uncertainty over estimate of claims expense provision arising from general insurance contracts

The estimation of outstanding claim liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claim payments and claim handling costs incurred to the reporting date. Each class of business is usually examined separately and some or all of the following will be considered for each class in projecting future claim payments:

(i) Historical trends in the development and incidence of the number of claims reported, number of claims finalised, claim payments and reported incurred costs;
(ii) Exposure details, including policy counts, sums insured, earned premiums and policy limits;
(iii) Claim frequencies and average claim sizes;
(iv) The legislative framework, legal and court environments and social and economic factors that may impact upon each class of business;
(v) Historical and likely future trends in standard inflationary pressures relating to commodity prices and wages;
(vi) Historical and likely future trends of inflationary pressures in addition to price or wage inflation, termed superimposed inflation;
(vii) Historical and likely future trends of expenses associated with managing claims to finalisation;
(viii) Reinsurance recoveries available under contracts entered into by the insurer;
(ix) Historical and likely future trends of recoveries from sources such as subrogation and third party actions; and
(x) Insurer specific, relevant industry data and more general economic data is utilised in the estimation process.

Projected future claim payments and associated claim handling costs are discounted to a present value as required using appropriate risk free discount rates. A projection of future claims payments, both gross and net of reinsurance and other recoveries, is undertaken.

This projection is typically made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities that has an approximately equal chance of proving adequate as not. Where possible and appropriate, multiple actuarial methods will be applied to project future claim payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a blend of methods, is selected taking into account the characteristics of the class of business and the extent of the development of each past accident period.

As an estimate of future outcomes, the net central estimate of outstanding claims liabilities is subject to uncertainty. This uncertainty may consist of one or more of the following components:

- *Modelling*
  The process of managing and finalising claims is a complex one. Actuarial models represent a simplification of this complex process giving rise to the possibility that the actual future outcomes may depart from the modelled outcome.

- *Assumption selection*
  Even with the perfect model, assumptions about future claim payment experience must be drawn from limited past data and are subject to sampling error.

- *Evolution of assumptions*
  Some assumptions will be subject to changes over time due to external sources, such as changes to the legislative environment and the economic environment, or internal sources such as claim management practices.

- *Random variation*
  There is a certain amount of residual randomness that drives differences between actual and expected outcomes.

2 Critical Accounting Estimates and Judgements (continued)

Uncertainty from the above sources is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis.

The long tail classes of Compulsory Third Party (CTP), Workers Compensation and Liability have the highest volatilities of the insurance classes as the longer average time to settle provides a greater opportunity for sources of uncertainty to emerge. Short tail classes such as Motor, Home and Contents and Property have lower levels of volatility.

As the volatility for each class of business is partially correlated with other classes, when combined across the entire company, the overall volatility will be less than the sum of the individual classes.

With an estimate of the overall volatility for general insurance business, a range of risk margins associated with a probability of the total net provision for outstanding claims liabilities proving adequate may be produced.

b) Uncertainty over valuation of life insurance policyholder liabilities

Policy liabilities arising from life insurance contracts are computed at each reporting date using statistical and mathematical methods that are expected to give approximately the same results as if an individual liability was calculated for each contract. The valuations are prepared by suitably qualified personnel on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in actuarial standards and guidance. The methodology takes into account the risks and uncertainties of the particular classes of business written.

The key factors that affect the estimation of these liabilities are:

(i) The cost of providing benefits and administering these insurance contracts;
(ii) Mortality and morbidity experience on individual and group life insurance products; including enhancements to benefits to policyholders and other amounts arising from regulatory interventions;
(iii) Persistency experience, which affects the Group’s ability to recover the cost of acquiring new business over the lives of the contracts;
(iv) Other factors such as regulation, competition, interest rates, taxes, the performance of the capital markets and general economic conditions.

As with general insurance liabilities, the uncertainties surrounding these assumptions means that it is likely that the actual observed claims incidence will vary from the liability estimated at the reporting date.

Refer to note 3 for more details on valuation of policyholder liabilities and the assumption applied.

c) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the consolidated entity may not receive amounts due to it and these amounts can be reliably measured.

3 Actuarial Assumptions and Methods

a) General insurance contracts

(i) Assumptions

The following assumptions have been made in determining net outstanding claims liabilities:

	2005		2004	
	Direct	**Intermediated**	**Direct**	**Intermediated**
Weighted average term to settlement (years)	2.9	5.5	2.7	5.3
Inflation rate	4.0%	3.9%	4.0%	3.9%
Superimposed inflation rate	4.0%	3.0%	4.0%	3.0%
Discount rate	5.3%	5.3%	5.3%	5.4%
Discounted mean term (years)	2.5	3.7	2.4	3.6
Claim handling expense ratio	5.5%	5.8%	5.6%	5.8%
Risk margin	16.7%	22.6%	16.3%	22.6%
Ultimate loss ratios				
2005	73.9%	51.2%		
2004	68.9%	47.8%	69.9%	49.9%
2003	68.8%	46.2%	69.7%	47.2%
2002	66.7%	51.6%	67.6%	52.6%
2001	73.6%	60.9%	74.8%	60.3%

(ii) Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

(1) Average weighted term to settlement

The average weighted term to payment is calculated separately by class of business and is based on historic settlement patterns.

(2) Inflation

Insurance costs are subject to inflationary pressures over time.

For the liability classes such as CTP, Public Liability and Workers Compensation, claim costs associated with personal injuries are linked to the weekly earnings of the claimant. Schemes, particularly workers compensation schemes, typically have weekly and permanent impairment benefits that are indexed. Medical and legal costs are subject to increases in the wages and disbursements of professionals in those fields. These standard inflationary pressures are collectively termed wage inflation for the purpose of this report.

For the motor and property classes, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. It is therefore expected that these costs will increase at a level between appropriate Consumer Price Index (CPI) indices and wage inflation. The motor and property classes typically use an actuarial method in which the inflation assumption is implicit and incorporated in historical levels of claim development.

3 Actuarial Assumptions and Methods (continued)

(3) Superimposed inflation rate

There is a tendency for claim costs, particularly for the liability classes, to increase at levels in excess of standard inflationary pressures. This can be due to a number of factors including court awards and precedents and social and environmental pressures. This is often termed superimposed inflation and is analysed and forecast separately from wage inflation.

(4) Discount rate

The outstanding claims liabilities is discounted at a rate equivalent to that inherent in a portfolio of riskless fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

All outstanding claims liabilities are discounted to present value using a risk free rate based on Commonwealth Government bond yield curve (in Australia) and ten year government stock rate (in New Zealand).

(5) Expense allowance

An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claim related expenses incurred by the classes of business.

(6) Risk margin

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to have a 90% probability of sufficiency.

(7) Ultimate loss ratio

This is the ratio of incurred losses to earned premium (both net of reinsurance) inherent in actual experience to date plus outstanding payments.

b) Life insurance and investment contracts

(i) Actuarial policies and methods for life subsidiaries

The effective date of the actuarial valuation of policy liabilities and prudential reserving requirement is 31 December 2005.

Policy liabilities for life insurance contracts are amounts which, when taken together with future premiums and investment earnings:

- are required to meet the payment of future benefits and expenses; and
- incorporate profit margins on existing business to be released when earned in future periods.

Policy liabilities for life investment contracts are determined as the fair value of the financial instrument plus the liability in respect of the management services element.

(ii) Disclosure of assumptions

The valuations included in the reported results are calculated using assumptions about certain key underlying variables. The assumptions are determined by the Appointed Actuary based on the results of annual investigations into the experience of the Group's in force business, industry experience data and data provided by the Group's reinsurers.

Policy liabilities in Australia have been calculated in accordance with Actuarial Standard AS1.04 issued by the Life Insurance Actuarial Standards Board (LIASB).

Policy liabilities in New Zealand have been calculated in accordance with Professional Standard Number 3, "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries.

The actuarial standards require the policy liabilities for life insurance contracts to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders. Policy liabilities for investment contracts are calculated as the fair value of the liability.

3 Actuarial Assumptions and Methods (continued)

The profit carriers used and the method of valuation applied for the major product groups in order to achieve the systematic release of planned margins are as follows:

Product group	Method	Profit carrier(s)
Australia		
Conventional	Projection	Participating business – value of bonuses Non-participating business – claims
Lump sum risk	Projection	Claims
Disability income	Projection	Claim payments
Accidental cash back	Projection	Payments
Annuity	Projection	Annuity payments
New Zealand		
Traditional non-participating business, term insurance	Projection	Claim payments
Lump sum risk	Projection	Claims
Traditional participating business	Projection	Bonuses
Disability business	Projection	Claim payments
Annuity	Projection	Annuity payments

Actuarial assumptions

Discount rates

Where the value of benefits under a life insurance contract is not contractually linked to the performance of the assets held, a risk-free discount rate consistent with the nature and term of the liabilities is used to determine the present value of the liabilities. A discount rate based on the market return on the backing assets is applied where the value of benefits are contractually linked to the performance of the assets.

The risk free discount rates applied for all life insurance business, with the exception of contracts with discretionary participating features, are derived from the inter-bank swap rates of appropriate duration. The following table shows the gross yields before tax and investment expenses.

Duration	2005 %	2004 %
Australia		
2 year	5.7	5.5
3 year	5.7	5.6
4 year	5.7	5.7
5 year	5.7	5.8
7 year	5.7	5.9
10 year	5.7	5.9

3 Actuarial Assumptions and Methods (continued)

Duration	2005 %	2004 %
New Zealand		
2 year	7.1	6.6
3 year	6.9	6.6
4 year	6.8	6.6
5 year	6.7	6.6
7 year	6.6	6.6
10 year	6.6	6.7

The discount rate for business with discretionary participating feature is based on the market yield on backing assets. This yield was 6.8% in 2005 (2004: 6.7%) for Australia and 7.6% in 2005 (2004: 7.5%) for New Zealand gross of tax and investment expenses.

Inflation

Allowance for future inflation of 2.5% per annum (2004: 2.5%) for Australia and 2.5% per annum (2004: 2.5%) for New Zealand is assumed. This level is consistent with long term expectations.

Future expenses and indexation

Australia
Investment management expenses are based on the current rates charged by the investment managers with respect to the actual assets backing the liabilities. Inflation adjustments are consistent with other inflation assumptions. Maintenance expense assumptions have been based on budgeted expenses for 2006. The rate of increase for expenses is assumed to be 3.0% per annum.

For contracts which provide for the increase of future benefits in line with inflation, the benefit indexation rate has been assumed to be 2.5% per annum (2004: 2.5% per annum). It is further assumed that the benefit indexation will be taken up by a percentage, determined in line with the company's recent experience, of the eligible policyholders.

New Zealand
Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies to the actual assets backing the liabilities.

Future maintenance expenses per policy have been assumed at current levels increased by the rate of inflation set out in (ii) above.

For contracts which provide for the increase of future benefits in line with inflation, the benefit indexation rate has been assumed to be 2.5% per annum (2004: 2.5% per annum). It is further assumed that the benefit indexation will be taken up by a percentage, determined in line with the company's recent experience, of the eligible policyholders.

Rates of taxation

Rates of taxation have been assumed in the future to remain at current levels.

Asset mix

The assumptions regarding asset mix are based on the target mix of assets.

Mortality and morbidity

Australia
Group
Assumptions for mortality, disability claims non-master trust and disability claims master trust are 75%, 100% and 70% respectively, of premiums net of commission and stamp duty. For 2004 the percentages were 75%, 100% and 70% respectively. These percentages exclude claims expenses. Disability claim termination rates are between 40% and 120% of CIDA85 (2004: between 50% and 120% CIDA85).

Individual
Mortality rates for risk products, which vary by sex, age and smoking status, have been based on the company's recent experience. The rates shown in the following table are aggregate rates before smoker/non-smoker adjustments.

3 Actuarial Assumptions and Methods (continued)

	2005	**2004**
Males	76% IA9597	80% IA9597M
Females	76% IA9597	80% IA9597F

Annuitant mortality rates, which vary by sex and age, have been based on the industry's experience. They are set at 55% of IM80 and IF80 mortality tables, with adjustments to the current year. No change from last year.

New Zealand
Mortality rates for risk products, which vary by sex, age and smoking status, have been based on the company's recent experience. Further adjustments are applied for direct marketing products and for some closed products on the observed experience for this business. The rates shown in the following table are aggregate rates before smoker/non-smoker adjustments.

	2005	**2004**
Males	79-85% IA9092	79-85% IA9092
Females	70-89% IA9092	70-89% IA9092

Annuitant mortality rates, which vary by age and sex, have been based on industry experience. They are set at 74% (2004: 75%) of the IM80 and IF80 mortality tables, after adjustments to the current year. Annuitant mortality was assumed to improve according to the factors set out in the guidance note on Life Insurance Company Prudential Reserving issued by the New Zealand Society of Actuaries.

Disability

Australia
Disability income incidence and termination rates, which vary by sex, age, smoking status and occupation, have been based on the company's recent experience. Claim incidence and termination rates are as shown below:

Incidence between 60% and 130% IAD89-93 (2004: Incidence between 60% and 125% IAD89-93)
Termination between 30% and 110% IAD89-93 (2004: Termination between 30% and 100% IAD89-93)

Accident and morbidity rates for lump sum disability benefits are based on population and hospital statistics, adjusted for insured lives and company experience.

New Zealand
Disability income benefit incidence and termination rates were based on IAD tables published by the Institute of Actuaries of Australia. In each case the rates were adjusted by factors dependent on New Zealand industry experience, company experience and the nature of benefits. Claim incidence and termination rates are as shown below:

Incidence between 40% and 200% IAD89-93 (2004: Incidence between 20% and 420% IAD89-93)
Termination between 45% and 90% IAD89-93 (2004: Termination between 45% and 90% IAD89-93)

Claim rates for lump sum disability benefits were based on various tables reflecting New Zealand and Australian experience, adjusted by factors dependent on company experience and the nature of benefits.

Voluntary discontinuance

Australia
Voluntary discontinuance rates, which vary by product and by policy duration, have been based on the company's recent experience.

For the major classes of business the assumed aggregate rates of discontinuances are:

	2005	**2004**
	%	**%**
Class of business		
Lump sum risk	6 – 14	6 – 14
Disability income	10 – 20	10 – 20

Higher discontinuances are assumed for policyholders aged over 64. Higher discontinuances are assumed where premium rates have recently been increased.

3 Actuarial Assumptions and Methods (continued)

New Zealand
Future rates of discontinuance for the major classes of business assumed, varied by duration and class of business, were in the order of:

Class of Business	2005 %	2004 %
Lump sum risk	7 – 14	7 – 14
Disability income	8 –18	8 – 18
Conventional	2 – 4	2 – 5

Higher discontinuances are assumed for policyholders aged over 64. Higher discontinuances are assumed where premium rates have recently been increased.

Surrender values

Surrender values have been based on current practice. No change from last year.

Bonuses

Future bonuses in policy liabilities are those supported by the supporting assets together with the current premium rates and other assumptions.

Bonus rates and interest crediting rates are reviewed at least once a year after taking into consideration the investment experience of the underlying assets, other experience of the business such as experience on lapse and mortality, the reasonable expectation of the policyholders and equity among different lines of products. The actual bonus rates and interest crediting rates declared may include a certain degree of smoothing. Terminal bonus rates vary by duration and product lines.

Future participating benefits

For participating business, the controlled entity's policy is to set reversionary bonus rates such that over long periods together with terminal bonuses where applied, the returns to policyowners are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. Distributions are split between policyowners and shareholders with the valuation allowing for shareholders to share in distributions at the maximum allowable rate of 20%. In applying the policyowners' share of retained profits to provide bonuses, consideration is given to equity between generations of policyowners and equity between the various classes in force, in particular minimum guarantees for business transferred from AMEV.

(iii) Processes used to select assumptions

An explanation of the method used to determine the individual applied assumptions is described below.

Mortality and morbidity

An appropriate base table of mortality is chosen for the type of product being written. An investigation into the actual experience of the group is performed and statistical methods are used to adjust the rates reflected in the table to a best estimate of expected mortality based on the investigation results and industry benchmarks. A similar process is adopted for morbidity.

Lapse

An investigation into the actual experience of the group is performed and statistical methods are used to determine an appropriate lapse rate. Allowance is made for any trends in the data to arrive at a best estimate of future lapse rates.

Discount rate

Where benefits under life insurance and investment contracts are not contractually linked to the performance of the assets held, the policy liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations.

Where benefits under life insurance and investment contracts are contractually linked to the performance of the assets held, the policy liabilities shall be discounted using discount rates based on the market returns on assets backing those liabilities. The gross interest rates used are the gross yield derived from the Australian and New Zealand interbank swap curve.

The equity rate of return is assumed to be 4.5% (2004: 4.5%) in Australia and 4.5% (2004: 4.5%) in New Zealand above the 10 year Commonwealth bond yield, i.e. 9.8% (2004: 9.9%) in Australia and 10.3% (2004: 10.6%).

3 Actuarial Assumptions and Methods (continued)

Expense level and inflation

The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be 3.0% (2004: 3.0%) in Australian and 2.5% (2004: 2.5%) in New Zealand.

Tax

It has been assumed that current tax legislation and rates continue unaltered.

Effects of changes in actuarial assumptions from 31 December 2004 to 31 December 2005

	Australia		**New Zealand**	
Assumption category	**Effect on Future Profit Margin increase/(decrease) $m**	**Effect on Policy Liability increase/(decrease) $m**	**Effect on Future Profit Margin increase/(decrease) $m**	**Effect on Policy Liability increase/(decrease) $m**
Mortality and morbidity	60.4	(0.1)	6.6	3.3
Lapse rates	-	-	7.3	0.5
Discount rates	4.0	0.3	0.8	(0.1)
Expense level	3.6	(1.3)	3.2	0.4
Total	**68.0**	**(1.1)**	**17.9**	**4.1**

c) Sensitivity analysis

(i) General insurance contracts

The consolidated entity conducts sensitivity analyses to quantify the exposure to the risk of changes in the underlying assumptions used in the financial statements.

Impact of changes in assumptions

Variable	**Movement in variable**	**Net outstanding claims liabilities Increase/(decrease) $m**
Recognised amounts per the financial statements		
Average weighted term to settlement	+0.5 years -0.5 years	12.2 (12.0)
Inflation rate	+1.0% -1.0%	74.0 (68.5)
Discount rate	+1.0% -1.0%	(68.5) 75.5
Claims handling expense ratio	+1.0% -1.0%	21.0 (21.0)

3 Actuarial Assumptions and Methods (continued)

(ii) Life insurance and investment contracts

Life insurance and investment contracts are affected by the same subset of variables (mainly variables arising from financial risks and risks associated with events in human life like death or diseases) and as a result are presented together in this note.

Impact of changes in assumptions

The table below illustrates how changes in key assumptions would impact the expected future net profit after tax over the next financial year.

Variable	Change in variable	Profit/(loss) Increase/(decrease) Net of reinsurance
Change in mortality	+10.0%	(10.1)
	-10.0%	10.1
Change in lapse rate	+10.0%	(5.2)
	-10.0%	5.2
Change of expense assumption	+10.0%	(0.8)
	-10.0%	0.8

4 Risk Management

The consolidated entity's financial condition and operating activities are affected by a number of key financial risks including interest rate risk, currency risk, credit risk, market risk, liquidity risk and fiscal risk and non-financial risks including insurance risk, compliance risk and operational risk. The consolidated entity has implemented a group wide risk management framework to mitigate those risks.

a) Group risk management roles and responsibilities

Promina's Board of Directors determines the Group's overall risk appetite and approves the risk management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

The Board has delegated the direct review of risk management to the Board Audit, Risk and Compliance Committee, which comprises four independent, non-executive Directors who have the appropriate technical expertise and experience to carry out the Committee's responsibilities.

Promina Executive Board is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls across the Group.

The Group has a Chief Risk Officer who has the management responsibility for risk, compliance and related issues within the Group.

The Chief Risk Officer is assisted in this task by the following functions:

- Compliance – which provides a process and reporting framework to enable all businesses to meet their regulatory compliance obligations in accordance with Promina Group's Compliance Policy;
- Risk Consulting – which sets the risk reporting framework across the Group and assists the operations evaluate and monitor risks that are specific to their businesses;
- Internal Audit – which provides independent assurance to senior management and Directors regarding the adequacy of controls over perceived higher risk activities of the Group;
- Treasury – which establishes and reviews policies, controls and processes in connection with financial risk, including investment risk, asset/liability management, credit risk, currency risk and capital management;
- Insurance Risk Committee – which has been established to ensure that there are adequate and consistent processes in place to manage the Group's insurance risks;
- Reinsurance Steering Committee – which manages the reinsurance strategy for General Insurance business; and
- Reinsurance Credit Risk Committee – which sets the policy and monitors the credit risk exposures for treaty and facultative reinsurance across the General Insurance business.

4 Risk Management (continued)

b) Insurance risk – general insurance activities

Promina's insurance activities primarily involve the underwriting of risks and claim management. Promina's business units employ a disciplined approach to underwriting and risk management that emphasises a profit orientation rather than a premium volume or market share oriented approach.

(i) Risk management objectives and policies for mitigating insurance risk

The risk management activities include prudent underwriting, pricing, acceptance and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the Group's overall insurance operations. Under the Group's specialised and focused business model, Promina's individual businesses generally conduct their own risk management functions, in accordance with the Group's protocols. This approach yields substantial benefits because each business unit has expertise in, and a detailed understanding of, its market segment, and this enables the business units to customise their own underwriting and risk management disciplines to assess and price risk more effectively.

The key policies in place to mitigate risks arising from writing insurance contracts include the following:

- The maintenance and use of sophisticated management information systems that provide up-to-date, reliable data on the risks to which the business is exposed at any point in time;
- The use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
- The setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk;
- The monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes. Exposure to such risks is monitored using catastrophe models;
- The use of reinsurance to limit the consolidated entity's exposure to large single claims and accumulation of claims that arise from the same event;
- The monitoring of a reinsurers' credit risk policy to control exposure to reinsurance counterparty default;
- The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets; and
- The reduction in variability in loss experience through diversification over classes of insurance business, geographical segments and large numbers of uncorrelated individual risks.

(*ii) Terms and conditions of insurance business*

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The Group's exposure is diversified across Australia and New Zealand with some risks located in other countries. Specific processes for monitoring identified concentrations are set out below:

Risk	***Source of concentration***	***Risk management measures***
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection

(iv) Terms and conditions of reinsurance contracts

The consolidated entity reinsures a portion of the risks it underwrites in order to control exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of underwriting risk. The reinsurance programs consist of a combination of the following reinsurance protection:

- Catastrophe excess of loss coverage for the property and motor portfolios;
- Proportional covers, which provide "per risk" protection for the Group's Australian retail and corporate property and engineering businesses;
- Single risk excess of loss coverage on the Group's Global and Risks Managed property risks and New Zealand property and engineering risks;

4 Risk Management (continued)

- Excess of loss reinsurance for all casualty portfolios including CTP, Public Liability, Workers Compensation, Professional Liability, Home Owners Warranty and Motor. This program provides protection on both a per risk and per event basis;
- Excess of loss reinsurance for all Marine portfolios providing per risk and per event covers for cargo, hull, marine liability and protection and indemnity; and
- Quota share coverage for the Home Owners Warranty portfolio.

c) Insurance risk – life insurance activities

The life insurance and investment activities of the Group are concerned with the pricing, acceptance and management of the mortality and morbidity risks of policyholders, integrated to a varying extent with the provision of effective wealth management products that attempt to match their investment risk and reward objectives.

(i) Risk management objectives and policies for mitigating insurance

In compliance with contractual and regulatory requirements, the risks underwritten by the Group are actively managed to ensure they satisfy policyholders' risk and reward objectives and do not adversely affect the Group's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the Group as well as to manage the risk of non-compliance.

Underwriting procedures

The type and nature of insurance risk accepted is determined by reference to the underwriting procedures detailed in the Group underwriting manual that includes limits to delegated authority and signing powers.

Portfolio of risks

The consolidated entity writes individual and group insurance policies covering mortality and morbidity risks. The performance of the consolidated entity and its continuing ability to write business depends on its ability to manage this risk exposure. The consolidated entity has a risk strategy, approved by the Board, which summarises the consolidated entity's approach to risk and risk management.

Capital allocation and solvency requirements

Capital requirements are measured using a risk based capital approach and by reference to the various regulatory reporting requirements with which the Group is obliged to comply.

Solvency margin requirements established by local regulators are in place to reinforce safeguards for policyholders' interests, being primarily the ability to meet future claims payments. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, not just at the year end. These solvency requirements also take into account specific risks faced by the Group. Where the outcome of specific adverse scenarios differs from expectations, this has also been identified.

Monitoring of insurance risk

The financial and operating results, mortality and morbidity experience, claims frequency, persistency and expenses are monitored monthly against budget projections derived from the Actuarial projection models. In addition, detailed annual investigations are performed into the mortality, morbidity and persistency experience of the business.

Claims management procedures

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques

Assets are allocated to different classes of business using a risk based approach. Management of market risk is generally less critical for life insurance and investment products as the amounts and timing of claims do not vary significantly with the interest rates or other market conditions that affect the underlying investments. Premiums received and returns obtained from investments provide the liquidity to meet claims payments and associated expenses as they arise. Furthermore, the terms and conditions of the Group's investment products are such that the majority of the investment risk and rewards are borne by the policyholders.

4 Risk Management (continued)

(ii) Methods to limit or transfer life insurance risk exposures

Ceding of risk and reinsurance security

The Group purchases reinsurance to manage the exposure to accepted insurance risk. The level of reinsurance cover has historically been high relative to the size of the Group's life insurance business portfolio.

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Interest rate risk arising from life insurance contracts

Several of the life insurance and investment product groups are interest rate sensitive. These contribute to the Group's results primarily from the spread between investment income, largely earned on investment-grade fixed maturity securities, and interest credited to policyholder accounts, which may be a guaranteed rate of return in certain products. The Group strives to maintain this spread by adjusting the interest-crediting rates at contractually specified intervals. The Group's ability to adjust interest-crediting rates may be constrained by competitive forces and minimum guaranteed crediting rates, if any.

(iii) Concentration of risk

The Group writes a mixture of individual and group insurance business providing mortality, morbidity and annuity benefit payments. The mix of business is monitored and managed to avoid inappropriate concentrations of risk.

Concentrations of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the Group's maximum exposure to any individual life is capped.

Concentrations of risk by product type are managed through monitoring of the Group's in force life insurance business and the mix of new business written each year.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyholders of different sex and age are minimised such that product profitability is not materially impacted by changes to the age and sex profile of the in force business.

(iv) Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend.

The table below provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance and investment contracts issued by the Group depend.

Type of contract	***Detail of contract workings***	***Nature of compensation for claims***	***Key variables affecting future cash flows***
Long-term non-participating insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death, ill health or maturity that are fixed.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, market earning interest rates, lapses, expenses
Long-term insurance contracts with discretionary participating benefits (Endowment and Whole of Life)	These policies include a defined initial guaranteed sum assured which is payable on death. The guaranteed amount increases throughout the duration of the policy by the addition of regular bonuses which, once added, are not removed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Mortality, morbidity, market earning interest rates, lapses, expenses
Non-discretionary participating investment contracts without guaranteed returns	The gross value of premiums received is invested in units and the investment account is the value of the units. Investment management fees are deducted from policyholders annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less any applicable management fees.	Market risk, interest rates, expenses

4 Risk Management (continued)

d) Financial risk

The Group is exposed to a number of forms of financial risk, the most significant being market risk and liquidity risk. The impact of these risks on the Group's insurance business has been discussed in the preceding sections. This section provides an explanation of the other aspects in which the Group is affected by financial risks.

(i) Market risk

The Group takes on exposure to market risks including currency risk, fair value interest risk and price risk. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The market risks that the Group primarily faces are equity risk and interest rate risk, due to the nature of its investments and liabilities.

With respect to insurance and investment contracts where the Group incurs market risk primarily in the form of interest rate risk, the risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective in these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest sensitivity of insurance liabilities than that of the related assets, to the extent that it is possible to measure such sensitivities the Group believes that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying insurance and investment contract.

For all the assets backing insurance contracts that are not sensitive to interest rate risk or market risk, the Group has developed investment guidelines to manage the Group's exposure to equity price risk primarily by seeking to match the risk profile of equity investments against risk-adjusted equity market benchmarks. The Group measures benchmark risk levels in terms of price volatility in relation to the market in general. For the assets backing such liabilities, the key objective is to ensure that adequate returns are delivered maintaining a sufficient level of liquid assets to fund unexpected cash outflows arising from insurance claims payments. The liquidity risk section below deals with this aspect of the Group risk management in greater detail.

Investment activity for the Group is undertaken in accordance with an investment mandate established by the Board of Directors. The mandate stipulates the investment allocation mix, the match of investment assets and liabilities and the use of derivatives.

(ii) Liquidity risk

The Group is exposed to daily calls on its available cash resources from maturing policies and policy claims and surrenders. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

(iii) Interest rate risk

The Group manages some of its exposure to interest rate risk by matching assets to the liabilities that they back. Separate asset liability matching analyses are employed for separate categories of products within each business. Although this natural hedging is not reflected in the accounting policies adopted or in the presentation of the results and Balance Sheet included in these financial statements, it does mitigate the Group's exposure to such risk. These matching procedures are not 100% effective. The Group strikes a balance, mitigating the most significant exposure to interest rate risk while maximising the return to participating policyholders and shareholders by allowing some flexibility to those who manage the investment of the assets. A number of derivatives are held to enable the matching of asset and liability to further mitigate exposure to interest rate movements.

Several of the life insurance and investment product groups are interest rate sensitive. These contribute to the Group's results primarily from the spread between investment income, largely earned on investment-grade fixed maturity securities, and interest credited to policyholder accounts, which may be a guaranteed rate of return in certain products. The Group strives to maintain this spread by adjusting the interest-crediting rates at contractually specified intervals. The Group's ability to adjust interest-crediting rates may be constrained by competitive forces and minimum guaranteed crediting rates, if any.

Occasionally, the Group also enters into fixed-to-floating interest-rate swaps to hedge the fair value interest-rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

(iv) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group invests a portion of investment assets in global equities.

4 Risk Management (continued)

e) Changes of interest rate in different territories

The asset liability matching process also matches the currency of related assets and liabilities. The Group's assets and liabilities are affected by the different interest rates of the territories in which the Group operates – Australia and New Zealand. Those assets, which are interest bearing and not 100% matched, are therefore subject to the interest rate fluctuations for a number of different currencies in different proportions.

f) Credit Risk

The credit risk on financial assets of the consolidated entity is generally the carrying amount, net of any provisions for doubtful debts. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counterparty. The consolidated entity does not expect any counterparties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security to support credit risk exposures.

5 Revenue

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
a) General Insurance Revenue				
Gross earned premiums				
Primary	3,183.3	3,034.0	-	-
Inwards reinsurance	22.6	29.3	-	-
Premium revenue	3,205.9	3,063.3	-	-
Reinsurance and other recoveries revenue	49.3	137.0	-	-
Investment revenue:				
Dividends – other entities	36.0	23.0	-	-
Dividends – other related entities	7.8	6.8	253.2	208.9
Interest income – other entities	234.8	243.2	0.4	1.7
Rental – investment properties	-	(0.1)	-	-
Movement in financial assets at fair value through profit or loss	48.6	56.2	-	-
Gain on liquidation of controlled entities	-	-	-	58.5
Total investment revenue	327.2	329.1	253.6	269.1
Fee for service and other income	30.2	36.3	-	-
Total General Insurance revenue	**3,612.6**	**3,565.7**	**253.6**	**269.1**
b) Financial Services Revenue				
Insurance premium revenue	416.3	395.4	-	-
Reinsurance recoveries revenue	95.9	113.7	-	-
Other revenue	150.9	131.8	-	-
	663.1	640.9	-	-
Investment revenue:				
Equity securities	128.7	74.0	-	-
Debt securities	98.0	86.5	-	-
Rental – investment properties	14.0	11.7	-	-
Movement in financial assets at fair value through profit or loss	212.3	277.9	-	-
Total investment revenue	453.0	450.1	-	-
Total Financial Services revenue	1,116.1	1,091.0	-	-
Total revenue	**4,728.7**	**4,656.7**	**253.6**	**269.1**

6 General Insurance Net Premium Revenue

	Note	Consolidated		Parent entity	
		2005 $m	2004 $m	2005 $m	2004 $m
Gross written premium		3,287.9	3,081.1	-	-
Movement in unearned premium		(82.0)	(17.8)	-	-
Gross earned premium revenue		3,205.9	3,063.3	-	-
Outwards reinsurance premium expense		(265.6)	(316.1)	-	-
Total net premium revenue		**2,940.3**	**2,747.2**	**-**	**-**

7 Finance Costs

Reset Preference Shares		(16.9)	(10.7)	(16.1)	(10.7)
Subordinated notes		(5.1)	-	-	-
Drawdown facility[1]		(6.3)	(0.0)	-	-
Loans from controlled entity		-	-	(1.0)	(1.0)
Finance costs		**(28.3)**	**(10.7)**	**(17.1)**	**(11.7)**

1 Amount less than $50,000 in respect of 2004 consolidated entity.

8 Operating Profit Before Income Tax

Profit before income tax is arrived at after charging/(crediting) the following specific items:					
Loss on disposal of plant and equipment		0.7	1.8	-	-
Depreciation on plant and equipment	23	21.3	21.0	-	-
Operating lease rental expenses		64.5	59.2	-	-
Movement in provision for post retirement employee benefits	29(b)	(8.8)	(12.9)	-	-
Movement in other employee entitlements	29(a)	7.7	(1.2)	-	-
Amortisation of capitalised software costs		3.5	4.1	-	-
Movement in provision for bad and doubtful debt (recovery)/expense		(4.1)	(1.7)	-	-
Net foreign exchange (gain)/loss		(2.5)	0.7	-	-
Profit on sale of controlled entity		-	0.9	-	-
Gain on liquidation of controlled entity		-	-	-	(58.5)
Share plan expenses	38(a)	7.6	4.8	7.6	4.8

9 Financial Reporting by Segments

The consolidated entity operates in the Direct General Insurance, Intermediated General Insurance, Life Risk and Other Financial Services segments within Australia and New Zealand.

	General		Financial	Inter-segment	
	Direct $m	Intermediated $m	Services $m	elimination $m	Total $m
a) Primary reporting – Business segments					
2005					
Gross premium revenue	1,676.1	3,109.2	416.3	(1,579.4)	3,622.2
Investment and other revenue	194.3	212.4	707.8	(8.0)	1,106.5
Total revenue	1,870.4	3,321.6	1,124.1	(1,587.4)	4,728.7
General Insurance underwriting result	65.6	120.6	-	-	186.2
Investment revenue on assets backing General Insurance liabilities	83.0	85.5	-	-	168.5
General Insurance result	148.6	206.1	-	-	354.7
Financial Services result	-	-	146.1	(8.0)	138.1
Investment revenue on shareholders' funds	89.0	69.7	83.8	8.0	250.5
Share of the net profit of associates and joint ventures	15.1	0.4	-	-	15.5
Other	(0.8)	(0.8)	-	-	(1.6)
Segment result	**251.9**	**275.4**	**229.9**	**-**	**757.2**
Net profit before finance costs and income tax					757.2
Finance cost					(28.3)
Net profit before income tax					728.9
Income tax expense					(221.8)
Net profit after income tax					**507.1**
Segment assets	3,574.1	3,329.7	4,303.4	(51.3)	11,155.9
Segment liabilities	(2,683.0)	(2,672.0)	(3,388.1)	51.3	(8,691.8)
Investment in associates and joint ventures	107.1	1.5	-	-	108.6
Acquisition of plant and equipment	14.3	18.9	1.0	-	34.2
Depreciation and amortisation expense	7.7	15.6	1.5	-	24.8
Other non-cash expenses	-	(4.1)	-	-	(4.1)

9 Financial Reporting by Segments (continued)

	General Direct $m	General Intermediated $m	Financial Services $m	Inter-segment elimination $m	Total $m
2004					
Gross premium revenue	1,518.0	2,973.3	395.4	(1,428.0)	3,458.7
Investment and other revenue	205.7	296.7	702.9	(7.3)	1,198.0
Total Revenue	1,723.7	3,270.0	1,098.3	(1,435.3)	4,656.7
General Insurance underwriting result	95.1	45.5	-	-	140.6
Investment revenue on assets backing General Insurance liabilities	79.0	92.2	-	-	171.2
General Insurance result	174.1	137.7	-	-	311.8
Financial Services result	-	-	101.4	(7.3)	94.1
Investment revenue on shareholders' funds	89.3	68.6	96.4	7.3	261.6
Share of the net profit of associates and joint ventures	19.9	0.3	-	-	20.2
Other	(3.4)	(3.4)	-	-	(6.8)
Segment result	**279.9**	**203.2**	**197.8**	**-**	**680.9**
Net profit before finance cost and income tax					680.9
Finance cost					(10.7)
Net profit before income tax					670.2
Income tax expense					(207.5)
Net profit after income tax					**462.7**
Segment assets	3,295.0	3,328.5	3,982.3	(101.7)	10,504.1
Segment liabilities	(2,172.7)	(2,815.4)	(3,117.4)	101.7	(8,003.8)
Investment in associates and joint ventures	103.6	1.1	-	-	104.7
Acquisition of plant and equipment	11.3	15.6	0.8	-	27.7
Depreciation and amortisation expense	7.6	14.8	2.7	-	25.1
Other non-cash expenses	-	(2.0)	0.3	-	(1.7)

	Acquisition of plant and equipment $m	Segment assets $m	Segment revenue $m
b) Secondary reporting – Geographical segments			
2005			
Australia	28.5	8,845.8	3,803.4
New Zealand	5.7	2,310.1	925.3
	34.2	11,155.9	4,728.7
2004			
Australia	19.9	8,447.8	3,809.3
New Zealand	7.8	2,056.3	847.4
	27.7	10,504.1	4,656.7

10 Income Tax

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
a) Income tax expense				
Current tax	189.4	169.2	(0.5)	0.2
Deferred tax expense	40.4	41.1	0.3	-
Over provided in prior years	(8.0)	(2.8)	(0.4)	-
Income tax expense/(benefit)	**221.8**	**207.5**	**(0.6)**	**0.2**
Deferred income tax expense/(revenue) included in income tax expense comprises:				
Increase in deferred tax asset	(10.0)	(21.1)	-	-
Increase in deferred tax liability	50.4	62.2	0.3	-
	40.4	41.1	0.3	-
b) Numerical reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax @ 30% (2004 – 30%)	218.7	201.1	70.8	75.8
Tax effect of amounts which are not deductible/assessable in calculating taxable income:				
Exempt dividends	(0.7)	-	-	-
Difference due to life insurance policyholder tax	49.7	34.1	-	-
Non allowable expenses and other items	(3.6)	0.4	(71.0)	(75.6)
	264.1	235.6	(0.2)	0.2
Difference in overseas tax rates	4.0	3.2	-	-
Over provision in prior years	(8.0)	(2.8)	(0.4)	-
Tax offset in respect of franked dividends	(38.3)	(28.5)	-	-
Income tax expense/(benefit)	221.8	207.5	(0.6)	0.2
c) Tax Losses				
Unused tax losses for which no deferred tax asset has been recognised	-	-	-	-
Potential tax benefit @ 30%	-	-	-	-

Income tax expense of the Financial Services business

Australia

The income tax expense of Asteron Life Limited is partly determined on a product basis and partly determined on a profit basis.

For income tax purposes the Financial Services business is consolidated and taxed as follows:

	Applicable tax rate	
Class of business	**2005**	**2004**
Complying superannuation business[1]	15%	15%
Ordinary class of business	30%	30%
Shareholder fund	30%	30%
Annuity business[2]	0%	0%

1 Virtual Pooled Superannuation Trust (VPST).
2 Segregated Exempt Assets (SEA).

10 Income Tax (continued)

New Zealand
The income tax expense of Asteron Life Limited is determined on a profit basis using the liability method as required by SSAP-12.

For income tax purposes the Financial Services business is consolidated and taxed at a rate of 33% (2004: 33%).

d) Deferred tax

	Consolidated		Parent entity	
	2005	**2004**	**2005**	**2004**
	$m	**$m**	**$m**	**$m**
Deferred tax assets				
Current	52.5	39.4	-	-
Non current	42.9	47.8	-	-
	95.4	87.2	-	-
Deferred tax liabilities				
Current	89.2	31.0	-	-
Non current	63.2	70.8	0.3	-
	152.4	101.8	0.3	-
Net deferred tax liability	**(57.0)**	**(14.6)**	**(0.3)**	**-**

The gross movement of the deferred tax account is as follows:

Brought forward balance as at 1 January	(14.6)	26.8	-	-
Exchange difference	(2.0)	(0.3)	-	-
Income statement charge	(40.4)	(41.1)	(0.3)	-
Carried forward balance as at 31 December	**(57.0)**	**(14.6)**	**(0.3)**	**-**

(i) Deferred tax assets

Amounts recognised in profit or loss				
Accruals not currently deductible	4.5	16.0	-	-
Depreciable and amortisable assets	0.7	9.4	-	-
Other	4.8	(4.3)	-	-
Deferred tax asset	10.0	21.1	-	-
Brought forward balance as at 1 January	87.2	68.4	-	-
Exchange difference	(1.8)	(2.3)	-	-
Income statement charge	10.0	21.1	-	-
Carried forward balance as at 31 December	**95.4**	**87.2**	**-**	**-**

10 Income Tax (continued)

	Consolidated		Parent entity	
	2005	**2004**	**2005**	**2004**
	$m	**$m**	**$m**	**$m**
(ii) Deferred tax liabilities				
Amounts recognised in profit or loss				
Deferred acquisition costs	1.9	0.4	-	-
Unrealised gains on investments	25.6	41.0	-	-
Other	22.9	20.8	0.3	-
Deferred tax liability	50.4	62.2	0.3	-
Brought forward balance as at 1 January	101.8	41.6	-	-
Exchange difference	0.2	(2.0)	-	-
Income statement charge	50.4	62.2	0.3	-
Carried forward balance as at 31 December	**152.4**	**101.8**	**0.3**	**-**

(iii) Tax losses carried forward

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets (2004: Nil) in respect of losses that can be carried forward against future taxable income.

11 Earnings Per Share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of Promina Group Limited by the weighted average number of ordinary shares outstanding during the financial year.

		Consolidated	
		2005	**2004**
Profit attributable to members of Promina Group Limited	$m	504.8	459.8
Weighted average number of ordinary shares		1,057,922,566	1,060,762,665
Basic earnings per share	cents	47.7	43.3

There are no dilutive potential ordinary shares.

12 Dividends

	Consolidated		Parent entity	
	2005	**2004**	**2005**	**2004**
	$m	**$m**	**$m**	**$m**
a) Ordinary shares				
Final dividend for year ended 31 December 2004 of 12.0 cents (2003: 9.0 cents) per fully paid ordinary shares, paid on 2 May 2005 (2003: 15 April 2004)				
Fully franked at 30% (2004: 30%)	127.0	94.8	127.4	95.2
Interim dividends of 10.5 cents (2004: 10.0 cents) per fully paid ordinary share, paid on 31 October 2005 (2004: 1 November 2004)				
Fully franked at 30% (2004: 30%)	110.6	105.9	111.0	106.2
Total Dividends Declared or Paid	**237.6**	**200.7**	**238.4**	**201.4**
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan (DRP) during the years ended 31 December 2005 and 2004 were as follows:				
Paid in cash	189.1	126.4	189.9	127.1
Shares purchased on the market under DRP	48.5	63.7	48.5	63.7
Shares issued under DRP	-	10.6	-	10.6
	237.6	**200.7**	**238.4**	**201.4**
Dividends not recognised at year end				
In addition to the above dividends, since year end, the Directors have recommended the payment of a final dividend of 13.0 cents per fully paid ordinary share, fully franked based on tax paid at 30% (2004: 12.0 cents). The aggregate amount of the proposed dividend expected to be paid on 31 March 2006 (2004: 2 May 2005) out of retained profits at 31 December 2005 (31 December 2004), but not recognised as a liability at year end, is:	135.4	127.0	135.4	127.4
In addition to the above dividends, since year end, the Directors have recommended the payment of a special dividend of 5.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 31 March 2006 out of retained profits at 31 December 2005, but not recognised as a liability at year end, is:	52.1	-	52.1	-
	187.5	**127.0**	**187.5**	**127.4**
b) Franking credits				
Available for the subsequent financial year based on a tax rate of 30% (2004: 30%)	94.7	96.9	94.7	96.9

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(i) franking credits that will arise from the payment of the current tax liability;
(ii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
(iii) franking credits that may be prevented from being distributed in the subsequent year.

12 Dividends (continued)

The current franking account of the Company has a credit balance. The Initial Public Offering (IPO) completed on 16 May 2003 transformed the prior franking account into an exempting credit account whereupon the credit balance (now referred to as exempting credits) will only be available in limited circumstances to reduce dividend withholding tax on distributions paid to non resident shareholders.

The ability to pass on New Zealand imputation credits to New Zealand shareholders through the final dividend is now possible due to changes in the tax laws operating between New Zealand and Australia (Trans Tasman Triangular Tax Relief) that were enacted at the end of 2003. The final dividend will reflect the calculation of imputation credits available to New Zealand shareholders as a proportion of Promina's total shareholder base.

13 General Insurance Incurred Claims

	Consolidated		Parent entity	
	2005	2004	2005	2004
	$m	$m	$m	$m
a) Gross incurred claims				
Primary	1,985.8	1,987.6	-	-
Inwards reinsurance	0.7	1.8	-	-
Gross incurred claims	**1,986.5**	**1,989.4**	**-**	**-**

b) Net claims incurred

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 years.

	Consolidated					
	2005			2004		
	Prior	Current	Total	Prior	Current	Total
	$m	$m	$m	$m	$m	$m
Primary						
Gross incurred claims						
Undiscounted	(110.9)	2,136.3	2,025.4	47.1	2,017.6	2,064.7
Discount	72.2	(111.8)	(39.6)	33.9	(111.0)	(77.1)
	(38.7)	2,024.5	1,985.8	81.0	1,906.6	1,987.6
Reinsurance and other recoveries						
Undiscounted	(8.5)	(39.9)	(48.4)	(1.3)	(138.9)	(140.2)
Discount	(16.6)	15.5	(1.1)	(18.1)	21.5	3.4
	(25.1)	(24.4)	(49.5)	(19.4)	(117.4)	(136.8)
Primary	(63.8)	2,000.1	1,936.3	61.6	1,789.2	1,850.8
Net inwards reinsurance			0.9			1.6
Total net incurred claims			**1,937.2**			**1,852.4**

14 Cash and Cash Equivalents

	Consolidated		Parent entity	
	2005	2004	2005	2004
	$m	$m	$m	$m
Cash at bank and in hand	134.4	212.8	4.3	1.8
Deposits at call	130.2	117.8	-	-
Cash and cash equivalents	**264.6**	**330.6**	**4.3**	**1.8**

The effective interest rate on cash and cash equivalents was 5.1% (2004: 4.9%).

15 Receivables

	Consolidated		Parent entity	
	2005	2004	2005	2004
	$m	$m	$m	$m
General Insurance				
Trade receivables				
Premium due from policyholders and intermediaries	515.8	491.5	-	-
Amounts due from reinsurers	59.9	50.0	-	-
Related bodies corporate	2.3	0.4	-	-
Provision for doubtful receivables	(7.0)	(12.0)	-	-
	571.0	529.9	-	-
Other receivables				
Controlled entities – current account	-	-	59.3	300.0
Controlled entities – tax related	-	-	112.3	94.5
Related bodies corporate	-	-	13.0	15.0
Other	15.4	24.5	0.2	-
	15.4	24.5	184.8	409.5
Financial Services				
Premium due from policyholders	11.6	18.1	-	-
Amounts due from reinsurers	40.5	40.2	-	-
Other receivables	15.4	6.4	-	-
	67.5	64.7	-	-
Total Receivables	**653.9**	**619.1**	**184.8**	**409.5**
Current	653.9	619.1	184.8	409.5

16 Financial Assets

a) Financial assets classified as fair value through profit and loss

	Consolidated 2005 $m	Consolidated 2004 $m	Parent entity 2005 $m	Parent entity 2004 $m
General Insurance and Parent Equity				
Government/semi government securities	1,163.7	1,663.0	-	-
Shares in other corporations	563.0	371.6	-	-
Property trusts	62.5	46.5	-	-
Discounted securities	614.9	700.7	-	-
Debentures and corporate bonds	2,221.5	1,603.1	-	-
Other	0.8	0.5	-	-
	4,626.4	4,385.4	-	-
Financial Services				
Government/semi government securities	392.6	304.3	-	-
Shares in other corporations	525.4	533.1	-	-
Property trusts	128.7	107.0	-	-
Discounted securities	353.7	282.3	-	-
Debentures and corporate bonds	375.7	456.5	-	-
Loans – secured (including staff loans)	179.9	74.7	-	-
Derivatives	1.7	3.2	-	-
Unit trusts	1,858.2	1,608.1	-	-
	3,815.9	3,369.2	-	-
Total financial assets at fair value through profit and loss	**8,442.3**	**7,754.6**	**-**	**-**
Current	4,590.8	3,821.1	-	-
Non current	3,851.5	3,933.5	-	-
Total	**8,442.3**	**7,754.6**	**-**	**-**

16 Financial Assets (continued)

b) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table:

2005

	Fixed interest maturing in						
	1 year or less	**1 to 5 years**	**More than 5 years**	**Floating interest rate**	**Non interest bearing**	**Total**	**Weighted Average Interest Rate**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Financial assets exposed to fair value interest rate risk:							
Debentures	249.4	1,575.6	185.6	586.6	-	2,597.2	6.0
Government/semi government securities	361.2	772.3	422.8	-	-	1,556.3	6.0
Discounted securities	968.6	-	-	-	-	968.6	6.1
Secured loans	53.0	105.3	9.4	12.7	-	180.4	8.0
	1,632.2	2,453.2	617.8	599.3	-	5,302.5	
Weighted average interest rate %	6.4	5.8	5.8	6.2			
Financial assets not directly exposed to interest rate risk:							
Shares in other corporations	-	-	-	-	1,088.4	1,088.4	
Property trusts	-	-	-	-	191.2	191.2	
Derivatives	-	-	-	-	2.0	2.0	
Unit trusts	-	-	-	-	1,858.2	1,858.2	
	-	-	-	-	3,139.8	3,139.8	
Financial assets	**1,632.2**	**2,453.2**	**617.8**	**599.3**	**3,139.8**	**8,442.3**	

2004

	Fixed interest maturing in						
	1 year or less	**1 to 5 years**	**More than 5 years**	**Floating interest rate**	**Non interest bearing**	**Total**	**Weighted Average Interest Rate**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**%**
Financial assets exposed to fair value interest rate risk:							
Debentures	204.3	1,270.7	76.7	507.9	-	2,059.6	5.8
Government/Semi government securities	204.8	1,309.6	452.9	-	-	1,967.3	5.4
Discounted securities	983.0	-	-	-	-	983.0	5.7
Secured loans	-	26.1	45.2	4.1	-	75.4	8.3
	1,392.1	2,606.4	574.8	512.0	-	5,085.3	
Weighted average interest rate %	5.7	5.6	5.7	5.9			
Financial assets not directly exposed to interest rate risk:							
Shares in other corporations	-	-	-	-	904.7	904.7	
Property trusts	-	-	-	-	153.5	153.5	
Derivatives	-	-	-	-	3.0	3.0	
Unit trusts	-	-	-	-	1,608.1	1,608.1	
	-	-	-	-	2,669.3	2,669.3	
Financial assets	**1,392.1**	**2,606.4**	**574.8**	**512.0**	**2,669.3**	**7,754.6**	

17 Derivative Financial Instruments

The consolidated entity uses derivatives for portfolio management purposes. They are used as an alternative to physical assets in order to achieve a desired level of total exposure and as a means to hedge against market movements. Deliberate gearing up or leveraged exposure to an asset class is not permitted. The most commonly used derivatives are futures contracts and options.

The consolidated entity has a Risk Management Statement which describes the controls used to manage the risks associated with the use of derivatives. Limits are set on the effective exposure allowed by the use of derivatives, on transaction levels and aggregate counterparty exposure. The limits and criteria on which they are set are regularly reviewed. Review, monitoring and control processes are independent of portfolio trading activity.

As at 31 December 2005 there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognised exchanges.

The table below sets out the effective exposure value of a derivative's underlying asset or index and provides an indication of the consolidated entity's exposure to derivatives. The fair value of a derivative shows the cash inflow or outflow, which would have occurred if the rights and obligations arising from that derivative were extinguished at 31 December 2005. The fair value gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives as that is dependent upon the applicable market price at the time of settlement.

	2005			2004		
	Contract / notional amount $m	**Fair value asset $m**	**Fair value liability $m**	**Contract / notional amount $m**	**Fair value asset $m**	**Fair value liability $m**
Foreign exchange contracts						
Over the counter						
Forward currency contracts	110.8	0.5	(0.5)	79.8	3.2	-
Interest rate contracts						
Over the counter						
Swaps	23.8	2.0	-	(0.2)	-	(0.2)
Exchange traded						
Futures	(61.5)	-	-	(418.6)	-	-
Total at 31 December	**73.1**	**2.5**	**(0.5)**	**(339.0)**	**3.2**	**(0.2)**

18 Investment Properties

	Consolidated		Parent entity	
	2005 $m	**2004 $m**	**2005 $m**	**2004 $m**
Fair value				
Opening balance at 1 January	3.7	2.3	-	-
Fair value gains recognised as income	0.4	1.4	-	-
Closing balance at 31 December	**4.1**	**3.7**	**-**	**-**

Valuation Basis

The investment properties were valued on 31 December 2005 at fair value based on an independent valuation by qualified employees of Herron Todd White and Colliers International.

19 Reinsurance Recoveries on Outstanding Claims Liabilities and Other Recoveries

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
General Insurance				
Reinsurance and other recoveries receivable				
Expected undiscounted outstanding reinsurance and other recoveries	666.1	711.0	-	-
Discount to present value	(82.6)	(86.2)	-	-
Outstanding reinsurance and other recoveries	**583.5**	**624.8**	**-**	**-**
Current	235.5	280.5	-	-
Non current	348.0	344.3	-	-
Total	**583.5**	**624.8**	**-**	**-**

The average reinsurer's Standard and Poor's credit rating relating to the majority of our reinsurance treaties was A+ in the current year (2004: A+). The Group's minimum Standard and Poor's credit rating requirement is A- for all reinsurance placements in the current year (2004: A-).

20 Deferred Acquisition Costs

	Consolidated 2005 $m	Consolidated 2004 $m	Parent entity 2005 $m	Parent entity 2004 $m
Deferred acquisition costs at 1 January	275.0	238.7	-	-
Net foreign exchange difference	0.7	2.9	-	-
Acquisition costs deferred	254.8	283.8	-	-
Amortisation charged to income	(253.4)	(250.4)	-	-
Deferred acquisition costs at 31 December	**277.1**	**275.0**	**-**	**-**
Current	271.8	266.5	-	-
Non current	5.3	8.5	-	-
Total	**277.1**	**275.0**	**-**	**-**

21 Investments in Associates and Joint Venture Operations

Fair value of investments in associates and joint venture operations is as follows:

a) Investments in associates

	Ownership		Consolidated		Parent entity	
	2005 %	2004 %	2005 $m	2004 $m	2005 $m	2004 $m
Name of company						
NTI Limited	50.0	50.0	1.2	1.1	-	-
RAC Insurance Pty Limited	50.0	50.0	107.1	103.5	-	-
Axiom Risk & Insurance Management Limited	50.0	50.0	0.0[1]	0.0[1]	-	-
Mariner Underwriters Limited	50.0	50.0	0.0[1]	0.0[1]	-	-
Comprehensive Travel Insurance (2004) Limited	50.0	50.0	0.0[1]	0.0[1]	-	-
AA Warranty Limited	50.0	-	0.0[1]	-	-	-
AA Life Services Limited	50.0	-	0.0[1]	-	-	-
			108.6	**104.7**	**-**	**-**

1 Amounts less than $50,000.

The principal activity of these associates is underwriting or managing general insurance risks, with the exception of NTI Limited, which is the provider of management services to the joint venture operation described in note 21(b), AA Warranty Limited, which is a non-trading entity, and AA Life Services Limited, which is engaged in direct marketing of financial services products.

21 Investments in Associates and Joint Venture Operations (continued)

Movement in fair value of investments in associates

	Consolidated	
	2005 $m	2004 $m
Investments in associates		
Fair value at the beginning of the financial year	104.7	91.0
Share of operating profit after income tax	15.5	20.2
Repatriation of capital	(4.0)	-
Dividends received	(7.6)	(6.5)
Fair value at the end of the financial year	**108.6**	**104.7**
Results attributable to associates		
Operating profit before income tax	21.9	28.6
Income tax expense	(6.4)	(8.4)
Operating profit after income tax	15.5	20.2
Less: dividends received/receivable	(7.6)	(6.5)
	7.9	13.7
Accumulated profits attributable to associates at the beginning of the financial year	14.5	0.8
	22.4	**14.5**
Share of associates' lease commitments	10.5	9.0
Summary of the performance and financial position of associates		
The aggregate profit, assets and liabilities of associates are:		
Profit from ordinary activities after income tax expense	31.0	40.4
Assets	392.6	371.7
Liabilities	175.3	161.9

b) Interest in joint venture operation

Vero Insurance Limited is involved in a joint venture partnership called National Transport Insurance Joint Venture, the principal activity of which is to facilitate a co-insurance arrangement of commercial motor vehicle business. Vero Insurance Limited holds a 50% (2004: 50%) interest in the joint venture. Information relating to the joint venture partnership, presented in accordance with the accounting policy described in note 1(c), is set out below.

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
Share of operation's assets and liabilities				
Total assets	45.5	47.2	-	-
Total liabilities	(58.7)	(58.3)	-	-
Net liabilities	**(13.2)**	**(11.1)**	**-**	**-**
Share of operation's revenues, expenses and results				
Revenues	77.9	74.1	-	-
Expenses	(70.6)	(63.6)	-	-
Operating profit before income tax	**7.3**	**10.5**	**-**	**-**

22 Other Assets

	Consolidated		Parent entity	
	2005	**2004**	**2005**	**2004**
	$m	**$m**	**$m**	**$m**
Accrued income	61.9	62.6	-	-
Prepayments	40.4	35.8	-	-
Inventories	0.6	0.2	-	-
Surplus on defined benefit funds	8.2	5.4	-	-
Capitalised finance costs	5.6	5.5	4.2	5.5
Other assets	**116.7**	**109.5**	**4.2**	**5.5**

23 Plant and Equipment

At 1 January				
Cost	200.8	184.8	-	-
Accumulated depreciation	(144.2)	(129.5)	-	-
Net book value	**56.6**	**55.3**	**-**	**-**
Opening net book amount	56.6	55.3	-	-
Additions	34.2	27.7	-	-
Disposals	(3.6)	(5.4)	-	-
Depreciation expense	(21.3)	(21.0)	-	-
Exchange difference	0.1	-	-	-
Closing net book amount	66.0	56.6	-	-
At 31 December				
Cost	219.0	200.8	-	-
Accumulated depreciation	(153.0)	(144.2)	-	-
Net book value	**66.0**	**56.6**	**-**	**-**

24 Intangible Assets

a) Intangible Assets

Goodwill	279.4	271.3	-	-
Capitalised software costs	3.3	6.2	-	-
	282.7	**277.5**	**-**	**-**

b) Goodwill

At 1 January				
Cost	271.3	196.2	-	-
Accumulated impairment	-	-	-	-
Net book value	**271.3**	**196.2**	**-**	**-**
Year ended 31 December				
Opening net book amount	271.3	196.2	-	-
Additions	6.5	66.5	-	-
Exchange difference	1.6	8.6	-	-
Closing net book value	279.4	271.3	-	-
At 31 December				
Cost	279.4	271.3	-	-
Accumulated impairment	-	-	-	-
Net book value	**279.4**	**271.3**	**-**	**-**

24 Intangible Assets (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the consolidated entity's investment in each country of operation by each primary reporting segments as summarised below.

	2005		2004	
	Australia	New Zealand	Australia	New Zealand
	$m	$m	$m	$m
General Insurance – Direct	33.3	12.5	33.3	12.6
General Insurance – Intermediated	7.2	196.2	4.7	194.7
Financial Services	9.5	20.7	5.6	20.4

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the insurance business in which the CGU operates.

Key assumptions used for value-in-use calculations

The value-in-use method has been utilised to test the impairment of goodwill balances. The key, sensitive assumptions of the value-in-use method are the:

- Growth in written premium volume;
- Return on risk based capital allocated to the cash generating unit; and
- Discount rate applied to net amounts injected and received by the investors of the cash generating unit.

Given the uncertain nature of projecting cashflows, the long term assumptions may appear conservative against recent experience.

Assumed growth in written premium volumes for the next five years has been based on available budgets and plans. Beyond this point, premium growth has been assumed to be about 3.00% - 3.75% per annum for most classes of business, largely reflecting our assumed rate of inflation of insurance premiums.

Risk based capital has been allocated to each cash generating unit in accordance with the Group's capital model and allows for the inherent risk of the classes of business underwritten. The amount of risk based capital required for each future year of the cash flow projection increases in accordance with written premium. The net investor cash flow in each year of the projection equals the net profit after tax less the increase in risk based capital. All projections are carried out for 50 years, at which time the risk based capital is released to the investor and no profit flows are assumed thereafter.

The annual profit in each year of the projection represents a return on risk based capital that reduces over five years from existing levels to a long term assumption across the Group of approximately 13.0% per annum. This assumption is based on an objective of achieving returns on risk based capital in the range of 12.5% to 15.0%. Some cash generating units, based on their market dynamics, are assumed to have returns on capital greater or less than the overall average for the Group.

A discount rate is applied to the net investor cash flow from each year of the projection. These cash flows include:

- An initial injection of risk based capital;
- Net profit after tax from insurance activities and investment income earned directly by the risk based capital;
- An injection representing the increase in risk based capital required due to increased written premium; and
- Release after 50 years of the then existing risk based capital amount.

The discount rate reflects the desired return required by the investor in the cash generating unit, or the cost of capital. We have assumed a discount rate of 9.5% per annum to apply to the net investor cash flows, which represents the Group's cost of capital based on a combination of internal and external views.

The cash flow projections have all been performed on an after company tax basis. The assumed discount rate is also a cost of capital net of company tax.

The value-in-use method derived values for most of the cash generating units that are well in excess of the carrying value of goodwill. Various sensitivities and adverse scenarios around the assumptions described above were also examined which also reflected values in excess of the carrying value of goodwill.

25 Payables and Financial Liabilities

	Consolidated 2005 $m	Consolidated 2004 $m	Parent entity 2005 $m	Parent entity 2004 $m
a) Payables				
Trade creditors and accruals	269.6	320.0	-	2.4
Amounts due to reinsurers	25.5	19.3	-	-
Unearned income	10.6	12.0	-	-
Amounts due to controlled entities	-	-	288.9	171.8
Other creditors	75.0	54.9	4.4	1.6
	380.7	**406.2**	**293.3**	**175.8**
b) Financial liabilities				
Obligations under repurchase agreements	-	104.3	-	-
Reset Preference Shares [1]	300.0	300.0	300.0	300.0
Drawdown facility	121.4	16.9	-	-
Subordinated notes [2]	249.6	-	-	-
Loan from controlled entity	-	-	14.0	14.0
	671.0	**421.2**	**314.0**	**314.0**
Current	502.1	527.4	293.3	175.8
Non current	549.6	300.0	314.0	314.0
Total	**1,051.7**	**827.4**	**607.3**	**489.8**

1 The parent entity issued 3 million Reset Preference Shares with a par value of $300.0 million on 30 April 2004. The shares are redeemable at their par value on 30 April 2009 and pay dividends of the sum of the 180 day Bank Bill Swap Rate on the Allotment Date and the Initial Margin of 1.40% biannually.

2 On 7 September 2005, a subsidiary of the Group, Vero Insurance Limited, issued subordinated notes to the value of $250.0 million. The proceeds of $249.6 million is net of prepaid interest, which is being amortised over the term of the notes. The notes are callable on 7 September 2015 and will mature on 7 September 2025. Interest is calculated on 90 day and 180 day Bank Bill Swap Rates.

See note 4 for details of interest and credit risk exposure.

	Fixed interest maturing in: 1 year or less $m	1 to 5 years $m	More than 5 years $m	Floating interest rate $m	Non interest bearing $m	Total $m	Weighted Average Interest Rate %
2005							
Financial liabilities exposed to fair value interest rate risk:							
Reset Preference Shares[1]	-	-	-	300.0	-	300.0	7.0
Draw down facility	-	-	-	121.4	-	121.4	7.6
Subordinated notes	-	-	124.6	125.0	-	249.6	5.2
	-	-	124.6	546.4	-	671.0	
Weighted Average Interest Rate %	-	-	6.2	7.0			
2004							
Financial liabilities exposed to fair value interest rate risk:							
Obligations under repurchase agreements	104.3	-	-	-	-	104.3	6.8
Reset Preference Shares[1]	-	-	-	300.0	-	300.0	4.7
Draw down facility	-	-	-	16.9	-	16.9	7.0
	104.3	-	-	316.9	-	421.2	
Weighted Average Interest Rate %	6.8	-	-	4.8			

1 The Group has entered into a swap contract to hedge the interest rate risk associated with floating rate coupon payments to Reset Preference Share holders.

26 Unearned Premium Liabilities

	Consolidated		Parent entity	
	2005	2004	2005	2004
	$m	$m	$m	$m
Unearned premium liability as at 1 January	1,621.9	1,591.5	-	-
Net foreign exchange difference	3.5	14.5	-	-
Movement in unearned premium				
Deferral of premium on contracts written during the year	1,633.3	1,515.4	-	-
Earning of premiums deferred in prior years	(1,548.6)	(1,499.5)	-	-
Unearned premium liability as at 31 December	**1,710.1**	**1,621.9**	**-**	**-**
Current	1,650.7	1,545.1	-	-
Non current	59.4	76.8	-	-
Total	**1,710.1**	**1,621.9**	**-**	**-**

27 Outstanding Claims Liabilities

a) Gross outstanding claims liabilities

	Consolidated		Parent entity	
	2005	2004	2005	2004
	$m	$m	$m	$m
Gross central estimate of outstanding claims liabilities	2,790.4	2,691.5	-	-
Discount to present value	(455.7)	(429.5)	-	-
Claim handling expenses	99.2	91.8	-	-
Risk margin	370.0	347.2	-	-
Gross outstanding claims liabilities	**2,803.9**	**2,701.0**	**-**	**-**
Current	991.7	989.9	-	-
Non current	1,812.2	1,711.1	-	-
Total	**2,803.9**	**2,701.0**	**-**	**-**

b) Reconciliation of movement in discounted outstanding claims liabilities

	Consolidated	
	2005	2004
	$m	$m
At 1 January	**2,076.2**	**1,773.1**
Prior Years		
Movement in ultimate incurred costs	(94.3)	6.6
Net foreign exchange difference	1.8	7.5
Payments	(485.0)	(437.7)
Deferred premium on underwriting year valuations	32.8	30.0
Movement in discounting	50.9	38.6
Movement in claim handling expenses	(26.9)	(10.9)
Movement in risk margin	(63.2)	(9.7)
Current Year		
Ultimate incurred costs	1,840.8	1,630.4
Payments	(1,122.6)	(958.1)
Discounting	(82.7)	(72.9)
Deferred premium on underwriting year valuations	(29.6)	(32.8)
Claim handling expenses	34.2	32.1
Risk margin	88.0	80.0
At 31 December	**2,220.4**	**2,076.2**
Reinsurance recoveries on outstanding claims liabilities and other recoveries	583.5	624.8
Gross outstanding claims liabilities	**2,803.9**	**2,701.0**

27 Outstanding Claims Liabilities (continued)

c) Claims development table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent accident years.

	Accident year						
Ultimate claims cost estimate	**Prior $m**	**2001 $m**	**2002 $m**	**2003 $m**	**2004 $m**	**2005 $m**	**Total $m**
At end of accident year		1,164.9	1,186.8	1,479.2	1,633.9	1,840.8	
One year later		1,165.2	1,181.6	1,438.9	1,592.9	-	
Two years later		1,177.5	1,171.1	1,416.1	-	-	
Three years later		1,189.5	1,153.7	-	-	-	
Four years later		1,183.1	-	-	-	-	
Current estimate of ultimate claims cost		1,183.1	1,153.7	1,416.1	1,592.9	1,840.8	
Cumulative payments		(1,053.0)	(990.4)	(1,162.0)	(1,239.9)	(1,122.6)	
Undiscounted central estimate	538.9	130.1	163.3	254.1	353.0	718.2	2,157.6
Discount to present value	(157.2)	(18.3)	(23.4)	(38.6)	(56.6)	(82.7)	(376.8)
Deferred premium	-	-	-	-	-	(29.6)	(29.6)
Discounted central estimate	381.7	111.8	139.9	215.5	296.4	605.9	1,751.2
Claims handling expense							99.2
Risk margin							370.0
Net outstanding claims liabilities							**2,220.4**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							583.5
Gross outstanding claims liabilities							**2,803.9**

The reconciliation of the movement in outstanding claims liabilities and the claims development table have been presented on a net of reinsurance and other recovery basis to give the most meaningful insight into the impact on the Income Statement.

28 Unexpired Risk Liabilities

The liability adequacy test (LAT) has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The probability of sufficiency (POS) adopted in performing the liability adequacy test is set at the 75th percentile compared to the 90th percentile adopted in determining the outstanding claims liabilities (OCL).

The POS for OCL is set at a level that is appropriate and sustainable to cover the Company's claims obligations after having regard to the prevailing market environment and prudent industry practice.

Being a test of adequacy, the POS for LAT is set to highlight deficiencies in product pricing following an analysis of the Group's profit margins that equates to the Group's cost of capital after having regard to regulatory minimum requirements.

29 Employee Benefit Obligations

a) Employee benefit obligations

2005

	Australia $m	New Zealand $m	Consolidated $m
Deficit on defined benefit funds	-	19.8	19.8
Employee entitlements	46.0	9.5	55.5
	46.0	29.3	75.3
Current	38.5	9.5	48.0
Non current	7.5	19.8	27.3
Total	**46.0**	**29.3**	**75.3**

2004

	Australia $m	New Zealand $m	Consolidated $m
Deficit on defined benefit funds	6.0	19.8	25.8
Employee entitlements	41.8	6.0	47.8
	47.8	25.8	73.6
Current	35.3	6.0	41.3
Non current	12.5	19.8	32.3
Total	**47.8**	**25.8**	**73.6**

b) Defined benefit superannuation commitments

Each superannuation fund administered on behalf of employees of the consolidated entity provides benefits to members on retirement, disability or death. All new employees are currently being given membership of accumulation funds rather than defined benefit funds.

The companies in the consolidated entity sponsor a number of defined benefit superannuation plans for employees.

(i) (Surplus)/deficit position

The following table summarises the (surplus)/deficit position for each defined benefit fund.

	2005			2004		
	(Surplus) $m	Deficit $m	Net (surplus) /deficit $m	(Surplus) $m	Deficit $m	Net (surplus) /deficit $m
Australia						
Promina Group Staff Superannuation Fund	(0.3)	-	(0.3)	-	6.0	6.0
AAMI Staff Superannuation Fund	(1.6)	-	(1.6)	(0.5)	-	(0.5)
New Zealand						
Vero & Asteron New Zealand Staff Pension Scheme	-	16.9	16.9	-	16.2	16.2
RIG Superannuation Fund	-	2.9	2.9	-	3.6	3.6
Commercial Union General Insurance Staff Pension Scheme	(1.4)	-	(1.4)	(1.8)	-	(1.8)
Guardian Assurance Superannuation Fund	(4.9)	-	(4.9)	(3.1)	-	(3.1)
Total	**(8.2)**	**19.8**	**11.6**	**(5.4)**	**25.8**	**20.4**

29 Employee Benefit Obligations (continued)

	Consolidated	
	2005 $m	2004 $m
(ii) Aggregate amounts recognised in the Balance Sheet		
Present value of defined benefit obligations	226.6	224.4
Fair value of assets held by the funds	(221.2)	(209.7)
Net liability before adjustment for contributions tax	5.4	14.7
Adjustment for contributions tax	6.2	5.7
Net liability in Balance Sheet	**11.6**	**20.4**

The Group has no obligation to settle this liability with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the defined benefit plans at a rate of 12.0% - 20.6% of salaries in line with the actuary's latest recommendations.

(iii) Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated	
	2005 %	2004 %
Cash	5.6	6.1
Equity instruments	62.1	64.0
Debt instruments	26.7	27.0
Property	2.7	2.5
Other assets	2.9	0.4

	Consolidated	
	2005 $m	2004 $m
(iv) Reconciliations		
Reconciliation of the present value of the defined benefit obligation:		
Balance at the beginning of the year	224.4	219.6
Current service cost	9.1	6.6
Interest cost	9.3	9.4
Actuarial losses	0.3	2.0
Benefits paid	(17.9)	(19.4)
Exchange difference	1.4	6.2
Balance at the end of the year	**226.6**	**224.4**
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	209.7	193.0
Expected return on plan assets	12.8	12.1
Actuarial gains	8.8	11.5
Contributions by Group companies	6.6	7.0
Benefits paid	(18.0)	(19.5)
Exchange difference	1.3	5.6
Balance at the end of the year	**221.2**	**209.7**

For details of significant actuarial assumptions applied see plan details below.

29 Employee Benefit Obligations (continued)

	Consolidated 2005 $m	2004 $m
(v) Aggregate amounts recognised in the Income Statement:		
Current service cost	8.7	8.2
Interest cost	9.3	9.4
Expected return on plan assets	(12.7)	(11.9)
Increase/(decrease) in allowance for contributions tax on net liability	2.2	(0.5)
Net actuarial losses recognised during the year	(8.5)	(9.5)
Total	**(1.0)**	**(4.3)**
Actual return on plan assets	**21.5**	**23.4**

(vi) Principal actuarial assumptions

The principal actuarial assumptions used in the valuation of the defined benefits plans are as follows:

	Australia 2005 %	Australia 2004 %	New Zealand 2005 %	New Zealand 2004 %
Discount rate (net of tax)	4.4 - 4.5	4.5 - 4.6	4.1	4.0
Expected return on plan assets (net of tax)	7.0	7.0	5.5	5.5
Future salary increases	4.0	4.0	5.0	5.0

(vii) Sensitivity analysis

The effect on net (surplus)/deficit of movements of key assumptions used in the valuation of the defined benefit plans for 2005 are outlined below.

Variable	Movement in variable %	Adjusted net income (increase)/decrease $m
Discount rate	+1.0	(29.0)
	-1.0	35.6
Future salary increases	+1.0	13.2
	-1.0	(14.4)

(viii) Employer contributions

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made annually, and the last such assessment was made as at 31 October 2005 with a review of the appropriateness of the assessment at 31 December 2005.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary uses the Projected Unit Credit (PUC) Method to determine the present value of the defined benefit obligation, the related current service cost and any past service cost.

Actuarial recommendation of the employer contribution rate for the year ended 31 December 2006 together with associated actuarial assumptions used to determine the rate are summarised in the table below:

	Australia %	New Zealand %
Employer contribution rate	12.0 - 18.0	20.6
Discount rate (net of tax)	4.5 - 4.9	5.5
Expected return on plan assets (net of tax)	4.5 - 4.9	5.5
Future salary increases	4.0	6.0

29 Employee Benefit Obligations (continued)

(ix) Application of different measurement rules

The table below outlines the (surplus)/deficit arising from an application of AASB 119 *Employee Benefits* in the books of the consolidated entity compared to Australian Accounting Standard (AAS) 25 *Financial Reporting by Superannuation Plans* in the books of the defined benefit fund. The amounts derived under AAS 25 are not recognised in the financial statements of the consolidated entity.

	2005		2004	
Defined Benefit Plan	**(Surplus)/Deficit under AASB119 $m**	**(Surplus)/Deficit under AAS25[1] $m**	**(Surplus)/Deficit under AASB119 $m**	**(Surplus)/Deficit under AAS25[1] $m**
Australia				
Promina Group Staff Superannuation Fund	(0.3)	(16.0)	6.0	(6.9)
AAMI Staff Superannuation Fund	(1.6)	(1.3)	(0.5)	(1.1)
New Zealand				
Vero & Asteron New Zealand Staff Pension Scheme	16.9	0.3	16.2	-
RIG Superannuation Fund	2.9	0.2	3.6	(0.1)
Commercial Union General Insurance Staff Pension Scheme	(1.4)	(1.2)	(1.8)	(4.3)
Guardian Assurance Superannuation Fund	(4.9)	(8.2)	(3.1)	(7.1)
Total	**11.6**	**(26.2)**	**20.4**	**(19.5)**

1 These amounts are derived from audited financial statements of the funds or actuarial assessments within the last three years.

		Consolidated		Parent entity	
		2005 Number	**2004 Number**	**2005 Number**	**2004 Number**
c)	**Employee numbers**				
	Average number of employees during the financial year	7,020	7,028	-	-

30 Policy Liabilities

a) Reconciliation of movements in policy liabilities

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
Investment contract policy liabilities				
Gross investment contract liabilities as at 1 January	2,129.8	1,807.7	-	-
Net increase/(decrease) in investment contract liabilities reflected in the Income Statement	(74.1)	111.2	-	-
Investment contract contributions recognised in policy liabilities	306.4	210.9	-	-
Gross investment contract policy liabilities as at 31 December	2,362.1	2,129.8	-	-
Insurance contract policy liabilities				
Gross insurance contract liabilities as at 1 January	514.7	517.3	-	-
Decrease in insurance contract policy liabilities reflected in the Income Statement	(17.5)	(2.6)	-	-
Gross insurance contract policy liabilities as at 31 December	497.2	514.7	-	-
Total life insurance policy liabilities as at 31 December	**2,859.3**	**2,644.5**	**-**	**-**
Current	273.2	306.6	-	-
Non current	2,586.1	2,337.9	-	-
Total	**2,859.3**	**2,644.5**	**-**	**-**
Liabilities ceded under reinsurance				
Opening balance as at 1 January	183.3	149.2	-	-
Increase in reinsurance assets reflected in the Income Statement	6.9	34.1	-	-
Closing balance at 31 December	190.2	183.3	-	-
Current	(5.3)	7.7	-	-
Non current	195.5	175.6	-	-
Total	**190.2**	**183.3**	**-**	**-**
Net policy liabilities at 31 December	**2,669.1**	**2,461.2**	**-**	**-**

b) Components of policy liabilities

	Consolidated 2005 $m	Consolidated 2004 $m	Parent entity 2005 $m	Parent entity 2004 $m
Insurance contract policy liabilities				
Future policy benefits[1]	1,913.2	1,798.0	-	-
Future bonuses	50.1	38.9	-	-
Future expenses	1,192.8	1,073.9	-	-
Future profit margins	522.7	380.9	-	-
Balance of future premiums	(3,371.8)	(2,960.3)	-	-
Net policy liabilities	307.0	331.4	-	-
Life insurance reinsurance ceded	190.2	183.3	-	-
Gross policy liabilities	497.2	514.7	-	-
Gross investment contract liabilities at 31 December	2,362.1	2,129.8	-	-
Policy liabilities subject to capital guarantee	235.6	263.3	-	-

1 Future policy benefits include bonuses vested in policyowners in current and prior periods.

30 Policy Liabilities (continued)

c) Components of profit after income tax expense

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
Life Insurance profit after income tax expense:				
Planned margins of revenues over expenses released	39.9	36.5	-	-
Difference between actual and assumed experience	14.3	15.2	-	-
(Capitalised loss)/reversal of capitalised loss	3.7	(7.7)	-	-
Investment earnings on shareholders' funds	60.7	66.0	-	-
Life insurance profit after income tax expense	118.6	110.0	-	-
Life investment profit after income tax expense	20.7	12.4	-	-
Other loss after income tax expense	(9.0)	(1.9)	-	-
Total Financial Services profit after income tax	**130.3**	**120.5**	**-**	**-**

Further details of actuarial assumptions and methods applied to Life subsidiaries are provided in note 3.

31 Share Capital

a) Share capital

	Parent entity 31 December 2005		Parent entity 31 December 2004	
	Shares 000s	Shares $m	Shares 000s	Shares $m
Issued and fully paid ordinary shares	1,041,159	1,445.9	1,061,863	1,790.1

b) Movements in ordinary share capital

	Parent entity	
	Shares 000s	Shares $m
Ordinary shares fully paid at 31 December 2003	1,058,063	1,779.5
Shares issued under Dividend Reinvestment Plan (DRP) – 15 April 2004	3,800	10.6
Ordinary shares fully paid at 31 December 2004	1,061,863	1,790.1
Capital reduction – 20 June 2005	-	(244.2)
On-market share buy back – 23 September 2005 to 25 November 2005	(20,704)	(100.0)
Ordinary shares fully paid at 31 December 2005	1,041,159	1,445.9

On 15 April 2004, 3.8 million ordinary shares were issued under the DRP raising net share capital by the amount of $10.6 million.

On 20 June 2005, capital to the value of $244.2 million, representing 23 cents per ordinary share, was returned to shareholders in accordance with the Group's capital management strategy.

From 23 September to 25 November 2005, the Group undertook a share buy back programme in accordance with the Group's capital management strategy. The shares were acquired at an average price of $4.83 with prices ranging from $4.60 to $5.08.

32 Reserves and Retained Profits/(Accumulated Losses)

	Consolidated		Parent entity	
	2005	2004	2005	2004
	$m	$m	$m	$m
a) Reserves				
Assets revaluation reserve	-	-	105.5	105.5
Cash flow hedge reserve	(2.0)	(1.7)	(2.0)	(1.7)
Share plan reserve	12.4	6.9	14.6	6.9
Foreign currency translation reserve	29.2	22.0	-	-
Reserves	**39.6**	**27.2**	**118.1**	**110.7**
Movements				
Asset revaluation reserve				
Balance 1 January	-	-	105.5	105.5
Balance 31 December	-	-	105.5	105.5
Cash flow hedge reserve				
Balance 1 January	(1.7)	-	(1.7)	-
Revaluation of hedge contract	(0.3)	(1.7)	(0.3)	(1.7)
Balance 31 December	(2.0)	(1.7)	(2.0)	(1.7)
Share plan reserve				
Balance 1 January	6.9	2.1	6.9	2.1
Movement in share based payment	5.5	4.8	7.7	4.8
Balance 31 December	12.4	6.9	14.6	6.9
Foreign currency translation reserve				
Balance 1 January	22.0	(13.8)	-	-
Currency translation differences arising during the year	7.2	35.8	-	-
Balance 31 December	29.2	22.0	-	-
b) Retained profits/(accumulated losses)				
Balance 1 January	682.0	422.9	(64.7)	(115.7)
Net profit after tax for the year	504.8	459.8	236.6	252.4
Dividends	(237.6)	(200.7)	(238.4)	(201.4)
Balance 31 December	**949.2**	**682.0**	**(66.5)**	**(64.7)**

c) Nature and purpose of reserves

(i) Assets revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

(ii) Cash flow hedge reserve

The cash flow hedge reserve is used to record movement in the net position of swap contract entered by the Group to hedge the interest rate risk associated with floating rate coupon payments to Reset Preference Share holders.

(iii) Share plan reserve

The share plan reserve is used to recognise the fair value of conditional entitlements to shares issued but not yet vested.

(iv) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(r). The reserve is recognised in profit and loss when the net investment is disposed off.

33 Contingent Liabilities

The Group has no material contingent liabilities at 31 December 2005 (2004: Nil).

34 Commitments for Expenditure

	Consolidated		Parent entity	
	2005 $m	**2004 $m**	**2005 $m**	**2004 $m**
Capital commitments				
Commitments for capital expenditure contracted for at the reporting date but not recognised as liabilities:				
Within one year	1.5	2.7	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	1.5	2.7	-	-
Lease commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	52.0	40.6	-	-
Later than one year but not later than 5 years	162.2	119.1	-	-
Later than 5 years	55.4	41.0	-	-
	269.6	200.7	-	-
Representing				
Cancellable operating leases	-	-	-	-
Non cancellable operating leases	269.6	200.7	-	-
	269.6	200.7	-	-
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	3.5	8.0	-	-

35 Related Parties

a) Controlling entities

The ultimate parent entity in the wholly-owned Group is Promina Group Limited (incorporated in Australia).

b) Ownership interests in related parties

Information in relation to the following related parties is provided in the notes indicated:

Investments in associates and joint venture operations	note 21
Controlled entities	note 37

c) Directors and specified executives

Disclosures relating to Directors and specified executives are set out in the Directors' Report.

35 Related Parties (continued)

d) Wholly-owned Group

The wholly-owned Group consists of Promina Group Limited and its wholly-owned controlled entities. Aggregate amounts receivable from or payable to and transactions with related parties in the wholly-owned Group were as follows:

	Parent entity	
	2005 $m	**2004 $m**
Receivables	145.0	94.5
Other loans receivable	26.6	300.0
Payables	288.9	171.8
Other loans payable	14.0	14.0
Dividend revenue	253.2	208.9
Interest expense	1.0	1.0

Management fees are charged on an arm's length basis.

e) Other related parties

Aggregate amounts receivable from and payable to at reporting date and transactions with each class of other related parties were as follows:

	Consolidated		Parent entity	
	2005 $m	**2004 $m**	**2005 $m**	**2004 $m**
Related party receivables	-	-	13.0	15.0
Associated entities				
Receivables	2.3	0.4	-	-
Dividend revenue	7.6	6.5	-	-
Management fee	14.8	12.8	-	-

Transactions were conducted in the normal course of business and under normal terms and conditions.

f) Reinsurance arrangements

Reinsurance arrangements are conducted in the normal course of business and under normal terms and conditions with related parties. Total transactions, net of claims and expenses comprise:

Associated company	4.2	4.6	-	-

36 Remuneration of Auditors

	Consolidated		Parent entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
During the year the following services were paid to the auditor of the parent entity, its related practices and non related audit firms:				
Assurance services				
1 Audit services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Audit or review of financial reports of the Company or any entity in the consolidated entity	1,934.5	1,647.0	392.7	380.0
Fees paid to related practices of PricewaterhouseCoopers Australian firm	1,546.4	1,161.7	-	48.0
Fees paid to non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the consolidated entity	-	1.2	-	-
Total remuneration for audit services	**3,480.9**	**2,809.9**	**392.7**	**428.0**
2 Other assurance services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Audit of regulatory returns	473.0	367.9	-	-
Other services	135.9	94.6	27.5	-
AIFRS accounting advice	173.3	487.9	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	152.5	48.0	-	-
Fees paid to non-PricewaterhouseCoopers audit firms	8.3	-	-	-
Total remuneration for other assurance services	**943.0**	**998.4**	**27.5**	**-**
Total remuneration for assurance services	**4,423.9**	**3,808.3**	**420.2**	**428.0**
Taxation services				
Fees paid to PricewaterhouseCoopers Australian firm	99.1	278.4	-	-
Total remuneration for taxation services	**99.1**	**278.4**	**-**	**-**
Advisory services				
PricewaterhouseCoopers Australian firm:				
Due diligence services	-	82.0	-	-
Other services	190.0	275.5	-	-
Related practices of PricewaterhouseCoopers Australian firm	20.3	65.0	-	-
Total remuneration for advisory services	**210.3**	**422.5**	**-**	**-**
Total remuneration for auditors	**4,733.3**	**4,509.2**	**420.2**	**428.0**

It is the consolidated entity's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity is necessary.

37 Controlled Entities

a) List of all controlled entities[1]	Note	Class of shares	Country of Incorporation	Equity Holding 2005 %	Equity Holding 2004 %
Parent entity					
Promina Group Limited	A		Australia		
Controlled entities					
Bridge Street Buildings Pty Limited		Ordinary	Australia	100	100
Liberty Life Limited		Ordinary	Australia	100	100
Promina Foundation Pty Limited		Ordinary	Australia	100	100
Promina Properties Pty Limited and its controlled entities	D	Ordinary	Australia	100	100
		Preference	Australia	100	100
Promina Property Trust	C	-	Australia	100	100
Vicbrow Pty Limited	D	Ordinary	Australia	100	100
Tyndall Investment Management Limited		Ordinary	Australia	100	100
The Life Insurance Company of Australia Pty Limited		Ordinary	Australia	100	100
Promina Nominees Pty Limited		Ordinary	Australia	100	100
Promina Group Staff Superannuation Pty Limited and its controlled entity		Ordinary	Australia	100	100
Roynom Pty Limited		Ordinary	Australia	100	100
SAIPL Pty Limited (formerly Sun Alliance Investment Pty Limited)	D	Ordinary	Australia	100	100
Asteron Holdings Limited	B	Ordinary	Australia	-	100
Asteron Limited and its controlled entities		Ordinary	Australia	100	100
Financial Services Training and Assessment Pty Limited		Ordinary	Australia	100	100
Connelly Temple Superannuation Services Pty Limited and its controlled entity	B	Ordinary	Australia	-	100
Wealth Matters Pty Limited	B	Ordinary	Australia	-	100
Asteron Advisory Services Limited		Ordinary	Australia	100	100
Asteron Sales and Marketing Pty Limited		Ordinary	Australia	100	100
Asteron Portfolio Services Limited		Ordinary	Australia	100	100
		Preference	Australia	100	100
Guardian Financial Planning Limited		Ordinary	Australia	100	100
Tasman Risk Management Pty Limited		Ordinary	Australia	100	100
Guardianfp Limited		Ordinary	Australia	100	100
Standard Pacific Financial Services (NSW) Limited		Ordinary	Australia	100	13
Standard Pacific Consulting Limited		Ordinary	Australia	100	13
Standard Pacific Accounting Pty Limited		Ordinary	Australia	100	13
Asteron Distribution Services Pty Limited		Ordinary	Australia	100	100
Asteron Life Limited and its controlled entities		Ordinary	Australia	100	100
		Preference	Australia	100	100
Cameron Walshe Service Providers Pty Limited [3]		Special	Australia	100	100
		Service Provider	Australia	18	18
Cameron Walshe Australia Pty Limited [2]		Ordinary	Australia	100	91
Quantum PB (Melbourne) Pty Limited	B	Ordinary	Australia	-	100
Quantum PB (Sydney) Pty Limited	B	Ordinary	Australia	-	100
Tyndall Leasing Pty Limited	B	Ordinary	Australia	-	100
Tank Stream Trust	C	-	Australia	100	100
Trustee Income Fund	C	-	Australia	100	100
T.I.M. Management Limited	B	Ordinary	Australia	-	100
Tyndall Overseas Holdings Limited and its controlled entity	B	Ordinary	Australia	-	100
Tyndall Holdings (NZ) Limited	B	Ordinary	Australia	-	100
Tyndall Property Services Pty Limited	B	Ordinary	Australia	-	100
Tyndall Funds Management Australia Limited and its controlled entities		Ordinary	Australia	100	100
Tyndall Funds Management (NSW) Limited		Ordinary	Australia	100	100
Tyndall Funds Management (VIC) Limited		Ordinary	Australia	100	100
Tyndall Funds Limited	D	Ordinary	Australia	100	100
Global Custodians Limited		Ordinary	Australia	100	100
Tasman Asset Management Limited		Ordinary	Australia	100	100

37 Controlled Entities (continued)

a) List of all controlled entities[1]	Note	Class of shares	Country of Incorporation	Equity Holding 2005 %	Equity Holding 2004 %
Vero Insurance Limited and its controlled entities		Ordinary	Australia	100	100
ACN 006 495 987 Pty Limited (in liquidation)[10]		Ordinary	Australia	-	100
Australian Alliance Insurance Company Limited and its controlled entities		Ordinary	Australia	100	100
ABBi Pty Limited		Ordinary	Australia	100	100
Australian Pensioners Insurance Agency Pty Limited		Ordinary	Australia	100	100
Shannons Limited		Ordinary	Australia	100	100
Shannons Auctions Limited		Ordinary	Australia	100	100
Certant Pty Limited		Ordinary	Australia	100	100
Secure Sentinel Pty Limited and its controlled entity		Ordinary	Australia	100	100
Secure Sentinel (NZ) Limited		Ordinary	New Zealand	100	100
Commercial Alliance Lenders Mortgage Insurance Limited		Ordinary	Australia	100	100
National Marine Insurance Agency Limited		Ordinary	Australia	100	100
Promina Equities Limited and its controlled entity	A	Ordinary	Australia	100	100
Notron (No. 246) Unit Trust	C	-	Australia	100	100
Promina Investments Pty Ltd		Ordinary	Australia	100	-
Vero Lenders Mortgage Insurance Limited		Ordinary	Australia	100	100
Vero Workers Compensation Limited		Ordinary	Australia	100	100
Vero Workers Compensation (NSW) Limited		Ordinary	Australia	100	100
Vero Workers Compensation (SA) Limited		Ordinary	Australia	100	100
Vero Workers Compensation Services Pty Limited		Ordinary	Australia	100	-
Royvest Pty Limited		Ordinary	Australia	100	100
Australian Associated Motor Insurers Limited and its controlled entities[11]		Ordinary	Australia	100	100
Club Motor Insurance Agency Pty Limited		Ordinary	Australia	100	100
AAMI Superannuation Limited		Ordinary	Australia	100	100
AMY Corporation Limited and its controlled entities		Ordinary	Australia	100	100
All States Auto Management Pty Limited		Ordinary	Australia	100	100
Just Home Insurance Agency Pty Limited		Ordinary	Australia	100	100
Just Car Insurance Agency Pty Limited		Ordinary	Australia	100	100
AAMI Car Rentals Pty Limited		Ordinary	Australia	100	100
Aviation Office of Australia Pty Limited		Ordinary	Australia	100	100
Promina Group Holdings Pty Limited and its controlled entities		Ordinary	Australia	100	100
Promina Group Holdings (NZ) Limited and its controlled entities		Ordinary	New Zealand	100	100
Promina Foundation New Zealand Limited		Ordinary	New Zealand	100	-
Promina Group New Zealand Limited and its controlled entities		Ordinary	New Zealand	100	100
		Preference	New Zealand	100	100
AA Life Services Limited[4]		Ordinary	New Zealand	50	100
Asteron Life Limited[5]		Ordinary	New Zealand	100	100
Asteron Nominees Limited		Ordinary	New Zealand	100	100
Asteron Retirement Investment Limited		Ordinary	New Zealand	100	100
Asteron Superannuation Services Limited		Ordinary	New Zealand	100	100
Asteron Trust Services Limited		Ordinary	New Zealand	100	100
Northcroft Nominees Limited		Ordinary	New Zealand	100	100
Northcroft Plaza Limited		Ordinary	New Zealand	100	100
SAL Re Limited		Ordinary	New Zealand	100	100
NZGT Wholesale Mortgage Fund (GIF5)	C	-	New Zealand	50	100
Tyndall New Zealand Limited		Ordinary	New Zealand	100	100
Promina Group Services NZ Limited		Ordinary	New Zealand	100	100
New Zealand Life Limited		Ordinary	New Zealand	100	100
The Intermediate (NZ) Company Limited		Ordinary	New Zealand	-	100
Vero Insurance New Zealand Limited and its controlled entities		Ordinary	New Zealand	100	100
	E	Preference	New Zealand	-	-
Vero Marine Insurance Limited		Ordinary	New Zealand	100	100
PANZ Limited (formerly Phoenix Assurance Co of NZ Limited)		Ordinary	New Zealand	100	100
Superannuitants Insurance Services Limited		Ordinary	New Zealand	100	100

37 Controlled Entities (continued)

a) List of all controlled entities[1]	Note	Class of shares	Country of Incorporation	Equity Holding 2005 %	Equity Holding 2004 %
Sun Direct Insurance Limited		Ordinary	New Zealand	100	100
AA-GIO Insurance Limited		Ordinary	New Zealand	50	50
AA Insurance Limited[9]		Ordinary	New Zealand	68	68
Autosure New Zealand Limited		Ordinary	New Zealand	100	100
Vero Liability Insurance Limited		Ordinary	New Zealand	100	100
International Marine Insurance Agency Limited		Ordinary	New Zealand	100	100
Vero Accident Insurance Limited	D	Ordinary	New Zealand	100	100
Vero Specialist Risks Limited		Ordinary	New Zealand	100	-
Vero Warranty Limited		Ordinary	New Zealand	100	100
The New Zealand Guardian Trust Company Limited[7] and its		Ordinary	New Zealand	100	100
controlled entities	E	Preference	New Zealand	-	-
TIM Nominees Limited		Ordinary	New Zealand	100	100
NZGT (Portfolio Group) Security Trustee Limited		Ordinary	New Zealand	100	100
BTNZ Units Trusts Nominees Limited		Ordinary	New Zealand	100	100
Charitable Private Capital Nominees Limited		Ordinary	New Zealand	-	100
Customhouse Nominees Limited		Ordinary	New Zealand	100	100
Customhouse Nominees No. 2 Limited		Ordinary	New Zealand	100	100
Foundation Nominees Limited		Ordinary	New Zealand	100	-
GT Nominees Limited		Ordinary	New Zealand	100	100
Guardian Nominees Limited		Ordinary	New Zealand	100	100
Guardian Nominees No. 2 Limited		Ordinary	New Zealand	100	100
Guardian Nominees No. 3 Limited		Ordinary	New Zealand	100	100
Guardian Trust Nominees Limited		Ordinary	New Zealand	100	100
Home Loan Nominees Limited		Ordinary	New Zealand	100	100
Home Mortgage Nominees Limited		Ordinary	New Zealand	100	-
ING Property Trust Nominees Limited		Ordinary	New Zealand	100	100
Investment Suite Nominees Limited		Ordinary	New Zealand	100	100
NZ Share Index Nominees Limited		Ordinary	New Zealand	100	100
Newmarket Property Trust Limited		Ordinary	New Zealand	-	100
New Zealand Rural Property Trust Nominees Limited		Ordinary	New Zealand	100	100
NZGT Nominees Limited		Ordinary	New Zealand	100	100
NZGT Can West Limited		Ordinary	New Zealand	-	100
NZGT (Amal New Zealand) Nominees Limited		Ordinary	New Zealand	100	-
NZGT (Martin Currie) Nominees Limited		Ordinary	New Zealand	100	100
NZGT (NZ Finance) Security Trustee Limited		Ordinary	New Zealand	100	-
NZGT (NZ F) Servicer Nominees Limited		Ordinary	New Zealand	100	-
NZGT (PFS) Security Trustee Limited[7]		Ordinary	New Zealand	100	100
NZGT (Rembrandt) Security Trustee Limited		Ordinary	New Zealand	100	100
NZGT Financial Services Limited		Ordinary	New Zealand	100	100
New Zealand Guardian Trust Fund Management Limited		Ordinary	New Zealand	100	100
Pageant Limited		Ordinary	New Zealand	100	100
Paramount Nominees Limited		Ordinary	New Zealand	-	100
PMIT Nominees Limited		Ordinary	New Zealand	100	100
Premier Nominees Limited		Ordinary	New Zealand	100	100
Private Portfolio Service Nominees Limited		Ordinary	New Zealand	100	100
Property Finance Funding Nominees Limited[8]		Ordinary	New Zealand	100	100
REIT Nominees Limited		Ordinary	New Zealand	100	100
Sheath Holdings Limited		Ordinary	New Zealand	100	100
Strada Entertainment Trust Nominees Limited		Ordinary	New Zealand	100	100
Super WINZ Nominees Limited		Ordinary	New Zealand	100	100
Super Tracker Nominees Limited		Ordinary	New Zealand	100	100
Theatre Promotions (Two) Limited		Ordinary	New Zealand	100	100
The National Property Trust Holdings Limited		Ordinary	New Zealand	100	100

37 Controlled Entities (continued)

a) List of all controlled entities[1]	Note	Class of shares	Country of Incorporation	Equity Holding 2005 %	Equity Holding 2004 %
Tracker Nominees Limited		Ordinary	New Zealand	100	100
WINZ Nominees Limited		Ordinary	New Zealand	100	100
NZGT (Aurora) Security Trustee Limited		Ordinary	New Zealand	100	100
NZGT Security Trustee Limited		Ordinary	New Zealand	100	-
Guardian Trust Investment Nominees Limited		Ordinary	New Zealand	100	100
Guardian Trust Investment Nominees (RWT) Limited		Ordinary	New Zealand	100	100
NZ International Trustee Company Limited		Ordinary	New Zealand	100	100
Tyndall Investment Management New Zealand Limited		Ordinary	New Zealand	100	100

All controlled entities are audited by PricewaterhouseCoopers. However, entities incorporated or formed in New Zealand are audited by the New Zealand partnership of PricewaterhouseCoopers.

A Also deregistered as an Overseas Company in New Zealand.
B Fully wound up and deregistered during the year.
C This entity is a Unit Trust. It has been consolidated because ownership of units on issue exceeds 50%. These unit trusts had a balance date of 30 June.
D In members' voluntary liquidation.
E 2 shares, representing less than 1%.

1 Names indented in this table indicate a direct subsidiary of entity appearing above.
2 9% of the shares in Cameron Walshe Australia Pty Limited is held directly by Asteron Life Limited. 50% is held indirectly through Cameron Walshe Service Providers Pty Limited and 41% is held by Asteron Distribution Services Pty Limited.
3 Asteron Life Limited holds one Special Share in Cameron Walshe Service Providers Pty Limited giving it 100% of the voting and capital distribution rights and two Service Provider Shares giving it 18% of the income distribution rights.
4 Ceased to be a controlled entity on 7/10/2005. Formerly known as The Intermediate (NZ) Company Limited.
5 Promina Group New Zealand Limited owns 100% of the issued ordinary and preference capital in Asteron Life Limited.
6 Promina Group New Zealand Limited owns 100% of the issued ordinary and preference capital in The New Zealand Guardian Trust Company Limited.
7 Previously known as NZGT Security Trustee Limited (name change effective 18/4/2005).
8 Previously known as Charitable Private Capital Nominees Limited (name change effective 19/4/2005).
9 40.2% of AA Insurance Limited is held directly by Vero Insurance New Zealand Limited. A further 55.2% is held by AA-GIO Insurance Limited, a company in which Vero Insurance New Zealand Limited has a 50% interest.
10 Formerly Industrial Rehabilitation Service Pty Limited. All of the shares in this company were sold out of the group during 2004. This company was placed in liquidation on 1/7/2005 at which time it was not a controlled entity of Promina.
11 Skilled Drivers of Australia Limited ABN 71 005 918 301 (incorporated in Australia) is a controlled entity of Australian Associated Motor Insurers Limited but is not consolidated as it is a company limited by guarantee and members are not entitled to dividends or capital distributions.

b) Acquisition of businesses

2005

The Group acquired the following controlled entities and businesses in 2005:

- The remaining 87.5% shareholding in Standard Pacific Financial Services (NSW) Limited and its controlled entities on 30 September 2005; and
- The renewal rights to an intermediated commercial insurance business on 14 April 2005.

2004

The Group acquired the following controlled entities and businesses in 2004:

- Climax Group Limited (acquired 25 February 2004; subsequently amalgamated with Asteron Life Limited (New Zealand));
- Autosure New Zealand (acquired 27 August 2004); and
- Aviation Office of Australia Pty Limited (acquired 3 December 2004).

37 Controlled Entities (continued)

Details of the acquisitions of controlled entities are as follows:

	Consolidated	
	2005	**2004**
	$m	**$m**
Fair value of identifiable net assets of the controlled entities acquired:		
Cash	0.1	7.1
Receivables	0.2	3.0
Other assets	0.1	0.3
Payables and borrowings	(0.2)	(11.3)
Provisions	-	(0.1)
	0.2	(1.0)
Goodwill on consolidation	6.4	66.5
Cash consideration	6.6	65.5
Outflow of cash net of cash acquired:		
Cash consideration	6.6	65.5
Less additional consolidations payable	(1.7)	-
Less balance acquired	(0.1)	(7.1)
Outflow of cash	4.8	58.4

c) Disposal of business

2005

On 1 December 2005, the Group sold 50% of its interest in NZGT Wholesale Mortgage Fund (GIF5). The Group has retained control of the entity after disposal.

2004

On 1 July 2004, the Group sold its interest in Industrial Rehabilitation Services Pty Limited resulting in net proceeds of $2.0 million and gain on disposal of $0.9 million.

38 Share Based Payments

a) Senior Management Performance Share Plan

Details of the nature of the Senior Management Performance Share Plan (SMPSP) operated by Promina are disclosed in the Directors report.

Further details of the SMPSP are as follows:

	2005	2004
2003 Plan		
Grant date	12 May 2003	12 May 2003
Vesting date	31 December 2005	31 December 2005
Fair value of share price at grant date	$1.08	$1.08
Conditional entitlement (number of shares)	5,087,040	5,484,820
Fair value of the plan	$7.2m	$7.0m
Amount expensed during the year	$2.5m	$2.5m
2004 Plan		
Grant date	1 January 2004	1 January 2004
Vesting date	31 December 2006	31 December 2006
Fair value of share price at grant date	$1.84	$1.84
Conditional entitlement (number of shares)	3,122,889	3,341,167
Fair value of the plan	$7.3m	$6.9m
Amount expensed during the year	$2.5m	$2.3m
2005 Plan		
Grant date	1 January 2005	-
Vesting date	31 December 2007	-
Fair value of share price at grant date	$3.04	-
Conditional entitlement (number of shares)	2,205,277	-
Fair value of the plan	$7.9m	-
Amount expensed during the year	$2.6m	-

The fair value at grant date is independently determined using a Monte Carlo option pricing model that takes into account the exercise price, the term of the conditional entitlement, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the conditional entitlement, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the conditional entitlement.

The fair value at each reporting date is determined following assessment of conditional entitlements and the vesting probability.

b) Employee Share Plans

The Group operates employees share plans in Australia and New Zealand. Further details on these plans are provided as part of the Remuneration Report in the Directors' Report.

c) Treasury Shares

The Treasury shares arise on consolidation of the SMPSP Trust that was set up in 2003 to manage the Group's obligation in respect of the 2003 plan.

A reconciliation of movement in Treasury shares during the year is as follows:

	Consolidated	
	2005	2004
	$m	$m
Treasury Shares		
Balance at the beginning of the year	(15.3)	-
Purchase of Treasury shares	-	(15.3)
Treasury shares withdrawn	2.2	-
Capital reduction received by the SMPSP Trust	0.9	-
Balance at the end of the year	**(12.2)**	**(15.3)**

39 NSW Workers Compensation Statutory Funds

As explained in note 1 (j), the controlled entity does not control nor have the capacity to control the statutory funds in terms of AASB 3 *Business Combinations* and for this reason the funds are not consolidated in the Income Statement or Balance Sheet of the Group.

40 Capital Adequacy for General Insurance

	Consolidated	
	2005	2004
	$m	$m
Tier 1 capital		
Share capital	863.7	862.6
Retained profits[1]	763.1	950.8
Excess technical provisions (net of tax)	161.2	129.3
Less: Deductions	(273.7)	(269.7)
Total Tier 1 capital	1,514.3	1,673.0
Tier 2 capital		
Subordinated notes	249.6	-
Total capital base	**1,763.9**	**1,673.0**
Minimum Capital Requirements (MCR)		
Outstanding claims risk charge	285.4	269.1
Premium liabilities risk charge	204.2	189.5
Investment risk charge	217.8	231.4
Maximum event retention risk charge:		
General Insurance catastrophe risk charge	60.0	57.5
Lenders Mortgage Insurance risk charge	39.6	52.0
Total MCR	**807.0**	**799.5**
MCR Multiple	2.19x	2.09x

1 APRA requires all general insurers to report capital adequacy based on the previous AGAAP applicable at 31 December 2004. Consequently, retained profits reported exclude adjustments following adoption of Australian equivalents to International Financial Reporting Standards.

Excess technical provisions

The liability required by GPS 210 for prudential reporting purposes differs from accounting purposes. As described in note 27, Promina applies a risk margin to the central estimate of net outstanding claims to achieve 90% (2004: 85%) confidence level. GPS 210 requires a prudential margin with a sufficiency of 75%.

41 Reconciliations of Operating Profit After Income Tax to Net Cash Flows From Operating Activities

	Consolidated		Parent entity	
	2005 $m	2004 $m	2005 $m	2004 $m
Net profit for the year from ordinary activities after income tax	507.1	462.7	236.6	252.4
Investment revenue – net changes in market value	(260.9)	(334.1)	-	-
Finance costs – Reset Preference Shares	16.9	10.7	16.1	10.7
Share of net profit from associates and joint ventures	(15.5)	(20.2)	-	-
Depreciation expense of plant, equipment and amortisation of capitalised software costs	24.8	25.1	-	-
Gain on liquidation of controlled entities	-	-	-	58.5
Share plan expenses	7.6	4.8	7.6	4.8
Net movement in defined benefit funds	(8.8)	(12.9)	-	-
Change in operating assets and liabilities, net of effects from purchase of controlled entities:				
(Increase)/decrease in receivables	(34.8)	12.2	(121.8)	(142.8)
Increase in reinsurance recoveries – life insurance policyholder liabilities	(6.9)	(34.1)	-	-
(Increase)/decrease in reinsurance recoveries on outstanding claim liabilities and other recoveries	41.3	(3.2)	-	-
Decrease in deferred reinsurance premium – general insurance	6.7	25.0	-	-
Increase in deferred acquisition costs	(2.1)	(36.3)	-	-
Increase in other assets	(7.9)	(32.3)	-	-
Increase in deferred tax assets	(8.2)	(18.8)	-	-
Increase in outstanding claims liabilities	102.9	307.4	-	-
Increase in unearned premiums liabilities	88.2	30.4	-	-
Increase/(decrease) in payables	(25.5)	(5.0)	117.5	17.1
Increase/(decrease) in employee entitlements	7.7	(1.2)	-	-
Increase/(decrease) in current tax liabilities and deferred tax liabilities	56.1	52.4	(2.4)	-
Increase in life insurance policy liabilities	214.8	319.5	-	-
Net cash flows from operating activities	**703.5**	**752.1**	**253.6**	**200.7**

42 Events Occurring After Reporting Date

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

43 Financial Services – Other Information

a) Solvency requirements

These are amounts required to meet the prudential standards specified by the Life Insurance Act 1995 to provide protection against the impact of fluctuations and unexpected adverse circumstances on the company.

Australia

The methodology and bases for determining solvency requirements are in accordance with Actuarial Standard AS2.03 Solvency Standard, as required under section 65 of the Life Insurance Act 1995.

New Zealand

FRS-34 requires companies to disclose the amount of equity retained as solvency reserves. This amount has been calculated as at 31 December 2005 in accordance with the Life Insurance note issued by New Zealand Society of Actuaries.

43 Financial Services – Other Information (continued)

	Asteron Life Limited Australia		Asteron Life Limited New Zealand	
	2005 $m	2004 $m	2005 $m	2004 $m
Solvency requirement [1]	2,844.1	2,586.3	810.1	821.6
Represented by:				
Minimum termination value (MTV) [2]	2,534.0	2,275.6	605.3	602.5
Other liabilities	145.7	152.9	98.3	96.4
Solvency reserve	164.4	157.8	106.5	122.7
	2,844.1	2,586.3	810.1	821.6
Assets available for solvency reserve	281.3	240.9	170.7	177.1
Comprised of:				
Excess of net policy liability over MTV	(388.2)	(354.7)	(102.8)	(81.9)
Liability for policyowner retained profits at end of year	1.2	0.3	16.8	14.4
Net assets	668.3	595.3	256.7	244.6
	281.3	240.9	170.7	177.1
Solvency reserve	6.1%	6.5%	15.1%	17.6%
Coverage of solvency reserve	1.7x	1.5x	1.6x	1.4x

1 The minimum level of assets required to be held in each statutory fund, prescribed by the solvency standard referred to in Part 5 of the Life Insurance Act 1995.

2 The minimum termination value is determined in accordance with the solvency standard and is the base figure upon which reserves against liability and asset risks are layered in determining the solvency requirements. The minimum termination value represents the minimum obligation of the company to policyholders at the reporting date. Where no payment would be made in the event of voluntary termination, a minimum of the discounted present value of the unexpired risk and/or future payments using best estimate assumptions has been applied.

b) Disclosure on asset restrictions, managed assets and trustee activities

Australia

(i) Restrictions on assets

Investments held in the life statutory funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions to policyholders and shareholders following advice from Appointed Actuary regarding the capital adequacy and solvency implications. Participating policyowners can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

(ii) Managed assets

The company controls Tyndall Investment Management Limited which manages eleven unit trusts with a combined total of $2.2 billion (2004: $1.6 billion) of assets under management. Arrangements are in place to ensure that the asset management activities of Tyndall Investment Management Limited are managed separately from Asteron Life Limited.

(iii) Trustee activities

The Group has the following trustee activities:

Asteron Portfolio Services Limited acts as trustee for all the Asteron Limited Group superannuation funds, Connelly Temple Public Superannuation Fund (PSF) and Connelly Temple Pooled Superannuation Trust (PST) and had $0.9 billion (2004: $1.3 billion) under trusteeship.

Promina Group Staff Superannuation Pty Limited acts as a trustee for the Promina Group Staff Superannuation Fund.

Arrangements are in place to ensure that the activities of each trustee are managed separately from the life operations of the Group.

43 Financial Services – Other Information (continued)

New Zealand

(i) Restrictions on Assets

Participating policyowners and shareholders can only receive a distribution when the prudential reserving requirement is met.

(ii) Managed assets

Tyndall Investment Management New Zealand Limited (Tyndall) operates as the investment manager for the funds of external clients and the New Zealand companies in the Group. Tyndall had funds under management of $3.1 billion (2004: $2.8 billion).

The fund management activities of Tyndall are segregated from the settlement, title and custody of its clients' funds.

(iii) Trustee activities

The New Zealand Guardian Trust Company Limited (NZGT) is a trustee company constituted under its own Act of Parliament and it is empowered to act as an executor, trustee, agent, manager or custodian as well as a trustee for unit trusts, debt securities and securitisation structures. NZGT had $3.5 billion assets under administration (2004: $4.2 billion) and $26.0 billion securities supervised (2004: $25.8 billion).

Asteron Retirement Investment Limited, Asteron Superannuation Services Limited and Asteron Nominees Limited act as trustees or managers for a number of wholesale, superannuation and investment funds. The assets and liabilities of these trusts and funds are not included in the financial statements as the Group does not have direct and indirect control of the trusts and funds. Assets held under trusteeship as at 31 December 2005 totalled $452.8 million (2004: $380.3 million).

(iv) Mortgage investments

A special purpose Group Investment Fund (GIF), NZGT Wholesale Mortgage Fund (GIF5), was set up on 22 July 2004 to enable the New Zealand Financial Services business to invest in mortgages. At 31 December 2005 Asteron held 50% of the units in the GIF and exercised control over the GIF under the provisions of the Trust Deed (2004: Asteron held 90% and NZGT 10% of the units). NZGT redeemed all of its holdings and Asteron part of its holdings on 30 November 2005, and the units redeemed were taken up by parties external to the Group at a capital contribution of NZ$25.0 million ($23.1 million).

As at 31 December 2005 the GIF has mortgage loan investments $166.4 million (2004: $61.8 million). A NZ$150 million draw down facility has been obtained, of which NZ$130 million ($121.4 million) has been utilised at 31 December 2005 (2004: NZ$18.3 million ($16.9 million)).

Receipts from the mortgage portfolio are used to pay the interest and principal commitments due on the cash advance facility and other administration expenses. The cash advance facility is secured over the assets of the GIF.

NZGT provides administration services to the GIF. Such services include the sourcing and underwriting of mortgage assets, credit management, customer service and incidental accounting and record keeping. A fee is charged to the GIF for these services.

43 Financial Services – Other Information (continued)

c) Disaggregated information of life insurance business by fund

Asteron Life Limited – Australia

	Statutory Fund						
	1	**2**	**3**	**4**	**5**	**Share-holders**	**Total Funds**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
2005							
Investment assets	662.6	85.6	30.6	1,894.2	166.5	12.7	2,852.2
Other assets	205.7	8.9	2.0	69.0	3.1	1.6	290.3
Net policy liabilities	159.1	83.9	27.7	1,892.9	146.5	-	2,310.1
Unvested policyholder benefits	-	-	-	-	4.0	-	4.0
Other liabilities	91.6	5.1	0.5	43.1	5.4	0.3	146.0
Retained profits	349.2	1.4	6.4	12.9	13.7	2.5	386.1
Net premium revenue	236.5	-	-	-	3.4	-	239.9
Investment revenue	75.9	10.4	3.0	250.1	18.4	1.0	358.8
Other revenue	-	1.2	0.5	38.1	-	-	39.8
Net claims expense	74.8	-	-	-	12.3	-	87.1
Other operating expenses	132.0	1.1	0.4	28.8	2.8	-	165.1
Increase/(decrease) in policy liabilities	(19.1)	7.8	2.1	200.1	0.7	-	191.6
Operating profit before tax	124.8	2.7	1.0	59.4	6.1	1.0	195.0
Operating profit after tax	93.6	0.3	0.6	14.3	3.0	0.5	112.3
Transfers to/(from) other statutory funds	(25.0)	-	(2.0)	(3.0)	(9.0)	-	(39.0)
Transfers to/(from) shareholders' funds	-	-	-	-	-	39.0	39.0
2004							
Investment assets	591.1	94.3	32.5	1,657.3	169.2	4.4	2,548.8
Other assets	260.5	(2.1)	1.5	23.2	3.7	15.4	302.2
Net policy liabilities	165.3	84.2	27.9	1,660.8	149.4	-	2,087.6
Unvested policyholder benefits	-	-	-	-	0.3	-	0.3
Other liabilities	137.4	2.9	0.3	3.9	3.6	-	148.1
Retained profits	280.6	1.1	7.8	1.6	19.5	8.1	318.7
Net premium revenue	218.4	-	-	-	4.2	-	222.6
Investment revenue	78.6	12.7	3.9	240.8	21.4	1.0	358.4
Other revenue	-	1.2	0.5	27.3	-	0.2	29.2
Net claims expense	50.0	-	-	-	15.1	-	65.1
Other operating expenses	135.0	1.5	0.4	32.7	2.9	0.3	172.8
Increase/(decrease) in policy liabilities	(3.5)	9.7	3.2	196.6	2.0	-	208.0
Operating profit before tax	115.4	2.6	0.9	38.8	5.6	0.8	164.1
Operating profit/(loss) after tax	83.8	(0.4)	0.6	7.7	4.8	0.9	97.4
Transfers to/(from) other statutory funds	-	-	-	-	-	-	-
Transfers from shareholders' funds	-	-	-	-	-	-	-

Statutory Funds 1, 3 and 5 are non investment linked business funds.
Statutory Funds 2 and 4 are investment linked business funds.

43 Financial Services – Other Information (continued)

Asteron Life Limited – New Zealand

	Unit linked	Shareholders and other business	Total funds
	$m	$m	$m
2005			
Investment assets	296.3	673.0	969.3
Other assets	19.1	60.0	79.1
Net policy liabilities	291.0	237.4	528.4
Unvested policyholder benefits	-	16.8	16.8
Other liabilities	19.4	203.7	223.1
Retained profits	4.9	89.5	94.4
Net premium revenue	-	94.3	94.3
Investment revenue	38.7	52.9	91.6
Other revenue	-	10.0	10.0
Net claims expense	-	67.2	67.2
Other operating expenses	3.6	63.5	67.1
Increase/(decrease) in policy liabilities	21.4	(13.4)	8.0
Operating profit before tax	13.7	27.2	40.9
Operating profit after tax	3.2	24.3	27.5
2004			
Investment assets	283.2	541.2	824.4
Other assets	14.9	65.2	80.1
Net policy liabilities	290.3	230.3	520.6
Unvested policyholder benefits	-	14.4	14.4
Other liabilities	6.2	112.1	118.3
Retained profits	1.6	82.6	84.2
Net premium revenue	-	74.0	74.0
Investment revenue	35.9	53.1	89.0
Other revenue	-	7.3	7.3
Net claims expense	-	50.8	50.8
Other operating expenses	4.6	54.7	59.3
Increase in policy liabilities	19.4	0.7	20.1
Operating profit before tax	11.9	26.5	38.4
Operating profit after tax	2.3	23.4	25.7

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

a) At the date of transition to AIFRS: 1 January 2004

	Note	Consolidated			Parent Entity		
		Previous AGAAP	Effect of transition to AIFRS[1]	AIFRS	Previous AGAAP	Effect of transition to AIFRS[1]	AIFRS
	44 (4)	$m	$m	$m	$m	$m	$m
Assets							
Cash and cash equivalents	(i)	328.0	15.0	343.0	0.3	-	0.3
Receivables	(iii)	623.9	7.4	631.3	61.5	15.0	76.5
Investments		4,563.1	(4,563.1)	-	1,914.8	(1,914.8)	-
Life insurance investment assets		2,876.3	(2,876.3)	-	-	-	-
Financial assets at fair value through profit or loss	(vi), (xi)	-	7,438.6	7,438.6	-	-	-
Reinsurance recoveries on outstanding claims liabilities and other recoveries		621.6	-	621.6	-	-	-
Reinsurance recoveries - life insurance policyholder liabilities	(v)	244.0	(94.8)	149.2	-	-	-
Deferred reinsurance premiums - General Insurance	(iii)	-	102.5	102.5	-	-	-
Investment properties		-	2.3	2.3	-	-	-
Deferred acquisition costs		238.7	-	238.7	-	-	-
Investments in associates and joint ventures		91.0	-	91.0	-	-	-
Investments in controlled entities		-	-	-	-	1,914.8	1,914.8
Plant and equipment		66.0	(10.7)	55.3	-	-	-
Deferred tax assets	(xii)	66.8	1.6	68.4	-	-	-
Intangible assets		196.2	10.7	206.9	-	-	-
Other assets	(ii)	209.9	(101.2)	108.7	-	-	-
Total assets		**10,125.5**	**(68.0)**	**10,057.5**	**1,976.6**	**15.0**	**1,991.6**
Liabilities							
Payables	(xi)	1,375.1	(963.9)	411.2	158.7	-	158.7
Current tax liabilities	(xi)	41.3	0.1	41.4	47.5	-	47.5
Financial liabilities		-	965.6	965.6	-	14.0	14.0
Borrowings		-	-	-	14.0	(14.0)	-
Unearned premium liabilities		1,591.5	-	1,591.5	-	-	-
Provisions		49.2	(49.2)	-	-	-	-
Outstanding claims liabilities		2,393.6	-	2,393.6	-	-	-
Life insurance policy liabilities	(iv), (v)	2,375.0	(50.0)	2,325.0	-	-	-
Employee benefit obligations	(ii)	-	84.2	84.2	-	-	-
Deferred tax liabilities	(xi),(xii)	39.7	1.9	41.6	-	-	-
Total liabilities		**7,865.4**	**(11.3)**	**7,854.1**	**220.2**	**-**	**220.2**
Net assets		**2,260.1**	**(56.7)**	**2,203.4**	**1,756.4**	**15.0**	**1,771.4**
Equity							
Share capital		1,779.5	-	1,779.5	1,779.5	-	1,779.5
Reserves	(i)	(13.8)	2.1	(11.7)	105.5	2.1	107.6
Retained profits/(accumulated losses)	(xiv)	481.6	(58.7)	422.9	(128.6)	12.9	(115.7)
Parent interest		2,247.3	(56.6)	2,190.7	1,756.4	15.0	1,771.4
Minority interest	(ii)	12.8	(0.1)	12.7	-	-	-
Total equity		**2,260.1**	**(56.7)**	**2,203.4**	**1,756.4**	**15.0**	**1,771.4**

1 Reclassification between Balance Sheet categories without any change to underlying measurement basis and effect of change in measurements basis as a result of an application of AIFRS.

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

b) At the end of the last reporting period under previous AGAAP: 31 December 2004

	Note	Consolidated			Parent Entity		
		Previous AGAAP	Effect of transition to AIFRS[1]	AIFRS	Previous AGAAP	Effect of transition to AIFRS[1]	AIFRS
	44 (4)	$m	$m	$m	$m	$m	$m
Assets							
Cash and cash equivalents	(i)	330.0	0.6	330.6	1.8	-	1.8
Receivables	(xi)	619.0	0.1	619.1	394.5	15.0	409.5
Investments		4,392.5	(4,392.5)	-	1,945.6	(1,945.6)	-
Life insurance investment assets		3,367.3	(3,367.3)	-	-	-	-
Financial assets at fair value through profit or loss	(vi),(xi)	-	7,754.6	7,754.6	-	-	-
Reinsurance recoveries on outstanding claims liabilities and other recoveries		624.8	-	624.8	-	-	-
Reinsurance recoveries - life insurance policyholder liabilities	(v)	212.4	(29.1)	183.3	-	-	-
Deferred reinsurance premiums - General Insurance		-	77.5	77.5	-	-	-
Investment properties		-	3.7	3.7	-	-	-
Deferred acquisition costs		275.0	-	275.0	-	-	-
Investments in associates and joint ventures	(xiii)	101.4	3.3	104.7	-	-	-
Investments in controlled entities		-	-	-	-	1,945.6	1,945.6
Plant and equipment		62.8	(6.2)	56.6	-	-	-
Deferred tax assets	(xii)	80.3	6.9	87.2	-	-	-
Intangible assets	(vii)	250.8	26.7	277.5	-	-	-
Other assets	(ii), (viii), (ix)	175.2	(65.7)	109.5	-	5.5	5.5
Total assets		**10,491.5**	**12.6**	**10,504.1**	**2,341.9**	**20.5**	**2,362.4**
Liabilities							
Payables	(viii), (xi)	506.2	(100.0)	406.2	171.7	4.1	175.8
Current tax liabilities	(xi)	25.8	7.8	33.6	36.5	-	36.5
Financial liabilities	(viii)	-	421.2	421.2	-	314.0	314.0
Borrowings		16.9	(16.9)	-	14.0	(14.0)	-
Unearned premium liabilities		1,621.9	-	1,621.9	-	-	-
Provisions		55.5	(55.5)	-	-	-	-
Outstanding claims liabilities		2,701.0	-	2,701.0	-	-	-
Life insurance policy liabilities	(iv), (v)	2,613.3	31.2	2,644.5	-	-	-
Employee benefit obligations	(ii)	-	73.6	73.6	-	-	-
Deferred tax liabilities	(xi), (xii)	97.9	3.9	101.8	-	-	-
Total liabilities		**7,638.5**	**365.3**	**8,003.8**	**222.2**	**304.1**	**526.3**
Net assets		**2,853.0**	**(352.7)**	**2,500.3**	**2,119.7**	**(283.6)**	**1,836.1**
Equity							
Share capital	(viii)	2,083.8	(293.7)	1,790.1	2,083.8	(293.7)	1,790.1
Treasury shares	(i)	-	(15.3)	(15.3)	-	-	-
Reserves	(i), (ii), (vii), (x),	21.6	5.6	27.2	105.5	5.2	110.7
Retained profits/(accumulated losses)	(xiv)	731.1	(49.1)	682.0	(69.6)	4.9	(64.7)
Parent interest		2,836.5	(352.5)	2,484.0	2,119.7	(283.6)	1,836.1
Minority interest		16.5	(0.2)	16.3	-	-	-
Total equity		**2,853.0**	**(352.7)**	**2,500.3**	**2,119.7**	**(283.6)**	**1,836.1**

1 Reclassification between Balance Sheet categories without any change to underlying measurement basis and effect of change in measurements basis as a result of an application of AIFRS.

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

(2) Reconciliation of profit for the year ended: 31 December 2004

	Note	Consolidated			Parent Entity		
		Previous AGAAP	Effect of transition to AIFRS[1]	AIFRS	Previous AGAAP	Effect of transition to AIFRS[1]	AIFRS
	44 (4)	$m	$m	$m	$m	$m	$m
General Insurance result from operating activities[2]		460.4	22.7	483.1	269.1	(4.8)	264.3
Financial Services result from operating activities[3]		211.5	(13.7)	197.8	-	-	-
Finance costs	(viii), (ix)	-	(10.7)	(10.7)	(1.0)	(10.7)	(11.7)
Net profit for the year from ordinary activities before income tax		**671.9**	**(1.7)**	**670.2**	**268.1**	**(15.5)**	**252.6**
Income tax expense	(xi), (xii)	(210.6)	3.1	(207.5)	(0.2)	-	(0.2)
Net profit for the year from ordinary activities after income tax		**461.3**	**1.4**	**462.7**	**267.9**	**(15.5)**	**252.4**
Profit attributable to minority interests		(2.9)	-	(2.9)	-	-	-
Net profit for the year from ordinary activities after tax attributable to members of Promina Group Limited		**458.4**	**1.4**	**459.8**	**267.9**	**(15.5)**	**252.4**

1 Effect of change in measurement basis as a result of an application of AIFRS.
2 The restatements under AIFRS are set out in notes (i), (ii), (iii), (vi), (vii),(x) and (xiii).
3 The restatements under AIFRS are set out in notes (ii), (iv), (v), (vi), (vii) and (xi).

(3) Reconciliation of Cash Flow Statements for the year ended 31 December 2004

(I) At 1 January 2004
Cash and cash equivalents for the Group at the date of transition increased by $15.0 million representing the cash balance in the Senior Management Performance Share Plan (SMPSP) Trust. The Trust has been consolidated for the first time at the date of transition to AIFRS.

(ii) Year ended 31 December 2004
Cash and cash equivalents increased by $0.6 million representing the cash balance, interest and dividends received through the SMPSP Trust, offset by payments for purchase of treasury shares.

Items in the Cash Flow Statements affected on transition to AIFRS are detailed below:

	Consolidated Restatement			Parent Entity Restatement		
	AGAAP $m	AIFRS $m	AIFRS $m	AGAAP $m	AIFRS $m	AIFRS $m
Cash flows from operating activities						
Interest received	243.7	0.1	243.8	-	-	-
Cash flows from financing activities						
Purchase of treasury shares	-	(15.3)	(15.3)	-	-	-
Dividends paid on ordinary shares	(190.8)	0.8	(190.0)	-	-	-
Cash and cash equivalents at the beginning of the year	328.0	15.0	343.0	0.3	-	0.3
Cash and cash equivalents at the end of the year	330.0	0.6	330.6	1.8	-	1.8

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

(4) Notes to the reconciliations

(i) Share based payments

In accordance with AASB 2 *Share-based payment*, from 1 January 2005 equity-based compensation benefits to employees are measured on a fair value basis and recognised as an expense as services are received, with an equivalent amount recognised in the share plan reserve.

Expenses relating to equity-based benefits to employees were recognised on a cash basis under AGAAP. An amount of $15.0 million was paid to the SMPSP Trust in 2003 to meet the SMPSP's funding obligation for 2003. This entry has been reversed under AIFRS as a result of consolidation of the Trust.

Dividend income received on treasury shares held is offset against dividends paid by the Company.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is an increase in cash of $15.0 million, the recognition of a share plan reserve of $2.1 million and an increase in retained profits of $12.9 million. For the parent entity there is an increase in receivables of $15.0 million, the recognition of a share plan reserve of $2.1 million and an increase in retained profits of $12.9 million.

At 31 December 2004
For the Group there is an increase in cash of $0.6 million, the recognition of treasury shares of $15.3 million, an increase in retained profits of $9.0 million and an increase in share plan reserve of $6.9 million. For the parent entity there is an increase in receivables of $15.0 million, the recognition of a share plan reserve of $6.9 million and an increase in retained profits of $8.1 million.

Income Statement

For the year ended 31 December 2004
For the Group there is an increase in General Insurance investment revenue of $0.1 million and employee benefits expense of $4.8 million. Dividend income of $0.8 million received on treasury shares held has been offset against dividends paid by the parent entity.

For the parent entity employee benefits expense for the year has increased by $4.8 million.

(ii) Employee benefit obligations

Certain entities within the Group are sponsors of defined benefit superannuation plans. Under AGAAP, actuarial surpluses and deficits on defined benefit superannuation plans were not recognised in the financial statements. Under AIFRS, however, any surplus or deficit is recognised, in other assets and employee benefit obligations respectively, and any movement from the previous reporting period is recognised in the Income Statement. The actuarial surplus or deficit is measured as the difference between the present value of the employees' accrued benefits and the net market value of the superannuation fund's assets at the reporting date.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is an increase of $35.2 million in employee benefit obligations and $2.8 million in other assets, and a decrease in retained profits of $32.3 million and minority interest of $0.1 million. There is no effect on the parent entity.

At 31 December 2004
For the Group there is an increase of $24.7 million in employee benefit obligations, $5.2 million in other assets and $0.1 million in foreign currency translation reserve, and a decrease in retained profits of $19.4 million and minority interest of $0.2 million. There is no effect on the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group employee benefits expense for the year has decreased by $12.8 million. There is no effect on the parent entity.

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

(iii) Unbundling of multi-year reinsurance contracts: General Insurance

In accordance with the revised AASB 1023, General Insurance multi-year treaty reinsurance contracts with a deposit component have been unbundled between deposit and insurance components, with the deposit component effectively treated as either a financial asset or liability. Surpluses or deficits are recognised in the financial statements. Under AGAAP, the Group deferred the recognition of experience account surplus and immediately recognised any deficit. Circumstances at 31 December 2004 resulted in the surplus being recognised in full.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is an increase of $7.4 million in reinsurance receivables, a decrease of $1.5 million in deferred reinsurance premiums and an increase in retained profits of $5.9 million. There is no effect on the parent entity.

At 31 December 2004
There is no impact on the Group or the parent entity as the recognition of the experience account surplus under AGAAP aligned the accounting with AIFRS.

Income Statement

For the year ended 31 December 2004
For the Group there is an increase in outwards reinsurance premium expense of $5.9 million to reflect the recognition of the experience account surplus under AGAAP. There is no effect on the parent entity.

(iv) Deferred acquisition costs: Life investment contracts

In accordance with AASB 4 *Insurance Contracts*, products that do not meet the definition of an insurance contract, including investment account and investment linked products such as allocated annuity and allocated pensions, are classified as life investment contracts and are accounted for under AASB 139 *Financial Instruments*. Fewer acquisition costs are able to be deferred under AASB 139 than had previously been allowed under AASB 1038 *Life Insurance Contracts*.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is an increase of $36.3 million in life insurance policy liabilities and a corresponding decrease in retained profits. There is no effect on the parent entity.

At 31 December 2004
For the Group there is an increase of $38.2 million in life insurance policy liabilities and a corresponding decrease in retained profits. There is no effect on the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group policy liabilities expense has been increased by $1.9 million. There is no effect on the parent entity.

(v) Valuation of insurance liabilities using risk-free discount rates

Both the revised AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* require the use of risk-free discount rates in valuing insurance liabilities as opposed to the previous use of risk-adjusted discount rates for General Insurance liabilities and discount rates that reflect market returns on investments backing life insurance liabilities. Whilst this does not represent an accounting policy change for the Group's General Insurance business, the discount rate applied in the Group's life insurance valuation of policy liabilities will be lower than what was previously applied.

The impact of the above to the Group and to the parent entity respectively is as follows:

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

Balance Sheet

At 1 January 2004
For the Group there is a decrease in reinsurance recoveries on life insurance policyholder liabilities of $94.8 million, a decrease of $86.3 million in life insurance policy liabilities and a decrease in retained profits of $8.5 million. There is no effect on the parent entity.

At 31 December 2004
For the Group there is a decrease in reinsurance recoveries on life insurance policyholder liabilities of $29.1 million, a decrease of $7.0 million in life insurance policy liabilities and a decrease in retained profits of $22.1 million. There is no effect on the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group policy liabilities expense has been increased by $13.6 million. There is no effect on the parent entity.

(vi) Fair value of financial assets

In accordance with the revised AASB 1023 and AASB 1038, assets backing insurance liabilities are designated at fair value through profit or loss. The Group has elected to also apply the fair value option for measuring all other assets that are not backing insurance liabilities. This contrasts with the use of net market value (fair value less transaction costs) under AGAAP.

An impact of applying the fair value option is the requirement to use bid price in determining fair value as opposed to the previous use of last sale price. Further, there is no requirement to provide for transaction costs under AIFRS.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is a decrease of $0.2 million in financial assets at fair value through profit or loss and a corresponding decrease in retained profits. There is no effect on the parent entity.

At 31 December 2004
For the Group there is a decrease of $3.8 million in financial assets at fair value through profit or loss and a corresponding decrease in retained profits. There is no effect on the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group investment revenue has been decreased by $3.6 million. There is no effect on the parent entity.

(vii) Goodwill

In accordance with AASB 3 *Business Combinations*, goodwill is no longer amortised, and there is a requirement to carry out an annual impairment testing of the carrying value of goodwill, focusing on cash flows of the related cash generating units (CGUs). The Group has reviewed the present value of future cash flows relating to its CGUs and has confirmed that they support the carrying value of the goodwill.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
There is no effect on the Group or the parent entity.

At 31 December 2004
For the Group there is an increase of $20.5 million in intangible assets, $20.2 million in retained profits and $0.3 million in foreign currency translation reserve. There is no effect on the parent entity.

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

Income Statement

For the year ended 31 December 2004
For the Group there is a decrease in other expenses of $20.2 million, representing reversal of amortisation expense. There is no effect on the parent entity.

(viii) Reset Preference Shares (RPS)

The Group has classified RPS as debt based on certain redemption, buy back and cancellation trigger clauses contained in the RPS offering, in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation*. Distributions will be treated as finance costs. This represents a change in accounting policy as the Group classified RPS wholly as equity and distributions as dividends under AGAAP.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
Since the RPS issue took place on 1 May 2004, there is no impact to the Group or the parent entity at 1 January 2004.

At 31 December 2004
For the Group there is an increase of $6.3 million in other assets (capitalised transaction costs), $2.4 million in accrued interest payable and $300.0 million in financial liabilities, and a decrease of $293.7 million in share capital and $2.4 million in retained profits. The effect is the same for the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group and the parent entity there has been an increase in finance costs of $9.9 million.

(ix) Amortisation of RPS transaction costs

In accordance with AASB 123 *Borrowing Costs*, the above mentioned transaction costs of $6.3 million referred to in note 44(4) (viii) relating to the issue of RPS have been capitalised and are amortised over the five year term of the RPS agreement. Under AGAAP, these costs were capitalised against RPS capital.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
There is no effect on the Group or the parent entity.

At 31 December 2004
For the Group there is a decrease in other assets (capitalised transaction costs) of $0.8 million and a corresponding decrease in retained profits. The effect is the same for the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group and the parent entity there has been an increase in finance costs of $0.8 million.

(x) RPS hedge

The Group has entered into a five year swap agreement to hedge the interest rate risk associated with floating rate coupon payments to RPS holders.

Under AGAAP, the swap contract was accounted for at fair value with the movement in the net swap position recorded in the Income Statement.

Under AIFRS, the reclassification of RPS as debt qualifies the swap contract for cash flow hedge accounting. Consequently, the movement in the net swap position is recorded in equity as a reserve.

The impact of the above to the Group and to the parent entity respectively is as follows:

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

Balance Sheet

At 1 January 2004
There is no effect on the Group or the parent entity.

At 31 December 2004
The effect on the Group is recognition of a reserve of $1.7 million offset by a corresponding increase in retained profits. There is no effect on the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group and the parent entity there is a decrease in other expenses of $1.7 million.

(xi) Consolidation of unit trusts

Under AGAAP, the Group's interest in unit trusts were recorded as life insurance investment assets. On application of AIFRS, unit trusts are consolidated on a line by line basis. Minority interest in unit trusts are recognised in payables.

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is an increase in financial assets at fair value through profit or loss of $1.7 million, payables of $1.7 million and deferred tax liability of $0.1 million, and a decrease in current tax liability of $0.1 million. There is no effect on the parent entity.

At 31 December 2004
For the Group there is an increase in receivables of $0.1 million, financial assets at fair value through profit or loss of $2.3 million, payables of $1.9 million, current tax liability of $0.1 million and deferred tax liability of $0.4 million. There is no effect on the parent entity.

Income Statement

For the year ended 31 December 2004
For the Group there is an increase in Financial Services investment revenue of $0.8 million, investment management and non statutory funds expense of $0.2 million and income tax expense of $0.6 million. There is no effect on the parent entity.

(xii) Income tax

In accordance with AASB 112 *Income Taxes*, deferred tax balances have been determined using the Balance Sheet method. Under this method, temporary differences are calculated based on the carrying amounts of the Group's assets and liabilities in the Balance Sheet and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity have been recognised in equity.

This differs from the requirement under AGAAP where deferred tax balances were determined using the Income Statement method. Under this method, items were only tax-effected if they were included in the determination of pre-tax accounting profit or loss and/or taxable income or loss. Further, current and deferred taxes could not be recognised directly in equity.

The tax adjustments outlined below include the impact of this change in income tax accounting basis as well as the cumulative tax effect of all other AIFRS adjustments. The tax impact is calculated in expectation of the tax outcomes being accepted by the Australian Taxation Office and the Inland Revenue Department (New Zealand).

The impact of the above to the Group and to the parent entity respectively is as follows:

Balance Sheet

At 1 January 2004
For the Group there is an increase of $1.6 million in deferred tax assets and $1.8 million in deferred tax liability, and a decrease in retained profits of $0.2 million. There is no effect on the parent entity.

At 31 December 2004
For the Group there is an increase of $6.9 million in deferred tax assets, $3.5 million in deferred tax liability, and $3.4 million in retained profits. There is no effect on the parent entity.

44 Explanation of Transition to Australian Equivalents to International Financial Reporting Standards (continued)

Income Statement

For the year ended 31 December 2004
For the Group there is a decrease in income tax expense of $3.6 million. There is no effect on the parent entity.

(xiii) Investments in associates and joint ventures

Both AIFRS and the previous AGAAP require the use of equity method of accounting in measuring the Group's share of investments in associates and joint ventures. Under the previous AGAAP, the value of the investment included amortisation of goodwill, which no longer applies under AIFRS.

The impact of the above to the Group and the parent entity is as follows:

Balance sheet

At 1 January 2004
There is no effect on the Group or the parent entity.

At 31 December 2004
For the Group, there is an increase of $3.3 million in investments in associates and joint ventures and an equivalent increase in retained profits. There is no effect on the parent entity.

Income statement

At 31 December 2004
For the Group, there is an increase in share of net profit of associates and joint ventures of $3.3 million. There is no effect on the parent entity.

(xiv) Retained profits

The effect on the Group and the parent entity retained profits of the changes set out above are as follows:

		Consolidated		Parent entity	
	Note	1 January 2004	31 December 2004	1 January 2004	31 December 2004
	44(4)	$m	$m	$m	$m
Share based payments	(i)	12.9	9.0	12.9	8.1
Employee benefit obligations	(ii)	(32.4)	(19.6)	-	-
Unbundling of General Insurance multi-year reinsurance contracts	(iii)	5.9	-	-	-
Deferred acquisition costs: Life investment contracts	(iv)	(36.3)	(38.2)	-	-
Valuation of life insurance liabilities using risk-free rates	(v)	(8.5)	(22.1)	-	-
Fair value of financial assets	(vi)	(0.2)	(3.8)	-	-
Goodwill	(vii)	-	20.2	-	-
RPS	(viii)	-	(2.4)	-	(2.4)
RPS: amortisation of transaction costs	(ix)	-	(0.8)	-	(0.8)
RPS: cash flow hedge	(x)	-	1.7	-	-
Income tax	(xii)	(0.2)	3.4	-	-
Investment in associates and joint ventures	(xiii)	-	3.3	-	-
		(58.8)	(49.3)	12.9	4.9

Attributable to:		
Equity holders of the parent entity	(58.7)	(49.1)
Minority interest	(0.1)	(0.2)
	(58.8)	(49.3)