

# IAG ANNUAL REPORT 2004

A RISK MANAGEMENT STORY: **PART 1**

# MANAGING RISK TO CREATE SHAREHOLDER VALUE.

**Michael Hawker**, CEO (left) and **James Strong**, Chairman (right) examine a crash test vehicle at the IAG Technical Research Centre, Artarmon, Sydney. Researchers at the centre gather extensive data used to educate the community and measure risk.



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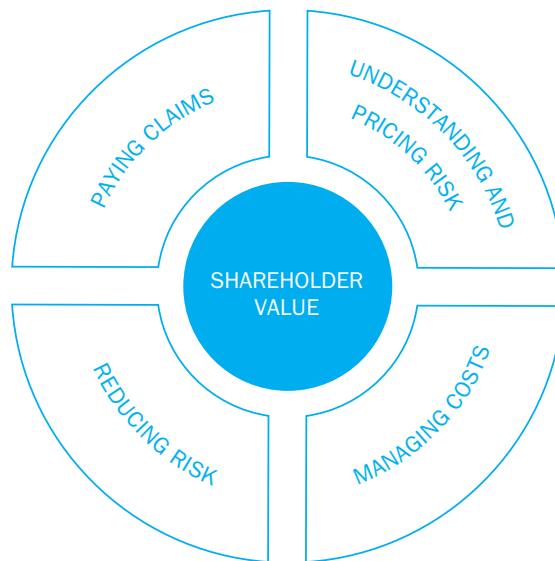
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The basic principle of insurance is simple. Premiums are paid to insurers to reduce the financial hardship of an unexpected loss.

While the principle may be simple, the mechanics of running an insurance company are not.

Insurers price products before their actual cost is known. That's made more difficult by the influence of long-term cycles outside our control. Weather patterns, investment returns, changing regulation, availability of capital and reinsurance, and shifting community attitudes towards risk, can all take years to manifest themselves. Insurers also deal with events that happen at a moment's notice, like the damage from a severe storm.

Although Insurance Australia Group deals in uncertainties, there is one thing we do know for sure. One in three households in Australia and New Zealand relies on us to protect them and their assets. It's a responsibility we take seriously, and one we believe requires us to deliver value in four ways:

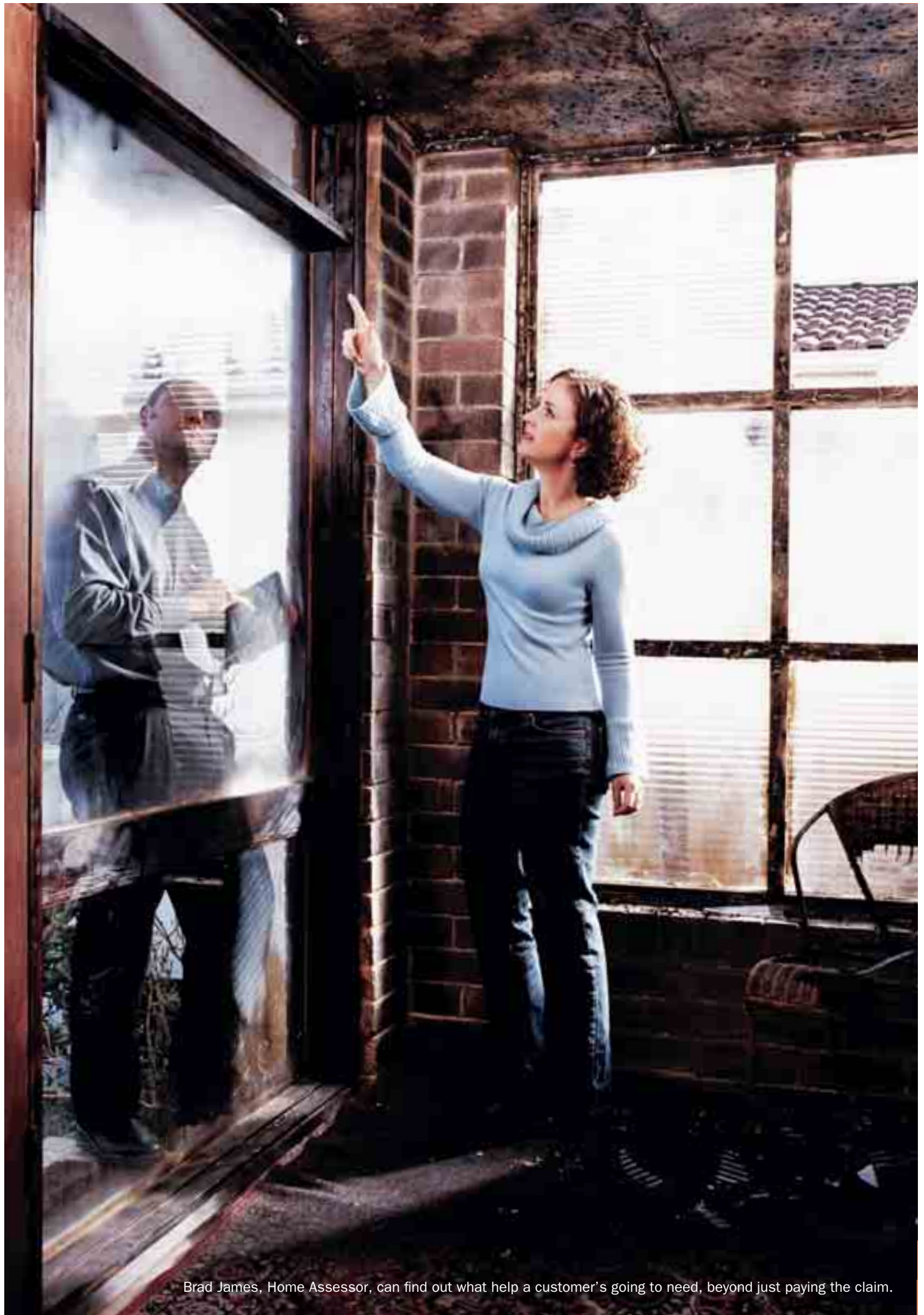
- paying claims;
- understanding and pricing risk;
- managing our costs; and
- reducing risk in the community.

Aligning our people and our business around these four principles is the key to ensuring our future sustainability and creating value for our shareholders.

However, a risk management story can't be told over one year. That's why we've made this report the first instalment of an ongoing series. It's a new way of reporting, but one we trust will help you view the 12-month performance of a long-term investment.

**Michael Hawker**  
CEO, Insurance Australia Group

**James Strong**  
Chairman, Insurance Australia Group



Brad James, Home Assessor, can find out what help a customer's going to need, beyond just paying the claim.

# THERE'S A LOT MORE TO PAYING CLAIMS THAN PAYING CLAIMS.



During the year, Insurance Australia Group paid out about \$4.2 billion in claims. That's around \$11 million a day. But paying claims is the easy part. The real work is getting customers back on the road or back to work, or replacing their goods as quickly as possible. That's why insurance policies include features such as lifetime guarantees on repairs, new-for-old replacement, and temporary accommodation. It's also why Insurance Australia Group offers a 24-hour emergency Helpline to many of our customers.

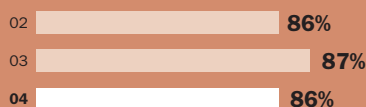
#### 24-HOUR HELPLINE CALLS

Number of customer calls for emergency assistance through our 24-hour Helpline during the year:

**37,421**

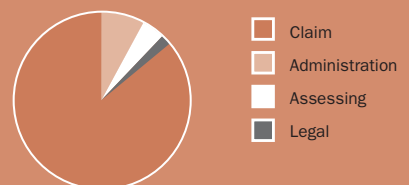
#### CLAIMS SATISFACTION

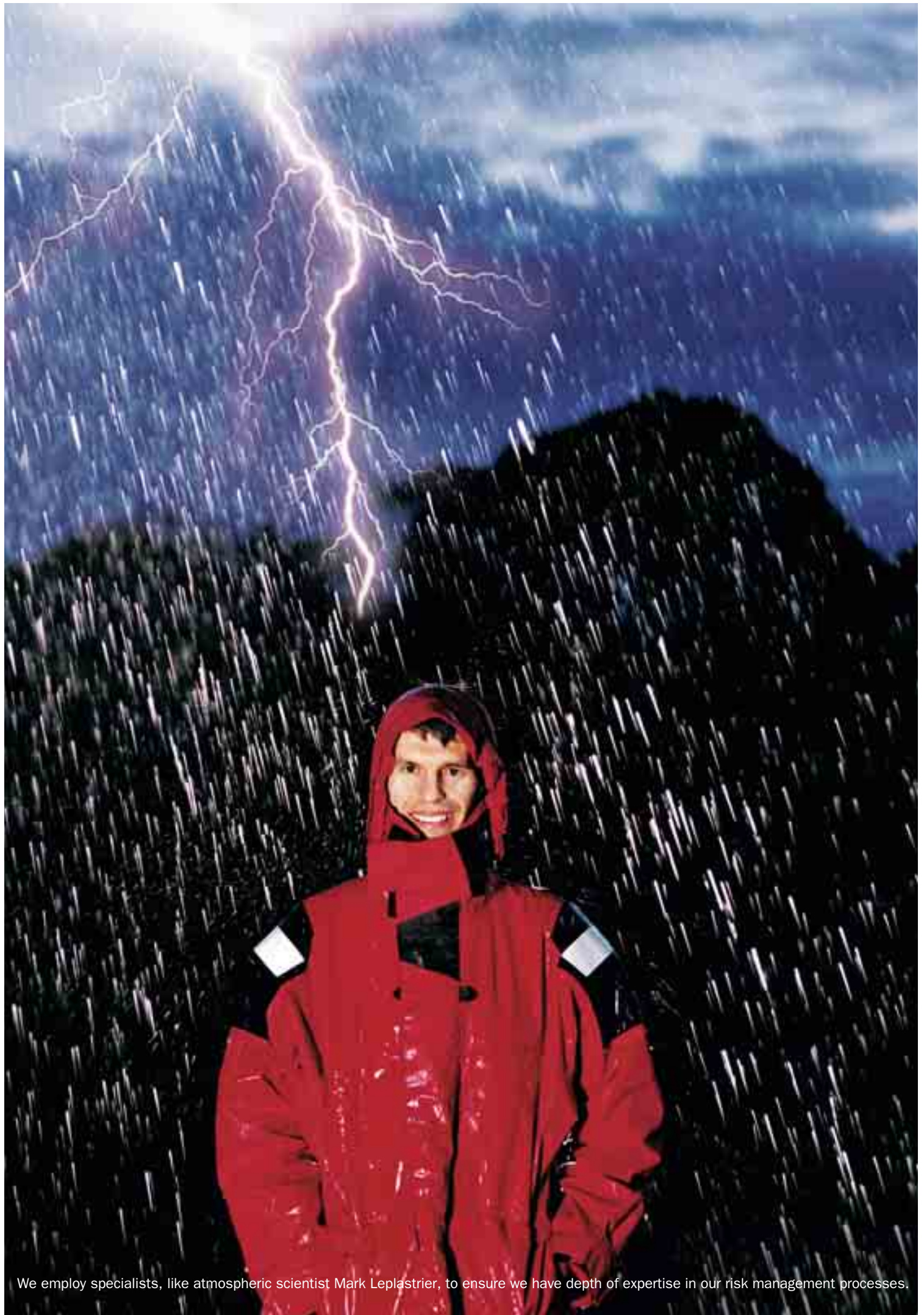
Satisfaction with claims management among customers in our largest portfolios of direct motor and home insurance in Australia:



#### THE COSTS OF A CLAIM

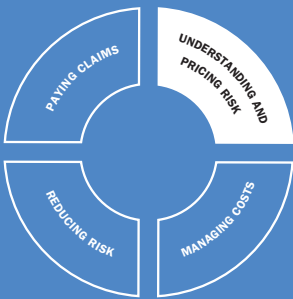
On average, when IAG pays a claim, these are the expenses incurred:





We employ specialists, like atmospheric scientist Mark Leplastrier, to ensure we have depth of expertise in our risk management processes.

# SEEING A RISK IS ONE THING, ANTICIPATING IT IS ANOTHER.



Insurers set premiums before the cost of claims is known. Take car insurance for example. The price of a premium is set before it's known if the car will be involved in a collision, stolen, broken into or damaged. The challenge for an insurer is to anticipate the potential risk and price it accurately and fairly, ensuring it's neither overpriced nor underpriced. Expertise in managing risk is vital to an insurer's long-term viability. That's why Insurance Australia Group employs specialists such as industry researchers, atmospheric scientists, underwriters and actuaries, who collect and analyse comprehensive data relating to risks.

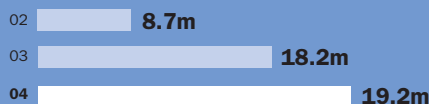
#### TOTAL PROPERTY VALUES INSURED

Total property values insured by IAG across Australia and New Zealand as at 30 June 2004:

**\$816 billion**

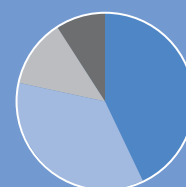
#### NUMBER OF RISKS IN FORCE

The number of risks that IAG insures:



#### IAG'S PEOPLE INVOLVED IN MANAGING RISK

Our 11,500 employees across all areas of our business involved in managing risks:

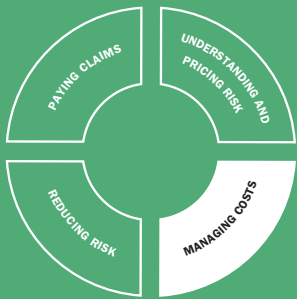


- Claims management
- Frontline (sales and distribution)
- Risk management
- Corporate and infrastructure



Stephen Ware, Motor Assessor, understands that the economics of the Group's business are based on scale.

# WITH OUR ECONOMIES OF SCALE, MORE REALLY IS LESS.



Insurance Australia Group is Australasia’s largest general insurance group. The Group insures approximately one in three cars, one in three homes, one in two farms, and one in six businesses in Australia. In total, the Group insures more than \$800 billion worth of property. The economics of the Group’s business are based on scale. Scale allows access to volume discounts across the supply chain, without sacrificing quality. For customers, that means better, more competitively priced products and services. Scale also allows risks and costs to be spread across a larger number of policies, delivering greater stability of earnings for shareholders.

**ADMINISTRATION RATIO**

Our administration ratio (our administration expenses measured as a percentage of our net earned premium):

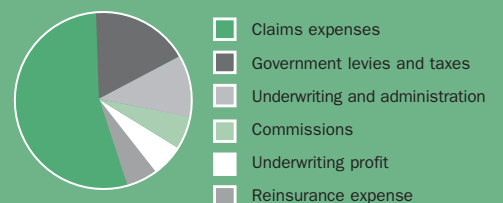
**18%**

**RISKS PER FULL-TIME EMPLOYEE**

The number of risks that IAG insures per employee:



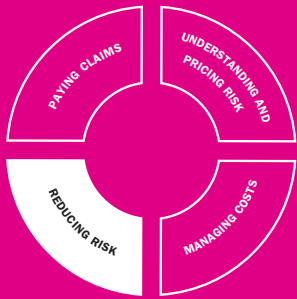
**CONTRIBUTORS TO THE COST OF RUNNING OUR BUSINESS**





Hang Nguyen, Financial Analyst, knows just how much providing security and smoke alarm systems reduces risk in the community.

# THE FEWER THE RISKS THE BETTER – FOR EVERYONE.



Working to reduce risk in the community and consequently the number of claims makes good commercial sense. But it also makes good common sense. Fewer risks mean customers can avoid unnecessary hardships, and they benefit from lower premiums too. That’s why Insurance Australia Group invests in risk reduction programmes, such as fire prevention strategies, workplace safety initiatives, crime prevention programmes and community grants.

#### COMMUNITY GRANTS

Number of grants provided to community organisations through IAG’s Community Help Grants programme during the year:

**139** grants,  
totalling more  
than \$500,000

#### WORK-RELATED INCIDENTS AT IAG

Number of work-related incidents that became workers’ compensation claims per million hours worked:



#### THE AREAS IAG TARGETS TO REDUCE ITS ENVIRONMENTAL IMPACT

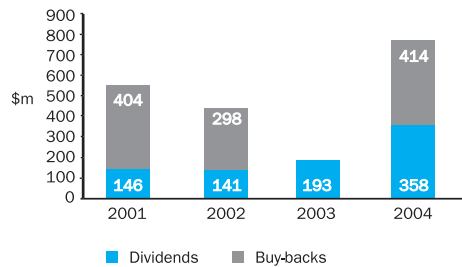
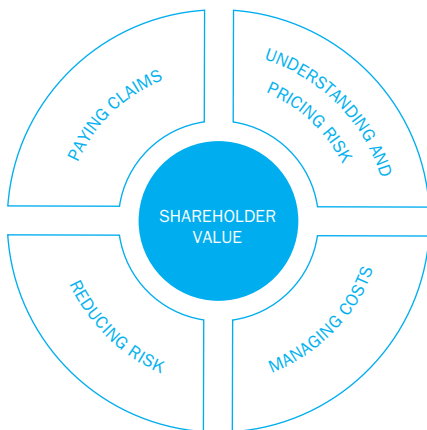
- Energy use
- Print paper consumption
- Office paper consumption
- Fuel use
- Air travel
- CO<sub>2</sub> emissions

# THE VALUE AT THE CENTRE



IAG Chairman, **James Strong**

The four principles outlined in the opening pages of this Annual Report do not only represent an unwavering commitment to our customers, they are also the foundation upon which our continued financial prosperity will be built. By honouring these principles, we aim to earn our customers' loyalty, build trust and respect in the wider community, provide a rewarding work environment for our people and create value for our shareholders. Evidence that this strategy is working can be seen in this year's result.



**CASH RETURNED TO ORDINARY SHAREHOLDERS IN RELATION TO THE YEAR ENDED 30 JUNE**



**DIVIDENDS PER ORDINARY SHARE IN RELATION TO THE YEAR ENDED 30 JUNE (cents per share)**

## DELIVERING ON EXPECTATIONS

During a year of consolidation, Insurance Australia Group once again demonstrated its ability to provide shareholders with quality returns, and achieved all Group financial and operating targets.

We recorded a net profit attributable to shareholders of \$665 million, compared with \$153 million in the previous year. Our improved profit reflects the increased scale of our business following our acquisition of CGU and NZI in January 2003, improvements in our underlying performance, and a pre-tax investment return of \$434 million on shareholders' funds.

Our investment result was driven by the best equity market performance in three years and is the highest return we have achieved since listing in August 2000.

## INCREASED DIVIDENDS

In recognition of our strong financial position and in line with our commitment to pass on value to shareholders, your Board has increased the target dividend payout ratio from 40%–70% of normalised profit after goodwill amortisation, to 50%–70% of normalised profit before goodwill amortisation.

Applying the new policy, we will pay a fully franked final dividend of 14 cents per ordinary share, on 18 October 2004. This brings our total dividend for the year to 22 cents per ordinary share, a 91% increase on the previous year.

In addition, we now plan to pay the total annual dividend in a 45:55 proportion between the interim and final dividends, compared with the 40:60 proportion we have applied since we listed in 2000.

The Group is targeting growth of at least 10% per annum in dividends per ordinary share going forward.

## SHARE PRICE PERFORMANCE

Our achievements have been rewarded with solid share price performance. An investment in IAG ordinary shares outperformed the Australian All Ordinaries Index and inflation by growing 47% over the past financial year. Including dividends, total shareholder return was 51%. Since we listed four years ago, the aggregate total shareholder return has been about 100%, including the final dividend of 14 cents per share for 2004.

At 30 June 2004, we had a market capitalisation of \$8 billion, an increase of 39% from last year, making us the 18th largest company on the Australian Stock Exchange.

## CAPITAL MANAGEMENT INITIATIVES

We continued to actively manage our capital during the year, in line with our commitment to ensure it is administered in the most efficient manner.

We undertook an off-market share buy-back that was successfully completed in June 2004. We bought back 5.6% of the Group's ordinary shares on issue for a total of \$414 million. The buy-back achieved a very efficient purchase price for the Group and, over time, is expected to increase our earnings per share and return on equity.

Following the buy-back, we remain strongly capitalised. The Group's capital adequacy multiple at 30 June 2004 was around 1.75 times the Australian Prudential Regulation Authority's (APRA) minimum capital requirement. We believe this is an important prudential measure and we

actively seek to maintain our capital adequacy at a healthy margin above the regulatory requirement.

Importantly, we maintained our very strong 'AA' Standard & Poor's (S&P) insurer financial strength ratings for our key operating entities, currently the highest S&P rating of any Australian-based financial institution.

## CORPORATE GOVERNANCE

We take seriously the importance of robust governance to ensure discipline and enable consistency in performance and to protect the interests of shareholders and customers. While we believe this starts with the Board, our intention is to embed our principles of governance and risk management into the culture of our people, building on a structure of integrity and performance in every corner of our organisation.

To enable a sound framework for decision-making, the Board is supported by three key Committees – the Nomination, Remuneration & Corporate Governance Committee, the Audit Committee and the Risk Management & Compliance Committee – which meet regularly to consider Insurance Australia Group's audit process, investments, remuneration, compliance and other matters. The roles of these committees and their activities during the year are outlined in the Corporate Governance section starting on page 32. All committee charters are published on [www.iag.com.au](http://www.iag.com.au).

We continued to monitor corporate governance developments and spent considerable time meeting the challenges of increased regulation, compliance and changing legislative requirements. Importantly, the Federal Government's CLERP 9 legislation became law on 1 July 2004 and we were prepared to quickly adopt the new requirements. Similarly, we are actively participating in APRA's ongoing policy review in relation to disclosure, actuarial and audit standards supervision. We are preparing to adopt the new Australian equivalent to International Financial Reporting Standards as they are introduced.

As indicated last year, we phased out the retirement benefit scheme for new Non-executive Directors, and we introduced a new tenure policy for Non-executive Directors to ensure we have relevant experience and independence on our Board.

## OUR FUTURE PRIORITIES

The strength of our result confirms the effectiveness of the Group's strategy. On behalf of the Board, I congratulate CEO Michael Hawker and his management team on another successful year, and thank them for their significant contribution.

I can assure you we remain focused on our priorities. Our intention is to optimise our already strong franchises in Australia and New Zealand by continually improving our customer service and efficiency, and responsibly using our scale in those markets. We will also work to identify and pursue new growth opportunities offshore.

We understand very clearly that our business can be impacted by many factors and our ongoing success will be determined by our ability to anticipate and respond to those challenges.



**James Strong**  
Chairman

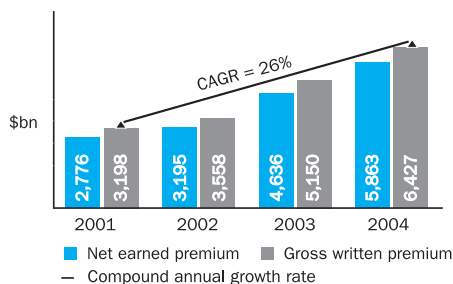
# HOW WE'VE PERFORMED

## HOW INSURANCE WORKS

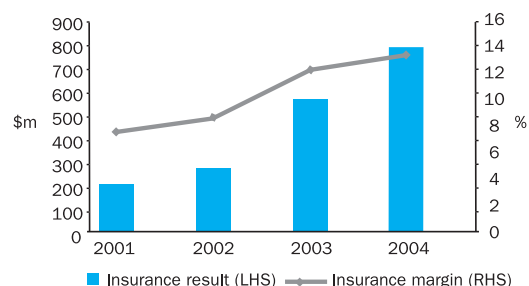


## HIGHLIGHTS

	2003	2004
<b>GROSS WRITTEN PREMIUM</b> The total amount we received from customers for the payment of their insurance policies.	\$5,150m	\$6,427m
<b>NET EARNED PREMIUM</b> Our net earned premium is our gross earned premium minus reinsurance expense.	\$4,636m	\$5,863m
<b>NET CLAIMS EXPENSE</b> The amount paid out in claims during the year, as well as an estimate of how much we need to pay on unsettled claims, plus claims handling costs such as legal and administrative expenses, less recoveries from reinsurers and other parties.	\$3,363m	\$3,815m
<b>UNDERWRITING EXPENSES</b> The costs associated with researching risk and determining appropriate premiums, underwriting, administering the policy information required to run the business, marketing, commissions, distribution and meeting the Group's compliance requirements.	\$1,074m	\$1,500m
<b>UNDERWRITING RESULT</b> The profit or loss we make from our premium income before we consider related investment income.	\$199m	\$548m
<b>INVESTMENT RETURNS FROM CLAIMS RESERVES</b> This is the income received from investing reserves held to pay future claims.	\$372m	\$244m
<b>INSURANCE RESULT</b> The addition of our underwriting result and investment returns from claims reserves.	\$571m	\$792m
<b>INVESTMENT INCOME/(LOSS) ON SHAREHOLDERS' FUNDS</b> The income received from investing our shareholders' funds.	\$(120)m	\$434m
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	\$153m	\$665m



REVENUE GROWTH  
YEAR ENDED 30 JUNE



INSURANCE RESULT AND MARGIN  
YEAR ENDED 30 JUNE

## RETURN TO SHAREHOLDERS

### RETURN ON EQUITY

Net profit attributable to our ordinary shareholders as a percentage of the average equity of those shareholders.

2003

2004

5.1%

21.1%

### TOTAL DIVIDENDS PER SHARE

Includes an interim dividend of 8 cents per ordinary share and a final dividend of 14 cents per ordinary share for the financial year ended 30 June 2004.

11.5 cents

22.0 cents

## GROUP INSURANCE RATIOS

### INSURANCE MARGIN

The insurance result as a percentage of net earned premium.

12.3%

13.5%

### COMBINED OPERATING RATIO

Our claims and underwriting expenses measured as a percentage of our net earned premium.

95.7%

90.7%

## OPERATIONAL HIGHLIGHTS

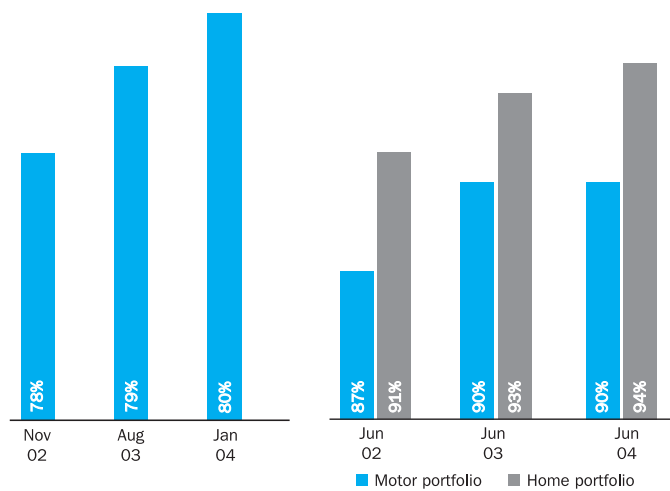
- Refocused on general insurance – sold non-core health insurance underwriting and ClearView businesses.
- Completed the programme to integrate CGU and NZI into the Group, to deliver \$160 million in annual synergy benefits, pre-tax, promised at the time of acquisition.
- Met or exceeded all Group operating targets.
- Increased risks in force by 5.2%.
- Sustained high customer retention levels above 90% across our largest portfolios of directly distributed home and motor insurance and claims satisfaction above 85%.
- Completed \$414 million off-market share buy-back.
- Recorded a regulatory capital position as at 30 June 2004 of 1.75 times the minimum capital required by APRA.

# A RISK BUSINESS



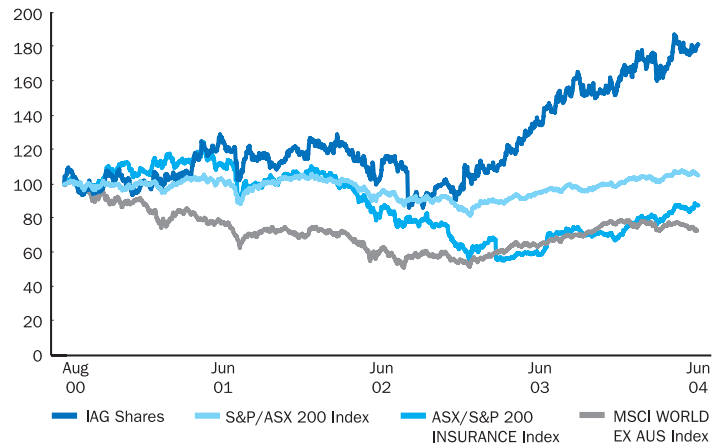
IAG CEO, **Michael Hawker**

This Annual Report is 'part one' of an ongoing risk management story, because we consider long-term thinking as key to running a business that deals in risk. Results for the 12-month period show the Group has exceeded key targets.



**OVERALL CUSTOMER SATISFACTION**

**CUSTOMER RETENTION RATES**



**IAG ORDINARY SHARE PRICE PERFORMANCE VERSUS OTHER SHAREMARKET INDICES**

## **A RECORD PERFORMANCE**

I am pleased to report another solid year of performance by your company, Insurance Australia Group Limited. In the past 12 months, we have improved customer satisfaction, sales, employee engagement and our risk management practices, and we experienced favourable economic conditions, all of which contributed to a record profit.

We reported a record insurance profit of \$792 million for the year ended 30 June 2004. Our net profit attributable to shareholders of \$665 million was also boosted by a pre-tax return on our shareholders' funds of \$434 million. This was a significant turnaround for this portfolio, which recorded a loss of \$120 million in the prior year. Although investing in equities creates volatility in our earnings, we believe they generate the best long-term return for our shareholders.

This performance underpinned our strong capital position and saw us maintain our very strong Standard & Poor's 'AA' insurer financial strength ratings for key operating entities, currently the highest of any Australian-based financial institution.

We also rewarded shareholders with a 91% increase in our dividend.

This was despite major challenges in our operating environment.

## **SEVERE STORMS IN A YEAR OF DROUGHT**

In February, New Zealand experienced the worst storm in its history. Many of our customers were left homeless or with significant damage to their property. This followed a storm in Melbourne which ranked among the 15 worst insurance events in Australia's history, as well as a number of severe storms in Queensland.

Damage from these storms totalled around \$265 million, and put pressure on our people and suppliers, who responded wonderfully well, receiving much praise from our customers.

These storms are further evidence of the increasing effect of global warming on weather patterns. We believe the increasingly severe weather is the key reason the Australian industry has only reported an underwriting profit on home insurance in three of the past 10 years for which data is published.

Despite the impact of the storms, prolonged dry weather on the east coast of Australia saw claims frequency significantly below our long-term forecasts for our motor portfolio.

Our ability to produce a strong profit, despite these contrasting effects, demonstrates the real value of a diversified portfolio of risks.

Apart from the impact of the weather-induced catastrophes, our insurance portfolios have been trading satisfactorily with prices reflecting risk. The rate of growth in commercial premiums has slowed as commercial markets are now appropriately priced after many years of underpricing.

In the long-tail insurance classes, premiums in workers' compensation and compulsory third party (CTP) are falling, reflecting reduced claims frequency, while public liability premiums are stabilising as the benefits of tort law reform impact these portfolios.

## **REGULATORY ENVIRONMENT**

The reform of tort law in each State of Australia and at the Federal Government level was one element in another year of significant legislative and regulatory change.

In May, we launched a home warranty product in New South Wales and Victoria following industry reform, and we're currently looking to do the same in Western Australia and South Australia.

APRA issued its draft Stage 2 regulatory reforms of prudential supervision of general insurers. The Davis report into the merits of financial system guarantees, and the Potts report into the regulation of direct offshore foreign insurers and discretionary mutual funds, both prompted Federal Government response.

In Western Australia, the fire services levy was removed leading to lower insurance premiums in that State, a new interpretation on stamp duty application was introduced, and stamp duty on workers' compensation insurance was removed on 1 July 2004.

We began operating under new financial services laws, which required new licensing and training for a significant number of our Australian-based employees, agents, brokers and business partners, as well as a complete renewal of much of our product documentation.

Although the rate of regulatory and legislative change is slowing, compliance remains a significant cost to the Group.

## **FOCUS ON GENERAL INSURANCE**

This year was also a busy one for the Group in terms of corporate activity. During the year, we sold both our health insurance underwriting operations and ClearView Retirement Solutions. This completed our transition from a more diversified financial services provider to a pure general insurance group.

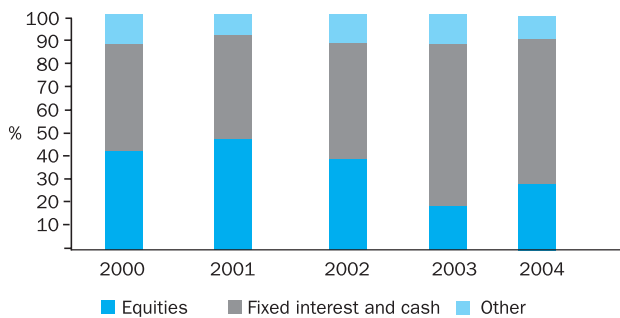
At the same time, we sold our 50% stake of Associated Marine and our 25% stake of RACT Insurance in Tasmania, due to the acquisition of CGU triggering a change in ownership clause in these joint ventures. In response, we established our own marine insurance operation and launched NRMA Insurance in Tasmania to provide personal lines insurance.

## **INTEGRATION OF CGU AND NZI COMPLETE**

Internally, our major focus was to successfully integrate the businesses of CGU and NZI into the Group. I'm pleased with the success of the integration programme which was completed during the year which will ensure we will deliver annual synergy benefits of \$160 million (pre-tax) and added significantly to our ability to provide insurance services to the rural and business communities.

During the year, CGU was again judged the No.1 commercial insurer in Australia among major brokers and middle market brokers.

The integration of NZI in New Zealand has been equally successful and we now have the premier insurance business in both the commercial and consumer sectors of the New Zealand market.



**TOTAL INVESTMENTS MIX**

**STRONG INVESTMENT RETURNS**

The Group's investment portfolio, totalling \$10.2 billion at year end, returned 8.1% for the year, outperforming the underlying benchmarks. This outperformance added approximately \$86 million to the pre-tax profit.

The majority of our claims reserves are invested in very high credit quality fixed interest and cash securities. At year end, 76% of the cash and fixed interest portfolio was invested in either government securities or securities rated 'AAA'. Over the year, investment income from claims reserves contributed \$244 million before tax to the Group's insurance result.

A strategic asset allocation review targeting risk reduction through greater diversity in the shareholders' funds across both asset classes and managers is being implemented. The Group's shareholders' funds, predominantly invested in equities, contributed \$434 million before tax to the Group's results.

We continue to seek to generate consistent active returns while at all times understanding and managing the investment risk within an insurance operation.

**BUILDING A COHESIVE CULTURE**

Considerable effort is being made to align our people around a common culture and set of values. We have a strong view that the sustainability of our business is directly linked to the ongoing benefit we offer our customers and the community. We see those benefits being the following:

**1. Paying claims**

Customers expect their claims will be paid. That's the point of insurance. But we need to ensure there is no misalignment between what we pay our customers when they claim and what they perceived we would pay when they initially entered into the policy.

**2. Understanding and pricing risk**

We price our products before we know their cost. So it's important we are expert in assessing and pricing risk accurately and fairly.

**3. Managing our costs**

Our operating costs are included in the price of a premium, so we must be as efficient as possible. We are responsibly using our scale to keep our costs per policy down.

**4. Reducing the likelihood of a claim from occurring in the first place**

None of us wants to experience the hardship that leads to making a claim, so we use our knowledge to help reduce the likelihood of a claim occurring in the first place. We concentrate on reducing environmental risks, crime, and workplace injury.

By unifying our people behind this purpose, we are generating a common culture which is focused, customer and community caring, and motivated.

**IAG'S STRATEGIC GOALS**

- Top quartile shareholder return
- Return on equity of at least 1.5 times weighted average cost of capital
- Establish an Asian foothold
- Maintain an 80:20 mix of short-tail : long-tail premiums
- Maintain a 'AA' category rating

It's hard to measure the impact of this cultural alignment other than to say our customer service levels are improving, complaints are falling, errors are reducing and employee engagement is accelerating. All of which are leading to increased brand value.

**LOOKING AHEAD**

In looking to the future, the Group has good momentum. Both the Australian and New Zealand economies are sound.

Our strategic position is strong. With the diversity of our business and our low cost, scale franchise, the Group is well positioned to compete effectively should operating conditions become less favourable.

We believe further value can be derived from our Australian and New Zealand businesses. We'll also continue our search for suitable opportunities to expand our business into Asia.

Finally, I would like to take this opportunity to thank my management team and all the wonderful people employed in the Group who have worked tirelessly to generate this performance.

**Michael Hawker**  
Chief Executive Officer

## INSURANCE AUSTRALIA GROUP'S AWARD WINNING PERFORMANCE

### Winner, Best General Insurance Company

Australian Banking & Finance Magazine Awards 2004

### Winner, Service to the Community Award

Australia and New Zealand Insurance Industry Awards 2004

### Winner, Sustainable Company of the Year

Annual Ethical Investor Sustainability Awards 2003

### Winner, Best Non-bank Financial Institution

Australian Banking & Finance Magazine Awards 2003

### Winner, Merit Award for Labour Relations

Annual Ethical Investor Sustainability Awards 2003

### Winner, SEDA Sustainable Energy Ambassador Award

2003 Energy Smart Green Globe Awards

## A CONVERSATION WITH THE CEO

### Answers to some commonly asked questions.

#### Q. Insurers' profitability is good for shareholders, but what about customers?

**A.** Australia needs a strong and profitable insurance sector. Customers must have certainty that insurers have the financial strength to pay claims. At the same time, shareholders require returns commensurate with the risks associated with their investments.

Favourable conditions aligned for us this year from both an investment and underwriting perspective, helping us improve our profit. That's not always been the case – two years ago we reported a net loss of \$25 million.

The size of our profit should also be viewed in context – we paid about \$4.2 billion in claims during the year and we insure more than \$800 billion in property assets.

#### Q. What are the key drivers of your improved profit?

**A.** Our profit was boosted significantly by the \$434 million return we made from investing our shareholders' funds. This was a record return since we listed and a \$554 million turnaround from the \$120 million loss we incurred on the portfolio last year. In addition, sales (risks in force) increased 5.2%, we entered new markets, and our operating efficiencies improved. Our result included a full 12-months performance of the CGU/NZI acquisition, compared with only six months in the previous year. These businesses added more than \$2.5 billion in annual revenue to the Group. Finally, the sale of ClearView Retirement Solutions also contributed around \$61 million in pre-tax profits.

#### Q. Why should insurers' performance be viewed over longer than a 12-month period?

**A.** Like most companies, we deal with a range of issues such as competition, economic conditions, customer service and brand awareness. However, there are four areas that, when combined, are unique to insurance companies and provide additional complexity. These are:

- three different insurance cycles, which affect our personal, commercial and statutory insurance lines;
- investment cycles, which influence the size of the financial returns we generate from investing the money we put aside to pay claims and our shareholders' funds;
- the regulatory environment, which moulds the legislation guiding the insurance industry; and
- weather, which influences the frequency and severity of property claims.

#### Q. What happened in each of the insurance cycles in Australia during the year?

**A.** The **personal insurance cycle** is relevant to our home and motor vehicle insurance portfolios, which represent around 50% of our total revenue. In recent years, this stream of our business has benefited

from significant cost reductions generated by more than a decade of industry consolidation and privatisation along with a much-improved focus on appropriate risk management processes. Premium rates are driven predominantly by the cost of claims, and the volatility in premiums has diminished significantly due to the diversification and scale of the insurance industry today. For motor vehicle insurance in Australia, where the frequency of claims has decreased due to drier weather, average premiums have reduced in real terms and are now more affordable than they've been in five years. On the other hand, in home insurance, the increasing frequency of storm damage means premiums have had to rise in real terms.

The **commercial insurance cycle** impacts around 25% of our revenue, which is derived from our insurance classes which are written for businesses. This cycle is heavily influenced by the global capacity for insurance and reinsurance. Over the past few years, lack of capacity and accelerating payouts on liability business saw premiums increase in almost all classes of commercial insurance. However, these increases have slowed following tort law reform and an increased allocation of capital to this market, and moved closer to matching the rate of inflation. We believe our commercial operation will continue to be influenced by global insurance cycles but, as most of the local insurers focus on domestic businesses, the cycle is unlikely to be as extreme in Australia.

The **statutory insurance cycle** impacts our CTP motor liability and workers' compensation portfolios, which account for around 14% of our revenue. In our business structure, CTP now sits within our personal insurance operation, and workers' compensation within our commercial insurance operation. However, as these insurance classes are heavily regulated, we consider them separately when looking at cycles. Tort law reform has stabilised the statutory cycle. Consequently, premiums have reduced in the two largest schemes in which we participate, NSW CTP and Western Australian workers' compensation. We're confident these changes will also bring reductions in other premium classes in the medium term, provided there are no adverse changes in experience or regulation.

#### Q. Where will business growth come from?

**A.** We grow our business in two key ways – organically, by increasing the number of policies we sell in existing products or by offering new products; and acquisitively, by buying other insurance companies. Our most significant recent acquisition was the purchase of CGU and NZI in January 2003. Since that time, we've concentrated on consolidating our group of businesses and extracting the benefits of the combined operation.

Moving forward, we'll derive further value from our Australian and New Zealand operations through initiatives that continue to improve customer service and retention, and enable us to tailor our products to suit different customer segments. At the same time, we'll continue our search to build a foothold in Asia at the right time and price.

# MANY BRANDS, ONE ATTITUDE

## A SNAPSHOT OF IAG

- Australasia's leading general insurance group.
- Annual gross written premium of \$6.4 billion.
- No.1 position in seven major general insurance markets: motor, home, CTP, workers' compensation, rural, consumer credit and extended warranty.
- 19.2 million active risks in force.
- Insures more than 4.7 million cars, 2.4 million homes, 220,000 businesses and 85,000 farms in Australia, and provides workers' compensation services to 213,000 employers.
- More than 11,500 employees.
- 145 year heritage.
- Network of about 330 branches and customer service centres throughout metropolitan, regional and rural Australia, and 41 sales centres and branches in New Zealand.
- Very strong 'AA' insurer financial strength ratings for key entities from international ratings agency Standard & Poor's – the highest rating for any Australian-based financial institution.

### BRAND VALUE

Several independent studies undertaken during the year confirmed the significant value of our Australian retail brands – NRMA Insurance, SGIO and SGIC – and showed NRMA Insurance to be the most trusted insurance brand in NSW and ACT with the highest commitment score of any insurance brand in Australia, well in excess of international benchmarks.

Similarly, our CGU brand continued to strengthen, with a study indicating awareness of the brand increased almost 20% nationally. Now two-thirds of consumers recognise the brand, a high level given that CGU is predominantly offered through brokers, agents and business partners.

In New Zealand, independent research has shown that our State brand leads the market in terms of awareness, with about seven in 10 New Zealanders aware of the brand. The NZI brand, predominantly sold through brokers, also maintains a strong public presence.

## AUSTRALIA



### AUSTRALIAN PERSONAL INSURANCE OPERATIONS

Our Australian personal insurance business develops, underwrites and distributes personal insurance products, and manages claims and assessing services. It is the largest insurance underwriting and claims and assessing operation in Australia and represents approximately 61% of our business.

Our personal insurance products are sold primarily under our NRMA Insurance brand in NSW, ACT, Queensland and Tasmania. SGIO is our primary brand in Western Australia, and SGIC in South Australia. In Victoria, we distribute home, motor and other insurance products through RACV. Products are distributed through our branches, call centres and representatives. In addition, we sell a range of personal insurance nationally under the Swann Insurance brand.

Personal insurance products distributed nationally by CGU are generally sold by intermediaries (insurance brokers and agents) and business partners (financial institutions and alliances).

### SHORT-TAIL INSURANCE

- Motor vehicle
- Home and contents
- Niche insurance, such as pleasure craft, veteran and classic car, caravan, and travel insurance

### LONG-TAIL INSURANCE

- Compulsory third party

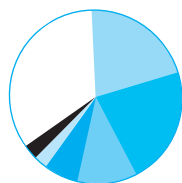
### FINANCIAL PERFORMANCE

Gross written premium	\$3,900 million
Net earned premium	\$3,602 million
Combined operating ratio	87.9%
Insurance margin	16.5%
Number of risks in force	12.8 million

### IAG'S PORTFOLIO OF RISKS

% OF GWP

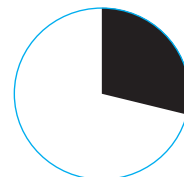
- Motor 34%
- Home 22%
- Short-tail commercial 21%
- CTP 11%
- Liability 6%
- Workers' compensation 3%
- Other short-tail 3%



### IAG'S AUSTRALIAN OPERATIONS

% OF GWP

- Personal insurance 71%
- Commercial insurance 29%



## INTERNATIONAL



### AUSTRALIAN COMMERCIAL INSURANCE OPERATIONS

Our Australian commercial insurance business develops, underwrites and distributes insurance products for businesses.

Our commercial insurance products are sold primarily under our CGU Insurance brand through a network of more than 1,000 intermediaries (insurance brokers and agents).

We are a leading provider of workers' compensation services in Australia and operate in every State and Territory where there is private involvement. In NSW, Victoria and South Australia we collect premiums and manage claims on behalf of the Government. In Western Australia, Tasmania, ACT and the Northern Territory, we underwrite policies and manage claims. Comprehensive risk management services are available to all our employer customers.

Commercial insurance packages are also sold directly under the retail brands NRMA Insurance, SGIO and SGIC. These are largely targeted at sole operators and smaller businesses.

#### SHORT-TAIL INSURANCE

- Commercial property
- Commercial motor and fleet motor
- Construction and engineering
- Farm, crop and livestock
- Marine

#### LONG-TAIL INSURANCE

- Public and products liability
- Professional indemnity
- Directors' and officers'
- Home warranty
- Workers' compensation

#### FINANCIAL PERFORMANCE

Gross written premium	\$1,613 million
Net earned premium	\$1,355 million
Combined operating ratio	95.0%
Insurance margin	9.6%
Number of risks in force	3.7 million

### NEW ZEALAND INSURANCE OPERATIONS

Our New Zealand business is the leading insurance provider in the country in the direct channel and a leading insurer in the intermediated channel.

We hold approximately 40% of the New Zealand market, and are strongly positioned in all geographic markets.

We provide insurance products directly to customers under our State brand and through intermediaries (insurance brokers and agents) under our NZI brand. Our personal lines products are also distributed under third party brands by our corporate partners, including large financial institutions.

#### SHORT-TAIL INSURANCE

- Motor vehicle
- Home and contents
- Commercial property
- Commercial motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat, caravan, and travel
- Rural and horticultural
- Marine

#### LONG-TAIL INSURANCE

- Surgical
- Personal liability
- Income protection
- Commercial liability

#### CAPTIVE REINSURER

The Group purchases most of its reinsurance protections through its captive reinsurer (IAG Re Limited). The results of that business are reflected in the Group's international operations.

#### ASIAN INTERESTS

IAG has interests in two businesses in Asia – 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China; and a strategic 20% shareholding in Thailand's Safety Insurance.

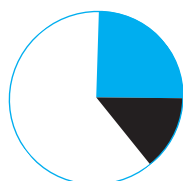
#### FINANCIAL PERFORMANCE

Gross written premium	\$914 million
Net earned premium	\$906 million
Combined operating ratio	94.8%
Insurance margin	7.5%
Number of risks in force	2.7 million

### IAG'S GROUP-WIDE BUSINESS

#### % OF GWP

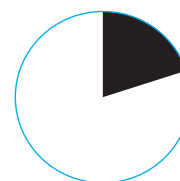
- Australian personal insurance operations 61%
- Australian commercial insurance operations 25%
- International operations 14%



### IAG'S BUSINESS BY DURATION

#### % OF GWP

- Short-tail 80%
- Long-tail 20%



# EXECUTIVE TEAM

**MICHAEL HAWKER** BSc, FAIBF, FAICD, ASIA  
Chief Executive Officer and Managing Director

**IAN BROWN** ANZIIF, FAIM  
Deputy Chief Executive Officer

**TONY COLEMAN**  
BA, MBA, FIA, FIAA  
Chief Risk Officer & Group Actuary

**DAVID ISSA** BSc  
Chief Information Officer

**RICK JACKSON** DipT, BEd, AAIBF (SNR), GRADDIPMAN (BUS)  
Chief Executive Officer, Personal Insurance



Mr Michael Hawker was appointed Chief Executive Officer of IAG in December 2001.

Before joining IAG, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40. In 2000, he was awarded the Australian Banking & Finance Magazine – Millennium Banker of the Year Award, and the Best Insurance Executive Award in 2003 and 2004. He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies.

Mr Hawker is the Deputy President of the Insurance Council of Australia, a Director of the Australian Chamber of Commerce and Industry, Fellow of the Australasian Institute of Banking & Finance, member of the Federal Treasury's Consumer and Financial Literacy Taskforce, member of the Business Council of Australia and Chair of the New South Wales Juvenile Diabetes Walk to Cure annual fundraising event and the Giant Steps Foundation. He was previously the Chairman of the Australian Financial Markets Association.

Mr Ian Brown has over 37 years experience in the general insurance sector. He was the Acting CEO of IAG from April to December 2001, and before that was Chief General Manager, International and Corporate Services. Prior to joining IAG in 1999, Mr Brown held the position of Managing Director of SGIO Insurance Limited. Previously, he was General Manager for New Zealand at Security & General Insurance (The Lumley Group), State Manager Western Australia for QBE Insurance Limited, and General Manager of Western Underwriters Insurance Limited.

Mr Brown is currently Deputy President of the Australian and New Zealand Institute of Insurance and Finance. He is the former President of the Insurance Council of Australia and the Australian Institute of Management, Western Australia.

Mr Tony Coleman has more than 27 years experience in the insurance, investment and finance sectors. Mr Coleman is responsible for IAG's risk management function which includes product pricing and claims liability reserving, research and development, capital allocation, operating risk monitoring, fraud and security risk control, and group compliance. Prior to joining IAG in December 2000, he was a senior corporate finance partner of PricewaterhouseCoopers.

Mr Coleman is a former President of the Institute of Actuaries of Australia. He is also a member of the Australian Climate Group, actively promoting a better understanding of global warming and climate change in the community.

He is one of eight individuals from around the world invited by the International Accounting Standards Board to form a panel to advise the IASB on the development of International Accounting Standards for insurance.

Mr David Issa was appointed Chief Information Officer of IAG in October 2002. Mr Issa's responsibilities include eBusiness, information technology and telecommunications. He has more than 20 years experience in the eBusiness and IT&T industries.

Before joining IAG, Mr Issa was CEO of Qvalent, a financial supply chain software company. He also has experience in the financial services and banking sector, having worked at Westpac Banking Corporation for 13 years. During his time at Westpac, Mr Issa was responsible for the introduction of the online share trading service 'Westpac Broking'. He also held roles as the Head of eBusiness and IT&T for the Institutional Bank and the Global Financial Markets businesses.

Mr Rick Jackson has more than 17 years experience in the financial services, banking and general insurance sectors. Mr Jackson was appointed Chief Executive Officer, Personal Insurance in July 2004, after holding the role of Group Executive, Personal Insurance since 1999. He is responsible for IAG's Australian personal insurance operations, which includes home, motor, niche and CTP insurance sold either direct to the customer or through third party brands. Prior to joining IAG in 1999, Mr Jackson held several senior positions with RACV, including Executive General Manager, Sales & Marketing and Executive General Manager, Commercial Services.

### **SAM MOSTYN**

**BA, LLB**  
Group Executive,  
Culture & Reputation



Ms Sam Mostyn has an extensive background in law, corporate affairs, human resources and politics. She is responsible for managing human resources, organisational effectiveness, communication, government and policy, community and sponsorship, corporate social responsibility, and the integration of sustainability targets into the business. Prior to joining IAG in February 2002, she was Director of Corporate Development and Acting Human Resources Director at Cable & Wireless Optus (now SingTel Optus Pty Limited) and Group Director, Human Resources for Cable & Wireless Plc based in London. Prior to joining Cable & Wireless Optus, she was a senior adviser communications to the Prime Minister, The Hon P J Keating. Ms Mostyn serves on the Academic Advisory Board of the Australian Institute of Management, the Boards of the Sydney Festival and the Centenary Institute, the NSW Premier's Council on Active Living (PCAL), and is a Trustee of the Australian Museum. She was previously a board member of the State Rail Authority of New South Wales.

### **DOUGLAS PEARCE**

**BSc, MBA, ASA, MACS, FCIS**  
Group Executive,  
Insurance Strategy



Mr Douglas Pearce has been with IAG for 25 years. In July 2004, he was appointed Group Executive, Insurance Strategy. He is responsible for the strategic direction of IAG's participation in long-tail insurance classes which traditionally involve a more complex approach to claims management, including compulsory third party (CTP), workers' compensation insurance and public liability. Previously, Mr Pearce held the positions of Group Executive, Safety and Personal Injury, responsible for CTP and workers' compensation, Chief General Manager Commercial Insurance and Financial Services, General Manager Motoring, and Chief Underwriting Officer.

Mr Pearce is a member of the Motor Accident Council and Chairman of the Motor Accidents Insurers Standing Committee.

### **MARIO PIRONE**

**BBus, DipInsMGT, FCPA**  
Chief Executive Officer,  
CGU Insurance



Mr Mario Pirone has 24 years experience in general insurance and financial services. He was appointed Chief Executive Officer, CGU Insurance in July 2004, with responsibility for IAG's Australian commercial insurance operations, which include commercial property, commercial motor and rural insurance, workers' compensation, public liability and professional indemnity insurance, sold predominately through intermediaries. Prior to this appointment, he held several senior positions within IAG including Group Executive, Asset Management. Before joining IAG in 1999, Mr Pirone held senior positions with SGIO Insurance Limited.

### **DAVID SMITH**

**BBus, MBA, FAIM, FNZIM**  
Chief Executive Officer,  
IAG New Zealand Limited



Mr David Smith has 26 years experience in financial services. He joined IAG in 1999 as General Manager, Human Resources. In February 2001, Mr Smith was appointed Chief Executive Officer of IAG New Zealand Limited.

Prior to joining IAG, Mr Smith held senior positions with Westpac Banking Corporation, including Regional General Manager, Retail Banking Queensland.

He is President of the Insurance Council of New Zealand Inc and Chairman of the Board of the New Zealand Insurance and Savings Ombudsman Scheme.

### **GEORGE VENARDOS**

**BCom, FCA, DipCM, FCIS, FTIA, MAICD**  
Chief Financial Officer



Mr George Venardos joined IAG in 1998. He is responsible for all aspects of IAG's financial and corporate services functions, including corporate secretariat, finance, investor relations, legal, mergers and acquisitions, strategy and treasury. In July 2004, he added asset management to his portfolio, with responsibility for the Group's \$13.5 billion in funds under management. Prior to joining IAG, Mr Venardos held the position of Executive Director and General Manager, Finance and Corporate Services, with the Legal & General Group in Australia.

He is the Chairman of the Finance and Accounting Standing Committee for the Insurance Council of Australia.

He was awarded the 2003 CFO of the Year at Insto Magazine's Annual Distinction Awards.



**WE'RE HERE TO HELP** On 3 December 2003, disaster struck Melbourne with the worst storm to hit the city in more than 30 years. One customer, an MS sufferer, awoke to find her house flooded. Her dog was swimming in the lounge room. Our assessor was shocked by the damage and worked closely with our customer on her claim. The two still keep in contact. "It's not just a job", our assessor said. "These people have suffered and you feel for them."

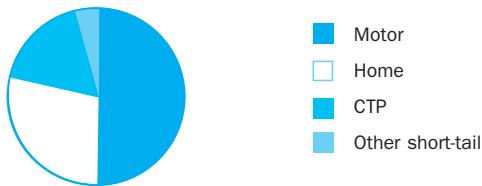
*Adapted from 'Insurers get busy as claims top a record \$75m', Peter Weekes & Rachel Wells, The Age, 6/12/03.*

## REVIEW OF OPERATIONS

### AUSTRALIAN PERSONAL INSURANCE

**Our Australian personal insurance operation produced an outstanding result, assisted by greater diversity in both the products we offer and our expanded geographic distribution.**

#### PORTFOLIO MIX % of GWP



#### PERFORMANCE

Our Australian personal insurance operation is the largest part of our business and contributes about 61% of the Group's gross written premium.

Across our personal lines portfolio, we achieved an insurance margin of 16.5% and a combined operating ratio of 87.9%. The number of policies in force at year end increased by 4.8%.

Weather patterns during the year influenced the result of the personal insurance operation. Fewer than average wet days during the year led to a strong result in our motor portfolio. However, this was partially off-set by severe storms across Melbourne, Sydney and Queensland which resulted in increased claims in our home insurance portfolio.

The worst of these storms hit Victoria in December 2003, which caused damage across many suburbs to the north-east of Melbourne. Our operations fielded more than 12,000 claims related to the storm and paid more than \$38 million to our customers. Within two days of the storms, almost 9,000 claims had been lodged, and we'd visited more than 850 homes. We're proud to report that all motor total loss claims were paid out within 48 hours of being assessed.

Our ability to respond to these storms and absorb their financial impact demonstrates the real value of our scale and diversified portfolio of risks.

Significant efficiencies achieved through the integration of CGU's personal lines operations into the Group contributed to the strength of

the result. We established a national operating model with common rating structures and centralised underwriting, supported by national claims lodgement processing units.

In addition, our supply chain management improved nationally and across all brands. More than 450 small businesses joined our smash repairer network, bringing our total network of preferred and associate smash repairer businesses to about 2,100. In recognition of the important role these partners play in our business, we launched the IAG Personal Insurance Preferred Supplier Code of Practice.

The success of our customer focus is clear. Retention levels across our largest portfolios of directly distributed home and motor insurance were above 90%, and customer satisfaction remained high. It was also rewarding to see customer complaints have halved since two years ago to 0.017% of direct policies in force, which is equivalent to one in 6,000 direct policies in force.

In December 2003, CGU's home and car insurance products were voted the best on the market by middle market brokers in the Deloitte/JP Morgan 2003 General Insurance Industry survey.

We commissioned Accenture to conduct a rigorous assessment of our operations during the year. This process benchmarked our performance internationally and found that our personal insurance claims service is competitive on a global scale.

Our product range and geographical presence continued to expand during the year. We tailored our home insurance product to the 'Over 50s' market, offering customers aged 50 and over additional benefits regardless of whether they work full time, and we began offering travel insurance through our direct brands. In addition, in February 2004, we launched our direct NRMA Insurance brand in Tasmania, complementing our existing indirect presence there through the CGU and Swann Insurance brands.

We introduced new home and motor insurance policy booklets during the year. Extensive customer research played an important role in the redesign process, which helped remove the 'fine print' and demystify insurance terminology. This project was an important part of our commitment to educate our customers and the community about how insurance works and reduce the incidence of underinsurance.



**IAG RESPONDS TO SMASH REPAIR SKILL SHORTAGE** Grade 11 student Samantha Ferguson is part of IAG's Jumpstart Autobody Traineeship programme. Samantha says: "Cars really interest me and this is a good opportunity to find out more and finish school at the same time." The programme, to encourage high school students to kick-start a career in the smash repair industry, will create about 400 smash repair traineeships over the next four years. IAG is contributing \$7.4 million nationally to the programme.

Our long-tail product line, compulsory third party insurance (CTP), further strengthened during the year, reaching the milestone of two million policies in force. Our CTP market share remained stable at around 40% of registrations in NSW, 2% in Queensland, and 100% in the ACT.

We passed on two premium reductions to our CTP customers in NSW, with our best metropolitan rate for a private use motor vehicle falling from \$345.40 in July 2003 to \$328.90 in June 2004, which is at 1995 levels. This reduction was largely due to the continued good experience in the number and cost of claims as a result of the NSW scheme reforms in 1999.

New CTP distribution channels were accessed through selected car dealers in NSW and Queensland under the Swann Insurance brand. We also continued to distribute CTP in regional Queensland through stock and station agents, Landmark and Elders, under the CGU brand.

#### **OUR COMMUNITY**

Our personal insurance operation worked to reduce risk within the community during the year through the introduction of a number of initiatives.

NRMA Insurance and the ACT Government contributed more than \$800,000 to the NRMA-ACT Road Safety Trust to help prevent road-related deaths and injuries and to provide enhanced rehabilitation options for injured people. We also supported community anti-speeding programmes such as 'Slow Down – You're Moving Too Fast' targeting young drivers in Sydney's north, and undertook road safety campaigns raising awareness about avoiding injury on our roads.

Our Australia-wide network of 20 Staff Consultative Committees, representing employees from all areas of the business, continued to champion a number of community initiatives. These ranged from local police partnerships tackling juvenile crime to insurance awareness education in schools.

We worked closely with our partners in the smash repair industry to reduce risk and environmental impact through the introduction of initiatives including:

- 'Risk Radar': an interactive CD ROM to help smash repairers identify the dangers their business poses to their workers and to the environment, and motivate them to minimise these dangers by offering reduced premiums to insure their business;

- Waste Management Strategy: a programme providing options to smash repairers to help them reduce the environmental impact of waste generated by their business;
- Jumpstart Autobody Traineeship: a \$7.4 million four-year programme to attract young Australians to the smash repair industry and boost its skills base, ensuring the sustainability of the industry in the longer term; and
- We also provided funding for small business succession planning and frontline management training among our preferred smash repair network.

We launched 'Home Help', an interactive website that provides comprehensive advice about how to reduce the environmental and safety risks around the home, including information on energy-efficient whitegoods, securing homes against theft and reducing the risk of property damage from bushfires, storms and floods.

In addition, we launched a 'Helpkit' to assist customers rebuilding after a major loss. The kit was created in response to last year's bushfires in Canberra and encourages the rebuilding of homes using sustainable materials and energy-efficient design. We also funded and convened the NSW Flood Summit. The forum focused on identifying and reducing the risk of flooding in NSW and raised awareness of the risks of global warming.

#### **LOOKING FORWARD**

Over the coming year, we expect our home and motor portfolios will remain stable, with low premium volatility and high customer retention rates. We will continue to maintain our underwriting discipline while pursuing growth in target areas. In particular, we will focus on growing our home insurance portfolio outside of NSW.

New distribution channels for our CTP business, including motor dealers, will be introduced in NSW and selected areas in Queensland.

We aim to maintain our margins by driving further efficiencies and reducing costs. In our indirect business, we will focus on improving online lodgement of claims, online tendering, automated supplier invoicing and payment.

As part of our ongoing commitment to reduce risk in the community, we will focus on our national theft and collision reduction strategies and will implement bushfire and cyclone peril ratings.



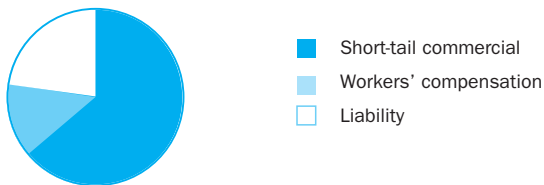
**HELPING INJURED PEOPLE GET ON WITH THEIR LIVES** Dubbo farmer Craig Brown was seriously injured when a horse fell on him while mustering. Shortly after the accident, Craig was flown to Sydney where doctors had to amputate part of his leg. IAG helped Craig with medical expenses and rehabilitation and provided the family with a weekly wage while Craig recovered from his injuries. By compensating him for his loss, IAG ensures Craig can get on with his life.

## REVIEW OF OPERATIONS

### AUSTRALIAN COMMERCIAL INSURANCE

Our Australian commercial insurance operation continued to perform strongly, despite increased competition with the entry of new players to the market.

#### PORTFOLIO MIX % of GWP



#### PERFORMANCE

Our Australian commercial insurance operation, which predominantly distributes products under the CGU brand through insurance brokers and agents, enjoyed continued organic growth across major product lines.

The business achieved an insurance margin of 9.6% and a combined operating ratio of 95.0%, and the number of policies and risks in force increased by 9.1%.

Opportunities for further growth were created with our entry into new markets. In May 2004, we began offering home warranty insurance in NSW and Victoria, giving builders greater choice and helping to reduce any delays for people building or renovating their homes. Our entry into this market followed extensive consultation with government regulators and the building industry to create a more efficient, effective and sustainable regulatory environment. We are currently investigating expansion into other States.

We also began developing our own marine insurance capability, which will enable us to offer our intermediaries and their customers a range of specialised marine insurance products. Marine insurance is an integral part of the suite of commercial insurance products offered by intermediaries.

CGU's high standing among brokers was again recognised in the Deloitte/JP Morgan 2003 General Insurance Industry survey. CGU was voted the country's best underwriter among major and middle market brokers.

We are proud of this industry recognition. However, we also accept there are significant opportunities to continually improve our products and services. One area in which we have worked hard over the past year is the development of web-based quoting and policy management tools for intermediaries, 'CGU Connect', which was launched in June 2004. The system is being progressively implemented, beginning with the home and premium funding products, and significantly improves a broker's ability to manage their CGU portfolio.

Major improvements were made to the 'IQs' internet quoting system that provides online quotes for the professional indemnity and directors' and officers' products.

During the year, CGU's very strong insurer financial strength and counterparty credit ratings were upgraded by international ratings agency Standard & Poor's from 'AA-' to 'AA'.

The introduction of the full Financial Services Reform Act (FSRA) regime in March 2004 provided customers with more information about insurance products, enabling greater transparency in the industry and allowing them to make a more informed choice. However, it presented significant training and compliance requirements for our staff and network of agents and brokers to support the legislative objectives. To address these changes, we developed a new compliance framework and a comprehensive online and face-to-face training programme. Over 3,000 authorised representatives and their staff and 1,000 of our own people completed the e-learning programme. We developed a compliance web portal to support our authorised representatives. It provides a range of services, including statements of advice, incident reporting facilities and a complaints resolution framework.

As Australia's largest regional and rural insurer, country Australia forms an integral part of our customer base. We have a strong presence in regional Australia through our network of branches and authorised representatives. Our comprehensive range of rural



**AID FOR PEOPLE IN REMOTE AUSTRALIA** People living on outback cattle stations are receiving training which could save a life, thanks to IAG's alliance with St John Ambulance Australia. A cattle station's nearest neighbour can be up to 300km away. While the Royal Flying Doctor Service is on call in the event of a serious accident, station workers must often undertake first aid themselves. IAG is providing first aid training to outback managers as part of our commitment to work with our customers to improve outcomes for injured workers.

insurance products, including farm property, crop, livestock, farm machinery and motor insurance, underpins our leadership position in these areas. Through our continued sponsorship of local CGU Business Awards in Tamworth, Orange and Ballarat, we support and promote the major contribution made by regional and rural Australia. The awards programme has been expanded to include Launceston.

We now provide workers' compensation services to more than 210,000 Australian employers covering around two million workers. We adopted the CGU brand for workers' compensation products and services and developed a new operating model for underwriting to identify potential cross-marketing opportunities and enable consistently high levels of service for employers and intermediaries. The success of these changes is evident in our renewal rates where we achieved over 90% in the States where we directly underwrite the risk.

#### **OUR COMMUNITY**

The Community Care Underwriting Agency (CCUA), our joint venture initiative established in 2002, has made public liability insurance more affordable and accessible for community groups and not-for-profit organisations. It became a truly national operation during the year with our entry into Victoria, Queensland and Tasmania. At 30 June 2004, it had issued more than 1,300 policies to a diverse group of not-for-profit organisations, including Canberra Balloon Fiesta and Southern Tasmanian Ski Association.

Our ability to offer cover through this initiative has been made easier by the passage of tort law reform introduced by the Federal and State Governments.

#### **LOOKING FORWARD**

Our commercial insurance operation is robust and well prepared to deliver continued strong performance.

We will maintain our focus on achieving appropriate pricing in our commercial classes to continue to make positive contributions to the Group's return on capital. This includes continuing to apply sound underwriting disciplines.

Capacity is returning to the commercial market due principally to improved pricing and the passage of tort reforms. We anticipate some levelling out of prices in this area of the market.

Work will also continue to improve the efficiency of our operations with a focus on further developing our e-commerce solutions.

In such a competitive market, our strong relationships with our intermediary partners will play an integral role in the ongoing success of the business.



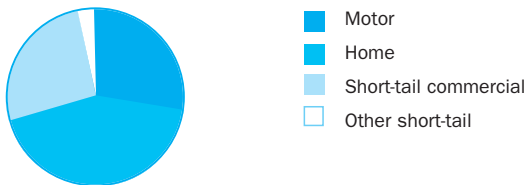
**BURNING DOWN THE HOUSE** IAG and the New Zealand Fire Service set two houses on fire to demonstrate how a home sprinkler and smoke alarm can save lives and property. The two houses were identical, except one was fitted with a sprinkler system and smoke alarm; the other was not. The fire in the home with the sprinkler was doused after 78 seconds, causing minimal damage. The home without the sprinkler was engulfed in flames within three minutes, destroying most of the property and its contents. Demonstrations like this enable us to educate our customers and the community about the effectiveness of sprinklers in dramatically reducing fire damage. It's part of our commitment to reducing risk in the community.

## REVIEW OF OPERATIONS

### INTERNATIONAL OPERATIONS NEW ZEALAND PERSONAL AND COMMERCIAL INSURANCE

**Our New Zealand operation maintained critical business momentum during the year, despite managing the fallout from one of the worst weather related events in New Zealand's recorded history.**

#### PORTFOLIO MIX % of GWP



#### PERFORMANCE

New Zealand experienced its second worst weather related insurance event when floods hit the lower North Island in February 2004. As a result, our New Zealand operation managed more than 5,500 claims, at a cost of NZ\$37 million. In addition, a spate of other significant weather related events occurred throughout January and February across the country.

Despite the demands of these unseasonal and widespread events, we maintained critical business momentum, achieving improvements across all key operating ratios. Together with the Captive reinsurer, we recorded an insurance margin of 7.5% and a combined operating ratio of 94.8%, and risks in force grew by 24%.

We successfully completed the integration of our two businesses – State and NZI – during the year. Optimising our scale, we reduced costs through a review of all supplier contracts and commercial business arrangements. In addition, we continued to re-engineer our end-to-end processes and systems, in one of the largest and most complex business process and technology change projects in New Zealand.

Our emphasis on providing consistent, quality service has contributed to good gains in customer satisfaction levels. Among our personal customers, survey results show satisfaction levels to be slightly above 85%.

We also maintained our very strong Standard & Poor's 'AA' insurer financial strength rating.

To ensure we continue to improve our service to our customers, a number of initiatives were introduced during the year. The first of a series of forums was held to gather feedback from a wide selection of our customers including State and NZI customers, brokers, corporate partners and agents. Service delivery improvements identified through these forums will be analysed and implemented in the coming months.

We established a 'New Ventures' unit to develop and incubate innovative business opportunities and new product lines. As a result we established a new travel insurance unit. During the year, we also launched a personal liability product for students and low income earners, after several well publicised house fires in tenanted properties.

In July 2004, we agreed to purchase 51% of Mike Henry Travel Insurance Limited, which will enable us to become the leading underwriter and distributor of travel insurance products within the New Zealand market. The full purchase will take place over two years.

The 'Ins'n'Outs' insurance guide was produced during the year, providing a simple explanation of how insurance works, to help our customers understand the small print and address issues of underinsurance.

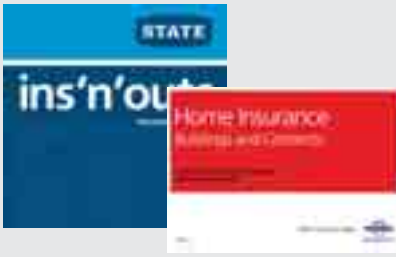
We introduced 'CrimeCheck', a free, preferred security supplier facility that brings our customers together with a quality home security solution supplier. Participating customers are eligible for a discount on their home and contents insurance premiums.

#### OUR COMMUNITY

As New Zealand's leading insurance group, we take seriously our obligation to the community. During the year, we assumed leadership of the New Zealand Insurance Council to engage in key community issues such as underinsurance, climate change, flood mitigation and aspects of industry regulation.

We made a significant contribution to building safer communities across New Zealand through:

- a partnership with the New Zealand Fire Service, to increase fire safety awareness and reduce the risk of fire;
- supporting volunteer community patrols throughout the country in conjunction with the New Zealand Police to reduce crime;
- working with the Thames Coromandel District Council and Environment Waikato on a project to mitigate flood risk; and



**FINE PRINT GETS THE FLICK** We know it can be difficult for our customers to find time to read and understand their insurance policy. That's why we've developed innovative new policy booklets and guides for our customers in Australia and New Zealand. Based on extensive customer research, the new guides are designed to simplify and demystify insurance terminology, helping customers in their decisions about insurance cover.

- a 'Driver Reviver' event on the South Island to combat driver fatigue. Around one-third of all road accidents in New Zealand are attributed to driver fatigue and we plan to expand the concept to other areas of the country shortly.

#### **LOOKING FORWARD**

We expect further positive trends in the results of our New Zealand operation, from further reductions in operating expenses as a result of the integration of the business. Our core challenge will be to maintain our leading positions across all market segments and continue to build profitable and sustainable earnings growth.

### **ASIAN INTERESTS**

Our international operation includes interests in two businesses in Asia – 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China and a strategic 20% shareholding in Thailand's Safety Insurance.

Established in Beijing in 1995, CAA is the largest motoring club in China, offering 24-hour roadside rescue and towing services, and vehicle management services including inspections, insurance and claims handling. CAA acts as an agent for motor vehicle insurance for some of China's largest insurers. IAG acquired an 80% stake in CAA in 1999, recognising the growth potential of one of the world's fastest growing economies. In December 2003, we increased our ownership to 100%.

CAA plans to progressively expand its business from its current geographic base in Beijing, to provide national coverage.

Our 20% owned business, Safety Insurance, is the fifth largest motor insurer in Thailand. Our technical assistance has enabled Safety Insurance to grow, improve its underwriting result, and to pay dividends for the second consecutive year.

#### **LOOKING FORWARD**

We recognise that our future non-organic growth opportunities are likely to be offshore. As such, part of our strategic objectives is to expand internationally, subject to finding the appropriate opportunities at the right price.

For over two years, we've undertaken considerable research and capability development, assuming that any international moves will rely on leveraging our core competencies. Parts of Asia have been identified as having the best potential for us to generate value by leveraging our world-class skills in underwriting motor insurance, motor claims management and direct distribution. Any international investments will be carefully reviewed to ensure they are in the interests of IAG.



**VAN LAUNCHED TO PREVENT CRIME** We partner with community organisations on a range of programmes to build united and safer neighbourhoods. This year we launched a mobile crime prevention van as part of three crime prevention partnerships involving NSW Police and local communities in Shellharbour, Dubbo and Redfern/Waterloo. It is staffed by Police, Volunteers in Policing, as well as NRMA Insurance and Council representatives. Police give on the spot advice on how to reduce the risk of crime. This project is being considered for extension to other parts of Australia.

## REDUCING RISK IN THE COMMUNITY, ENVIRONMENT AND WORKPLACE

Crime, safety and the environment have an enormous impact on our business, influencing our ability to calculate risk, pay claims and provide affordable insurance to our customers.

That's why we invest in programmes to address these issues. We can help to minimise their impact on our business now, and for the future, at the same time as making our community a better place to live.

Our inaugural Sustainability Report will be released later this year, providing detail on our strategies to reduce risk in the community, our environment and the workplace, as well as our broader social performance. This section provides a summary of our achievements during the year.

### **BUILDING SAFER COMMUNITIES**

Our community investment strategy goes beyond the traditional 'philanthropy' model and has become the way we do business. Annually, we invest more than \$10 million in community programmes and partnerships aligned with our guiding principle of managing risk.

#### **Partnerships**

We support organisations that share our goal of reducing risk and making Australian communities safer. As part of our \$1.5 million partnership with St John Ambulance Australia, we introduced many joint initiatives including first aid training programmes and public awareness campaigns to improve safety in the community. We also continued to partner with NRMA Careflight, The Salvation Army Emergency Services, KidSafe, Volunteer Rescue Association, Fire and Emergency Services Authority Western Australia and the Sydney Theatre Company Access Programme. We also introduced new partnerships with Surf Life Saving Australia and the Royal Flying Doctor Service. All of our partnerships have had a significant impact on the community.

#### **Community Help Grants**

We continued to provide grants of up to \$5,000 to local community groups with initiatives aimed at reducing risk and making local communities safer. This year, we received more than 700 applications, up from 400 in 2003. In total, we provided more than \$500,000 (up from \$250,000 in 2003) to more than 130 community groups across all States and Territories of Australia.

### **Crime prevention**

Our national theft reduction strategy continued during the year, with the launch of three pilot programmes in high burglary areas of NSW – Dubbo, Shellharbour and Redfern/Waterloo. Working in partnerships with local communities and police, we provided funding of \$150,000 and specialist information to tackle burglary and car theft. Initiatives included the 'Never Again' programme to prevent repeat burglary, car park security checks and ratings to reduce vehicle theft in public places, the 'BizSafe' programme to assist businesses manage security, a mobile crime prevention van and support for the Aboriginal Employment Service in Dubbo. Results from these pilot programmes will assist us develop crime prevention strategies at a national level, providing customers, the community and governments with practical ideas and information to reduce the incidence of theft.

### **REDUCING RISK IN THE ENVIRONMENT**

Climate change, which is driven by greenhouse gas emissions, is a key issue for insurers. Increasing frequency and severity of weather related events such as storms, cyclones, hail and drought have a major impact on our business. That's why we're committed to improving our own environmental performance, as well as promoting the importance of managing climate change externally through sharing data and influencing the behaviour of our key stakeholders.

#### **Our own performance**

A key priority during the year was to establish systems across our organisation, to accurately monitor and manage our impact on the environment. In particular, we are focused on improving our performance by reducing our:

- electricity use;
- fuel use;
- air travel; and
- paper consumption.

Baseline data will be reported in our upcoming Sustainability Report.



**MAKING COMMUNITIES SAFER** One of this year's recipients of an IAG Community Help Grant is the Paraplegic & Quadriplegic Association of Queensland. The organisation will use its grant to support the Spinal Education Awareness Programme, designed to educate young people about the risks associated with dangerous driving. The initiative reaches over 50,000 school students each year and the programme's presenters are volunteers with paraplegia or quadriplegia, in most cases as a result of a road accident. IAG has injected \$500,000 into communities nationally via the Community Help Grants programme, which encourages community groups to reduce risk and increase safety in their local areas.

Initiatives to reduce our environmental impact included our purchase of 36 Toyota Prius hybrid cars, with 14 more on order, for our 'tools of trade' vehicle fleet for our motor assessors, one of the largest fuel-using areas of the organisation. The Prius uses 50% less petrol than comparable cars and contributes 90% less greenhouse gases. We are progressively extending our paper recycling systems across our offices and branches and commenced the conversion to energy-efficient computer hardware.

#### **Influencing the broader community**

Recognising the significant influence we can have on the environmental performance of our customers, suppliers and the broader community, we undertook a number of initiatives.

We launched 'Risk Radar', an interactive CD ROM to help smash repairers identify and minimise the impact their business poses to the environment and to their workers. In addition, we introduced a Waste Management Strategy to help smash repairers reduce the environmental impact of waste generated by their business.

We launched 'Home Help', a website that provides comprehensive advice about reducing environmental and safety risks around the home, and information on energy-efficient whitegoods, securing homes against theft and reducing the risk of property damage from bushfires, storms and floods.

In July 2004, we joined WWF Australia and a team of scientists to form the Australian Climate Group which launched its inaugural report 'Climate Change: Solutions for Australia' and continues to actively engage governments, other corporates and the community on steps we can take now to mitigate and adapt to the effects of climate change.

#### **REDUCING RISK IN THE WORKPLACE**

As Australasia's leading private sector provider of workers' compensation services, we recognise that the onus is on us to use our expertise to build leading safety practices in our own organisation. Our goal is simple – to ensure no employee at IAG suffers an accident in any of our workplaces.

We developed the 'besafe' programme to encourage our staff to participate in keeping our work places healthy, safe and clean. To assist us in improving our safety performance we train our people in:

- **Prevention** – creating safe and secure working environments and promoting safe behaviour to avoid harm;
- **Treatment** – prompt reporting and early intervention to minimise harm; and
- **Rehabilitation** – focusing on early recovery and return to work.

Almost 500 employees have undertaken a St John Ambulance First Aid Training Course since December 2003, adding to the growing number of staff trained throughout the organisation.

We also include safety standards in our contractor/supplier relationships, our workers' compensation services and the insurance products we offer our customers.

Of course, occupational health means more than just protecting our people from workplace accidents. We recognise that our people have a variety of responsibilities outside of the workplace. That's why we've developed a Work and Life programme designed to recognise and understand our people's commitments outside the workplace.

# BOARD OF DIRECTORS

## JAMES STRONG

Chairman and Independent  
Non-executive Director, Age 60

## MICHAEL HAWKER BSc, FAIBF, FAICD, ASIA

Chief Executive Officer and  
Managing Director, Age 44

## JOHN ASTBURY FAICD

Independent Non-executive Director,  
Age 60

## GEOFFREY COUSINS

Independent Non-executive Director,  
Age 61



Mr James Strong was appointed Chairman of IAG in August 2001. He is also Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company and the Australian Business Arts Foundation. He is a Director of the Australian Grand Prix Corporation.

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

Mr Strong has been admitted as a barrister and solicitor.

Mr Strong is Chairman of the IAG Nomination, Remuneration & Corporate Governance Committee.

Mr Michael Hawker was appointed Chief Executive Officer of IAG in December 2001.

Before joining IAG, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40. In 2000, he was awarded the Australian Banking & Finance Magazine – Millennium Banker of the Year Award and the Best Insurance Executive Award in 2003 and 2004. He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies.

Mr Hawker is the Deputy President of the Insurance Council of Australia, a Director of the Australian Chamber of Commerce and Industry, Fellow of the Australasian Institute of Banking & Finance, member of the Federal Treasury's Consumer and Financial Literacy Taskforce, member of the Business Council of Australia, and Chair of the New South Wales Juvenile Diabetes Walk to Cure annual fundraising event and the Giant Steps Foundation. He was previously the Chairman of the Australian Financial Markets Association.

Mr John Astbury was appointed as a Director of IAG in July 2000.

Mr Astbury is a Director of Woolworths Limited. Mr Astbury has been appointed as a Director of AMP Limited effective from 1 September 2004.

Mr Astbury was previously the Finance Director of Lend Lease Corporation Limited and a Chief General Manager of National Australia Bank Limited. He has a long career in banking and financial services in both the UK and Australia.

Mr Astbury is Chairman of the IAG Audit Committee and serves on the IAG Nomination, Remuneration & Corporate Governance Committee.

Mr Geoffrey Cousins was appointed as a Director of IAG in July 2000 and has more than 26 years experience as a company director.

Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network and Hoyts Cinemas group. He was the first Chief Executive of Optus Vision and, before that, held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia.

Mr Cousins is a consultant to the Prime Minister on the communication of Government policy.

Mr Cousins is a member of the IAG Audit Committee.

Through our partnership with St John Ambulance Australia, we embed a culture of risk awareness and management throughout all levels of our organisation. Here, St John trainer Sue Wells demonstrates first response CPR techniques to members of IAG's Board. About 500 IAG employees have already completed first aid training since December 2003.



**DOMINIQUE FISHER BA Hons**  
Independent Non-executive Director,  
Age 47

**NEIL HAMILTON LLB**  
Independent Non-executive Director,  
Age 52

**ANNE KEATING MAICD**  
Independent Non-executive Director,  
Age 50

**ROWAN ROSS BEc, BCom, FCPA, FSIA**  
Independent Non-executive Director,  
Age 55



Ms Dominique Fisher has been a Director of IAG since June 2000 and a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) since 1996.

Ms Fisher has wide-ranging business experience to general management level, and more than 20 years experience in electronic commerce and telecommunications and now manages her own business. Her business, EC Strategies, advises companies, primarily in Australasia and the United States, on electronic commerce strategies, on major commercial transactions and on business application of technology and commercialisation of software and other technology.

Ms Fisher is also a Director of the Playbox Theatre and the Prostate Cancer Research Foundation Victoria. She was previously Chairman of the Management Committee, Royal Hospital for Women, a Director of AIDS Fundraising Management and the Communications and Media Law Associations and a Trustee of the Sydney Opera House Trust.

Ms Fisher serves on the IAG Risk Management & Compliance Committee.

Mr Neil Hamilton was appointed as a Director of IAG in June 2000 and as a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1999.

Mr Hamilton is the Chairman of Sons of Gwalia Ltd, Iress Market Technology Limited, Western Power Corporation, Western Australia Land Authority (Landcorp) and Integrated Group Limited.

Mr Hamilton is a member of the IAG Risk Management & Compliance Committee.

Ms Anne Keating was appointed as a Director of IAG in June 2000 and a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1996.

Ms Keating is currently a Director of STW Communications Group Ltd, Macquarie Goodman Management Limited, Macquarie Leisure Management Limited, Macquarie Leisure Operations Ltd, and SSR Holdings Pty Ltd. She is an Advisory Council member of ABN AMRO Australia and New Zealand, an inaugural Board member of the Victor Chang Cardiac Research Institute, and a delegate to the Australian American Leadership Dialogue. She also manages her own consulting business, Anne Keating Consulting.

Ms Keating was the General Manager, Australia for United Airlines from 1993 to 2001.

Ms Keating is a member of the IAG Audit Committee.

Mr Rowan Ross was appointed as a Director of IAG in July 2000 and acted as the Chairman from April to August 2001.

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

Mr Ross is Chairman of the IAG Risk Management & Compliance Committee and serves on the IAG Nomination, Remuneration & Corporate Governance Committee.

# CORPORATE GOVERNANCE

Insurance Australia Group's corporate governance structure and risk management framework provide a sustainable balance of its core purpose to pay claims and provide insurance at an affordable cost with its responsibility to provide fair and stable returns to shareholders.

## 1. IAG'S APPROACH TO CORPORATE GOVERNANCE

Following the publication in March 2003 of the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (ASX Best Practice Recommendations), the Directors examined the Group's corporate governance framework and made some adjustments to ensure that its corporate governance practices meet or exceed the ASX Best Practice Recommendations.

The principal adjustments made were:

- Introducing maximum tenure periods for Non-executive Directors (see section 2d below);
- Issuing formal appointment letters to each Non-executive Director (see section 2e below);
- Freezing the operation of the Non-executive Directors retirement benefits scheme with effect from 1 September 2003; and
- Publishing on the Group's website (<http://www.iag.com.au/pub/iag/company/corpGov.shtml>) the charters of the Board and its three standing Committees, and the Group's Code of Conduct and Continuous Disclosure & Insider Trading Policy.

During the reporting period, the Group completed the implementation of the ASX Best Practice Recommendations. Implementation of ASX Best Practice Recommendation 1.1, Formalise and Disclose the Functions Reserved to the Board and those Delegated to Management, was completed in December 2003 following the publication of the Board Charter on the Group's website.

In the past year, the Group actively participated in the debate to improve Australia's corporate governance, making submissions to the Parliamentary Joint Committee on Corporations and Financial Services on the CLERP 9 legislation, to the Australian Securities & Investments Commission in relation to the implementation of the Financial Services Reform Act, to the Davis Report into the merits of financial system guarantees, to the Potts Report in relation to the regulation of direct offshore foreign insurers and discretionary mutual funds, as well as proposals by APRA to strengthen the prudential regime for the Australian general insurance industry. In addition, IAG representatives have participated in forums, working parties and committees of insurance industry associations, accounting and actuarial professional bodies established to formulate, among other things, the new General Insurance Code of Practice and to respond to proposals for the introduction of new accounting standards which have particular application to the general insurance industry.

The Group believes that, through active engagement with governments, regulators, industry and professional groups, we can best work to ensure that the interests of the Group and its stakeholders are properly considered in the formulation of proposals to improve Australia's corporate governance, general insurance prudential regime and insurance industry practices. Appropriate regulation enhances, rather than stifles, competition, protects consumers and promotes and sustains public confidence in insurers and their products.

## 2. THE BOARD OF DIRECTORS

### 2a. Roles and Responsibilities

#### *The Board*

The Board is accountable to shareholders for the performance, operations and affairs of the Group. The Board's principal role is to govern, rather than manage, the Group. The Directors represent and serve the interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of the Group.

In performing its role, the Board is mindful that the obligations of the Directors are primarily set out in the Corporations Act, the Insurance Act and general law.

The Board is responsible for oversight of the Group, and specifically:

- Driving the strategic direction of the Group by setting goals and policies, and approving corporate strategies and risk appetite;
- Monitoring management's performance;
- Selecting, regularly evaluating and, if necessary, replacing the Chief Executive Officer;
- Appointing and, where appropriate, removing the Chief Financial Officer and the Company Secretary;
- Reviewing of management succession planning;
- Providing advice and counsel to senior management;
- Selecting and recommending appropriate candidates to the Group's shareholders for election to the Board;
- Evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Directors;
- Monitoring financial performance and reporting;
- Reviewing the adequacy of systems to comply with all laws and regulations which apply to the Group and its business;
- Monitoring key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;
- Ensuring that reporting and disclosure processes include all relevant legal and commercial requirements; and

- Ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are adhered to at all times.

#### *The Chief Executive Officer*

The Board has delegated responsibility for the day-to-day operations and administration of the Group to the Chief Executive Officer, who is responsible for:

- In conjunction with the Board, developing, implementing and monitoring the strategic and financial plans of the Group;
- The efficient and effective operation of the Group;
- Ensuring the ongoing development, implementation and monitoring of the Group's risk management and internal controls framework;
- Ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision-making by the Board; and
- Ensuring all material matters affecting the Group are brought to the Board's attention.

#### *The Chairman*

The Chairman provides leadership to the Board and the Group. The Chairman presides at Board and general meetings of the Group. The Chairman is responsible for ensuring the Board discharges its role, and works closely with the Chief Executive Officer in that regard. The roles of the Chairman and the Chief Executive Officer are separate.

The Board does not have a Deputy Chairman. However, Mr Rowan Ross has, on occasions, acted in this capacity.

## **2b. Structure and composition of the Board**

The Group's Constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the Directors from time to time. The Directors have determined that, for the present, the maximum number of directors is eight. The Board currently comprises seven Non-executive Directors and one Executive Director, whose position as a Director is on an ex-officio basis.

The Board has determined that the Board must be comprised of a majority of independent Non-executive Directors and that the Chairman must be an independent Non-executive Director.

The Board will determine whether each Director is independent, using the principles outlined in its Charter. Independence will be taken to be met when a Director is a Non-executive Director and:

- Is not a substantial shareholder of the Group (a shareholder with 5% or more of the issued voting shares), or associated directly with a substantial shareholder of Insurance Australia Group;

- Has not within the last three years been employed as an executive of the Group or any of its subsidiaries or been a Director after ceasing to hold any such employment;
- Has not within the last three years been associated with, or a principal of, a material professional adviser or material consultant to the Group, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Group, or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Group other than as a Director;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group (as determined by the Board in the case of each Director); and
- Is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

The Directors have determined that a relationship is material where the value of goods or services provided to the Group in the past three years accounts for 5% or more of the consolidated gross revenue or consolidated expenses of either the Group or the supplier/customer's corporate group over that three year period.

Non-executive Directors are required to confirm their independence periodically while they remain in office.

Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose their interest and abstain from voting. Furthermore, Directors with potential conflicts do not serve on any Board sub-committees that are appointed to provide oversight of the implementation of the relevant transactions or arrangements, in which the other organisation plays a role.

The Board reviews its size and composition annually. In reviewing the size and composition of the Board, Directors will consider, among other things:

- the nature, size and complexity of the Group; and
- the efficiency and effectiveness of the Board, balancing the need to have sufficient skills and expertise to fulfil the needs of the Board and all its Committees, with the need to maintain a Board size where all Directors can effectively participate and contribute.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or

# CORPORATE GOVERNANCE

Executive Director and their experience, expertise, and biographical details are set out at pages 30 to 31.

The Board engages reputable recruiting consultants to assist the Board to identify suitable candidates for appointment to the Board.

## 2c. Induction and training

The Group encourages continuing professional education for each of its Directors. All Directors are expected to remain up to date in relation to issues affecting the Group, the general insurance industry, and their duties as Directors.

New Directors and senior executives have access to an orientation programme to introduce the executive team and detail the Group's businesses. A programme introducing the fundamentals of general insurance entitled "Insurance 101" is also available to Directors and executives.

## 2d. Tenure

It is expected that Directors will continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of the Group's shareholders.

To ensure the Board comprises Non-executive Directors who collectively have the relevant experience required and who maintain their independent status, in September 2003 the Board introduced a tenure policy to apply to Non-executive Directors. The policy provides that the maximum tenure for a Non-executive Director shall be:

- Two elected terms each of three years if the Director is first appointed at an Annual General Meeting (AGM) of the Group;
- If a Director has been appointed to fill a casual vacancy, the initial pre-AGM period of appointment (not exceeding one year) plus two elected terms each of three years; or
- If a Director's first two elected terms total less than six years' duration, a maximum of seven years, with the expectation that the Director will not stand for re-election at an AGM if the Director's further term, if re-elected, would take the Director's total tenure beyond seven years.

Subject to re-election by the Group's shareholders, a Director's expected tenure may be extended for a further period or term at the request of the Board where the majority of the Board has determined that it is in the Group's best interests.

Two Non-executive Directors, Mrs Maree Callaghan and Mrs Mary Easson, advised they would not stand for re-election at the November 2003 Annual General Meeting and resigned from the Board on 1 September 2003.

## 2e. Appointment terms

During the year, formal appointment letters were issued to each Non-executive Director, including the Chairman, to assist individual Directors in understanding the role of the Board and the corporate governance principles being implemented by the Board. The letters formally document the basis of each Director's appointment, including the proposed maximum term of their appointments and the cessation of further accrual of retirement benefits.

The appointment letters also provide for:

- The right of Non-executive Directors to obtain independent professional financial and legal advice at the Group's expense to assist with discharging their duties efficiently upon providing prior notice to the Chairman;
- Measures used and the processes to be applied by the Board to assess the individual performance of Directors, details of which are set out in section 2f below; and
- The expectation that Directors will abide by the Group's Code of Conduct and its Continuous Disclosure & Insider Trading policy.

## 2f. Measuring the performance of Directors

The Nomination, Remuneration & Corporate Governance Committee conducts a formal review of the Board's performance, composition and size at least every three years.

Each Director's performance is subject to evaluation by the Chairman at least every two years, by discussion between the Chairman and the Director. Individual Directors also evaluate the Chairman's performance at least every two years. Measures of a Director's performance will include:

- Contribution of the Director to Board teamwork;
- Contribution to debates on significant issues and proposals;
- Advice and assistance given to management;
- In the case of the Chairman's performance, the fulfilment of his or her additional role as Chairman; and
- Input regarding regulatory, industry and social developments surrounding the business.

The last review of individual Directors' performance was conducted in 2003, with assistance and input from an independent board performance expert.

## 2g. Board operations

The Board meets formally at least 10 times during the year.

Supplementing these meetings are biannual Board strategy forums with the Group's executive team, which were held in September 2003 and April 2004 during the past financial year. These two-day strategy forums facilitate in-depth education on and analysis of areas of the business as well as longer-term focus areas and strategic initiatives.

Directors are also involved in a number of due diligence meetings for specific company initiatives which, during the past year, included the off-market buy-back of the company's ordinary shares, which was completed successfully in June 2004. In addition, Directors served on Board sub-committees established to provide oversight and approval of the disposal of non-core businesses, including the Group's health underwriting and ClearView Retirement Solutions businesses, and the renewal of the Group's reinsurance programme.

Directors are encouraged to bring to Board meetings objective independent judgment in relation to the matters under consideration, to ask incisive, probing questions and require accurate, honest answers.

Directors' attendance at Board and Committee meetings held during the year are shown at page 45 of the Directors' Report.

Directors meet from time to time without the Chief Executive Officer and/or management representatives present in both Board and Board standing committee meetings. Senior management representatives frequently attend Board meetings at the Board's invitation.

Directors receive agendas, board papers and minutes in hardcopy form or may access and download this information from a secure website established for this purpose.

## 3. COMPANY SECRETARY

The Group Company Secretary & Head of Investor Relations is Ms Anne O'Driscoll, FCA ANZIF (Fellow), who was appointed to the position of company secretary by the Board in July 2002. Prior to her appointment to this position, Ms O'Driscoll had held the position of General Manager, Finance. She joined the organisation in 1995. Ms O'Driscoll is responsible to the Board for ensuring Board procedures are complied with. She also provides advice and counsel to the Board in relation to corporate governance, investor relations and other matters.

## 4. STANDING COMMITTEES

The Group has three standing Board Committees, each with charters and established operating procedures. Copies of the committee charters are available at the Group's website <http://www.iag.com.au/pub/iag/company/corpGov.shtml>.

Copies of all Committees' agendas, papers and minutes are disseminated or made available to all Board members.

### 4a. Nomination, Remuneration & Corporate Governance Committee

The Nomination, Remuneration & Corporate Governance Committee has three members, each of whom are independent Non-executive Directors of Insurance Australia Group. Currently, the members of this committee are James Strong (Chairman), John Astbury and Rowan Ross. Committee meetings are held at least four times a year.

The main responsibilities of this committee include:

- Reviewing Board performance, size and composition every three years, and recommending candidates for appointment to the Board;
- Providing assistance to the Chairman on the review of the performance of individual Directors and making recommendations on the operation of the Board;
- Making recommendations to the Board in respect of the remuneration of Non-executive Directors and the Chief Executive Officer as well approval of the remuneration of the direct reports to the Chief Executive Officer;
- Considering the Chief Executive Officer's performance and plans for succession as well as reviewing management plans for executive succession;
- Ensuring the Group's overall remuneration policy and approach fit the strategic goals of the Group;
- Monitoring the effectiveness and integrity of, and compliance with, the Group's remuneration and human resource policies and practices; and
- Considering social, environment and ethical impacts of the Group's business practices and setting standards for social, environmental and ethical practices.

# CORPORATE GOVERNANCE

## 4b. Audit Committee

The Audit Committee has three members, who are all independent Non-executive Directors of IAG. Currently, the members of this committee are John Astbury (Chairman), Geoffrey Cousins and Anne Keating. Committee meetings are held at least four times a year.

The main responsibilities of this committee include:

- Assisting the Boards of Directors to discharge their responsibility to exercise due care, diligence and skill in relation to the Group's full and half-year financial reporting to ensure it is consistent with committee members' information and knowledge and sufficient for shareholder needs;
- Monitoring the application of accounting and actuarial standards, policies and practices by senior financial management when preparing full and half year financial reports;
- Assessing information from the external auditors and the internal audit function that affects the quality of financial reports;
- Reviewing external financial reporting arrangements including external auditor engagement, remuneration, independence and effectiveness;
- Making recommendations to the Board on the appointment, removal and remuneration of the external auditor and monitoring his/her effectiveness;
- Monitoring compliance with an agreed framework for dealing with the external auditor's and consulting actuaries' firm, for the provision of other services;
- Meeting with the Approved Auditor, the Approved Actuary and the consulting actuaries on at least an annual basis without management being present; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

The Audit Committee is also empowered as the audit committee of the Group's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited which has a separate Audit, Risk Management & Compliance Committee.

## 4c. Risk Management & Compliance Committee

The Risk Management & Compliance Committee, has three members, who are all independent Non-executive Directors of IAG. Currently, the members of this committee are Rowan Ross (Chairman), Dominique Fisher and Neil Hamilton. Committee meetings are held at least four times a year.

The main responsibilities of this committee include:

- Overseeing the Group's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;

- Reviewing and evaluating the Group's internal control systems to ensure effectiveness;
- Approving the internal annual audit plan proposed by Group Risk Assurance and monitoring progress against the plan;
- Making recommendations to the Board on the appointment and removal of the Head of Group Risk & Compliance and monitoring his/her effectiveness; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

## 5. ETHICAL AND RESPONSIBLE DECISION-MAKING

The Group takes ethical and responsible decision-making very seriously. It expects its employees and Directors to do the same, as reflected in its internal policies around conduct, continuous disclosure and insider trading.

The Group's Code of Conduct extends to all people employed by the Group including the Board and executive management. The code is designed to encourage ethical and appropriate behaviour in all avenues of work, based on the following principles:

- Acting honestly and openly in all dealings;
- Complying with all laws and industry codes that regulate our activities;
- Abiding by our rules to prevent insider trading;
- Maintaining confidentiality; and
- Avoiding conflicts of interest.

The Group's Continuous Disclosure & Insider Trading Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading. The policy includes a protocol outlining how information is released to the public and focuses on improving continuous disclosure and access to information for all investors. The policy also provides examples of what could constitute price sensitive information and how knowledge of such information prohibits share trading. A Share Trading Protocol sets the framework for employee dealings in the Group's shares and related derivatives, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that Directors and designated employees may only buy or sell shares or options in the 2 to 30 day period immediately following the Group's half-year and full-year results announcements and the Annual General Meeting, subject to not being in possession of inside information as defined by the law.

Directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep the market fully informed.

## 6. SHAREHOLDERS

In keeping with the Code of Conduct and the spirit of continuous disclosure, the Group is committed to ensuring shareholders are informed of significant developments for the Group. Regular announcements to the ASX are proactively relayed through an email messaging service to shareholders who are registered to receive such, and are posted on the Group's website, [www.iag.com.au](http://www.iag.com.au).

Major investor briefings are webcast where practical and copies retained on the website for ease of access. When conducting briefings of investors, care is taken to ensure that price sensitive information is not inadvertently communicated to market participants and is provided to all investors and market participants at the same time in accordance with the ASX Listing Rules.

Media coverage of key events is also sought as a means of delivering information to shareholders and the market. Formal communication with shareholders is also conducted via the annual report, concise annual report, half-year report and at the Annual General Meeting of shareholders.

The Group is mindful of the need to adopt best practices in the drafting of Notices for General Meetings and other communications with shareholders.

Electronic proxy voting will be introduced for the 2004 Annual General Meeting to facilitate ease and timeliness of lodgement by shareholders of their voting on resolutions to be put to the meeting.

Shareholders are encouraged to attend general meetings and ask questions of the Chairman and the Board. Shareholders may raise any issues or concerns at any time by contacting the company.

Shareholders may wish to email their questions or comments to [investor.relations@iag.com.au](mailto:investor.relations@iag.com.au) or write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000.

The external auditor attends general meetings and is available to answer shareholders' questions concerning the conduct of the audit and the preparation and content of the auditor's report.

## 7. RISK MANAGEMENT

The Group's risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes, and culture.

### 7a. Oversight structure

A number of key forums and executives oversee the Group's management of risk. These are summarised below and detailed in approved charters and role descriptions:



The roles and composition of the executive management committees are detailed as follows:

#### **Operational Review Management Committee (ORM)**

ORM is responsible for:

- Reviewing of corporate strategies and the performance of the Group and its business units compared to budgets, forecasts and corporate plans;
- Monitoring the Group's operational risk;
- Authorising capital allocation to projects within financial delegation limits approved by the Board;
- Reviewing health, safety, environment and community performance; and
- Reviewing human resource performance and reward strategies.

Its members include Mr Michael Hawker (Chair) and his Executive team who are listed at page 20 and 21 of this Annual Report together with their biographical details.

# CORPORATE GOVERNANCE

## **Asset and Liability Committee (ALCo)**

The role of ALCo is to allow the Group's senior management to:

- Formulate recommendations for the Board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- Oversee implementation of Board policies concerning risk and capital management;
- Oversee the initial and ongoing implementation of, and compliance with, the Group's Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS); and
- Report to the Risk Management & Compliance Committee concerning compliance with, and the effectiveness of, the RMS and REMS.

Its members include Mr Michael Hawker (Chair) and the Group's executives with operational and financial roles and other key senior management with responsibility for finance, treasury, actuarial, investment and reinsurance functions.

## **Underwriting & Pricing Policy Committee (UPPCo)**

The role of UPPCo is to provide the Group's senior management with a forum in which to:

- Establish or modify the Group's pricing principles and framework;
- Review and endorse business strategies within appropriate delegation and approval limits;
- Determine and monitor group underwriting standards; and
- Monitor group insurance risk accumulations and group reinsurance requirements.

Its members include Mr Michael Hawker (Chair) and the Group's executives with operational and financial roles and other key senior management with responsibility for insurance strategy, pricing, underwriting, actuarial and reinsurance functions.

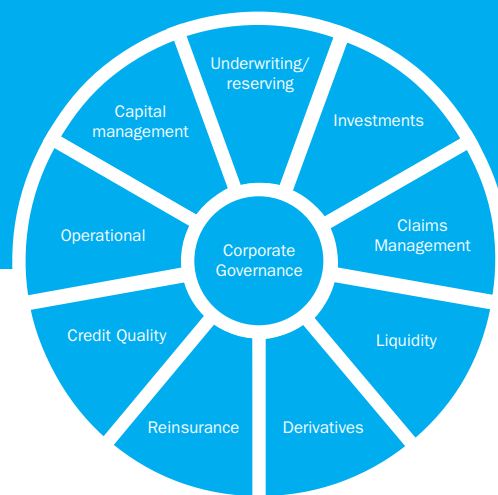
## **7b. Internal policies**

Together with the Code of Conduct and Continuous Disclosure and Insider Trading Policy, the Risk Management Strategy details the Group's principles, appetite, key controls and monitoring processes for managing the risks outlined in the diagram "IAG's risk categories" on page 39.

## **7c. Key risk management processes**

Management employs the following key processes to meet as well as monitor the requirements of the Group's Risk Management Strategy.

<b>Management Assurance Framework</b>	Framework of self-assessment questions posed to, and answered by, management relating to the effectiveness of risk management processes and internal controls. The answers support the CEO, CFO and Board declarations on risk management, internal control and external financial reporting.
<b>Risk Profiling</b>	Each Business Unit identifies, assesses and designs controls for risks to achieving business objectives.
<b>Risk Reporting</b>	Reporting on risk management initiatives and issues is supplied: <ul style="list-style-type: none"> <li>• To the Operational Review Management Committee by each Business Unit;</li> <li>• To the key management committees (ie ALCo, UPPCo) relating to the specific risks that these bodies oversee;</li> <li>• To each meeting of the IAG Risk Management &amp; Compliance Committee and IAG Audit Committee; and</li> <li>• To regulators and industry groups, where relevant and appropriate.</li> </ul>
<b>Internal Audit</b>	Internal independent reviews of key risk areas, processes, projects and management assertions about risk management and internal control.  The internal audit function (Group Risk Assurance) reports to the Head of Group Risk and Compliance, who reports to the Chief Risk Officer, the IAG Risk Management & Compliance Committee and the IAG Audit Committee.
<b>Independent Auditor's Reviews</b>	External independent reviews of key financial risk areas, processes and issues.



*IAG's risk categories*

#### 7d. Culture

The Board and management actively promote a culture of transparency, encouraging early and open communication of risk. To facilitate this open culture, the Board provides open access to the Chairs of the Board, the Audit Committee, and the Risk Management & Compliance Committee. In particular, the Group has established:

- mechanisms for rapid escalation of important matters to relevant executives and/or Board members; and
- performance incentives for management aimed at encouraging a proactive risk management culture.

#### 8. SOCIAL AND STAKEHOLDER RESPONSIBILITY

The Group recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to shareholders, customers and employees.

The Group acknowledges that the sustainability of its business is directly tied to the sustainability of the communities in which it operates. The Group believes that returns to its shareholders, and the Group's own stability and growth potential, will be enhanced by conducting business in a way that creates value for society across environmental, social and economic dimensions.

Social responsibility is a basic foundation for the way the Group operates. The Group is committed to ensuring it has appropriate policies and agreed practices to guide its actions, including employee practices, conduct in the marketplace, environmental care, governance and ethical conduct, occupational health and safety, human rights and community involvement.

The Group acknowledges that its suppliers, vendors and contractors impact upon society, the environment and the wider economy. Accordingly, the contracting of services and the purchase, hire or lease of equipment and materials must be consistent with the Group's Supplier Selection Guidelines.

The Group's Statement of Commitment to Community, Safety and the Environment is available at <http://www.iag.com.au/pub/iag/sustainability/index.shtml>. In addition, the Group expects to release a Sustainability Report later in 2004.

#### 9. REMUNERATION FRAMEWORK

The Group's approach to compensation arrangements for all employees, including Non-executive Directors and executives, is based on ensuring that the Group can attract and retain the best people to drive corporate performance and deliver fair returns to shareholders.

#### 9a. Non-executive Directors

Details of the Group's remuneration policies for its Non-executive Directors are disclosed in the Directors' Report on page 46 and at Note 9 to the Full Financial Report.

The Group decided to freeze the operation of the Non-executive Director retirement benefit scheme adopted by the Group in 2001 with effect from 1 September 2003.

The terms of the retirement benefits scheme provided for:

- Any Non-executive Director of the Group who had completed five years' continuous service with the Group (including service with any of its subsidiaries) at the date of retirement, a retirement benefit equivalent to the last three years' Directors' fees, employer contributions to superannuation, committee fees and fees for extra services received from the Group and its subsidiaries.
- A pro-rata retirement benefit for Non-executive Directors who have completed at least three years' service but less than five years' service at the date of their retirement, based on a specified formula.
- No retirement benefit to be paid to a Non-executive Director who had served for a period of less than three years.

The Group determined that the frozen retirement benefits would be calculated as follows:

- Non-executive Directors joining the Board from 1 September 2003 would have no retirement benefit;
- For each current Non-executive Director who had served a minimum of three years, the retirement benefit was assessed as if they had retired at 31 August 2003; and
- For a Non-executive Director with less than three years of service at 31 August 2003, a retirement benefit was assessed as if they had three years of service as at that date, and then reduced on a pro-rata basis based on their uncompleted period of service as a proportion of three years. The retirement benefit is not subsequently payable to such a Non-executive Director if they had less than three years of service as a Non-executive Director at the date of their retirement.

Retirement benefits of \$269,008 and \$276,115 were paid to Mrs Maree Callaghan and Mrs Mary Easson, respectively, following their retirements from the Board on 1 September 2003.

No amounts have been accrued in the accounts of the Group for the frozen retirement benefits of the remaining Directors who held office on 31 August 2003 and who have continued in office since, as the Board has not exercised its discretion to pay these retirement benefits. The remaining Non-executive Directors who held office at 31 August 2003 were Ms Fisher and Ms Keating and Messrs Strong, Astbury, Ross, Cousins and Hamilton. The total maximum frozen retirement benefits which may be payable to these Directors, is approximately \$1,640,000 although this amount may be higher depending on the amount of company-funded superannuation payable to a director at the time of their retirement.

# CORPORATE GOVERNANCE

## 9b. Executive

The Group's executive remuneration philosophy is to reward performance in line with the returns delivered to its shareholders. This is achieved via a remuneration framework that is based on domestic and international best practice and which contains an appropriate mix of fixed and variable reward.

The principles which underpin the Group's executive remuneration philosophy, are:

- The mix of fixed and variable reward should be reflective of the seniority of the position, impact on the Group's results and market practice;
- Measures of performance should adopt a balanced scorecard approach and focus on delivering sustainable value to our shareholders;
- There should be an appropriate balance between delivering both short term results and longer term, sustainable performance;
- Remuneration policies and practices should be consistent with the Group's values and with general community expectations and standards;
- All performance measures should be clearly defined and time bounded; and
- Executive remuneration should be sufficiently competitive to attract and retain the calibre of executive management required to deliver shareholders' performance expectations.

There are four components to the Group's executive remuneration programme:

- base salary;
- short term incentive;
- long term incentive; and
- superannuation.

The combination of these four components comprises the executive remuneration package.

### (i) Base salary

Base salary is determined by a review of job size; internal relativities; and, independent external market review and analysis. Unless there has been a significant change in job size, base salary increases will generally not exceed movements in external market rates.

### (ii) Short term incentive

The CEO and executives have the opportunity to earn a short term incentive payment based on both their contribution to the Group's performance and their own individual performance. At the commencement of each business year, a range of stretching and measurable Group and individual goals are agreed with each executive.

At the end of the business year the quantum of any incentive payment is determined based on measured achievement of those goals.

### (iii) Long term incentive

The CEO and executives may be invited to participate in the Group's long term incentive plan. The plan is designed to align their financial interests with the interests of our shareholders. It delivers equity to the participants if certain long term performance targets are achieved.

The Performance Award Rights Plan (PAR Plan), which is described in more detail at Note 42(g) of the Full Financial Report, is designed to align reward outcomes with growth in Total Shareholder Return (TSR) as measured against a peer group of companies. The timeframe for measuring TSR growth is three to five years. The Performance Award Rights (PARs) do not vest to the employee unless TSR growth is at least at the 50th percentile when measured against the peer group of companies and full vesting requires TSR growth to be at least at the 75th percentile.

Factors considered in determining any individual allocation include the current track record of individual performance and contribution to the longer term strategic direction of the Group.

At the Group's November 2003 Annual General Meeting, shareholders approved an arrangement for the CEO, Michael Hawker, whereby a total allocation of 1,500,000 PARs could be granted to him within the following three year period at the Board's discretion. As a condition of that arrangement, any annual allocation could not exceed 600,000 PARs. Mr Hawker received a grant of 400,000 PARs in November 2003, which leaves a maximum pool of 1,100,000 PARs which may be allocated to Mr Hawker over the next two years. The performance measure for determining the vesting of any PARs granted to Mr Hawker is the same as that applying to other participants within the PAR Plan.

### (iv) Superannuation

The Group provides employer superannuation contributions to the CEO and executives at the rate of 13% of base salary. This contribution rate is consistent with that provided to other employees of the Group.

The Nomination, Remuneration & Corporate Governance Committee reviews and approves all recommended changes to any of the components of executive remuneration as outlined above. The Committee, at its discretion, may seek further independent advice on any aspects of recommendations placed before it for approval.

Information about the Group's executive remuneration policies and practices are provided in the Directors' Report and at Note 9 of the Full Financial Report.

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# FIVE YEAR FINANCIAL SUMMARY

For the year ended 30 June

<b>Insurance Australia Group Five Year Performance</b>	<b>2000<sup>1</sup></b>	<b>2001<sup>1</sup></b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Gross written premium	2,643	3,198	3,558	5,150	<b>6,427</b>
Gross earned premium	2,573	3,036	3,448	4,885	<b>6,265</b>
Reinsurance expense	(189)	(260)	(253)	(249)	<b>(402)</b>
Net earned premium	2,384	2,776	3,195	4,636	<b>5,863</b>
Net claims expense	(2,048)	(2,234)	(2,425)	(3,363)	<b>(3,815)</b>
Underwriting expenses	(514)	(564)	(628)	(1,074)	<b>(1,500)</b>
<b>Underwriting profit / (loss)</b>	(178)	(22)	142	199	<b>548</b>
Investment income from technical reserves	288	232	136	372	<b>244</b>
<b>Insurance profit</b>	110	210	278	571	<b>792</b>
Investment income from shareholders' and external funds	471	204	(291)	(76)	<b>508</b>
Financial services revenue	217	182	37	30	<b>70</b>
Other operating revenue	188	164	173	177	<b>216</b>
Life insurance business expenses	(93)	(72)	-	(11)	<b>(52)</b>
Borrowing costs expenses	(80)	(88)	(46)	(46)	<b>(57)</b>
Corporate and administration expenses	(345)	(317)	(242)	(267)	<b>(268)</b>
Amortisation of goodwill and intangibles	(13)	(28)	(43)	(81)	<b>(118)</b>
Non-recurring items <sup>2</sup>	19	-	33	-	<b>61</b>
<b>Profit / (loss) before income tax</b>	474	255	(101)	297	<b>1,152</b>
Income tax (expense) / credit	(128)	(44)	18	(80)	<b>(346)</b>
<b>Net profit / (loss)</b>	346	211	(83)	217	<b>806</b>
Net (profit) / loss attributable to outside equity interests	(50)	(68)	58	(64)	<b>(141)</b>
<b>Net profit / (loss) attributable to shareholders of Insurance Australia Group Limited</b>	296	143	(25)	153	<b>665</b>
Ordinary shareholders' or members' equity (\$ million)	2,853	2,523	2,476	3,575	<b>3,538</b>
Total assets (\$ million)	12,130	12,586	11,307	16,470	<b>16,335</b>
Number of general insurance risks in force (thousand)	6,802	8,619	8,671	18,213	<b>19,161</b>
Premium growth					
– gross written	19.7%	21.0%	11.3%	44.7%	<b>24.8%</b>
– net earned	21.4%	16.4%	15.1%	45.1%	<b>26.5%</b>
<b>Key ratios</b>					
Loss ratio	85.9%	80.5%	75.9%	72.5%	<b>65.1%</b>
Expense ratio	21.6%	20.3%	19.7%	23.2%	<b>25.6%</b>
Combined ratio	107.5%	100.8%	95.6%	95.7%	<b>90.7%</b>
After tax return on ordinary shareholders' or members' equity <sup>3</sup>	11.0%	5.3%	(1.2%)	5.1%	<b>21.1%</b>
<b>Share information</b>					
Dividends per ordinary share – fully franked (cents)	n/a	10.00	10.50	11.50	<b>22.00</b>
Basic earnings per ordinary share (cents) <sup>4</sup>	n/a	9.40	(1.78)	8.65	<b>37.87</b>
Ordinary share price at 30 June (\$)	n/a	3.40	3.15	3.40	<b>5.00</b>
5.80% reset preference share (IAGPA) price at 30 June (\$)	n/a	n/a	100.10	107.94	<b>104.70</b>
4.51% reset preference share (IAGPB) price at 30 June (\$)	n/a	n/a	n/a	100.10	<b>98.35</b>
Issued ordinary share capital (million shares)	n/a	1,399	1,301	1,683	<b>1,591</b>
Issued reset preference share capital (million shares)	n/a	n/a	4	6	<b>6</b>
Market capitalisation (ordinary shares) at 30 June (\$ million)	n/a	4,761	4,100	5,722	<b>7,954</b>
Net tangible assets backing per ordinary share (\$)	n/a	1.33	1.15	0.84	<b>0.96</b>

1 The 2001 disclosure represents the consolidated result of Insurance Australia Group Limited assuming it acquired Insurance Australia Limited (formerly NRMA Insurance Limited) and its controlled entities on 1 July 2000. This differed to the reported statutory result that is based on the date of acquisition, 22 July 2000. All other prior years represent the consolidated results of Insurance Australia Limited (formerly NRMA Insurance Limited).

2 This includes demutualisation expenses of \$61 million and the recognition of deferred acquisition costs for certain general insurance portfolios of \$80 million in 2000, profit on disposal of NRMA Building Society Limited of \$45 million and "Share the Future" litigation expenses of \$12 million in 2002 and the profit on disposal of ClearView retirement services businesses of \$61 million in 2004.

3 Net profit / (loss) attributable to ordinary shareholders to average ordinary shareholders' equity.

4 The 2001 figure reflects a full year operating period assuming the acquisition of Insurance Australia Limited (formerly NRMA Insurance Limited) occurred on 1 July 2000. The reported statutory figure is 8.62 cents.

# DIRECTORS' REPORT

The concise financial report has been derived from the consolidated entity's 2004 full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the 2004 full financial report.

A copy of the Insurance Australia Group Limited 2004 full financial report, including the independent auditors' report, is available to all shareholders, and can be accessed on the internet at [www.iag.com.au](http://www.iag.com.au)

The Directors present their report together with the concise financial report of the consolidated entity, being Insurance Australia Group Limited and its controlled entities for the year ended 30 June 2004 and the auditors' report thereon.

The following terminology is used throughout the financial report:

- IAG, parent entity or Company – Insurance Australia Group Limited.
- IAG Group, Group or consolidated entity – the consolidated entity consists of Insurance Australia Group Limited and its controlled entities.

## DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

### Chairman

Mr JA (James) Strong	appointed in August 2001
----------------------	--------------------------

### Other directors

Mr JF (John) Astbury	appointed in July 2000
Mr GA (Geoffrey) Cousins	appointed in July 2000
Ms DG (Dominique) Fisher	appointed in June 2000
Mr ND (Neil) Hamilton	appointed in June 2000
Ms AJ (Anne) Keating	appointed in June 2000
Mr RA (Rowan) Ross	appointed in July 2000
Mr MJ (Michael) Hawker	appointed in December 2001

*Particulars of the Directors' qualifications and experience are set out on pages 30 and 31.*

### Former independent non-executive directors who retired during the financial year

Mrs MC (Maree) Callaghan	from 19 June 2000 to 1 September 2003
Mrs M (Mary) Easson	from 19 June 2000 to 1 September 2003

## PRINCIPAL ACTIVITIES

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

## RESULT AND REVIEW OF OPERATIONS

The IAG Group net profit after tax for the year was \$806 million (2003 – \$217 million). After adjusting for outside equity interests in the IAG Group result, the net profit attributable to shareholders of the Company was \$665 million (2003 – \$153 million).

The key components contributing to the full year result were:

- Significant improvement in underwriting profit of \$548 million compared to \$199 million in 2003. Part of this improvement is attributable to the full year impact of the acquisition of CGU Insurance Australia Limited ("CGU") and Belves Investments Limited ("NZI") undertaken in January 2003 (previous financial year only had 6 months impact of CGU/NZI).
- The strength of the underwriting result and synergy benefits from the CGU/NZI acquisition produced an insurance margin of 13.5% (2003 – 12.3%), exceeding the IAG Group's long-term target range of 9% – 12%.
- Gross written premium was \$6,427 million, representing an increase of 24.8% on the same period last year (\$5,150 million). The major driver of this growth is a full year's result from CGU/NZI.
- The expense ratio (underwriting expenses to net earned premium) of 25.6% compares to 23.2% for the same period last year. A full year's result from the CGU and NZI businesses has been the major driver of this increase. CGU and NZI bring a higher expense ratio, in the form of commission expense, due to the intermediary distribution of their products.
- The quality of the result was driven by strong performance of all major business segments and includes benefits derived from continuous business improvement, essential completion of the CGU and NZI integration programme and generally favourable weather conditions during the second half of the year. The IAG Group's combined ratio of 90.7% was better than the target range 94% – 96% and was a significant improvement on 95.7% in 2003. Excluding the impact of interest rate movements during the year on outstanding claims provisions, the combined ratio is 92.7% (2003 – 93.9%).
- The result includes \$52 million (2003 – \$45 million) of expenses associated with the restructuring and integration of the CGU and NZI businesses acquired. This marked the completion of the integration programme expenditure.
- After two years of negative return on equity portfolios, the recovery in the global equity markets delivered a welcome positive contribution to the IAG Group's results. Total investment income included in the consolidated net profit before tax for the financial year was \$813 million (2003 – \$296 million).

# DIRECTORS' REPORT

## RESULT AND REVIEW OF OPERATIONS (CONTINUED)

- The results include a one-off gain of \$57 million after tax from the sale of the ClearView retirement services businesses in January 2004.
- There is also a benefit of \$13 million included in income tax expense, as a result of the changes in the IAG Group's tax cost base arising from the application of new tax consolidation rules to the wholly-owned entities in Australia.

Further information on the IAG Group's result and review of operations can be found in the 30 June 2004 Investor Report on the Company's website, [www.iag.com.au](http://www.iag.com.au).

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural disasters and industry cycles and thus profit predictions are difficult. The Directors believe that premium rate growth will be lower in the coming year than in recent periods reflecting the benefits of improved claims experience, cost control and the international insurance cycle. The IAG Group's insurance margin for the coming year is still expected to be above the IAG Group's long-term target range of 9% – 12%. In addition, the growth in business volume is expected to continue. The Directors consider that the IAG Group is well placed to continue to leverage opportunities in this environment.

## DIVIDENDS

Details of dividends paid or declared by the Company are set out in note 6.

## SIGNIFICANT CHANGES

Significant changes in the state of affairs of IAG Group during the financial year were as follows:

- On 1 July 2003, IAG announced the sale of NRMA Health Pty Limited for \$99 million to MBF, effective 25 July 2003. IAG has entered into a six-year marketing alliance, including a possible four-year extension, with MBF;
- On 11 December 2003, IAG announced the agreement to sell its ClearView retirement services businesses to MBF, effective 21 January 2004. The sale price was \$218 million plus up to an additional \$50 million earn-out, subject to business performance over the following five years; and
- On 28 June 2004, IAG completed an off-market share buy-back of \$414 million, whereby the Company repurchased 94 million shares at a price of \$4.40 per share, which included a fully franked dividend of \$2.62 per share. This represented approximately 5.6% of the IAG Group's ordinary shares on issue.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Details of matters subsequent to the end of the financial year including a dividend declared of 14 cents per ordinary share and the impact of the introduction of Australian equivalents of the International Financial Reporting Standards are set out in note 11.

# DIRECTORS' REPORT

## MEETINGS OF DIRECTORS

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

	Board of Directors		Audit Committee		Nomination, Remuneration & Corporate Governance Committee		Risk Management & Compliance Committee		Reinsurance Committee	
	A	B	A	B	A	B	A	B	A	B
<b>Total number of meetings held</b>	12		4		4		7		4	
<b>Directors</b>	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	12	12	-	-	4	4	-	-	4	4
Mr MJ Hawker	12	12	-	-	-	-	-	-	-	-
Mr JF Astbury	12	12	4	4	4	4	-	-	-	-
Mrs MC Callaghan*	4	4	-	-	-	-	1	1	-	-
Mr GA Cousins	12	11	4	3	-	-	-	-	-	-
Mrs M Easson*	4	4	1	1	-	-	-	-	-	-
Ms DG Fisher	12	12	-	-	-	-	7	7	-	-
Mr ND Hamilton	12	11	-	-	-	-	7	7	-	-
Ms AJ Keating	12	12	4	4	-	-	-	-	-	-
Mr RA Ross	12	11	-	-	4	3	7	7	4	4

	ClearView Sale Committee		IAG Share Buy-Back Committee		IAG Board Sub-Committee	
	A	B	A	B	A	B
<b>Total number of meetings held</b>	2		3		2	
<b>Directors</b>	A	B	A	B	A	B
Mr JA Strong	2	2	3	2	2	2
Mr MJ Hawker	2	2	3	1	2	2
Mr JF Astbury	-	-	-	-	-	-
Mrs MC Callaghan*	-	-	-	-	-	-
Mr GA Cousins	-	-	3	3	-	-
Mrs M Easson*	-	-	-	-	-	-
Ms DG Fisher	-	-	-	-	-	-
Mr ND Hamilton	-	-	-	-	-	-
Ms AJ Keating	-	-	-	-	-	-
Mr RA Ross	-	-	-	-	-	-

A – Meetings eligible to attend as a member

B – Meetings attended as a member

\* Mrs MC Callaghan and Mrs M Easson retired as Directors on 1 September 2003.

# DIRECTORS' REPORT

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings.

In addition, the Company has granted deeds of indemnity to certain current and former Directors and secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company indemnifies to the maximum extent permitted by the law the former or current Directors or secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

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

During previous years, the Company advanced amounts, in accordance with a deed of indemnity, in respect of legal costs incurred by a former Director of the Company (Mr Nicholas Whitlam) in defending legal proceedings brought against the former Director by the Australian Securities & Investments Commission. Mr Whitlam was successful in his defence of those proceedings which are now at an end. Whilst the advances previously made by the Company in respect of legal costs are not repayable by the former Director, the former Director has the benefit of costs orders in his favour in the proceedings. The Company is entitled to the benefit of any amount recovered by Mr Whitlam in respect of the costs of the proceedings, so far as it had previously advanced those costs to him. The Company has requested Mr Whitlam to take the appropriate steps to recover those costs.

## DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

### Non-executive directors

Base fees for non-executive Directors are set according to external advice. The payment of Directors' fees also seeks to align the interests of Directors with those of shareholders by requiring them to receive at least 20% and up to 90% of their annual base fee under the Non-executive Directors' Share Plan in IAG shares, rather than cash. No other equity-based remuneration is available to non-executive Directors.

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

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

The table below sets out the fees paid by the IAG Group to non-executive Directors for the year ended 30 June 2004.

Non-executive directors	Primary benefits <sup>(1)</sup>	Post-employment benefits <sup>(2)</sup>	Equity compensation <sup>(3)</sup>	Total
Mr JA Strong	\$000	\$000	\$000	\$000
Mr JF Astbury	266	39	131	436
Mr JF Astbury	106	12	18	136
Mrs MC Callaghan <sup>(4)</sup>	10	271	3	284
Mr GA Cousins	89	10	18	117
Mrs M Easson <sup>(4)</sup>	11	277	2	290
Ms DG Fisher	51	10	55	116
Mr ND Hamilton	46	11	79	136
Ms AJ Keating	101	11	17	129
Mr RA Ross	80	11	44	135

(1) Primary benefits include base fee paid by cash and fees paid for some of the IAG committees and two subsidiaries board.

(2) Post-employment benefits include superannuation contributions made and retirement benefits paid for the two retired Directors, refer to (4) below for further details.

(3) Equity compensation relates to portion of base fee received as IAG shares under the Non-executive Directors' Share Plan.

(4) Post-employment benefits include retirement benefits of \$269,000 and \$276,000 paid to Mrs MC Callaghan and Mrs M Easson, respectively. The retirement benefits were calculated in accordance with the Non-executive Directors' Retirement Benefits Policy and the Corporations Act 2001.

# DIRECTORS' REPORT

## DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONTINUED)

### Executive director and officers

The Nomination, Remuneration & Corporate Governance Committee ("NRCGC") is a committee of the Board which provides assurance to the Board of the effectiveness, integrity and compliance of the Company's remuneration policies and practice. The NRCGC makes recommendations on the remuneration to be paid to the executive director who holds the office of Chief Executive Officer ("CEO") and approves the remuneration to be paid to the executives who report directly to the CEO.

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

The tables below set out the remuneration of the CEO and each of the officers of the IAG Group for the year ended 30 June 2004. For the CEO, a comparative is also provided on his remuneration for the previous financial year.

Executive director	Primary benefits <sup>(1)</sup>	Post-employment benefits <sup>(2)</sup>	Equity compensation <sup>(3)</sup>	Other benefits	Total
	\$000	\$000	\$000	\$000	\$000
Chief Executive Officer:					
Mr MJ Hawker					
- 30 June 2004	1,933	146	1,296	-	3,375
- 30 June 2003	1,804	135	860	-	2,799

The increase in the remuneration of the CEO is primarily attributable to an increase in his base pay of \$150,000 and an increase in equity compensation, through an additional allocation of Performance Award Rights. The comparative primary benefits have been adjusted to reflect bonus paid in accordance with the changed requirements of Accounting Standard disclosure.

Officers	Primary benefits <sup>(1)</sup>	Post-employment benefits <sup>(2)</sup>	Equity compensation <sup>(3)</sup>	Other benefits	Total
	\$000	\$000	\$000	\$000	\$000
Ms KL Baylis	727	60	159	-	946
Mr IF Brown	965	92	348	-	1,405
Mr AM Coleman	858	69	185	-	1,112
Mr DA Issa	757	60	88	-	905
Mr RJ Jackson	1,121	88	14	-	1,223
Ms SJ Mostyn	717	59	145	-	921
Mr DRA Pearce	737	61	155	-	953
Mr MJ Pirone	699	61	198	-	958
Mr LF Power	823	32	26	-	881
Mr DJP Smith	919	70	156	124 <sup>(4)</sup>	1,269
Mr G Venardos	1,062	77	212	-	1,351
Mr RJ Wagstaffe	940	36	26	-	1,002

(1) Primary benefits include amounts of salary paid in cash, bonuses, provision of cars, parking and related fringe benefits tax, annual leave and long service leave. Bonuses, including short-term and long-term incentive bonuses, are measured on accruals basis.

(2) Post-employment benefits include superannuation contributions made and deemed contributions for the IAG & NRMA Superannuation Plan (formerly NRMA Superannuation Plan) where IAG is on a contribution holiday.

(3) Equity compensation includes values of the executives' participation in the Bonus Equity Share Plan ("BESP") for their short-term incentive bonus and values for Performance Share Rights ("PSRs" – related to unissued shares) and Performance Award Rights ("PARs" – related to issued shares) in accordance with AASB 1046: Director and executive disclosures by disclosing entities. Values of BESP are in accordance with market price of IAG shares at grant date. An allocated portion of unvested PSRs and PARs is included in the total remuneration disclosure above. To determine these values the Black Scholes model has been applied. The valuation takes into account the share price at grant date, the expected life of the option, the exercise price of the option, the volatility in price of the underlying shares of IAG, expected dividends and the risk-free interest rate.

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

# DIRECTORS' REPORT

## DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONTINUED)

### Executive director and officers (continued)

Set out below is the Performance Award Rights ("PARs") granted during the year ended 30 June 2004.

Executive director	PARs granted during the year <sup>(1)</sup>	Date first exercisable
	Number	
Chief Executive Officer:		
Mr MJ Hawker	400,000	29/09/2006

Officers	PARs granted during the year <sup>(1)</sup>	Date first exercisable
	Number	
Ms KL Baylis	61,679	29/09/2006
Mr IF Brown	80,451	29/09/2006
Mr AM Coleman	80,451	29/09/2006
Mr DA Issa	67,042	29/09/2006
Mr RJ Jackson	80,451	29/09/2006
Ms SJ Mostyn	67,042	29/09/2006
Mr DRA Pearce	61,679	29/09/2006
Mr MJ Pirone	73,746	29/09/2006
Mr LF Power	53,634	29/09/2006
Mr DJP Smith	80,451	29/09/2006
Mr G Venardos	93,859	29/09/2006
Mr RJ Wagstaffe	53,634	29/09/2006

(1) The Company has issued PARs to certain executives during the financial year. Each executive who participates in the PARs becomes eligible to receive a number of shares by paying \$1 per tranche of rights allocated, subject to a specific performance hurdle met.

### DIRECTORS' INTERESTS

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

Directors	Ordinary shares directly held	Ordinary shares indirectly held*	Reset preference shares	Performance share rights	Performance award rights
Mr JA Strong	12,083	139,122	-	-	-
Mr JF Astbury	10,083	38,252	-	-	-
Mr GA Cousins	150,000	18,252	-	-	-
Ms DG Fisher	4,799	56,078	-	-	-
Mr ND Hamilton	4,817	60,460	-	-	-
Ms AJ Keating	709	18,252	-	-	-
Mr RA Ross	102,557	40,053	-	-	-
Mr MJ Hawker	183,971	-	-	1,000,000	700,000

\* Ordinary shares indirectly held includes shares held in the Non-executive Directors' Share Plan and held by Directors' related entities.

# DIRECTORS' REPORT

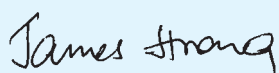
## ENVIRONMENTAL REGULATION

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

## ROUNDING OF AMOUNTS

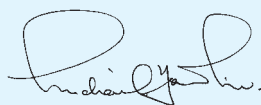
Unless otherwise stated, amounts in the financial report and Directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted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

Signed at Sydney this 19th of August 2004 in accordance with a resolution of the Directors.



**Mr J A Strong**

Director



**Mr M J Hawker**

Director

# DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

## DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

The IAG Group recorded a net profit for the year of \$665 million (2003 – \$153 million).

The overall increase in the net profit after tax is attributable to a full year's contributions made by the CGU and NZI businesses (which were acquired on 2 January 2003) together with improved underwriting and investment performance from technical reserves. The net profit after tax also includes a one-off profit of \$57 million after tax from the sale of the ClearView retirement services businesses.

### Net premium revenue

Net premium revenue has increased by 26% to \$5,863 million. This increase is attributable to:

- A full year's contribution by the CGU and NZI groups; and
- Continued high retention and growth in new business in the existing and acquired entities.

### Net claims expense

Claims expense has increased by 13% to \$3,815 million. The increase is attributable to:

- A full year's contribution by the CGU and NZI groups; and
- General growth of the business.

The loss ratio (net claims expense as a % to net earned premium) of 65% has improved from 73% in the previous financial year. Approximately 4% of this improvement is due to a benefit from interest rate adjustments and the balance is due to the benefits from integration of the CGU/NZI businesses and generally favourable weather conditions.

### Underwriting expenses

Total underwriting expenses have increased by 40% to \$1,500 million. The increase is attributable to:

- A full year's contribution by the CGU and NZI groups; and
- General growth of the business.

The expense ratio (underwriting expenses to net earned premium) of 26% compares to 23% for the same period last year. A full year's result from the CGU and NZI businesses has been the major driver of this increase. CGU and NZI bring a higher expense ratio, in the form of commission expense, due to the intermediary distribution of their products.

### Retirement services revenue

The increase in retirement services revenue by 133% to \$70 million is attributable to the improved performance from equity investments during the first half of the year. The retirement services businesses (ClearView) were sold to MBF effective 21 January 2004.

### Other operating revenue

The increase in other operating revenue by 22% to \$216 million is mainly attributable to a full year's contribution by the CGU and NZI groups.

### Borrowing costs expense

Borrowing costs expense has increased due to a full year's expense arising from the borrowings to fund the acquisition of CGU/NZI. The increase has been offset to some extent by the decrease in short-term borrowings in the form of commercial paper.

### Corporate and administration expenses

The increase in corporate and administration expenses by 11% to \$386 million is mainly attributable to the increase in goodwill and intangibles amortisation by \$37 million.

# DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

## DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Assets

The total assets of the IAG Group are \$16,335 million (2003 – \$16,470 million).

The small decrease in total assets is largely attributable to the sale of the ClearView retirement services businesses and NRMA Health Pty Limited, the share buy-back of \$417 million (inclusive of costs) and total dividends paid of \$282 million. This was largely offset by the increase in investments backing technical reserves of approximately \$400 million and the increase in investments attributable to outside equity interests of \$208 million.

### Liabilities

The total liabilities of the IAG Group are \$12,111 million (2003 – \$12,417 million) with the major component being general insurance liabilities of \$9,799 million (2003 – \$10,213 million, which included life insurance liabilities of \$910 million). The overall decrease was due to the sale of the ClearView retirement services businesses and NRMA Health Pty Limited and the reduction in short-term borrowings. This decrease was offset to some extent by the increase in general insurance liabilities by \$496 million.

### Equity

Equity was impacted by the following activities during the year:

#### Increase:

- Net profit of \$665 million; and
- Increase in outside equity interests.

#### Decrease:

- Payment of dividends of \$282 million; and
- Share buy-back of \$417 million (inclusive of costs).

## DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Cash flows from operating activities

Cash flows from operating activities have increased by 42% to \$1,169 million.

The increase is attributable to a full year's contribution by CGU/NZI during the year, affecting both the underwriting and other operating cash flows.

### Cash flows from investing activities

Cash outflows from investing activities have decreased by \$383 million.

The decrease is largely attributable to the net cash outlay of \$1,644 million for the acquisition of CGU/NZI in 2003. However in 2003, these outflows were offset by the sale of \$125 million of equities to fund the purchase of the above acquisition and the distribution received from the voluntary liquidation of a former controlled entity to the value of \$531 million.

### Cash flows from financing activities

Cash flows from financing activities have decreased by \$1,306 million to a net outflow of \$590 million.

This decrease is attributable to:

- Funds raised (issue of shares and borrowings) during the previous year to fund the acquisition of CGU/NZI. However this was offset in the previous year by the repayment of an amount of \$683 million due to a former controlled entity in voluntary liquidation; and
- The share buy-back in the current year involving a total outlay of \$417 million (inclusive of costs).

# CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2004

	Notes	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
Premium revenue	4(a)(i)	6,265	4,885
Reinsurance expense		(402)	(249)
Net premium revenue		5,863	4,636
Claims expense		(4,365)	(3,743)
Reinsurance and other recoveries	4(a)(ii)	550	380
Net claims expense		(3,815)	(3,363)
Acquisition costs		(963)	(700)
Other underwriting expenses		(384)	(241)
Fire brigade charges		(153)	(133)
Underwriting expenses		(1,500)	(1,074)
Profit from underwriting		548	199
Investment income	4(a)(iii)	485	332
Realised gains on investments	4(a)(iii)	116	1
Unrealised gains / (losses) on investments	4(a)(iii)	212	(37)
Retirement services revenue	4(a)(iv)	70	30
Other operating revenue	4(a)(v)	216	177
Borrowing costs expense		(57)	(46)
Life insurance business expenses		(52)	(11)
Corporate and administration expenses		(386)	(348)
<b>Profit from ordinary activities before income tax</b>		<b>1,152</b>	<b>297</b>
Income tax expense		(346)	(80)
<b>Net profit</b>		<b>806</b>	<b>217</b>
Net profit attributable to outside equity interests		(141)	(64)
<b>Net profit attributable to shareholders of Insurance Australia Group Limited</b>		<b>665</b>	<b>153</b>
<b>Non-owner transaction changes in equity:</b>			
Net exchange difference on translation of financial reports of foreign controlled entities		(3)	-
<b>Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity</b>		<b>662</b>	<b>153</b>
		<b>2004 cents</b>	<b>2003 cents</b>
Basic earnings per ordinary share	9(a)	37.87	8.65
Basic earnings per reset preference share	9(b)	532.30	587.36
Diluted earnings per ordinary share	9(a)	37.74	8.61

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2004

	Notes	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
<b>Current assets</b>			
Cash assets		424	626
Receivables		2,716	2,597
Investments		2,474	2,585
Current tax assets		-	40
Other		924	811
<b>Total current assets</b>		<b>6,538</b>	6,659
<b>Non-current assets</b>			
Receivables		547	435
Investments		7,285	7,246
Plant and equipment		165	139
Deferred tax assets		296	333
Intangible assets		1,473	1,626
Other		31	32
<b>Total non-current assets</b>		<b>9,797</b>	9,811
<b>Total assets</b>		<b>16,335</b>	16,470
<b>Current liabilities</b>			
Payables		981	890
Interest-bearing liabilities		-	136
Current tax liabilities		222	106
Provisions		180	174
Outstanding claims		2,202	2,153
Unearned premium		3,386	3,223
<b>Total current liabilities</b>		<b>6,971</b>	6,682
<b>Non-current liabilities</b>			
Interest-bearing liabilities		793	789
Deferred tax liabilities		99	66
Provisions		37	43
Gross life insurance policy liabilities		-	910
Outstanding claims		4,125	3,849
Unearned premium		86	78
<b>Total non-current liabilities</b>		<b>5,140</b>	5,735
<b>Total liabilities</b>		<b>12,111</b>	12,417
<b>Net assets</b>		<b>4,224</b>	4,053
<b>Equity</b>			
Contributed equity		3,802	3,973
Foreign currency translation reserve		(5)	(2)
Accumulated losses	7	(259)	(396)
<b>Equity attributable to shareholders of Insurance Australia Group Limited</b>		<b>3,538</b>	3,575
Outside equity interests in controlled entities:			
– Contributed equity		124	180
– Retained profits		39	20
– Unitholders' funds		523	278
<b>Total equity</b>	8	<b>4,224</b>	4,053

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2004

	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
<b>Cash flows from operating activities</b>		
Premium received	6,578	5,395
Reinsurance and other recoveries received	458	466
Claims costs paid	(4,168)	(3,891)
Outwards reinsurance premium paid	(474)	(348)
Dividends received	72	82
Interest and similar items received	454	385
Borrowing costs paid	(46)	(39)
Income taxes paid	(139)	(108)
Income tax refund	16	-
Other operating receipts	736	423
Other operating payments	(2,318)	(1,540)
<b>Net cash provided by operating activities</b>	<b>1,169</b>	<b>825</b>
<b>Cash flows from investing activities</b>		
Net cash flows on acquisition of controlled entities	-	(1,644)
Net cash flows on disposal of controlled entities	(45)	-
Proceeds from disposal of investments and plant and equipment	23,034	26,872
Outlays for investments and plant and equipment acquired	(23,758)	(26,405)
Repayment of premium funding loans	285	126
Advances of premium funding loans	(300)	(116)
<b>Net cash used in investing activities</b>	<b>(784)</b>	<b>(1,167)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares	-	1,080
Outlays for buy-back of shares inclusive of costs	(417)	-
Outlays for return of capital to outside equity interests	(56)	-
Proceeds from issues of trust units	948	578
Outlays for redemption of trust units	(567)	(673)
Proceeds from borrowings	671	1,509
Repayment of borrowings	(815)	(1,597)
Share issue costs paid	-	(34)
Dividends paid to IAG shareholders	(282)	(99)
Dividends paid to outside equity interests	(72)	(48)
<b>Net cash (used in) / provided by financing activities</b>	<b>(590)</b>	<b>716</b>
<b>Net (decrease) / increase in cash held</b>	<b>(205)</b>	<b>374</b>
Effects of exchange rate changes on balances of cash held in foreign currencies	3	(1)
<b>Cash at the beginning of the financial year</b>	<b>626</b>	<b>253</b>
<b>Cash at the end of the financial year</b>	<b>424</b>	<b>626</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## NOTE 1. BASIS OF PREPARATION OF CONCISE FINANCIAL REPORT

- (a) The concise financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039: Concise Financial Reports and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.
- (b) Insurance Australia Group Limited obtained an order, dated 14 February 2000, from the Australian Securities & Investments Commission exempting the Company from compliance with certain sections of the Corporations Act 2001. These exemptions allowed the Company to acquire the shares in Insurance Australia Limited (formerly NRMA Insurance Limited) at an amount equal to the sum of the carrying amounts of the assets and liabilities as shown in the consolidated statement of financial position of Insurance Australia Limited immediately prior to the date of acquisition. This order also allows dividends paid by Insurance Australia Limited to the Company out of distributable reserves of Insurance Australia Limited at the time of acquisition of its shares by the Company to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by Insurance Australia Limited to the Company to \$575 million, of which \$575 million in total (2003 – \$561 million) has been paid by Insurance Australia Limited from pre-demutualisation retained profits. During the year ended 30 June 2004, the Company received dividends of \$14 million (2003 – \$Nil) from Insurance Australia Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

The accounting policies adopted in the preparation of this concise financial report have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year unless otherwise mentioned.

A full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's full financial report.

## NOTE 2. PRINCIPLES OF CONSOLIDATION

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## NOTE 3. SEGMENTAL REPORTING

### (a) Primary reporting – business segments

The consolidated entity operates in the general insurance industry and formerly also operated in the retirement services industry before the sale of the ClearView retirement services businesses effective 21 January 2004. In the general insurance industry, its revenue is derived from the underwriting of short-tail, long-tail and international insurance businesses and these form separate reportable segments along with retirement services. Other activities, including corporate services, investment management and investment of the IAG Group's capital funds, form a separate segment.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## NOTE 3. SEGMENTAL REPORTING (CONTINUED)

### (a) Primary reporting – business segments (continued)

	Short-tail insurance 2003 \$m	Long-tail insurance 2003 \$m	International insurance 2003 \$m	Retirement services 2003 \$m	Corporate and investments 2003 \$m	Intersegment elimination 2003 \$m	Total 2003 \$m
External revenue	3,566	1,386	685	(12)	155	-	5,780
Intersegment revenue	-	-	209	-	14	(223)	-
Total revenue	3,566	1,386	894	(12)	169	(223)	5,780
Profit / (loss) from underwriting	192	(22)	29	-	-	-	199
Investment income	88	269	15	-	(76)	-	296
Other operating result	-	5	-	3	(206)	-	(198)
Profit / (loss) from ordinary activities before income tax	280	252	44	3	(282)	-	297
Income tax expense							(80)
Net profit							217
Segment assets	3,860	4,869	575	1,078	6,088	-	16,470
Unallocated assets							-
Total assets							16,470
Segment liabilities	3,860	4,869	575	929	2,184	-	12,417
Unallocated liabilities							-
Total liabilities							12,417
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	-	1,176	-	1,176
Depreciation expense*	14	10	6	-	5	-	35
Amortisation of goodwill and intangibles	-	-	-	-	81	-	81
Total depreciation and amortisation expense	14	10	6	-	86	-	116
Other non-cash expenses	35	18	7	1	4	-	65

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## NOTE 3. SEGMENTAL REPORTING (CONTINUED)

### (b) Secondary reporting – geographical segments

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

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

	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
<b>NOTE 4. REVENUE</b>		
<b>(a) Revenue from ordinary activities</b>		
<i>(i) Sales revenue</i>		
Premium revenue	6,265	4,885
<i>(ii) Other general insurance revenue</i>		
Reinsurance and other recoveries	550	380
<i>(iii) Investment revenue</i>		
Investment income	485	332
Changes in net market values of investments		
– realised gains	116	1
– unrealised gains / (losses)	212	(37)
<i>(iv) Retirement services revenue</i>		
Life insurance business revenue	70	30
<i>(v) Other operating revenue</i>		
	216	177
<b>(b) Revenue from outside ordinary activities</b>		
Proceeds from disposal of plant and equipment	9	12
Total revenue	7,923	5,780

## NOTE 5. INDIVIDUALLY SIGNIFICANT ITEMS

<b>Income:</b>		
Profit on sale of ClearView retirement services businesses and NRMA Health Pty Limited	59	-
<b>Expenses:</b>		
Restructuring / integration costs related to the acquisition of CGU/NZI	52	45
Insurance protection tax levied by the NSW State Government	20	20
<b>Income tax credit:</b>		
Effect of resetting tax values on entering tax consolidation	13	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

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

Event subsequent to reporting date:

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

Franking credits available for subsequent financial years	<b>465</b>	443
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The balance of the franking account arises from:

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

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

Impact of Tax Consolidation legislation:

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

<b>NOTE 7. ACCUMULATED LOSSES</b>		
Balance at the beginning of the financial year	<b>(396)</b>	(375)
Net profit attributable to shareholders of Insurance Australia Group Limited	<b>665</b>	153
Utilised in shares bought back off-market	<b>(246)</b>	-
Dividends declared	<b>(282)</b>	(174)
Balance at the end of the financial year	<b>(259)</b>	(396)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 \$m	CONSOLIDATED 2003 \$m
<b>NOTE 8. TOTAL EQUITY RECONCILIATION</b>		
Total equity at the beginning of the financial year	4,053	2,979
Total changes in equity recognised in the statement of financial performance	665	153
Transactions with owners as owners:		
– contributions of equity, inclusive of transaction costs	-	925
– reset preference shares, inclusive of transaction costs	-	196
– share buy-back, inclusive of transaction costs	(417)	-
– dividends declared	(282)	(174)
Movement in foreign currency translation reserves on controlled foreign entities	(3)	(1)
Total changes in outside equity interests	208	(25)
Total equity at the end of the financial year	4,224	4,053

	2004 cents	2003 cents
<b>NOTE 9. EARNINGS PER SHARE</b>		
<b>(a) Ordinary shares</b>		
Basic earnings per share	37.87	8.65
Diluted earnings per share	37.74	8.61
	2004 Number of shares million	2003 Number of shares million
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share	1,681	1,529
Weighted average number of ordinary shares and potential ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share	1,687	1,535
	2004 \$m	2003 \$m
Earnings used in calculating basic and diluted earnings per share	636	132

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

Events subsequent to reporting date:

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 cents	CONSOLIDATED 2003 cents
<b>NOTE 9. EARNINGS PER SHARE (CONTINUED)</b>		
<b>(b) Reset preference shares</b>		
Basic earnings per share	532.30	587.36
	<b>2004 Number of shares million</b>	<b>2003 Number of shares million</b>
Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share	6	4
	<b>2004 \$m</b>	<b>2003 \$m</b>
Earnings used in calculating basic earnings per share	29	21

There are no potential reset preference shares on issue.

## NOTE 10. CONTINGENCIES

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

## NOTE 11. EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after balance date and did not relate to conditions existing at balance date, no account has been taken of them in the financial statements for the year ended 30 June 2004.

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

### (i) Overview

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

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

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

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

### (ii) Management of the IAG Group's transition

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## NOTE 11. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

### (iii) Key differences

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

#### Insurance contracts

The large majority, if not all, of the insurance products are expected to meet the new accounting definition of an "insurance contract"

Changes to accounting for insurance products are not expected to be significant

In respect of the IAG Group's core insurance business, the changes to financial reporting on conversion to A-IFRS are not expected to be significant.

One of the key changes is that the standard provides a definition of an "insurance contract". General insurance products and reinsurance products that meet the definition will continue with current accounting treatments subject to a revised liability adequacy test. Those general insurance products and reinsurance products that fall outside the definition will be treated as investment contracts or service contracts and be accounted for as financial instruments or revenue contracts respectively.

An analysis of the IAG Group's general insurance products and reinsurance products on offer, or utilised, is substantially complete with the expectation that most, if not all, will meet the definition of an insurance contract.

This would mean that the IAG Group's accounting for unearned premium, deferred acquisition costs, outstanding claims, premium revenue, claims expense and reinsurance recoveries would continue without significant change, subject to a revised liability adequacy test.

#### Reset preference shares

Reclassified as debt

Distributions treated as interest, not dividends

The IAG Group's reset preference shares will be reclassified as debt. Australian Prudential Regulation Authority has indicated they may grandfather the current regulatory capital treatment for existing instruments that are adversely affected by the accounting standard change. Distributions on those instruments will be treated as interest rather than dividends.

#### Financial assets

More choices around accounting policies for investment assets

Accounting policy selection still to be made

Under current accounting standards the IAG Group is required to measure at net market value (fair value less disposal costs) all investments integral to general insurance activities with movements in the net market value recorded in the statement of financial performance. Under A-IFRS the IAG Group will be required to measure at fair value only those assets held to back insurance liabilities and only where a fair value measurement option is available under the relevant accounting standards. Those financial assets that are not held to back insurance liabilities will move to a system of purpose led accounting. The new standards require classification of the investments based on the purpose for which they are held. The different classifications have different accounting treatments, being fair value through the statement of financial performance, fair value through equity, and amortised cost. The IAG Group has not yet finalised its accounting policy in response to these changes.

All derivative contracts, regardless of the purpose for which they are used, will be measured at fair value.

#### Goodwill

No amortisation moving forward resulting in lower expenses, subject to impairment charges

The IAG Group will not restate the accounting for business combinations transacted prior to 1 July 2004, as permitted under first time adoption. Goodwill will not be amortised but will be tested for impairment at least annually. Using A-IFRS impairment methodology the balance of goodwill shown in this report of \$1,455 million is supportable.

The IAG Group had a goodwill amortisation expense for the year to 30 June 2004 of \$91 million. The elimination of the requirement to amortise goodwill under A-IFRS will increase reported profits, subject to any impairment charge that may be required.

#### Non-goodwill intangibles

All current non-goodwill intangible assets qualify for recognition

Existing non-goodwill intangible assets on the IAG Group's statement of financial position at 30 June 2004 meet the recognition and measurement requirements of A-IFRS and so the accounting treatment, including amortisation, will remain unchanged. They will be subject to impairment testing.

In certain circumstances under A-IFRS, development phase expenditure will be capitalised and so recognised as an internally generated intangible asset. Software development is the largest component of development expenditure for the IAG Group. The IAG Group is not currently carrying any capitalised software development costs in the statement of financial position but may have to review this position.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

## NOTE 11. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(iii) Key differences (continued)

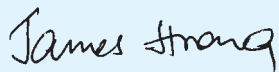
<b>Superannuation surplus</b> Positive impact to retained earnings at 1 July 2004 New asset/liability recognised	<p>Under A-IFRS the relevant net position of defined benefit superannuation plans will be recognised in the statement of financial position with movements recognised in the statement of financial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

# DIRECTORS' DECLARATION


The Directors declare that the concise financial report for the consolidated entity, comprising Insurance Australia Group Limited and its controlled entities for the year ended 30 June 2004, set out on pages 50 to 63:

- (a) has been derived from or is consistent with the full financial report for the financial year; and
- (b) complies with Accounting Standard AASB 1039: Concise Financial Reports.

Signed at Sydney this 19th day of August 2004 in accordance with a resolution of the Directors.



**Mr J A Strong**  
Director



**Mr M J Hawker**  
Director

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

### Scope

#### *The financial report and directors' responsibility*

The concise financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 11, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position, and statement of cash flows, for Insurance Australia Group Limited (the "Company") and its controlled entities (the "Consolidated Entity") for the year ended 30 June 2004.

The directors of the Company are responsible for the preparation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports". 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 concise financial report.

#### *Audit approach*

We conducted an independent audit in order to express an opinion to shareholders of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. 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. We have also performed an independent audit of the full financial report of the Company and its controlled entities for the year ended 30 June 2004. Our audit report on the full financial report was signed on 19 August 2004, and was not subject to any qualification.

We performed procedures in respect of the audit of the concise financial report to assess whether, in all material respects, the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

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

- (a) testing that the information in the concise financial report is consistent with the full financial report; and
- (b) examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures, which were not directly derived from the full 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.

### Independence

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

### Audit opinion

In our opinion, the concise financial report of Insurance Australia Group Limited and its controlled entities for the year ended 30 June 2004 complies with AASB 1039 "Concise Financial Reports".



KPMG



**Dr Andries B Terblanché**

Partner

Sydney, 19th August 2004

# SHAREHOLDER INFORMATION

You can access information about Insurance Australia Group Limited and your holdings via the Insurance Australia Group website, [www.iag.com.au](http://www.iag.com.au)

## **Shareholder Centre – Check your details online**

By accessing 'Shareholder Centre' through the IAG website and logging in using your Security Reference Number (SRN) or Holder Identification Number (HIN) and post code of your registered address, you can do the following:

- view your holding balance
- confirm whether you have lodged your Tax File Number (TFN), Australian Business Number (ABN) or exemption. If not, you are able to download a form on which you can submit these details to the Share Registry
- check historical dividend information
- check share prices and graphs
- download numerous personalised forms, such as Change of Address notification; Direct Credit of Dividends; and Dividend Reinvestment Plan application.

## **Investor Centre – Change your details online**

You can view your shareholdings at the Computershare Investor Service Centre website. To register, go to [www.computershare.com.au](http://www.computershare.com.au) and click 'Investors'. After entering your SRN or HIN you will be issued with a secure PIN. Once registered you can conduct numerous transactions online including:

- change your address
- set up payment instructions
- add/change tax instructions
- retrieve holding statements.

## **Email Enquiries**

You can make enquires via the IAG website or by emailing your enquiries directly to [iag@computershare.com.au](mailto:iag@computershare.com.au)

## **Change of Address**

Individual (single) shareholders can now change their address over the phone or by downloading a form from the website.

(Note: Joint and Company shareholdings need to download a form or write a letter to change their address on the register).

## **Dividend Options**

Dividend payments can be made by three methods, being:

- paid directly into your Australian bank, credit union or building society account\* eliminating the wait for funds to clear after depositing a cheque and removing the risk of loss or theft
- reinvested in the Dividend Reinvestment Plan\* providing the option to increase your shareholding without broker costs
- paid by cheque.

\*forms can be accessed from the website or the Share Registry

## **Unpresented Cheques**

Dividend monies that are not banked are required to be handed over to the State Treasury under the Unclaimed Monies Act. Please bank any outstanding cheques immediately.

## **TFN, ABN or exemption**

You are strongly advised to lodge your TFN, ABN or exemption. If you choose not to lodge these details with the Share Registry, then Insurance Australia Group Limited is obliged to deduct tax at the highest marginal tax rate (plus the medicare levy) from any unfranked portion of any dividend payment.

## **Annual Report**

There are a number of options available concerning the Annual Report. You can choose:

- not to receive it
- to download it from our website
- to view it online.

If there are multiple shareholders at your registered address and you wish to receive just one copy of the Annual Report please contact the Share Registry on 1300 360 688.

Any change in the annual report election details recorded on your holding/s can be made by contacting the Share Registry or if, you have registered with their Investor Service, on their website.

# SHAREHOLDER INFORMATION

## Dividend Details

Share class	Dividend	Franking	Amount per share	DRP issue price*	Payment date
Ordinary	Interim	Fully Franked	8 cents	\$4.74	19 April 2004
Ordinary	Final	Fully Franked	14 cents		18 October 2004
IAGPA	Interim	Fully Franked	\$2.9079		15 December 2003
IAGPA	Final	Fully Franked	\$2.9079		15 June 2004
IAGPB	Interim	Fully Franked	\$2.1994		15 December 2003
IAGPB	Final	Fully Franked	\$2.2612		15 June 2004

\*The DRP issue price for the final dividend is scheduled to be announced on 5 October 2004.

## ORDINARY SHARES INFORMATION

### Twenty largest shareholders as at 31 August 2004

	No of shares	% of issued capital
J P Morgan Nominees Australia Limited	173,639,598	10.90
National Nominees Limited	132,308,330	8.31
Westpac Custodian Nominees Limited	130,703,027	8.21
Citicorp Nominees Pty Limited	32,587,633	2.05
Queensland Investment Corporation	24,732,016	1.55
ANZ Nominees Limited	21,009,461	1.32
Westpac Financial Services Limited	16,097,946	1.01
AMP Life Limited	15,597,517	0.98
Citicorp Nominees Pty Limited <CFS Wsle Imputation Fnd A/C>	14,968,732	0.94
Citicorp Nominees Pty Limited <CFS Wsle Geared Shr Fnd A/C>	14,324,124	0.90
Cogent Nominees Pty Limited	12,315,702	0.77
Citicorp Nominees Pty Limited <CFS Imputation Fund A/C>	9,340,375	0.59
Citicorp Nominees Pty Limited <CFS Wsle Aust Share Fnd A/C>	9,033,484	0.57
Citicorp Nominees Pty Limited <CFS Wsle Industrial Shr A/C>	8,477,392	0.53
RBC Global Services Australia Nominees Pty Limited <Pipooled A/C>	8,355,090	0.52
Government Superannuation Office <State Super Fund A/C>	6,383,585	0.40
IOOF Investment Management Limited	6,071,320	0.38
HSBC Custody Nominees (Australia) Limited	5,954,918	0.37
Westpac Life Insurance Services Limited	5,594,187	0.35
IAG Share Plan Nominee Pty Ltd <PAR Australia A/C>	5,237,759	0.33
<b>Total for Top 20</b>	<b>652,732,196</b>	<b>40.98</b>

### Range of shareholders as at 31 August 2004

	No of holders	No of shares	% of issued capital
1 - 1,000	722,608	387,174,140	24.31
1,001 - 5,000	287,450	405,723,004	25.48
5,001 - 10,000	2,944	20,935,517	1.31
10,001 - 100,000	1,466	32,791,364	2.06
100,001 - over	157	745,869,528	46.84
<b>Total</b>	<b>1,014,625</b>	<b>1,592,493,553</b>	<b>100.00</b>
Shareholders with less than a marketable parcel of 99 shares as at 31 August 2004	4,825	127,275	

## IAGPA RESET PREFERENCE SHARES INFORMATION

### Twenty largest shareholders as at 31 August 2004

	No of shares	% of issued capital
Westpac Custodian Nominees Limited	610,217	17.43
AMP Life Limited	149,180	4.26
Citicorp Nominees Pty Limited	143,000	4.09
J P Morgan Nominees Australia Limited	141,907	4.05
Citibank Limited	115,000	3.29
RBC Global Services Australia Nominees Pty Limited <JBENIP A/C>	112,540	3.22
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	110,823	3.17
National Nominees Limited	100,084	2.86
Share Direct Nominees Pty Ltd <National Nominees A/C>	100,000	2.86
NET Nominees Limited	69,293	1.98
Perpetual Trustee Company Limited	40,223	1.15

# SHAREHOLDER INFORMATION

## IAGPA RESET PREFERENCE SHARES INFORMATION (CONTINUED)

### Twenty largest shareholders as at 31 August 2004 (continued)

	No of shares	% of issued capital
UBS Nominees Pty Ltd <Prime Broking A/C>	39,381	1.13
UBS Private Clients Australia Nominees Pty Ltd	35,442	1.01
ARGO Investments Limited	30,800	0.88
Cambooya Pty Limited	30,650	0.88
RBC Global Services Australia Nominees Pty Limited <PP A/C>	24,117	0.69
Cogent Nominees Pty Limited <SMP Accounts>	22,591	0.65
Brencorp No 11 Pty Limited	22,500	0.64
ANZ Executors and Trustee Company Limited	22,217	0.63
Citicorp Nominees Pty Limited <CMIL CWLTH Income Fund A/C>	20,000	0.57
<b>Total for Top 20</b>	<b>1,939,965</b>	<b>55.44</b>

Range of shareholders as at 31 August 2004	No of holders	No of shares	% of issued capital
1 - 1,000	4,129	1,039,615	29.70
1,001 - 5,000	162	354,676	10.13
5,001 - 10,000	16	126,095	3.60
10,001 - 100,000	15	496,863	14.20
100,001 - over	8	1,482,751	42.37
<b>Total</b>	<b>4,330</b>	<b>3,500,000</b>	<b>100.00</b>
Shareholders with less than a marketable parcel of 5 shares as at 31 August 2004	0	0	

## IAGPB RESET PREFERENCE SHARES INFORMATION

### Twenty largest shareholders as at 31 August 2004

	No of shares	% of issued capital
AMP Life Limited	212,071	10.60
J P Morgan Nominees Australia Limited	206,367	10.32
Share Direct Nominees Pty Ltd <National Nominees A/C>	150,000	7.50
National Nominees Limited	125,800	6.29
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	87,110	4.36
RBC Global Services Australia Nominees Pty Limited <PP A/C>	73,996	3.70
NET Nominees Limited	69,468	3.47
Westpac Custodian Nominees Limited	66,550	3.33
Citicorp Nominees Pty Limited	63,600	3.18
Perpetual Trustee Company Limited	56,880	2.84
Cogent Nominees Pty Limited <SMP Accounts>	54,284	2.71
ANZ Executors and Trustee Company Limited	44,627	2.23
UBS Nominees Pty Ltd <Prime Broking A/C>	41,604	2.08
UBS Private Clients Australia	39,213	1.96
ANZ Nominees Limited	37,026	1.85
J B Were Capital Markets Limited	31,744	1.59
Mrs Fay Cleo Martin-Weber	20,000	1.00
Elise Nominees Pty Limited	19,099	0.95
RBC Global Services Australia Nominees Pty Limited <MLCI A/C>	18,633	0.93
Permanent Trustee Australia Limited <KAP0001 A/C>	17,000	0.85
<b>Total for Top 20</b>	<b>1,435,072</b>	<b>71.74</b>

Range of shareholders as at 31 August 2004	No of holders	No of shares	% of issued capital
1 - 1,000	1,301	331,32	16.57
1,001 - 5,000	49	122,377	6.12
5,001 - 10,000	10	74,655	3.73
10,001 - 100,000	19	777,407	38.87
100,001 - Over	4	694,238	34.71
<b>Total</b>	<b>1,383</b>	<b>2,000,000</b>	<b>100.00</b>
Shareholders with less than a marketable parcel of 5 shares as at 31 August 2004	0	0	

### Substantial shareholdings as at 31 August 2004

The only shareholder who had a substantial shareholding as at 31 August 2004 was Commonwealth Bank of Australia who held 87,006,651 ordinary shares representing 5.46% of the ordinary shares on issue (by notice dated 24 May 2004).

# Glossary

<b>Actuary</b>	An actuary applies mathematical, economic and financial analyses as well as risk assessment to financial contracts, in a wide range of practical business problems.
<b>APRA</b>	APRA stands for the Australian Prudential Regulation Authority, which is the prudential regulator of insurance companies, banks, superannuation funds, credit unions, building societies and friendly societies. APRA is responsible for ensuring that policyholders, depositors and superannuation fund members are protected by, for example, ensuring that companies have enough capital to be able to meet their ongoing business needs, including reserving to pay claims.
<b>Australian All Ordinaries Index</b>	The All Ordinaries Index is made up of the weighted share prices of about 500 of Australia's largest companies. In general terms, it is the predominant measure of the overall performance of the Australian sharemarket. The companies are weighted according to their size in terms of market capitalization (total market value of a company's shares).
<b>Claims frequency</b>	Claims frequency is a measure used to determine how often claims are made per risk insured (eg vehicle, employee, home).
<b>Claims reserves</b>	The portion of premium set aside to cover obligations for unexpired insurance contracts, claims and expenses to be incurred. This amount is invested and the returns on these investments form part of pricing and profit from insurance operations.
<b>CLERP 9</b>	CLERP stands for the Corporate Law Economic Reform Programme. CLERP 9 is the latest round of reforms, and amends the Corporations Act 2001 by introducing a number of reforms, primarily relating to corporate governance and auditor independence.
<b>Dividend payout ratio</b>	The dividend payout ratio is the proportion of profits that is paid to shareholders by way of a dividend.
<b>Insurance cycle</b>	Insurance is a cyclical business. The insurance cycle represents the peaks and troughs of insurance premiums and profitability. When capacity (ie the availability of capital from insurers to underwrite risks) increases in a market, insurers may reduce premiums, which is called a 'soft cycle'. When there is limited capacity, and premiums rise, this is called a 'hard cycle'.
<b>Long-tail and short-tail insurance</b>	Insurance products can be categorised as 'short-tail' or 'long-tail'. In general terms, this name stems from the length of time (the 'tail') that it takes for a claim to be made and settled. For 'short-tail' insurance products, claims are usually known and settled within 12 months, and are generally based around property. For 'long-tail' insurance products, claims may not even be reported within 12 months, and settlements can take many years, and are generally based around injury compensation (eg medical, legal and loss of income) or other risks such as professional indemnity.
<b>Market capitalisation</b>	The size of a company is often measured by its market capitalisation. This is calculated by multiplying the total number of shares on issue by the market price of the shares.
<b>MCR multiple</b>	APRA (defined above) requires licensed insurers to have a minimum amount of capital to meet its prudential standard. The amount of capital required is determined by APRA based on formulae designed to reflect the risk profile of each insurer's business and balance sheet and is called the Minimum Capital Requirement ('MCR'). Licensed insurers must report their MCR and surplus above it, which is generally stated as a multiple of MCR.
<b>MSCI</b>	MSCI stands for Morgan Stanley Capital International. MSCI provides a number of international tracking indices. These are used to measure global stock market performance. IAG primarily uses the MSCI index (including dividends and excluding Australian stocks), stated in Australian dollars as a benchmark for the performance of its international equities portfolio.
<b>Reinsurance</b>	Insurers pay premiums to other insurers (reinsurers) to spread their risk or cover major losses from specific events such as large hailstorms. This is called reinsurance.
<b>Risks in force</b>	Risk refers to the subject matter that an insurance policy or contract protects (eg number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force is a measure of the total number of risks covered by an insurance company at a point in time.
<b>S&amp;P</b>	S&P stands for Standard & Poor's, a global financial ratings company that analyses the financial strength of companies and individual securities, and assigns them ratings. S&P has many ratings categories, the highest of which is AAA.
<b>Share buy-back</b>	This is a capital management tool under which a company buys back and cancels its own shares. It is often used when a company has surplus equity capital.
<b>Shareholders' funds</b>	The investment portfolio other than claims reserves. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations.
<b>Short-tail insurance</b>	See long-tail insurance.
<b>Underwriter</b>	This is the company or person who assumes the risk under an insurance policy.

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# CORPORATE DIRECTORY

## Share Registry Contact Details

Computershare Investor Services Pty Limited

GPO Box 4709  
Melbourne VIC 3001

(Hand deliveries, or registry inspections at  
Level 2, 60 Carrington Street, Sydney NSW 2000)

Telephone	(within Australia)	1300 360 688
	(outside Australia)	61 3 9415 4210
Fax	(general)	(03) 9473 2470
	(for proxies only)	(02) 8235 8229

Email [iag@computershare.com.au](mailto:iag@computershare.com.au)

## Registered Office

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Website [www.iag.com.au](http://www.iag.com.au)

## Group Company Secretary

Anne O'Driscoll FCA, ANZIF (Fellow)



Please recycle.

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