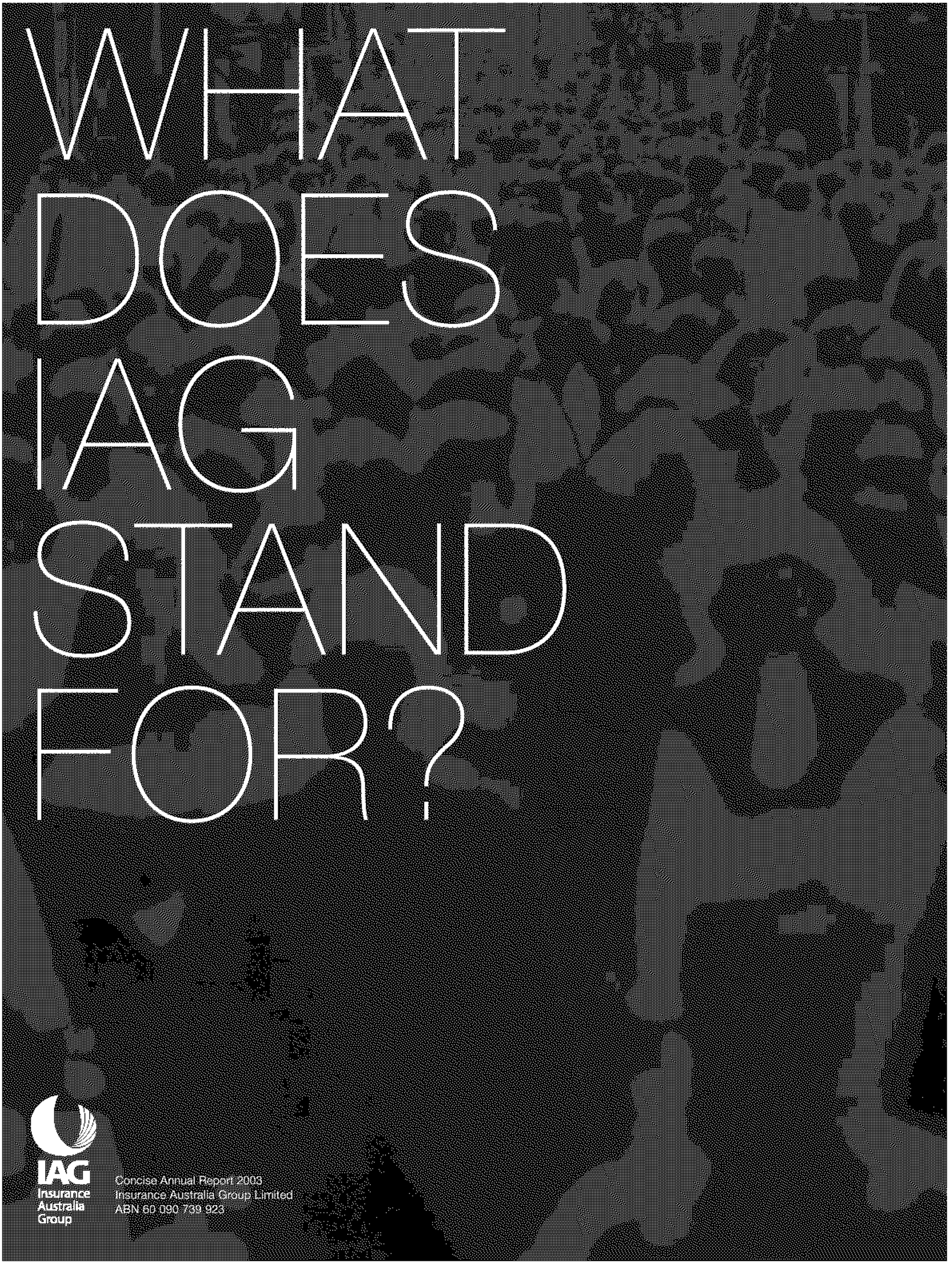


WHAT DOES IAG STAND FOR?

IAG
Insurance Australia Group

Concise Annual Report 2003
Insurance Australia Group Limited
ABN 60 090 739 923

INSURANCE AUSTRALIA GROUP

Insurance Australia Group Limited ABN 60 090 739 923

NRMA Insurance

SGIO

SGIC

CGU

We are Australasia's leading general insurance group. We provide personal, commercial and rural insurance, and retirement financial products and services. We have around 11 million policies in force across Australia and New Zealand, own some of the region's most respected brands and employ around 11,000 people.

That is what we are. This report is about something more. It's about what we stand for.

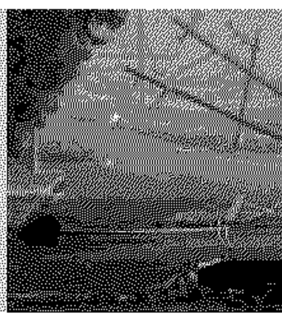
IAG STANDS FOR...

HELP WHEN YOU NEED IT MOST

Our business is to pay claims as quickly as possible and provide insurance to the community at an affordable cost. But we don't stop there. We look for practical opportunities to help beyond just paying claims.

Jan 03

After bushfires ravaged almost one-third of Canberra, our first full claim was paid within 3 days.



Whether it's a day-to-day claim or a life-changing emergency, we try to empathise with our customers, business partners, brokers and agents, and find a way to offer the 'right' kind of help at the right time. That may mean providing straightforward product information. Or it may mean setting up a temporary office in a community struck by disaster and dedicating resources to help communities prevent future damage.

ON THE GROUND AT THE CANBERRA BUSHFIRES

In January, the Australian Capital Territory (ACT) and surrounding regions experienced the seventh largest insured catastrophe in Australian history when firestorms ravaged almost one-third of the national capital.

When news of the fires emerged, our first priority was to contact the people insured with us, through NRMA Insurance and CGU, and help process claims, provide emergency funds of up to $5,000 per claim and organise temporary accommodation and trauma counselling. Extra Teleclaims operators volunteered from surrounding areas to help manage the 350 enquiries we received daily. Our mobile claims processing van, the Help Van, joined local assessors in the devastated areas as soon as emergency services permitted access. A specialised claims operation was also set up at the Braddon branch to provide personal assistance to affected customers. In all, we received more than 1,800 personal insurance claims and more than 100 commercial insurance claims as a result of these fires. And we are proud to say we paid our first full claim within three days of the event.

PAVING THE ROAD TO RECOVERY

Once the immediate threat of the fires passed, we found our customers were asking some questions about rebuilding their homes that we really couldn't answer. We responded with the NRMA Insurance Help Expo, which was a free event for the community to come together for advice on the rebuilding and recovery process.

With the support of the ACT Bushfire Recovery Taskforce, more than 50 exhibitors attended the Help Expo. They included building and architectural organisations, legal advisers, community safety and security specialists, financial planners, environmental experts, social welfare and trauma counsellors, and state and local government representatives. An information kit was also provided to help our customers along their road to recovery.

In a similar way, we worked with CGU's business partner, Bendigo Bank, to host an information session for customers and the local community, following the mini-tornado in Northern Bendigo in May this year.

WEATHERING THE STORM IN NEW ZEALAND

When a weather bomb – a short storm causing severe damage – struck New Zealand's Thames/Coromandel region in late June last year, more than 2,000 claims were received from policyholders insured with State Insurance and NZI.

Immediately following the storm, David Smith, the CEO of IAG New Zealand Limited (IAG NZ), went to the area at the centre of the damage and met with local customers and the Thames Council Mayor. Soon after, IAG NZ agreed to join a project team set up by local authorities to examine risk mitigation options, including insurance, in the event of future catastrophe. That team's work is now under way and an IAG NZ employee has been seconded to the Thames Council on a full-time basis.

"When people have trauma, the one thing they need is accurate information in an easy format that they can just sit down and understand – and I think the Help Expo has given people that."

Amanda Tobler
Lifeline Manager and
NRMA Insurance Help Expo participant.

IAG STANDS FOR...

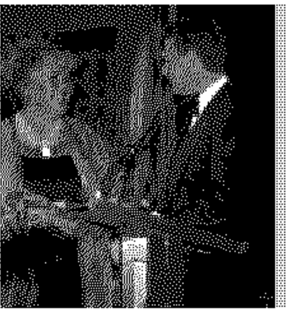
MAKING COMMUNITIES SAFER

We live here too. So safe communities are high on our agenda. It's in all our interests that we share our experience and understanding to reduce the risk of accidents, catastrophes and other insurable events, such as theft, happening in the first place. We also support the businesses we rely on, to ensure their sustainability and the fabric of the communities in which we operate.

19 out of 20

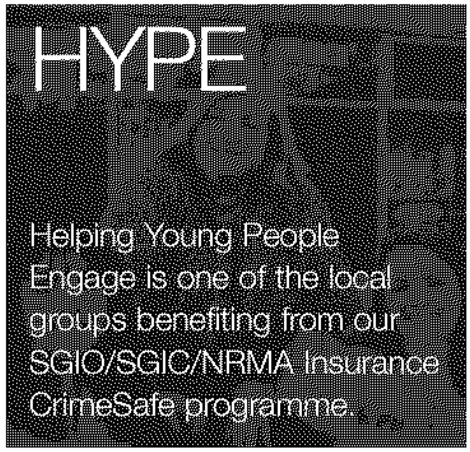
of the top major insurance catastrophes in Australian history have been weather related.

We're working with one of the world's top weather modelling teams on key weather research.



Rural stars

For more than 15 years, we've supported local businesses in Ballarat, Orange and Tamworth through the CGU Business Awards.



RINGING THE WARNING BELL ON CLIMATE CHANGE

Global warming, and its link with greenhouse emissions, is increasing the frequency and severity of weather related events such as storms, cyclones, hail and drought across Australia and New Zealand.

Claims research from Insurance Australia Group and the work of leading experts, nationally and overseas, show how just a slight change in the climate can dramatically affect weather and the threat of damage.

This has serious implications for the lives, health, personal property and basic commercial infrastructure of Australians and New Zealanders – especially when you consider that 19 of the top 20 major insured catastrophes in Australian history have been weather related.

We think we can help. We're carrying out more research, in conjunction with one of the world's top weather modelling teams. We'll use the findings with key national and global leaders and the community, so we can work together to reduce the likelihood of severe weather impacts to properties and lives. We're also exploring new products and services that can create business value and encourage sustainable behaviour. In our own backyard, we have adopted a proactive sustainability policy and are modifying business practices to reduce greenhouse gas emissions.

HELPING COMMUNITIES REDUCE CRIME

Crime is another major cause of claims, and we're working with local communities to find ways to reduce it. In 2002/2003, through our national SGIO/SGIC/NRMA Insurance CrimeSafe grant programme, we provided 47 grants to local communities, projects and groups supporting crime reduction initiatives.

In some instances, CrimeSafe projects have been so successful that we continue our support with a long-term commitment beyond the grant. The Helping Young People Engage (HYPE) programme in Kalgoorlie is a great example. HYPE, which is run by the Safer WA Committee, provides a positive approach to issues facing young people by building relations between young people, HYPE workers, Safer WA, businesses and the police. The team of HYPE workers patrol the Hannan Street Central Business District of Kalgoorlie every Thursday night, talking to young people and helping them appreciate there are alternatives to illegal behaviour. In doing so, the number of police callouts to the CBD has reduced significantly.

Our work to reduce crime fits in with our broader community support programme that is focused on using our expertise to reduce risk at home, on the road and at work. Further information can be found in the Safety, Environment, Community section of this report.

SUPPORTING THE FUTURE BUSINESS STARS OF RURAL COMMUNITIES

It's a fact that, in rural Australia, young people are moving away to metropolitan centres because they no longer see clear job prospects or opportunities. We don't consider this as an inevitable trend. And we think by supporting rural communities and rebuilding confidence in local businesses, that we can even do something to reverse it.

For more than 15 years, we've sponsored the CGU Business Awards in Ballarat, Tamworth and Orange. This year alone, we've given more than $100,000 to promising businesses through these awards. These help to dispel the myth that you need to leave rural communities to succeed in business.

"We knew something had to be done about crime in the Kalgoorlie community, but we just didn't have the funding to keep the HYPE programme running. The CrimeSafe grant from SGIO gave us the funding we needed to make HYPE workers visible and reduce anti-social and criminal behaviour in the CBD."

Esther Roadnight
Chairman, Safer WA Goldfields District Committee.

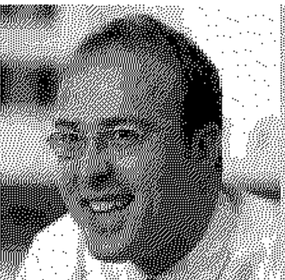
IAG STANDS FOR...

BUILDING HIGH PERFORMANCE

We are building a culture that allows our 11,000 people to realise their potential and makes Insurance Australia Group a compelling place to work.

5 values

Honesty,
Transparency,
Teamwork,
Meritocracy, and
Social responsibility.



Learning

Our learning programme includes a focus on building leadership skills at all levels of the Company.

Encouraging development and innovation, and rewarding achievement, will not only drive high performance, it will ensure we are able to pay our customers' claims and deliver value to shareholders and the community for many years to come.

To realise our cultural goals, we are focusing on three areas:

- Providing consistent processes for managing and developing our people;
- Ensuring our people feel safe while doing their jobs by improving workplace safety; and
- Uniting our people around our focus on helping our customers.

SETTING THE GROUND RULES

We are building a shared company culture based on five values: honesty, transparency, teamwork, meritocracy and social responsibility. To support this common framework, we have introduced a comprehensive system for managing and developing our people.

All our people receive periodic feedback on their performance and have the opportunity to discuss their development objectives and any concerns with their supervisor.

The talent management matrix forms the cornerstone of our approach for developing managers. It allows us to identify high performers, as well as opportunities for development across the Group. During the past year, more than 300 managers' career opportunities have been reviewed using the talent development matrix. We are gradually expanding the reach of this process throughout the organisation.

One of the by-products of the matrix is access to our comprehensive learning programme, also introduced during the past year. The programme covers the range of learning, from frontline supervisory training to executive coaching, to ensure we attract and retain talented people across all areas of the organisation.

PRACTISING WHAT WE PREACH ON SAFETY

As a leading adviser on occupational health and safety issues, we understand the impact of unsafe workplaces. As a result, we are taking steps to make Insurance Australia Group's workplaces safer for our people.

Following an external audit of our workplace safety in October 2002, we developed a three year safety programme to address problem areas identified in the audit. An Organisational Safety Committee was also established to oversee the programme implementation, including our Chief Executive Officer as Head of Safety.

The first phase of that programme was implemented in 2002/2003. More than 600 managers received safety training. We reinvigorated our Occupational Health and Safety (OHS) Committees, and introduced a safety charter to our people. We are also leveraging our national partnership with St John Ambulance, which is making first aid kits and training available to our people.

The result to date has been greater awareness of safety among our people and a clear plan to ensure a standard level of national compliance in the future.

THERE IS ALWAYS ROOM FOR IMPROVEMENT

Customers judge us every day according to their latest experience of us and our people play a key role in delivering on that customer experience.

That's why, when we launched the Getting it Right programme to improve the customer experience, we took the opportunity to capture our people's feedback, no matter how big or small the event.

Through a series of workshops and ongoing dialogue, more than 1,500 people in our Australian operations have helped to develop simpler, effective processes that will make it easier to provide excellent customer service.

After only nine months of operation, Getting it Right has resulted in numerous initiatives that are now being progressively implemented. We have already had some successes such as an improved process to locate customers whose mail is returned to us. Thanks to the help and commitment of our people, real customer service benefits will be delivered. That should help us get it right every time!

> "Through integration, we have seen two businesses come together to create more opportunities. This will also allow us to contribute to the community on a bigger scale."

Ganesh Doddi
Analyst Programmer, CGU

IAG STANDS FOR:

SOLID UNDERLYING PERFORMANCE

We recorded a net profit attributable to shareholders of $153 million for the year ended 30 June 2003 (2002 – loss of $25 million), confirming the sound logic of the CGU and NZI acquisition and reflecting the ongoing success of initiatives to improve business fundamentals. A fully franked final dividend of 7 cents per share will be paid to ordinary shareholders* on 13 October 2003. This takes the total dividend for the year to 11.5 cents per share, a 9.5% increase on the previous year.

HOW INSURANCE WORKS

PREMIUMS – CLAIMS & CLAIMS EXPENSES – UNDERWRITING EXPENSES = UNDERWRITING RESULT + INVESTMENT RETURNS FROM TECHNICAL RESERVES = INSURANCE RESULT + INVESTMENT INCOME FROM SHAREHOLDERS – TAX = NET PROFIT/LOSS

* registered on 10 September 2003

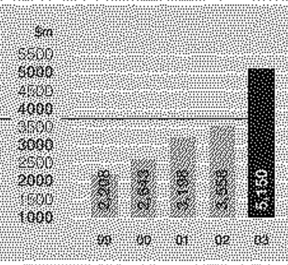
Net profit attributable to shareholders

$153m

Net profit attributable to shareholders increased to $153m, compared with a loss of $25m in the previous year.

Gross written premium

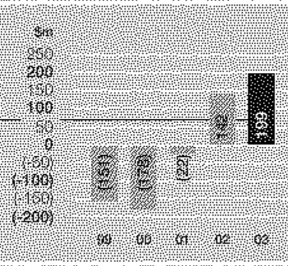
$5,150m



Gross written premium increased 45% to $5,150m from $3,558m in the previous year. Around 9% of this was organic growth, with the remaining 36% from the CGU/NZI acquisition.

Underwriting result

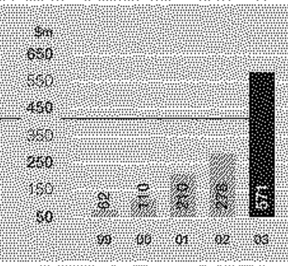
$199m



Underwriting profit increased to $199m from $142m in the previous year.

Insurance result

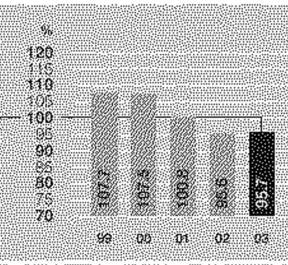
$571m



Insurance profit rose to $571m from $278m in the previous year.

Combined ratio

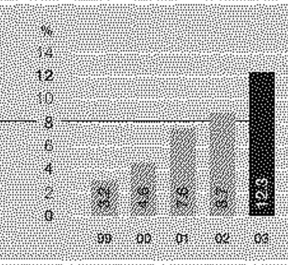
95.7%



The Group's combined ratio was 95.7%, consistent with 95.6% in the previous year.

Insurance margin

12.3%

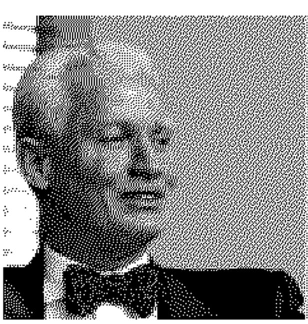


Insurance margin – the insurance result as a percentage of net earned premium – rose to 12.3%, up from 8.7% in the previous year.

IAG STANDS FOR...

STABILITY

It has been another eventful year for Insurance Australia Group, with major progress in the directions we had previously indicated to shareholders and to the market.



James Strong,
Chairman

Chairman's view

A WATERSHED YEAR

The Group demonstrated its new stability and focus on improved operations by the performance of our insurance business.

In the same period, we carried out a major acquisition, with the addition of CGU and NZI transforming the combined business to become clearly the leading general insurance group in this part of the world.

The management and Board considered that this was the right purchase at the right time to seize a limited opportunity. Despite complexities and some initial adverse market reaction to the transaction and associated capital raising, subsequent financial performance and market reaction has emphatically endorsed the strategy, to the benefit of shareholders.

In a broad sense, 2002/2003 can be seen as a watershed for Insurance Australia Group in positioning itself for the future.

In less than ten years, what was a three-product company servicing only New South Wales (NSW) and the ACT has become a truly national operation, in both Australia and New Zealand, fully diversified by product and distribution channel, with one of the region's highest financial strength ratings for an insurance company from Standard & Poor's.

GROUP PERFORMANCE AND DIVIDENDS

For the 2002/2003 financial year our business performed very well, reflecting improvements made to the underlying performance of the business and the benefits of our acquisition of CGU and NZI. Our overall returns from investments increased, reflecting both the change to our asset mix and improved market performance. The CEO's report provides more detail around this pleasing result.

We will pay a final dividend of 7 cents per ordinary share, fully franked, on 13 October 2003. This brings our total annual dividend to 11.5 cents per ordinary share, a 9.5% increase on the previous year. This is in keeping with the Board's policy to return between 40% and 70% of normalised earnings to shareholders as dividends.

The Board also introduced a Dividend Reinvestment Plan (DRP) in January 2003 in response to ordinary shareholder requests. The Company's 1.1 million ordinary shareholders can now elect to reinvest in the company all or part of any future dividend payments they receive while the DRP is operational.

BOARD AND MANAGEMENT STRATEGY

Insurance Australia Group's performance during the past year reflects the results of the strategy your Board and management confirmed in May 2002.

We are pleased with our progress, particularly the acquisition and integration of CGU and NZI. The sound logic of that transaction is being confirmed through our results and by our increased confidence that we will realise the anticipated $160 million pre-tax per annum in sustainable expense synergies.

We recognise we still have a long way to go in terms of full implementation of our five year strategy. Importantly, your Board and management team are working together effectively to deliver on it. We hold twice yearly strategy sessions and work closely to improve our operations for the benefit of shareholders, policyholders and our people.

A COMMITMENT TO SOUND GOVERNANCE

Within Insurance Australia Group we understand the importance of proper governance to ensure discipline and predictability in performance. A key issue is building a sound structural framework for decision making and carrying out transactions. This area has received a great deal of attention across our business with two very active Board Committees covering Audit, and Risk Management & Compliance matters.

Ultimately, the integrity of individuals remains paramount, placing great emphasis on selection, training, corporate ethics and leadership of people right across the Group.

We have moved quickly to adopt recent developments in corporate governance, to respond to both public concerns and consequential regulatory guidelines. This includes the principles released earlier this year by the ASX Corporate Governance Council.

During the year, we commissioned an independent assessment of the performance of the Board as a whole, and of individual contributions by Directors, as part of ensuring future effectiveness.

Subsequent to the end of the reporting period, we decided to cease the operation of the retirement benefits scheme for non-executive Directors. This means there will be no future accrual of benefits, and the scheme will phase out as it will not apply to new Directors. We have also introduced new clear practices in relation to engagement terms for Directors, length of service, and peer review.

On the retirement of two longer-term Directors, Maree Callaghan and Mary Easson, we have also decided to reduce the size of the Board to eight Directors, including the Managing Director (the CEO). I take this opportunity to again express my appreciation of the contribution by Maree and Mary over the years, especially during my term as Chairman since August 2001. They have worked effectively with all other Board members to achieve great progress in this period as outlined earlier.

Directors also met during the year with our appointed external auditor, KPMG, to discuss the auditor's comments on the Group's risk culture and ethos, including risk reporting procedures.

OUR FUTURE PRIORITIES

I wish to express my appreciation to Board members, and to all our employees and management, for a very solid year of hard work and real progress which has built a great foundation for the future. Michael Hawker has provided excellent leadership as Chief Executive Officer.

This has been an important year of demonstrating stability and decisive action to create a new platform for our future. Our focus now has to remain on consolidation, achieving the full potential available to us and reaching high standards of operating performance in every area of our business.

I can assure shareholders that the whole Board and management are very clear as to these priorities and committed to realising maximum benefits from all of the opportunities now within our Group.

James Strong

James Strong
Chairman

IAG STANDS FOR...

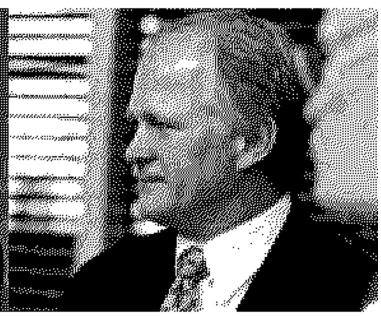
CLEAR DIRECTION

As an insurance group, our business is to pay claims. But, as you can see from this annual report, to fulfil this role we must stand for more:

- We need to help our customers and the community beyond just paying claims.
- We need to share our experience and knowledge with the community to help manage and reduce risks.
- We need to build a culture of which our people can be proud – one that allows them to develop and work to the best of their abilities.
- And, we need to ensure our business is sustainable and can deliver ongoing value to our shareholders.

Michael Hawker
Chief Executive Officer

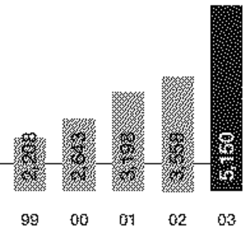




CEO's report

Gross written premium

$5,150m



Acknowledging simply and publicly what we stand for, and aligning all our efforts around this, can generate enormous power. That power and united focus is fundamental to ensuring we sustain our place in the broader community in the long-term.

Keeping it simple is also what allows us to keep our direction clear, in what is a very complex industry and operating environment.

THE OPERATING ENVIRONMENT

In last year's annual report, I talked about what had taken place in the industry since I took the helm at Insurance Australia Group in December 2001. These events have continued to play out during the past 12 months.

In response to the tragic events of the World Trade Center and the Bali bombings, we've seen the introduction of new federal terrorism legislation which took effect from 1 July 2003. This will lead to increases in commercial insurance premiums from 1 October 2003, principally so that the Australian Government can build a fund to pay for possible future losses from terrorism.

Last year, we experienced the crisis in the public liability, medical indemnity and builders' warranty insurance classes. In response, we've seen ongoing reform of personal injury laws, and Insurance Australia Group has played an instrumental role in effecting changes to benefit the entire community. In addition, we've joined forces with two other insurers to provide public liability cover to not-for-profit organisations through the Community Care Underwriting Agency.

We've seen continuing issues with professional indemnity and directors' indemnity insurance this year. While these classes account for around 1% of our business, the issues highlight the difficulties created when insurance classes are unprofitable.

Also last year, the investigation into the collapse of HIH Insurance continued at the HIH Royal Commission. This year, we have received the recommendations of the HIH Royal Commission which are already having a substantial impact on the regulation of the insurance industry in Australia. In line with Insurance Australia Group's submissions to the Commission, the recommendations include proposed changes to fire services levies and stamp duty charges on insurance policies. The adoption of these recommendations would distribute the costs of services more equally across the community and help make insurance more affordable.

We've also seen further consolidation in the local insurance market. This incorporated the withdrawal of three UK-based insurers through a series of transactions, including our own acquisition of CGU and NZI completed on 2 January 2003. Having said that, the sector still includes more than 100 competitors in Australia and 17 in New Zealand.

OUR PROGRESS AGAINST OUR STRATEGY

In the face of this complexity, Insurance Australia Group's direction remains clear.

In May 2002 we confirmed our business strategy to grow quality earnings, extend our scale and diversity in general insurance, reinvigorate our customer focus, leverage our core capabilities, and manage risk.

We believe the strategy will support the financial goals we set to:

- Achieve top-quartile total shareholder returns;
- Deliver a normalised 13% to 15% return on capital per annum;
- Double gross written premium (GWP) to \$6.6 billion by 2007;
- Maintain a combined ratio at less than 100%; and
- Maintain 'AA' category insurer financial strength rating.

I am pleased to report we have made significant progress against this strategy over the past 12 months.

Growth in quality earnings

We have continued to improve the quality of our operational earnings, as shown through our financial results for the 2002/2003 financial year.

As a Group, we exceeded all operating targets for the year. We recorded a net profit attributable to shareholders of \$153 million, improving from a loss of \$25 million for the previous year. Our insurance margin rose to 12.3%, up from 8.7% in the previous year and exceeding our current target range of 9% – 11%. And we ended the year with a Group combined ratio of 95.7%, consistent with 95.6% in the previous year.

There were two primary drivers of these results. First, the performance of CGU and NZI, included in our results since 2 January 2003, was better than expected. Second, our existing business also performed strongly, underpinned by improved customer retention, continued stability in major personal injury classes, the realisation of targeted business improvements in our New Zealand operations and largely benign weather conditions which sustained a reduced claims frequency.

That we were able to simultaneously maintain the improvement in the underlying business while managing a major acquisition is a particularly satisfying aspect of these results. Our GWP increased by 45% for the year, from \$3.6 billion to \$5.2 billion, with approximately 9% being from organic growth – over half of

THE ROLE OF INSURANCE IN THE COMMUNITY

Insurance is the ultimate community product. People pool money with us so that, if an individual suffers a hardship, he or she is protected. People expect and hope they won't have to make a claim. But, with appropriate insurance, they can live their lives knowing their homes, car or business is protected in case they do.

As an insurer, our role is to pay that money when it is needed. It's our role to pay claims.

To pay claims, we need to be able to do two things well. First, we need to price risk fairly and appropriately. If risk is under-priced, the available funds won't match claims and business will fail to the detriment of policyholders. If risk is over-priced, people will take their insurance business elsewhere. Or they will choose not to insure at all, which puts them, and the community, at risk.

Second, we need to keep our operating costs down. The price of premiums includes not only the measure of risk, but also the costs that go into providing the policy in the first place. Keeping our own overhead and infrastructure costs per policy down ensures we can offer affordable insurance.

However, there are other things that impact on the price of insurance. Such as government taxes and charges. And the increased risk in the community due to elements like weather, crime which, for example, costs the Australian motor insurance industry around $1 billion a year, and cases of fraud, where people try and claim more than they are entitled. As you will see from this annual report, we are taking numerous steps to help the community understand and reduce these risks.

Understanding the role of insurance gets to the heart of clear direction.

which was new policy growth – and the remaining 36% coming from the acquisition of CGU and NZI. We also locked in annualised runrate synergies of $54 million against our first six month target of $21 million, and we are on track to deliver the anticipated $160 million pre-tax per annum in sustainable integration synergies by June 2004.

At the same time, our overall returns from investments increased, reflecting both the change in our asset mix and improved market performance. Investment returns from technical reserves, which are now wholly invested in cash and fixed interest assets, increased to $372 million from $136 million in the previous year. However, shareholders' funds, which are substantially invested in equities, returned a loss of $120 million due to another year of declining equity markets both locally and internationally, as well as from the cost of the tactical derivatives programme designed to protect the Group's capital while completing the fundraising for the CGU and NZI acquisition.

The $1.86 billion aquisition of CGU and NZI was funded by a capital raising programme which included the issue of:

- $500 million — Institutional placement – ordinary shares
- $300 million — Dated subordinated debt
- $380 million — Share Purchase Plan – ordinary shares
- $200 million — Reset preference shares
- US$240 million — Dated subordinated debt
- $75 million — Underwritten Dividend Reinvestment Plan – ordinary shares.

Based on the momentum in the business, and our expectation of a continued low interest rate environment, we have upgraded our Group combined ratio target to 93% – 96% for the coming 12 months. Operating within that range should enable us to maintain an insurance margin of 9% – 12%. Ultimately, our goal remains to provide our shareholders with a top-quartile shareholder return throughout the cycle.

Scale and diversity in core general insurance

It's our view that, unless you have a competitive edge in a niche area, scale is crucial to succeeding in general insurance. There are considerable infrastructure costs in running an insurance company well. Spreading these across a greater premium base is beneficial, allowing us to keep our costs per policy down.

Clearly, our acquisition of CGU and NZI from Aviva plc, along with the NSW workers compensation management business we acquired from Zurich Insurance in January 2003, has added significantly to the Group's scale and diversity by product, geography and distribution channel in both Australia and New Zealand.

We now enjoy a strong presence in a range of general insurance classes, with the composition of our business by GWP consisting of 57% personal, 20% commercial, 16% personal injury, 3% health and 4% other short-tail business, as at 30 June 2003. We are also well represented in both the direct and indirect distribution channels, with nearly 60% of our business distributed directly through our branches, country service centres, call centres and the Internet. The remainder of our business is distributed through our broker network and third party partners, including financial institutions and alliances.

Reflecting this increased presence as a provider of indirect insurance, we have appointed two new Group Executives who joined the Group through the CGU acquisition. They are Group Executive, Business Partners, Lou Power, and Group Executive, Intermediary Business, Bob Wagstaffe.

Importantly, we have achieved our goal of having at least 80% of our business in short-tail insurance (such as motor, home and rural), with the remainder in long-tail insurance (such as professional indemnity, compulsory third party motor liability and workers compensation). This balance, combined with our reinsurance protections, provides a greater likelihood that we will be able to deliver combined ratios of less than 100% throughout any insurance cycle.

The fact we didn't enjoy the same advantages of scale in health insurance led us to sell our health manufacturing and claims operations to MBF. At the same time, we have entered a marketing alliance to enable us to continue to promote and sell health insurance products, now underwritten by MBF, to our customers.

A PHASED APPROACH TO GROWTH

GENERATION OF DOMESTIC SCALE | GENERATION OF DOMESTIC ORGANIC GROWTH AND PROFITABILITY | GENERATION OF INTERNATIONAL GROWTH AND PROFITABILITY

Delivered — June 2003 — We believe that there are substantial opportunities locally for a few years — Progressing this will depend on being able to show internationally applicable core competencies

This decision, announced on 1 July 2003, followed a thorough review of our health insurance operations and allows us to continue to service our more than 95,000 health insurance customers with no changes expected to cover or policies.

Reinvigorating our customer focus

The Getting it Right programme, one of the Group's primary initiatives to reinvigorate how we help our customers, completed its review of our end-to-end customer systems and processes. Out of that review more than 400 initiatives designed to improve the customer experience are now being implemented progressively across the Group. The programme is explained further on page 7.

We also completed the rollout of our Productivity & Efficiency Promotes Service (PEPS) programme in our Australian call centres and branches. The PEPS programme, which was successfully trialled in the 2001/2002 financial year, allows us to identify our customers' needs early in the interaction, so we can quickly direct them to relevant specialists.

We are already seeing results from our efforts to date. Strong customer renewal rates have been sustained at around 90% in all major products for the past two years.

At the same time, customer satisfaction, a key predictor in building long-term customer relationships, has consistently risen over the past 18 months. In the Victorian motor insurance portfolio, for example, customer satisfaction with claims service was 86% at June 2003, reflecting an average increase of 3.5% each six months since November 2001.

In Australia, we launched major advertising campaigns supporting our direct general insurance brands – NRMA Insurance, SGIO and SGIC – and our indirect general insurance brand, CGU. To date, the campaigns have been successful in reinforcing our shared customer propositions of help and confidence.

These are examples of how we are improving the customer experience, when purchasing products or making claims. But we're also focusing on reducing the risk of accidents or other insurable events from occurring in the first place.

Our launch of the Reversing Visibility Index is one such example. Based on detailed research, this index compares 50 of the most popular vehicle models in terms of their safety performance when reversing. One of the key research findings was the link with fatal reversing visibility accidents involving children. By highlighting the link between reversing and vehicle accidents, we aim to improve road and vehicle safety. This work was very well received and an information brochure is available through childcare centres as well as our branches and websites.

Pilot Theft Forums were another risk reduction initiative organised during the year, aimed at reducing the impact of crime in local communities. Working with local councils, police, members of parliament and local groups in the Dubbo, Shellharbour and South Sydney areas, the forums facilitated discussion around combating home burglaries and car theft. The success of those discussions means we are now working with the local organisations to develop practical and locally relevant crime prevention initiatives.

Overall, our commitment to our customers and what we stand for was no more evident than during the ACT bushfires, the seventh largest insured catastrophe in Australian history. We were able to play an integral role in helping our customers and the community in Canberra to 'get back on their feet', through both direct claims support and events such as the NRMA Insurance Help Expo, which is discussed on page 3. We continue to play a role in the recovery process through ongoing cooperative dialogue with the ACT Government initiated ACT Bushfire Recovery Taskforce.

Leveraging our core capabilities

Our core capabilities in underwriting, and claims and asset management – as well as the capabilities of our people – need to be maintained and developed on an ongoing basis.

As an insurance group, one of our core responsibilities is to price risk fairly. Our ability in this field was recognised during the year by our high rankings in the Deloitte Touche Tohmatsu/JP Morgan 2002 General Insurance Survey.

We also continued to extend our claims management skills across the Group, including CGU and NZI. For example, we introduced our proven preferred supplier model into new areas of the business, tailored for the extent of our presence in each region. In June 2003, it was adopted for the tow truck industry in NSW, following a successful trial over the previous year. The preferred smash repairer scheme was introduced into Victoria, South Australia and Western Australia. We also launched a national code of practice governing our dealings with preferred suppliers.

As well as pricing risk and paying claims, we also need to generate investment returns on the funds backing our insurance liabilities and our capital. We aim to generate returns ahead of the benchmarks while limiting the risks we take and maintaining high quality liquid portfolios. This year our fund managers again outperformed internal benchmarks on the overall funds under management. However, the total return for the year was hampered by the cost of capital protection measures in place while we completed our fundraising for the acquisition of CGU and NZI. As the funding is now complete and the capital position is strong, we have no plans to take out further protections of this nature.

We are also focused on having an effective and efficient infrastructure to support everything we do. During the past year we committed to an overhaul of our technology services strategy and, under our new Chief Information Officer, David Issa, the transformation is well underway.

Our 11,000 people are just as important as any technical capability when it comes to delivering on our promise to customers. As a result, during the year we invested significant time and energy on setting the framework for a common culture after the series of acquisitions. Examples of initiatives to date are included on page 7.

Risk management

Strong risk management is the backbone of any insurance company. Understanding risk allows policies to be priced appropriately and ensures sufficient reserves so we can always deliver on our business of paying claims.

It also underpins the reinsurance arrangements we put in place and ensures we have the required capital backing.

The new Australian Prudential Regulation Authority (APRA) prudential guidelines came into effect from 1 July 2002. We have extended the practices across all our general insurance entities, including New Zealand.

Even within the context of the APRA requirements, we continue to reserve conservatively, maintaining our claims reserves at a level that gives us a minimum probability of sufficiency of 90%, well above the minimum APRA requirement of 75%. As at 30 June 2003, our Australian operations had capital equivalent to 2.03 times the risk-weighted minimum capital requirement. At the same time, our Group's capital was 1.62 times the minimum determined on the same basis as the APRA requirement. This is very comfortably within our target range of 1.35–1.65 times, set applying APRA principles to the consolidated operations of the Group, not just our individual licensed entities which is the APRA approach.

In July 2003, a number of our major businesses began operating under their licences issued under new Australian Financial Services Reform (FSR) legislation. This legislation is designed to instil consistent standards for licensing, training and customer disclosure to the financial services industry. Despite the extensive workload and resources involved, this FSR implementation programme has been delivered on schedule and ahead of the maximum timeframe set down in legislation. That the necessary changes have been aligned with existing company processes should mean that customer protection is sustainable. The remainder of our businesses in Australia are on track to obtain their licences ahead of the March 2004 deadline.

Our reinsurance programme has been adjusted following the acquisition of CGU and NZI and shows clearly how scale and diversity benefit our risk management. Despite an environment of rising reinsurance costs globally, we secured a more extensive Groupwide catastrophe reinsurance programme at the same cost. Both the depth of coverage for a single event and the breadth of coverage for multiple events have improved.

For example, Australasia's worst ever insured catastrophe was the 1999 NSW hailstorms, for which the insured cost was about $1.9 billion. Insurance Australia Group's share of the impact was about $400 million. The net impact after reinsurance was $93 million (pre-tax), including the cost of reinstating our reinsurance protection, a 4.7% effect on our Group combined ratio. Were those hailstorms to occur today, our current reinsurance programme would mean our maximum net loss would be $70 million (pre-tax), which is less than a 1.5% impact on our combined ratio.

Our risk management team's focus on the environment and global warming is breaking new ground in terms of the community's understanding of climate change impacts and increased catastrophe risks. Further information can be found on page 5.

And we are sharing our risk management expertise in our national partnerships with St John Ambulance and the Salvation Army Emergency Services, helping to promote safety and risk reduction in the community.

LOOKING AHEAD – OPPORTUNITIES AND CHALLENGES

While there is still much work to do, our financial result and the initiatives completed or underway demonstrate we are delivering on the strategic objectives we set ourselves in May last year.

We have completed our goal to generate domestic scale in Australia and New Zealand. Our task for the next year is to consolidate our achievements and secure domestic organic growth and profitability before we consider further growth internationally.

We will do this by completing the integration of CGU and NZI during the current financial year, and continuing to extend our core capabilities in underwriting and claims management to improve the quality and efficiency of all our business operations. We will seek to leverage our competitive advantage to drive further cost synergies in our procurement strategy and around our own infrastructure. And we will continue to focus on working with relevant parties to minimise the costs associated with fraud and crime, and government taxes and charges, and to prevent the risk of insured events occurring in the first place.

In summary, by optimising what we have and remaining focused on what Insurance Australia Group stands for, we will deliver sustainable earnings growth and cement our ability to pay claims for the long-term.

THANKS TO OUR PEOPLE

Of course, our results could not have been achieved without the extraordinary efforts of our people. That we maintained and exceeded our performance targets while integrating our businesses are a testament to their commitment and ability. I would like to take this opportunity to thank everyone for their contribution to what has been an exciting and historic year.

Michael Hawker
Chief Executive Officer

REVIEW OF OPERATIONS

As part of the integration of CGU and NZI, acquired on 2 January 2003, the Group's business operations have been reorganised into seven key segments.

PERSONAL INSURANCE

Business description

Our Personal Insurance operation develops and underwrites short-tail insurance products, and provides claims and assessing services for Insurance Australia Group's customers in Australia. Its key products are motor and home insurance and it also provides niche insurance such as pleasure-craft, caravan and travel. Customers are serviced directly, through our NRMA Insurance, SGIO and SGIC brands and our RACV partner brand in Victoria, and indirectly under the CGU brand. Personal Insurance is Australia's largest insurance underwriting and claims and assessing operation. It has a presence in every state and territory.

Year in review

Responding to the ACT bushfires was a major undertaking for our Personal Insurance business in the past year. As demonstrated on page 3 of this report, the team was able to deliver on its commitment to exceptional customer service, when managing claims and after the claim through the NRMA Insurance Help Expo. But the team's achievements during the past year don't end there – here are just a few of the highlights.

The redesign of all personal insurance renewal certificates for customers was a key project for the year. Working with the Communication Research Institute of Australia, the redesign focused on making it easier for customers to locate policy information such as expiry and validity dates and encouraging policyholders to check their details before payment. Prototype documents, incorporating business requirements, were tested among policyholders before being released. New renewal documents took effect from March 2003, with other documents released in May 2003.

Considerable work has also been conducted during the year to better understand the risk of bushfire, storm, flood and burglary so that we can improve our home product cover, provide more equitable pricing and help the community reduce the impact of major events.

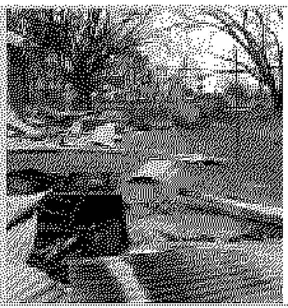
We also introduced a range of customer-oriented improvements to our personal insurance discounts and product suite. New products included the Motor Prime product in Victoria for those aged 50 and over, to match our existing Home Prime insurance cover. For our car policyholders, we introduced a no-claim discount for the life of the policy. Greater policy discounts also now apply for homes with alarm systems, as part of our aim to reduce risk through an enhanced focus on safety. These initiatives are in addition to our existing multi-policy and loyalty discounts.

Considerable work has also been conducted during the year to better understand the risk of bushfire, storm, flood and burglary so that we can improve our home product cover, provide more equitable pricing and help the community reduce the impact of major events.

Help when making a claim is one of the most important experiences for our customers. As a result, we are focused on ensuring all claims processes and systems include a balanced approach to cost, quality and enhanced customer service. During the year, we extended our Online Repair Management technology to the Smithfield and Gateshead salvage centres and significantly improved assessment processing times from 10-plus days to an average 24-hour turnaround. We also introduced a Preferred Towing programme in NSW to ensure our customers requiring a tow receive a hassle-free, fast-track process and that, if it is their choice, their vehicles are quickly repaired by one of our Preferred Smash Repairers.

We are Australia's largest purchaser of white and brown goods and a significant buyer of glass. To make sure we can purchase home replacement and repair items at competitive prices, we have utilised an electronic network of suppliers. This network database, called E-Claims, has been available to insurance companies in NSW and Victoria for some time. Following our acquisition of CGU, E-Claims has now been implemented in all states and the ACT. This means that when we require a particular item to settle a claim, we merely enter the model number and the system ensures the supplier with the most competitive price listed on the site receives the purchase order for the item. The system also provides the necessary detail to identify the current equivalent model for superseded items.

Insurance fraud is a dishonourable and costly part of our business. The overwhelming majority of claims are genuine, and we are determined to protect honest policyholders who end up paying for fraudulent claims. During the year,



we highlighted the problem of fraud and car dumping on NSW waterways through a one day operation with NSW Water Police and NSW Waterways Authority on the Georges River in Sydney. More than 12 submerged vehicles were dragged from the river, demonstrating the prevalence of fraud as well as the danger to the waterways environment and boats.

Next steps

Looking ahead, we are focused on achieving the full integration of the CGU personal insurance businesses by 30 June 2004. Building on the sound footing of our existing business, we will also focus on enhancing our ability to provide seamless, repeatable, and excellent customer service. We will be reviewing all of our business processes to make it easier for customers to take out, renew or change a policy. This will be supported by an increase in spending on training at all levels across our organisation, with particular focus on our team managers who are in primary control of our customer interface. As well, significant resources will be applied to ensuring our cycle times on all repair categories are minimised so our customers' claims are settled faster.

BUSINESS PARTNERS

Business description

Created as a separate unit following the acquisition of CGU, our Business Partners operation develops and manages our relationship with more than 100 financial institutions and alliance partners. This makes us Australia's leading provider of general insurance products sold through financial institutions.

Products provided through our business partner network can carry the CGU brand or are co-branded as a way of extending the business partner's value proposition to its customer base. Those business partners include financial institutions – banks, mortgage originators, building societies and credit unions. Our alliances cover not-for-profit organisations, affinity groups and international and national brokers that require personalised sales and customer service support.

> Help when making a claim is one of the most important experiences for our customers. As a result, we are focused on ensuring all claims processes and systems include a balanced approach to cost, quality and enhanced customer service.

The Business Partners operation includes Swann Insurance (Swann), Australia's leading provider of retail insurance products through the retail motor trade, motor financiers and motor manufacturers, for both motor vehicle and motorcycle networks. Swann also provides its niche products through our financial institutions network and more than 1,000 other agents.

And through Mutual Community General Insurance (MCGI), a joint venture with BUPA Health, we distribute personal insurance products to members of its Mutual Community and HBA health funds.

Year in review

During the year, our Business Partners division continued to prosper, retaining and growing key relationships and business profitability. This is a reflection of the consistent efforts of the team during the challenging integration process, as well as market confidence in the expanded Insurance Australia Group.

Since the announcement of the CGU acquisition by Insurance Australia Group, we have secured 18 new accounts and retained all key existing customers. We were appointed as Aon's primary supplier of personal insurance in Australia – in the past, this business had been placed through a panel of insurers. Through Swann, we have also secured a number of significant new relationships, including a three year badging agreement with Toyota Financial Services. Under the arrangement, Swann will provide a comprehensive range of consumer and commercial insurance products, including warranty insurance, to participating Toyota dealerships across Australia. Swann also extended the alliance with GMAC to include branded insurance product offering to complement Suzuki and Subaru Finance.

In the face of the increasingly competitive motor retail market, Swann has developed innovative product and relationship solutions. This has resulted in key partnerships with Mercedes and Chrysler Jeep, amongst others. At the same time, Swann's product sales through financial institutions grew by 10% for the year.

In August 2002 we cemented our MCGI alliance when we extended our agency agreement with BUPA Health for another 10 years. This was a positive development for the Group, given MCGI's improved sales

performance during the year. To 30 June 2003, MCGI sales improved by 8.3% over the same period last year.

Next steps

During the next 12 months, our priorities are to:

- Continue improving our web enabled point of sale system – now used by more than 100 business partners nationally – and expanding our use of web-based technology into new areas;
- Centralise our systems platforms as part of the broader Group's technology services overhaul;
- Focus on identifying new product opportunities for Swann sales through financial institutions and grow the reach of Swann's motor dealer business; and
- Maximise opportunities for MCGI to provide the Group's diverse product offering to BUPA's health insurance customers.

INTERMEDIARY BUSINESS

Business description

Our Intermediary Business division manages and develops our relationships with more than 1,700 insurance intermediaries (brokers and agents). It distributes all products sold through intermediaries including commercial, personal and rural insurance, and workers compensation, and underwrites all commercial products (except workers compensation).

The division also manages our 50% stake in the Associated Marine Insurers Agents and National Transport Insurance businesses. Associated Marine is the leading agent for marine insurance in Australia and is a joint venture between CGU and Zurich Australian Insurance. National Transport Insurance is Australia's leading truck insurance company and is a joint venture with Promina.

Year in review

The Intermediary Business division performed strongly across all insurance lines during the year by maintaining strong customer relationships and a commitment to disciplined underwriting. This was achieved even as the intermediary landscape altered in the face of competitor acquisition programmes and broker consolidation triggered by the Australian FSR legislation.

> We took a proactive approach to assisting our agents with their business and compliance obligations related to the rollout of FSR legislation.

Our focus on the customer saw us negotiate enhanced relationships with international broker facilities in Australia. We were also appointed as the preferred insurer by key broker cluster groups, including IBNA, OAMPS, Austbrokers, Steadfast and RIBA. These achievements, combined with our ongoing partnerships with heartland customers and rural alliances, including Wesfarmers Landmark, Roberts and Canegrowers, served to stimulate GWP growth.

We took a proactive approach to assisting our agents with their business and compliance obligations related to the rollout of FSR legislation. Associated FSR training was implemented across the 80 strong branch network and across our extensive authorised representative network.

At the same time, following research among our key intermediaries in NSW and Victoria, we introduced more consistent claims management processes in all states and territories. This has delivered faster and easier access for clients to lodge claims through their chosen intermediary. We also introduced a telelodgement pilot for commercial claims in Victoria, with a view to a national rollout when the results are evaluated.

Next steps

During the next 12 months, opportunities in regional and rural areas will be constrained because of the ongoing impact of the drought. Increased market competition in all areas is expected, particularly in the small to medium enterprises and mid-sized commercial segments, but conditions remain favourable for growing sales and maintaining satisfactory profitability. We will help to drive sales by continuing to innovate with a broad range of market relevant products, particularly driven by web-based delivery.

PERSONAL INJURY

Business description

Our Personal Injury operation incorporates compulsory third party motor liability (CTP) and workers compensation products and services. Public liability claims associated with home policies also form part of this operation.

We have emerged as the leading insurance group in Australian workers compensation, and we operate in every state and territory scheme with private sector involvement. Our workers compensation business trades as CGU Workers Compensation in all locations apart from South Australia. At the request of SA Workers Corporation, we operate in South Australia as CGU NRMA Workers Compensation as an interim step before moving to the CGU brand.

Using the NRMA Insurance brand, we are the largest CTP insurer in NSW. We also have a 100% market share of CTP in the ACT and are currently maintaining our small Queensland business. As of 4 July 2003, we no longer manage CTP claims in South Australia. After more than 30 years, the State Government made the decision earlier this year not to renew its Motor Accidents Commission CTP claims management contract with SGIC.

Year in review

During the past year, the industry environment has remained very competitive, both for CTP and workers compensation.

Despite this, we further expanded our position in the CTP market, increasing policy numbers by about 100,000 so that we now have approximately 1.7 million policyholders in NSW. The primary reasons for this market growth are increased vehicle registrations and that we continue to offer the most competitive rates for most risks, evidenced by the fact that we are the cheapest provider for about 70% of the NSW market.

The workers compensation business achieved very good outcomes during the recent 30 June 2003 renewal period, a critical time for our operations because about 90% of national policies renew during June each year. Notable achievements during this period include:

- The retention rate for national accounts was over 97%;
- Several large new national and state accounts were obtained;
- In South Australia, the only opportunity for companies to change agents is at 30 June each year, and we increased market share by almost 2%; and
- Our market share in NSW has increased by almost 1%.

The success of this renewal period means we now provide workers compensation insurance to more than 167,000 employers nationally, covering an estimated 1.7 million employees. It also suggests the CGU acquisition has been well received by employers and brokers, and that they are confident the combined group will be able to deliver an even higher level of service and competitiveness.

> As the largest personal injury insurer in Australia, we are well placed to participate in discussions with governments and the community about the future direction of the industry's policy environment.

As the largest personal injury insurer in Australia, we are well placed to participate in discussions with governments and the community about the future direction of the industry's policy environment. Among our recent work in this area was the detailed submission to the current Productivity Commission inquiry into OHS and workers compensation. The submission argues for more nationally consistent workers compensation arrangements, which would improve efficiency and allow private insurers to play a greater role in underwriting. The inquiry is expected to be completed in 2004.

Reflecting our focus on safety and development of new customer services, during 2002/2003 we gained accreditation in Victoria for our Health & Safety course. This course, which aims to help employers minimise the incidence and cost of workplace accidents, provides basic OHS training to managers and safety staff on a fee for service basis. The courses commenced in February 2003 and, to date, four series have been conducted.

We also piloted a Workplace Health and Recovery programme, which is now being rolled out more widely. By sharing detailed information on injury treatment and ways to improve risk management between the injured worker, treating doctor, employer and insurer, the programme aims to improve health outcomes. Tangible benefits of this approach are being seen, with one of the large employers that participated in the pilot experiencing a 64% reduction in its average claims cost.

Next steps

We will continue to cement the integration of our acquired workers compensation operations nationally, as well as CGU's CTP claims portfolios. Particular areas of focus include managing the change in brand for workers compensation nationally and further improving the performance of our combined operations.

The acquisition of CGU provides us with another opportunity to expand our distribution networks. For CTP, we are exploring partnership arrangements with a number of organisations in Queensland. We will also work closely with the Intermediary Business operation to identify distribution and sales opportunities for our workers compensation products.

Another major priority for the year ahead is to develop further new products and services, which focus on improving safety, and reducing claims costs for employers. Significant attention will also be placed on enhancing our data analysis capabilities to enable better risk assessing and analysis of trends in claims performance.

IAG NEW ZEALAND

Business description

The IAG NZ business has grown and strengthened significantly as a result of the acquisition of NZI which was completed in January 2003. With approximately 40% market share, we are now the leading general insurer in New Zealand in both the direct and intermediated channels, and hold strong positions in all geographic markets, including the very important Auckland market.

Through the New Zealand integration process, we have maintained State as our direct brand and NZI as our indirect brand, capturing the heritage and customer loyalty those brands carry in New Zealand. Our Circle brand, which was launched in April 2001 to specifically focus on distributing our products through broker networks, is being folded in under NZI. We also retained our 'AA' Standard & Poor's financial insurer strength rating. A scheme of arrangement, approved by the New Zealand High Court on 21 May 2003, means NZI policies are now assigned the 'AA' rating too.

Year in review

The hallmark achievement for IAG NZ during the year has been its success with the integration of the State and NZI businesses, while delivering improvements across all key business indicators. Our customers' continuing satisfaction with our insurance service is reflected in our research for the year ended 30 June 2003. State delivered renewal rates of 93% and claims satisfaction of 88%. NZI reported renewal rates of 88% and claims satisfaction at 84%. We believe NZI's lower scores on these measures reflect the fact that we have less ability to influence the customer experience through the broker network.

> During the year, we launched a new focus to deliver on our social responsibility as New Zealand's leading insurer. This is consistent with Insurance Australia Group's commitment to safety, the environment and the community.

Integral to these overall successes, we continued to build on the foundation created by our national operating model, introduced in 2001 to ensure consistent policies, processes and people management.

Project Endeavour, which was launched in 2002 to re-engineer all our processes end to end from a customer perspective and replace our legacy information technology systems, was expanded to include the NZI business. We are on track to launch our single integration technology platform for IAG NZ by 30 June 2004.

Supporting our efforts to move to a single culture under the IAG NZ brand, we began the initial rollout of the 'Good2Great' people programme. As indicated by the programme's name, it is aimed at supporting the transformation of two very good organisations, State and NZI, into one truly great one.

We also successfully renewed our key corporate partners relationships with ASB Bank and Bank of New Zealand, and moved them to a more commercially sustainable footing. Our new agreements take into account the true cost of distribution and introduce mutuality in the relationship.

During the year, we launched a new focus to deliver on our social responsibility as New Zealand's leading insurer. This is consistent with Insurance Australia Group's commitment to safety, the environment and the community. One of the major initiatives currently under way is a national partnership with NZ Fire Service aimed at encouraging the use of smoke alarms and domestic sprinkler systems. Another is our work with the Thames Council, following last year's weather bomb, detailed on page 3.

Next steps

We are on schedule to complete the integration of NZI and deliver the targeted synergy benefits of $20 million pre-tax per year. Hand in hand with integration, we will continue to implement the 'Good2Great' people programme. We will also focus on completing Project Endeavour and improving operating efficiencies.

OTHER INTERNATIONAL OPERATIONS

During the year, we continued to nurture our other international business interests, including the CAA roadside assistance venture in China, a strategic shareholding in the publicly-listed Safety Insurance in Thailand, and a cooperative agreement with AIOI Insurance of Japan.

The CAA joint venture is the largest roadside rescue organisation in China and is providing Insurance Australia Group the chance to participate in the new business environment in one of the world's fastest growing economies. Similar to our own origins, our CAA strategy is to extend our roadside assistance service to a number of provinces in China and, once we have obtained scale, consider applying for a licence to supply motor insurance to our own clients in that market.

Safety Insurance is the fifth largest motor insurer in Thailand. Our interest in this business is starting to contribute positively to our results and, with our technical assistance, we believe it will continue profitable growth in the Thailand general insurance market.

Finally, our alliance with AIOI Insurance played an integral role in assisting the Group's Business Partners team to secure the three year exclusive contract with Toyota Finance in Australia for the insurance needs of Toyota and its customers.

While the Group's focus for the next year is on improving the businesses we already own, we are undertaking research on potential international opportunities for the medium term. We will seek opportunities to leverage our core competencies with partners for whom these can add value.

CLEARVIEW RETIREMENT SOLUTIONS

Business description

ClearView Retirement Solutions specialises in retirement financial advice, providing personalised, practical investment solutions to help customers maintain their lifestyle and financial position in retirement. ClearView currently operates in NSW and the ACT. Life risk insurance products are also distributed and managed through this business unit under the NRMA Life brand.

ClearView introduced a variety of communication materials to help continue to demonstrate the value of a practical and relevant approach to advising customers on their financial future.

Year in review

Despite a promising response by customers to the ClearView brand launched in February 2002, the past year has been a challenging one for the financial planning industry in Australia. Global economic uncertainty surrounding the Iraqi conflict, SARS and the threat of terrorism, and the poor performance of global and domestic equity markets during the year, have resulted in negative annual growth for the industry.

Faced with this challenging operating environment and what was still a very new brand in the market, it is to the ClearView team's credit that since July 2002 ClearView has been rated among the top three companies considered for retirement advice by customers in NSW and the ACT, according to independent research organisation, Millward Brown.

This achievement was made possible because of the flexibility and dedication of the ClearView team to finding new ways to build sales and inspire confidence with customers, while continuing to meet and exceed all relevant legislative requirements.

ClearView introduced a variety of communication materials to help continue to demonstrate the value of a practical and relevant approach to advising customers on their financial future. There was ongoing training and education for our consultants to keep them informed about current market issues such as business cycles, risk and return, and compliance.

ClearView continued its efforts to build brand awareness through marketing. Building on last year's Australian Advertising Association gold award-winning campaign, ClearView launched a series of successful campaigns to further highlight its focus on helping everyday Australians secure their future.

The life risk insurance business has continued to perform very well, returning solid profits on a small, growing book of business.

Next steps

With a difficult investment environment expected to continue during the next year, ClearView is developing its sales and service model to improve its sales results and customer satisfaction, while maximising shareholder value.

SAFETY, ENVIRONMENT, COMMUNITY

REDUCING RISK IN OUR COMMUNITIES

Insurance Australia Group is strongly committed to achieving its business goals while protecting and promoting the social, economic and environmental wellbeing of the many communities in which we operate. Our aim is to create further value in the Company and for all stakeholders, including shareholders.

Our key focus areas for aligning shareholder and societal value are the environment and safety. This is a logical fit on two fronts. First, it makes sense to invest our efforts in areas in which we have expertise. This is where we will have the greatest impact. Equipped with our understanding of risk and claims, we can help make our roads, homes and communities safer.

Second, changes in the environment and safety factors such as crime have an enormous impact on our business. They influence our ability to calculate risk, pay claims and provide affordable insurance – our primary business purpose. By helping reduce environmental damage and improve safety in our communities, we will hopefully reduce their impact on our business in the years to come. This will cement our ability to pay claims and build value for our shareholders in the future.

Before committing to goals and actions in these key areas, we had to develop a deeper understanding of the social and environmental impacts of our business, including our environmental impact and our workplace safety record. Part and parcel of this process was building a new appreciation of how major societal issues and challenges, like climate change and crime, can affect our core business operations and stakeholder relationships.

Following our interrogation of these issues, we developed a Groupwide strategy to address the growing expectations of our people and the community for us to perform better on social and environmental issues. This is a long term strategy, although we have made important progress this year through the initiatives outlined below.

IMPROVING SAFETY

Safety starts at home. We are Australasia's leading private sector provider of workers compensation services, so the onus is on us to use our expertise and build leading safety practices in our own organisation. Our goal is simple: to ensure no employee at Insurance Australia Group suffers an accident in any of our workplaces.

During the past year, we have made significant inroads into improving our workplace safety. Our CEO is the Chief Safety Officer, signalling the importance of safety to the entire organisation. We initiated an audit of our safety performance, developed a safety programme that began with safety training for all managers, and established an Organisational Safety Committee. And we rolled out a safety charter, which provides the blueprint for developing and maintaining systems that will lead industry practice. Added to this, all New Zealand employees were given a home smoke alarm in May. IAG NZ's partner, NZ Fire Service, actively supported this intiative by making its personnel throughout the country available to employees who required assistance to fit an alarm.

> Outside our own domain, we are looking to increase safety on the road, in the home and workplace.

We have numerous education programmes and activities that aim to build awareness around how people can reduce risk in their lives and businesses. These include small business seminars, information on our website, and theft forums.

Our community programmes and partnerships also reflect our commitment. Our national Community Help and CrimeSafe grant programmes in Australia support local community projects and groups in their efforts to reduce crime. And through our new partnership with St John Ambulance – Australia's leading provider of first aid training services – we are promoting first aid courses and materials to our customers and our people across the country. By supporting St John's volunteer first aid and emergency services, and providing for local crime prevention initiatives, we go a long way towards achieving our goal of making our communities safer for all.

Our community portfolio also includes important regional programmes and partnerships. These initiatives include NRMA Careflight Emergency Services helicopters in NSW and the ACT, Surf Life Saving in South Australia, and State Emergency Services and Kidsafe in Queensland, Western Australia and NSW.

LOOKING AFTER THE ENVIRONMENT

The severe impacts suffered by the community as a result of extreme weather are compelling evidence of climate change at work. We are a leading advocate for reducing the risk of further climate change, which we discuss in more detail in an earlier section of this report. As an insurer, we also believe it is our responsibility to address our own energy efficiency, water usage, greenhouse gas emissions and product design, all of which have a significant impact on climate change. This year, we started down this path with recycling programmes, energy efficiency reviews, lower paper use targets and reduced travel.

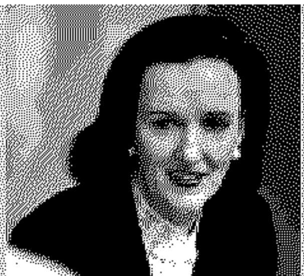
Significantly, in May we also became signatories to the United Nations Environment Programme's Finance Initiative (UNEP FI). We are the only Australian-headquartered insurance company to be part of UNEP FI.

Our primary aspirational target is to reduce the amount of greenhouse emissions for each of our employees (our CO_2 footprint) by 15% in 2003/2004 and 10% in the following year, as measured by tonnes CO_2 per full-time equivalent position.

We are also working with other important stakeholders, such as our suppliers, to reduce their environmental impact. For example, we partnered with the smash repair industry to develop more efficient waste disposal and recycling strategies. And we launched the 'Greensafe' Car Profiler (www.nrma.com.au/carprofiler), which helps motorists compare the environmental, safety, economy and security features of a range of vehicles. This world-first online tool helps consumers make educated and environmentally aware decisions about their next car purchase.

BOARD OF DIRECTORS

John Astbury
FAICD, age 59
Non-executive Director



Michael Hawker

James Strong

Anne Keating

Maree Callaghan
FAICD, age 57
Non-executive Director

Mr John Astbury
FAICD, age 59 – Independent Non-executive Director

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

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 Chairman's Committee.

Mrs Maree Callaghan
FAICD, age 57 – Independent Non-executive Director

Mrs Maree Callaghan has been a Director of IAG since June 2000 and Insurance Australia Limited (formerly NRMA Insurance Limited) since 1993.

Mrs Callaghan is a member of the NSW Coal Compensation Board and was a director of National Roads and Motorists' Association Limited from 1991 to 2002 (President, July-October, 2002).

Mrs Callaghan currently manages a division of Life Activities Inc. (supporting people with disability), has worked with the NSW Cancer Council (1995-2000) and was Mayor of Cessnock from 1987 to 1995.

Mrs Callaghan has retired from the Board, effective from 1 September 2003.

Mr Geoffrey Cousins
age 60 – Independent Non-executive Director

Mr Geoffrey Cousins was appointed as a Director of IAG in July 2000 and has more than 20 years experience as a company director. He is currently on the board of NM Rothschild and Sons Limited.

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.

Mrs Mary Easson
MAICD, age 48 – Independent Non-executive Director

Mrs Mary Easson was appointed as a Director of IAG in June 2000 and a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1997.

A former member of the Australian Parliament, Mrs Easson is currently the Managing Director of Probity International and is on the board of Professional Standards Resource Group.

Mrs Easson has held a number of executive positions including the National Government Relations Manager for Australian Consolidated Industries (ACI) and the Human Resources Executive for Ansett Transport Industries. She is a recipient of the Prime Minister's Centennial Medal for Services to Business and Commerce.

Mrs Easson has retired from the Board, effective from 1 September 2003.

Ms Dominique Fisher
BA (Hons), age 40 – Independent Non-executive Director

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 company, EC Strategies Pty Ltd, 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, Director of AIDS Fundraising Management and the Communications and Media Law Associations and Trustee of the Sydney Opera House Trust.

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

Mr Neil Hamilton
LLB, age 51 – Independent Non-executive Director

Mr Neil Hamilton was appointed as a Director of IAG in June 2000 and as a

Neil Hamilton
LLB, age 51,
Non-executive Director

Rowan Ross
BEc, BCom, FCPA, FSIA,
age 54, Non-executive Director

Geoffrey Cousins
age 58, Non-executive Director

Mary Easson
MAICD, age 48,
Non-executive Director

Dominique Fisher
CA (Hons), age 45,
Non-executive Director

Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1999.

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

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

Mr Michael Hawker
BSc, AAIBF (Snr), ASIA, FAICD, MCT, age 43 – Chief Executive Officer and Executive Director

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

Before joining Insurance Australia Group, 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 is a board member of the Insurance Council of Australia (ICA), and is the 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 Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40, and in 2000, he was awarded the Australian Banking & Finance Magazine – Millennium Banker of the Year Award. He is a recipient of an Australian Sports Medal.

Ms Anne Keating
age 49 – Independent Non-executive Director

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 1997.

Ms Keating is currently a director of STW Communications Group Ltd, Macquarie Leisure Management Limited, ON Holdings Pty Ltd and Mutual Community General Insurance Pty Ltd. She is an Advisory Council member of ABN AMRO Australia and New Zealand, and an inaugural board member of the Victor Chang Cardiac Research Institute. 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
BEc, BCom, FCPA, FSIA, age 54 – Independent Non-executive Director

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 Chairman's Committee.

Mr James Strong
age 59 – Chairman and Independent Non-executive Director

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 and Opera Australia.

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

Mr Strong is Chairman of the IAG Chairman's Committee.

THE CEO'S EXECUTIVE TEAM

Tony Coleman
BA, MBA, FIA, FIAA,
Chief Risk Officer
and Group Actuary
V

Ian Brown
ANZIIF, FAIM,
Deputy Chief
Executive Officer
V

Rick Jackson
DipT, BEd, AAIBF (Snr),
GradDipMan Bus
Group Executive
Personal Insurance,
Chief Executive Officer
Insurance Manufacturers
of Australia Pty Limited
V

^
Douglas Pearce
BSc, MBA, ASA, MACS,
FCIS, Group Executive,
Personal Injury

^
David Smith
BBus, MBA,
FAIM, FNZIM,
Chief Executive Officer,
IAG New Zealand Limited

^
Karyn Baylis
Group Executive,
Sales & Marketing

Ms Karyn Baylis [illegible]

Mr Ian Brown [illegible]

[illegible]

Mr Tony Coleman [illegible]

Mr David Issa [illegible]

[illegible]

Mr Rick Jackson [illegible]

Mr Sam Mostyn [illegible]

George Venardos
BCom, FCA, DipCM,
FCIS, FTIA, MAICD,
Chief Financial Officer
V

David Issa
BSc,
Chief Information Officer
V

Lou Power
BComm, ANZIIF,
AFAMI, SIA aff,
Group Executive,
Business Partners
V

^
Mario Pirone
BBus, DipInsMgt,
FCPA, Group Executive,
Asset Management
& Retirement Services

^
Sam Mostyn
BA, LLB,
Group Executive,
Culture & Reputation

^
Bob Wagstaffe
AAII,
Group Executive,
Intermediary Business

[illegible]

Mr Douglas Pearce [illegible]

Mr Mario Pirone [illegible]

[illegible]

Mr Lou Power [illegible]

Mr David Smith [illegible]

Mr George Venardos [illegible]

Mr Bob Wagstaffe [illegible]

CORPORATE GOVERNANCE

Insurance Australia Group's corporate governance structure and supporting risk management framework provide a sustainable balance of our core business function of paying claims and providing insurance at an affordable cost with our responsibility to provide fair and stable returns to shareholders.

The Board delegates responsibility for the day-to-day operations and administration of the Group to the CEO.

THE ROLE OF THE BOARD AND MANAGEMENT

The Insurance Australia Group Board is accountable to shareholders for the performance, operations and affairs of the Group:

- The Board drives the strategic direction of the Group by approving corporate strategies and setting goals and policies. Specific policy areas include risk management, internal compliance and control, codes of conduct and legal compliance.
- The Board monitors management's performance and strategy implementation and is responsible for appointing and removing the Chief Executive Officer (CEO), the Chief Financial Officer and the Company Secretary.
- The Board approves management recommendations on major expenditure, capital management, and acquisitions and divestments as well as monitoring the financial performance and reporting of the Group.

The Board delegates responsibility for the day-to-day operations and administration of the Group to the CEO.

The Board is committed to ensuring individual Directors clearly understand their term of office, duties, rights and responsibilities as a member of the Board. To that end, the Board has developed a charter to preserve existing practices. At the same time, all current Directors have been issued a formal letter acknowledging responsibilities. Formal appointment letters have also been developed for new Directors.

ETHICAL AND RESPONSIBLE DECISION MAKING

Insurance Australia Group takes ethical and responsible decision making very seriously. It expects its employees, including Directors and executive management, to do the same, as reflected in the Group's internal policies around conduct, continuous disclosure and insider trading.

Insurance Australia Group's Code of Conduct extends to all people employed by the Group. 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.

In keeping with the Code of Conduct and the spirit of continuous disclosure, Insurance Australia Group is committed to ensuring shareholders are informed of significant developments for the Group. All announcements to the Australian Stock Exchange are immediately posted on the Group website, www.iag.com.au, and proactively relayed to registered shareholders through an email messaging service. Briefings are webcast where practical and copies retained on the website for ease of access. 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, interim report and at the Annual General Meeting (AGM) of shareholders.

Insurance Australia Group takes ethical and responsible decision making very seriously. It expects its employees, including Directors and executive management, to do the same, as reflected in the Group's internal policies around conduct, continuous disclosure and insider trading.

The Group's Continuous Disclosure and Insider Trading Policy reinforces our 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 IAG shares and related interests, and aims to prevent the inadvertent breaching of insider trading laws. The protocol specifies that, subject to not being in possession of price sensitive information, Directors and designated employees may only buy or sell shares or options in the two to 30 day period immediately following the Group's six monthly results announcements and the AGM.

In keeping with the Code of Conduct and the spirit of continuous disclosure, Insurance Australia Group is committed to ensuring shareholders are informed of significant developments for the Group.

During the past year, both the Code of Conduct and Continuous Disclosure and Insider Trading Policy were recirculated to all employees and are displayed on the Group's intranet system.

BOARD COMPOSITION

With the exception of the CEO, the Board was comprised of nine non-executive Directors, including the Chairman, during the year to 30 June 2003. The Board has subsequently introduced a standard tenure of around two full three-year terms or approximately seven years, with any further extensions only by invitation of the Board. In this context and in view of their length of service, Directors Maree Callaghan and Mary Easson advised they would not stand for re-election at the November AGM and retired from the Board, effective from 1 September 2003. Following this, the Board has resolved to reduce the number of Directors to a total of eight.

Importantly, the roles of Chairman and CEO are separate, as set down in the Board charter and consistent with our aim to maintain an appropriate division between the roles and responsibilities of the Board and management. The Chairman acts as a mentor to the CEO, facilitated by contact at least weekly, and as the primary conduit between the individual Directors and management.

The non-executive Directors are all independent. The specific experience and expertise of each Director is set out on pages 24 and 25 of this report.

HOW THE BOARD OPERATES

The Board is scheduled to meet formally approximately 10 times during the year.

Supplementing these meetings are the biannual Board strategy forums with the executive team, which were held in September and April 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 around specific Company developments, which during the past year included the CGU and NZI acquisition and associated funding initiatives.

In addition, Insurance Australia Group has three standing Board Committees, each with charters and established operating procedures. The number of Board and committee meetings held during the year is set out on page 35.

The Chairman's Committee can have up to five members, who must be non-executive Directors. Currently, the members of this committee are James Strong (Chairman), John Astbury and Rowan Ross. Committee meetings must be held at least four times a year.

The Board approves management recommendations on major capital expenditure, capital management, and acquisitions and divestments as well as monitoring the financial performance and reporting of the Group.

The main responsibilities of the Chairman's Committee include:

- Ensuring the Group's overall remuneration policy and approach fit the strategic goals of the Company;
- Monitoring the effectiveness, integrity and compliance of the Group's remuneration and human resource policies and practices;
- Reviewing Board performance and composition, and recommending candidates for appointment to the Board; and

- Considering social and ethical impacts of the Group's business practices and setting standards for social and ethical practices.

The Audit Committee can have up to five members, who must be non-executive Directors. Currently, the members of this committee are John Astbury (Chairman), Geoffrey Cousins and Anne Keating.

Directors are also involved in a number of due diligence meetings around specific Company developments, which during the past year included the CGU and NZI acquisition and associated funding initiatives.

The main responsibilities of the Audit Committee include:

- Exercising 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 statements;
- Reviewing the internal audit function and external financial reporting arrangements including auditor engagement, remuneration, independence and effectiveness;
- Meeting with each of the external auditor, Approved Actuary and 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 Risk Management & Compliance Committee can have up to five members, who must be non-executive Directors. Currently, the members of this committee are Rowan Ross (Chairman), Dominique Fisher and Neil Hamilton. Committee meetings must be held at least four times a year.

The main responsibilities of the Risk Management & Compliance 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 and monitoring progress against the operational risk plan on an annual basis;
- Meeting with each of the Head of Group Risk Compliance and the Group General Counsel on at least an annual basis without other management being present; and
- Reporting to the Board on all matters relevant to the committee's responsibilities.

MANAGING RISK

Insurance Australia Group's approach to managing risk is a key criterion in evaluating the performance of executive and senior management. The Board actively promotes 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.

The Chairman's and Board's approach to understanding risk management translates directly into the selection and appointment of candidates to key executive positions.

BOARD AND EXECUTIVE PERFORMANCE

Insurance Australia Group strives to ensure its Board collectively possesses the necessary expertise in insurance as well as a range of related and more generalist skills.

Insurance Australia Group's approach to managing risk is a key criterion in evaluating the performance of executive and senior management.

To that end, before Directors are appointed they must demonstrate a range of skills including industry knowledge, strategic planning, executive management, customer relations, finance, and legal and human resources expertise. Within these areas, the following experience is regarded as important though not exhaustive:

- Long term planning in social, business and regulatory frameworks;
- Ability to work in team environments;
- Knowledge of, or experience in, accounting and reporting issues;
- Working with executives, internal audit and risk teams, and external auditors;
- Working with industry bodies, regulators and government;

- Establishing policies and ethical standards of corporate behaviour; and
- Challenging views and proposals and taking well researched risks.

The Group also encourages the ongoing education and development of its Directors and management team to ensure they can expand and renew their skills and carry out their duties effectively.

From the outset, new Directors and senior executives have access to an orientation programme to introduce the management team and detail the Insurance Australia Group business. A programme introducing the fundamentals of general insurance is available to Directors and executives.

As required, Directors may take independent professional advice to assist with discharging their duties efficiently. A Board-agreed procedure allows Directors to obtain advice at the Group's expense, subject to prior clearance with the Chairman.

Every year, an independent party, commissioned by the Chairman's Committee undertakes an evaluation of the Board's performance. This year's review was carried out by Rosemary A Grieve & Associates. The Chairman has since met with each Director to discuss the recommendations flowing from the review and agree action plans as required.

COMPENSATION ARRANGEMENTS

Insurance Australia Group's approach to compensation arrangements for all employees, including Directors and executives, is based on ensuring we can attract and retain the best people to drive corporate performance and deliver returns to shareholders.

Compensation for executives is structured as a mix of fixed remuneration, short and long-term incentives and is focused on reward for performance. Base pay is targeted at the market median for executive roles in similar-sized Australian companies.

Compensation for all other employees is structured as a mix of fixed remuneration and short-term incentives.

> The Group also encourages the ongoing education and development of its Directors and management team to ensure they can expand and renew their skills and carry out their duties effectively.

Every employee (excluding Directors) has the capacity to earn at least 10% of their base pay as a short-term incentive. Short-term incentives are used to reward excellent performance. Incentive payments are determined based on a range of corporate, team and individual measures that relate to financial performance, customer service, people management, risk management and community engagement.

The Performance Award Rights Plan is used to provide a long-term incentive opportunity for the CEO and other selected executives. Performance Award Rights are rights over issued ordinary shares. Rights granted under the plan may be exercised for shares if a performance hurdle is met and a nominal amount is paid. The performance hurdle is based on the performance of the company (measured by total shareholder return) in comparison with the other companies that comprise the S&P/ASX 100. The performance hurdle is tested in the period between three and five years after the rights are granted.

Insurance Australia Group no longer issues share options to executives over unissued shares.

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 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, the decision has been made to freeze the operation of the non-executive Directors retirement benefits scheme with effect from 1 September 2003. This means we will permit no further accruals to existing benefits and any 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 Group, including additional duties on subsidiary boards, remuneration for non-executive Directors is being increased with effect from 1 September 2003. This is the first change since the Company listed three years ago. The base fee will increase from $70,000 to $100,000 per annum, with the Chairman's fee being 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 Chairman's Committee or for serving as a director of IAG Re.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 30 June

Insurance Australia Group Five Year Performance	1999 $m	2000 $m	2001 $m	2002 $m	2003 $m
Gross written premium	2,208	2,643	3,198	3,558	**5,150**
Gross earned premium	2,114	2,573	3,036	3,448	**4,885**
Reinsurance expense	(150)	(189)	(260)	(253)	**(249)**
Net earned premium	1,964	2,384	2,776	3,195	**4,636**
Net claims expense	(1,645)	(2,048)	(2,234)	(2,425)	**(3,363)**
Underwriting expenses	(470)	(514)	(564)	(628)	**(1,074)**
Underwriting profit/(loss)	(151)	(178)	(22)	142	**199**
Investment income from technical reserves	213	288	232	136	**372**
Insurance profit	62	110	210	278	**571**
Investment income from shareholders' and external funds	458	471	204	(291)	**(76)**
Financial services revenue	78	217	182	37	**30**
Other operating revenue	74	188	164	173	**177**
Life insurance business expenses	–	(93)	(72)	–	**(11)**
Borrowing costs expenses	(64)	(80)	(88)	(46)	**(46)**
Corporate and administration expenses	(154)	(345)	(317)	(242)	**(267)**
Amortisation of goodwill and intangibles	(22)	(13)	(28)	(43)	**(81)**
Non-recurring items[2]	(71)	19	–	33	**–**
Profit/(loss) before income tax	361	474	255	(101)	**297**
Income tax (expense)/credit	(99)	(128)	(44)	18	**(80)**
Net profit/(loss)	262	346	211	(83)	**217**
Net (profit)/loss attributable to outside equity interests	(9)	(50)	(68)	58	**(64)**
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited	253	296	143	(25)	**153**
Ordinary shareholders' or members' equity ($ million)	2,540	2,853	2,523	2,476	**3,575**
Total assets ($ million)	9,217	12,130	12,586	11,307	**16,392**
Number of general insurance risks in force ('000)	5,237	6,802	8,619	8,671	**18,213**
Premium growth					
– gross written	8.2%	19.7%	21.0%	11.3%	**44.7%**
– net earned	6.6%	21.4%	16.4%	15.1%	**45.1%**
Key ratios					
Loss ratio	83.8%	85.9%	80.5%	75.9%	**72.5%**
Expense ratio	23.9%	21.6%	20.3%	19.7%	**23.2%**
Combined ratio	107.7%	107.5%	100.8%	95.6%	**95.7%**
After tax return on ordinary equity[3]	10.4%	11.0%	5.3%	(1.2%)	**5.1%**
Share information					
Dividends per ordinary share – fully franked (cents)	n/a	n/a	10.00	10.50	**11.50**
Basic earnings per ordinary share (cents)[4]	n/a	n/a	9.40	(1.78)	**8.65**
Ordinary share price at 30 June ($)	n/a	n/a	3.40	3.15	**3.40**
5.80% Reset preference share (IAGPA) price at 30 June ($)	n/a	n/a	n/a	100.10	**107.94**
4.51% Reset preference share (IAGPB) price at 30 June ($)	n/a	n/a	n/a	n/a	**100.10**
Issued ordinary share capital (million shares)	n/a	n/a	1,399	1,301	**1,683**
Issued reset preference share capital (million shares)	n/a	n/a	n/a	4	**6**
Market capitalisation (ordinary shares) at 30 June ($ million)	n/a	n/a	4,761	4,100	**5,722**
Net tangible assets backing per ordinary share ($)	n/a	n/a	1.33	1.15	**0.84**

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 will differ 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 an initial GST expense on outstanding claims of $56 million in 1999, demutualisation expenses of $15 million in 1999 and $61 million in 2000, the recognition of deferred acquisition costs for certain general insurance portfolios of $80 million in 2000 and profit on disposal of NRMA Building Society Limited of $45 million and "Share the Future" litigation expenses of $12 million in 2002.

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 2003 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 2003 full financial report.

A copy of the Insurance Australia Group Limited 2003 full financial reports, including the independent auditors' report, is available to all shareholders, and can be accessed on the internet at 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 2003 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 constituted by Insurance Australia Group Limited and its controlled entities.

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

Chairman	
Mr JA (James) Strong	appointed 2 August 2001
Other Directors	
Mr JF (John) Astbury	appointed 25 July 2000
Mrs MC (Maree) Callaghan	appointed 19 June 2000
Mr GA (Geoffrey) Cousins	appointed 25 July 2000
Mrs M (Mary) Easson	appointed 19 June 2000
Ms DG (Dominique) Fisher	appointed 19 June 2000
Mr ND (Neil) Hamilton	appointed 19 June 2000
Ms AJ (Anne) Keating	appointed 19 June 2000
Mr RA (Rowan) Ross	appointed 25 July 2000
Mr MJ (Michael) Hawker	appointed 1 December 2001

Particulars of the Directors' qualifications and experience are set out on pages 24 and 25.

PRINCIPAL ACTIVITIES

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

RESULT AND REVIEW OF OPERATIONS

The Group recorded a net profit attributable to shareholders of $153 million (2002 – $25 million loss). Included within these results is the 6 months performance of the CGU Insurance Australia Limited Group ("CGU") and Belves Investment Limited Group ("NZI") which were acquired in January 2003.

The underlying business continues to perform strongly, with growth in general insurance underwriting profit to $199 million compared with $142 million in the previous period. This is despite an expense of $45 million for restructuring costs in respect of the acquisition of CGU/NZI, which has been included in the current year underwriting result.

Highlights of the Group's performance include:

- Premium growth: Gross written premium was $5,150 million, representing an increase of 45% on the previous year. Growth is attributable to the acquisition of CGU/NZI and the general growth of the business.
- The combined ratio of 95.7% includes $45 million of integration costs. Adjusted for this the combined ratio was 94.7% for the year.
- The expense ratio of 23.2% for the year compared with 19.7% in the previous year. The increase in the expense ratio is primarily due to growth of intermediary business through the acquisition of CGU/NZI, resulting in higher commissions expense.
- Short-tail underwriting continued to perform strongly with a combined ratio (claims and underwriting expenses to net earned premium) of 93.7%, which included $37 million of integration costs accounting for 1.2% of the combined ratio (2002 – 95.5%).
- The long-tail portfolio performed strongly with the combined ratio of 102.2%.
- Our international results were also sound with a combined ratio of 95.3%, compared to 96.5% in 2002.

Total investment revenue included in the consolidated net profit for the year was $296 million, compared to a loss of $110 million in 2002. The IAG Group outperformed its fixed interest and international equity benchmarks and was marginally behind the Australian equity benchmark return. The negative returns on local and overseas equity markets resulted in lower than anticipated investment returns in the period. The policy of matching insurance claims liabilities with a high proportion of fixed interest investments has enabled the positive investment returns from this class to offset or immunise the increase in insurance liabilities associated with movements in interest rates.

Further information on the Group's result and review of operations can be found in the 30 June 2003 Investor Report on the Company's website, 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. However, the Directors concur with the market perception that following structural change in the market place and current low interest rates, the coming few years are likely to be a favourable environment for general insurance in our region. We consider that the IAG Group is well placed to leverage opportunities in this environment.

The IAG Group is also exposed to significant regulatory changes over the next few years. In particular, we will be addressing:

(a) changes to International Financial Reporting Standards;
(b) recommendations of the HIH Royal Commission;
(c) tax consolidation legislation change;
(d) governance changes through recommendations of the ASX Corporate Governance Council;
(e) recommendations from the various Corporation Law Economic Reform Programs; and
(f) terrorism cover and tort reform.

DIVIDENDS

Details of dividends paid or declared by the Company are set out in note 7.

SIGNIFICANT CHANGES

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

(a) On 18 October 2002, IAG announced that it had entered into an agreement to purchase the general insurance businesses in Australia and New Zealand ("the Acquisition of CGU/NZI") from Aviva plc for $1,862 million including costs. The acquisition date was 2 January 2003.
(b) The Acquisition of CGU/NZI was funded by the issue of ordinary equity and reset preference shares, raising of long-term debt and use of existing internal funds. Fund raisings included:
   - $500 million of ordinary share capital issued through an institutional placement at $2.55 per ordinary shares (in two stages, completed 24 October and 19 November 2002 respectively);
   - $300 million of domestic subordinated term notes, issued by Insurance Australia Limited (formerly NRMA Insurance Limited) (a wholly-owned subsidiary of IAG) (completed 27 November 2002);
   - $380 million of ordinary share capital issued through an underwritten Share Purchase Plan at $2.40 per ordinary share (completed 12 December 2002);
   - $75 million of ordinary share capital issued through an underwritten Dividend Reinvestment Plan for ordinary shares at $2.79 per ordinary share (completed 14 April 2003);
   - $401 million (US$240 million) of US subordinated term notes, issued by NRMA Insurance Funding 2003 Limited (a wholly-owned subsidiary of IAG) (completed 28 April 2003); and
   - $200 million of reset preference shares issued which were listed on the Australian Stock Exchange on 20 June 2003.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the end of the financial year:

(a) On 1 July 2003, IAG announced the sale of NRMA Health Pty Limited for $100 million to MBF, effective 25 July 2003. IAG has entered into a six-year marketing alliance, including a possible four year extension, with MBF.
(b) On 21 August 2003, a final dividend of 7 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 13 October 2003.

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

MEETINGS OF DIRECTORS

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

Directors	Board of Directors		Audit Committee		Chairman's Committee		Risk Management & Compliance Committee		Dividend Reinvestment Plan and Reinsurance Committee		IAG Board Sub-Committees	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	23	23	–	–	5	5	–	–	3	3	10	7
Mr MJ Hawker	23	23	–	–	–	–	–	–	3	2	11	7
Mr JF Astbury	23	22	5	5	5	5	–	–	–	–	2	2
Mrs MC Callaghan	23	21	–	–	–	–	7	7	–	–	–	–
Mr GA Cousins	23	22	5	5	–	–	–	–	–	–	–	–
Mrs M Easson	23	22	5	4	–	–	–	–	–	–	–	–
Ms DG Fisher	23	20	–	–	–	–	7	6	–	–	2	2
Mr ND Hamilton	23	18	–	–	–	–	7	7	3	3	–	–
Ms AJ Keating	23	21	5	5	–	–	–	–	3	3	–	–
Mr RA Ross	23	23	–	–	5	5	7	7	3	3	8	5

A – Meetings eligible to attend as a member B – Meetings attended as a member

For the year ended 30 June 2003, the following meetings of Directors were held:

Nature of meetings	Number of meetings held during the year
Board of Directors	23
Audit Committee	5
Chairman's Committee	5
Risk Management & Compliance Committee	7
Dividend Reinvestment Plan and Reinsurance Committee	3
IAG Board Sub-Committees	11

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 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.

Under a deed of indemnity referred to above, the Company has, during the financial year ended 30 June 2003, advanced amounts totalling $0.1 million (2002 – $0.2 million) in respect of reasonable legal costs incurred by a former Director of the Company (Mr Nicholas Whitlam) in relation to an alleged liability. During the financial year ended 30 June 2003, that former Director has claimed additional legal costs incurred in certain proceedings. The Company has sought further information from that former Director in order to determine the amount payable to that former Director, and has not yet paid the amount claimed. Amounts advanced by the Company to the former Director are repayable under the deed of indemnity if the costs become costs for which the Company, as a matter of law, must not give the former Director an indemnity.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS (CONTINUED)

On 10 July 2003, the Court of Appeal of New South Wales dismissed proceedings against the former Director with costs. Unless that decision is set aside by the High Court of Australia, the advances made by the Company to the former Director will not be repayable by the former Director, but the Company will be entitled to be repaid any amount recoverable by the former Director in respect of the costs of the proceedings (so far as they concerned his conduct as a Director of the Company) awarded by the court.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

Directors

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

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

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

The table set out below shows the fees paid by IAG Group to non-executive Directors for the year ended 30 June 2003:

Non-executive Director	Base fee Cash $000	Base fee Non-executive Directors' Share Plan $000	Base fee Total $000	Other fees[1] $000	Superannuation contributions $000	Total $000
Mr JA Strong	70	140	210	100	39	349
Mr JF Astbury	56	14	70	23	11	104
Mrs MC Callaghan	49	21	70	10	10	90
Mr GA Cousins	56	14	70	10	10	90
Mrs M Easson	56	14	70	10	7	87
Ms DG Fisher	7	63	70	10	7	87
Mr ND Hamilton	7	63	70	10	7	87
Ms AJ Keating	56	14	70	10	7	87
Mr RA Ross	35	35	70	23	8	101

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

Executive director and officers

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

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

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

Set out below is the remuneration of the CEO and each of the five most highly remunerated current officers of the IAG Group for the year ended 30 June 2003:

Executive Director	Base pay[1] $000	Bonuses[2] $000	Other compensation[3] $000	Valuation of total PSRs/PARs granted[4] $000	Total $000	PARs granted during the year[5] Number	Date first exercisable
Chief Executive Officer:							
Mr MJ Hawker	1,004	350	135	860	2,349	300,000	24 Dec 2005

Officers	Base pay(1) $000	Bonuses(2) $000	Other compensation(3) $000	Valuation of total PSRs/PARs granted(4) $000	Total $000	PARs granted during the year(5) Number	Date first exercisable
Mr IF Brown	587	771	201	108	1,667	81,265	24 Dec 2005
Mr G Venardos	566	696	89	140	1,491	119,189	24 Dec 2005
Mr RJ Jackson	464	785	88	–	1,337	–	–
Mr DJP Smith	547	552	109	97	1,305	86,716	24 Dec 2005
Mr DRA Pearce	421	598	85	107	1,211	87,553	24 Dec 2005

(1) Base pay includes cash salary, annual leave and long service leave.

(2) Bonuses reflect payments made during the period in respect of the previous performance period, accrual of long-term incentive bonuses.

(3) Other compensation includes superannuation contributions and the provision of cars, parking and related fringe benefits tax.

(4) Performance Share Rights ("PSRs" – related to unissued shares) and Performance Award Rights ("PARs" – related to issued shares) are valued in accordance with the Australian Securities & Investments Commission ("ASIC") guidance and the Australian Accounting Standards Board Exposure Draft ED108: Request for comment on IASB ED2 share-based payment. An allocated portion of unvested PSRs and PARs is included in the total remuneration disclosure above. This is a change in measurement method which results in certain PSRs granted and disclosed in prior periods being included in the above table in valuation of PSRs/PARs. The total amount involved is $1,099,000. To determine these values the Monte-Carlo Value model has been applied. The valuation takes into account the share price at grant date, the expected life of the option, the volatility in price of the underlying shares of IAG and expected dividends.

(5) 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(1)	Reset preference shares	Performance share rights	Performance award rights
Mr JA Strong	12,083	104,623	–	–	–
Mr JF Astbury	10,083	33,652	–	–	–
Mrs MC Callaghan	2,365	18,619	–	–	–
Mr GA Cousins	150,000	13,652	–	–	–
Mrs M Easson	5,802	8,835	–	–	–
Ms DG Fisher	4,799	44,578	–	–	–
Mr ND Hamilton	4,817	39,761	–	–	–
Ms AJ Keating	709	13,652	–	–	–
Mr RA Ross	102,557	28,553	–	–	–
Mr MJ Hawker	180,919	–	–	1,000,000	300,000

(1) Ordinary shares indirectly held include shares held in the Non-executive Directors' Share Plan.

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 21st day of August 2003 in accordance with a resolution of the Directors.

James Strong

Mr J A Strong
Chairman

Mr M J Hawker
Director

DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

The IAG Group recorded a net profit for the year of $153 million (2002 – loss of $25 million).

The overall increase in the net profit after tax is attributable to contributions made by the acquired CGU and NZI businesses (from 2 January 2003) together with improved underwriting and investment performance from technical reserves.

Net premium revenue

Net premium revenue has increased by 45% to $4,636 million. This increase is attributable to:

- Contribution by the newly acquired 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 39% to $3,363 million. The increase is attributable to:

- Contribution by the newly acquired CGU and NZI groups;
- Integration expenses of $15 million; and
- General growth of the business.

Underwriting expenses

Total underwriting expenses have increased by 71% to $1,074 million. The increase is attributable to:

- Contribution by the newly acquired CGU and NZI groups;
- Integration expenses of $30 million; and
- General growth of the business.

Financial services revenue

The decrease in financial services revenue by 19% to $30 million is attributable to the sale of NRMA Building Society Limited in November 2001.

Other operating revenue

The increase in other operating revenue by 2% to $177 million is mainly attributable to:

- Contribution by the newly acquired CGU and NZI groups; and
- Offset by the sale of NRMA Building Society Limited in November 2001.

Borrowing costs expense

Borrowing costs expense has remained stable. However, two significant events have had an offsetting impact on the total borrowing costs. These are:

- Increase due to the additional borrowings during the year to fund the Acquisition of CGU/NZI; and
- Offset by the sale of NRMA Building Society Limited in November 2001.

Corporate and administration expenses

The increase in corporate and administration expenses by 17% to $348 million is attributable to:

- The increase in goodwill amortisation by $38 million;
- The increase in costs from fee based business due to the acquisition of CGU non-risk workers compensation management companies; and
- Offset by the sale of NRMA Building Society Limited in November 2001 and the settlement of the "Share the Future" litigation of $12 million in 2002.

DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

The total assets of the IAG Group are $16,392 million (2002 – $11,307 million).

The increase in current and non-current assets is attributable to the Acquisition of CGU/NZI during the year and the resultant goodwill.

Liabilities

The total liabilities of the IAG Group are $12,339 million (2002 – $8,328 million) with the major component being general and life insurance liabilities of $10,186 million (2002 – $6,451 million). The overall increase has been mainly attributable to the Acquisition of CGU/NZI during the year. The IAG Group raised approximately $700 million in long-term subordinated term notes during the year to fund the Acquisition of CGU/NZI.

Equity

Equity was impacted by the following activities during the year:

Increases:

- Net profit of $153 million;
- Issue of ordinary share capital ($925 million inclusive of transaction costs); and
- Issue of reset preference shares ($196 million inclusive of transaction costs).

Decreases:

- Payment of dividends of $174 million (including $75 million reinvested under the Dividend Reinvestment Plan); and
- Reduction in outside equity interests.

DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows from operating activities

Cash flows from operating activities have increased by 55% to $825 million.

The increase is attributable to the Acquisition of CGU/NZI during the year, affecting both the underwriting and other operating cash flows.

Cash flows from investing activities

Cash flows from investing activities have decreased by $847 million.

The decrease is largely attributable to the net cash outlay of $1,644 million for the Acquisition of CGU/NZI. These outflows have been 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 increased by $1,018 million.

This increase is attributable to:

- Funds raised during the year to fund the Acquisition of CGU/NZI. These included ordinary shares, reset preference shares and long-term debt in the form of subordinated term notes; and
- Offset by the repayment of an amount of $683 million due to a former controlled entity now in voluntary liquidation.

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2003

	Notes	Consolidated 2003 $m	Consolidated 2002 $m
Premium revenue	5(a)(i)	**4,885**	3,448
Reinsurance expense		**(249)**	(253)
Net premium revenue		**4,636**	3,195
Claims expense		**(3,743)**	(3,000)
Reinsurance and other recoveries	5(a)(ii)	**380**	575
Net claims expense		**(3,363)**	(2,425)
Acquisition costs		**(700)**	(389)
Other underwriting expenses		**(241)**	(165)
Fire brigade charges		**(133)**	(74)
Underwriting expenses		**(1,074)**	(628)
Profit from underwriting		**199**	142
Investment income	5(a)(iii)	**332**	255
Realised gains/(losses) on investments	5(a)(iii)	**1**	(290)
Unrealised losses on investments	5(a)(iii)	**(37)**	(75)
Financial services revenue	5(a)(iv)	**30**	37
Other operating revenue	5(a)(v)	**177**	173
Borrowing costs expense		**(46)**	(46)
Life insurance business expenses		**(11)**	–
Corporate and administration expenses		**(348)**	(297)
Profit/(loss) from ordinary activities before income tax		**297**	(101)
Income tax (expense)/credit		**(80)**	18
Net profit/(loss)		**217**	(83)
Net (profit)/loss attributable to outside equity interests		**(64)**	58
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited		**153**	(25)
Non-owner transaction changes in equity:			
Total revenue, expenses and valuation adjustments attributable to the shareholders of Insurance Australia Group Limited recognised directly in equity		**–**	–
Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity		**153**	(25)

	Notes	2003 cents	2002 cents
Basic earnings per ordinary share	10(a)	**8.65**	(1.78)
Basic earnings per reset preference share	10(b)	**587.36**	–
Diluted earnings per ordinary share	10(a)	**8.61**	(1.77)

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 2003

	Notes	Consolidated 2003 $m	Consolidated 2002 $m
Current assets			
Cash assets		**626**	253
Receivables		**2,548**	1,519
Investments		**2,585**	1,619
Current tax assets		**40**	6
Other		**823**	313
Total current assets		**6,622**	3,710
Non-current assets			
Receivables		**401**	192
Investments		**7,246**	6,471
Plant and equipment		**139**	95
Deferred tax assets		**326**	206
Intangible assets		**1,626**	632
Other		**32**	1
Total non-current assets		**9,770**	7,597
Total assets		**16,392**	11,307
Current liabilities			
Payables		**891**	1,281
Interest-bearing liabilities		**136**	224
Current tax liabilities		**106**	49
Provisions		**174**	84
Outstanding claims		**2,147**	1,268
Unearned premium		**3,223**	1,839
Total current liabilities		**6,677**	4,745
Non-current liabilities			
Interest-bearing liabilities		**744**	86
Deferred tax liabilities		**59**	135
Provisions		**43**	18
Gross life insurance policy liabilities		**910**	927
Outstanding claims		**3,828**	2,417
Unearned premium		**78**	–
Total non-current liabilities		**5,662**	3,583
Total liabilities		**12,339**	8,328
Net assets		**4,053**	2,979
Equity			
Contributed equity		**3,973**	2,852
Foreign currency translation reserve		**(2)**	(1)
Accumulated losses	8	**(396)**	(375)
Equity attributable to shareholders of Insurance Australia Group Limited		**3,575**	2,476
Outside equity interests in controlled entities			
– Contributed equity		**180**	179
– Retained profits		**20**	22
– Unitholders' funds		**278**	302
Total equity	9	**4,053**	2,979

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 2003

	Consolidated 2003 $m	Consolidated 2002 $m
Cash flows from operating activities		
Premium received	**5,395**	3,750
Reinsurance and other recoveries received	**466**	421
Claims costs paid	**(3,891)**	(2,894)
Outwards reinsurance premium paid	**(348)**	(255)
Dividends received	**82**	126
Interest and similar items received	**385**	296
Interest and other costs of finance paid	**(39)**	(65)
Income taxes paid	**(108)**	(91)
Other operating receipts	**423**	414
Other operating payments	**(1,540)**	(1,171)
Net cash provided by operating activities	**825**	531
Cash flows from investing activities		
Net cash flows on acquisition of controlled entities	**(1,644)**	–
Net cash flows on disposal of controlled entities	**–**	(67)
Proceeds from disposal of investments and plant and equipment	**26,872**	26,080
Outlays for investments and plant and equipment	**(26,405)**	(26,278)
Repayment of loans by policyholders	**126**	–
Loans to policyholders	**(116)**	–
Repayment of mortgage loans	**–**	253
Drawdown of mortgage loans	**–**	(308)
Net cash used in investing activities	**(1,167)**	(320)
Cash flows from financing activities		
Proceeds from issues of shares	**1,080**	353
Outlays for buy-back of shares	**–**	(301)
Proceeds from issues of trust units	**578**	552
Outlays for redemption of trust units	**(673)**	(576)
Proceeds from borrowings	**1,509**	1,195
Repayment of borrowings	**(1,597)**	(1,370)
Net decrease in depositor funds	**–**	(3)
Proceeds from securitisation	**–**	28
Share issue costs paid	**(34)**	(7)
Dividends paid to IAG shareholders*	**(99)**	(147)
Dividends paid to outside equity interests	**(48)**	(26)
Net cash provided by/(used in) financing activities	**716**	(302)
Net increase/(decrease) in cash held	**374**	(91)
Effects of exchange rate changes on balances of cash held in foreign currencies	**(1)**	–
Cash at the beginning of the financial year	**253**	344
Cash at the end of the financial year	**626**	253

* Dividends paid to IAG shareholders exclude dividends reinvested under the Dividend Reinvestment Plan.

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.

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 (pre-acquisition reserves) to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by Insurance Australia Limited to the Company to $575 million of which $561 million in total (2002 – $561 million) has been paid by Insurance Australia Limited from pre-demutualisation profits. During the year ended 30 June 2003, the Company received dividends of $Nil (2002 – $248 million) from Insurance Australia Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in note 3, are consistent with those of previous year.

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

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

NOTE 3. CHANGES IN ACCOUNTING POLICY

(a) Employee entitlements

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

Wages, salaries, annual leave and sick leave

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

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

(b) Provision for restructure costs

The IAG Group has applied the new accounting standard AASB 1044: Provisions, Contingent Liabilities and Contingent Assets (issued on October 2001) for the first time from 1 July 2002.

Accordingly, a provision for restructure costs on the acquisition occurred during the financial year is recognised at the date of acquisition as there was a demonstrable commitment and a formal plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated.

NOTE 4. SEGMENTAL REPORTING

(a) Primary reporting – business segments

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

	Short-tail insurance 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 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	3,848	4,854	575	1,078	6,037	–	16,392
Unallocated assets							–
Total assets							16,392
Segment liabilities	3,848	4,854	575	929	2,133	–	12,339
Unallocated liabilities							–
Total liabilities							12,339
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	–	–	–	–	1,176	–	1,176
Depreciation expense*	14	10	6	–	5	–	35
Amortisation of goodwill and intangibles	–	–	–	–	81	–	81
Total depreciation and amortisation expense	14	10	6	–	86	–	116
Other non-cash expenses	35	18	7	1	4	–	65

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

	Short-tail insurance 2002 $m	Long-tail insurance 2002 $m	International insurance 2002 $m	Retirement services 2002 $m	Corporate and investments 2002 $m	Intersegment elimination 2002 $m	Total 2002 $m
External revenue	2,553	1,204	401	19	(39)	–	4,138
Intersegment revenue	–	–	95	–	27	(122)	–
Total revenue	2,553	1,204	496	19	(12)	(122)	4,138
Profit from underwriting	97	33	12	–	–	–	142
Investment income	34	87	15	–	(246)	–	(110)
Other operating result	–	11	–	(5)	(139)	–	(133)
Profit/(loss) from ordinary activities before income tax	131	131	27	(5)	(385)	–	(101)
Income tax credit							18
Net profit							(83)
Segment assets	1,805	3,427	299	1,146	4,637	(7)	11,307
Unallocated assets							–
Total assets							11,307
Segment liabilities	1,805	3,427	299	947	1,861	(11)	8,328
Unallocated liabilities							–
Total liabilities							8,328
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	–	–	–	–	44	–	44
Depreciation expense*	11	8	7	1	4	–	31
Amortisation of goodwill and intangibles	–	–	–	–	43	–	43
Total depreciation and amortisation expense	11	8	7	1	47	–	74
Other non-cash expenses	24	19	2	2	7	–	54

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

(b) Secondary reporting – geographical segments

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

	Australia 2003 $m	Australia 2002 $m	International 2003 $m	International 2002 $m	Intersegment elimination 2003 $m	Intersegment elimination 2002 $m	Total 2003 $m	Total 2002 $m
External revenue	**5,069**	3,733	**711**	405	**–**	–	**5,780**	4,138
Segment assets	**15,436**	10,709	**1,618**	719	**(662)**	(121)	**16,392**	11,307
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	**977**	40	**199**	4	**–**	–	**1,176**	44

	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 5. REVENUE		
(a) Revenue from ordinary activities		
(i) Sales revenue		
Premium revenue	**4,885**	3,448
(ii) Other general insurance revenue		
Reinsurance and other recoveries	**380**	575
(iii) Investment revenue		
Investment income	**332**	255
Changes in net market values of investments		
– realised gains/(losses)	**1**	(290)
unrealised losses	**(37)**	(75)
(iv) Financial services revenue		
Life insurance business revenue	**30**	12
Interest income on loans	**–**	25
(v) Other operating revenue	**177**	173
(b) Revenue from outside ordinary activities		
Proceeds from disposal of plant and equipment	**12**	15
Total revenue	**5,780**	4,138

NOTE 6. INDIVIDUALLY SIGNIFICANT ITEMS		
Income:		
Reinsurance recoveries under a whole of account aggregate stop loss contract	**–**	185
Profit on sale of NRMA Building Society Limited	**–**	45
Expenses:		
Restructuring costs in relation to redundancy, property and other associated costs	**45**	–
Costs in relation to the settlement of "Share the Future" litigation	**–**	12
Insurance protection tax levied by the NSW State Government	**20**	21

NOTE 7. DIVIDENDS AND DIVIDEND FRANKING ACCOUNT		
(a) Ordinary shares		
Final dividend for year ended 30 June 2002 of 6 cents (2002 – nil) per fully paid ordinary share, paid on 21 October 2002		
Fully franked at 30%	**78**	–
Interim dividend of 4.5 cents (2002 – 4.5 cents) per fully paid ordinary share, paid on 14 April 2003		
Fully franked at 30% (2002 – 30%)	**75**	63
(b) Reset preference shares		
Dividend paid at 5.8% per annum, fully franked at 30%	**21**	–
Total dividends declared	**174**	63
Less: Dividends reinvested under the Dividend Reinvestment Plan	**(75)**	–
Total dividends paid by cash	**99**	63

On 21 August 2003, a final dividend of 7 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 13 October 2003. The last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan is 10 September 2003.

Franking credits available for subsequent financial years	**443**	391

The balance of the franking account arises from:

(i) franked income received or recognised as a receivable at the reporting date;

(ii) income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and

(iii) franking debits from the payment of dividends recognised as a liability at the reporting date.

From 1 July 2002, the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on an after-tax distributable profits basis. As a result, the franking credits available for the IAG Group were converted from $913 million to $391 million for the comparative as at 30 June 2002.

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

	Consolidated 2003 $m	Consolidated 2002 $m
NOTE 8. ACCUMULATED LOSSES		
Accumulated losses	**(396)**	(375)
Movements in accumulated losses:		
Balance at the beginning of the financial year	**(375)**	(164)
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited	**153**	(25)
Utilised in shares bought back off-market	**–**	(123)
Dividends declared	**(174)**	(63)
Balance at the end of the financial year	**(396)**	(375)
NOTE 9. TOTAL EQUITY RECONCILIATION		
Total equity at the beginning of the financial year	**2,979**	3,388
Total changes in equity recognised in the statement of financial performance	**153**	(25)
Transactions with owners as owners:		
– contributions of equity, inclusive of transaction costs	**925**	–
– reset preference shares, inclusive of transaction costs	**196**	343
– share buy-back, inclusive of transaction costs	**–**	(301)
– dividends declared	**(174)**	(63)
Movement in foreign currency translation reserves on controlled foreign entities	**(1)**	(1)
Total changes in outside equity interests	**(25)**	(362)
Total equity at the end of the financial year	**4,053**	2,979

	2003 cents	2002 cents
NOTE 10. EARNINGS PER SHARE		
(a) Ordinary shares		
Basic earnings per share	**8.65**	(1.78)
Diluted earnings per share	**8.61**	(1.77)

	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share	**1,528,509,810**	1,397,600,949
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share	**1,535,292,737**	1,403,702,777

	2003 $m	2002 $m
Earnings used in calculating basic and diluted earnings per share	**132**	(25)

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

	Consolidated 2003 cents	Consolidated 2002 cents
NOTE 10. EARNINGS PER SHARE (CONTINUED)		
(b) Reset preference shares		
Basic earnings per share	**587.36**	–

	2003 Number of shares	2002 Number of shares
Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share	**3,560,274**	249,315

	2003 $m	2002 $m
Earnings used in calculating basic earnings per share	**21**	–

There are no potential reset preference shares on issue.

NOTE 11. CONTINGENCIES

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

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

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

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

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

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

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

The arbitration involving IAL is being heard in two parts. The arbitration panel in November 2002 ruled in favour of IAL in relation to the preliminary issue, that the Treaty is not retroactive and therefore does not cover loss occurrences prior to 1 July 1997. The second part of the case is scheduled to be heard in October 2003 and will examine whether the Treaty should in any event be rescinded.

IAL holds a letter of credit for US$25 million (A$37 million) as security if it is successful in its claim. Whilst IAL believes its case is strong, if IAL was wholly unsuccessful in its claim, it could lose the amount of US$25 million (A$37 million) recognised as an asset in the financial report and record a further loss of US$13 million (A$19 million). In stating these amounts IAL has not taken into account the recent ruling of the arbitration panel in its favour. IAL is currently unable to quantify the effect this ruling may have on its potential losses if it were to be wholly unsuccessful in the second part of the case.

NOTE 12. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year:

(a) On 1 July 2003, IAG announced the sale of NRMA Health Pty Limited for $100 million to MBF, effective 25 July 2003. IAG has entered into a six-year marketing alliance, including a possible four year extension, with MBF.

(b) On 21 August 2003, a final dividend of 7 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 13 October 2003.

As these transactions occurred after balance date and did not relate to conditions existing at balance date, no account has been taken of them in the financial statements for the year ended 30 June 2003.

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 2003, set out on pages 38 to 48:

(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 21st day of August 2003 in accordance with a resolution of the Directors.

James Strong

Mr J A Strong
Chairman

Mr M J Hawker
Director

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

Scope

We have audited the concise financial report of Insurance Australia Group Limited and its controlled entities for the financial year ended 30 June 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 12, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows, set out on pages 38 to 49 in order to express an opinion on it to the shareholders of the Company. The Company's Directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of Insurance Australia Group Limited for the year ended 30 June 2003. Our audit report on the full financial report was signed on 21st August 2003, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports" issued in Australia.

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

Audit Opinion

In our opinion, the concise financial report of Insurance Australia Group Limited and its controlled entities for the year ended 30 June 2003 complies with AASB 1039 "Concise Financial Reports".

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
21st August 2003

SHAREHOLDER INFORMATION

You can access information about Insurance Australia Group Limited and your holdings via the Internet.

Insurance Australia Group's website, **www.iag.com.au**, has the latest information on Company announcements, presentations and reports. We also have an email messaging service which distributes key Company information to shareholders. To register for this service, just visit **www.iag.com.au** and click on 'Shareholder Services' and follow the link for email updates.

SHARE REGISTRY INFORMATION

Visit ASX Perpetual's website **www.asxperpetual.com.au** and access a wide variety of holding information, make changes to your holding record and download forms. You can:

- Check your current and previous holding balances
- Find out (and change if necessary) the type of annual report you will receive
- Confirm whether you have lodged your Tax File Number (TFN), Australian Business Number (ABN) or exemption
- Check dividend information (instructions and history)
- Enter your email address
- Check the share prices and graphs
- Request a variety of forms.

You can access this information via a security login using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as well as your surname or company name and postcode (must be the postcode recorded on your holding record).

What forms can I download?

You can download a number of forms including the change of address notification, deceased estate and dividend instruction forms.

Can I make email enquiries?

You can make enquiries via the website or by emailing the registry directly at **iag@asxperpetual.com.au**.

Unpresented cheques

Dividend monies that are not banked are required to be handed over to the State Trustee under the Unclaimed Monies Act. You are reminded to bank cheques immediately. Better still, you can have your payments deposited directly into your bank account.

Have us bank your dividend and distribution payments for you

Dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia. For further information about this service, or to request a *Request for Direct Credit of Payments* form, you can call our registry or visit its web site.

Lodge your 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 rate (plus the medicare levy) from the unfranked portion of any dividend payment.

Annual report mailing lists

Any change in the type of annual report information you wish to receive can be made over the phone or via our registry's website.

Website registration

Member registration is free. Registered members benefit by receiving additional online services such as the ability to create flexible portfolios for easy management of their holdings.

DIVIDEND DETAILS

Event	Amount per share	DRP issue price*	Payment date
Ordinary shares interim dividend – fully franked	4.5 cents	$2.79	14 April 2003
Ordinary shares final dividend – fully franked	7.0 cents		13 October 2003
IAGPA reset preference shares interim dividend – fully franked	$3.0827		15 December 2002
IAGPA reset preference shares final dividend – fully franked	$2.8921		15 June 2003

* The DRP issue price for the final dividend will be announced on 29 September 2003.

ORDINARY SHARES INFORMATION

Twenty largest shareholders as at 31 August 2003	No of shares	% of issued capital
J P Morgan Nominees Australia Limited	182,002,446	10.82
Westpac Custodian Nominees Limited	121,575,484	7.22
National Nominees Limited	111,188,186	6.61
Queensland Investment Corporation	36,618,231	2.18
Citicorp Nominees Pty Limited	36,539,177	2.17
Commonwealth Custodial Services Limited	35,818,058	2.13
AMP Life Limited	27,076,753	1.61
Citicorp Nominees Pty Limited <CFS Wsle Imputation Fnd A/C>	17,799,644	1.06
ANZ Nominees Limited	16,217,837	0.96
Westpac Financial Services Limited	13,778,322	0.82
Citicorp Nominees Pty Limited <CFS Imputation Fund A/C>	10,358,378	0.62
Cogent Nominees Pty Limited	9,002,309	0.53
Cogent Nominees Pty Limited <SMP Accounts>	8,716,155	0.52
RBC Global Services Australia Nominees Pty Limited <RA A/C>	8,491,179	0.50
Government Superannuation Office <State Super Fund A/C>	7,789,809	0.46
Citicorp Nominees Pty Limited <CFS Wsle Aust Share Fnd A/C>	7,755,753	0.46
RBC Global Services Australia Nominees Pty Limited <MLWSIF A/C>	7,511,993	0.45
Citicorp Nominees Pty Limited <CFS Wsle Geared Shr Fnd A/C>	6,702,641	0.40
Citicorp Nominees Pty Limited <CFS Wsle Industrial Shr Fnd A/C>	5,601,540	0.33
Victorian Workcover Authority	5,238,569	0.31
Total for Top 20	**675,782,464**	**40.16**

Range of shareholdings as at 31 August 2003	No of holders	No of shares	% of issued capital
1 – 1,000	779,390	419,641,961	24.94
1,001 – 5,000	299,375	417,248,268	24.80
5,001 – 10,000	2,764	19,666,979	1.17
10,001 – 100,000	1,383	29,740,594	1.77
100,001 and over	158	796,423,411	47.32
Total	**1,083,070**	**1,682,721,213**	**100.00**

	No of holders	No of shares
Shareholders with less than a marketable parcel of 126 shares as at 31 August 2003	4,356	191,352

IAGPA RESET PREFERENCE SHARES INFORMATION

Twenty largest shareholders as at 31 August 2003	No of shares	% of issued capital
Westpac Custodian Nominees Limited	605,675	17.31
Citicorp Nominees Pty Limited	175,000	5.00
AMP Life Limited	173,087	4.95
Commonwealth Custodial Services Limited	165,000	4.71
RBC Global Services Australia Nominees Pty Limited <JBENIP A/C>	140,540	4.02
Citibank Limited	115,000	3.29
Share Direct Nominees Pty Ltd <National Nominees A/C>	100,000	2.86
Net Nominees Limited	60,510	1.73
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	60,200	1.72
J P Morgan Nominees Australia Limited	56,078	1.60
UBS Private Clients Australia Nominees Pty Ltd	48,057	1.37
J B Were Capital Markets Limited	46,563	1.33
Merrill Lynch (Australia) Nominees Pty Ltd	41,820	1.19
Perpetual Trustee Company Limited	32,827	0.94
Argo Investments Limited	30,800	0.88
Kaplan Equity Limited	25,500	0.73

Twenty largest shareholders as at 31 August 2003 (continued)	No of shares	% of issued capital
Brencorp No 11 Pty Limited	22,500	0.64
RBC Global Services Australia Nominees Pty Limited <PP A/C>	21,190	0.61
RBC Global Services Australia Nominees Pty Limited <RA A/C>	18,250	0.52
Equity Trustees Limited <EQT Hight Inc Wholesale A/C>	15,000	0.43
Total for Top 20	**1,953,597**	**55.83**

Range of shareholdings as at 31 August 2003	No of holders	No of shares	% of issued capital
1 – 1,000	4,063	1,044,765	29.85
1,001 – 5,000	169	373,237	10.66
5,001 – 10,000	16	128,401	3.67
10,001 – 100,000	14	579,295	16.55
100,001 and over	6	1,374,302	39.27
Total	**4,268**	**3,500,000**	**100.00**

	No of holders	No of shares
Shareholders with less than a marketable parcel of 5 shares as at 31 August 2003	0	0

IAGPB RESET PREFERENCE SHARES INFORMATION

Twenty largest shareholders as at 31 August 2003	No of shares	% of issued capital
AMP Life Limited	183,882	9.19
Commonwealth Custodial Services Limited	128,866	6.44
J P Morgan Nominees Australia Limited	105,650	5.28
Citicorp Nominees Pty Limited	97,500	4.88
UBS Private Clients Australia Nominees Pty Ltd	91,660	4.58
Share Direct Nominees Pty Ltd <National Nominees A/C>	85,456	4.27
Westpac Custodian Nominees Limited	56,670	2.83
Net Nominees Limited	50,067	2.50
Permanent Nominees (Aust) Limited	50,000	2.50
J B Were Capital Markets Limited	49,572	2.48
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	49,500	2.48
UBS Nominees Pty Ltd <Prime Broking A/C>	46,844	2.34
Zurich Investment Management Limited <Zurich Aust Fixed Int A/C>	39,544	1.98
IOOF Investment Management Limited	35,000	1.75
Cogent Nominees Pty Limited <SMP Accounts>	33,523	1.68
RBC Global Services Australia Nominees Pty Limited <PP A/C>	30,000	1.50
Mulgara Pty Limited	24,360	1.22
Mrs Fay Cleo Martin-Weber	20,000	1.00
Permanent Trustee Australia Limited <KAPOO1 A/C>	17,000	0.85
Zurich Australia Limited	16,286	0.81
Total for Top 20	**1,211,380**	**60.56**

Range of shareholdings as at 31 August 2003	No of holders	No of shares	% of issued capital
1 – 1,000	1,469	389,625	19.48
1,001 – 5,000	76	195,522	9.78
5,001 – 10,000	13	110,603	5.53
10,001 – 100,000	24	885,852	44.29
100,001 and over	3	418,398	20.92
Total	**1,585**	**2,000,000**	**100.00**

	No of holders	No of shares
Shareholders with less than a marketable parcel of 6 shares as at 31 August 2003	0	0

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Group Company Secretary
Anne O'Driscoll FCA, ANZIIF (Fellow)

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