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Group Company Secretary

Anne O'Driscoll FCA, ANZIIF (Fellow), GAICD

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IAG Insurance Australia Group

Annual Report 2005 Insurance Australia Group Limited ABN 60 090 739 923

IAG ANNUAL REPORT 2005

A RISK MANAGEMENT STORY: PART 2 (FROM A CUSTOMER'S PERSPECTIVE)

"I KNOW I SHOULD HAVE INSURANCE..."

Annual Report 2005, Insurance Australia Group Limited, ABN 60 090 739 923, www.iag.com.au

IAG Insurance Australia Group

More than one in five homes and one in three small businesses in Australia are underinsured or have no insurance. Why are so many people prepared to risk the biggest assets they will probably ever have?

When you think about it from a customer's point of view, it's understandable that many people have a natural aversion to insurance. After all, this is an industry built on the premise that bad things might happen and who wants to think about that? It's also a complex industry and most people don't really understand how it works. Literally, they "just don't get it".

At the same time, more and more of our customers are telling us that they would like a better understanding of how insurance works. That's why, in last year's annual report, we began the process of demystifying our business. In 'part one' of what we promised would be an ongoing risk management story we outlined the four principles on which Insurance Australia Group (IAG) is built to create value for all our stakeholders – one of the most important being our customers.

In this report – 'part two' of the story – we explore the mechanics of running Australasia's leading general insurance group from a customer's perspective. We aim to demonstrate how by sticking to our four principles – paying claims, understanding and pricing risk, managing costs and reducing risk – we will deliver long term value for customers and shareholders alike.

Our principles from a customer's point of view:

"THE MONEY WAS EXPECTED, THE AMOUNT OF SUPPORT WASN'T."

We know you expect us to pay your claims – that's a given. But research tells us many customers think we have even more important functions than that. (Page 3)

"BUT HOW DID YOU COME UP WITH MY PREMIUM?"

Almost half of our customers think quality products that are fairly priced are the most important thing an insurance company can offer. So how do we price risk? (Page 5)

"WHY IS AN INSURANCE COMPANY INTERESTED IN REDUCING RISK?"

We're doing some surprising things in the community, besides just paying claims. And there is a good reason for it. (Page 9)

"HOW DOES YOUR SIZE BENEFIT ME?"

We are the leading insurance group in Australia and New Zealand. By having a large, efficiently structured network, we can pass cost savings on to you. (Page 7)


"THE MONEY WAS EXPECTED, THE AMOUNT OF SUPPORT WASN'T."

PAYING CLAIMS

As Beck Paterson and her fiancée Shane Cole rescued their beloved horse "Toby" from a fierce bushfire, they knew their house, property and everything else they owned was probably being destroyed.

Their property was in the path of a fire which swept across the hills north of Port Lincoln on the Eyre Peninsula in January. Beck and Shane's home was among more than 90 destroyed by the fire.

The very next day, CGU Insurance came to the community to offer immediate support to its customers who'd been affected by the fires.

"We were in shock. You don't really know where to begin when you've lost everything. But, even before we started to tally up the damage, CGU gave us money through direct credit to buy some of the things we needed right away, like clothes and food," Beck said.

CGU also helped Beck and Shane to get temporary accommodation for up to 12 months while their claim was being settled and they started to rebuild their lives as well as assisting with the architectural planning and designing of their replacement home.

"CGU's help was one of the things that made our recovery a little easier."

Beck Paterson and Shane Cole
CGU customers
Eyre Peninsula, SA

As an insurance group, we exist to pay claims. Through NRMA Insurance, CGU, SGIO, SGIC, Swann, State and NZI, IAG pays an average of $11 million in claims every day. But paying claims is the easy part.

What makes us different is the way we pay claims. When a customer suffers an unexpected loss, the last thing they want to do is organise the rebuilding of their home and the replacement of their possessions. That's why we focus our efforts on replacing their goods, or getting them back on the road or back to work, to help them recover as quickly as possible.

That includes offering policy benefits for many of our customers, such as:

- A 24-hour Helpline to offer customers emergency advice and assistance;
- Emergency transport or medical care;
- Replacing old goods with new ones;
- Lifetime guarantees on approved smash repairs; and
- Temporary accommodation.

24-HOUR HELPLINE CALLS

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

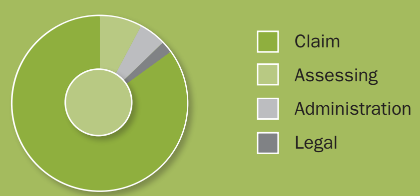
30,352

CLAIMS SATISFACTION

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

THE COST OF A CLAIM

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




“BUT HOW DID
YOU WORK OUT
MY PREMIUM?”

UNDERSTANDING AND PRICING RISK

People who have had their home burgled know that thieves take more than just possessions. They also take away a sense of security.

This was how Katrina Tavaya and her husband Martin felt when their Canberra unit was broken into in February.

"After the break-in, we felt quite vulnerable and were concerned that the thieves may come back again. So we installed a back-to-base security system as quickly as possible," Katrina said.

"The new security system makes us feel like our home is more secure. But, even better, we have also received a discount on our home contents insurance premium."

Security is one of the factors taken into account when we calculate premiums, so Katrina and Martin now receive a discount for increasing the security of their home.

Katrina and Martin Tavaya
NRMA Insurance customers
Belconnen, ACT

Insurance is unlike most other financial products. The price of the product is determined before the cost is known. It's difficult to know whether a customer will be involved in a car crash or if their home will be burgled or damaged by hail. The challenge for an insurer is to anticipate the potential risk and price it accurately and fairly, to ensure it's neither overpriced nor underpriced. Likewise, a customer must be satisfied they are neither overinsured nor underinsured.

That's why data is so important. IAG has the most extensive record of personal insurance claims history in Australia and has access to wide-ranging data, such as repair costs, weather patterns and crime statistics. Specialists are employed to analyse the data, including underwriters, actuaries, industry researchers and atmospheric scientists. This helps us calculate the costs associated with the risk so our customers pay both fair and accurate premiums based on their individual circumstances.

TOTAL PROPERTY VALUES INSURED

Total property values insured by IAG across Australia and New Zealand as at 30 June 2005:

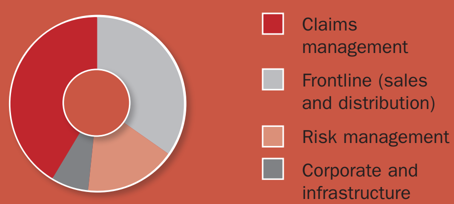
$858 billion

BUSINESS VOLUME

The number of policies and risks that IAG insures:

IAG'S PEOPLE INVOLVED IN MANAGING RISK

More than 12,000 employees across all areas of our business involved in managing risk:




"NOW I GET THE BIG DEAL ABOUT BEING WITH A BIG COMPANY."

MANAGING COSTS

While Helen Warwick and her husband were away enjoying a holiday in November, they were unaware of the severe thunderstorm that hit their Sydney suburb.

Unfortunately, their house was struck directly by a bolt of lightning during the storm.

“We came back to find that our two TVs and computer had literally blown up. The jolts of electricity had surged throughout most of the house. Even my electric toothbrush was fried,” Helen said.

“I never fully understood the benefit of being with the biggest general insurance group in Australia until I made my claim.”

As part of their standard cover, Helen could have replaced their televisions and computer new-for-old. But, she discovered that she could go one better than that.

“We were able to save money on new, more advanced electrical equipment for our home by tapping into NRMA Insurance’s buying power.”

Helen was able to deal directly with NRMA Insurance’s wholesale electrical goods suppliers. She chose to replace their old 58cm television with a brand new 68cm flat-screen television, by paying only the difference between the insured value of their old model and the wholesale price of the upgraded model. In effect, they saved hundreds of dollars by accessing NRMA Insurance’s supply network.

Helen Warwick
NRMA Insurance customer
Sydney, NSW

Many people understand that insuring with a bigger company offers greater security. What they may not realise is that size can provide other customer benefits too.

The economics of IAG’s business are based on scale. Scale allows IAG to manage costs through access to volume discounts across the supply chain, without sacrificing quality. For customers, that means better, more competitively priced products including white goods, electrical appliances, jewellery and furniture, as well as services from suppliers such as smash repairers, builders and decorators.

For customers, it’s a win-win: they get the security of being with the leading insurance group in Australia and New Zealand, but are also able to share in the cost benefits that come with our scale.

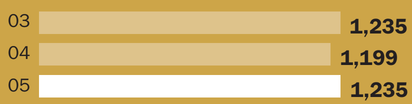
ADMINISTRATION RATIO

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

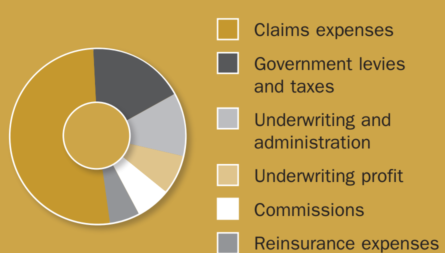
17.7%

BUSINESS VOLUME PER FULL-TIME EMPLOYEE

The number of policies and risks that IAG insures per employee:

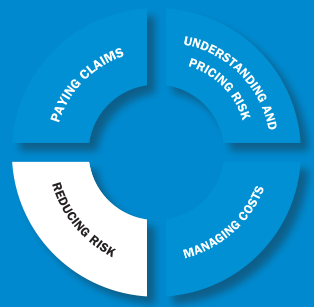


CONTRIBUTORS TO THE COST OF RUNNING OUR BUSINESS




"THEY'RE NOT
JUST MY INSURER,
THEY'RE ALSO MY
COLLEAGUES IN
FIGHTING CRIME."

REDUCING RISK



Senior Constable Terry Betts, a police officer in Orange, New South Wales, sees the effects of crime first-hand every day.

During the past year, he has also seen the benefits of a $5,000 communityhelp grant from NRMA Insurance which is being used to fund Operation Never Again, a programme to reduce break-and-enter crimes in his community.

"Operation Never Again is a partnership between the council, police and local businesses aimed at making the community safer by educating vehicle and home owners about how to better protect themselves from break-in and theft," Terry said.

"So far, it is paying off, with a 26% reduction in break-and-enter offences in the area in just the first year."

In his capacity as a police officer, Terry Betts appreciates NRMA Insurance's assistance to get the programme off the ground. As a home owner and insurance policyholder, he is grateful that his own home and family are safer.

Senior Constable Terry Betts
NRMA Insurance customer
Orange, NSW

When a customer sees their insurance company sponsoring community events, supporting charities and doing research into social issues, they could be forgiven for wondering how it relates to running an insurance business.

The answer is simple. IAG invests in programmes to help prevent fires; reduce the incidence of crime; make roads, homes and workplaces safer; and reduce our environmental impact. This is because the fewer risks there are, the better for everyone. Helping to prevent claims from happening in the first place will keep premiums more affordable and our communities safer.

In fact, IAG invested more than $12 million on programmes to reduce risk in the community last year, including:

- Providing financial grants to local groups which aim to make communities safer, leading to fewer claims;
- Working with local councils to fix blackspots on the roads;
- Educating the public on how to make homes safer through the helphouse page on our websites;
- Working with manufacturers to make cars safer and less costly to repair; and
- Sponsoring risk reduction organisations such as St John Ambulance, and CareFlight which respond to people with urgent medical needs.

COMMUNITY GRANTS

Number of grants provided to community organisations through IAG's **community**help grants programme during the year:

150 grants, totalling more than $530,000

WORK-RELATED INCIDENTS AT IAG

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

THE AREAS IAG TARGETS TO REDUCE ITS ENVIRONMENTAL IMPACT

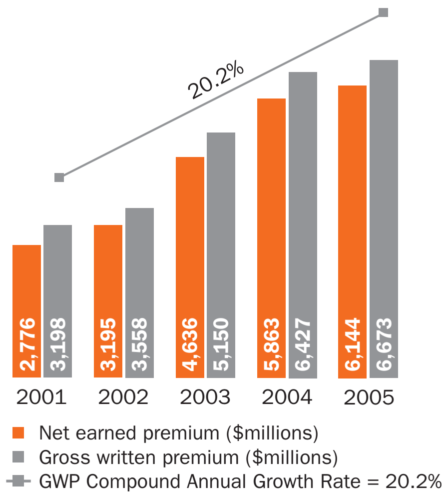
- CO_2 emissions
- Electricity use
- Print paper consumption
- Office paper consumption
- Fuel use
- Air travel

GROUP OPERATING PERFORMANCE

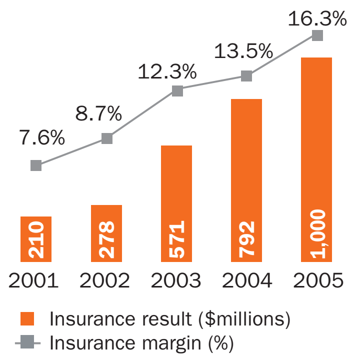
HOW WE'VE PERFORMED

OPERATIONAL HIGHLIGHTS

- **RISK IN THE BUSINESS REDUCED** through increased reinsurance protections and $550 million of contingent capital raised through the issue of Reset Exchangeable Securities.
- **VERY STRONG CAPITAL POSITION** maintained, with the Group's APRA regulatory capital at 2.0 times the minimum capital requirement at 30 June 2005.
- **HIGH CUSTOMER RETENTION** sustained above 90% across our largest portfolios of directly distributed home and motor insurance in Australia for the past three years, and claims satisfaction above 85%.
- **CASH RETURNED TO HOLDERS OF IAG ORDINARY SHARES** totalled $422 million for the year.
- **PREMIUMS KEPT AFFORDABLE** with NSW CTP prices as low as they were 10 years ago, comprehensive motor insurance reducing relative to average weekly earnings and the introduction of a cut of more than 10% in commercial public and product liability rates.
- **COMMUNITY INVESTMENT STRONG** at more than $12 million, plus time invested by our people.
- **RETAIL BRANDS STRONG.** In Australia, the NRMA, SGIO, SGIC, and CGU brands continued to strengthen. In New Zealand, the State brand leads the market for unprompted brand awareness and NZI also maintains a strong presence.



Revenue Growth
Year ended 30 June



Insurance Result and Margin
Year ended 30 June

PROGRESS AGAINST MEDIUM TERM FINANCIAL GOALS

GOALS	PROGRESS
Top quartile total shareholder return.	Measured from listing on 8 August 2000 until 30 June 2005, IAG's total shareholder return ranks it in the top 20% of entities in the S&P/ASX 100 index.
Return on equity of at least 1.5 times weighted average cost of capital.	Achieved return on equity greater than 1.5 times weighted average cost of capital.
Establish an Asian foothold.	Added a small Thai general insurance business to the Group's portfolio of Asian assets and continued to pursue further opportunities.
Maintain an 80:20 mix of short-tail:long-tail premiums.	Maintained short-tail : long-tail premium mix of approximately 80 : 20.
Maintain a 'AA' category rating.	Maintained its very strong 'AA' insurer financial strength ratings from S&P for its key wholly-owned licensed insurers, the highest rating of any Australian-based financial institution.

HOW INSURANCE WORKS

PREMIUMS − CLAIMS & CLAIMS EXPENSES − UNDERWRITING EXPENSES = UNDERWRITING RESULT + INVESTMENT RETURNS FROM CLAIMS RESERVES = INSURANCE RESULT + INVESTMENT INCOME ON SHAREHOLDERS' FUNDS − TAX = NET PROFIT

HIGHLIGHTS

	2004	2005
GROSS WRITTEN PREMIUM The total amount we received from customers for the payment of their insurance policies.	$6,427m	$6,673m
NET EARNED PREMIUM The portion of premiums written which relates to the financial year minus the reinsurance expense.	$5,863m	$6,144m
NET CLAIMS EXPENSE The amount paid out in claims during the year, as well as an estimate of how much we need to pay on unsettled claims, plus claims handling costs such as legal and administrative expenses, less recoveries from reinsurers and other parties.	$3,815m	$4,069m
UNDERWRITING EXPENSES The costs associated with researching risk and determining appropriate premiums, underwriting, administering the policy information required to run the business, marketing, commissions, distribution and meeting the Group's compliance requirements.	$1,500m	$1,591m
UNDERWRITING RESULT The profit or loss we make from our premium income before we consider related investment income.	$548m	$484m
INVESTMENT RETURNS FROM CLAIMS RESERVES The income received from investing reserves held to pay future claims.	$244m	$516m
INSURANCE RESULT The addition of our underwriting result and investment returns from claims reserves.	$792m	$1,000m
INVESTMENT INCOME ON SHAREHOLDERS' FUNDS The income received from investing our shareholders' funds.	$434m	$479m
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS The net result after allowing for income taxes and the share of profit owing to minority shareholders/unitholders within the Group.	$665m	$760m

GROUP INSURANCE RATIOS

	2004	2005
INSURANCE MARGIN The insurance result as a percentage of net earned premium.	13.5%	16.3%
COMBINED RATIO Our claims and underwriting expenses measured as a percentage of our net earned premium.	90.7%	92.1%

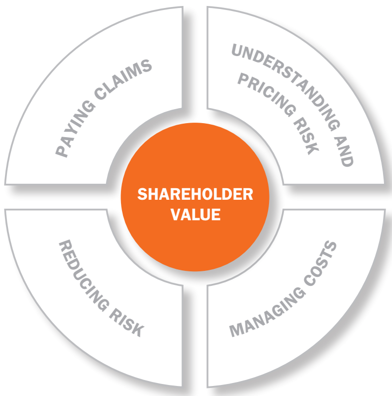
RETURN TO SHAREHOLDERS

	2004	2005
RETURN ON EQUITY Net profit attributable to our holders of ordinary shares as a percentage of the average equity of those shareholders.	21.1%	23.1%
TOTAL DIVIDENDS PER ORDINARY SHARE Comprising an interim dividend of 12.0 cents per ordinary share and a final dividend of 14.5 cents per ordinary share for the financial year ended 30 June 2005.	22.0 cents	26.5 cents

A SHAREHOLDER'S PERSPECTIVE

James Strong, Chairman

As shown in the stories featured in the opening pages of this report, IAG provides value for our customers by our commitment to paying claims, evaluating and reducing risk and managing our costs. Importantly, that commitment in turn creates consistent, quality returns for shareholders.



QUALITY PERFORMANCE

It gives me great pleasure to report to you on a period in which your company achieved a record return for shareholders, our customer satisfaction was at an all time high and the performance of our people has continued to improve.

For the year ended 30 June 2005, the Group recorded a net profit attributable to shareholders of $760 million, compared to $665 million last year, and an insurance margin of 16.3%. The result reflects the continued momentum in our business, the benefits of our programmes to continually improve operating efficiencies, and better returns on our investments.

The Board has declared a fully franked final dividend of 14.5 cents per ordinary share, to be paid on 17 October 2005. This brings our total dividend for the year to 26.5 cents per ordinary share, a 20.5% increase on the previous year.

This performance places us in the top 20% of companies in the S&P/ASX 100, with a total shareholder return of 157%, when viewed over the five years since listing.

Over the medium term, our aim is to perform within the top quartile and deliver double-digit growth in annual dividends for our shareholders.

CAPITAL MANAGEMENT

On the back of this performance, we were able to maintain a capital adequacy multiple higher than both our internal target and the level required by APRA. On a Group basis as at 30 June 2005, our APRA minimum capital requirement multiple was 2.00 times compared to our current benchmark multiple of 1.55 times.

Our financial performance and market position enabled us to retain a Standard & Poor's very strong 'AA' insurer financial strength rating for all of the Group's key wholly-owned operating insurance entities. This is the highest rating of any Australian-based financial institution, and a signal to our customers that they can have confidence in our ability to pay claims.

During the year, we also continued our commitment to actively manage and enhance our capital structure. In January, we raised $550 million of contingent capital through an offer of Reset Exchangeable Securities (RES). The RES provide the Group with an additional layer of certainty if capital is needed at any time in the future as the RES can be converted into regulatory quality capital at our option.

We also introduced several initiatives to reduce the risk in our business including the introduction of new investment classes and manager styles in our shareholders' funds portfolio, and increased our reinsurance protection.

CORPORATE GOVERNANCE AND BOARD CHANGES

Shareholders, community groups, the legal system and governments have greater expectations than ever before of the behaviours required of our corporations and their leaders. IAG is committed to maintaining very high standards of corporate governance to ensure the future sustainability of the organisation and to create value for our shareholders.

During the past year, we took a number of steps to further strengthen our corporate governance and risk management framework.

In line with the amendments to the Corporations Act 2001, we have provided shareholders with enhanced disclosure of director and executive remuneration; encourage and provided ways to increase participation by shareholders in general meetings; have improved protection for whistleblowers; and provided to the Board a declaration by our CEO and CFO in relation to our financial records and statements. We also adopted a new conflicts of interest policy.

We have two important Board Committees constantly monitoring risk and performance – the Audit Committee and the Risk Management & Compliance Committee.

Of course, corporate governance requires the focus of the entire Board and I would like to take the opportunity to thank my Board colleagues for their continued dedication to superior performance and to transparency.

In particular, I would like to thank the two Directors who retired during the year, Ms Dominique Fisher and Ms Anne Keating, for their active and constructive contribution to the Group over their terms as Non-executive Directors.

I am delighted to welcome two new Board members, Ms Yasmin Allen and Mr Brian Schwartz, who were elected at last year's AGM. Both Directors bring to the Board a wealth of practical skills and experience having held senior positions in Australia and in global markets. Biographical details of all Directors can be found on pages 30 and 31 in this report.

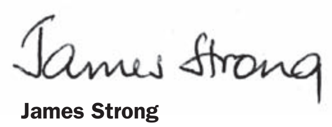
On behalf of the Board, I would also like to express our appreciation to our CEO Michael Hawker and his management team for their dedication. IAG's strong performance is a reflection of their leadership, which has produced the excellent results, achieved by an enthusiastic group of more than 12,000 people.

FUTURE PRIORITIES

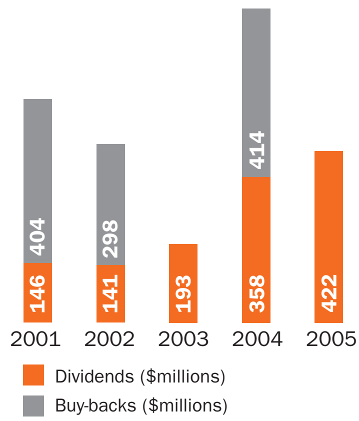
We made significant progress against our strategy and financial goals during the past 12 months. We remain committed to growing our existing businesses in Australia and New Zealand, while expanding the foothold we have established in Asia.

While we anticipate that strong competition in our domestic markets will continue, we remain confident that our heritage of helping customers, our trusted and well-known brands, and our scale of operations position us well for the future.

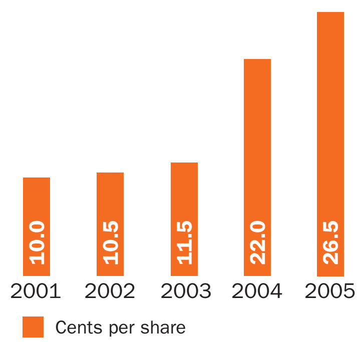
We will only achieve these goals by operating with the highest of standards in every area of our business.



James Strong
Chairman



Cash returned to ordinary shareholders in respect of the year ended 30 June



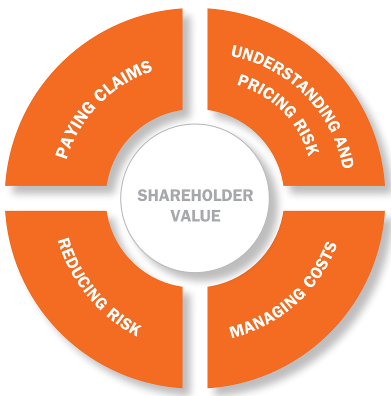
Dividends per ordinary share in respect of the year ended 30 June

CEO'S REVIEW

STICKING TO OUR PRINCIPLES

Michael Hawker, Chief Executive Officer

We consider long term thinking as key to running a business that deals in risk. That's why we are calling this report 'part two' of our ongoing risk management story. By sticking to our principles – paying claims, understanding and pricing risk, managing costs and reducing risk – we'll be here for the long term. That means we can generate consistent returns for our shareholders, create a stable working environment for our people, make a positive contribution to society and provide security for our customers.



PERFORMING IN A COMPLEX OPERATING ENVIRONMENT

IAG posted another year of record results in a complex operating environment, demonstrating our commitment to managing the business in such a way as to deliver sustainable long term benefits.

Despite the prolonged drought which continued to affect most of Australia during the year, the Group experienced the impact of a number of severe storms. The worst of these hit Melbourne and Sydney in early February 2005 resulting in nearly 25,000 claims. New Zealand also suffered serious floods, hailstorms and landslips. The Group incurred more than $340 million in claims for weather-related events.

The regulatory and legislative landscape continued to evolve. During the year, we made 18 submissions to various government inquiries and reviews into activities affecting the general insurance industry. In addition, our industry body, the Insurance Council of Australia, made on average more than one submission every week. Submissions IAG made related to:

- Proposed changes to the Financial Services Reform provisions of the Corporations Act;
- APRA's Stage 2 reform proposals;
- APRA's National Claims and Policies database;
- The review of the Insurance Contracts Act;
- ACCC's public liability and professional indemnity premium monitoring; and
- The Productivity Commission inquiries into the relationship between smash repairers and insurers, national competition policy and workers' compensation.

The tort law reforms introduced by the States and Territories started to deliver what communities, insurers and governments set out to do – access to public liability insurance has broadened and rates have fallen, injured people continue to be compensated and legal expenses are reducing.

Australia's economy continued to grow, with record low unemployment and low inflation, leading to ongoing investment in new cars, houses, household goods and business – all of which creates a demand for insurance. Similar trends were displayed in New Zealand.

The Australian share market recorded healthy double-digit growth, with the S&P/ASX 200 up around 26% compared to 30 June 2004.

At the same time, competition in the insurance industry intensified, both in commercial and retail classes. The competitive pressures were most apparent in the larger commercial customer segments, arising from increased activity by off-shore insurers.

CONSISTENTLY STRONG RESULTS

Consistently achieving quality results in this complex, and increasingly competitive operating environment, demonstrates our commitment to managing the business for the long term.

The Group achieved a net profit attributable to shareholders of $760 million, up from $665 million in the previous corresponding period.

We've done this by adhering to tight underwriting disciplines and focusing on building stronger customer relationships through initiatives to better align our products, service and distribution networks with our customers' needs, while reducing costs.

In our Australian personal insurance operations, customer retention in our key direct motor and home insurance portfolios has been higher than 90% for the past three years, satisfaction continues to improve and we've strengthened the depth of our customer relationships.

More than 68% of our direct home insurance customers now hold more than one policy with us, there's been an increase in the take-up of optional covers and new products have been well received by the market. Sales of our new landlords insurance product already exceed 3,000 policies monthly.

Tight disciplines were also applied in our Australian commercial insurance business, where we improved our insurance margin by 7.6% to 17.2%. We were able to achieve this by focusing on the SME and rural markets where we have the largest distribution network and significantly enhancing our service through initiatives such as online sales and claims processing.

Our New Zealand business also delivered stronger insurance margins by building on its market leading position through enhancements to its distribution capabilities and further improvements to customer service and delivery standards.

CGU and NZI, which were acquired in January 2003, are now fully integrated into the Group. This is the first year we've had a full contribution from these synergies without incurring any integration costs.

As a result, we achieved a Group insurance margin of 16.3%, up from 13.5% in the previous financial year.

STRONG INVESTMENT RETURNS

Our result was boosted by the Group's highest ever investment income, driven by highly favourable investment markets over the year and significant value added by the Group's in-house asset management team.

The Group's investment portfolio, totalling approximately $10 billion at year end, returned 11.0% during the year. Outperformance of portfolio benchmarks by our asset management team contributed an additional $100 million to pre-tax profit.

Investment return on shareholders' funds contributed $479 million to the Group's pre-tax result. That's a record return since listing and a 10.4% increase from the $434 million recorded on this portfolio in the previous corresponding period.

Investment returns from claims reserves also performed well. Over the year, the income from this portfolio contributed $516 million to the Group's pre-tax insurance result.

Going forward, IAG's asset managers will continue to focus on delivering superior risk adjusted returns on IAG's assets and on additional external client accounts. Through further diversification of our investments, we aim to retain our strong levels of performance while at the same time reduce both our absolute level of risk and the volatility of our earnings.

PROGRESS AGAINST STRATEGIC GOALS

IAG's strategic direction has remained clear, as we've focused our business on general insurance to achieve sustainable, quality growth.

Our priority has been our home markets in Australia and New Zealand. Now that we've generated scale, we continue to look for ways to increase value and service for our customers and to operate our business more efficiently. To maintain growth at the level necessary to remain competitive, we recognise that international expansion is required to generate incremental revenue streams and to further diversify our risks.

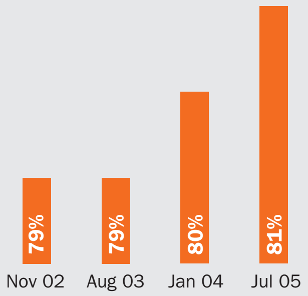
To guide the Group's progress against this strategy, we set five medium term financial goals.

The Group's first goal is to achieve top quartile total shareholder return. Since listing in 2000, IAG's total shareholder return ranks us in the top 20% of the entities in the S&P/ASX 100.

Our second goal, which we also met, is to achieve a return on equity of at least 1.5 times the weighted average cost of capital. We set this goal to ensure that shareholders receive an adequate return. We don't expect to sustain returns much above this level, as excess returns will be invested back into the business.

CEO'S REVIEW

CUSTOMER SATISFACTION INCREASING



Overall customer satisfaction in IAG's key direct motor and home books has steadily increased over the past four years.

AWARD-WINNING PERFORMANCE

Winner
General Insurance Company of the Year
Australia and New Zealand Insurance Industry Awards

Winner
National Sustainable Business Awards – Large Business category
NZ Sustainable Business Network

Winner
'Triple Bottom Line' Award for CGU's Risk Radar
United Nations Association of Australia

Winner
Best first time reporter in sustainability reporting
Association of Chartered Certified Accountants (ACCA) Award

Winner
Employer of Choice for Women Status
Equal Opportunity for Women in the Workplace Agency

Winner
Best Strategic Sustainability Outcomes (over 200 staff)
NSW Department of Environment and Conservation Industry Partnership Program Awards

Progress was made on our third goal to establish an Asian foothold. In July 2005, the Group acquired a small general insurer in Thailand, formerly owned by Royal & SunAlliance Insurance Group, to add to our growing portfolio of assets in Asia.

This is our second investment in Thailand, having held a 22% shareholding in Safety Insurance since 1998. It allows us to diversify our interest in the growing Thai general insurance market and ensures we will be a player in that market's anticipated consolidation.

We will continue to research other potential acquisition opportunities in Asia, using stringent due diligence processes, to provide additional earnings growth for the long term.

We also met our fourth goal to maintain an 80:20 mix of short-tail:long-tail premiums. We consider this to be the best mix to enable us to keep risk at a tolerable level. This is because claims made for short-tail insurance, such as a home or motor insurance policy, are less difficult to predict than claims made for long-tail insurance, such as a workers' compensation policy.

Importantly, we met our final goal to maintain our very strong 'AA' Standard & Poor's insurer financial strength ratings for our key wholly-owned entities. That's a signal to our customers that we have the financial strength to be able to honour our promises to customers to pay their claims.

OUR PEOPLE

Achieving this progress would not have been possible without the dedication and talent of the more than 12,000 people who work for IAG. To all of our people, I say a big thank you.

During the year, we continued to focus on strengthening our internal culture by aligning our people around a consistent purpose and a common set of values – honesty, meritocracy, transparency, teamwork, and social responsibility. A strong culture is vital for providing a framework for decision-making which will ensure a consistent, quality customer experience.

Flexibility, valuing differences and creating the right work environment are equally important aspects of workplace sustainability at IAG, to ensure we can attract, hire and retain the right talent.

To meet these challenges, we've focused on embedding programmes designed to develop our people's skills and knowledge, provide a flexible and safe work environment, reward strong performance and develop fulfilling career paths. The success of our internal programmes is reflected in the improved engagement results scored in our annual survey of all employees.

To ensure our people can benefit directly from the value they are helping to create, the Group announced it will introduce a new employee share scheme this year.

My management team has played an important role in leading our people, strengthening our collective capabilities and consistently applying our values, policies and processes, to help improve our people's engagement and performance. I'd like to thank them for their efforts.

LOOKING FORWARD

Our strategy remains unchanged. We will continue to optimise our businesses in Australia and New Zealand and maintain high levels of customer service. We will also continue our search for additional opportunities to expand our portfolio of assets across Asia, when the right opportunities arise.

Our aim remains to deliver top quartile total shareholder return. We expect our insurance margin to reduce a little but remain above the more sustainable levels experienced in the 2004 financial year. This reflects our belief that an insurance company's performance needs to be viewed over the long term, given the influence of cyclical factors, such as underwriting conditions, weather patterns and investment returns.

Importantly, we will continue to stick to our principles – paying claims, understanding and pricing risk, managing costs and reducing risk – to ensure we are here for the long term.

Michael Hawker
Chief Executive Officer

The next pages highlight some important issues facing IAG, and our industry as a whole. We believe that, from a customer's perspective, it is important that we address these issues.

WHY A PROFITABLE INSURANCE INDUSTRY IS GOOD FOR CUSTOMERS

The past year has been the third consecutive year in which insurers, including IAG, have performed strongly. For the previous 10 years, insurers recorded significant underwriting losses.

Our return to profitability has enabled us to reclaim stability and security for our customers, shareholders, the community and the people who work in our industry.

Importantly, we've been able to achieve this while keeping premiums affordable for customers. NRMA Insurance NSW CTP prices are now as low as they were 10 years ago, comprehensive motor insurance premiums have been reducing relative to average weekly earnings and CGU has cut commercial public and product liability rates by more than 10%.

There has been some debate in the community about what has driven this turnaround. There are many reasons insurers are more profitable today than they were four or five years ago.

First, there has been significant cost reduction driven by consolidation of the industry in the last decade, through demutualisation, privatisation, acquisitions and integration of organisations. Today, the top five insurers provide approximately 95% of personal lines insurance, whereas five years ago, the top five represented less than 35%.

Second, insurers' commitment to a more disciplined approach to underwriting has ensured pricing has returned to sustainable levels. Rogue underwriters have failed and reforms to prudential regulation have meant the industry as a whole has adopted a more judicious approach to managing capital, risk and reinsurance.

Third, we've had an unusually long period of dry weather. That has meant fewer than average claims from customers because, for example, there are proportionally less car accidents.

Fourth, strong investment markets, particularly the equity markets, have significantly contributed to the bottom line of insurance companies. For example, in the past year, IAG generated a pre-tax return on shareholders' funds of $479 million. In contrast, when the equity markets were underperforming in 2002, the Group reported a $234 million loss on this portfolio.

Some commentators say that the profitability of the insurance industry has come through the tort law reforms which were put in place by the Government to make public liability insurance more available and affordable. The reality is that public liability makes up less than 8% of insurers' total revenue, hardly a figure on which to build company profits. The industry's underwriting losses in liability classes for the four years up to 2001 were $2.1 billion.

Tort law reforms are delivering what governments, communities and insurers set out to do. Premiums have fallen, injured people continue to be compensated and legal costs are reducing. The real winner from these reforms has been the community at large, as was always intended. Insurers are keen to work with governments to ensure that these improvements continue over the next few years.

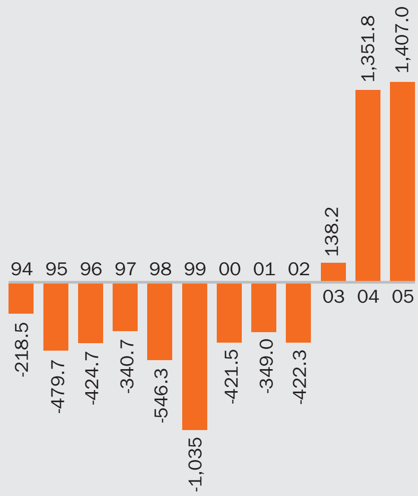
Being profitable has lifted the bar. It means that now, more than ever, insurers need to demonstrate to customers the value of insurance, how it works and how premiums are priced.

Insurance is a community product which is necessary for economies to function. With more than 41 million insurance policies in force in Australia, the industry as a whole pays more than 98% of claims, and this equates to an average of $55 million paid every working day.

But the stark reality is that there is a huge number of Australians who do not have insurance or are underinsured. More than one in five homes in Australia are underinsured and a staggering one third of small businesses have no insurance or are underinsured.

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

INSURERS RETURN TO PROFITABILITY AFTER YEARS OF LOSSES

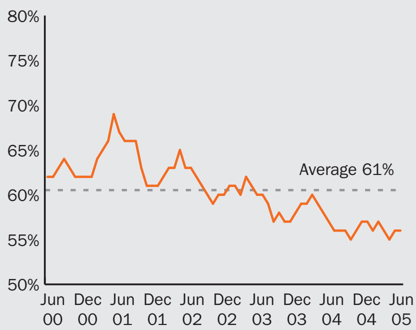


Underwriting results of top five insurers ($millions)

Source: KPMG General Insurance Survey

Profitability has returned to the insurance industry in the last three years, but underwriting losses were common for the previous decade. Insurers need to maintain profitability, so customers can have certainty we have the financial strength to pay claims.

MOTOR INSURANCE HAS BECOME MORE AFFORDABLE



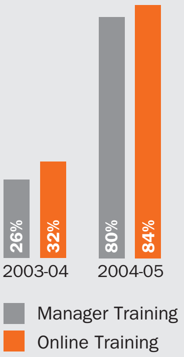
NRMA Insurance motor premiums (NSW) as a percentage of average weekly earnings

Source: ABS – Average Weekly Earnings

As insurers have returned to profitability, insurance premiums in many classes of insurance have become more affordable for many customers. As shown above, at April 2005, the average annual premium for NRMA motor insurance in NSW equated to 56% of average weekly earnings, compared with an average of 61% over the past six years.

CEO'S REVIEW

SEE, THINK, BE SAFE



As Australia's largest workers' compensation insurer, IAG has a unique insight into Occupational Health & Safety. This insight has been applied to our own operations with results that had a marked impact on employee behaviour during the year.

80% of managers have completed OH&S training, up from 26% last year. One of the drivers behind this change, IAG's OH&S employee education campaign, Be Safe, was a finalist in the category of 'Best Communication of a Safety Message to Employees' in the NSCA/Telstra National Safety Awards of Excellence.

A REWARDING EXPERIENCE

In 2004, IAG launched its employee reward and recognition programme – rewardhelp. Based on the Group's core values, rewardhelp allows employees to recognise the achievements of their colleagues in four distinct areas – Achievement, Helping Others, Leadership and Sustainability & Innovation. In the past year, almost 20,000 rewardhelp certificates with redeemable points to spend on IAG's rewardhelp online shopping system have been awarded to our people.

OPERATING TO CREATE VALUE FOR THE LONG TERM

Many people think that sustainability is just about being environmentally friendly, and giving back to the community.

At IAG, we think differently. We see sustainability as managing our business well to ensure we are here for the long term, to create sustainable financial returns. That means adapting to our customers' changing needs, reducing our environmental impact, creating value for society, developing a strong internal culture for our people, and delivering quality returns to shareholders.

To achieve these positive long term outcomes, an organisation must invest in initiatives closely aligned with its purpose. They must also have an economic benefit for the business, since profitability is essential to the longevity of social investments.

For IAG, our purpose is clear – we pay claims, understand and price risk, manage costs and, importantly, reduce risk in the community.

Most people see an insurance company's role as paying claims and pricing risk. We agree. But, we take this one step further by using our comprehensive understanding of what is driving insurance claims to try and prevent those claims from occurring in the first place. After all, fewer risks mean our customers can avoid unnecessary hardships and benefit from more affordable insurance, creating a better outcome for both society and insurers.

Last year, this saw us invest around $12 million in programmes that promoted safety at home, at work and on the road; reduce crime; and help slow the effects of human induced climate change.

For example, we use our claims data to identify the worst car crash sites each year and work closely with governments to find ways to reduce accident rates at these sites, such as installing traffic lights, roundabouts or improved road signage. We also share research findings with car manufacturers, which leads to automotive innovations to improve driver visibility and safety, and reduce car repair costs.

We invest in programmes to help major employers drive behavioural change of employees to reduce the number of accidents in the workplace. It's something we also do at IAG. We share our sophisticated analysis of crime patterns based on our claims data with local communities and the police to help reduce crime.

We also invest in programmes to reduce our environmental footprint and educate customers and the broader community about how to reduce theirs. This is because our research shows a link between rising global temperatures and increased frequency and ferocity of weather events, such as hailstorms and cyclones, which devastate our customers' property.

Our sponsorship partners are organisations who share our goal of making communities safer, including St John Ambulance Australia, CareFlight, Salvation Army Emergency Services and Royal Flying Doctor Service, and we continue to provide more than $530,000 annually in grants to small community-based groups. The focus for these sponsorships and grants is on actions or organisations which reduce insured risk or the cost of crime.

These are just some examples to highlight how we align our investments with our purpose to create sustainable communities, at the same time as ensuring the long term, profitable existence of our own organisation.

This approach also creates a more productive internal workforce and helps drive a strong culture. Our people are happier to work for a company focused on long term outcomes. In a recent survey, 73% of our people told us they value IAG's focus on balancing its social, environmental and financial responsibilities.

The link is clear. Managing a company well for the long term requires investment in customers, employees and the community. If an organisation is unable to maintain profitability, it puts at risk its community investment, the employment of its people, customer service levels and its ability to generate returns for shareholders.

MEASURING THE SUSTAINABILITY OF OUR PERFORMANCE

Measuring and reporting on our financial, social and environmental performance is an integral part of delivering on our strategy to manage our business successfully for the long term.

To supplement the financial reporting contained in this annual report, IAG will release its second Sustainability Report later this year. Our inaugural report, published in November 2004, is available at www.iag.com.au.

Our Sustainability Report provides additional information on our performance against social and environmental indicators, such as our efforts to improve the diversity within our workforce, make our communities and roads safer, and reduce our greenhouse gas emissions.

Key achievements during the year in these areas are listed below.

Sustainability strategy

- IAG has been included in the FTSE4 Good Global 100 index (designed to measure the performance of companies that meet globally recognised corporate standards).
- IAG scored 81.4%, up from 65.5% in 2003, in the St James Ethics Centre Corporate Responsibility Index, ranking exceptionally well in the areas of corporate strategy and values, leadership, stakeholder engagement, community management and OH&S.
- IAG was awarded the United Nations Association of Australia 'Triple Bottom Line' Award for the CGU Risk Radar, a tool that helps smash repairers self-assess their business against environmental, health and safety standards and develop an action plan to improve the safety and environmental performance of their workshop.

For our customers

- The Risk Radar product is being rolled out to industries such as hospitality, motor fleet and motor trades.
- IAG's reversing visibility index for cars has been updated.

In the workplace

- IAG was awarded Employer of Choice for Women status by the Equal Opportunity for Women in the Workplace Agency.
- IAG's career development process 'PATH' was rolled out across the Group, helping employees to map out a fulfilling career with the aim of driving engagement and motivation.
- The implementation of an online OH&S reporting process for both accidents and incidents has recorded an increase of IAG's incident to claims ratio from 3.7 to 7.1 indicating a proactive safety reporting culture by employees. The technology allows managers to respond quickly and take preventative action where appropriate.

In the community

- The 2005 **community**help grants programme has awarded grants to 150 community groups with a total of more than $530,000 going toward community projects.
- IAG launched 'Insurance Basics', an education programme which helps the community learn more about insurance – how it works, how premiums are priced, and how to reduce risk on the road, in the home and in the workplace.
- IAG and its employees donated about $751,000 to victims of the Asian Tsunami. This included employee fundraising, IAG matching and corporate donations.

In the environment

- IAG was appointed to the Steering Committee of the United Nations Environment Program Finance Initiative, aimed at promoting environmental and social issues in the finance sector.
- IAG now has 126 hybrid vehicles, which are more fuel-efficient and less polluting, in its tool of trade fleet.
- IAG has powered 6.2% of its operations through the use of Green Power, which is energy derived from renewable sources.

While these achievements highlight our progress, we recognise we have a long way to go to ensure we hit our targets. For example, a major challenge is how to reduce our ecological footprint while expanding our business. We are yet to achieve our environmental targets, but remain committed to an overall goal of reducing the Group's CO_2 emissions.

DESIGNS ON THE FUTURE OF CARS

For almost 20 years, IAG's Industry Research Centre has been working with car manufacturers to help improve the repair costs, safety and security of cars on our roads. When Holden Australia began work on its 2006 model Commodore five years ago, it called on IAG to provide input into how Holden engineers could improve design aspects to reduce repair costs and improve anti theft security. Similarly, IAG has provided design input into the Subaru Liberty, Ford Territory and the new 2005 Mitsubishi 380.

TACKLING ROAD INJURIES HEAD ON

Around 75% of head injuries are sustained in car crashes, and severe head injuries are a leading cause of death and disability for people in car crashes. In March 2005, NRMA Insurance and NRMA CareFlight launched a world-first medical trial, the Head Injury Retrieval Trial (HIRT), which aims to improve recovery outcomes for people who sustain head injuries on the road. Under the trial, specialist doctors and paramedics are sent by helicopter to assist people identified with severe head injury by providing intensive trauma care at the scene, rather than waiting until the patient arrives at hospital. NRMA Insurance is contributing $11.2 million to fund the trial over three years.

BUSINESS OVERVIEW

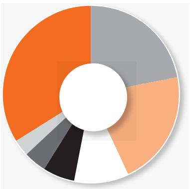
A SNAPSHOT OF IAG

IAG is the leading general insurance group in Australia and New Zealand, with annual gross written premium of more than $6.6 billion.

We hold the number one position in seven major general insurance markets in Australia: motor, home, CTP, workers' compensation, rural, consumer credit and extended warranty.

We insure more than $858 billion worth of property, including more than 5 million cars, 2.5 million homes, 245,000 businesses and 82,000 farms in Australia, and provide workers' compensation services to 209,000 employers. In New Zealand, we insure more than 1 million cars, 580,000 homes, 187,000 businesses and 215,000 rural risks.

The Group employs more than 12,000 people and has a network of 320 branches and country service centres throughout metropolitan, regional and rural Australia and 39 sales centres and branches in New Zealand.

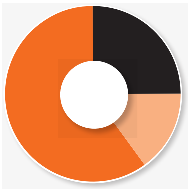


IAG's PORTFOLIO OF RISKS
% OF GWP

- Motor 34%
- Short-tail commercial 22%
- Home 21%
- Compulsory third party (CTP) 10%
- Liability 6%
- Other short-tail 4%
- Workers' compensation 3%

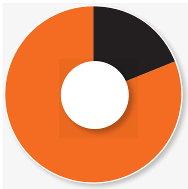
IAG's AUSTRALIAN OPERATIONS
% OF GWP

- Australian personal lines 70%
- Australian commercial lines 30%



IAG's BUSINESS OPERATIONS
% OF GWP

- Australian personal lines 60%
- Australian commercial lines 25%
- International 15%



IAG's BUSINESS BY DURATION
% OF GWP

- Short-tail 81%
- Long-tail 19%

IAG Insurance Australia Group

The name Insurance Australia Group was established in January 2002 after shareholders of NRMA Insurance Group voted to change the name of the holding company to better reflect its size, diversity, geographical distribution and aspirations. IAG companies own the NRMA Insurance, SGIC, SGIO, CGU, NZI, State and Swann brands.

NRMA Insurance

NRMA Insurance is the brand used predominantly for our personal insurance products, such as home and motor (comprehensive and CTP), sold in NSW, ACT, Queensland and Tasmania. The brand dates back to 1925 when the NRMA Motoring & Services club was established. The insurance arm of the road service association, which was set up to provide motor insurance to members, demutualised in July 2000 and became a separate group, now IAG.

SGIO

SGIO is the brand used for our personal insurance products in Western Australia and has been a part of the Western Australian community since 1926. Its origins were as a government-owned entity, providing workers' compensation insurance to miners in the goldfields. SGIO was acquired by IAG in 1998.

SGIC

SGIC is the brand used for our personal insurance products in South Australia. SGIC was established by South Australian Parliament in 1971 to provide the community with an insurer that was dedicated to the State. SGIC was acquired by IAG in 1998.

AUSTRALIA

AUSTRALIAN PERSONAL INSURANCE OPERATIONS

Our Australian personal insurance business develops and underwrites personal insurance products, and manages claims and assessing services. It is the largest insurance underwriting and claims and assessing operation in Australia. It represents approximately 60% of our business.

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

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

INSURANCE PRODUCTS INCLUDE:

- Motor vehicle
- Home and contents
- Compulsory third party
- Niche insurance, such as pleasure craft, veteran and classic car, boat, caravan, and travel insurance
- Consumer credit.

AUSTRALIAN COMMERCIAL INSURANCE OPERATIONS

Our Australian commercial insurance business develops and underwrites insurance for businesses.

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

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

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

INSURANCE PRODUCTS INCLUDE:

- Commercial property
- Commercial motor and fleet motor
- Construction and engineering
- Farm, crop and livestock
- Home warranty
- Marine
- Public and product liability
- Professional indemnity
- Directors and Officers
- Workers' compensation.

INTERNATIONAL

NEW ZEALAND INSURANCE OPERATIONS

Our New Zealand business is the leading general insurance provider in the country across both the direct and intermediated channels.

We hold approximately 37% of the New Zealand market according to Insurance Council of New Zealand Statistics, and are strongly positioned in all geographic markets.

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

INSURANCE PRODUCTS INCLUDE:

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

ASIAN INTERESTS

IAG owns China Automobile Association and a Thai general insurance business (purchased in July 2005). It also has a strategic shareholding (22%) in another Thai insurer, Safety Insurance.

CAPTIVE REINSURER

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

CGU is one of Australia's largest intermediary-based insurers with a history spanning over 130 years. It offers a diverse mix of personal, commercial, rural insurance and workers' compensation products, sold through a comprehensive distribution network of brokers, agents and business partners. IAG acquired CGU in January 2003.

Swann Insurance is one of Australia's largest niche insurers, offering a range of consumer credit and motor vehicle related products. IAG acquired Swann Insurance in January 2003.

NZI was formed in 1859 and is one of New Zealand's largest and longest serving general insurers with a leading position in commercial insurance. It is now the brand under which IAG's New Zealand operations distributes all its insurance products through brokers. IAG acquired NZI in January 2003.

State is the brand under which most of IAG's direct insurance business in New Zealand is now sold. State began as the New Zealand Government's State Insurance Office in 1905 and grew to become the largest general insurer in New Zealand. IAG acquired State in February 2001.

EXECUTIVE TEAM

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

Mr Michael Hawker was appointed Chief Executive Officer of IAG in December 2001. Before joining IAG, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia. Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40. He was awarded the Australian Banking & Finance Magazine Banker of the Year Award in 2000, and the Best Insurance Executive Award in 2003 and 2004. He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies. Mr Hawker is President of the Insurance Council of Australia; Member of the Financial Sector Advisory Council; Director of the Australian Chamber of Commerce and Industry; Member of the Business Council of Australia; Advisory Board Member of the Australian Graduate School of Management; Member of the Federal Treasury's Consumer and Financial Literacy Council; Member of the Business Roundtable for Sustainable Development; Member of the Australian Business and Arts Foundation (AbaF); and Advisory Board Member for the Police Commission of New South Wales. He was previously Chairman of the Australian Financial Markets Association.

IAN BROWN ANZIIF, FAIM, CIP
Deputy Chief Executive Officer

Mr Ian Brown has over 40 years experience in the general insurance sector. He was the Acting CEO of IAG from April to December 2001, and before that was Chief General Manager, International and Corporate Services. Prior to joining IAG in 1999, Mr Brown held the position of Managing Director of SGIO Insurance Limited. Previously, he was General Manager for New Zealand at Security & General Insurance (The Lumley Group), State Manager Western Australia for QBE Insurance Limited, and General Manager of Western Underwriters Insurance Limited. Mr Brown is currently President of the Australian and New Zealand Institute of Insurance and Finance. He is a former President of the Insurance Council of Australia and the Australian Institute of Management, Western Australia.

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

Mr Tony Coleman has more than 28 years experience in the insurance, investment and finance sectors. Mr Coleman is responsible for IAG's risk management function which includes product pricing policy, claims liability reserving, research and development, capital allocation, operational risk monitoring, fraud and security risk control, and group compliance. Prior to joining IAG in December 2000, he was a senior corporate finance partner of PricewaterhouseCoopers. Mr Coleman is a former President of the Institute of Actuaries of Australia (IAAust) and was named Actuary of the Year by IAAust in 2004. He is also a member of the Australian Climate Group, actively promoting a better understanding of global warming and climate change in the community. Internationally, he is an active representative of IAAust in various activities of the International Actuarial Association and a Director of the Enterprise Risk Management International Institute. He is also the only Australian member of the International Accounting Standards Board (IASB) Insurance Working Group which is advising the IASB on the development of International Financial Reporting Standards for insurance.

DAVID ISSA BSc
Chief Information Officer

Mr David Issa was appointed Chief Information Officer of IAG in October 2002. Mr Issa's responsibilities include eBusiness, information technology and telecommunications. He has more than 20 years experience in the eBusiness and IT&T industries. Before joining IAG, Mr Issa was CEO of Qvalent, a financial supply chain software company. He also has experience in the financial services and banking sector, having worked at Westpac Banking Corporation for 13 years. During his time at Westpac, Mr Issa was responsible for the introduction of the online share trading service 'Westpac Broking'. He also held roles as the Head of eBusiness and IT&T for the Institutional Bank and the Global Financial Markets businesses.

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

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

CHRISTINE McLOUGHLIN
BA, LLB Hons, MAICD
Group Executive, Office of the CEO

Ms Christine McLoughlin was appointed Group Executive, Office of the CEO in August 2005. She has extensive management and board experience and a track record of working across businesses in complex regulatory and international environments. With a background in financial services, she brings a unique blend of experience in business strategy, law, risk management and corporate governance. She is responsible for supporting the CEO and executive team in overseeing major business initiatives and managing operating risk, including adapting the Group's structure and governance as it expands internationally. Prior to joining IAG, Ms McLoughlin held a number of senior positions at AMP in Sydney and London including General Manager of the Office of CEO. Prior to joining AMP, Ms McLoughlin held other senior positions including Corporate Counsel at Optus Communications and Senior Associate with Allen Allen & Hemsley in both Sydney and London. In 2000, Ms McLoughlin was named Telstra Business Woman of the Year for Corporate and Government. She is also a Director of the AMP Foundation.

SAM MOSTYN BA, LLB
Group Executive, Culture & Reputation

Ms Sam Mostyn has an extensive background in law, corporate affairs, human resources and politics. She is responsible for managing human resources, organisational effectiveness, corporate affairs, government and policy, community and environment and the integration of sustainability targets into the business. Prior to joining IAG in February 2002, she was Director of Corporate Development and Acting Human Resources Director at Cable & Wireless Optus (now SingTel Optus Pty Limited) and Group Director, Human Resources for Cable & Wireless plc based in London. Prior to joining Cable & Wireless Optus, Ms Mostyn was an adviser to several Communications Ministers and senior adviser to then Prime Minister, The Hon Paul Keating. Ms Mostyn serves on the Academic Advisory Board of the Australian Institute of Management, the Boards of the Sydney Festival, Sydney Theatre Company, Centenary Institute, Redfern Waterloo Authority and Humour Foundation, and is a Trustee of The Australian Museum. Ms Mostyn is also a Commissioner with the Australian Football League.

MARIO PIRONE
BBus, DipInsMgt, FCPA
Chief Executive Officer, CGU Insurance

Mr Mario Pirone has 25 years experience in general insurance and financial services. He was appointed Chief Executive Officer, CGU Insurance in July 2004, with responsibility for IAG's Australian commercial insurance operations, which include commercial property, commercial motor and rural insurance, workers' compensation, public liability and professional indemnity insurance, predominately sold through intermediaries. Prior to this appointment, he held several senior positions within IAG including Group Executive, Asset Management and Chief General Manager of Strategy; and General Manager of Communications. Prior to joining IAG, Mr Pirone held various positions within SGIO Insurance.

DAVID SMITH
BBus, MBA, FAIM, FNZIM
Chief Executive Officer, IAG New Zealand

Mr David Smith has 27 years experience in financial services. He joined IAG in 1999 as General Manager, Human Resources. In February 2001, Mr Smith was appointed Chief Executive Officer of IAG New Zealand. Prior to joining IAG, Mr Smith held senior positions with Westpac Banking Corporation, including Regional General Manager, Retail Banking Queensland. He is President of the Insurance Council of New Zealand Inc and Chairman of the Board of the New Zealand Insurance and Savings Ombudsman Scheme.

GEORGE VENARDOS
BCom, FCA, DipCM, FCIS, FTIA, MAICD
Chief Financial Officer

Mr George Venardos has more than 26 years experience in the insurance, investment and finance sectors. Mr Venardos joined IAG in 1998 and played a key role in the demutualisation and listing of the Group, which was completed in August 2000. He is responsible for IAG's corporate secretariat, investor relations, group finance and treasury, legal, corporate actuarial and mergers and acquisitions, taxation, group strategy, and asset management, with responsibility for more than $14.0 billion in funds under management. Prior to joining IAG, Mr Venardos held the position of Executive Director and General Manager, Finance and Corporate Services, with the Legal & General Group in Australia. He is the Chairman of the Finance and Accounting Standing Committee for the Insurance Council of Australia. In 2003, Mr Venardos was awarded CFO of the Year in Insto Magazine's Annual Distinction Awards.

AUSTRALIAN PERSONAL INSURANCE

The Australian personal insurance operation, which contributes around 60% of the Group's GWP, continued to perform strongly despite heightened competitor activity and several severe weather events.

PORTFOLIO MIX

% OF GWP

- Motor vehicle 49%
- Home 29%
- Compulsory third party 17%
- Other short-tail 5%

FINANCIAL PERFORMANCE

Gross written premium	$3,978 million
Net earned premium	$3,721 million
Combined ratio	92.2%
Insurance margin	16.0%

YEAR IN REVIEW

In the past year, our Australian personal insurance operations achieved an insurance margin of 16.0%, and combined ratio of 92.2%.

We continued to focus on providing help beyond the claim, working with our suppliers to provide a seamless service to our customers when they need it most, at claim time.

This focus has delivered customer retention rates of over 90% for the past three years for directly sold business, while customer complaints decreased to 0.3%, their lowest levels since IAG listed.

A number of significant storms influenced the personal insurance result. The worst of these storms occurred in Sydney and Melbourne in early February 2005. These storms resulted in nearly 25,000 claims.

This year, we also commenced the process of building on IAG's established distribution network by progressively converting 24 of our branches to franchises. The process was the result of a national review of IAG's branch network which looked at the needs of customers, the opportunity for growth in each market and the long term financial viability of each site.

It means we will be able to maintain the most extensive customer-facing network of any insurer in Australia, with 320 branches and country service centres across metropolitan and regional Australia.

Our share of the CTP insurance market remained stable in all markets, with shares of around 40% and 2% in NSW and Queensland, respectively. As no other insurers have entered the ACT CTP market, our share remains at 100%.

OUR CUSTOMERS' PERSPECTIVE

We recognise that paying a claim goes only part of the way to meeting customers' needs. Events which lead to a claim can be stressful or traumatic, so providing a customer experience which takes some of the worry out of the aftermath of an event is a key differentiator for IAG.

Storms in Mudgee and Ulladulla in NSW in April 2005 left thousands of cars with hail damage.

To ensure customers didn't have to wait long for their car to be repaired, IAG has facilitated the widespread use of Paintless Dent Repair, a high quality, fast method of repair which is used internationally on hail damaged cars.

To help customers lodge their claims quickly, we despatched Help Vans to affected locations, and assisted our customers to protect their property by providing tarpaulins. Finally, for those customers whose homes had been made unliveable by the storms, we arranged temporary accommodation.

Our efforts to help our customers aren't limited to those affected by storms.

We take the leg work out of having customers' cars repaired by giving them access to a high quality, rigorously assessed pool of repairers.

We conduct random quality audits of cars repaired by members of our repairer network, we can provide customers a post-repair quality check at no cost, and provide a lifetime guarantee on the quality of the work for approved repairs.

This year, we launched our Care & Repair Centres in metropolitan NSW. They are designed to make the repair process even more convenient. The service has been operating for some time in Queensland, Western Australia and South Australia, where it has driven consistently high customer satisfaction levels.

This method of allocating repairs through these Centres has also increased quality of repairs in all the markets in which Care & Repair operates.

The preferred builders we work with to help our home insurance customers are subject to similar quality controls as those which govern our preferred smash repairers. We also give our customers access to quality suppliers to help replace stolen or damaged goods.

This year saw a new addition to our home insurance product line. Landlords insurance was launched in March 2005, to cater to the increasing number of property investors. This product provides benefits to landlords for a number of common risks faced by them.

OUR COMMUNITY

Part of our purpose is to reduce risk in the community. In the context of our personal insurance operations, this translates to reducing risk at home and on the road.

Severe head injury is the most common cause of death from accidents for people aged under 40 and a leading cause of disability in the Australian community. Head injuries sustained in motor vehicle crashes costs the NSW community more than $180 million every year.

This year, we took a significant step towards reducing the severity of head injuries suffered by accident victims, with the launch of the Head Injury Retrieval Trial (HIRT).

IAG has committed $11.2 million to the trial over three years, which is being carried out by NRMA CareFlight throughout Greater Sydney and surrounding regions.

The trial entails sending a specialist doctor and paramedic by helicopter directly to randomly selected crash scenes to assist people identified as having severe head injury.

We have also continued helping local communities to reduce risk through our **community**help grants programme.

In 2005, IAG awarded 150 **community**help grants, with a total of around $530,000 going to fund community projects including:

- Fire safety initiatives for people with hearing impairments, run by Travellers Aid Disability Access Service in Victoria;
- Education on road safety around school zones, an initiative by the Fitzgerald State School P&C Association in Queensland; and
- Community safety seminars in English, Vietnamese, Cantonese, Arabic and Spanish, run by Woodville Community Services in NSW.

Since the **community**help grants programme began in 2003, IAG has given more than $1.3 million in grants to community groups across Australia.

Our preferred smash repairers are our partners in providing quality smash repairs to our customers, and we're committed to ensuring the sustainability of the smash repair industry.

In 2000, IAG launched its Jumpstart Autobody Scholarship programme for school leavers interested in a career in smash repair.

In June this year, the first group of NRMA Insurance Jumpstart Autobody Scholarship holders graduated. As recognition of their commitment throughout the programme, IAG recently presented the nine participants and their employers with $5,000 each.

In 2004, the Scholarship was joined by the Jumpstart Autobody Traineeship, which allows students to train for a career in smash repairing while completing high school. To date, 230 students have found a job with our preferred smash repairers through the $7.4 million programme.

LOOKING FORWARD

In the next year, we aim to maintain the high retention levels which have characterised our home and motor portfolios.

We will remain focused on using sophisticated risk rating to ensure low risks don't subsidise high ones. In the next year, we will refine this focus to develop ways to ensure that those customers who take measures to reduce their risk are increasingly rewarded by discounts or lower premiums.

We will continue to seek community partnerships which provide relevant, useful risk mitigation tools, driving both customer retention and risk reduction.

We will also work with our preferred suppliers to continue to develop and implement supply chain models which drive greater efficiency, quality and customer satisfaction.

WOOD CHOPPER TO THE RESCUE

Imagine the horror of waking up with a tree at the foot of your bed. That's what happened to customer Richard Wardlaw when rain and windstorms battered the Melbourne area in February this year.

"It was 4am, my wife was away and I was asleep. Torrential rain and storms had softened the ground so when the winds came, I woke up to a giant crash and found water pouring into the bedroom. Our giant poplar tree had crashed into the house and was balancing on a cross beam and window frame, perfectly aimed at our bed.

"I was shaken, but thankful to be alive.

"After the initial shock of what had happened, the clean up task seemed daunting. From the beginning, CGU was there coordinating the entire effort. The position of our house and the block of land meant that cranes couldn't get access and it was simply too dangerous for tree loppers to chop the tree into bits.

"That's when CGU decided the only way to get this tree out of our house was by helicopter – a sight I thought I would never see."

AUSTRALIAN COMMERCIAL INSURANCE

Our Australian commercial insurance operations, predominantly branded CGU Insurance, reported gross written premium growth of 5% in a market characterised by falling rates.

PORTFOLIO MIX

% OF GWP

Short tail commercial 63%
Liability 25%
Workers' compensation 12%

FINANCIAL PERFORMANCE

Gross written premium	$1,694 million
Net earned premium	$1,435 million
Combined ratio	95.3%
Insurance margin	17.2%

YEAR IN REVIEW

Our Australian commercial insurance operations achieved a solid performance during the year, growing gross written premium by 5%, and posting a combined ratio of 95.3% and an insurance margin of 17.2%.

Growth in business volume contributed to our result, with the number of policies in force increasing by 7%. In addition, our retention and renewal rates were strong due to the relationships we have built with our intermediaries.

To position our business for long term growth, we developed four strategic platforms during the year:

- being market-focused and forming strategic relationships;
- building a portfolio of businesses operating at an optimum level;
- providing exceptional customer claims experience; and
- investing in the development and the technical ability of our people.

These strategic platforms guided our business direction and the development of our initiatives. This focus also deepened our understanding of customers and the broader community, and better equipped us to design and deliver more robust products and services.

OUR CUSTOMERS' PERSPECTIVE

CGU's strategy to foster deeper relationships with customers and stakeholders saw the introduction of a number of initiatives.

Our customers told us they wanted our technology to work better for them. In response, we've significantly enhanced our online capabilities.

We extended our web-based CGU Connect product to include commercial pack and landlords insurance, and launched an online claims tracking system for personal insurance claims to help insurance brokers manage their customers' policies. We also placed our renewal documents online for checking by customers, which led to a halving in turnaround time and cutting paper use by 10 million A4 sheets a year.

Similarly, we developed a web-based reporting system to help employers proactively manage injury claims and identify how they can improve safety.

We boosted our health and safety product suite, developing the CD ROM tool, Risk Radar, to help small businesses manage and improve their environmental and OH&S performance. Risk Radar picked up the United Nation's Australian 'Triple Bottom Line' Award 2005.

CGU also launched its market-leading online learning management solution for small to medium businesses, making employee safety training significantly more accessible and affordable.

We also introduced a best practice case management programme for our workers' compensation teams in South Australia and Victoria, bringing together associated disciplines and strategies to help injured people return to work and preventing further injuries.

Our brokers asked us to share our knowledge about specialist insurance products like workers' compensation and professional risks. In response, we held education sessions for more than 1,000 employees of brokers and authorised representatives. This educational support has been a key factor in prompting brokers to rate CGU's Professional Risks team as Australia's number one for small to medium-sized businesses for the sixth time in the Deloitte/JP Morgan General Insurance survey.

We trained a further 4,400 employers and their representatives about their obligations in managing claims of injured employees, getting injured people back to work and preventing workplace injuries.

From a product perspective, we worked closely with regulators, governments and the building industry to extend our home warranty insurance presence beyond NSW and Victoria, to also be available in South Australia, Western Australia and Tasmania.

Drawing on the existing expertise in our business, we launched a dedicated commercial motor fleet unit so CGU can provide broader products and services to both small and large motor fleet clients. As part of this, we established a new accident management model giving customers a single point of contact to ensure minimal off road time.

OUR PEOPLE

Commercial insurance involves many stakeholders and complexities associated with law, regulation and technical factors. As such, a high calibre workforce is essential. We established professional benchmarks during the year to ensure we have a workplace that attracts the best people and supports our people to be their best, particularly in relationship management and technical ability.

We launched an Australian industry first – the CGU Commercial Insurance Academy – providing our people with high quality education delivered by experts. We also supported the Business Insurance Accredited Learning Programme, a competency-based programme. These initiatives are industry-approved and the qualifications are recognised externally.

Our people achieved outstanding results in the Australian and New Zealand Institute of Insurance and Finance Academic Awards. We will continue supporting the development of our people.

OUR COMMUNITY

We have a proud tradition of standing alongside local communities in times of need. Our response to the Eyre Peninsula fires in January 2005, where lives were tragically lost, was prompt and aimed to provide immediate crisis support within 24-hours of the fires, helping with accommodation and advance payments. We also joined agribusiness partners, Elders and Landmark, to work with local businesses and farmers to plan for the community's longer term recovery.

We used our vast risk management knowledge to raise awareness about community risks and to help make the lives of our customers safer, particularly those with limited resources like farmers and small business owners.

Working in partnership with the NSW Police and Crimestoppers, we launched a campaign to prevent rural crime and encourage people who have been victims of crime to report it.

Through the media, we educated small businesses about the importance of physical and cash security and highlighted peak periods for crimes against businesses. Using our claims data, we developed a Top Six Farm Risks campaign to help people on farms prevent injury, and we worked to raise awareness about where and when people are most likely to be injured in the workplace.

Our dialogue with the broader community is now more meaningful and is geared towards keeping insurance affordable, particularly as society and its expectations change. In anticipation of the community benefits we believe will result from tort law reforms, we cut our public liability rates by more than 10% in all States and Territories.

LOOKING FORWARD

We will continue to strengthen our business for sustainable growth.

We are developing centres of excellence around our product groups, distribution networks and customer segments. This means we can improve our risk selection and pursue targeted opportunities and provide the best insurance solutions and service to our customers.

Our strategies are resonating well with our people and our customers and provide an excellent base for future growth and profitability.

DRIVING SAFETY AT DIESEL ENGINE FACTORY

Working with our customers to reduce risk is core business for IAG. Stuart Davis, General Manager of R Moore and Sons, a diesel engine factory and CGU workers' compensation customer in Western Australia really appreciates this.

"Our workshop is a safer place since CGU helped us work out an action plan to reduce hazards for our staff.

"The CGU team looked at our safety management systems, interviewed our staff and toured our office, factory and storage areas. They worked out that most of our workplace injuries resulted from the way employees were handling materials which caused sprains and strains, and showed us more than 40 specific improvements we could make to minimise the hazards.

"The results have been remarkable. Our staff benefit from working in a safer environment, and we've significantly reduced our costs – injury claims are down by more than 80%. We have a growing confidence in dealing with health and safety issues. Staff have become involved and developed a positive attitude to our health and safety strategy, and our standards have been raised."

The reason IAG does this is simple: reducing risks means customers can avoid unnecessary hardships, and they can benefit from lower premiums too.

INTERNATIONAL OPERATIONS

The Group's international operations produced a significant improvement in margins, benefiting from favourable underwriting conditions.

NEW ZEALAND OPERATIONS PORTFOLIO MIX
% OF GWP

- Short-tail commercial 42%
- Motor vehicle 27%
- Home 26%
- Other short-tail 5%

FINANCIAL PERFORMANCE

Gross written premium	$1,001 million
Net earned premium	$868 million
Combined ratio	92.5%
Insurance margin	10.6%

NEW ZEALAND OPERATIONS

Favourable underwriting conditions, coupled with further operational efficiencies and high customer retention and satisfaction levels, enabled our New Zealand operations to maintain momentum during the year. This resulted in an improved insurance margin and combined ratio.

Our people were put to the test again this year responding to some of the worst weather-related events in New Zealand's history. In May 2005, in the upper North Island, major damage caused by storm-related floods and landslips resulted in more than 1,500 claims. A month earlier, the most severe hailstorm in Christchurch in 10 years led to approximately 3,100 claims.

Claims costs from major weather-related events totalled around $36 million, with the scale of claims and rebuilding placing strain on resources in affected areas. This compared to around $14 million in the prior year, net of reinsurance recoveries.

Despite the challenge of responding to these events, as well as operating in an environment experiencing heightened competition from both domestic and offshore competitors, we maintained our position as New Zealand's market leader during the year, holding a share of approximately 37% of the general insurance market (according to Insurance Council of NZ Statistics).

This was achieved through a clear focus on leveraging our product and distribution capabilities and improving customer service and delivery standards. We also further increased the efficiency of our operations, while our bottom line benefited from the first full year's contribution of the integration synergies flowing through from the acquisition of NZI in January 2003.

Our distribution network was enhanced during the year through the acquisition of interests in three small, niche underwriting operations:

- Clipper Club Marine Underwriters Limited, a specialist marine underwriter and distributor of marine insurance products;
- National Auto Club Underwriters Agency (NZ) Limited, a specialist underwriter of high performance motor vehicle insurance; and
- Mike Henry Travel Insurance Limited, in which we've acquired a 50.1% interest, to enable us to become the leading underwriter and distributor of travel insurance products within the New Zealand market.

In addition, our New Zealand operations launched a number of core business products, including insurance products tailored to high net worth individuals, body corporates and students.

We also reviewed our technology systems which manage customer claims and policies, and resolved to adopt the same platform in New Zealand for our direct lines as used by IAG's Australian personal lines operations, rather than build a stand-alone platform.

Our people have been integral to achieving our consistent results. The most recent survey of our 1,900 employees showed an improvement in engagement levels, which is particularly pleasing given the operational challenges we faced during the year. Career and capability programmes and improved training, coupled with our system of reward and recognition and strengthened leadership from the management team, contributed to the improvement.

OUR CUSTOMERS' PERSPECTIVE

Recognising that responsiveness to customers is a key to our sustainability as a business, we made further progress during the year in improving our service delivery.

To drive improvements, we reviewed our internal training programmes, success measures and key performance indicators, and introduced initiatives to heighten our service standards, including the 'Customer Promises' concept and a customer feedback system.

A 'Customer Promise' is a statement developed by our customer-facing teams that helps to heighten our people's motivation to improve every customer interaction, while the feedback system is a formalised method to capture and learn from our customers' comments.

Customer satisfaction results demonstrate the success of the improvements we have made. In our direct channel under the State brand, overall customer satisfaction increased from 86% to 89%.

Similarly, research conducted among key brokers to measure the strength of their relationship with NZI showed the business achieved significant increases in broker satisfaction, improving from 70% to 84%.

OUR COMMUNITY

We take our role in promoting safer communities in New Zealand very seriously.

We were very pleased that this was recognised when IAG New Zealand took first place in the large business category of the Sustainable Business Network's National Sustainable Business Awards. The award recognises our focus on tackling key community issues such as under and noninsurance, climate change and flood mitigation.

A range of programmes have been launched through our partnership with the New Zealand Fire Service, most notably our sponsorship of the Fire Awareness Intervention Programme which aims to overcome the problem of children and adolescents lighting fires.

Our Neighbourhood Support and Community Patrols work in close partnership with the police to make people's homes, streets, neighbourhoods and communities safer places to live and work. Our sponsorship of Victim Support assists in providing practical advice, information and emotional support to more than 140,000 New Zealanders affected by trauma every year.

In line with our commitment to ensuring the sustainability of our key suppliers, we continued to support the vehicle repair industry through our apprenticeship scheme. Under the scheme, which is in its third year, IAG New Zealand pays all fees and course-related costs for selected students to complete a National Certificate-level qualification in panel beating or vehicle refinishing. During the year, 25 applicants were selected to complete the three year course.

Our commitment to reducing our impact on the environment progressed well during the year. Initiatives included new recycling programmes in our offices, the introduction of environmentally friendlier vehicles in our fleet, the inclusion of sustainability criteria within the design and fit-out of our new building in Christchurch and the introduction of new sustainability criteria to guide the selection of all our suppliers.

LOOKING FORWARD

We will continue to focus on growing our New Zealand operations through innovating and developing our capabilities, reducing costs and leveraging our scale.

We will also focus on developing niche business opportunities, like those offered through our marine and travel insurance ventures.

We recognise that we have an ability to influence and shape our business environment by extending our leadership position within the community, particularly in public education about the issue of under insurance and noninsurance.

As our customers continue to increase their level of understanding about insurance products, we will be required to constantly meet the challenge of updating our technology and operational processes. Our recruitment and employee engagement strategies will need to evolve to match the challenges of a tightening labour market.

ASIAN INTERESTS

The Group continued to develop and expand its portfolio of assets in Asia.

In China, our key strategies to develop our wholly-owned road side assistance company, the China Automobile Association (CAA), are to develop a retail direct distribution strategy and to expand the business beyond Beijing to become a national player in the road side assistance market.

CAA recently broadened its product mix from only offering pre-paid membership to offering a range of fee-for-service options for road service and towing.

In addition, CAA continued to expand its distribution, acting as an agent selling car insurance for China's three leading insurers.

CAA is also developing its position as a road safety advocate, establishing an accredited partnership with Tsinghua University for a smash testing facility. We have commenced free towing services for government-owned buses in cooperation with the Beijing Traffic Management Bureau to alleviate traffic problems, and we are also assisting the government with the Beijing 2008 Olympics.

In Thailand, we acquired a small general insurer, formerly part of the Royal & SunAlliance Insurance Group in July 2005. This acquisition, coupled with our existing strategic 22% holding in Thailand's fifth largest motor insurer, Safety Insurance, positions the Group well to play a role in the inevitable consolidation of the fast growing Thai general insurance market.

With our technical assistance, Safety Insurance has continued to grow profitably. During the past year, Safety Insurance's revenue grew more than 10% and earnings per share increased by about 20%.

LOOKING FORWARD

Our strategy remains to build a portfolio of insurance assets in Asia, subject to finding the appropriate opportunities at the right price.

Working with CAA is assisting us in gaining knowledge of the general insurance market in China, which is benefiting our research of potential partnership opportunities.

In the growing Thai general insurance industry, we are positioned well to play a role in the market's anticipated consolidation.

Our focus for future growth opportunities in Asia remains on China, Thailand, Malaysia Hong Kong, Singapore and India. We intend to open a regional office in Singapore to assist with the management and growth of our Asian investments.

BOARD OF DIRECTORS

MR JA (JAMES) STRONG

Age 61 – Independent Non-executive Director

Mr James Strong was appointed Chairman of IAG in August 2001. He is Chairman of the IAG Nomination, Remuneration & Sustainability Committee.

Mr Strong is Chairman of Woolworths Limited, Rip Curl Group Pty Limited, the Sydney Theatre Company, the Australian Brandenburg Orchestra and the Australia Business Arts Foundation (AbaF). He is also a Director of the Australian Grand Prix Corporation and Dorna Sports SL.

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 Australia Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council. Mr Strong has been admitted as a barrister and solicitor.

Directorships of other listed companies held in past three years
Woolworths Limited – since 10 March 2000; and IAG Finance (New Zealand) Limited – since 9 November 2004.

MR MJ (MICHAEL) HAWKER

BSc, FAIBF, ASIA, FAICD,

Age 45 – Chief Executive Officer and Managing Director

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

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

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

Mr Hawker is President of the Insurance Council of Australia; Member of the Financial Sector Advisory Council; Director of the Australian Chamber of Commerce and Industry; Member of the Federal Treasury's Consumer and Financial Literacy Council; Member of the Business Council of Australia; Advisory Board Member of the Australian Graduate School of Management; Member of the Business Roundtable for Sustainable Development; Member of the Australia Business Arts Foundation (AbaF); and Advisory Board Member for the Police Commission of New South Wales. He was previously the Chairman of the Australian Financial Markets Association.

Directorships of listed companies held in past three years
IAG Finance (New Zealand) Limited – since 9 November 2004.

MS YA (YASMIN) ALLEN

BCom, FAICD

Age 41 – Independent Non-executive Director

Ms Yasmin Allen was appointed as a Director of IAG in November 2004. She is a member of the IAG Risk Management & Compliance Committee.

Ms Allen has 15 years experience in investment banking, as an equities analyst and in senior management.

Ms Allen was previously a Vice President at Deutsche Bank AG, a Director at ANZ Investment Bank in Australia, an Associate Director at James Capel UK Ltd (HSBC Group) and an analyst at Kleinwort Benson plc Investment Bank in the UK.

Ms Allen is currently a Director of Export Finance & Insurance Corporation (EFIC), Macquarie Specialised Asset Management (and the Chairperson of its Audit Committee), Film Australia (and the Chairperson of its Audit Committee) and the Salvation Army Advisory Board and the Salvation Army Investment Advisory Board.

Directorships of other listed companies held in past three years
None.

MR JF (JOHN) ASTBURY FAICD

Age 61 – Independent Non-executive Director

Mr John Astbury was appointed as a Director of IAG in July 2000. He is Chairman of the IAG Audit Committee and serves on the IAG Nomination, Remuneration & Sustainability Committee.

Mr Astbury is a Director of Woolworths Limited and AMP Limited. He 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.

Directorships of other listed companies held in past three years
Woolworths Limited – since 29 January 2003; AMP Limited – since 1 September 2004; and Xstrata Queensland Limited (formerly MIM Holdings Limited) – from 21 July 1998 to 24 June 2003.

MR GA (GEOFFREY) COUSINS

Age 62 – Independent Non-executive Director

Mr Geoffrey Cousins was appointed as a Director of IAG in July 2000. He is a member of the IAG Audit Committee.

Mr Cousins has more than 26 years experience as a company director. Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network, Hoyts Cinemas group and NM Rothschild & Sons Limited. 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 and is the Chairman of the Cure Cancer Australia Foundation.

Directorships of other listed companies held in past three years

Globe International Limited – from 24 May 2001 to 3 March 2003.

MR ND (NEIL) HAMILTON LLB

Age 53 – Independent Non-executive Director

Mr Neil Hamilton was appointed as a Director of IAG in June 2000 and as a Director of Insurance Australia Limited (formerly NRMA Insurance Limited) in 1999. He is a member of the IAG Risk Management & Compliance Committee.

Mr Hamilton is the Chairman of IRESS Market Technology Limited and Integrated Group Limited. He is the Chairman of Western Power Corporation.

Directorships of other listed companies held in past three years

IRESS Market Technology Limited – since 15 September 2000; Integrated Group Limited – since 2 August 1999; Sons of Gwalia Ltd – from 19 January 2004 to 28 January 2005; and Chieftain Securities Limited – from 12 June 1992 to 19 November 2004.

MR RA (ROWAN) ROSS

BEc, BCom, FCPA, FSIA

Age 56 – Independent Non-executive Director

Mr Rowan Ross was appointed as a Director of IAG in July 2000 and acted as Chairman from April to August 2001. He is Chairman of the IAG Risk Management & Compliance Committee and serves on the IAG Nomination, Remuneration & Sustainability Committee.

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

Directorships of other listed companies held in past three years

Macquarie Capital Alliance Limited – since 25 January 2005; and IAG Finance (New Zealand) Limited – since 9 November 2004.

MR B (BRIAN) SCHWARTZ FCA, AM

Age 52 – Independent Non-executive Director

Mr Brian Schwartz was appointed as a Director of IAG in January 2005. He is a member of the IAG Audit Committee.

Mr Schwartz is the Chief Executive of Investec Bank (Australia) Limited. Prior to this, he was with Ernst & Young Australia (1979 – 2004), becoming its Chief Executive in 1998. He was a member of Ernst & Young's global board and Managing Partner of the Oceania region. Mr Schwartz retired from Ernst & Young in December 2004.

Mr Schwartz serves as a Trustee and Vice President of The Australian Museum and Deputy Chairman of the Board of Football Federation of Australia Limited. He was appointed a Member of the Order of Australia in 2004 for his services to business and the community.

Directorships of other listed companies held in past three years

None.

CORPORATE GOVERNANCE

Insurance Australia Group's corporate governance structure and risk management framework provide a sustainable balance of its core purpose to pay claims, understand and price risk, manage costs and reduce risk with its responsibility to provide fair and stable returns to shareholders.

1. IAG'S APPROACH TO CORPORATE GOVERNANCE

The Group is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create value for its shareholders. To achieve this, the company promotes a culture that rewards transparency, honesty, meritocracy, teamwork and social responsibility.

The key corporate governance practices followed by the Group and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place. Copies of IAG's Board and Board Committee Charters and key corporate governance policies can be found on IAG's website at www.iag.com.au.

The regulatory environment in which the Group conducts its business will continue to have a major influence on the Group's corporate governance practices.

During the past year, the Group has strengthened its corporate governance in response to new legislation and regulation relating to audit reform and corporate disclosure following amendments to the Corporations Act 2001 that came into effect on 1 July 2004. Australian listed entities, including IAG, are now required to:

- Provide shareholders with enhanced disclosure of director and executive remuneration;
- Facilitate increased participation by shareholders in general meetings;
- Improve protection for whistleblowers; and
- A declaration to the Board by the entity's CEO and CFO in relation to the entity's financial records and financial statements.

In addition, the Group adopted a new conflicts of interest policy in response to the new statutory obligation for Australian Financial Services Licensees to have adequate arrangements to manage conflicts of interest.

The enhanced disclosures in relation to director and executive remuneration are set out in the Remuneration Report at pages 44 to 56. The Remuneration Report will be put up for adoption by shareholders at the Group's Annual General Meeting to be held on 9 November 2005. The vote on the resolution will be advisory only and non-binding.

The Group also strengthened its corporate governance and risk management frameworks during the year by the creation of two new Executive Committees, the Reputation Committee and the Asia Management Advisory Council, whose roles are described at page 37.

The Group believes that, in order to preserve and enhance the value of the company, it must safeguard its reputation. The Reputation Committee was established to help formulate the Group's broad strategies on reputation issues and to report and make recommendations on these to executive management and the Board.

The Group is seeking overseas investment opportunities, focused on Asia. In order to deliver long term value from these investments, the Group believes that the core competencies and skills that have contributed to its success will need to be introduced and embedded in the newly acquired businesses. The Asia Management Advisory Council has been established to assist management to coordinate and oversee the Group's Asian growth plans and, where considered appropriate, to make recommendations to the Board.

Throughout the reporting period, the Group has complied with the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

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

In the past year, the Group actively participated in the debate to improve Australia's corporate governance regime, making 18 submissions to Federal and State Government committees and enquiries, the Productivity Commission and regulators in relation to new legislation and regulation affecting the insurance industry. In addition, IAG representatives have participated in forums, working parties and committees of insurance industry associations, accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance and prudential standards and practices that have particular application to the general insurance industry.

2. THE BOARD OF DIRECTORS

2a. Roles and responsibilities

The Board

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

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

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

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

- Ensuring that reporting and disclosure processes include all relevant legal and commercial requirements; and
- Ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are established and processes exist to ensure they are adhered to at all times.

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

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

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

2b. Structure and composition of the Board
The company's Constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the Directors from time to time. The Directors have determined that, for the present, the maximum number of directors is eight. The Board currently comprises seven Non-executive Directors and one Executive Director, whose position as a Director is on an ex-officio basis.

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

The Board will determine whether each Director is independent, using the principles outlined in its Charter. Independence will be taken to be met when a Director is a Non-executive Director and:
- Is not a substantial shareholder of the company (a shareholder with 5% or more of the issued voting shares), or associated directly with a substantial shareholder of the company;
- Has not within the last three years been employed as an executive of the company or any of its subsidiaries or been a Director after ceasing to hold any such employment;
- Has not within the last three years been associated with, or a principal of, a material professional adviser or material consultant to the Group, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Group, or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Group other than as a Director;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group (as determined by the Board in the case of each Director); and
- Is otherwise free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

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

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

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

The Board considers its size and composition annually. In considering the size and composition of the Board, Directors will consider, among other things:
- The nature, size and complexity of the Group; and
- The efficiency and effectiveness of the Board, balancing the need to have sufficient skills and expertise to fulfil the needs of the Board and all its Committees, with the need to maintain a Board size where all Directors can effectively participate and contribute.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or Executive Director and their experience, expertise, and biographical details are set out at pages 30 and 31.

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

2c. Induction and training
The Group encourages continuing professional education for each of its Directors. All Directors are expected to remain up to date in relation to issues affecting the Group, the general insurance industry, and their duties as Directors.

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

Executive directors appointed to subsidiary and associated company boards are required to undertake a minimum level of director training and to demonstrate that they have undertaken ongoing development and training to continue to effectively and competently perform their roles as executive directors.

2d. Tenure
It is expected that Directors will continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of the company's shareholders.

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

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

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

Two Non-executive Directors, Ms Dominique Fisher and Ms Anne Keating, retired from the Board at the conclusion of the November 2004 AGM as another completed term of office, had they again stood for re-election, would have taken them beyond the standard tenure of seven years.

2e. Appointment terms

Formal appointment letters have been issued to each Non-executive Director, including the Chairman, to assist individual Directors in understanding the role of the Board and the corporate governance principles adopted by the Board. The letters formally document the basis of each Director's appointment, including the proposed standard term of their appointments and, where applicable, the cessation of further accrual of retirement benefits.

The appointment letters also provide for:

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

2f. Measuring the performance of Directors

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

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

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

A review of individual Directors' performance was conducted in June 2005, with assistance and input from an independent board performance expert.

2g. Board operations

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

Supplementing these meetings are bi-annual Board strategy forums with the Group's executive team, which were last held in September 2004 and April 2005. 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 were also involved in a number of meetings for specific Group initiatives which, during the past year, included participation in due diligence meetings preparatory to the issue of $550 million of Reset Exchangeable Securities by the New Zealand Branch of IAG's wholly-owned subsidiary, IAG Finance (New Zealand) Limited.

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

Directors' attendance at Board and Committee meetings held during the year are shown at page 41 in the Directors' Report.

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

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

3. COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring Board procedures are complied with and also provides advice and counsel to the Board in relation to corporate governance, investor relations and other matters.

The qualifications and experience of IAG's company secretaries are set out at page 41.

4. STANDING COMMITTEES

The Group has three standing Board Committees, each with charters and established operating procedures. Copies of the Committee charters are available at the Group's website www.iag.com.au.

Each Committee annually reviews fulfilment of its responsibilities under its respective charter.

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

4a. Nomination, Remuneration & Sustainability Committee

The Nomination, Remuneration & Sustainability Committee has three members, each of whom is an independent Non-executive Director of the company. Currently, the members of this committee are Mr James Strong (Chairman), Mr John Astbury and Mr Rowan Ross. Committee meetings are held at least four times a year.

The main responsibilities of this Committee include:

- Formally reviewing Board performance, size and composition every three years, and recommending candidates for appointment to the Board;
- Providing assistance to the Chairman on the review of the performance of individual Directors and making recommendations on the operation of the Board;

- Making recommendations to the Board in respect of the remuneration of Non-executive Directors and the Chief Executive Officer as well as approval of the remuneration of the direct reports to the Chief Executive Officer;
- Considering the Chief Executive Officer's performance and plans for succession, as well as reviewing management plans for executive succession;
- Ensuring the Group's overall remuneration policy and approach fit the strategic goals of the Group;
- Monitoring the effectiveness and integrity of, and compliance with, the Group's remuneration and human resource policies and practices;
- Ensuring the issues of corporate reputation, social responsibility, and the Group's commitments around safety, environment, and community, stakeholder views are appropriately considered in the context of the Group's view of its corporate purpose and strategy and the importance of corporate reputation to the delivery of sustainable value for shareholders;
- Considering social, environment and ethical impacts of the Group's business practices and setting standards for social, environmental and ethical practices; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

4b. Audit Committee

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

The main responsibilities of this Committee include:

- Assisting the Board to discharge their responsibility to exercise due care, diligence and skill in relation to the integrity of the Group's internal and external financial reporting. This includes ensuring that the Group's full and half year financial reporting is consistent with Committee members' information and knowledge and believed to be sufficient for shareholder needs;
- Monitoring the application of accounting and actuarial standards, policies and practices by senior financial management when preparing full and half year financial reports;
- Assessing information from the external auditors and the internal audit function that affects the quality of external and internal financial reports;
- Reviewing external auditor engagement, remuneration, independence and effectiveness;
- Making recommendations to the Board on the appointment, removal and remuneration of the external auditor and monitoring his/her effectiveness;
- Monitoring compliance with an agreed framework for dealing with the external auditor's and consulting actuaries' firm for the provision of other services to ensure that such services and any relevant relationships do not compromise their objective and impartial judgement;
- Meeting with the Approved Auditor, the Approved Actuary, the Head of Group Risk & Compliance and the consulting actuaries on at least an annual basis without management being present; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

The Audit Committee is also empowered as the audit committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate Audit, Risk Management & Compliance Committee. In addition, the Audit Committee acts as the audit committee for IAG Finance (New Zealand) Limited, a company with debt securities listed on the Australian Stock Exchange.

4c. Risk Management & Compliance Committee

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

The main responsibilities of this Committee include:

- Overseeing the Group's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;
- Reviewing and monitoring all material risks in the Group's risk management systems: balance sheet, market (including investment, insurance, liquidity, product, pricing, underwriting, liability, claims management and derivatives risks), credit, operational and reinsurance risks to ensure the effective management of all such risks;
- Reviewing and evaluating the effectiveness of the Group's internal control systems;
- Approving the internal annual audit plan proposed by Group Risk Assurance and monitoring progress against the plan;
- Meeting with the Head of Group Risk & Compliance and the Group General Counsel on at least an annual basis without other management being present;
- Making recommendations to the Board on the appointment and removal of the Head of Group Risk & Compliance and monitoring his/her effectiveness; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

5. ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

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

The company's Continuous Disclosure & Insider Trading policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading. The policy includes a protocol outlining how information is released to the public. 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 securities, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that Directors, Group Executives and designated employees may only buy or sell IAG securities in the four week period commencing two trading days after the Group's half-year and full-year results announcements and the AGM or any other period approved by the Board, subject to not being in possession of inside information as defined by the law. In addition, IAG Directors and

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Group Executives may only trade in IAG securities in these periods after they have received prior consent from the Nomination, Remuneration & Sustainability Committee and complied with any conditions on trading in IAG securities that Committee imposes.

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

6. SHAREHOLDERS

In keeping with the Code of Conduct and the spirit of continuous disclosure, the Group is committed to ensuring shareholders are informed of significant developments for the Group. Regular announcements to the ASX are proactively relayed through an email messaging service to shareholders and other users who are registered to receive such, and are posted on the company's website, www.iag.com.au. Approximately 8,000 shareholders and other registered users currently use the email messaging service.

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

Media coverage of key events is also sought as a means of delivering information to shareholders and the market. Formal communication with shareholders is also conducted via the annual report, concise annual report, interim report and at the AGM of shareholders.

The Group is mindful of the need to adopt best practices in the drafting of notices for general meetings and other communications with shareholders to ensure that its notices of meetings are honest, accurate, informative and not misleading.

Electronic proxy voting, which was introduced for the 2004 AGM, helps to facilitate ease and timeliness of lodgement by shareholders of their voting on resolutions to be put to general meetings.

Shareholders are encouraged to attend general meetings and ask questions of the Chairman and the Board.

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

Shareholders may raise any issues or concerns at any time by contacting the company. Shareholders should email their questions or comments to investor.relations@iag.com.au or write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000.

7. RISK MANAGEMENT

Managing risk is at the heart of ensuring IAG's ongoing sustainability and delivery of value to shareholders. The Group's risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes and culture.

7a. Oversight structure

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

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

Operational Review Management Committee (ORM)
ORM is responsible for:
- Reviewing of corporate strategies and the performance of the Group and its business units compared to budgets, forecasts and corporate plans;
- Monitoring the Group's operational risk;
- Authorising capital allocation to major projects within financial delegation limits approved by the Board;
- Reviewing health, safety, environment and community performance; and
- Reviewing human resource performance and reward strategies.

Its members include Mr Michael Hawker (Chair) and his Executive team, who are listed at page 22 and 23 of this Annual Report together with their biographical details.

Asset & Liability Committee (ALCo)
The role of ALCo is to allow the Group's senior management to:
- Formulate recommendations for the Board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- Oversee implementation of Board policies concerning risk and capital management;
- Oversee the ongoing implementation of, and compliance with, the Group's Risk Management Strategy (RMS) including the Group's reinsurance management strategy; and
- Report to the Risk Management & Compliance Committee concerning compliance with, and the effectiveness of, the RMS.

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

Underwriting & Pricing Policy Committee (UPPCo)
The role of UPPCo is to provide the Group's senior management with a forum in which to:
- Establish or modify the Group's pricing principles and framework;
- Determine and monitor Group underwriting standards; and
- Monitor group insurance risk accumulations and group reinsurance requirements.

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

Reputation Committee (RepCo)
The purpose of RepCo is to provide the Group's senior management with a forum in which to:
- Monitor and make recommendations to executive management on the reputation risks facing the Group;
- Establish or modify the Group's reputation risk profile; and
- Report to the IAG Risk Management & Compliance Committee concerning reputation risk mitigation strategies.

Its members include Mr Michael Hawker (Chair), his Group executive team and other key senior management with responsibility for regulator engagement, policy and government relations, sustainability initiatives, investor relations and external communications.

Asia Management Advisory Council (AMAC)
The purpose of AMAC is the coordination and communication of the Group's Asian growth plans to ensure:
- Operations align with agreed corporate and Asian strategies;
- All Group activities in Asia are effectively coordinated and implemented across the business;
- The Group develops internal and external capabilities to operate effectively in the Asian region;
- An effective risk management framework for Asia is in place; and
- Asian operations are consistent with the Group's corporate values and ethical code of conduct.

Its members include Mr Ian Brown (Chair), Mr Michael Hawker and a number of his Group executives and other senior managers resident in Australia and Asia.

7b. Internal policies
Together with the Code of Conduct and Continuous Disclosure and Insider Trading Policy, the RMS details the Group's principles, appetite, key controls and monitoring processes for managing the risks outlined in the diagram "IAG's Risk Categories" at page 38.

The main aim of the RMS is to describe the risk management frameworks within the Group. The RMS is a primary input to, and evolves with, IAG's corporate strategy. It is a statement of minimum acceptable standards for managing the full spectrum of risks associated with pursuing corporate objectives and fulfilling the Group's purpose.

The RMS is reviewed annually by the Board and, if considered appropriate, updated consistent with APRA prudential standards. The RMS was amended during the year to include, among other matters, a new risk category, "corporate & strategic" risk (risks associated with corporate strategy development and execution of corporate transactions) in order to provide a heightened focus for management and the Board on this key risk category.

7c. Key risk management processes
Management employs the following key processes to meet, as well as monitor, the requirements of the Group's RMS.

Management Assurance Framework
This is a framework of self-assessment questions posed to, and answered by, management relating to the effectiveness of risk management processes and internal controls. The answers support the CEO, CFO and Board declarations on risk management, internal control and external financial reporting.

Risk Profiling
Each Business Unit identifies, assesses and designs controls for risks to achieving business objectives.

Risk Reporting
Reporting on risk management initiatives and issues is supplied to:
- The ORM by each Business Unit;
- The key management committees (ie ALCo, UPPCo, RepCo and AMAC) relating to the specific risks that these bodies oversee;
- Each meeting of the IAG Risk Management & Compliance Committee and the IAG Audit Committee; and
- Regulators and industry groups, where relevant and appropriate.

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Internal Audit
Internal independent reviews of key risk areas, processes, projects and management assertions about risk management and internal control are undertaken by the internal audit function (Group Risk Assurance). It reports to the Head of Group Risk & Compliance, who reports to the Chief Risk Officer, the IAG Risk Management & Compliance Committee and the IAG Audit Committee.

Independent Auditor's Reviews
External independent reviews of key financial risk areas, processes and issues are provided by the independent auditor.

7d. Culture
The Board and management actively promote a culture of honesty, transparency, teamwork, meritocracy, and social responsibility and encourage early and open communication of risk. To facilitate this open culture, the Board provides open access to the Chairs of the Board, the Audit Committee and the Risk Management & Compliance Committee.
In particular, the Group has established:

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

8. COMMUNITY AND ENVIRONMENT

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

As such, the Group acknowledges that the sustainability of its businesses is directly tied to the sustainability of the communities in which it operates. The Group's purpose and values have been built on the premise that returns to shareholders will be enhanced by conducting business in a way that creates value for society across environmental, social and economic dimensions.

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

The company released its inaugural Sustainability Report in November 2004, which is available at www.iag.com.au. This report measures the Group's performance against a series of social, economic and environmental indicators. Ongoing monitoring and progress in this area will be reported annually. In addition, the Group's Statement of Commitment to Community, Safety and the Environment is available at www.iag.com.au.

Ongoing stakeholder dialogue is a key element that drives the Group's community-based initiatives. In December 2004, the Group invited key community leaders to participate in a survey about social issues facing the community and the role of insurance in addressing these issues. The information gathered is being used by the Group to ensure it remains focused on issues most critical and valuable to the community. The Group intends to evaluate progress through future surveys.

The Group acknowledges that its impact upon society, the environment and the wider economy also occurs indirectly through its suppliers, vendors and contractors. Accordingly, the contracting of services and the purchase, hire or lease of equipment and materials must be consistent with the Group's Supplier Selection Guidelines, which include relevant standards on a number of these issues.

9. REMUNERATION FRAMEWORK

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

Details of the Group's remuneration policies for its Non-executive Directors and executives, the relationship of these policies to IAG's performance and details of the remuneration paid to the Non-executive Directors and to relevant executives are disclosed in the Remuneration Report commencing on page 44.

IAG's Risk Categories

FINANCIAL REPORT

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FIVE YEAR FINANCIAL SUMMARY

For the year ended 30 June

Insurance Australia Group Five Year Performance	2001[1] $m	2002 $m	2003 $m	2004 $m	2005 $m
Gross written premium	3,198	3,558	5,150	6,427	**6,673**
Gross earned premium	3,036	3,448	4,885	6,265	**6,561**
Reinsurance expense	(260)	(253)	(249)	(402)	**(417)**
Net earned premium	2,776	3,195	4,636	5,863	**6,144**
Net claims expense	(2,234)	(2,425)	(3,363)	(3,815)	**(4,069)**
Underwriting expenses	(564)	(628)	(1,074)	(1,500)	**(1,591)**
Underwriting profit/(loss)	(22)	142	199	548	**484**
Investment income from technical reserves	232	136	372	244	**516**
Insurance profit	210	278	571	792	**1,000**
Investment income from shareholders' and external funds	204	(291)	(76)	508	**501**
Financial services revenue	182	37	30	70	**–**
Other operating revenue	164	173	177	216	**178**
Life insurance business expenses	(72)	–	(11)	(52)	**–**
Borrowing costs expense	(88)	(46)	(46)	(57)	**(69)**
Corporate and administration expenses	(317)	(242)	(267)	(268)	**(247)**
Amortisation of goodwill and intangibles	(28)	(43)	(81)	(118)	**(105)**
Non-recurring items[2]	–	33	–	61	**–**
Profit/(loss) before income tax	255	(101)	297	1,152	**1,258**
Income tax (expense)/credit	(44)	18	(80)	(346)	**(379)**
Net profit/(loss)	211	(83)	217	806	**879**
Net (profit)/loss attributable to outside equity interests	(68)	58	(64)	(141)	**(119)**
Net profit/(loss) attributable to shareholders of Insurance Australia Group Limited	143	(25)	153	665	**760**
Shareholders' or members' equity ($ million)	2,523	2,476	3,575	3,538	**3,855**
Total assets ($ million)	12,586	11,307	16,470	16,291	**17,147**
Business volume (thousands)	8,619	8,671	13,334	14,052	**14,204**
Premium growth					
– gross written	21.0%	11.3%	44.7%	24.8%	**3.8%**
– net earned	16.4%	15.1%	45.1%	26.5%	**4.8%**
Key ratios					
Loss ratio	80.5%	75.9%	72.5%	65.1%	**66.2%**
Expense ratio	20.3%	19.7%	23.2%	25.6%	**25.9%**
Combined ratio	100.8%	95.6%	95.7%	90.7%	**92.1%**
Insurance margin[3]	7.6%	8.7%	12.3%	13.5%	**16.3%**
After tax return on ordinary equity[4]	5.3%	(1.2%)	5.1%	21.1%	**23.1%**
Share information					
Dividends per ordinary share – fully franked (cents)	10.00	10.50	11.50	22.00	**26.50**
Basic earnings per ordinary share (cents)[5]	9.40	(1.78)	8.65	37.87	**45.89**
Ordinary share price at 30 June ($) (ASX code: IAG)	3.40	3.15	3.40	5.00	**6.01**
5.80% reset preference share price at 30 June ($) (ASX code: IAGPA)	n/a	100.10	107.94	104.70	**103.90**
4.51% reset preference share price at 30 June ($) (ASX code: IAGPB)	n/a	n/a	100.10	98.35	**99.05**
Reset exchangeable securities price at 30 June ($) (ASX code: IANG)	n/a	n/a	n/a	n/a	**99.00**
Issued ordinary share capital (million shares)	1,399	1,301	1,683	1,591	**1,594**
Issued reset preference share capital (million shares)	n/a	4	6	6	**6**
Market capitalisation (ordinary shares) at 30 June ($ million)	4,761	4,100	5,722	7,954	**9,582**
Net tangible asset backing per ordinary share ($)	1.33	1.15	0.84	0.96	**1.22**

1 The 2001 disclosure represents the consolidated result of Insurance Australia Group Limited assuming it acquired Insurance Australia 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.
2 This includes profit on disposal of NRMA Building Society Limited of $45 million and "Share the Future" litigation expenses of $12 million in 2002 and the profit on disposal of ClearView retirement services businesses of $61 million in 2004.
3 Insurance margin is a ratio of insurance profit over net earned premium.
4 Net profit/(loss) attributable to ordinary shareholders to average ordinary shareholders' equity.
5 The 2001 figure reflects a full year operating period assuming the acquisition of Insurance Australia Limited occurred on 1 July 2000. The reported statutory figure is 8.62 cents.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of the Insurance Australia Group for the year ended 30 June 2005 and the auditors' report thereon.

The following terminology is used throughout the financial report:

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

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

The Company's Directors in office at any time during or since the end of the financial year are as follows. Directors were in office for this entire period unless otherwise stated.

Chairman	
Mr JA (James) Strong	appointed in August 2001
Other directors	
Ms YA (Yasmin) Allen	appointed in November 2004
Mr JF (John) Astbury	appointed in July 2000
Mr GA (Geoffrey) Cousins	appointed in July 2000
Mr ND (Neil) Hamilton	appointed in June 2000
Mr RA (Rowan) Ross	appointed in July 2000
Mr B (Brian) Schwartz	appointed in January 2005
Mr MJ (Michael) Hawker	appointed in December 2001

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

Former independent non-executive directors who retired during the financial year	
Ms DG (Dominique) Fisher	from 19 June 2000 to 10 November 2004
Ms AJ (Anne) Keating	from 19 June 2000 to 10 November 2004

SECRETARIES OF INSURANCE AUSTRALIA GROUP LIMITED

The name and details of the Company's secretaries at any time during or since the end of the financial year are as follows:

Ms AB (Anne) O'Driscoll FCA, ANZIIF (Fellow), GAICD
Ms Anne O'Driscoll was appointed to the position of company secretary in July 2002. Before this appointment, Ms O'Driscoll has held a number of senior positions in the IAG Group, including the position of General Manager, Finance. Currently, Ms O'Driscoll is also the Head of Investor Relations of IAG. Ms O'Driscoll is responsible to the Board for ensuring Board procedures are complied with. She also provides advice and counsel to the Board in relation to corporate governance and other matters.

Mr GD (Glenn) Revell BCom, MBus, FCPA, FCIS, GAICD
Mr Revell was appointed to the position of company secretary in October 2002. Prior to holding this position, he held the position of General Manager Corporate Affairs & Company Secretary of Howard Smith Limited for eight 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:

	BOARD OF DIRECTORS		AUDIT COMMITTEE		NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG BOARD SUB-COMMITTEE	
Total number of meetings held	16		4		5		8		3	
Directors	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	16	16	-	-	5	5	-	-	2	2
Mr MJ Hawker	16	15	-	-	-	-	-	-	2	2
Ms YA Allen*	10	10	-	-	-	-	6	6	-	-
Mr JF Astbury	16	15	4	4	5	5	-	-	-	-
Mr GA Cousins	16	14	4	4	-	-	-	-	-	-
Ms DG Fisher**	6	5	-	-	-	-	2	2	-	-
Mr ND Hamilton	16	15	-	-	-	-	8	8	1	1
Ms AJ Keating**	6	6	2	2	-	-	-	-	-	-
Mr RA Ross	16	15	-	-	5	5	8	8	1	1
Mr B Schwartz*	8	8	2	2	-	-	-	-	-	-

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

* Ms YA Allen and Mr B Schwartz were appointed as Directors on 10 November 2004 and 1 January 2005, respectively.
** Ms DG Fisher and Ms AJ Keating retired as Directors on 10 November 2004.

DIRECTORS' REPORT

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

OPERATING AND FINANCIAL REVIEW
Operating Result for the Year
The IAG Group's net profit after tax for the year was $879 million (2004 – $806 million). After adjusting for outside equity interests in the IAG Group result, net profit attributable to shareholders of the Company was $760 million (2004 – $665 million).

Underwriting result
The IAG Group produced an underwriting result before investment income on technical reserves of $484 million (2004 – $548 million). The underwriting profit has been affected by interest rate movements which change the discount rate applicable to claims reserves. In 2005, this resulted in an increase in claims expense by $88 million compared to a benefit of $123 million in 2004. This resulted in an increase in loss ratio to 66.2% (2004 – 65.1%) and combined ratio to 92.1% (2004 – 90.7%). Excluding the impact of movement in interest rates on claims expense, the underlying ratios improved – the loss ratio was 64.8% (2004 – 67.2%) and combined ratio was 90.7% (2004 – 92.8%).

The expense ratio of 25.9% (2004 – 25.6%) remained fairly constant despite a reduction in premium growth.

The insurance profit of $1,000 million (2004 – $792 million), representing an insurance margin of 16.3% (2004 – 13.5%) reflects an improved underwriting performance and strong investment returns on technical reserves.

(a) Australian personal lines insurance operations
The personal lines insurance operations produced an insurance margin of 16.0% for the financial year (2004 – 16.5%). The continued strong margin performance was achieved despite approximately $100 million of additional claims expense from major storms during the year. The strength in the underlying performance was a result of the continued focus on adhering to underwriting discipline and risk selection and the continued stability in NSW compulsory third party insurance.

Gross written premiums increased by 2.0% to $3,978 million.

(b) Australian commercial lines insurance operations
The commercial lines insurance operations produced an insurance margin of 17.2% for the financial year (2004 – 9.6%). The significant increase in the margin over prior year, was due in part to reserve releases in the property, liability and workers' compensation, and also in part due to the benefits flowing from tort reform. However, it was underpinned by a strong performance by the core business. After adjusting for the releases from prior period reserves, the underlying insurance margin remained strong at 15.8% for 2005.

Gross written premiums increased by 5.0% to $1,694 million.

Fee based income for the year incurred a loss of $14 million (versus a $21 million profit in the prior year). This result was negatively impacted by significant provisioning required in the NSW workers' compensation business arising from the overstatement of fee income relating to prior periods.

(c) International insurance operations
IAG New Zealand operations:
The international insurance operations produced an insurance margin of 10.6% for the financial year (2004 – 8.5%), despite incurring approximately $20 million more in storm related claims in 2005. The improved margin performance was driven by better claims management and processes on its motor portfolio and improved risk-based pricing in its home and commercial portfolios.

Gross written premiums increased by 9.5% to $1,001 million, which includes a benefit of $47 million or 4.7% from favourable exchange rate movements in 2005.

Captive reinsurer:
The Captive acts solely as the IAG Group's reinsurer assuming risk from other parts of the business and obtaining reinsurance protections for the Group in the open market. There was a significant improvement in the insurance result from a loss of $8 million in 2004 to a profit of $77 million in 2005. This was mainly driven by the absence of any major insured catastrophes in 2005 and the recognition of reinsurance recoverables on attritional storm losses incurred by the rest of the IAG Group.

(d) Corporate and investments
Investment income on corporate and shareholders' funds (net of investment expenses) decreased by 7.7% to $501 million. This decrease was primarily due to the reduction in outside equity interest in investment income by $28 million and the profit on sale of ClearView retirement services and Health insurance businesses in the 2004 financial year of $59 million. Excluding these items, investment income on shareholders' funds has increased by $45 million to $479 million. The increase is due to strong investment performance by all the major asset classes, particularly Australian equities, in the 2005 financial year and investment income from the portfolio of investments established from the proceeds of the issue of reset exchangeable securities ("RES") during the financial year.

The net corporate expenses have increased by 10% to $224 million. This increase was mainly attributable to:

- the financial services profit of $15 million included in net corporate expenses in 2004. The financial services segment was sold in January 2004;
- increase in borrowing costs by $13 million in 2005 due to the issue of reset exchangeable securities. This expense is offset by the interest income from the portfolio in the shareholders' funds; and
- increase in corporate expenses by approximately $7 million due to internal restructuring and mergers and acquisition costs.

These increases were offset to some extent by the decrease of $13 million in amortisation of intangibles due to accelerated amortisation of certain contractual arrangements in 2004.

Review of Financial Condition
(a) Financial position
Assets:
The total assets of the IAG Group as at 30 June 2005 are $17,147 million (2004 – $16,291 million).

The increase is mainly attributable to funds generated from insurance operations during the financial year, reflecting the increase in investments and insurance balances held at 30 June 2005. This increase was offset to some extent by total dividends paid of $442 million and an increase in income taxes paid.

Liabilities:
The total liabilities of the IAG Group as at 30 June 2005 are $12,707 million (2004 – $12,067 million) with the major component being general insurance liabilities of $10,426 million (2004 – $9,799 million).

Equity:
Equity was impacted by the following activities during the year:

Increase:

- net profit of $760 million.

Decrease:

- payment of dividends of $442 million; and
- a decrease in outside equity interests.

(b) Cash from operations
Cash flows from operating activities:
Cash flows from operating activities have decreased by 23% to $897 million.

The decrease is mainly attributable to:

- a decrease in reinsurance and other recoveries received;
- higher income taxes paid;
- an increase in other operating payments; and
- a decrease in other operating receipts.

The decrease was offset to some extent by the:

- increase in premiums received; and
- decrease in reinsurance expense paid.

Cash flows from investing activities:
Cash outflows from investing activities have decreased by $599 million to $185 million.

The decrease is largely attributable to the lower level of investing activity in 2005 in light of increased dividends (funded by a reduction in investments) and the net redemption of units in IAG controlled trusts by outside equity interests.

Cash flows from financing activities:
Cash outflows from financing activities have increased by $89 million to $679 million.

This increase is attributable to $160 million in additional dividends paid in the 2005 financial year and net redemptions of units in IAG controlled trusts of $126 million in the year compared with net proceeds of $381 million in the prior year.

The issue of reset exchangeable securities and the investment of the proceeds from RES in the Portfolio involved a net outflow of $13 million, mainly attributable to the transaction costs associated with the issue.

(c) Capital adequacy/minimum capital requirements
The IAG Group minimum capital requirement ("MCR") multiple, calculated by applying APRA standards for individual licensed insurers to the relevant consolidated results, is 2.00 times as at 30 June 2005 (2004 – 1.75 times). The multiple remains above the IAG Group's current benchmark multiple of 1.55 times MCR.

Further information on the IAG Group's result and review of operations can be found in the 30 June 2005 Investor Report on the Company's website, www.iag.com.au.

LIKELY DEVELOPMENTS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural disasters and industry cycles and thus profit predictions are difficult. The Directors believe that, while the volume of risks-in-force will continue to grow, this increase will be offset to an extent by lower premium rate growth in the coming year than in recent periods reflecting the benefits of improved claims experience, cost control and the international insurance cycle. The IAG Group's insurance margin for the coming year is expected to moderate to be more in line with the 2004 financial year. The Directors consider that the IAG Group is well placed to continue to leverage opportunities in this environment.

Equity markets are not expected to repeat returns as high as those experienced in the last two financial years.

The IAG Group is continuing to investigate potential investments in general insurance operations offshore.

DIVIDENDS

Details of dividends paid or declared by the Company are set out in note 8.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

On 11 January 2005, IAG announced the issue of 5.5 million reset exchangeable securities ("RES") by the New Zealand branch of IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG, raising a total of $550 million. The RES began trading on the Australian Stock Exchange ("ASX") on 12 January 2005. The gross proceeds of the issue, through a series of intra-group arrangements, are invested by IAG Portfolio Limited, a wholly-owned subsidiary of IAG, in a portfolio of high quality, short-dated, fixed interest securities ("Portfolio"). IAG's obligations to the RES holders are secured by the Portfolio and interest payments and redemption amounts will depend on the performance and creditworthiness of this Portfolio. IAG may, at any time, exercise its right to exchange some or all RES for preference shares issued by IAG. The RES may be redeemed for cash or converted into ordinary shares of IAG on a reset date or under certain circumstances.

The issue of RES has had a net positive, though immaterial impact, on IAG's financial performance as the increase in investment income generated by the Portfolio is largely offset by the increase in interest expense from interest payments to RES holders and the amortisation of deferred borrowing costs. RES and the Portfolio are set-off in IAG's statement of financial position with a net asset being recorded to the extent that the Portfolio value is greater than the RES redemption amount.

EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the financial year including a dividend declared of 14.5 cents per ordinary share, the acquisition of a general insurance business in Thailand in July 2005 and the transitional impact of the introduction of Australian equivalents of the International Financial Reporting Standards are set out in note 40.

NON-AUDIT SERVICES

During the financial year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and in accordance with written advice provided by resolution of the Audit Committee, are satisfied that the provision of those non-audit services by the Company's auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit assignments were approved in accordance with the process set out in the IAG Audit Committee Charter ("Charter") on the agreed framework for engaging auditors for non-audit services; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in the Directors' report.

The level of fees for non-audit services amount to approximately 50% of total audit fees (refer to note 31 to the financial statements for further details on costs incurred on individual non-audit assignments).

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 57 and forms part of the Directors' report for the year ended 30 June 2005.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

(a) a Director of the Company;

(b) a secretary of the Company;

(c) a person making or participating in making decisions that affect the whole or a substantial part of the business or Company; or

(d) a person having the capacity to affect significantly the financial standing of the Company or any of its wholly-owned subsidiaries.

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

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

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

DIRECTORS' REPORT

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

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.

REMUNERATION REPORT
This report outlines the remuneration arrangements for IAG's directors and senior executives and provides the disclosures which meet the remuneration reporting requirements of the Corporations Act 2001 and takes into account the requirements of the Corporate Law and Economic Reform Programme (CLERP 9) which applies to reporting periods commencing from 1 July 2004. This report also provides the disclosures required by the accounting standard AASB 1046 Director and Executive Disclosures by Disclosing Entities and AASB 1046A Amendments to Accounting Standard AASB 1046.

This report outlines the Board's policy in relation to, and details of, the remuneration of IAG directors (including the Chief Executive Officer and Managing Director) and the senior executives (referred to as "specified executives" or "executives") having the greatest authority for managing the IAG Group, including the five executives receiving the highest remuneration during the financial year.

1. NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE
The role and responsibilities of the Nomination, Remuneration & Sustainability Committee ("Committee" or "NRSC") are set out in the Committee's charter and a copy of it is available at www.iag.com.au. The key responsibilities of the NRSC in relation to remuneration are to:

(a) provide assurance to the Board relating to the effectiveness, integrity and compliance of the Company's remuneration policies and practices;

(b) ensure the overall remuneration policy and approach fits the strategic goals of IAG;

The Chief Executive Officer ("CEO"), Group Executive Culture & Reputation and Head of Human Resources regularly attend Committee meetings and assist the Committee in its deliberations.

The Committee receives reports from Mercer Human Resources Consulting and Egan Associates on remuneration for executives and directors. Mallesons Stephen Jaques provides legal advice to the Committee as required.

2. EXECUTIVES
2.1 Executive Remuneration Policy
IAG's approach to executive remuneration is to ensure that IAG can attract and retain the best people and reward performance in line with returns delivered to shareholders. Building and retaining a high quality management team has enabled IAG to achieve superior performance.

The principles that underpin IAG's approach to executive remuneration are that:

- the quantum and mix of remuneration is sufficiently competitive to attract and retain a high calibre executive team;
- remuneration practices are consistent with IAG's values;
- the mix of fixed and variable remuneration reflects the impact of each executive position on IAG's short term and long term results;
- remuneration levels take account of both external market practice and internal relativities; and
- measures of performance are based on a balanced scorecard with a focus on the delivery of sustainable value to shareholders.

In determining the market positioning against the external comparator group of the largest 50 companies in the S&P/ASX 100 index, IAG aims to set base pay around the market median and total reward opportunity (which includes short and long term incentives) between the median and the 75th percentile depending on individual performance and contribution to the Group's results.

2.2 Executive Remuneration Structure
Executive remuneration consists of four components:

- base salary
- superannuation
- short term incentives
- long term incentives

(a) Base salary
Base salary is defined as the total value of components that make up an executive's salary. Components are cash, salary sacrifice items such as superannuation, cars or parking and any related taxes. Base salary is determined by a review of job size, internal relativities and market benchmarking. Mercer Human Resources Consulting provides advice on job responsibility and market benchmarking. The comparator group for market benchmarking is the largest 50 companies in the S&P/ASX 100 index. Base salary is targeted at the median of the market. Unless there has been a significant change in job size, increases in base salary generally do not exceed external market movements.

(b) Superannuation
Executives are defined contribution members of the IAG & NRMA Superannuation Plan. Employer superannuation contributions are 13% of base salary. This contribution rate is consistent with the contribution provided to other employees of IAG.

(c) Short term incentives
Executives have the opportunity to earn a short term incentive payment based on both IAG's performance and achievement of individual goals.

IAG uses a balanced scorecard for setting goals and measuring performance. This ensures that assessment of performance is viewed holistically and assists the development of a sustainable business that meets the performance expectations of IAG's shareholders, stakeholders and the communities in which it conducts its business.

The balanced scorecard sets goals under the following broad categories:

- financial
- customer
- people
- risk
- community/environment

At the commencement of each financial year, IAG and individual goals are set for each executive. The goals set are stretch goals and are designed to encourage executives to strive for exceptional performance. At the end of the financial year the amount of any incentive payment is determined based on measured achievement against those goals and a review of the executive's overall performance by the CEO and NRSC. The NRSC reviews the performance of the CEO and makes a recommendation to the Board in relation to any incentive payment for the CEO.

The following table is a summary of IAG's key goals for the current year:

CATEGORY	GOAL	REASON CHOSEN	METHOD OF ASSESSMENT
Financial	Group Insurance Margin target	Measures the profitability of the core business of IAG	Comparison of achievement against target
Customer	Improvement across customer satisfaction measures in Intermediary, Direct Sales and Claims	Meeting or exceeding customer expectations is a key part of establishing and maintaining competitive advantage	Outcome of customer satisfaction surveys and measurement of customer retention rates compared to outcomes from previous years
Risk	Improvement in risk management behaviours	Positive risk management behaviour in relation to prevention, detection and recovery from operational risks and issues is critical for a sustainable business	Outcome of annual employee survey compared to target set at the start of the year
People management	Employee engagement score target	Measures how engaged employees are with IAG's purpose, strategy and goals	Outcome of annual employee survey compared to target set at the start of the year
Community/ Environment	Reduction in workers' compensation claims per million hours worked	A safe work environment and the well being of employees is vital for growing IAG's business for the benefit of customers, shareholders and the wider community	Comparison of reduction achieved against target set at the start of the year

The methods of assessment have been selected as they can be objectively measured and verified.

The aggregate achievement level against IAG's key goals was 73%.

(d) Long term incentives

(i) Equity based remuneration

IAG utilises long term incentives to create a link between the delivery of value to shareholders, financial performance and rewarding and retaining employees. IAG's programme for delivering long term incentives is its Performance Award Rights ("PARs") Plan. Note 30(d)(i) of the financial statements sets out further details of the PARs Plan.

PARs are rights over issued shares held by a trustee. The rights are granted at no cost to executives and may be exercised for a nominal price if a performance hurdle related to IAG's Total Shareholder Return ("TSR") is met or if some specified events occur, such as a takeover bid for the Company. During the year PARs were issued to executives. Previously IAG delivered long term incentives using its Performance Share Rights ("PSRs") Plan. Note 30(d)(ii) of the financial statements sets out further details of the PSRs Plan.

Details of the terms of allocations made to executives under IAG's long term incentive plans, including those allocations that at the date of this report are not exercisable, are summarised below:

PLAN(i)	PSRs PLAN – SERIES 5	PSRs PLAN – SERIES 6	PARs PLAN 2002/2003 – SERIES 1	PARs PLAN 2003/2004 – SERIES 2	PARs PLAN 2004/2005 – SERIES 3
Grant Date	13/12/2001	05/03/2002	24/12/2002	22/09/2003 10/12/2003 26/03/2004	17/09/2004 30/11/2004
Performance Period Definition(ii)	3 – 5 years from Grant Date	3 – 5 years from Grant Date	3 – 5 years from Grant Date	3 – 5 years from Base Date(iii)	3 – 5 years from Base Date(iii)
TSR Performance Condition	IAG TSR compared to a Peer Group of companies. The Peer Group comprises the companies in the S&P/ASX 100 index with such inclusions and exclusions as the Board may determine.				
Vesting Schedule	< 50th percentile – 0% vesting = 50th percentile – 50% vesting >=75th percentile – 100% vesting The percentage of PSRs or PARs which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile				
Performance Hurdle Test Schedule	Last trading day each month in Performance Period	Last trading day each month in Performance Period	Last trading day each month in Performance Period	Quarterly – Last trading day of each calendar quarter in Performance Period	Quarterly – Last trading day of each calendar quarter in Performance Period
1st Test Day	31/12/2004	31/03/2005	30/12/2005	29/09/2006	28/09/2007
Last Test Day	30/11/2006	28/02/2007	30/11/2007	30/06/2008	30/06/2009
Last Exercise Date (continuing employees only)	13/12/2011	05/03/2012	24/12/2012	22/09/2013 10/12/2013 26/03/2014	17/09/2014 30/11/2014
Plan Exercise Status	Fully exercisable	Fully exercisable	Not exercisable	Not exercisable	Not exercisable

Notes:
(i) PSR Plan Series 1 to 4 are fully vested and exercisable.
(ii) The performance period will be shortened if the employee ceases employment with the Group due to redundancy or in other special circumstances.
(iii) The Base Date is the date which is the second trading day after the date on which IAG's financial results for the twelve month period ending on the 30 June that immediately precedes the Grant Date are announced to the ASX.

REMUNERATION REPORT (CONTINUED)

(ii) Insurance Manufacturers of Australia Pty Limited ("IMA") – Long Term Incentive Plans

IMA is a 70% owned subsidiary of IAG.

During the year no executive received a grant under any IMA Long Term Incentive Plan. Mr RJ Jackson was granted awards under an IMA Long Term Incentive Plan during the 2002/2003 financial year. This plan is a cash based plan with performance hurdles related to IMA's operating results and IAG TSR over three consecutive financial years. At the date of this report, awards under this plan are not payable.

2.3 Relationship between Executive Reward and IAG's Performance

A significant component of executive remuneration is "at risk" which ensures a direct link between IAG's performance and reward for executives. For further details of the percentage of "at risk" remuneration, refer to the table in section 2.6.

The payment of short term incentives is directly linked to IAG's performance over the previous year based on a balanced scorecard of measures, which includes a measure of the profitability of IAG's core business. Non-financial measures are also used as they are lead indicators of delivering future value for shareholders. For the 2004/2005 year the aggregate achievement level against IAG's key goals was 73%. This will determine the portion of an executive's short term incentive payment that is linked to IAG's goals.

The use of the balanced scorecard to assess and reward executive performance has assisted IAG to deliver superior returns for shareholders:

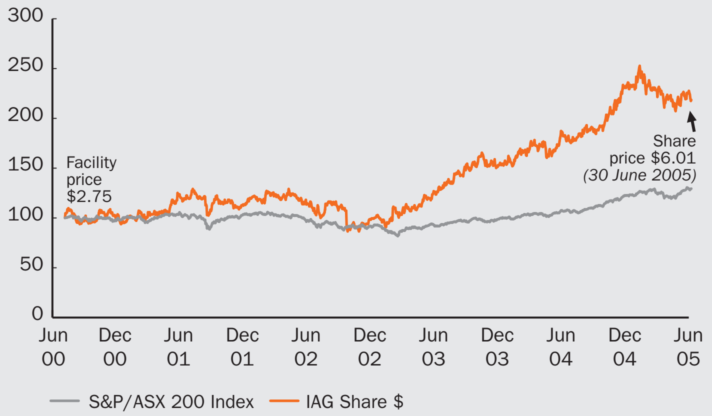
	8 AUGUST 2000(i)	YEAR ENDED 30 JUNE 2001	YEAR ENDED 30 JUNE 2002	YEAR ENDED 30 JUNE 2003	YEAR ENDED 30 JUNE 2004	YEAR ENDED 30 JUNE 2005
Closing share price ($)	2.75	3.40	3.15	3.40	5.00	6.01
Dividends paid (cents)	n/a	10.00	10.50	11.50	22.00	26.50
Earnings per share (cents)	n/a	9.40	(1.78)	8.65	37.87	45.89
Normalised net profit after tax ($ million)	n/a	178	294	333	455	547

(i) IAG listed on the Australian Stock Exchange on 8 August 2000. The pre-listing facility price was $2.75.

IAG's long term incentive plans provide a direct link between return to shareholders over a 3 to 5 year period and executive reward.

IAG's share price compared to the S&P/ASX 200 index from the period since IAG's listing in August 2000 to 30 June 2005 is shown in the following graph:

IAG Relative Share Price Performance



From listing until 30 June 2005, IAG has exceeded its objective of delivering top quartile shareholder return. Measured from 8 August 2000 until 30 June 2005, IAG's TSR is at the 82nd percentile of entities in the S&P/ASX 100 index.

In line with IAG's strong TSR performance, the portion of PSRs (for PSRs Plan Series 1 to 6) that have met the performance hurdle and become exercisable has been 100% of the number of PSRs awarded.

Grants of PARs to executives are based on an assessment of each executive against a range of factors including the executive's performance, their strategic impact and leadership capability. This process strengthens the link between individual executive reward outcomes and the creation of value for shareholders.

During the year the following persons were the executives with the greatest authority for the strategic direction and management of the Group:

	CURRENT TITLE
Mr MJ Hawker	Chief Executive Officer and Managing Director
Mr IF Brown	Deputy Chief Executive Officer
Mr AM Coleman	Chief Risk Officer and Group Actuary
Mr DA Issa	Chief Information Officer
Mr RJ Jackson(i)	Chief Executive Officer – Personal Insurance
Ms SJ Mostyn	Group Executive – Culture & Reputation
Mr DRA Pearce(i)	Group Executive – Insurance Strategy
Mr MJ Pirone(i)	Chief Executive Officer – CGU Insurance
Mr DJP Smith	Chief Executive Officer – IAG New Zealand
Mr G Venardos	Chief Financial Officer

(i) On 20 July 2004, IAG announced a new structure for its Australian operations. This led to a change in the executive team structure. Mr RJ Jackson, Mr DRA Pearce and Mr MJ Pirone have held their current positions since this time. Their former roles respectively, were Group Executive – Personal Insurance, Group Executive – Personal Injury and Group Executive – Asset Management and Retirement Services.

Ms KL Baylis left IAG on 1 October 2004, Mr LF Power and Mr RJ Wagstaffe left IAG on 1 September 2004. Their respective positions were Group Executive – Sales and Marketing, Group Executive – Business Partners and Group Executive – Intermediary Business.

On 28 July 2005, IAG announced Mr IF Brown will retire in December 2005 and Mr DRA Pearce will leave IAG on 31 August 2005.

2.4 Service Agreements
All service agreements for executives are unlimited in term but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The service agreements outline the components of remuneration paid to executives and require the remuneration of executives to be reviewed annually. The service agreements do not require IAG to increase base salary, pay a short term incentive or offer a long term incentive in any given year.

	NOTICE PERIOD, COMPANY	NOTICE PERIOD, EMPLOYEE	TERMINATION PROVISIONS	ADDITIONAL PAYMENT IF IAG INVOKES A RESTRAINT CLAUSE
Mr MJ Hawker	12 months	6 months	12 months base salary, plus payment for annual leave, long service leave and short term incentive that would have accrued had termination not occurred.	6 months base salary
Mr IF Brown	12 months	3 months	12 months base salary	6 months base salary
Mr AM Coleman	12 months	3 months	12 months base salary	6 months base salary
Mr DA Issa	12 months	3 months	12 months base salary	-
Mr RJ Jackson	12 months	6 months	12 months base salary	-
Ms SJ Mostyn	12 months	3 months	12 months base salary	-
Mr DRA Pearce	6 months	3 months	75 weeks base salary	6 months base salary
Mr MJ Pirone	12 months	3 months	12 months base salary	6 months base salary
Mr DJP Smith	12 months	3 months	12 months base salary	6 months base salary
Mr G Venardos	12 months	3 months	12 months base salary	6 months base salary

Executives are employed by Insurance Australia Group Services Pty Limited, except for Mr DJP Smith who is employed by IAG New Zealand Limited.

Retrenchment
In the event of retrenchment, the executives listed above (except for Mr MJ Hawker and Mr DJP Smith) are entitled to the greater of:

(a) the written notice or payment in lieu of notice as provided in their service agreement; or

(b) the retrenchment benefits due under the relevant company retrenchment policy.

For Mr MJ Hawker and Mr DJP Smith, the retrenchment payment is in accordance with the termination provisions set out in the table above.

Company retrenchment policy
On retrenchment, employees with less than 25 years service will receive:

(a) at least eight weeks notice or payment in lieu of notice (calculated on the employee's base salary); and

(b) three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 11 weeks base salary and the maximum benefit that can be received is 83 weeks base salary.

On retrenchment, employees with 25 or more years of service or who are over 45 years of age will receive:

(a) at least twelve weeks notice or payment in lieu of notice (calculated on the employee's base salary); and

(b) three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 15 weeks base salary and the maximum benefit that can be received is 87 weeks base salary.

Termination of employment without notice and without payment in lieu of notice
The employment of the executives may be terminated without notice or payment in lieu of notice in some circumstances. Generally, this could occur where the executive: is charged with a criminal offence that is capable of bringing the organisation into disrepute; is declared bankrupt; breaches a provision of their employment agreement; is guilty of serious and wilful misconduct; or unreasonably fails to comply with any material and lawful direction given by the Company.

Termination of employment with notice or payment in lieu of notice
The employment of the executives may be terminated at any time by the Company with notice or payment in lieu of notice (which also includes a pro-rata short term incentive earned but not paid). The amount of notice the Company must provide or the payment in lieu of notice is specified above.

REMUNERATION REPORT (CONTINUED)
2.5 Remuneration Details
(a) Remuneration of executives for the IAG Group for the financial year ended 30 June 2005 was:

	PRIMARY BENEFITS							POST-EMPLOYMENT BENEFITS		EQUITY COMPENSATION		OTHER BENEFITS	TOTAL
	CASH SALARY(1)	NON-MONETARY BENEFITS(2)	BASE SALARY (SUB-TOTAL OF (1) & (2))	LEAVE ACCRUALS (3)	SHORT TERM INCENTIVE (4)	LONG TERM INCENTIVE PLAN(5)	INCENTIVES (SUB-TOTAL OF (4) & (5))	SUPER-ANNUATION (6)	RETIREMENT BENEFITS	VALUE OF BONUS EQUITY SHARE PLAN(7)	VALUE OF PSRs/PARs GRANTED (8)	OTHER BENEFITS	
2005	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
CEO and Managing Director:													
Mr MJ Hawker	1,151	36	*1,187*	36	1,270	-	*1,270*	157	-	-	614	-	3,264
Current executives:													
Mr IF Brown	566	161	*727*	8	171	-	*171*	94	-	171	127	-	1,298
Mr AM Coleman	583	7	*590*	(19)	434	-	*434*	77	-	-	145	-	1,227
Mr DA Issa	508	7	*515*	8	476	-	*476*	67	-	-	125	-	1,191
Mr RJ Jackson	554	78	*632*	29	402	275	*677*	82	-	-	109	-	1,529
Ms SJ Mostyn	478	7	*485*	38	366	-	*366*	63	-	-	167	-	1,119
Mr DRA Pearce	441	48	*489*	3	230	-	*230*	63	-	-	110	-	895
Mr MJ Pirone	520	66	*586*	22	520	-	*520*	75	-	-	135	-	1,338
Mr DJP Smith	582	-	*582*	51	202	-	*202*	77	-	-	135	130(9)	1,177
Mr G Venardos	619	48	*667*	69	451	-	*451*	86	-	-	171	-	1,444
Executives who ceased employment during the year:													
Ms KL Baylis	92	24	*116*	(3)	76	-	*76*	15	-	-	141	462(10)	807
Mr LF Power	66	8	*74*	9	88	-	*88*	5	-	-	38	600(10)	814
Mr RJ Wagstaffe	77	6	*83*	16	10	-	*10*	6	-	-	38	-	153
Total remuneration	6,237	496	*6,733*	267	4,696	275	*4,971*	867	-	171	2,055	1,192	16,256

Refer to section (c) below for details of notes (1) to (10) referencing in the above table 2.5(a).

(b) Remuneration of executives for the IAG Group for the prior financial year ended 30 June 2004 was:

	PRIMARY BENEFITS							POST-EMPLOYMENT BENEFITS		EQUITY COMPENSATION		OTHER BENEFITS	TOTAL
	CASH SALARY(1)	NON-MONETARY BENEFITS(2)	BASE SALARY (SUB-TOTAL OF (1) & (2))	LEAVE ACCRUALS (3)	SHORT TERM INCENTIVE (4)	LONG TERM INCENTIVE PLAN (5)	INCENTIVES (SUB-TOTAL OF (4) & (5))	SUPER-ANNUATION (6)	RETIREMENT BENEFITS	VALUE OF BONUS EQUITY SHARE PLAN(7)	VALUE OF PSRs/PARs GRANTED (8)	OTHER BENEFITS	
2004	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
CEO and Managing Director:													
Mr MJ Hawker	1,107	5	*1,112*	21	800	-	*800*	146	-	-	888	-	2,967
Current executives:													
Ms KL Baylis	380	76	*456*	29	242	-	*242*	60	-	-	134	-	921
Mr IF Brown	581	142	*723*	17	185	40	*225*	92	-	185	136	-	1,378
Mr AM Coleman	529	5	*534*	(1)	325	-	*325*	69	-	-	153	-	1,080
Mr DA Issa	452	5	*457*	36	264	-	*264*	60	-	-	78	-	895
Mr RJ Jackson	458	63	*521*	(4)	350	254	*604*	88	-	-	18	-	1,227
Ms SJ Mostyn	449	5	*454*	28	235	-	*235*	59	-	-	123	-	899
Mr DRA Pearce	434	34	*468*	(8)	240	37	*277*	61	-	-	127	-	925
Mr MJ Pirone	438	38	*476*	8	183	32	*215*	61	-	46	127	-	933
Mr LF Power	389	50	*439*	32	352	-	*352*	32	-	-	30	-	885
Mr DJP Smith	529	-	*529*	5	355	30	*385*	70	-	-	131	124(9)	1,244
Mr G Venardos	561	36	*597*	31	392	42	*434*	77	-	-	175	-	1,314
Mr RJ Wagstaffe	463	39	*502*	48	390	-	*390*	36	-	-	30	-	1,006
Total remuneration	6,770	498	*7,268*	242	4,313	435	*4,748*	911	-	231	2,150	124	15,674

Refer to section (c) below for details of notes (1) to (9) referencing in the above table 2.5(b).

(c) Details of notes (1) to (10) used in tables in sections 2.5 (a) and (b)
(1) Salary represents amounts paid in cash during the financial year.

(2) Non-monetary benefits are valued in accordance with the cost to IAG for provision of cars, parking and related fringe benefits tax on a salary sacrifice basis.

(3) Leave accruals includes annual leave and long service leave accruals as determined in accordance with AASB 1028 Employee Benefits.

(4) Short term incentive to be settled in cash for the current performance period accrual and prior performance periods over or under accruals.

(5) Long term incentive to be settled in cash from the IMA long term incentive plan. The amount reflects a pro-rata accrual made during the period, based on expected satisfaction of performance hurdles.

(6) Superannuation includes the employer's contributions which are recognised on a deemed basis, as for 11 months of 2005 (full year of 2004) the employer was on a contribution holiday.

(7) Executives may elect to receive some of their short term incentive in the form of IAG shares rather than cash through participation in the Bonus Equity Share Plan, which vests immediately and is valued in accordance with the market value of IAG shares at grant date. Refer to note 30(c)(i) for details.

(8) The value of Performance Share Rights ("PSRs" – related to unissued shares) and Performance Award Rights ("PARs" – related to issued shares) granted in the above table is different to the amount reported in the 2004 financial report. This is due to the change in valuation method applied in line with the introduction of AASB 1046 Amendment to Accounting Standards AASB 1046A. This results in a total reduction of $627,000. An allocated portion of unvested PSRs and PARs is included in the total remuneration disclosure above. To determine these values the Monte Carlo model has been applied. The valuation takes into account the exercise price of the PSRs/PARs, life of the PSRs/PARs, current price of IAG shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, the performance of the shares in the Peer Group of companies, early exercise and non transferability, and turnover.

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

(10) Represents termination payments made.

REMUNERATION REPORT (CONTINUED)

2.6 At Risk Remuneration

(a) Total remuneration for executives is comprised of "at risk" and "not at risk" remuneration. Base salary and superannuation is "not at risk", while short term incentives and long term incentives are "at risk". The percentage of total remuneration that is "at risk" for the executives is set out below:

	TOTAL REMUNERATION $000	SHORT TERM INCENTIVES $000	LONG TERM INCENTIVES (IMA LTI/PSRs/PARs) $000	PERCENTAGE OF REMUNERATION AT RISK %
Mr MJ Hawker	3,264	1,270	614	58
Mr IF Brown	1,298	342	127	36
Mr AM Coleman	1,227	434	145	47
Mr DA Issa	1,191	476	125	50
Mr RJ Jackson	1,529	402	384	51
Ms SJ Mostyn	1,119	366	167	48
Mr DRA Pearce	895	230	110	38
Mr MJ Pirone	1,338	520	135	49
Mr DJP Smith	1,177	202	135	29
Mr G Venardos	1,444	451	171	43

(b) Short term incentives

The portion of the short term incentives that either vested or were forfeited during the year cannot be determined as no maximum or target amount is set. Executives may be paid a short term incentive based on IAG's performance and their own performance. The amount of short term incentive paid to an executive is recommended by the CEO and approved by the NRSC. The amount of short term incentive paid to the CEO is recommended by the NRSC and approved by the Board.

(c) Long term incentives

For each grant of PSRs/ PARs included in the tables as listed in section 2.2(d), the percentage of the PSRs/ PARs that vested in the financial year and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the forfeited rights are payable in future years.

	PSRs PLAN – SERIES 5		PSRs PLAN – SERIES 6		PARs PLAN – SERIES 1		PARs PLAN – SERIES 2		PARs PLAN – SERIES 3	
LAST FINANCIAL YEAR EXERCISABLE	2011/2012		2011/2012		2012/2013		2013/2014		2014/2015	
	VEST %	FORFEIT %	VEST %	FORFEIT %	VEST %	FORFEIT %	VEST %	FORFEIT %	VEST %	FORFEIT %
Mr MJ Hawker	100	-	-	-	-	-	-	-	-	-
Mr IF Brown	-	-	-	-	-	-	-	-	-	-
Mr AM Coleman	-	-	-	-	-	-	-	-	-	-
Mr DA Issa	-	-	-	-	-	-	-	-	-	-
Mr RJ Jackson	-	-	-	-	-	-	-	-	-	-
Ms SJ Mostyn	-	-	100	-	-	-	-	-	-	-
Mr DRA Pearce	-	-	-	-	-	-	-	-	-	-
Mr MJ Pirone	-	-	-	-	-	-	-	-	-	-
Mr DJP Smith	-	-	-	-	-	-	-	-	-	-
Mr G Venardos	-	-	-	-	-	-	-	-	-	-

It is not practical to provide an estimate of the maximum possible total value of long term incentives that may vest in future years because the value is directly linked to the IAG share price at the time of vesting. The minimum possible total value of long term incentives is zero.

2.7 Long Term Incentives – PARs and PSRs
Rights under the PARs Plan and PSRs Plan were issued by the Group and used as long term incentives. Refer to section 2.2(d)(i) for further details.

The following sections provide details of movements in PARs and PSRs for each executive during the financial year ended 30 June 2005.

(a) PARs
(i) The Group has issued PARs to the executives during the financial year for nil consideration. Each executive who participates in the plan becomes eligible to receive an ordinary share per PAR, by paying the exercise price of $1 per tranche of PARs exercised, subject to a specific performance hurdle being met. Refer to section 2.2(d)(i) for details of the performance hurdle.

Following are details of the number of PARs granted to each executive during the financial year ended 30 June 2005:

	GRANT DATE	DATE FIRST EXERCISABLE	LAST EXPIRY DATE	VALUE PER PAR AT GRANT DATE $	NUMBER OF PARs GRANTED DURING THE YEAR NUMBER
CEO and Managing Director:					
Mr MJ Hawker	30/11/2004	28/09/2007	30/11/2014	2.718	500,000
Current executives:					
Mr IF Brown	17/09/2004	28/09/2007	17/09/2014	2.715	60,000
Mr AM Coleman	17/09/2004	28/09/2007	17/09/2014	2.715	81,000
Mr DA Issa	17/09/2004	28/09/2007	17/09/2014	2.715	71,000
Mr RJ Jackson	17/09/2004	28/09/2007	17/09/2014	2.715	81,000
Ms SJ Mostyn	17/09/2004	28/09/2007	17/09/2014	2.715	66,000
Mr DRA Pearce	17/09/2004	28/09/2007	17/09/2014	2.715	47,000
Mr MJ Pirone	17/09/2004	28/09/2007	17/09/2014	2.715	81,000
Mr DJP Smith	17/09/2004	28/09/2007	17/09/2014	2.715	71,000
Mr G Venardos	17/09/2004	28/09/2007	17/09/2014	2.715	92,000
					1,150,000

Ms Baylis, Mr Power and Mr Wagstaffe who ceased employment during the year did not receive any grant of PARs.

(ii) Following is a summary of the movements in total number of PARs on issue by each executive:

	PARs ON ISSUE 1 JULY 2004 NUMBER	PARs GRANTED DURING THE YEAR NUMBER	PARs EXERCISED DURING THE YEAR(1) NUMBER	PARs LAPSED DURING THE YEAR NUMBER	PARs ON ISSUE 30 JUNE 2005 NUMBER
CEO and Managing Director:					
Mr MJ Hawker	700,000	500,000	-	-	1,200,000
Current executives:					
Mr IF Brown	161,716	60,000	-	-	221,716
Mr AM Coleman	177,195	81,000	-	-	258,195
Mr DA Issa	152,177	71,000	-	-	223,177
Mr RJ Jackson	80,451	81,000	-	-	161,451
Ms SJ Mostyn	148,307	66,000	-	-	214,307
Mr DRA Pearce	149,232	47,000	-	-	196,232
Mr MJ Pirone	158,881	81,000	-	-	239,881
Mr DJP Smith	167,167	71,000	-	-	238,167
Mr G Venardos	213,048	92,000	-	-	305,048
Total	2,108,174	1,150,000	-	-	3,258,174
Executives who ceased employment during the year:					
Ms KL Baylis	146,814	-	-	-	146,814
Mr LF Power	53,634	-	-	-	53,634
Mr RJ Wagstaffe	53,634	-	-	-	53,634
Total	254,082	-	-	-	254,082

(1) $1 per tranche of PARs is payable to exercise.

(iii) No PARs vested during the financial year ended 30 June 2005 or in prior years.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(b) PSRs

(i) The PSRs Plan was closed for issuing further PSRs from the financial year ended 30 June 2003.

Following is a summary of the movements in total number of PSRs on issue by each executive:

	PSRs ON ISSUE 1 JULY 2004 NUMBER	PSRs EXERCISED DURING THE YEAR(1) NUMBER	PSRs LAPSED DURING THE YEAR NUMBER	PSRs ON ISSUE 30 JUNE 2005 NUMBER	PSRs VESTED AND EXERCISABLE 30 JUNE 2005 NUMBER
CEO and Managing Director:					
Mr MJ Hawker	1,000,000	940,000	-	60,000	60,000
Current executives:					
Mr IF Brown	-	-	-	-	-
Mr AM Coleman	-	-	-	-	-
Mr DA Issa	-	-	-	-	-
Mr RJ Jackson	-	-	-	-	-
Ms SJ Mostyn	68,670	-	-	68,670	68,670
Mr DRA Pearce	-	-	-	-	-
Mr MJ Pirone	28,640	28,640	-	-	-
Mr DJP Smith	-	-	-	-	-
Mr G Venardos	-	-	-	-	-
Total	1,097,310	968,640	-	128,670	128,670
Executives who ceased employment during the year:					
Ms KL Baylis	85,837	85,837	-	-	-
Mr LF Power	-	-	-	-	-
Mr RJ Wagstaffe	-	-	-	-	-
Total	85,837	85,837	-	-	-

(1) The exercise price was $1 per tranche of PSRs. Nil remains unpaid per issued share acquired. For each PSR exercised, one ordinary IAG share was issued.

(c) Analysis of movements in PARs and PSRs

Following is a summary of the movement during the financial year, by value, of PARs and PSRs by each executive:

	TOTAL VALUE OF PARs GRANTED DURING THE YEAR (1) $000	TOTAL VALUE OF PSRs EXERCISED DURING THE YEAR (2) $000	TOTAL VALUE OF PARs AND PSRs THAT LAPSED DURING THE YEAR (3) $000	TOTAL OF (1) TO (3) $000
CEO and Managing Director:				
Mr MJ Hawker	1,359	6,026	-	7,385
Current executives:				
Mr IF Brown	163	-	-	163
Mr AM Coleman	220	-	-	220
Mr DA Issa	193	-	-	193
Mr RJ Jackson	220	-	-	220
Ms SJ Mostyn	179	-	-	179
Mr DRA Pearce	128	-	-	128
Mr MJ Pirone	220	144	-	364
Mr DJP Smith	193	-	-	193
Mr G Venardos	250	-	-	250
Total	3,125	6,170	-	9,295
Executives who ceased employment during the year:				
Ms KL Baylis	-	517	-	517
Mr LF Power	-	-	-	-
Mr RJ Wagstaffe	-	-	-	-
Total	-	517	-	517

Notes:

(1) The value of PARs granted in the year is the fair value of the PARs calculated at grant date using a Monte Carlo model. The total value of the PARs granted is included in the table above. This amount is allocated to remuneration over the vesting period (ie in years 30 June 2005 to 30 June 2009).

(2) The PSRs exercised during the year by Mr Hawker, Mr Pirone and Ms Baylis were issued to them on 13 December 2001, 21 December 2000 and 5 March 2002, respectively. The respective values at grant date were allocated to their remuneration during the three years vesting period between 30 June 2001 to 30 June 2004. PSRs are exercisable only if a performance hurdle is reached in relation to IAG's TSR. IAG's TSR measured from December 2001 to June 2005 was at the 75th percentile compared to the TSR of companies in the S&P/ASX 100 index.
The value of PSRs exercised during the year is calculated as the weighted average of the prices at which IAG shares were traded over 5 days before and including date of exercise after deducting the $1 exercise price per tranche of PSRs exercised.

(3) No PARs or PSRs lapsed during the year.

3. NON-EXECUTIVE DIRECTORS

3.1 Remuneration Policy

Remuneration for Non-executive Directors is set according to external advice. As with executive remuneration, the remuneration for Non-executive Directors should:

- be sufficiently competitive to attract and retain a high calibre of Non-executive Director; and
- be consistent with IAG's values.

The aggregate limit of remuneration is approved by shareholders, and, currently, the maximum approved amount is $1.5 million per annum. The aggregate annual remuneration is inclusive of employer superannuation contributions paid by IAG on behalf of Non-executive Directors.

The Board has agreed that each Non-executive Director should take a minimum of 20% and up to a maximum of 90% of their annual base fee (at the time shares are allocated), on a fee sacrifice basis, in the form of IAG shares provided under the Non-Executive Directors' Share Plan, which was approved by shareholders on 13 November 2002. IAG shares are purchased by the trustee on market and allocated to directors in December each year. Non-executive Directors may elect to restrict the disposal of these shares for a minimum period of one year and up to 10 years or until the Director retires. No other equity-based remuneration is available to Non-executive Directors.

The current elements of Non-executive Director remuneration are:

BOARD / COMMITTEE	ROLE	FEE
IAG Board	Chairman Director	$300,000 (includes committee fees*) $100,000
Audit Committee	Chairman Member	$18,000 $12,000
Risk Management & Compliance Committee	Chairman Member	$18,000 $12,000
Nomination, Remuneration & Sustainability Committee	Member	$12,000

* The Chairman does not receive additional fees for serving on the Nomination, Remuneration & Sustainability Committee or for serving as a director of IAG Re Limited. The Chairman is, however, paid a fee for his role as Chairman of Insurance Manufacturers of Australia Pty Limited, a 70% owned subsidiary of IAG

In addition, IAG pays a superannuation contribution of 9% of a Director's fees into a superannuation fund nominated by the Director. Directors' fees and superannuation contributions are paid monthly.

IAG has a Non-executive Directors' Expenses policy. Under this policy IAG reimburses expenses reasonably incurred by Directors in connection with the discharge of their duties.

3.2 Increase to Directors' Fees

Following an independent review of the remuneration of Non-executive Directors conducted recently, it is proposed that the maximum aggregate remuneration payable to the Non-executive Directors be increased from $1,500,000 to $2,000,000 per annum. Shareholders will be asked to approve this increase in aggregate remuneration at the 2005 Annual General Meeting.

The proposed increase takes account of the growth in board remuneration to reflect market movements and to provide the capacity to ensure that IAG can retain the best people to drive corporate performance and to deliver appropriate returns to shareholders.

The aggregate annual remuneration for Non-executive Directors of $1,500,000 has not changed since being determined in 2000 upon demutualisation of Insurance Australia Limited (formerly NRMA Insurance Limited, a wholly owned subsidiary of IAG). Since that time, IAG has grown significantly:

- gross written premium from $2.6 billion to $6.6 billion;
- insurance profit from $110 million to $1,000 million;
- total assets from $12.1 billion to $17.1 billion; and
- employees from 5,338 to 11,502 measured as full time equivalent basis.

In addition, since 2000 the demands of directors of listed companies and in particular, general insurance companies, have increased through a plethora of corporate legislation and regulation and the ensuing complexities for a general insurance business, as well as from community expectations of exemplary corporate behaviour and standards. The duties and responsibilities of Non-executive Directors have expanded significantly in response to these demands.

The Board has obtained independent advice on board remuneration from Egan Associates who have assessed the remuneration for the Company's Non-executive Directors in comparison with the level of Non-executive Director remuneration payable by companies of comparable size. In accordance with the independent advice, the Board has determined that fees payable to Non-executive Directors should be increased with effect from 1 July 2005 as follows:

BOARD / COMMITTEE	ROLE	FEE
IAG Board	Chairman Director	$360,000 (includes committee fees) $120,000
Audit Committee	Chairman Member	$30,000 $15,000
Risk Management & Compliance Committee	Chairman Member	$30,000 $15,000
Nomination, Remuneration & Sustainability Committee	Member	$15,000

The current maximum annual aggregate remuneration of $1,500,000 would be insufficient to enable IAG to pay these increased fees to the Non-executive Directors for a full year and would limit IAG's capacity to pay fees to attract and retain suitable candidates for the Board.

REMUNERATION REPORT (CONTINUED)

3.3 Performance

Directors' performance is subject to evaluation by the Chairman at least every two years, by discussion between the Chairman and the individual Director. In these discussions, the individual Directors also evaluate the Chairman's performance. Performance measures for Directors considered by the Chairman and Board include:

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

The Nomination, Remuneration & Sustainability Committee has responsibility for coordinating the Board's review of the Chairman's performance.

A review of the performance of individual Directors was conducted in June 2005 with assistance and input from an independent expert on board performance.

3.4 Remuneration Details

(a) Remuneration of Non-executive Directors for the financial year ended 30 June 2005 was:

		PRIMARY BENEFITS		POST-EMPLOYMENT BENEFITS	EQUITY COMPENSATION	TOTAL
	BOARD FEES RECEIVED AS CASH	COMMITTEE FEES	SUPERANNUATION	RETIREMENT BENEFITS	BOARD FEES RECEIVED AS IAG SHARES	
2005	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Mr JA Strong(i)	280	-	39	-	150	469
Ms YA Allen(ii)	52	8	6	-	12	78
Mr JF Astbury	80	30	12	-	20	142
Mr GA Cousins	80	12	10	-	20	122
Ms DG Fisher(iii)	18	4	4	259	18	303
Mr ND Hamilton(iv)	10	19	11	-	90	130
Ms AJ Keating(v)	29	8	4	250	7	298
Mr RA Ross	50	30	12	-	50	142
Mr B Schwartz(vi)	37	6	5	-	13	61
Total remuneration	636	117	103	509	380	1,745

Notes:
(i) Mr Strong received $130,000 for his service as Chairman of the Board of Insurance Manufacturers of Australia Pty Limited ("IMA").
(ii) Ms Allen was appointed to the Board on 10 November 2004.
(iii) Ms Fisher retired from the Board on 10 November 2004.
(iv) Mr Hamilton received $7,000 for his services as Director of Mutual Community General Insurance Proprietary Limited ("MCGI"), a 51% owned controlled entity of IAG.
(v) Ms Keating retired from the Board on 10 November 2004. During the period, Ms Keating also received $4,000 for her services as Director of MCGI.
(vi) Mr Schwartz was appointed to the Board on 1 January 2005.

(b) Remuneration of Non-executive Directors for the prior financial year ended 30 June 2004 was:

		PRIMARY BENEFITS		POST-EMPLOYMENT BENEFITS	EQUITY COMPENSATION	TOTAL
	BOARD FEES RECEIVED AS CASH	COMMITTEE FEES	SUPERANNUATION	RETIREMENT BENEFITS	BOARD FEES RECEIVED AS IAG SHARES	
2004	$000	$000	$000	$000	$000	$000
Mr JA Strong(i)	264	2	39	-	131	436
Mr JF Astbury	77	29	12	-	18	136
Ms MC Callaghan(ii)	8	2	2	269	3	284
Mr GA Cousins	77	12	10	-	18	117
Ms M Easson(ii)	9	2	1	276	2	290
Ms DG Fisher	39	12	10	-	55	116
Mr ND Hamilton	16	30	11	-	79	136
Ms AJ Keating	77	24	11	-	17	129
Mr RA Ross	51	29	11	-	44	135
Total remuneration	618	142	107	545	367	1,779

Notes:
(i) Mr Strong received $110,000 for his service as Chairman of the Board of IMA.
(ii) Ms MC Callaghan and Ms M Easson retired from the Board on 1 September 2003.

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

The terms of the retirement benefits scheme provided for:

(i) any Non-executive Director of IAG who had completed five years' continuous service with IAG (including service with any subsidiaries) at the date of retirement, a retirement benefit equivalent to the last three years' Directors' fees, employer superannuation contributions, committee fees and fees for extra services received from IAG and its subsidiaries.

(ii) a pro-rata retirement benefit for Non-executive Directors who have completed at least three years' service but less than five years' service at the date of their retirement, based on a specified formula.

(iii) no retirement benefit to be paid to a Non-executive Director who had served for a period of less than three years.

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

(i) Non-executive Directors joining the Board from 1 September 2003 would have no retirement benefit.

(ii) for each current Non-executive Director who had served a minimum of three years, the retirement benefit was assessed as if they had retired at 31 August 2003.

(iii) for a Non-executive Director with less than three years of service at 31 August 2003, a retirement benefit was assessed as if they had three years of service as at that date, and then reduced on a pro-rata basis based on their uncompleted period of service as a proportion of three years. The retirement benefit was not subsequently payable to such a Non-executive Director if they had less than three years of service as a Non-executive Director at the date of their retirement.

Retirement benefits of $259,000 and $250,000 were paid to Ms Fisher and Ms Keating, respectively, following their retirements from the Board on 10 November 2004.

The following table sets out the frozen retirement benefits of the remaining Directors who held office on 31 August 2003 and who have continued in office since then:

	RETIREMENT BENEFIT $000
Mr JA Strong	295
Mr JF Astbury	184
Mr GA Cousins	169
Mr ND Hamilton	248
Mr RA Ross	232

On retirement, Directors may also be entitled to be paid a benefit from their company funded superannuation. Such a benefit would be in addition to the Director's frozen retirement benefit.

No amounts have been accrued in the accounts of the Group for the frozen retirement benefits of the remaining Directors who held office on 31 August 2003 and who have continued in office since, as the Board has not exercised its discretion to pay these retirement benefits.

4. OTHER BENEFITS
Remuneration does not include premiums paid by IAG for an insurance contract covering current and former Directors' and executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid in respect of individual Directors and executives and the terms of contract specifically prohibited the disclosure of the premium paid. Insurance products provided by the Group are also available to all directors and executives on the same terms and conditions available to other employees.

During the financial year, the former Director (Mr N Whitlam) was paid additional retirement benefit payments for his period of service as chairman of IAG and its controlled entities. The payment amounted to approximately $207,000, inclusive of his company funded superannuation entitlements. Mr Whitlam was also paid interest on his entitlements.

5. EQUITY AND DEBT INSTRUMENT DISCLOSURE
(a) Holding of ordinary shares
The relevant interest of each specified executive and their personally-related entities in ordinary shares of IAG are:

	SHARES HELD AT THE BEGINNING OF THE YEAR	SHARES GRANTED AS REMUNERATION DURING THE YEAR	SHARES RECEIVED ON EXERCISE OF PSRs	SHARES RECEIVED ON EXERCISE OF PARs	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES(2)	TOTAL SHARES HELD AT THE END OF THE YEAR	SHARES HELD NOMINALLY AT THE END OF THE YEAR(1)
Mr IF Brown	211,769	34,560	-	-	7,362	253,691	87,904
Mr AM Coleman	127,528	-	-	-	(61,632)	65,896	65,896
Mr DA Issa	-	-	-	-	-	-	-
Mr RJ Jackson	22,351	-	-	-	(15,000)	7,351	7,351
Ms SJ Mostyn	16,083	-	-	-	-	16,083	-
Mr DRA Pearce	7,806	-	-	-	-	7,806	7,806
Mr MJ Pirone	17,748	-	28,640	-	(15,000)	31,388	17,383
Mr DJP Smith	129,591	-	-	-	-	129,591	5,951
Mr G Venardos	146,978	-	-	-	(108,689)	38,289	34,403
Executives who ceased employment during the year:							
Ms KL Baylis	-	-	-	-	-	*	-
Mr LF Power	34,134	-	-	-	-	*	-
Mr RJ Wagstaffe	-	-	-	-	-	*	-

(1) Nominally held shares are included in the column headed total shares held at the end of the year. These shares are held by the specified executives' personally-related entities.
(2) Net movement of shares relates to acquisition and disposal transactions by the executives and their personally-related entities during the year.
* These three executives ceased employment during the financial year. Information on shares held is only disclosed up to the date of their cessation.

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

(b) Holdings of reset preference shares
No specified executives had any interest in reset preference shares at any time during the financial year.

(c) Holdings of reset exchangeable securities
No specified executives had any interest in reset exchangeable securities at any time during the financial year.

(d) Holdings of ordinary shares
The relevant interest of each Director and their personally-related entities in ordinary shares of IAG is:

							FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	SHARES HELD AT THE BEGINNING OF THE YEAR	SHARES GRANTED AS REMUNERATION DURING THE YEAR	SHARES RECEIVED ON EXERCISE OF PSRs(4)	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES (3)	TOTAL SHARES HELD AT THE END OF THE YEAR	SHARES HELD NOMINALLY AT THE END OF THE YEAR(1)	SHARES HELD DIRECTLY AT THE END OF THE YEAR(2)	SHARES HELD INDIRECTLY AT THE END OF THE YEAR(2)
Mr JA Strong	199,768	25,779	-	-	225,547	213,464	12,083	164,901
Ms YA Allen	*	3,437	-	1,385	4,822	4,822	-	3,437
Mr JF Astbury	48,335	3,437	-	-	51,772	41,689	10,083	41,689
Mr GA Cousins	168,252	3,437	-	-	171,689	21,689	150,000	21,689
Ms DG Fisher	60,877	-	-	(56,078)	**	-	-	-
Mr ND Hamilton	65,277	15,467	-	-	80,744	75,927	4,817	75,927
Ms AJ Keating	18,961	-	-	(18,252)	**	-	-	-
Mr RA Ross	145,507	8,593	-	-	154,100	51,543	102,557	48,646
Mr B Schwartz	*	3,906	-	-	3,906	3,906	-	3,906
Mr MJ Hawker	205,857	-	940,000	26,252	1,172,109	22,050	1,150,059	-

(1) Nominally held shares are included in the column headed total shares held at the end of the year. These shares include shares held in the Non-executive Directors' Share Plan and shares held by Directors' personally-related entities.
(2) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG Director to trade in the shares of the IAG Group where they are in a position to be aware, or are aware, of price sensitive information.
(3) Net movement of shares relates to acquisition and disposal transactions by the Directors and their personally-related entities during the year. For the Directors appointed during the year, being Ms Allen and Mr Schwartz, these movements included their holdings as at appointment date.
(4) Non-executive Directors are not eligible to participate in the PSRs Plan.
* Ms Allen and Mr Schwartz were appointed on 10 November 2004 and 1 January 2005, respectively. Shares held before their appointments (if any) were classified as acquired during the period in the column – net movement of shares due to other changes in the table above.
** Ms Fisher and Ms Keating retired on 10 November 2004. Information on shares held is only disclosed up to the date of their retirement.

(e) Holdings of reset preference shares
No Directors had any interest in reset preference shares at any time during the financial year.

(f) Holdings of reset exchangeable securities
In respect of the relevant interest of each Director and their personally-related entities in reset exchangeable securities ("RES") of IAG Finance (New Zealand) Limited, other than Mr Hawker, no other Directors held any RES directly or through their personally-related entities.

					FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	RES HELD AT THE BEGINNING OF THE YEAR	NET MOVEMENT OF RES DUE TO OTHER CHANGES	TOTAL RES HELD AT THE END OF THE YEAR	RES HELD NOMINALLY AT THE END OF THE YEAR(1)	RES HELD DIRECTLY AT THE END OF THE YEAR(2)	RES HELD INDIRECTLY AT THE END OF THE YEAR(2)
Mr MJ Hawker	-	1,000	1,000	1,000	-	1,000

(1) Nominally held RES are included in the column headed total RES held at the end of the year. These RES are indirectly held by the Director's personally-related entities.
(2) This represents the relevant interest of the Director in RES issued by IAG Finance (New Zealand) Limited, as notified by the Director to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001. Trading in RES is covered by the IAG Group's Continuous Disclosure & Insider Trading Policy.

DIRECTORS' REPORT

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 (as amended by class order 04/667 dated 15 July 2004) issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 19th day of August 2005 in accordance with a resolution of the Directors.

James Strong

Mr J A Strong

Director

Mr M J Hawker

Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

Under Section 307C of the Corporations Act 2001

TO: THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED ("IAG")
I declare that both the Firm and I were and remain independent in accordance with professional rules and statutory requirements on auditor independence in relation to the audit for the financial year ended 30 June 2005 ("the audit").

In making this declaration I draw your attention to a contravention of Section 324CF(2) of Corporations Act 2001 ("the Act") which requires disclosure in terms of Section 307C.

During the six months to 30 June 2005 a tax partner in the Sydney office of KPMG was made aware by IAG (through the process of advising a change in address) that he had been allocated 847 shares in IAG by virtue of the demutualisation. Dividends owing to him amounted to $559.

The shareholding was identified by the Firm's internal control system. The partner, who has never worked in any capacity on IAG, has since disposed of these shares.

To the best of my knowledge and belief, in relation to the audit the only matter which requires disclosure in relation to auditor independence requirements as set out in the Act or any applicable code of professional conduct is the situation described above.

KPMG

KPMG

Dr Andries B Terblanché
Partner
Sydney, 19th August 2005

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005

	NOTES	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Premium revenue	2(a)	-	-	**6,561**	6,265
Reinsurance expense	3	-	-	**(417)**	(402)
Net premium revenue		-	-	**6,144**	5,863
Claims expense	3	-	-	**(4,729)**	(4,365)
Reinsurance and other recoveries	2(a)	-	-	**660**	550
Net claims expense	9(a)	-	-	**(4,069)**	(3,815)
Acquisition costs	3	-	-	**(1,075)**	(1,029)
Other underwriting expenses	3	-	-	**(339)**	(318)
Fire service levies	3	-	-	**(177)**	(153)
Underwriting expenses		-	-	**(1,591)**	(1,500)
Underwriting profit [(i)]		-	-	**484**	548
Investment revenue	2(b)	**585**	876	**1,055**	813
Other operating revenue	2(c)	-	-	**178**	286
Borrowing costs expense		-	-	**(69)**	(57)
Corporate, administration and other expenses	3	-	-	**(390)**	(438)
Profit from ordinary activities before income tax	4	**585**	876	**1,258**	1,152
Income tax credit / (expense)	5	**2**	-	**(379)**	(346)
Net profit		**587**	876	**879**	806
Net profit attributable to outside equity interests		-	-	**(119)**	(141)
Net profit attributable to shareholders of Insurance Australia Group Limited		**587**	876	**760**	665
Non-owner transaction changes in equity:					
Net exchange difference on translation of financial reports of foreign controlled entities		-	-	**(1)**	(3)
Total changes in equity from non-owner related transactions attributable to the shareholders of the parent entity		**587**	876	**759**	662

		CONSOLIDATED 2005 cents	CONSOLIDATED 2004 cents
Basic earnings per ordinary share	7(a)	**45.89**	37.87
Basic earnings per reset preference share	7(b)	**533.09**	532.30
Diluted earnings per ordinary share	7(a)	**45.83**	37.74

	2005 $m	2004 $m
Note:		
(i) Underwriting profit comprises:		
Net premium revenue	**6,144**	5,863
Net claims expense	**(4,069)**	(3,815)
Underwriting expenses	**(1,591)**	(1,500)
	484	548

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

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2005

	NOTES	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Assets					
Cash assets	26	**1**	1	**456**	424
Investments	13	**-**	-	**10,375**	9,686
Premium receivable		**-**	-	**1,710**	1,606
Other receivables	14	**-**	-	**654**	742
Amounts receivable from related bodies corporate		**215**	162	**-**	-
Current tax assets		**-**	-	**4**	-
Loans to related bodies corporate		**25**	5	**-**	-
Reinsurance and other recoveries receivable	10	**-**	-	**1,053**	915
Inventories		**-**	-	**2**	2
Property, plant and equipment	15	**-**	-	**258**	231
Prepayments		**-**	-	**70**	63
Deferred levies and charges		**-**	-	**105**	104
Deferred reinsurance expense		**-**	-	**194**	184
Deferred acquisition costs	11	**-**	-	**621**	558
Deferred tax assets	16	**239**	246	**264**	296
Investment in joint ventures and associates		**-**	-	**3**	7
Intangible assets	17	**-**	-	**7**	18
Investment in controlled entities		**4,617**	4,557	**-**	-
Goodwill	18	**-**	-	**1,371**	1,455
Total assets		**5,097**	4,971	**17,147**	16,291
Liabilities					
Payables	19	**1**	-	**915**	937
Amounts payable to related bodies corporate		**73**	11	**-**	-
Loans from related bodies corporate		**324**	456	**-**	-
Restructuring provision	20	**-**	-	**11**	29
Current tax liabilities		**140**	143	**193**	222
Unearned premium liability	12	**-**	-	**3,586**	3,472
Employee benefits provision	30	**-**	-	**206**	188
Deferred tax liabilities		**119**	66	**163**	99
Outstanding claims liability	9(c)	**-**	-	**6,840**	6,327
Interest-bearing liabilities	21	**-**	-	**793**	793
Total liabilities		**657**	676	**12,707**	12,067
Net assets		**4,440**	4,295	**4,440**	4,224
Equity					
Contributed equity	24(a)	**3,802**	3,802	**3,802**	3,802
Foreign currency translation reserve	24(b)	**-**	-	**(6)**	(5)
Retained profits / (accumulated losses)	24(c)	**638**	493	**59**	(259)
Equity attributable to shareholders of Insurance Australia Group Limited		**4,440**	4,295	**3,855**	3,538
Outside equity interests in controlled entities	24(d)	**-**	-	**585**	686
Total equity	24	**4,440**	4,295	**4,440**	4,224

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

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2005

	NOTES	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Cash flows from operating activities					
Premium received		**-**	-	**6,610**	6,578
Reinsurance and other recoveries received		**-**	-	**452**	458
Claims costs paid		**-**	-	**(4,179)**	(4,168)
Reinsurance expense paid		**-**	-	**(394)**	(474)
Dividends received		**585**	811	**88**	72
Interest and similar items received		**-**	-	**470**	454
Borrowing costs paid		**-**	-	**(62)**	(46)
Income tax refund		**-**	-	**4**	16
Income taxes paid		**(154)**	(49)	**(315)**	(139)
Other operating receipts		**-**	-	**1,036**	1,094
Other operating payments		**-**	-	**(2,813)**	(2,676)
Net cash provided by operating activities	25	**431**	762	**897**	1,169
Cash flows from investing activities					
Net cash flows on acquisition of controlled entities	27(a)	**-**	(287)	**(7)**	-
Net cash flows on disposal of controlled entities	27(b)	**-**	220	**-**	(45)
Return of capital by a controlled entity		**-**	285	**-**	-
Proceeds from disposal of investments and property, plant and equipment		**-**	-	**19,987**	23,034
Outlays for investments and property, plant and equipment acquired		**(60)**	(466)	**(20,126)**	(23,758)
Repayment of premium funding loans		**-**	-	**375**	285
Advances of premium funding loans		**-**	-	**(414)**	(300)
Net cash used in investing activities		**(60)**	(248)	**(185)**	(784)
Cash flows from financing activities					
Outlays for share buy-back inclusive of costs		**-**	(417)	**-**	(417)
Outlays for return of capital to outside equity interests		**-**	-	**-**	(56)
Proceeds from issues of trust units		**-**	-	**2,035**	948
Outlays for redemption of trust units		**-**	-	**(2,163)**	(567)
Proceeds from issue of reset exchangeable securities, net of transaction costs		**-**	-	**537**	-
Outlays to acquire Portfolio (see note 1(aa))		**-**	-	**(550)**	-
Proceeds from other borrowings inclusive of costs		**71**	184	**9**	671
Repayment of borrowings		**-**	-	**(9)**	(815)
Dividends paid to IAG shareholders	8	**(442)**	(282)	**(442)**	(282)
Dividends paid to outside equity interests		**-**	-	**(96)**	(72)
Net cash used in financing activities		**(371)**	(515)	**(679)**	(590)
Net increase / (decrease) in cash held		**-**	(1)	**33**	(205)
Effects of exchange rate changes on balances of cash held in foreign currencies		**-**	-	**(1)**	3
Cash at the beginning of the financial year		**1**	2	**424**	626
Cash at the end of the financial year	26	**1**	1	**456**	424

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

INDEX

For ease of reference, we provide here an index of the notes to the financial statements showing those relevant to the consolidated financial statements and those relevant to the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial report
This general purpose financial report has been prepared in accordance with Corporations Act 2001, applicable Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Australian Stock Exchange Listing Rules, except as described in note 24(c)(i). These financial statements are presented in Australian dollars.

The accounting policies adopted in the preparation of this financial report have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year unless otherwise mentioned. Except for certain assets, which, as noted in the financial statements, are measured at fair value, the financial statements have been prepared on the basis of historical cost.

The statement of financial position has been prepared using the liquidity format of presentation and differs from the presentation as disclosed in the 30 June 2004 Annual Financial Report. The change has been made as it is considered more meaningful to emphasise the importance of liquidity to the users of the financial report. Certain reclassifications have been made from the prior year's financial report to conform to the current year's presentation.

(b) Principles of consolidation
The consolidated financial report incorporates the assets and liabilities of all entities controlled by Insurance Australia Group Limited as at 30 June 2005 and the results of all controlled entities for the period then ended. Where an entity either began or ceased to be controlled during the financial year, the results are included only from the date control commenced or up to the date control ceased. The balances and effects of transactions between group entities are eliminated on consolidation.

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

(c) Premium revenue
Premium revenue comprises amounts charged to policyholders including fire service levies, but excluding stamp duties and taxes collected on behalf of third parties. Premium is recognised as earned from the date of attachment of risk over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium on unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous years' experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised as an unearned premium liability on the statement of financial position.

Premium receivable is stated at the amount due and is normally settled between 30 days and 12 months. The collectibility of debt is assessed and provision is made for doubtful debts having regard to past default experience.

(d) Outwards reinsurance
Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated as a prepayment and recorded as deferred reinsurance expense in the statement of financial position at the reporting date.

(e) Claims
The outstanding claims liability includes the estimated cost of all unsettled claims, which includes claims incurred but not yet reported, the anticipated direct and indirect costs of settling these claims and an appropriate risk margin, based on the advice of the Group's Approved Actuary. The liability is measured as the present value of the estimated ultimate cost of settling claims and takes into account the effect on the ultimate claim size of future inflation as well as increases in the real levels of compensation awarded by the courts. In determining the liability, allowance is also made for future investment earnings. Details of the discount and inflation rates used are included in note 9.

Claims expense represents claim payments adjusted for movement in the outstanding claims liability.

The estimation of the outstanding claims liability is the IAG Group's most critical accounting estimate. The IAG Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established.

(f) Reinsurance and other recoveries
Reinsurance and other recoveries on paid claims, reported claims not yet paid and incurred claims not yet reported are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, after provisioning for doubtful debts, calculated on the same basis as the outstanding claims liability. Details of the discount and inflation rates used are included in note 10.

(g) Acquisition costs
Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs.

Such costs are capitalised where they relate to unearned premium. The capitalised costs, or deferred acquisition costs, are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. Deferred acquisition costs are measured at the lower of cost and recoverable amount through the conduct of a loss recognition test such that when the sum of the expected future claims and associated settlements costs, in relation to business written to the reporting date, exceeds related unearned premium, the deferred acquisition costs are written down to recoverable amount and the write down is recognised as an expense. This test is conducted at the reporting entity level.

(h) Levies and charges
Levies and charges, for which the amount paid does not depend on the amounts collected, as is the case with fire service levies in Australia, are expensed on the same basis as the recognition of premium revenue. The portion relating to unearned premium is treated as a prepayment and recorded as deferred levies and charges. A liability for levies and charges payable is recognised on business written to the reporting date. Other levies and charges that are simply collected on behalf of third parties are not recognised in the statement of financial performance.

(i) Leased assets
The IAG Group leases certain premises, motor vehicles and computer equipment. Payments relating to operating leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, are charged as an expense in the period in which they are incurred.

(j) Borrowing costs
Borrowing costs, being interest and other ongoing costs incurred in connection with the borrowing of funds, including foreign exchange differences, are expensed as incurred. Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap. Transaction costs incurred in connection with the arrangement of borrowings are capitalised and amortised as borrowing costs expense over the lesser of the life of the borrowings or 5 years.

(k) Taxation

(i) Income tax
The IAG Group adopts the income statement liability method of tax effect accounting. Income tax is calculated on the operating result adjusted for permanent differences between taxable and accounting income. Any future income tax benefit relating to tax losses or other timing differences is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation or beyond reasonable doubt of realisation, respectively. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the tax rates which are expected to apply when those timing differences reverse. Deferred tax assets and liabilities are not discounted to present value.

(k) Taxation (continued)

(ii) Tax consolidation

Insurance Australia Group Limited ("head entity") and its Australian resident wholly-owned subsidiaries adopted the tax consolidation legislation effective from 1 July 2002. The Company is the head entity and recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

Under the tax funding agreement, the contributions are calculated on a "stand alone taxpayer basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by each wholly-owned subsidiary. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany receivables and payables with a consequential adjustment to income tax expense/credit.

(iii) Goods and services tax

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

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

(l) Other receivables

Other receivables are stated at the amounts to be received in the future and are normally settled between 30 days and 12 months. The balance is not discounted because the effect of the time value of money is not material. The collectibility of debts is assessed and provision is made for doubtful debts having regard to past default experience.

(m) Investments

Investments comprise assets held to back insurance liabilities and assets that represent shareholders' funds. The IAG Group maintains segregated portfolios for those assets.

Investments are initially recorded at fair value (being cost of acquisition including transaction costs) and are subsequently measured at net market value (fair value less estimated costs to sell) at each reporting date. Changes in the net market value from the previous reporting date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of financial performance as investment gains and losses.

For listed securities, fair value is determined by reference to market quotations. For unlisted securities, fair value is determined by reference to a valuation based on current economic conditions and the latest available information on the particular securities.

Investment income, comprising dividends, trust distributions and interest, is brought to account on an accruals basis. Income on investment in equity securities and property trusts is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

(n) Investments in controlled entities

Investments in controlled entities are initially recorded at cost and are carried in the Company's financial statements at the lower of cost and recoverable amount. Income from these investments, comprising dividends and trust distributions, are brought to account on an accruals basis. Dividends are accrued on the date they are declared.

(o) Derivatives

The IAG Group uses a variety of derivatives for the sole purpose of managing risk exposures of the IAG Group. Derivatives are not held for speculative purposes.

There is no Australian accounting standard setting out the measurement requirements for these financial instruments, and so the IAG Group accounts for them in accordance with developed market practice.

Investment operations:

All of the derivatives used in relation to the investment operations are recognised on the statement of financial position (disclosed together with the underlying instrument) at fair value with movements in fair value being recorded in the statement of financial performance. This matches the accounting for the derivatives with the accounting for the underlying investments.

The fair value is determined by reference to market quotes. Derivatives used in investments operations include share price index futures, equity swap agreements, exchange traded options and bank bill and bond futures.

Treasury operations:

There are various derivatives used by the IAG Group to hedge its exposure to foreign currency and interest rate movements in relation to treasury transactions (which include borrowings). These are:

Cross currency swaps – The IAG Group enters into cross currency swaps to hedge foreign currency borrowings. Interest receipts and payments on the swaps are charged to the statement of financial performance on a daily basis over the term for which the swap is effective as a hedge of the underlying borrowing and are included within the interest expense on borrowings. Revaluation gains and losses are recognised in the statement of financial performance against the revaluation losses and gains of the underlying hedged items.

Interest rate swaps – The IAG Group enters into interest rate swaps to hedge its exposure to interest rate movements on its borrowings. The interest income and expense associated with the swap agreements are charged to the statement of financial performance on a daily basis over the term for which the swap is effective as a hedge of the underlying borrowings. The net amounts receivable or payable are recognised in the statement of financial position on a daily basis over the term for which the swap arrangement is effective as a hedge of the underlying borrowings.

Forward foreign exchange contracts – The IAG Group enters into forward foreign exchange contracts to hedge foreign currency exposures recognised on its statement of financial position. The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency exchange rate current at reporting date.

Anticipated transactions – The IAG Group also uses derivatives in relation to anticipated transactions. Transactions are designated as a hedge of an anticipated specific acquisition of controlled foreign entities, or an anticipated transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred, and it is probable the anticipated transaction will occur. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs arising at the time of entering into the hedge, are deferred and included in the measurement of the transaction. Any gains or losses on the hedge transaction after the transaction date are included in the statement of financial performance. If the transaction does not occur as anticipated, the costs are immediately expensed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Property, plant and equipment
Plant and equipment is initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition. All items of plant and equipment are carried at the lower of cost less accumulated depreciation and recoverable amount. Items of plant and equipment are depreciated using the straight line method at rates based on the expected useful lives of the assets taking into account estimated residual values. Depreciation rates and residual values are reviewed annually for appropriateness. The depreciation rates used currently for each class of asset are as follows:

Motor vehicles	12.5% – 20%
Office and other plant and equipment	6.67% – 40%

All land and buildings are measured at net market value at each reporting date based on independent valuations using market-based evidence. Changes in the net market value from the previous reporting date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of financial performance.

(q) Goodwill
Acquisitions of a controlled entity or business are accounted for using the acquisition method. Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is amortised on a straight line basis over the period during which benefits are expected to arise subject to a maximum of 20 years. The recoverability of the carrying value of each of the components of goodwill is reviewed for impairment at each reporting date by determining the present value of projected net cash flows based on the five year business plans approved by management. Net cash flows beyond the five year period are extrapolated based on growth rates which are consistent with long term industry averages. If the carrying value exceeds the recoverable amount, the carrying value is reduced through an impairment charge to the statement of financial performance.

(r) Intangible assets
Acquired intangible assets, representing mainly contractual rights, are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Intangible assets are amortised on a straight line basis over the period in which the related benefits are expected to be realised, being 3 to 6 years. The amortisation periods are subject to review annually. The recoverability of the carrying value of these assets is reviewed for impairment at each reporting date using the present value of the expected net cash flows. If the carrying value exceeds the recoverable amount, the carrying value is reduced through an impairment charge to the statement of financial performance.

(s) Trade and other creditors
Trade and other creditors are stated at the amounts to be paid in the future for goods or services received and are normally settled within 30 days. The balance is not discounted because the effect of the time value of money is not material.

(t) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries (including bonuses), 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. A liability for sick leave is considered to exist only when it is probable that sick leave taken in the future will be greater than entitlements that will accrue in the future.

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

(iii) Share based incentive arrangements
The IAG Group provides share based remuneration in different forms to eligible employees and directors. The different arrangements are discussed in note 30. To satisfy IAG Group's obligations under the various share based remuneration plans, shares are generally bought on-market at or near grant date of the relevant arrangement and held in trust. The cost of shares acquired is carried as a prepayment in the statement of financial position. This prepayment is expensed in full through the statement of financial performance generally over a period approximating the period during which the related employment services are provided.

There remains one plan, the Performance Share Rights Plan, which while now closed to new entitlements, has rights outstanding which if the relevant conditions are met and the rights vest, is satisfied through the provision of newly issued shares. There is no recognition of these rights in the financial statements until the rights are exercised and the shares are issued, at which time the shares are measured at cost and recognised as share capital in the statement of financial position.

(iv) Superannuation
The IAG Group contributes to both defined contribution and defined benefit superannuation plans. Contributions are reflected in the statement of financial performance as they fall due. The IAG Group contributes to the various superannuation plans in accordance with their governing rules and recommendations from their respective actuaries, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities over the longer term. Any surplus or deficit from defined benefit superannuation plans is not recognised in the statement of financial position.

(u) Provision for dividends
Provision for dividends are made in respect of all types of contributed equity where the dividends are declared on or before the reporting date but have not yet been distributed at that date.

(v) Restructuring provision
A restructuring provision is recognised for the expected costs associated with restructuring where there is a detailed formal plan for restructure and a demonstrated commitment to that plan. The provision is based on the direct expenditure to be incurred which is both directly and necessarily caused by the restructuring, including termination benefits, decommissioning of information technology systems and exiting surplus premises, and does not include costs associated with the ongoing activities of the IAG Group. The adequacy of the provision is reviewed regularly and adjusted if required.

Where the provision is established as part of the cost of an acquisition, and certain requirements are met, the amount is capitalised as goodwill. Provisions established under other circumstances are expensed. The provision is not discounted because the effect of the time value of money is not material.

(w) Interest-bearing liabilities
Senior term notes and subordinated term notes are stated at cost and have a residual contractual maturity of between 2 months to 10 years. Interest expense is brought to account on an accruals basis. Transaction costs are included as a prepayment and are amortised as borrowing costs expense over the lesser of the life of the borrowings or 5 years. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings (ie the premium or discount) is expensed over the term of the liabilities as borrowing costs expense.

(x) Reset preference shares
The reset preference shares have no fixed maturity, are redeemable and convertible only at the option of IAG, dividends are at the Directors' discretion and the shares have no cumulative dividend obligations. Accordingly, they are classified as equity with related distributions classified as dividends.

(y) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are initially translated into the reporting currency at the rates of exchange at the dates of the transactions. At reporting date, amounts payable to and by the IAG Group in foreign currencies are translated to Australian currency at rates of exchange current at reporting date. Resulting exchange differences are brought to account in the statement of financial performance except for those relating to controlled foreign entities and hedging transactions as per (ii) and (iii) below.

(ii) Translation of controlled foreign operations

The financial position and performance of controlled foreign entities are translated into Australian currency for inclusion in the IAG Group's consolidated financial report. The assets and liabilities are translated using reporting date exchange rates while equity items are translated using historical rates. The statements of financial performance are translated using weighted average rates for the reporting period. Exchange differences arising from the translations are recorded directly in the foreign currency translation reserve until the disposal, or part disposal, of a foreign operation.

The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

(iii) Hedge transactions

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(o) for details of the relevant accounting policies.

(z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the earnings attributable to shareholders of the Company, excluding any costs of servicing equity (other than ordinary shares and reset preference shares classified as ordinary shares for basic earnings per share calculation purposes), by the weighted average number of shares of the Company outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share is determined by dividing the amount used in the calculation of basic earnings per share, adjusted by the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(aa) Reset exchangeable securities

Reset exchangeable securities ("RES") are initially measured at face value plus transaction costs incurred in issuing the securities. Interest expense on the reset exchangeable securities is brought to account on an accruals basis and payable quarterly subject to the terms of issue. Transactions costs are disclosed separately as deferred borrowing costs and are amortised over 5 years from the date of issue. In the statement of financial position, the RES liability is offset against the investments purchased ("Portfolio") from the proceeds of RES, as there is a legal right of set-off and it is the IAG Group's intention to realise the Portfolio and settle the RES liability simultaneously.

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 2. REVENUE				
Revenue from ordinary activities				
(a) General insurance revenue				
Direct gross written premium	**-**	-	**6,674**	6,421
Movement in unearned premium liability	**-**	-	**(112)**	(162)
Direct premium revenue	**-**	-	**6,562**	6,259
Inwards reinsurance premium revenue	**-**	-	**(1)**	6
Premium revenue	**-**	-	**6,561**	6,265
Reinsurance and other recoveries	**-**	-	**660**	550
Total general insurance revenue	**-**	-	**7,221**	6,815
(b) Investment revenue				
Dividend income	**585**	812	**96**	52
Interest income	**-**	-	**394**	420
Trust income	**-**	-	**15**	13
Total investment income	**585**	812	**505**	485
Changes in net market values of investments				
– realised gains	**-**	64	**209**	116
– unrealised gains	**-**	-	**341**	212
Total investment revenue	**585**	876	**1,055**	813
(c) Other operating revenue				
Fee based business revenue	**-**	-	**178**	216
Life insurance business revenue	**-**	-	**-**	70
	-	-	**178**	286
Proceeds from disposal of plant and equipment	**-**	-	**9**	9
Total other operating revenue	**-**	-	**187**	295
Total revenue from operating and ordinary activities	**585**	876	**8,463**	7,923

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 3. ANALYSIS OF TOTAL EXPENSES		
Expenses (excluding borrowing costs expense) disclosed on the face of the statements of financial performance:		
Reinsurance expense	**417**	402
Claims expense	**4,729**	4,365
Acquisition costs	**1,075**	1,029
Other underwriting expenses	**339**	318
Fire service levies	**177**	153
Corporate, administration and other expenses	**390**	438
Total expenses	**7,127**	6,705
Analysis of expenses by function:		
General insurance business expenses	**6,737**	6,267
Life insurance business expenses	**-**	52
Corporate and administration expenses	**390**	386
Total expenses	**7,127**	6,705

	NOTES	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX					
(a) Profit from ordinary activities before income tax includes the following items whose disclosure is relevant in explaining the financial performance of the IAG Group:					
Profit on sale of ClearView retirement services businesses and NRMA Health Pty Limited	27	**-**	(64)	**-**	(59)
Restructuring / integration costs	20	**-**	-	**12**	52
Insurance protection tax levied by the NSW State Government		**-**	-	**20**	20
(b) Profit from ordinary activities before income tax includes the following specific net (gains) and expenses:					
Depreciation of motor vehicles		**-**	-	**11**	9
Depreciation of office and other plant and equipment		**-**	-	**28**	29
Amortisation of goodwill		**-**	-	**92**	91
Amortisation of intangibles		**-**	-	**13**	27
Net loss on disposal of plant and equipment		**-**	-	**3**	4
Operating lease rentals		**-**	-	**191**	130
Transfer to employee benefits provision		**-**	-	**67**	59
Foreign exchange losses / (gains)		**-**	-	**27**	(4)
Bad and doubtful debts		**-**	-	**1**	6

	NOTE	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 5. INCOME TAX					
The income tax for the financial year differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:					
Profit from ordinary activities before income tax		**585**	876	**1,258**	1,152
Income tax calculated at 30% (2004 – 30%)		**176**	263	**377**	346
Tax effect of permanent differences:					
Rebateable dividends		**(176)**	(246)	**(22)**	(14)
Capital profits not subject to income tax		**-**	(15)	**(4)**	(18)
Other non-deductible items		**-**	-	**34**	39
Other		**(2)**	-	**(2)**	3
Income tax (credit) / expense applicable to current year		**(2)**	2	**383**	356
Adjustment to prior year		**-**	(2)	**-**	3
Income tax (credit) / expense attributable to profit from ordinary activities before impact of tax consolidation		**(2)**	-	**383**	359
Effect of resetting tax values on entering tax consolidation	(i)	**-**	-	**(4)**	(13)
Income tax expense related to current and deferred tax transactions of the tax-consolidated group subsidiaries upon implementation of tax consolidation		**-**	196	**-**	-
Recovery of income tax expense under a tax funding agreement at transition		**-**	(196)	**-**	-
Income tax (credit) / expense attributable to profit from ordinary activities after impact of tax consolidation		**(2)**	-	**379**	346

Note:

(i) The head entity was required to establish the tax cost of the assets of certain subsidiaries it acquired after the formation of the tax-consolidated group by using the Allocable Cost Amount method. As a result, an income tax credit of $4 million (2004 – $13 million) was recognised by these subsidiaries entering the tax-consolidated group.

NOTE 6. SEGMENT REPORTING

(a) Primary reporting – business segments

On 20 July 2004, the IAG Group announced an organisational restructure along four business lines. The consequential management restructuring and changes to internal reporting systems to the Chief Executive Officer and the Board were implemented in the half year ended 31 December 2004. Comparative segment information has been restated to reflect the new structure.

The IAG Group operated in the general insurance industry throughout the year. Revenue from the general insurance industry is derived from the underwriting of personal, commercial and international insurance businesses and these form separate reportable segments. The international insurance business comprised all personal and commercial business underwritten outside Australia and by the controlled entity, IAG Re Limited. Other activities, including corporate services, investment management and investment of the IAG Group's capital funds form a separate segment. In the year ended 30 June 2004, the IAG Group also operated businesses in the retirement services industry, which were sold on 21 January 2004. For the purposes of the comparatives, this segment (with external revenues of $53 million and profit from ordinary activities before income tax of $15 million for the year ended 30 June 2004) has been amalgamated in the corporate and investments segment.

NOTE 6. SEGMENT REPORTING (CONTINUED)

(a) Primary reporting – business segments (continued)

	PERSONAL INSURANCE 2005 $m	COMMERCIAL INSURANCE 2005 $m	INTERNATIONAL INSURANCE 2005 $m	CORPORATE AND INVESTMENTS 2005 $m	INTERSEGMENT ELIMINATION 2005 $m	TOTAL 2005 $m
External revenue	4,552	2,102	1,193	616	-	8,463
Intersegment revenue	-	-	267	-	(267)	-
Total revenue	4,552	2,102	1,460	616	(267)	8,463
Underwriting profit	291	68	125	-	-	484
Investment revenue net of investment fees – technical reserves	303	179	34	-	-	516
Insurance profit	594	247	159	-	-	1,000
Investment revenue net of investment fees – shareholders' fund	-	-	-	501	-	501
Other net operating result	-	(14)	(5)	(224)	-	(243)
Profit from ordinary activities before income tax	594	233	154	277	-	1,258
Income tax expense						(379)
Net profit						879
Segment assets	5,992	3,755	679	6,721	-	17,147
Unallocated assets						-
Total assets						17,147
Segment liabilities	5,992	3,755	679	2,281	-	12,707
Unallocated liabilities						-
Total liabilities						12,707
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	85	-	85
Depreciation expense*	15	10	7	7	-	39
Amortisation of goodwill and intangibles	-	-	-	105	-	105
Total depreciation and amortisation expense	15	10	7	112	-	144
Other non-cash expenses	44	22	9	5	-	80

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

	PERSONAL INSURANCE 2004 $m	COMMERCIAL INSURANCE 2004 $m	INTERNATIONAL INSURANCE 2004 $m	CORPORATE AND INVESTMENTS 2004 $m	INTERSEGMENT ELIMINATION 2004 $m	TOTAL 2004 $m
External revenue	4,155	2,045	994	729	-	7,923
Intersegment revenue	-	-	251	6	(257)	-
Total revenue	4,155	2,045	1,245	735	(257)	7,923
Underwriting profit	432	69	47	-	-	548
Investment revenue net of investment fees – technical reserves	162	61	21	-	-	244
Insurance profit	594	130	68	-	-	792
Investment revenue net of investment fees – shareholders' fund	-	-	-	543	-	543
Other net operating result	-	21	-	(204)	-	(183)
Profit from ordinary activities before income tax	594	151	68	339	-	1,152
Income tax expense						(346)
Net profit						806
Segment assets	5,625	3,474	700	6,492	-	16,291
Unallocated assets						-
Total assets						16,291
Segment liabilities	5,625	3,474	700	2,268	-	12,067
Unallocated liabilities						-
Total liabilities						12,067
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	92	-	92
Depreciation expense*	15	9	6	8	-	38
Amortisation of goodwill and intangibles	-	-	-	118	-	118
Total depreciation and amortisation expense	15	9	6	126	-	156
Other non-cash expenses	53	29	5	7	-	94

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

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

	AUSTRALIA		INTERNATIONAL		INTERSEGMENT ELIMINATION		TOTAL	
	2005 $m	2004 $m	2005 $m	2004 $m	2005 $m	2004 $m	2005 $m	2004 $m
External revenue	**7,216**	6,882	**1,247**	1,041	**-**	-	**8,463**	7,923
Segment assets	**15,854**	15,254	**2,169**	1,908	**(876)**	(871)	**17,147**	16,291
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	**70**	90	**15**	2	**-**	-	**85**	92

	CONSOLIDATED 2005 cents	CONSOLIDATED 2004 cents
NOTE 7. EARNINGS PER SHARE		
(a) Ordinary shares		
Basic earnings per share	**45.89**	37.87
Diluted earnings per share	**45.83**	37.74

	2005 NUMBER OF SHARES million	2004 NUMBER OF SHARES million
(i) Reconciliation between basic earning per share denominator and diluted earnings per share denominator		
Weighted average number of ordinary shares outstanding during the financial year used in calculation of the basic earnings per share	**1,593**	1,681
Potential ordinary shares under the Performance Share Rights Plan (note 30(d)(ii)):		
Expiry date 21 December 2010	**-**	1
Expiry date 30 April 2011	**1**	4
Expiry date 13 December 2011	**1**	1
Expiry date 5 March 2012	**1**	1
Cancelled potential ordinary shares	**(1)**	(1)
Weighted average number of ordinary shares and potential ordinary shares outstanding during the financial year used in calculation of the diluted earnings per share	**1,595**	1,687

Subsequent to reporting date, on 29 July 2005, a total of 0.2 million ordinary shares were issued as a result of the exercise of vested Performance Share Rights. At 30 June 2005, these shares were included as potential ordinary shares used in calculation of diluted earnings per share.

	2005 $m	2004 $m
(ii) Reconciliation of earnings used in calculating earnings per share		
Net profit	**879**	806
Net profit attributable to outside equity interests	**(119)**	(141)
Net profit attributable to shareholders of Insurance Australia Group Limited	**760**	665
Net profit attributable to reset preference shares	**(29)**	(29)
Earnings used in calculating basic and diluted earnings per share	**731**	636

	2005 cents	2004 cents
(b) Reset preference shares		
Basic earnings per share	**533.09**	532.30

	2005 NUMBER OF SHARES million	2004 NUMBER OF SHARES million
Weighted average number of reset preference shares outstanding during the financial year used in calculation of the basic earnings per share	**6**	6

	2005 $m	2004 $m
Net profit used in calculating basic earnings per share (based on dividends paid or payable on reset preference shares)	**29**	29

(c) In respect of the reset exchangeable securities ("RES") issued by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of IAG, during the financial year, there are no dilutive potential ordinary shares or dilutive potential reset preference shares arising from the issue of RES as at 30 June 2005.

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 8. DIVIDENDS AND DIVIDEND FRANKING ACCOUNT				
(a) Dividends				
(i) Ordinary shares				
Final dividend for year ended 30 June 2004 of 14 cents (year ended 30 June 2003 – 7 cents) per share, paid on 18 October 2004, fully franked at 30% (year ended 30 June 2003 – 30%)	**222**	118	**222**	118
Interim dividend of 12 cents (2004 – 8 cents) per share, paid on 18 April 2005, fully franked at 30% (2004 – 30%)	**191**	135	**191**	135
(ii) Reset preference shares				
Dividend paid on IAGPA* at 5.80% per annum and IAGPB* at 4.51% per annum, fully franked at 30% (2004 – 30%)	**29**	29	**29**	29
Total dividends declared and paid by cash	**442**	282	**442**	282

* – Refer to note 23(ii) for more details on the two issues of reset preference shares.

Subsequent to reporting date, on 19 August 2005, a final dividend of 14.5 cents per ordinary share, 100% franked, was declared by the Company. The dividend reinvestment plan ("DRP") will operate using shares acquired on-market with no discount applied. The dividend will be paid on 17 October 2005. The last date for the receipt of an election notice for participation in any DRP is 14 September 2005.

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
(b) Dividend franking account				
The amount of franking credits available for the subsequent annual reporting period are:				
Franking account balance at reporting date at 30%	**343**	260	**354**	262
Franking credits to arise from payment of income tax payable	**165**	147	**205**	203
Franking debits to arise from receipt of income tax refundable	**(20)**	-	**(20)**	-
Franking credits to arise from receipt of dividends receivable	**3**	-	**4**	-
Franking credits available for future reporting periods	**491**	407	**543**	465
Franking account impact of dividends declared after reporting date but before issuance of financial report	**(99)**	(96)	**(99)**	(96)
Franking credits available for subsequent financial years	**392**	311	**444**	369

The balance of the franking account arises from:

– franked income received or recognised as a receivable at the reporting date;
– 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
– franking debits from the payment of dividends recognised as a liability at the reporting date.

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

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 9. CLAIMS		
(a) Claims expense		
Direct business	**4,067**	3,797
Inwards reinsurance business	**2**	18
Net claims expense incurred	**4,069**	3,815

NOTE 9. CLAIMS (CONTINUED)

(b) Claims development
Given the uncertainty in establishing the outstanding claims liability, it is likely that the final outcome will be different from the original liability established.

	CONSOLIDATED					
	2005			2004		
	CURRENT YEAR $m	PRIOR YEARS $m	TOTAL $m	CURRENT YEAR $m	PRIOR YEARS $m	TOTAL $m
Direct business						
Gross claims and related expenses – undiscounted	**5,093**	**(236)**	**4,857**	4,923	(292)	4,631
Discount	**(247)**	**118**	**(129)**	(249)	(44)	(293)
Gross claims and related expenses – discounted	**4,846**	**(118)**	**4,728**	4,674	(336)	4,338
Reinsurance and other recoveries – undiscounted	**(609)**	**(168)**	**(777)**	(537)	(58)	(595)
Discount	**19**	**97**	**116**	24	30	54
Reinsurance and other recoveries – discounted	**(590)**	**(71)**	**(661)**	(513)	(28)	(541)
Net claims expense incurred	**4,256**	**(189)**	**4,067**	4,161	(364)	3,797

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial periods. A major component of the prior year movement is the release of risk margins in respect of claims payments during the year (largely offset by inclusion of risk margins in respect of current year claims).

Claims development refers to the financial adjustment in the current period relating to claims incurred in previous periods because of new and better information that has become available and to reflect changes in inflation and discount assumptions.

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
(c) Outstanding claims liability		
Expected future payments for claims incurred		
– central estimate	**5,785**	5,380
– claims handling costs	**451**	416
– risk margin	**2,018**	1,854
	8,254	7,650
Discount to present value	**(1,414)**	(1,323)
Outstanding claims liability	**6,840**	6,327

(d) Risk margin
Risk margins are held to allow for uncertainty surrounding the outstanding claims liability estimation process. Potential uncertainties include those relating to the actuarial models and assumptions, general statistical uncertainty, the general insurance environment, and the impact of legislative reform. The probability of the risk margin is set taking into account the correlations assessed between the outstanding claims liabilities arising from the various forms of business underwritten by the different entities within the IAG Group.

As at 30 June 2005, the IAG Group's percentage risk margin applied to expected and discounted future payments for claims incurred net of expected recoveries is 25.6%, representing a probability of adequacy of 92.5%.

(e) Actuarial assumptions
The following actuarial assumptions were used in the measurement of outstanding claims and recoveries at reporting date:

	2005 %	2004 %
For the succeeding year:		
– normal inflation rate	**3.0 – 4.0**	3.0 – 4.0
– superimposed inflation rate	**2.5 – 8.0**	2.5 – 6.0
– discount rate	**4.0 – 5.4**	5.3 – 5.5
For subsequent years:		
– normal inflation rate	**3.0 – 4.0**	3.0 – 4.0
– superimposed inflation rate	**2.5 – 8.0**	2.5 – 6.0
– discount rate	**5.0 – 5.2**	5.3 – 6.4

(f) The weighted average expected term to settlement of the gross outstanding claims from the reporting date is estimated to be 3.0 years (2004 – 2.8 years).

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 10. REINSURANCE AND OTHER RECOVERIES		
(a) Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable on outstanding claims liability	**1,196**	987
Reinsurance and other recoveries receivable on paid claims	**170**	169
Entitled future reinsurance and other recoveries	**1,366**	1,156
Provision for doubtful debts	**(8)**	(8)
Expected future recoveries	**1,358**	1,148
Discount to present value	**(305)**	(233)
Reinsurance and other recoveries receivable	**1,053**	915

(b) Actuarial assumptions
Refer to note 9(e) for the actuarial assumptions used in the measurement of reinsurance and other recoveries receivable.

(c) Reinsurance programme
Reinsurance has two principal goals, being to protect an insurer's balance sheet from excess risk and to facilitate the efficient use of an insurer's capital. To facilitate this and to create economies of scale, IAG has established a captive insurance company, IAG Re Limited ("IAG Re"). The operations of IAG Re are intended to manage reinsurance and earnings volatility and the IAG Group's exposure to catastrophe risk. In addition to the overall IAG Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength.

NOTE 11. DEFERRED ACQUISITION COSTS		
Deferred acquisition costs at the beginning of the financial year	**558**	513
Acquisition costs deferred	**1,138**	1,074
Amortisation charged	**(1,075)**	(1,029)
Deferred acquisition costs at the end of the financial year	**621**	558

NOTE 12. UNEARNED PREMIUM LIABILITY		
Unearned premium liability at the beginning of the financial year	**3,472**	3,301
Deferral of premiums on contracts written in the financial year	**3,500**	3,394
Earning of premiums written in previous years	**(3,386)**	(3,223)
Unearned premium liability at the end of the financial year	**3,586**	3,472

NOTE 13. INVESTMENTS		
Listed		
Money market securities		
– Australian government and semi-government	**2,698**	3,093
– foreign government	**181**	140
– financial institutions and corporate	**159**	119
Equity and trust securities		
– Australian	**2,381**	2,345
– international	**532**	212
	5,951	5,909
Unlisted		
Money market securities		
– financial institutions and corporate	**4,215**	3,634
Equity and trust securities		
– Australian	**129**	120
– international	**80**	23
	4,424	3,777
	10,375	9,686

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 14. OTHER RECEIVABLES		
Trade debtors	**46**	158
Provision for doubtful debts	**(10)**	(10)
	36	148
Premium funding loans secured on policies (net of unearned interest)	**130**	91
Provision for doubtful debts	**(2)**	(1)
	128	90
GST recoverable on outstanding claims liability	**300**	270
Investment income receivable	**99**	100
Other debtors	**91**	134
	654	742

	CONSOLIDATED				
	LAND $m	BUILDINGS $m	MOTOR VEHICLES $m	OFFICE AND OTHER PLANT AND EQUIPMENT $m	TOTAL $m
NOTE 15. PROPERTY, PLANT AND EQUIPMENT					
2005					
Cost	**-**	**-**	**70**	**298**	**368**
Accumulated depreciation	**-**	**-**	**(19)**	**(160)**	**(179)**
Net market value	**37**	**32**	**-**	**-**	**69**
Balance at the end of the financial year	**37**	**32**	**51**	**138**	**258**
Balance at the beginning of the financial year	**35**	**31**	**46**	**119**	**231**
Additions	**-**	**-**	**22**	**53**	**75**
Disposals	**(4)**	**(1)**	**(6)**	**(6)**	**(17)**
Depreciation expense	**-**	**-**	**(11)**	**(28)**	**(39)**
Movement in net market value	**6**	**2**	**-**	**-**	**8**
Balance at the end of the financial year	**37**	**32**	**51**	**138**	**258**
2004					
Cost	-	-	63	265	328
Accumulated depreciation	-	-	(17)	(146)	(163)
Net market value	35	31	-	-	66
Balance at the end of the financial year	35	31	46	119	231

The properties were valued by the independent valuer, Mr Scott Fullarton FAPI of Scott Fullarton Valuations Pty Limited

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 16. DEFERRED TAX ASSETS				
Future income tax benefits relating to				
– tax losses carried forward	**-**	-	**-**	19
– other	**239**	246	**264**	277
	239	246	**264**	296

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 17. INTANGIBLE ASSETS		
Contractual arrangements	**102**	102
Trademark	**3**	1
	105	103
Accumulated amortisation	**(98)**	(85)
	7	18

All of the intangible assets have finite useful lives.

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 18. GOODWILL		
Goodwill	**1,643**	1,635
Accumulated amortisation	**(283)**	(191)
Exchange rate movements	**11**	11
	1,371	1,455

Of the net goodwill amount, $298 million is denominated in NZ dollars (2004 – $307 million) and so is subject to foreign exchange rate movements.

	NOTES	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 19. PAYABLES					
Trade creditors		-	-	**529**	525
Other creditors		**1**	-	**303**	329
Loan from other party		-	-	**83**	83
		1	-	**915**	937

		CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 20. RESTRUCTURING PROVISION			
Balance at the beginning of the financial year		**29**	53
Additional provisions recognised	4	**12**	52
Paid during the financial year		**(30)**	(76)
Balance at the end of the financial year		**11**	29

In the financial year ended 30 June 2003, a provision of $48 million was established for restructuring the operations of the acquired entities, being CGU/NZI. This provision was capitalised as goodwill on consolidation. No further provisions were raised in the acquired entities during the financial year ended 30 June 2005. The provision was fully utilised at 30 June 2005 (2004 – $18 million).

The additional provisions of $12 million recognised in 2005 relate to restructuring of customer-facing outlets in Insurance Australia Limited and Insurance Manufacturers of Australia Pty Limited. A balance of $11 million remains in this provision as at 30 June 2005. The provision for restructuring of customer-facing outlets is expected to be utilised within the next 12 months.

The additional provisions of $52 million recognised in 2004 related to restructuring activities in the entities which acquired CGU/NZI, being Insurance Australia Limited and IAG New Zealand Limited. The 2004 restructuring provision was fully utilised as at 30 June 2005 (2004 – $11 million).

	NOTES	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 21. INTEREST-BEARING LIABILITIES			
Unsecured			
NZ senior term notes	(i)	**91**	91
Subordinated term notes	(ii)	**301**	301
US subordinated term notes	(iii)	**315**	345
Cross currency swaps hedge payable	(iii)	**86**	56
		793	793

Notes:

(i) The NZ senior term notes were issued through IAG (NZ) Holdings Limited's medium term note programme. NZ$100 million of notes were issued, of which NZ$50 million mature in August 2005 and NZ$50 million mature in August 2008. This programme is denominated in NZ dollars and translated into the equivalent A$ using the reporting date exchange rate.

(ii) The subordinated term notes were issued principally through Insurance Australia Limited's debt issuance programme ($300 million face value) and mature in November 2012. $250 million is at a fixed rate and $50 million is at floating rate. These notes qualify as Lower Tier 2 capital for the purposes of Insurance Australia Limited's Australian Prudential Regulation Authority ("APRA") regulatory capital position.

(iii) The US subordinated term notes (US$240 million) are on issue from NRMA Insurance Funding 2003 Limited (a wholly-owned subsidiary of Insurance Australia Limited) and mature in April 2015. These notes qualify as Lower Tier 2 capital for the purposes of Insurance Australia Limited's APRA regulatory capital position. They are fixed rate notes with the principal and interest flows denominated in US dollars, which are hedged with cross currency swaps.

NOTE 22. CURRENT AND NON-CURRENT INFORMATION

While the IAG Group presents the statement of financial position using the liquidity format, there are specific disclosure requirements regarding current / non-current classifications for certain items.

	CONSOLIDATED CURRENT $m	CONSOLIDATED NON-CURRENT $m	CONSOLIDATED TOTAL $m
2005			
Assets			
Investments	**2,869**	**7,506**	**10,375**
Reinsurance and other recoveries receivable	**366**	**687**	**1,053**
Deferred levies and charges	**105**	**-**	**105**
Deferred reinsurance expense	**194**	**-**	**194**
Deferred acquisition costs	**588**	**33**	**621**
Deferred tax assets	**-**	**264**	**264**
Liabilities			
Unearned premium liability	**3,485**	**101**	**3,586**
Employee benefits provision	**162**	**44**	**206**
Deferred tax liabilities	**-**	**163**	**163**
Outstanding claims liability	**2,375**	**4,465**	**6,840**
Interest-bearing liabilities	**46**	**747**	**793**
2004			
Assets			
Investments	2,474	7,212	9,686
Reinsurance and other recoveries receivable	368	547	915
Deferred levies and charges	104	-	104
Deferred reinsurance expense	184	-	184
Deferred acquisition costs	527	31	558
Deferred tax assets	-	296	296
Liabilities			
Unearned premium liability	3,386	86	3,472
Employee benefits provision	151	37	188
Deferred tax liabilities	-	99	99
Outstanding claims liability	2,202	4,125	6,327
Interest-bearing liabilities	-	793	793

All items of property, plant and equipment, investments in joint ventures and associates, intangible and goodwill assets are non-current assets. Cash assets, receivables and other assets are all current assets. All other liabilities are current liabilities.

NOTE 23. CONTRIBUTED EQUITY

Refer to note 24, statement of changes in equity for details of movement on contributed equity.

(i) Ordinary shares
Ordinary shares entitle the holder to a vote at a general meeting of the Company and participate in the dividends and the proceeds on winding up the Company in proportion to the number of, and amounts paid on, the shares held. Dividends, if declared, are subject to there being distributable profits available and not breaching APRA capital adequacy requirements.

(ii) Reset preference shares
The reset preference shares entitle the holder to a preferred, but not cumulative, dividend (currently 5.80% per annum for the first issue in June 2002 ("IAGPA") and 4.51% per annum for the second issue in June 2003 ("IAGPB")).

Dividends, if declared, are subject to similar conditions as those for ordinary shares. However, reset preference share dividends will be paid in priority to any dividends on ordinary shares. If dividends are not paid for reset preference shares, no dividends can be paid and no return of capital can be made on ordinary shares unless:

- two consecutive dividends stated to be payable on the reset preference shares (or an equivalent amount of dividends if the frequency of payment is other that semi-annual); or
- an optional dividend ("Optional Dividend") has been paid to the reset preference shareholders equal to the unpaid amount (if any) of the two immediately preceding dividends prior to the date of payment of the Optional Dividend (or equivalent dividends if the frequency of payment is other than semi-annual); or
- all reset preference shares have been converted, redeemed, bought back or cancelled.

The rate, frequency and timing of the payment of dividends can be reset by the Company on a reset date. The first reset dates are 15 June 2007 for IAGPA and 15 June 2008 for IAGPB.

Reset preference shares rank before ordinary shares in the event of the Company being wound up. The reset preference shares do not carry voting rights at general meetings. Further information is contained in note 39.

(iii) Dividend reinvestment
The Company operates a Dividend Reinvestment Plan ("DRP") which allows shareholders to elect to receive their dividend entitlement in the form of shares. The price of DRP shares is the average share market price, less a discount if any (determined by the Directors) calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date. The DRP share price in both 2005 and 2004 carried no discount. Shares allocated to shareholders participating in the DRP were purchased on market (2005 – 20 million shares; 2004 – 19 million shares).

(iv) Share buy-back
The share buy-back enables capital to be managed more efficiently while returning surplus funds and distributing excess franking credits to shareholders.

There was no share buy-back during the year ended 30 June 2005. During the year ended 30 June 2004 an off-market share buy-back of 94 million ordinary shares was conducted representing 5.6% of issued share capital. The shares were bought back and cancelled under the terms of a share buy-back tender. The share buy-back price was at $4.40 per share comprising a capital component of $1.78 per share (charged to paid up capital) and a fully franked dividend component of $2.62 per share (charged to retained profits).

(v) Performance share rights
Refer to note 30(d)(ii) for details on the Performance Share Rights Plan.

	PARENT / CONSOLIDATED			
	2005 NUMBER OF SHARES million	**2004 NUMBER OF SHARES million**	**2005 $m**	**2004 $m**
NOTE 24. STATEMENT OF CHANGES IN EQUITY				
Contributed equity				
Ordinary shares				
Balance at the beginning of the financial year	**1,591**	1,683	**3,263**	3,434
Shares issued under Performance Share Rights Plan	**3**	2	**-**	-
Share buy-back	**-**	(94)	**-**	(168)
Share buy-back transaction costs	**-**	-	**-**	(3)
Balance at the end of the financial year	**1,594**	1,591	**3,263**	3,263
Reset preference shares				
Balance at the beginning and end of the financial year	**6**	6	**539**	539
Total contributed equity at the end of the financial year	**1,600**	1,597	**3,802**	3,802

	NOTE	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 24. STATEMENT OF CHANGES IN EQUITY (CONTINUED)					
(a) Contributed equity		**3,802**	3,802	**3,802**	3,802
(b) Reserves					
Foreign currency translation reserve					
Balance at the beginning of the financial year		**-**	-	**(5)**	(2)
Currency translation adjustments		**-**	-	**(1)**	(3)
Balance at the end of the financial year		**-**	-	**(6)**	(5)
(c) Retained profits / (accumulated losses)[(i)]					
Balance at the beginning of the financial year		**493**	145	**(259)**	(396)
Net profit attributable to shareholders of Insurance Australia Group Limited		**587**	876	**760**	665
Utilised in share buy-back		**-**	(246)	**-**	(246)
Dividends declared and paid	8	**(442)**	(282)	**(442)**	(282)
Balance at the end of the financial year		**638**	493	**59**	(259)
Total equity attributable to shareholders of Insurance Australia Group Limited		**4,440**	4,295	**3,855**	3,538
(d) Outside equity interests in controlled entities					
– contributed equity		**-**	-	**124**	124
– retained profits		**-**	-	**40**	39
– unitholders' funds		**-**	-	**421**	523
Balance at the end of the financial year		**-**	-	**585**	686
Total equity		**4,440**	4,295	**4,440**	4,224

Outside equity interests in the consolidated net profit for the year ended 30 June 2005 are $119 million (2004 – $141 million) and in the consolidated total revenue, expenses and valuation adjustments recognised directly in equity are $Nil (2004 – $Nil).

Note:
(i) 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 at an amount equal to the sum of the carrying amounts of the assets and liabilities as shown in the consolidated statement of financial position of Insurance Australia Limited immediately prior to the date of acquisition. This order also allows dividends paid by Insurance Australia Limited to the Company out of distributable reserves of Insurance Australia Limited at the time of acquisition of its shares by the Company to be treated as income by the Company. However, the order restricts the amount of such dividends that can be paid by Insurance Australia Limited to the Company to $575 million, of which $575 million in total (2004 – $575 million) has been paid by Insurance Australia Limited from pre-demutualisation retained profits. During the year ended 30 June 2005, the Company received dividends of $Nil (2004 – $14 million) from Insurance Australia Limited from pre-demutualisation retained profits. This amount has been fully eliminated in the consolidated results.

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 25. RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX				
Net cash provided by operating activities	**431**	762	**897**	1,169
Depreciation of property, plant and equipment	**-**	-	**(39)**	(38)
Amortisation of goodwill and intangibles	**-**	-	**(105)**	(118)
Realised gains on disposal of investments	**-**	64	**225**	129
Unrealised gains on revaluation of investments	**-**	-	**352**	229
Loss on disposal of plant and equipment	**-**	-	**(3)**	(4)
Foreign exchange (losses) / gains	**-**	-	**(27)**	4
Bad and doubtful debts	**-**	-	**(1)**	(6)
Other	**-**	-	**5**	18
Increase / (decrease) in operating assets:				
Premium and other receivables	**73**	167	**251**	151
Prepayments and deferred levies and expenses	**-**	-	**81**	67
Deferred tax assets	**(7)**	246	**(32)**	-
Decrease / (increase) in operating liabilities:				
Payables	**140**	(154)	**(63)**	(13)
Restructuring and employee benefits provisions	**-**	-	**-**	(197)
Current tax liabilities	**3**	(143)	**29**	-
Deferred tax liabilities	**(53)**	(66)	**(64)**	-
Outstanding claims liability	**-**	-	**(513)**	(351)
Unearned premium liability	**-**	-	**(114)**	(186)
Gross life insurance policy liabilities	**-**	-	**-**	(48)
Profit from ordinary activities after income tax	**587**	876	**879**	806

NOTE 26. RECONCILIATION OF CASH

For the purposes of the statements of cash flows, cash includes cash on hand and in banks, deposits at call and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Cash	**1**	1	**456**	424

NOTE 27. CHANGES IN COMPOSITION OF THE IAG GROUP

(a) Businesses acquired

(i) Parent entity

2005

There was no acquisition by the parent entity during the year ended 30 June 2005.

2004

On 30 September 2003, the parent entity acquired 100% of the ordinary shares of NRMA Financial Management Limited, NRMA Information Services Pty Limited and IAG Asset Management Limited and its controlled entities from Insurance Australia Group Services Pty Limited (a subsidiary of the parent entity) at a total purchase price of $287 million. Immediately after this acquisition on 30 September 2003, the parent entity disposed 100% of the ordinary shares in Insurance Australia Group Services Pty Limited to Insurance Australia Limited (a subsidiary of the parent entity) for $2 million. This disposal was effected after a return of capital by Insurance Australia Group Services Pty Limited of $285 million. This change had no impact on goodwill in the consolidated entity.

(ii) Consolidated entity

2005

During the year ended 30 June 2005 the consolidated entity made the following acquisitions:

- Mike Henry Travel Insurance Limited: 50.1% acquired on 6 July 2004 for $4 million with contractual obligation to purchase remaining equity on or before 1 July 2006;
- Clipper Club Underwriters Limited: 100% acquired on 1 January 2005 for $1 million; and
- National Auto Club Underwriters Agency (NZ) Limited: 100% acquired on 1 January 2005 for $6 million.

The total outlay for these investments (net of cash acquired) was $7 million. As these acquisitions are not significant to the consolidated entity no further detailed disclosure is required.

2004

There was no acquisition from external parties by the consolidated entity during the year ended 30 June 2004.

NOTE 27. CHANGES IN COMPOSITION OF THE IAG GROUP (CONTINUED)

(b) Businesses disposed

(i) Parent entity

2005

There was no disposal by the parent entity during the year ended 30 June 2005.

2004

During the year ended 30 June 2004, the parent entity disposed 100% of the ordinary shares in NRMA Life Limited and its controlled entities, NRMA Financial Management Limited and Insurance Australia Group Services Pty Limited.

(ii) Consolidated entity

2005

There was no disposal by the consolidated entity during the year ended 30 June 2005.

2004

During the year ended 30 June 2004, the consolidated entity disposed 100% of the ordinary shares in NRMA Health Pty Limited (effective 25 July 2003), and NRMA Life Limited and its controlled entities and NRMA Financial Management Limited (effective 21 January 2004).

	PARENT 2005 $m	PARENT 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Details of the disposals are as follows (in aggregate):				
Sale proceeds:				
Cash	-	220	-	317
Fair value of net assets of controlled entities disposed:				
Cash assets	-	320	-	357
Receivables	-	22	-	11
Investments	-	1,020	-	1,028
Plant and equipment	-	-	-	1
Payables	-	(30)	-	(12)
Unearned premium liability	-	-	-	(18)
Outstanding claims liability	-	(3)	-	(27)
Gross life insurance policy liabilities	-	(958)	-	(958)
Provisions	-	(56)	-	(4)
Other	-	28	-	12
Outside equity interests	-	(188)	-	(188)
	-	155	-	202
Add: goodwill written off in respect of NRMA Health Pty Limited	-	-	-	51
Add: costs associated with disposals	-	1	-	5
	-	156	-	258
Profit on disposals	-	64	-	59
Net cash flow on disposal of controlled entities:				
Cash proceeds received (net of disposal costs)	-	220	-	312
Cash balance disposed	-	-	-	(357)
Inflow/(outflow) of cash	-	220	-	(45)
Profit from ordinary activities before income tax that the disposed entities contributed to the IAG Group:				
For the year ended 30 June 2004	-	-	-	15

The profit from ordinary activities before income tax that the disposed entities contributed to the IAG Group has been determined based on the results of the entities up to the date of disposal after allowing for amortisation of goodwill.

NOTE 28. DETAILS OF CONTROLLED ENTITIES

The following entities constitute the IAG Group:

	NOTES	COUNTRY OF INCORPORATION / FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100% 2005 %	2004 %
Parent entity				
Insurance Australia Group Limited		Australia	**n/a**	n/a
Controlled entities				
Australian general insurance operations				
Insurance Australia Limited		Australia		
NRMA Personal Lines Holdings Pty Limited		Australia		
Insurance Manufacturers of Australia Pty Limited		Australia	**70.00**	70.00
World Class Accident Repairs (Cheltenham North) Pty Limited		Australia	**70.00**	70.00
CGU Insurance Australia Limited		Australia		
CGU Insurance Limited		Australia		
Swann Insurance (Aust) Pty Ltd		Australia		
Mutual Community General Insurance Proprietary Limited		Australia	**51.00**	51.00
NZI Insurance Australia Limited		Australia		
Sitrof Australia Limited		Australia		
CGU-VACC Insurance Limited		Australia		
CGU Workers Compensation (NSW) Limited		Australia		
CGU Workers Compensation (VIC) Limited		Australia		
CGU Workers Compensation (SA) Limited		Australia		
CGU Premium Funding Pty Ltd		Australia		
International operations				
IAG Re Limited	B	Ireland		
IAG International Pty Limited		Australia		
IAG (NZ) Holdings Limited	B	New Zealand		
IAG New Zealand Limited	B	New Zealand		
Mike Henry Travel Insurance Limited	B	New Zealand	**50.10**	-
National Auto Club Underwriters Agency (NZ) Limited	B	New Zealand		-
Clipper Club Underwriters Limited	B	New Zealand		-
New Zealand Car Parts Limited	B	New Zealand		
New Zealand Insurance Limited (formerly NZI – State Finance Limited)	B	New Zealand		
State Insurance Limited	B	New Zealand		
Direct Insurance Services Limited	B	New Zealand		
Swann Insurance (NZ) Limited	B	New Zealand		-
IAG (NZ) Share Plan Nominee Limited	B	New Zealand		
NZI Staff Superannuation Fund Nominees Limited	B	New Zealand		
Belves Investments Limited	B	New Zealand		
NHCT Limited	(ii), B	Thailand	**49.00**	49.00
Beijing Continental Automobile Association Limited	B, C	China		
Investment operations				
IAG Asset Management Limited		Australia		
IAG Asset Management Cash Management Trust	(i)	Australia	**72.54**	60.64
IAG Asset Management Private Equity Trust	(i)	Australia	**82.85**	89.74
IAG Asset Management Fund of Hedge Funds	(i)	Australia		-
IAG Nominees Pty Limited		Australia		
IAG Portfolio Limited		Australia		-
Corporate operations				
NRMA Information Services Pty Limited		Australia		
NRMA Insurance Funding 2003 Limited		Australia		
IAG Finance (New Zealand) Limited		Australia		-
Insurance Australia Group Services Pty Limited		Australia		
Sitrof Life Holdings Limited		Australia		
Sitrof Superannuation Pty Ltd		Australia		
ACN 069 065 158 Pty Limited (formerly SGIC General Insurance Limited)	A	Australia		
IAG & NRMA Staff Superannuation Pty Limited (formerly NRMA Staff Superannuation Pty Limited)	A	Australia		
IAG Share Plan Nominee Pty Limited	A	Australia		
SWAPL Pty Limited	A	Australia		
ACN 007 078 140 Pty Limited	A	Australia		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

NOTE 28. DETAILS OF CONTROLLED ENTITIES (CONTINUED)

	NOTES	COUNTRY OF INCORPORATION / FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100% 2005 %	2004 %
Controlled entities de-registered during the year ended 30 June 2005				
NRMA (Western Australia) Pty Limited	(iii)	Australia	-	
SGIO Insurance Limited	(iii)	Australia	-	
SGIC Holdings Limited	(iii)	Australia	-	
SGIC Insurance Limited	(iii)	Australia	-	
SGIC Brand Pty Ltd	(iii), A	Australia	-	
Help Insurance Limited		Australia	-	
NRMA Insurance Services Limited		Australia	-	
151 Insurance Limited (formerly New Zealand Insurance Limited)	B	New Zealand	-	
NZI Passive Funds Limited	B	New Zealand	-	
NZI – State Capital Limited	B	New Zealand	-	
ACN 003 151 120 Pty Limited	A	Australia	-	
ACN 003 287 965 Pty Limited		Australia	-	
ACN 060 317 571 Pty Limited		Australia	-	
ACN 081 979 053 Pty Limited	A	Australia	-	
ACN 093 614 147 Pty Limited	A	Australia	-	
ACN 091 050 396 Pty Limited (formerly ACN 091 050 396 Limited)		Australia	-	
ACN 006 633 567 Pty Limited	A	Australia	-	70.00
ACN 004 478 979 Pty Limited (formerly ACN 004 478 979 Limited)		Australia	-	
ACN 006 577 724 Pty Limited	A	Australia	-	
ACN 004 729 088 Pty Limited	A	Australia	-	
ACN 005 065 207 Pty Limited		Australia	-	
ACN 006 268 926 Pty Limited	A	Australia	-	
Controlled entities put into liquidation during the year ended 30 June 2005				
NZI Investment Nominees Limited	B	New Zealand	-	
NZIB Investments Limited	B	New Zealand	-	

A Small proprietary companies that are not required to prepare, and have not prepared, audited financial statements.
B All controlled entities are audited by KPMG, however these entities are audited by overseas KPMG firms.
C All controlled entities have a 30 June financial year end, except this company has a 31 December year end.

Notes:
(i) As at the reporting date, the IAG Group has a majority holding, and has the capacity to control, IAG Asset Management Cash Management Trust, IAG Asset Management Private Equity Trust and IAG Asset Management Fund of Hedge Funds.
(ii) IAG International Pty Limited owns 49% of the share capital of NHCT Limited and has a majority voting right and the right to appoint the board of directors of NHCT Limited. Therefore, NHCT Limited is a controlled entity of IAG International Pty Limited.
(iii) These entities were de-registered as part of an internal restructuring that involved a rationalisation of the legal entity structure and the transfer of key businesses into other operational entities.

NOTE 29. DETAILS OF JOINT VENTURES AND ASSOCIATES

The IAG Group has a significant but non-controlling interest in the following joint ventures and associates:

	NOTES	REPORTING DATE	COUNTRY OF FORMATION	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST 2005 %	2004 %
Joint venture						
NTI Limited	(i), A	31 December	Australia	Managing co-insurance arrangement	**50.00**	50.00
Associates						
First Rescue and Emergency (NZ) Limited	A	31 March	New Zealand	Roadside assistance	**50.00**	50.00
Loyalty New Zealand Limited	A	31 March	New Zealand	Loyalty programme	**25.00**	25.00
Sureplan NZ Limited	A	31 March	New Zealand	Fleet risk management	**30.00**	-
AR Hub Pty Ltd		30 June	Australia	Software development	**33.33**	33.33

A Audited by accounting firms not affiliated with KPMG.

Note:
(i) CGU Insurance Limited, a controlled entity of the IAG Group, has a 50% interest in NTI Limited, the principal activity of which is to facilitate a co-insurance arrangement of commercial motor vehicle business. The IAG Group's portion of the results of the co-insurance arrangement is recorded directly in the Group's accounting records.

Further details are not disclosed as the financial impact of these investments is not significant to the IAG Group.

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 30. EMPLOYEE BENEFITS		
(a) Employee benefits provision		
Annual leave	**70**	58
Long service leave	**49**	60
Cash based incentive arrangements	**74**	60
Defined benefit pensions (i)	**13**	10
	206	188

(i) There is one defined benefit pension arrangement in Australia with a discounted liability as at 30 June 2005 of $9 million (2004 – $6 million) involving 93 participants (2004 – 93), and one defined benefit pension arrangement in New Zealand with a discounted liability as at 30 June 2005 of $4 million (2004 – $4 million) involving 55 participants (2004 – 59).

(ii) A liability of $nil (2004 – $3 million) for termination benefits remains in the restructuring provision established on acquisition of CGU/NZI (refer to note 20).

(b) Employee numbers

The IAG Group had 11,502 employees (on full time equivalent basis) as at 30 June 2005 (2004 – 11,858).

(c) Cash based incentive arrangements

(i) Short term incentive plan

The short term incentive plan continued in operation during the year ended 30 June 2005. Eligible employees have the capacity to earn a proportion of their base pay (generally up to 10%, 15%, 20% or 30%) depending on an employee's role and responsibility, as a cash incentive annually. The incentive payments are determined based on a range of corporate, divisional and individual measures and goals.

Employees, with incentives of 20% and over, may elect to receive up to a maximum of 50% of their short term incentive plan benefit in the form of IAG shares rather than cash through the related bonus equity share plan. The plan facilitates the voluntary election to receive part of a bonus in the form of shares and does not represent an additional remuneration benefit to the employee. The acquisition of the shares is funded by the participating employee's remuneration. There are no vesting conditions attached to the shares provided, there are limited forfeiture conditions, and they carry full dividend entitlements and voting rights from the time of allocation. The shares are purchased on-market and held in trust subject to a restriction period for tax purposes of between one and ten years (nominated by the participating employee) or until such time as the participating employee ceases employment with the IAG Group, whichever is earlier, after which they are released to the employee.

(ii) IMA long term incentive scheme

A long term incentive is provided to relevant Insurance Manufacturers of Australia Pty Limited ("IMA") personnel split evenly between two components. One component comprises an equity settled share based payment through the performance award rights plan (refer (d)(i) below). The other component is a cash based incentive arrangement involving a hurdle relating to compound growth in the IMA underwriting result. Each participant may elect to receive the incentive payment, if any, in the form of cash, superannuation contributions, or a combination of these.

(d) Share based incentive arrangements

The provision of share based remuneration creates a link between shareholder value creation, financial performance and rewarding employees. The IAG Group's share based remuneration encourages the retention of key personnel and links employee reward to the performance of the IAG Group.

The IAG Group's obligations under share based payment arrangements, that involve the provision of existing shares, are covered by the on-market purchase of IAG ordinary shares which are then held in trust. The shares are purchased on or near grant date at the then market price. The arrangements are managed using in-house trusts, one for Australia and two for New Zealand, which are not controlled for accounting purposes and so are not consolidated by the IAG Group. The trustee for each trust is a controlled entity of the IAG Group.

The number of shares purchased to cover each tranche is determined by the trustee based on independent actuarial advice. The trusts allow for excess shares purchased in relation to one plan to be used to meet obligations of the other plans at the trustee's discretion. The trusts held 11,373,883 shares as at 30 June 2005 (2004 – 9,189,709 shares) representing 0.71% (2004 – 0.58%) of the ordinary shares on issue. The fair market value of those shares at reporting date was $68.3 million (2004 – $45.9 million) which were acquired at different dates at a combined cost of $43.0 million (2004 – $30.5 million).

Trading in IAG shares that are awarded under the share based payment arrangements is covered by the same restrictions as applies to all forms of share ownership by employees. These restrictions limit the ability of an IAG employee to trade in the shares of the IAG Group where they are in a position to be aware, or are aware, of price sensitive information.

The IAG Group provides share based remuneration through four different plans each of which have different purposes and different rules.

(i) Performance award rights ("PARs") plan

The PARs Plan continued in operation during the year ended 30 June 2005. There are effectively two plans in operation, one for Australia and one for New Zealand, however the structure of the plans is the same. The rights are granted for nil consideration, are non-transferable, and can be settled only with existing IAG shares. Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one ordinary share of IAG for each right. The exercise price for all rights is a nominal value of $1 per tranche of rights exercised. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG shares are bought on-market and held in trust to satisfy future exercise of the rights.

The rights may vest between three and five years (the performance period) from base date (calculation date selected for each tranche) subject to the satisfaction of two vesting conditions. The first vesting condition is not market related and requires the participant to continue in employment with the IAG Group. The second vesting condition is a market related performance hurdle based on a comparison of IAG's total shareholder return ("TSR", the measure of return on an investment in IAG ordinary shares) with the TSR of a peer group of companies in the S&P/ASX 100 index. For the performance hurdle, a tiered vesting scale is applied, such that the percentage of allocated rights that vest increases proportionately as IAG's TSR performance increases from the 50th percentile to the 75th percentile in the peer group. Below the 50th percentile no rights vest while at or above the 75th percentile all of the rights vest. Testing for the satisfaction of the performance hurdle generally occurs quarterly during the performance period.

There are additional circumstances in which the rights may vest which include retrenchment of the participant, and takeover of the IAG Group. If either of the vesting conditions is not met then the rights lapse. The rights also lapse where the holder chooses to forego the rights, and all rights expire ten years from grant date where they have not previously lapsed or been exercised.

NOTE 30. EMPLOYEE BENEFITS (CONTINUED)

(d) Share based incentive arrangements (continued)

(i) Performance award rights ("PARs") plan (continued)

The following information relates to rights issued under the PARs Plan:

GRANT DATE	FAIR VALUE AT GRANT DATE	RIGHTS ON ISSUE AT BEGINNING OF YEAR	RIGHTS GRANTED DURING YEAR	RIGHTS EXERCISED DURING YEAR	RIGHTS LAPSED DURING YEAR	NUMBER OF RIGHTS AT END OF YEAR	
						ON ISSUE	EXERCISABLE
24/12/2002	$1.870	3,850,345	-	-	29,753	3,820,592	-
22/09/2003	$2.840	4,083,097	-	-	74,119	4,008,978	-
10/12/2003	$2.764	400,000	-	-	-	400,000	-
26/03/2004	$3.287	955,999	-	-	7,241	948,758	-
17/09/2004	$2.715	-	4,292,000	-	54,000	4,238,000	-
30/11/2004	$2.718	-	905,500	-	-	905,500	-
30/03/2005	$3.269	-	41,000	-	-	41,000	-
		9,289,441	5,238,500	-	165,113	14,362,828	-

The latest estimate, as at reporting date, of the number of rights on issue but not yet vested, that will vest, based on turnover only, is 11,299,933 (2004 – 6,851,396).

The fair value of the rights is calculated as at the grant date using the Monte Carlo valuation methodology. The valuations take into account the probability of achieving the market related performance hurdle. For those rights granted during the year to 30 June 2005, the following significant factors and assumptions were used:

GRANT DATE	17/9/2004	30/11/2004	30/3/2005
Share price on grant date ($)	5.17	5.84	6.26
Exercise price ($)	$1 per tranche exercised	$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)	5.6%	5.5%	6.1%
Expected share price volatility (%)	25%	25%	25%
Expected dividend yield (%)	4.26%	3.77%	4.15%
Expected life of rights (years)	4.132	4.116	3.698

Some of the assumptions are based on historical data which is not necessarily indicative of future trends.

(ii) Performance share rights ("PSRs") plan

The PSRs Plan was in operation from December 2000 and closed for further new rights issues during the year ended 30 June 2003. The rights were granted for nil consideration, are non-transferable, and can be settled only with new ordinary shares. The rights expire ten years from grant date where they have not previously lapsed or been exercised.

On the satisfaction of a performance hurdle, participating employees are able to exercise those rights, which convert into new ordinary shares of IAG that rank equally with other ordinary shares of IAG. The exercise price is $1 per tranche of rights exercised. For all rights issued prior to 13 December 2001, the performance hurdle related to the TSR of IAG shares over a defined period. For all rights issued on or after 13 December 2001 the performance hurdle is based on a comparison of IAG's TSR with the TSR of the relevant companies in the S&P/ASX 100 index.

The following information relates to rights issued under the PSRs Plan:

GRANT DATE	FAIR VALUE AT GRANT DATE	RIGHTS ON ISSUE AT BEGINNING OF YEAR	RIGHTS EXERCISED DURING YEAR	RIGHTS LAPSED DURING YEAR	NUMBER OF RIGHTS AT END OF YEAR	
					ON ISSUE	EXERCISABLE
21/12/2000	$1.70	28,640	28,640	-	-	-
30/04/2001	$1.67	2,441,100	2,104,500	-	336,600	336,600
02/08/2001	$2.14	190,700	77,500	-	113,200	113,200
22/10/2001	$1.84	135,000	135,000	-	-	-
13/12/2001	$2.30	1,000,000	940,000	-	60,000	60,000
05/03/2002	$2.68	501,897	195,880	-	306,017	306,017
15/07/2002	$2.28	102,222	-	-	102,222	-
		4,399,559	3,481,520	-	918,039	815,817

Further details are not disclosed because the PSRs Plan is a closed plan and the financial impact is not significant to the IAG Group.

(iii) Non-executive directors' share plan
The Non-executive Directors' Share Plan continued in operation during the year ended 30 June 2005, having been approved at the 2001 Annual General Meeting, for all continuing Non-executive Directors for the period from December 2002 to November 2005. Non-executive Directors are required to receive at least 20%, but not in excess of 90%, of their annual base fee (at the time shares are allocated) in IAG shares, rather than in cash. The shares vest on a pro-rata daily basis with limited forfeiture conditions and the participant is entitled to dividends and other shareholder rights during the vesting period. The on-market share price at grant date is used as the fair value of the equity instruments granted. The shares are purchased on market and held in trust subject to a restriction period, for tax purposes, of between one and ten years. The number of shares purchased is determined by the amount of the base fee each Director is to receive in IAG shares, the weighted average market price of the shares at the date of allocation, and the trustee's discretion to use excess shares from another plan.

Further details are not disclosed as the financial impact of this plan is not significant to the IAG Group.

(iv) Employee share plan
There are two employee share plans in place, one for Australia and one for New Zealand. These plans involve the granting of restricted shares to a substantial percentage of employees.

Australia
The last grant date under this plan was 19 March 2001 and the vesting period for that tranche has passed. There is no expense for this plan relevant to the year ended 30 June 2005.

New Zealand
The last grant date under this plan was 11 October 2002. Participation in the plan was open to employees that were not directors and that had completed at least three months of service at the grant date. They were invited to offer to purchase shares under the terms of the plan during a prescribed period commencing in September 2002. Eligible employees who accepted the offer to subscribe received an allocation of IAG shares to the equivalent value of NZ$1,500, for a total subscription consideration of NZ$1. Shares subscribed under this plan were purchased on-market and are held in trust during the three year vesting period on behalf of the participants. The average price of the shares purchased was used to determine the number of shares allocated to each staff member. The IAG Group provided funds to the trust to meet the cost of the purchase of the shares over and above the NZ$1 consideration received from each participating employee.

Employees that left the IAG Group before completion of the vesting period forfeit any rights to the shares. Under certain circumstances such as retirement, death or permanent disability, the vesting period may be waived. Forfeited shares may be reallocated as part of a future approved offer or disposed of at the discretion of the trustee. Dividends received on forfeited shares may, at the trustee's discretion, be used to defray costs of administering the plan. Participants are entitled to dividends and full voting rights during the vesting period.

(e) Superannuation
The IAG Group contributes to a number of superannuation plans both in Australia and New Zealand. The majority of employees are defined contribution members with fewer than 9% (2004 – 8%) of employees participating on a defined benefit basis. Entry into defined benefit plans is closed across the IAG Group and so all new employees are provided with defined contribution arrangements. The plans provide benefits for members or their dependants in the form of lump sum or pension payments generally upon ceasing employment with the IAG Group.

(i) Defined contribution superannuation arrangements
Contributions to the plans are made in accordance with the governing rules of each plan together with the Australian Superannuation Guarantee legislation and, for some plans, obligations under industry awards. The contributions are generally based on a percentage of employees' salaries.

The contributions paid during the year in relation to defined contribution members were low because the IAG & NRMA Superannuation Plan (the "Plan"), which is the principal superannuation plan for the Australian employees, was on a contribution holiday for most of the financial year, with contributions to the Plan only recommencing in June 2005 following the recommendations of the actuary (2004 – contribution holiday). The governing rules of the Plan allow any surplus to be used to meet the contributions that would otherwise have been payable for both the defined benefit and defined contribution members of the Plan.

The IAG Group is not exposed to risks or rewards of the defined contribution arrangements and the IAG Group has no obligations beyond the payment of contributions.

(ii) Defined benefit superannuation arrangements
Employees who are entitled to defined benefit superannuation arrangements are members of one of three funded superannuation plans. The defined benefit sections of those plans are closed to new members and so membership will reduce over time. Contributions to the plans are made in accordance with the governing rules of each plan and the contribution recommendations of an independent actuary. The benefits received for defined benefit members are generally based on length of service and final average salary together with the member's own contributions (if any). The net positions of the plans are not recognised in the statement of financial position of the IAG Group.

Two of the plans are in New Zealand with 32 defined benefit members as at 30 June 2005 (2004 – 32) with a combined surplus of $2.4 million (2004 – $2.2 million), calculated in accordance with the valuation methodology of AASB 119 Employee Benefits issued December 2004. As these New Zealand defined benefit arrangements are not material to the IAG Group, they are not disclosed in more detail.

All Australian employees with defined benefit superannuation arrangements are members of the IAG & NRMA Superannuation Plan (the "Plan"). The Plan was in surplus at the beginning of the year and so was on a contribution holiday until June 2005 from which time contributions recommenced following the recommendations of the actuary (2004 – contribution holiday).

The following information has not been audited and relates only to the part of the Plan for IAG Group employees that are entitled to defined benefit superannuation arrangements. The financial position has been determined in accordance with AAS25 Financial Reporting by Superannuation Plans, using the Attained Age Actuarial Funding method.

		IAG & NRMA SUPERANNUATION PLAN 2005 $m
Date of actuarial valuation	**30 June 2005**	
Actuarial firm	Mercer Human Resource Consulting	
Name and qualifications of actuary	Guy Holley, BEc FIAA	
Number of defined benefit members	980	
Net market value of net assets		**169**
Present value of accrued benefits		**163**
Excess of net assets over accrued benefits		**6**
Vested benefits		**152**

NOTE 30. EMPLOYEE BENEFITS (CONTINUED)

(e) Superannuation (continued)

(ii) Defined benefit superannuation arrangements (continued)

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

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

Assumptions used in the determination of the financial position of the Plan are reviewed annually and determined in conjunction with the independent actuaries to the Plan. The principal actuarial assumptions used in determining the financial position of the Plan and the contribution recommendation include:

	2005
Expected investment returns – pension assets / other assets	7.5% / 7.0%
Expected future salary increases	4.0%
Future pension increases – adult / child	2.5% / 0.0%

Changes in financial and / or demographic assumptions, or changes in the relevant regulatory environment, could significantly impact the financial position of the Plan. The financial position of the Plan is calculated at a specific point in time, however the superannuation arrangements are by nature long term. Short term variations between long term actuarial assumptions and actual experience will cause the net funding status of the Plan to change without impacting on the long term viability of the Plan.

In determining the contribution recommendation, the actuarial valuation method focuses on the funding of benefits, irrespective of whether they stem from past or future membership, whereas, for financial reporting purposes, the present value of expected future benefit payments does not include benefits that have not yet accrued.

Assets of the Plan are managed by the IAG Group. The assets of the Plan do not include any shares issued by the IAG Group nor any property or other assets used by the IAG Group.

	CONSOLIDATED 2005 $000	CONSOLIDATED 2004 $000
NOTE 31. AUDITORS' REMUNERATION		
(a) Audit services		
Auditing the financial statements and consolidated financial statements	**3,611**	3,284
Audit of statutory returns in accordance with regulatory requirements	**792**	1,030
Other assurance services	**2,472**	2,264
	6,875	6,578
(b) Non-audit services		
Taxation services	**563**	595
Due diligence and other services on acquisitions, divestment and capital transactions	**2,790**	883
Other	**78**	64
	3,431	1,542

	NOTES	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 32. FINANCING ARRANGEMENTS		Facilities available		Facilities drawn at reporting date	
(a) Standby letter of credit facility	(i)	**7**	7	**2**	3
(b) Standby facility	(ii)	**30**	50	**-**	-
(c) Debt issuance programme	(iii)	**750**	750	**300**	300
(d) NZ medium term note programme	(iv)	**91**	91	**91**	91

Notes:

(i) The standby letter of credit facility is denominated in US dollars and is translated into equivalent A$ using the reporting date exchange rate.

(ii) The standby facility is for liquidity support in the event that Insurance Australia Limited is unable to refinance maturing obligations under the debt issuance programme due to a market disturbance. Interest on this standby facility when drawn down is charged at a margin over the bank bill rate.

(iii) Insurance Australia Limited has a $750 million debt issuance programme. Standard & Poor's has assigned its "AA" long term and "A-1+" short term ratings to the programme's senior obligations and "AA-" to its subordinated notes. Insurance Australia Limited is rated "AA" for its insurer financial strength and counterparty credit ratings.

(iv) IAG (NZ) Holdings Limited has a NZ$100 million medium term note programme. Standard & Poor's has assigned a "AA" long term rating to the guaranteed and unsubordinated series of wholesale notes issued under the programme. The programme is guaranteed by Insurance Australia Limited. This programme is denominated in NZ dollars and is translated into equivalent A$ using the reporting date exchange rate.

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
NOTE 33. COMMITMENTS		
(a) Capital commitments		
Property		
– due within 1 year	**5**	1
(b) Lease and rental commitments		
Property		
– due within 1 year	**89**	89
– due within 1 to 2 years	**85**	78
– due within 2 to 5 years	**112**	151
– due after 5 years	**21**	19
Plant and equipment		
– due within 1 year	**34**	28
– due within 1 to 2 years	**24**	21
– due within 2 to 5 years	**7**	12
	372	398
(c) Software licence and rental commitments		
– due within 1 year	**41**	40
– due within 1 to 2 years	**26**	36
– due within 2 to 5 years	**3**	23
	70	99
(d) Other commitments		
– due within 1 year	**4**	10
– due within 1 to 2 years	**2**	8
– due within 2 to 5 years	**2**	8
	8	26

NOTE 34. CONTINGENCIES

(a) In the normal course of business, the IAG Group enters into transactions that may generate a range of contingent liabilities. These include:

(i) litigation arising out of insurance policies;

(ii) various types of investment contracts including forward exchange contracts, financial futures, interest rate swaps, exchange traded options and forward rate agreements, usually as part of the management of the IAG Group's investment portfolios; and

(iii) guarantees for performance obligations and undertakings for maintenance of net worth and liquidity support to controlled entities in the IAG Group.

Notes 32 and 37 make reference to the IAG Group's exposures under (ii) and (iii) above. The Directors do not believe there are any other potential material exposures to the IAG Group.

(b) In respect of the issue of reset exchangeable securities ("RES") by a wholly-owned subsidiary, IAG Finance (New Zealand) Limited ("IAGF NZ"):

(i) IAGF NZ has granted to Permanent Trustee Company Limited ("Trustee"), the trustee of the RES, a fixed charge over its right, title and interest in the payments to it under the Portfolio Management Agreement and certain intra group receivables. IAG Portfolio Limited, a wholly-owned subsidiary of IAG, has granted to the Trustee a mortgage over IAG Portfolio Limited's portfolio of investments ("Portfolio") and a floating charge over its rights, property and undertaking as a security to the RES holders.

(ii) Insurance Australia Limited has put in place an interest rate floor with IAG Portfolio Limited in the event the bank bill rate applicable to the calculation of the interest rate payable on the RES falls below a specified rate. This will enable IAG Portfolio Limited to generate sufficient income to allow IAGF NZ to make part or full interest payments on RES.

(iii) in the event of an interest payment on RES being unfranked, the Company must pay an amount into IAG Portfolio Limited to fund a gross-up of the interest payment on RES.

(iv) the Company may exchange some or all RES for preference shares issued by the Company at any time.

(v) IAGF NZ may, in relation to the RES, change their terms, redeem them for cash or convert them into ordinary shares issued by IAG on any reset date. The next reset date is 15 March 2010.

(vi) IAGF NZ may, in relation to the RES, redeem them for cash or convert them into ordinary shares issued by IAG, if a tax event, regulatory event or acquisition event, as defined in the RES terms, occurs.

(vii) RES holders may redeem the RES on any reset date or if a trigger event, as defined in the RES terms, occurs.

(viii) the Company has an obligation to pay all costs, charges and expenses in managing the Portfolio including the Trustee and custodian.

(ix) the Company and other members of the IAG Group may be entitled to any surplus in the Portfolio from excess income from the Portfolio after the payment of aggregate interest payments on RES or from excess net assets of the Portfolio after the payment of aggregate redemption amounts on RES.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

NOTE 35. NEW SOUTH WALES WORKERS' COMPENSATION MANAGED FUND

CGU Workers Compensation (NSW) Limited, a wholly-owned subsidiary of IAG Group, maintains a statutory fund in respect of the issue and renewal of policies of insurance in accordance with the requirements of the NSW Workers' Compensation Act 1987 (the "Act").

The application of the statutory fund is restricted to the payment of claims, related expenses and other payments authorised under the Act.

The licensed insurer is not liable for any deficiency in the statutory fund, or entitled to any surplus, and the statutory fund is exempt from income tax. The IAG Group does not control nor have the capacity to control the statutory fund for accounting purposes and for this reason the statutory fund is not consolidated and the information provided below in respect of the statutory fund is not included in the IAG Group's financial statements.

	2005 $m	2004 $m
Unaudited statutory fund statement of financial position		
Assets		
Cash and short term deposits	**31**	17
Receivables	**73**	77
Investments, at market value	**1,552**	1,154
Total assets	**1,656**	1,248
Liabilities		
Payables	**23**	16
Unearned premium liability	**91**	96
Statutory fund to meet outstanding claims liability and statutory transfers	**1,542**	1,136
Total liabilities and statutory fund	**1,656**	1,248

NOTE 36. RELATED PARTY DISCLOSURES

(a) Wholly-owned group

The wholly-owned group consists of Insurance Australia Group Limited and its wholly-owned controlled entities (refer note 28). All transactions that have occurred within the wholly-owned group have been eliminated for consolidation purposes.

	PARENT 2005 $m	PARENT 2004 $m
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with related parties within the wholly-owned group were as follows:		
Dividend revenue	**585**	812
Aggregate amounts receivable from, and payable to, related parties in the wholly-owned group were as follows:		
Amounts receivable	**215**	162
Amounts payable	**73**	11
Loans receivable	**25**	5
Loans payable	**324**	456

The loans receivable and payable are non-interest bearing and are repayable on demand.

(b) Non wholly-owned controlled entities

Transactions with Insurance Manufacturers of Australia Group

Insurance Manufacturers of Australia Group ("IMA"), which is 70% owned by the IAG Group, refers to Insurance Manufacturers of Australia Pty Limited and its controlled entity being World Class Accident Repairs (Cheltenham North) Pty Limited.

The following entities in the IAG Group had the following transactions with IMA.

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with IMA were as follows:		
Insurance Australia Limited		
– Reinsurance premiums paid or payable	**1,452**	1,434
– Claims recoveries received or receivable	**948**	862
– Underwriting expenses received or receivable	**54**	53
– Management fees received	**156**	160
– Rental income	**4**	5
Swann Insurance (Aust) Pty Ltd		
– Reinsurance premiums paid or payable	**3**	-
– Claims recoveries received or receivable	**2**	-
– Management fees received	**1**	1
CGU Insurance Limited		
– Management fees paid	**31**	9
IAG Re Limited		
– Reinsurance claims paid or payable	**62**	75
– Reinsurance premiums received or receivable	**98**	99
SGIO Insurance Limited		
– Reinsurance premiums paid or payable	**-**	3
– Claims recoveries received or receivable	**-**	5
– Management fees paid	**-**	4
ACN 069 065 158 Pty Limited (formerly SGIC General Insurance Limited)		
– Management fees paid	**-**	2
NRMA Personal Lines Holdings Pty Limited		
– Dividend revenue	**224**	168
NRMA Information Services Pty Limited		
– Information services and communication recoveries received	**83**	76
IAG Asset Management Limited		
– Investment management fees received	**4**	3
IAG Nominees Pty Limited		
– Custody fees received	**1**	1
The transactions referred to above were made on either normal commercial terms and conditions, a direct and actual cost recovery basis or time allocation basis.		
The following entities in the IAG Group had the following outstanding balances at reporting date with IMA:		
Amounts receivable		
– NRMA Information Services Pty Limited	**3**	4
– Insurance Australia Limited	**41**	2
– SGIO Insurance Limited	**-**	1
– IAG Re Limited	**2**	-
Amounts payable		
– IAG Asset Management Cash Management Trust	**1**	1
– IAG Asset Management Private Equity Trust	**1**	-
– Swann Insurance (Aust) Pty Ltd	**1**	1

There are two entities in the IAG Group, being Insurance Australia Group Services Pty Limited and Insurance Manufacturers of Australia Pty Limited, with employees that are defined benefit members of the IAG & NRMA Superannuation Plan (refer note 30(e)). While separate records are maintained for the liabilities relating to each member, there is effectively a sharing of the risks associated with the assets of the plan.

(c) Other transactions
IAG Asset Management Wholesale Trusts (disclosed as controlled entities in note 28), were established to enable higher investment yields for smaller investment portfolios. All entities within the IAG Group can invest in the trusts in accordance with their investment mandates. All investments in these trusts were on normal commercial terms and conditions.

NOTE 37. FINANCIAL INSTRUMENTS

The IAG Group is exposed to interest rate risk, equity risk, exchange rate risk and credit risk from its business, investment activities and foreign currency borrowings. To effectively manage the risk of significant negative movement, specifically in interest rates and equity prices, a combination of derivatives has been used.

(a) Interest rate risk

The IAG Group's exposure to interest rate risk results from the holding of financial assets and liabilities in the normal course of business.

(i) Interest rate swap agreements

Insurance Australia Limited has entered into interest rate swap agreements ("swap agreements") to manage the interest rate exposure on the IAG Group's borrowings. Insurance Australia Limited pays a fixed rate of interest under the swap agreements and receives a variable rate of interest equal to the amount payable on the underlying hedged borrowings. The interest income and expense associated with the swap agreements are charged to the statement of financial performance on a daily basis over the term for which the swap is effective as a hedge of the underlying borrowing. As at 30 June 2005, the weighted average fixed interest rate payable under the swap agreements was 6.77% per annum (2004 – 6.77% per annum) and the weighted average floating rate receivable was 7.20% per annum (2004 – 7.02% per annum).

As at reporting date, the notional principal amounts and period of expiry of the swap agreements are as follows:

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Interest rate swaps		
– within 2 to 5 years	**400**	50
– within 5 to 7 years	**-**	350
	400	400

(ii) Futures

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

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Futures		
– within 1 year	**2,306**	603
– within 1 to 2 years	**449**	169
	2,755	772

(iii) Interest rate risk exposures

The exposure to interest rate risk and the weighted average effective interest rates on the interest-bearing financial assets and liabilities of the consolidated entity are summarised in the table below. All other assets and liabilities disclosed on the statement of financial position are non-interest bearing.

	CONSOLIDATED						
		FIXED INTEREST RATE MATURING IN					
	FLOATING INTEREST RATE $m	1 YEAR OR LESS $m	OVER 1 TO 5 YEARS $m	MORE THAN 5 YEARS $m	NON-INTEREST BEARING $m	TOTAL $m	WEIGHTED AVERAGE INTEREST RATE %
2005							
Financial assets							
Cash assets	**451**	**-**	**-**	**-**	**5**	**456**	**5.52**
Premium funding loans	**-**	**128**	**-**	**-**	**-**	**128**	**14.65**
Money market securities	**26**	**2,760**	**3,111**	**1,356**	**-**	**7,253**	**5.59**
	477	**2,888**	**3,111**	**1,356**	**5**	**7,837**	
Financial liabilities							
Senior term notes	**-**	**46**	**45**	**-**	**-**	**91**	**7.12**
Subordinated term notes	**50**	**-**	**249**	**2**	**-**	**301**	**6.35**
US subordinated term notes	**-**	**-**	**-**	**315**	**-**	**315**	**5.19**
	50	**46**	**294**	**317**	**-**	**707**	
Net financial assets	**427**	**2,842**	**2,817**	**1,039**	**5**	**7,130**	

	CONSOLIDATED						
		FIXED INTEREST RATE MATURING IN					
	FLOATING INTEREST RATE $m	1 YEAR OR LESS $m	OVER 1 TO 5 YEARS $m	MORE THAN 5 YEARS $m	NON-INTEREST BEARING $m	TOTAL $m	WEIGHTED AVERAGE INTEREST RATE %
2004							
Financial assets							
Cash assets	414	-	-	-	10	424	4.47
Premium funding loans	-	90	-	-	-	90	11.56
Money market securities	40	2,432	3,361	1,153	-	6,986	5.53
	454	2,522	3,361	1,153	10	7,500	
Financial liabilities							
Senior term notes	-	-	91	-	-	91	7.12
Subordinated term notes	50	-	249	2	-	301	6.39
US subordinated term notes	-	-	-	345	-	345	5.19
	50	-	340	347	-	737	
Net financial assets	404	2,522	3,021	806	10	6,763	

	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
(iv) Reconciliation of net financial assets to net assets:		
Net financial assets		
– interest-bearing	**7,130**	6,763
– other	**2,652**	2,327
– net insurance liabilities	**(7,663)**	(7,282)
Net non financial assets	**2,321**	2,416
Net assets	**4,440**	4,224

(b) Equity price risk
In addition to the effects of movements in interest rate and foreign exchange values, the IAG Group is also exposed to equity market volatility through its investment in equities.

At reporting date, the notional principal amounts and period of expiry of the equity related contracts were as follows:

SPI futures		
– within 1 year	**865**	356
Options		
– purchased – within 1 year	**28**	9
– written – within 1 year	**35**	33
	928	398

(c) Exchange rate risk
(i) Insurance Australia Limited has entered into cross currency swaps to fully hedge the Australian dollar value of principal and interest flows on the IAG Group's US subordinated term notes. The swaps mature in 2010. Over the term of the swaps, the company will receive US dollar payments equal to the interest payable on the notes and will pay interest at either a fixed rate or variable rate of the three month bank bill swap rate plus a margin on a principal amount totalling A$401 million. On maturity of the swap, the IAG Group will repay the principal amount totalling A$401 million and receive US$240 million based on the original spot exchange rate at inception.

(ii) The IAG Group is exposed to foreign exchange risk on its investments in international equities, receivables and payables in a foreign currency and its net investment in controlled foreign operations. The IAG Group uses derivatives to help manage these exposures. At reporting date, the contractual amount and maturity profile of the derivatives were as follows:

Forward foreign exchange contracts		
– within 1 year	**325**	312

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

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

NOTE 37. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)
As the exchange traded derivatives are being settled on a daily basis with the clearing house of the respective exchange, credit risk associated with these contracts is minimal.

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

The net fair value of financial assets and liabilities arising from the derivatives other than interest rate swaps (being currency and equity swap agreements, Share Price Index futures, equity options, bank bill and bond futures, options and forward foreign exchange contracts) has been determined as the carrying value which represents the amount currently receivable or payable at the reporting date. The carrying value of all these derivatives is a net payable of $82 million (2004 – net payable of $60 million). The net fair value of interest rate swaps is a net receivable of $3 million (2004 – net receivable of $14 million) with a carrying value of $Nil (2004 – $Nil).

NOTE 38. CAPITAL ADEQUACY

Existing prudential standards sets out the basis for calculating the minimum capital requirement ("MCR") of licensed insurers. The MCR utilises a risk-based approach and is determined as the sum of the capital charges for insurance, investment, investment concentration and catastrophe risk.

The MCR of the IAG Group applying consolidation principles to the prudential standards is as follows:

	NOTES	CONSOLIDATED 2005 $m	CONSOLIDATED 2004 $m
Statutory capital			
Tier 1 capital			
Ordinary shares		**3,263**	3,263
Reset preference shares		**539**	539
Retained profits / (accumulated losses) and reserves		**53**	(264)
Excess technical provisions (net of tax)		**499**	375
		4,354	3,913
Less:			
Goodwill and intangibles		**(1,378)**	(1,473)
Net deferred tax assets		**(100)**	(190)
		2,876	2,250
Tier 2 capital			
Subordinated term notes		**614**	644
Total statutory capital		**3,490**	2,894
Minimum capital requirements (MCR)			
Australian general insurance businesses		**1,511**	1,475
International insurance businesses	(i)	**235**	179
Total MCR		**1,746**	1,654
MCR multiple		**2.00**	1.75

(i) The capital requirement for international insurance businesses is calculated on a similar basis to the Australian regulatory requirements.

		2005 $	2004 $
NOTE 39. NET TANGIBLE ASSETS			
Net tangible asset per ordinary share	(i)	**1.22**	0.96
Net tangible asset per reset preference share	(ii)	**100.00**	100.00

Notes:
(i) Net tangible assets per ordinary share has been determined after adjusting for outside equity interests, goodwill (note 18) and other intangible assets (note 17) and the value of reset preference shares on issue (note 24).
(ii) Net tangible assets per reset preference share has been reflected at the face value of $100, as the entitlement to the net assets in all circumstances is limited to the face value of the reset preference shares.

NOTE 40. EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the year ended 30 June 2005.

(a) On 19 August 2005, a final dividend of 14.5 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 17 October 2005.

(b) Acquisition of a Thailand based general insurance business
On 14 June 2005, the Company announced that it had agreed to acquire an interest in a general insurer in Thailand, Royal & SunAlliance (Thailand) Limited ("RSA"). RSA underwrites both personal and commercial business and generates approximately A$35 million in annual gross written premium. The acquisition was completed on 4 July 2005.

(c) International financial reporting standards
(i) Overview
For reporting periods beginning on or after 1 January 2005, the IAG Group must comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS") as issued by the Australian Accounting Standards Board. The IAG Group's financial report will be prepared in accordance with A-IFRS for the first time for the half year ending 31 December 2005 and the year ending 30 June 2006. A-IFRS requires the restatement of comparative financial statements, however, as permitted under the transitional provisions for first time adoption of A-IFRS, the Group has elected to not restate comparatives for certain standards being AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement, and AASB 1023 General Insurance Contracts.

A-IFRS transition adjustments will be made retrospectively against opening retained earnings at 1 July 2004 except for the above mentioned standards where the transition adjustments will be made at 1 July 2005.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("Australian GAAP"). The differences between Australian GAAP and A-IFRS identified as having a significant effect on the IAG Group's financial performance and financial position are summarised below. There will also be significant changes in the presentation and content of financial reports prepared in accordance with A-IFRS.

Assessments made in respect of the transition to A-IFRS may require adjustment before inclusion in the first financial report prepared in accordance with A-IFRS due to new or revised standards or interpretations or additional guidance on the application of A-IFRS in a particular industry or to a particular transaction.

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

(ii) Management of the IAG Group's transition
The IAG Group established a project team to manage the transition to the new standards, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports quarterly to the Group Audit Committee. The project team has prepared a detailed timetable for managing the transition to the new standards and is currently on schedule. The Group expects to be able to provide financial reports that are fully compliant with A-IFRS for the 2006 financial year. The project team analysed all of the new standards and identified the changes that impact on the Group's financial reporting. The Group Audit Committee has selected the Group's A-IFRS accounting policies where policy choices are available under A-IFRS.

(iii) Reconciliation of Australian GAAP to A-IFRS
Provided below are reconciliations between the relevant balances under Australian GAAP and A-IFRS together with narrative descriptions explaining the adjustments. The reconciliations do not include the adjustments arising from the transition to the balance sheet approach for the calculation of taxation, because these adjustments had not yet been reliably determined.

Reconciliation of equity under Australian GAAP to that under A-IFRS:

	NOTES	PARENT 1 JULY 2005 $m	PARENT 30 JUNE 2005 $m	PARENT 1 JULY 2004 $m	CONSOLIDATED 1 JULY 2005 $m	CONSOLIDATED 30 JUNE 2005 $m	CONSOLIDATED 1 JULY 2004 $m
Total equity under Australian GAAP		**4,440**	**4,440**	4,295	**4,440**	**4,440**	4,224
Adjustments applicable from 1 July 2004							
Adjustments to retained earnings							
Write-back of goodwill amortisation	1	**n/a**	**n/a**	n/a	**92**	**92**	n/a
Recognition of defined benefit plans	2a	**n/a**	**n/a**	n/a	**(32)**	**(32)**	57
Share based payment expense	2b	**-**	**-**	-	**5**	**5**	2
Capitalisation of software development costs	3	**n/a**	**n/a**	n/a	**24**	**24**	n/a
Valuation of property	4	**n/a**	**n/a**	n/a	**(9)**	**(9)**	n/a
Adjustments to contributed equity / reserves							
Recognition of share based payment reserve	2b	**-**	**-**	-	**11**	**11**	4
Consolidation of share remuneration trusts	2b	**(33)**	**(33)**	(20)	**(34)**	**(34)**	(21)
Adjustments applicable from 1 July 2005							
Adjustments to retained earnings							
Valuation of investments	8	**n/a**	**n/a**	n/a	**1**	**n/a**	n/a
Reset preference shares transaction costs	7	**5**	**n/a**	n/a	**5**	**n/a**	n/a
Reset preference shares distribution accrual	7	**(1)**	**n/a**	n/a	**(1)**	**n/a**	n/a
Adjustments to contributed equity / reserves							
Reset preference shares	7	**(550)**	**n/a**	n/a	**(550)**	**n/a**	n/a
Hedge accounting	9	**n/a**	**n/a**	n/a	**7**	**n/a**	n/a
Total equity under A-IFRS		**3,861**	**4,407**	4,275	**3,959**	**4,497**	4,266

The adjustments to equity noted above for the IAG Group include an increase in equity attributable to outside equity interests of $2 million as at 1 July 2005 and $5 million as at 1 July 2004.

Reconciliation of net profit under Australian GAAP to that under A-IFRS for the year ended 30 June 2005:

	NOTES	PARENT 30 JUNE 2005 $m	CONSOLIDATED 30 JUNE 2005 $m
Net profit before tax as reported under Australian GAAP		**585**	**1,258**
Write-back of goodwill amortisation	1	**-**	**92**
Movement in defined benefit plans	2a	**-**	**(79)**
Share based payment expense	2b	**-**	**3**
Capitalisation of software development costs	3	**-**	**24**
Valuation of property	4	**-**	**(9)**
Net profit before tax under A-IFRS		**585**	**1,289**

NOTE 40. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(c) International financial reporting standards (continued)
(iv) Explanation of the key differences

Applicable from 1 July 2004

1) Goodwill

No amortisation resulting in lower expenses, subject to impairment charges

Goodwill supportable at 1 July 2004 and 30 June 2005

The IAG Group will not restate the accounting for business combinations transacted prior to 1 July 2004, as permitted under the transitional provisions for first time adoption of A-IFRS. There are also no additional intangible assets to be recognised separately from goodwill upon first time adoption. Goodwill will not be amortised under A-IFRS and so the carrying value of goodwill as at 1 July 2004 of $1,455 million will be carried forward under A-IFRS subject to impairment testing. Part of that goodwill balance is denominated in New Zealand dollars and so the balance will continue to change reflecting foreign currency movements.

The net goodwill as at 1 July 2004 has been systematically allocated to cash generating units for the purpose of the recoverability test, which is to be conducted at each reporting date. Any impairment is to be recognised in the statement of financial performance in the period in which it is identified.

Using A-IFRS impairment methodology the $1,455 million goodwill balance is supportable at 1 July 2004, 31 December 2004, and 30 June 2005. Additional goodwill amounts have arisen through small acquisitions made during the year to 30 June 2005 totalling $9 million. Those amounts are also supportable at 31 December 2004 and 30 June 2005 using A-IFRS impairment methodology.

The elimination of the requirement to amortise goodwill under A-IFRS will increase reported profits, subject to any impairment charge that may be required at a reporting date. The IAG Group had a goodwill amortisation expense for the year to 30 June 2005 of $92 million. That amount will be removed from the statement of financial performance under A-IFRS and the 1 July 2004 goodwill balance of $1,455 million will be reinstated, subject to impairment testing. That balance together with the goodwill amounts that arose from acquisitions made during the year will result in a goodwill balance as at 30 June 2005 of $1,464 million.

2) Employee benefits

The accounting for employee benefits will remain unchanged except for defined benefit superannuation arrangements and share based payments.

2a) Superannuation plans

Net position of defined benefit superannuation plans to be recognised

The IAG Group has elected to early adopt the version of AASB 119 Employee Benefits issued in December 2004 to be effective from 1 January 2005 in line with the adoption of A-IFRS.

Under A-IFRS the relevant net position of defined benefit plans will be recognised in the statement of financial position. The movement in the net position will be recognised in the statement of financial performance, except for actuarial gains and losses, which will be recognised directly in retained earnings, in line with the accounting option selected under AASB 119.

The IAG Group has five arrangements that qualify as defined benefit plans under A-IFRS. These consist of a defined benefit superannuation plan in Australia, two defined benefit superannuation plans in New Zealand, and two pension schemes, both of which are unfunded. The net position of the three defined benefit superannuation plans is currently not recognised in the IAG Group's statement of financial position although some information is disclosed in the notes to the annual financial report. The present value of each of the two unfunded pension liabilities is currently recognised in the IAG Group's statement of financial position.

It is important to note that the net position of the defined benefit superannuation plans calculated under A-IFRS is different to that calculated for purposes of note disclosure in accordance with Australian GAAP because of the use of different measurement requirements in the actuarial calculations of obligations to employee members. The principal difference is the discount rate applied to determine the present value of those obligations.

The adjustments required to recognise the defined benefit plans under A-IFRS involve a credit to retained earnings as at 1 July 2004 of $57 million. Recognising the movement in the net positions of the plans for the year to 30 June 2005 involves recognition of an additional expense through the A-IFRS statement of financial performance for the year to 30 June 2005 of $79 million and the recognition of a $10 million debit directly to retained earnings as at 30 June 2005. The net result of these changes is a $32 million debit adjustment to retained earnings as at 30 June 2005.

The net financial positions of the defined benefit plans as at 30 June 2005 have been calculated by independent actuaries, however the audit of all of the calculations had not been finalised as at the date of this report.

2b) Share based payments

Initial reduction in the expense recognised

The only transactions within the IAG Group that qualify as share based payments are share based remuneration payments. The IAG Group provides share based remuneration through four different plans each of which has different purposes and different rules. The change in accounting treatments has not led to a change in the structure of the share based remuneration because the current arrangements are considered to be most appropriate given the Group's history, environment, culture and objectives.

The IAG Group will not retrospectively apply the A-IFRS expense treatment to the Performance Share Rights Plan or the Employee Share Plan, as permitted under the transitional provisions for first time adoption of A-IFRS, because the last rights provided under those plans were granted prior to 7 November 2002. The A-IFRS transition changes will therefore impact on only the Performance Award Rights Plan ("PARs Plan"), and Non-Executive Director Share Plan ("NED Plan"), both of which are equity settled share based payments.

The IAG Group's current practice is to acquire IAG shares on-market and hold them in trust to satisfy a future obligation for share based remuneration. The shares are purchased on or near grant date at the then market price. The cost of acquiring the shares is initially recorded as a prepayment and is then expensed in full, generally over the period during which the employees provide related services.

Under A-IFRS the fair value at grant date of share based remuneration is required to be recognised as an expense over the period from grant date until the equity instruments vest fully to the employee. For equity settled share based payments, an equity reserve is created as the expense is recognised. At each reporting date the total accumulated expense will be adjusted through the statement of financial performance based on the latest estimate of the number of equity instruments that will vest, considering only employee turnover, and taking into account the expired portion of the vesting period.

The vesting conditions for the two plans are different with only the PARs Plan incorporating a market based vesting condition. If equity instruments in either of the plans do not vest because the participant ceases to be employed by the IAG Group then the expense charged in relation to that participant will be reversed. If equity instruments in the PARs Plan do not vest only because the market condition is not met, then the expense will not be reversed.

The A-IFRS requirement to expense the fair value of the equity instruments granted may be different to the fair value (on-market purchase price) of acquiring the relevant number of shares to support the arrangements. For the PARs Plan, the fair value of the rights granted is lower than the market value of the shares purchased on or near grant date because of the variables and uncertainty that influence whether the participant will ever receive the share and what the value of the share will be at that time. For the NED Plan, the on-market share price at grant date is used as the fair value of the equity instrument granted because the shares vest on a pro-rata daily basis with limited forfeiture conditions and the participant is entitled to dividends and other shareholder rights during the vesting period.

The requirement to determine the fair value of the share based remuneration and recognise this expense over the period from grant date to vesting date will result in an initial reduction in the expense recognised for the IAG Group, to that currently recorded in relation to share based payments.

A transitional adjustment for the IAG Group will be made to retained profits as at 1 July 2004 of $2 million representing the accumulated reduction in the expense up to that date. An additional adjustment for the IAG Group will be made to retained profits as at 1 July 2005 of $5 million representing the accumulated reduction in the expense up to that date. The expense will be matched by a credit to an equity reserve. It is noted that certain matters in relation to share based payments are still subject to changing interpretation, which may impact on the determination of these adjustments.

Equity remuneration trusts to be consolidated

Under A-IFRS the equity remuneration trusts used to manage the share based arrangements will be consolidated by the IAG Group. Two trusts will be consolidated directly by the parent entity while one trust will be consolidated directly by a subsidiary. The parent and the IAG Group will recognise the IAG shares, the major asset of the trusts, as negative equity (referred to as treasury shares). The treasury shares will be measured at cost (total amount paid to acquire the shares), and will be shown as a deduction from equity. The shares held by the trusts as at 30 June 2004 that are to be consolidated, were acquired on different dates at a total cost of $20 million for the parent and $21 million for the IAG Group. The shares held by the trusts as at 30 June 2005 that are to be consolidated, were acquired on different dates at a total cost of $33 million for the parent and $34 million for the IAG Group. When the relevant rights are exercised, the Group will effectively reissue the shares, which will be recognised as equity measured at the net expense incurred in providing the shares.

3) Non-goodwill intangibles

All current non-goodwill intangible assets qualify for recognition

Introduction of new software development asset

Existing non-goodwill intangible assets on the IAG Group's statement of financial position at 1 July 2004 and 30 June 2005 meet the recognition and measurement requirements of A-IFRS and so the accounting treatment, including amortisation, will remain unchanged. They will be subject to impairment testing. There are no impairment charges for these assets at 1 July 2004, 31 December 2004, or 30 June 2005.

In certain circumstances under A-IFRS, development phase expenditure will be capitalised and so recognised as an internally generated intangible asset. Software development is the only development expenditure for the IAG Group. The IAG Group is not currently carrying any capitalised software development costs in the statement of financial position but will recognise such an asset under the more prescriptive A-IFRS requirements. Only software development projects with total budgeted expenditure of more than $2 million will be capitalised. All other software related costs are treated as maintenance expenditure, being an overall part of maintaining an efficient operating environment, and are expensed as incurred.

NOTE 40. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(c) International financial reporting standards (continued)

3) Non-goodwill intangibles (continued)	Only software development expenditure incurred after 1 July 2004, the Group's A-IFRS transition date, is considered eligible for capitalisation under A-IFRS. For this reason, the first adjustment relating to software development expenditure will be for the year to 30 June 2005 amounting to $24 million. That amount will be included in the statement of financial position for the year to 30 June 2005 under A-IFRS. This amount is supportable using A-IFRS impairment methodology.
4) Property, plant and equipment All property classified as owner occupied and depreciated over useful life	Under Australian GAAP, all property (land and buildings), regardless of the purpose for which it is used, must be designated as an investment integral to general insurance activities and so is measured at fair value. This designation will not continue under A-IFRS and property will be classified according to the purpose for which it is held. All of the property within the IAG Group will be classified as owner occupied property under A-IFRS. The IAG Group has elected to apply the cost approach under which the buildings will be depreciated over the useful life and also be subject to impairment testing. The land will be subject to impairment testing. The IAG Group has elected to apply the optional exemption permitted under the transitional provisions for first time adoption of A-IFRS to use the fair value of the property held as at 30 June 2004 (shown in this report as $66 million) as the deemed cost of that property moving forward. This requires reversal of the movement in the market value of the property recognised in the reported profit for the year to 30 June 2005 of $8 million. Based on the portfolio of properties held at 30 June 2005 this will introduce a depreciation expense of $1 million to the A-IFRS statement of financial performance for the year ended 30 June 2005. There are no impairment charges for property at 1 July 2004, 31 December 2004 or 30 June 2005.
Plant and equipment to continue to be measured at cost and depreciated over useful life	For plant and equipment, the IAG Group has elected to apply the cost approach under which each item will be depreciated over its useful life and also be subject to impairment testing. The IAG Group has elected to not apply the optional exemption permitted under the transitional provisions for first time adoption of A-IFRS to use the fair value of the plant and equipment as at 30 June 2004 as the deemed cost, and so will continue to depreciate the original cost. There are no impairment charges for plant and equipment at 1 July 2004, 31 December 2004 or 30 June 2005.

5) Taxation More deferred tax assets and liabilities may be recognised	Income tax will be calculated based on the 'balance sheet approach' replacing the 'income statement approach' currently used. The A-IFRS treatment focuses on the closing balances rather than the movements for the period. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base (being the amount attributed to an asset or liability for tax purposes) rather than for differences between accounting and taxable profit. Deferred tax assets under A-IFRS will be recognised based on a 'probable' criterion rather than the 'beyond reasonable doubt' criterion, or 'virtually certain' criterion for unused tax losses, under Australian GAAP. This may result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity. Deferred tax balances will continue to be undiscounted under A-IFRS. The transition to A-IFRS involves two types of tax adjustments. There are adjustments arising from the different methodology used for the determination of tax adjustments as discussed above. There are also consequential tax impacts arising from the different recognition treatments of certain assets and liabilities under A-IFRS. The adjustments arising from the transition to the balance sheet approach for the calculation of taxation had not yet been reliably determined as at the date of finalisation of this report.

Applicable from 1 July 2005

6) Insurance contracts All of the insurance products meet the accounting definition of an 'insurance contract' The only change to the accounting treatments for insurance contracts is the expanded liability adequacy test	In respect of the IAG Group's core insurance business, the changes to accounting treatments on conversion to A-IFRS are minimal. A-IFRS allows the IAG Group to basically continue with current accounting treatments for those general insurance products and reinsurance products that meet the A-IFRS definition of an 'insurance contract'. The only change is the introduction of an expanded liability adequacy test. All of the IAG Group's general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract and none of the contracts contain embedded derivatives or are required to be unbundled. This means that the IAG Group's accounting for premium revenue, reinsurance expense, claims expense, acquisition costs, and reinsurance and other recoveries, together with related balances in the statement of financial position, will continue without change, subject to an expanded liability adequacy test.

	The liability adequacy test is an assessment of whether the carrying amount of an insurance liability is adequate based on a review of future cash flows. It is to be conducted with the inclusion of an explicit risk margin (Australian GAAP version of the test does not refer to a risk margin) and is to be performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio (Australian GAAP version of test conducted at reporting entity level). Any deficiency arising from the test will be recognised first through the write down of any related intangible assets and then the related deferred acquisition costs, with any remaining balance being recognised in the statement of financial position as an unexpired risk liability.
Liability adequacy test passed as at 1 July 2005	The liability adequacy test was passed as at 1 July 2005 demonstrating that the unearned premium liability is adequate.

7) Contributed equity

The reset preference shares to be reclassified as debt Distributions on the reset preference shares to be treated as interest, not dividends	The measurement and treatment of the issued and fully paid ordinary shares will remain unchanged. The IAG Group's reset preference shares ("RPS") are currently presented as equity under Australian GAAP as they are not considered a mandatory convertible instrument, are perpetual, and there is no obligation to pay distributions. The RPS will be reclassified as debt under A-IFRS and will be measured at amortised cost. Distributions on the instruments (refer note 8(b)) made after 1 July 2005 will be treated as interest rather than dividends and so have a negative impact on reported profit. As the RPS will continue to be treated as equity for tax purposes, there will be no change in the ability to frank the distributions. The transaction costs incurred from the issuance of the two tranches of RPS, totalling $11 million, have been recognised directly in equity under Australian GAAP as a reduction in the proceeds of the instruments. When the RPS are reclassified as debt under A-IFRS those transaction costs will be treated as having been capitalised (included into the value of the liability) and recognised on an effective yield basis (amortised over the period to the first reset date). This requires an adjustment to increase retained earnings as at 1 July 2005 by $11 million to recognise the capitalisation of the costs, offset by a reduction in retained earnings of $6 million representing the portion of the transaction costs that would have been effectively amortised up to that date. With the distributions treated as interest under A-IFRS, the distributions will be recognised on an accruals basis, which is different to the current policy of recognising a provision for the distributions only when the distributions are declared. The adjustment to recognise the interest payable as at 1 July 2005 is a decrease in retained earnings of $1 million.
Reset preference shares will continue to qualify as Tier 1 capital, at least in the near term	This change has a direct impact on the contributed capital of the IAG Group, which is central to the capital adequacy requirements set by APRA. APRA has stated it will continue the current regulatory capital treatment for existing instruments that are adversely affected by the accounting standard change until further notice. If APRA's approach changes, it has indicated it may 'grandfather' the treatment of affected issued securities. This would be considered a likely outcome, as the risk to the policyholders has not changed as a result of the change in accounting standards.

8) Investments

More choices around accounting policies for investments Initial accounting policy selection means no immediate change	Under Australian GAAP, the IAG Group is required to measure at net market value (fair value less disposal costs) all investments integral to general insurance activities with movements in the net market value recorded in the statement of financial performance. Under A-IFRS, the IAG Group will be required to measure at fair value those financial assets held to back insurance liabilities. Those financial assets that are not held to back insurance liabilities will move to a system of purpose led accounting. A-IFRS requires classification of the investments based on the purpose for which they are held. The different classifications have different accounting treatments, being fair value through profit or loss, fair value through equity, and amortised cost. There is also an option to measure any financial asset at fair value through profit or loss, regardless of the purpose for which it is held, where certain conditions are met (the application of the conditions arises from the IAG Group's election to early adopt amending standard AASB 2005-4 restricting the application of the fair value option). The IAG Group has elected to apply the fair value through profit or loss option under its current investment strategy for shareholders' funds and so all investments held will be measured on the same basis. This is basically a continuation of current practice with small adjustments for disposal costs (A-IFRS uses gross market value, not net market value) and a change in market price determination (move from last sale price to bid price). The net adjustment for the change is a $1 million increase in investments with a corresponding adjustment to retained earnings as at 1 July 2005. The IAG Group reserves the right to deem further asset acquisitions as held for another purpose and thus be valued on one of the other available bases.

9) Derivatives

All recorded in statement of financial position at fair value	The IAG Group uses a variety of derivatives to manage risk exposures of the IAG Group. *Investment operations* All of the derivatives used in relation to the investment operations are currently recognised on the statement of financial position (disclosed together with the underlying instrument) at fair value, with movements in fair value being recorded through profit or loss. The A-IFRS treatment is basically a continuation of current practice with small adjustments for market valuation differences. The net adjustment for the change is included within the adjustment noted above for investments.

NOTE 40. EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(c) International financial reporting standards (continued)

9) Derivatives (continued)

Treasury operations

There are various derivatives used by the IAG Group to hedge exposure to foreign currency and interest rate movements in relation to treasury transactions, which include borrowings. While the Group has a number of economic hedges in place, only a small number of these transactions have been selected for hedge accounting.

Hedge accounting to be applied to only a small number of transactions

Those derivatives, for which hedge accounting will not be used under A-IFRS, will be recognised on the statement of financial position at fair value, with movements in fair value being recorded through profit or loss. This is basically a continuation of current practice and requires no adjustment as at 1 July 2005.

A-IFRS specifies that hedge accounting can only be applied for fair value hedges, cash flow hedges, and hedges of investments in foreign operations, and only where stringent rules are met. While all derivatives will be measured at fair value, hedge accounting basically provides for the movement in fair value of the derivative to follow the accounting for the underlying instrument. Each of the derivative contracts selected for hedge accounting qualifies as a cash flow hedge.

The adjustment required to recognise the application of cash flow hedge accounting under A-IFRS for these transactions involves an increase in the measurement of the derivative recognised on the statement of financial position of $7 million with a corresponding credit to an equity reserve.

Embedded derivatives to be measured and recognised in certain circumstances

Under A-IFRS, derivatives embedded in other financial instruments or other non-financial host contracts are to be treated separately when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with movements recorded through profit or loss. Where an embedded derivative is required to be separated, they are to be measured at fair value. A review conducted of all contracts to which IAG Group entities are a party determined that, while embedded derivatives were identified, they are either not required to be separated from the host contract and/or currently have no material value.

Other information

10) Consolidation

Potential reclassification of outside equity interests in investment trusts controlled for accounting purposes

Other than the equity remuneration trusts (refer 2b above), there are no other entities in the IAG Group that are currently not consolidated that would require consolidation under A-IFRS.

The consolidated Group includes IAG Asset Management Wholesale Trusts in which the Group has a controlling interest for accounting purposes. Currently, when consolidating the trusts, an amount is recognised in equity as the outside equity interests in the trust, being the value attributable to unitholders outside the IAG Group. It is possible, at least for one of the trusts, that under A-IFRS, the residual interest in the trust will qualify as a liability in the statement of financial position of the trust and so will not be recognised as equity. Therefore, upon consolidation of the trust under A-IFRS, the value attributable to unitholders outside the IAG Group would be recognised as a liability in the statement of financial position of the IAG Group and not in equity as an outside equity interest

There are accounting and taxation issues outstanding that need to be resolved before the final treatment can be determined. These issues are expected to be resolved prior to preparation of the first financial report prepared in accordance with A-IFRS. The change will have no impact on the equity attributable to shareholders of Insurance Australia Group Limited.

11) First time adoption – optional exemptions

Upon transition to A-IFRS the general principle is that the financial reports must be prepared as if the new standards had always been applied. There are however optional exemptions that may be applied upon first time adoption. The IAG Group may elect to apply some, all or none of the options. Only seven of the twelve options are relevant to the IAG Group and these are listed below together with the elected treatment.

Business combinations – The IAG Group will not restate the accounting for business combinations transacted prior to 1 July 2004.

Share based payments – The IAG Group will not retrospectively apply the A-IFRS expense treatment to share based payments granted prior to 7 November 2002 and/or that vested prior to 1 January 2005.

Property, plant and equipment – The IAG Group will use the fair value of the property as at 30 June 2004 as the deemed cost of that property moving forward but will continue with original cost for plant and equipment.

Foreign currency translation reserve – The IAG Group will not reset the foreign currency translation reserve to zero.

Insurance contracts – The IAG Group will not apply certain disclosure requirements to prior periods.

Financial instruments options – The IAG Group will use this option to designate financial instruments to the various classifications available under A-IFRS upon transition.

Fair value measurement of financial instruments – The IAG Group will not apply the first time adoption option allowing relief from the retrospective application of ‘Day One’ recognition requirements as the IAG Group’s current practice complies with the requirements.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes, set out on pages 58 to 98, are in accordance with the Corporations Act 2001, (except as exempted by an order issued by the Australian Securities & Investments Commission as stated in note 24(c)(i)), including:

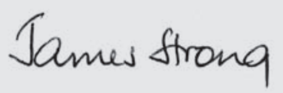
(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

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

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2005.

Signed at Sydney this 19th day of August 2005 in accordance with a resolution of the Directors.



Mr J A Strong

Director

Mr M J Hawker

Director

INDEPENDENT AUDIT REPORT

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 40 to the financial statements, the disclosures made in accordance with the Corporations Regulations 2001 as required by AASB 1046 "Director and Executive Disclosures by Disclosing Entities" in sections 2, 3 (excluding sub-section 3.2), 4 and 5 of the "Remuneration report" in the Directors' report ("remuneration disclosures") and the directors' declaration for both Insurance Australia Group Limited (the "Company") and Insurance Australia Group Limited and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The Remuneration report also contains information in section 1 and sub-section 3.2 not required by Accounting Standard AASB 1046 "Director and Executive Disclosures by Disclosing Entities", which is not subject to our audit.

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

Audit approach

We conducted an independent audit in order to express an opinion to the shareholders of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

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

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

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

Audit opinion

In our opinion, the financial report including the remuneration disclosures that are contained in sections 2, 3 (excluding sub-section 3.2), 4 and 5 of the Remuneration report in the Directors' report of Insurance Australia Group Limited are in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia, including AASB 1046 "Director and Executive Disclosures by Disclosing Entities", and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Dr Andries B Terblanché
Partner
Sydney, 19th August 2005

SHAREHOLDER INFORMATION

You can access information about Insurance Australia Group Limited including company announcements, presentations and reports at www.iag.com.au.

Australian Stock Exchange Codes
Insurance Australia Group Limited's shares are listed on the Australian Stock Exchange under:

IAG	Ordinary Shares;
IAGPA	Reset Preference Shares – RPS1; and
IAGPB	Reset Preference Shares – RPS2.

Insurance Australia Group Limited's wholly owned subsidiary IAG Finance (New Zealand) Limited's New Zealand branch issued Reset Exchangeable Securities in January 2005 and they are listed are on the Australian Stock Exchange under:

IANG	Reset Exchangeable Securities – RES.

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

- to not receive it;
- to view or download it from our website; or
- to receive it by mail.

Any change to the annual report election details recorded on your holding/s can be made at www.iag.com.au/shareholdercentre or by contacting the Share Registry on 1300 360 688 and, if you have registered with their Investor Centre, on their website.

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

Annual General Meeting (AGM)
The 2005 AGM of Insurance Australia Group Limited will be held on Wednesday 9 November 2005 at 10.00am, Wesley Conference Centre, 220 Pitt Street, Sydney, NSW, 2000. The AGM will be webcast live on the internet at www.iag.com.au/agm2005 and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

Online Proxy Voting
Shareholders can lodge proxies electronically for the 2005 AGM at www.iag.com.au/agm2005. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), which is shown in the top right corner of your Proxy Form.

Questions to the Auditor
If you would like to submit a written question to the Company's auditor relating to the auditor's report or the conduct of the audit please use the reply paid envelope provided or fax to (02) 8235 8220 by 5:00pm on Wednesday 2 November 2005. Members will also be given a reasonable opportunity to ask questions of the auditor at the AGM.

Dividend Payment Methods
IAG no longer pays Australian resident shareholders' dividend payments by cheque. Shareholders are urged to provide the Share Registry with their alternative instructions as detailed below.

IAG – Ordinary Shareholders (from 17 October 2005)

- paid directly into your Australian bank, credit union or building society account; or
- eligible ordinary shareholders can choose to participate in IAG's Dividend Reinvestment Plan (DRP) providing the option to increase your shareholding without incurring brokerage or GST.

IAGPA and IAGPB – Reset Preference Shareholders (from 15 June 2005)

- paid directly into your Australian bank, credit union or building society account.

For further details and forms visit www.iag.com.au/shareholdercentre or call the Share Registry on 1300 360 688.

Shareholder Centre
Shareholders can view and amend details of their holding at www.iag.com.au/shareholdercentre. Using your Security Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address to log in, you will be able to:

- view your holding balance;
- view your payment history/dividend history;
- sign up for electronic shareholder communications, including the Annual Report via email;
- confirm whether you have lodged your Tax File Number (TFN), Australian Business Number (ABN) or exemption; and
- access personalised shareholder forms.

Shareholders can also manage their shares online by visiting www.computershare.com.au and clicking on 'Investor Centre'. To access this secure site you will need to enter your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), surname and postcode, you will then be mailed a secure code to activate your account. Once registered you can:

- change your address;
- set up payment instructions;
- add/change TFN/ABN details;
- retrieve holding statements; and
- sell qualified shares without a broker.

Email enquiries
If you have a query concerning your shareholding, you can email your enquiry directly to iag@computershare.com.au. If your query relates to an IAG company matter and the response is not on the IAG website you can email your query to investor.relations@iag.com.au.

Unpresented Cheques
Dividend monies that are not banked are required to be handed over to the State Treasury under relevant Unclaimed Monies legislation in due course. Please bank any outstanding dividend cheques immediately.

Change of Address
Individual (single) shareholders can now change their address over the phone by contacting the Share Registry on 1300 360 688 or by downloading a form from the website.

Joint and Company shareholdings need to download a form or write a letter to Share Registry.

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

SHAREHOLDER INFORMATION

ORDINARY SHARES INFORMATION

IMPORTANT DATES	2005
IAG Year end	30 June
Full year results and dividend announced	19 August
Record date for Final Dividend	14 September
Annual Report and Notice of Meeting mailing commences	26 September
Final Dividend Paid	17 October
Written Questions for the Auditor close	2 November
Proxy Return Close (10:00 am)	7 November
Annual General Meeting (10:00 am)	9 November
IAG Half Year End	31 December

Please note, dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2005	NO OF SHARES	% OF ISSUED CAPITAL
J P Morgan Nominees Australia Limited	174,234,948	10.93
Westpac Custodian Nominees Limited	125,089,746	7.84
National Nominees Limited	120,853,906	7.58
Citicorp Nominees Pty Limited	31,299,845	1.96
ANZ Nominees Limited <Cash Income A/C>	30,029,480	1.88
Citicorp Nominees Pty Limited <CFS Wsle Geared Shr Fnd A/C>	20,456,732	1.28
Cogent Nominees Pty Limited	19,468,291	1.22
Queensland Investment Corporation	18,032,971	1.13
AMP Life Limited	13,737,672	0.86
Westpac Financial Services Limited	11,212,883	0.70
RBC Global Services Australia Nominees Pty Limited <BKCUST A/C>	11,189,472	0.70
Citicorp Nominees Pty Limited <CFS Wsle Aust Share Fnd A/C>	11,044,866	0.69
Citicorp Nominees Pty Limited <CFS Wsle Imputation Fnd A/C>	11,029,460	0.69
Citicorp Nominees Pty Limited <CFS Wsle Industrial Shr A/C>	9,166,423	0.57
ANZ Nominees Limited <Income Reinvest Plan A/C>	7,852,043	0.49
IAG Share Plan Nominee Pty Ltd <PAR Australia A/C>	7,382,732	0.46
Citicorp Nominees Pty Limited <CFS Imputation Fund A/C>	7,329,298	0.46
Citicorp Nominees Pty Limited <CFS Wsle 452 Aust Share A/C>	7,293,847	0.46
HSBC Custody Nominees (Australia) Limited	5,642,607	0.35
RBC Global Services Australia Nominees Pty Limited <Pipooled A/C>	5,502,614	0.35
Total for Top 20	**647,849,836**	**40.60**

RANGE OF SHAREHOLDERS AS AT 31 AUGUST 2005	NO OF HOLDERS	NO OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	689,011	366,588,447	22.99
1,001 – 5,000	286,425	410,826,980	25.76
5,001 – 10,000	3,548	25,670,613	1.61
10,001 – 100,000	1,824	41,773,374	2.62
100,001 – over	177	749,894,724	47.02
Total	**980,985**	**1,594,754,138**	**100.00**
Shareholders with less than a marketable parcel of 93 shares as at 31 August 2005	6,810	174,616	

Dividend Details

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	Fully Franked	12 cents	$6.2948	18 April 2005
Ordinary	Final	Fully Franked	14.5 cents	*	17 October 2005

*The DRP issue price for the final dividend is scheduled to be announced on 4 October 2005.

Substantial shareholdings as at 31 August 2005

The only shareholder who had a substantial shareholding as at 31 August 2005 was Commonwealth Bank of Australia who held 103,049,520 ordinary shares representing 6.46% of the ordinary shares on issue (by notice dated 7 July 2005).

SHAREHOLDER INFORMATION

IAGPA RESET PREFERENCE SHARES INFORMATION

IMPORTANT DATES	2005
Record Date for Interim Dividend	29 November
Interim Dividend Paid	15 December

Please note, dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2005	NO OF SHARES	% OF ISSUED CAPITAL
J P Morgan Nominees Australia Limited	454,977	13.00
Westpac Custodian Nominees Limited	249,200	7.12
Citibank Limited	226,500	6.47
RBC Global Services Australia Nominees Pty Limited <JBENIP A/C>	187,510	5.36
AMP Life Limited	153,224	4.38
National Nominees Limited	126,937	3.63
UBS Nominees Pty Ltd <Prime Broking A/C>	118,663	3.39
Citicorp Nominees Pty Limited	118,500	3.39
Cogent Nominees Pty Limited <SMP Accounts>	67,191	1.92
Share Direct Nominees Pty Ltd <National Nominees A/C>	50,000	1.43
ANZ Nominees Limited <Cash Income A/C>	42,084	1.20
Citicorp Nominees Pty Limited <CFSIL Cwlth Spec 5 A/C>	33,868	0.97
Argo Investments Limited	30,800	0.88
Cambooya Pty Limited	30,650	0.88
Perpetual Trustee Company Limited	28,579	0.82
Brencorp No 11 Pty Limited	22,500	0.64
Citicorp Nominees Pty Limited <CMIL Cwlth Income Fund A/C>	20,000	0.57
ANZ Executors And Trustee Company Limited	17,586	0.50
UBS Private Clients Australia Nominees Pty Ltd	15,640	0.45
M F Custodians Ltd	13,045	0.37
Total for Top 20	**2,007,454**	**57.37**

RANGE OF SHAREHOLDERS AS AT 31 AUGUST 2005	NO OF HOLDERS	NO OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	4,219	1,056,666	30.19
1,001 – 5,000	156	327,558	9.36
5,001 – 10,000	9	73,091	2.09
10,001 – 100,000	15	407,174	11.63
100,001 – over	8	1,635,511	46.73
Total	**4,407**	**3,500,000**	**100.00**
Shareholders with less than a marketable parcel of 5 shares as at 31 August 2005	0	0	

Dividend Details

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
IAGPA	Interim	Fully Franked	$2.9079	15 December 2004
IAGPA	Final	Fully Franked	$2.8921	15 June 2005

SHAREHOLDER INFORMATION

IAGPB RESET PREFERENCE SHARES INFORMATION

IMPORTANT DATES	2005
Record Date for Interim Dividend	29 November
Interim Dividend Paid	15 December

Please note, dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 31 AUGUST 2005	NO OF SHARES	% OF ISSUED CAPITAL
J P Morgan Nominees Australia Limited	475,032	23.75
AMP Life Limited	208,892	10.44
Share Direct Nominees Pty Ltd <National Nominees A/C>	150,000	7.50
Citicorp Nominees Pty Limited	72,330	3.62
Cogent Nominees Pty Limited <SMP Accounts>	71,751	3.59
Perpetual Trustee Company Limited	69,217	3.46
ANZ Nominees Limited <Cash Income A/C>	67,555	3.38
UBS Nominees Pty Ltd <Prime Broking A/C>	64,336	3.22
National Nominees Limited	58,135	2.91
Citicorp Nominees Pty Limited <CFSIL Cwlth Spec 5 A/C>	48,222	2.41
ANZ Executors And Trustee Company Limited	37,857	1.89
Goldman Sachs JBWere Capital Markets Ltd <Hybrid Portfolio A/C>	31,744	1.59
Westpac Custodian Nominees Limited	26,235	1.31
UBS Private Clients Australia Nominees Pty Ltd	25,069	1.25
RBC Global Services Australia Nominees Pty Limited <MLCI A/C>	20,789	1.04
RBC Global Services Australia Nominees Pty Limited <JBENIP A/C>	20,400	1.02
Mrs Fay Cleo Martin-Weber	20,000	1.00
Brencorp No 11 Pty Limited	16,000	0.80
Fortis Clearing Nominees P/L <Settlement A/C>	15,058	0.75
University Of Canberra	10,000	0.50
Total for Top 20	**1,508,622**	**75.43**

RANGE OF SHAREHOLDERS AS AT 31 AUGUST 2005	NO OF HOLDERS	NO OF SHARES	% OF ISSUED CAPITAL
1 – 1,000	1,204	317,724	15.89
1,001 – 5,000	51	127,406	6.37
5,001 – 10,000	8	56,248	2.81
10,001 – 100,000	16	664,698	33.23
100,001 – Over	3	833,924	41.70
Total	**1,282**	**2,000,000**	**100.00**
Shareholders with less than a marketable parcel of 5 shares as at 31 August 2005	0	0	

Dividend Details

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
IAGPB	Interim	Fully Franked	$2.2612	15 December 2004
IAGPB	Final	Fully Franked	$2.2488	15 June 2005

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"...BUT I JUST DON'T GET IT."

GLOSSARY

Actuary	An actuary applies mathematical, economic and financial analyses as well as risk assessment to financial contracts, in a wide range of practical business problems.
APRA	APRA stands for the Australian Prudential Regulation Authority, which is the prudential regulator of insurance companies, banks, superannuation funds, credit unions, building societies and friendly societies in Australia. APRA is responsible for ensuring that policyholders, depositors and superannuation fund members are protected by, for example, ensuring that companies have enough capital to be able to meet their ongoing business needs, including reserving to pay claims.
S&P/ASX 100 and S&P/ASX 200	S&P/ASX 100 and S&P/ASX 200 are indices made up of the top 100 and 200 companies listed on the Australian Stock Exchange. The companies are included based on their size in terms of market capitalisation. (See market capitalisation below)
Business volume	This measures the volume of business at a point in time. The basis of the measure depends on the class of business. In personal lines class of business, the relevant volume measure is 'risks in force'. Meanwhile, in commercial classes the volume measure is 'policies in force'. The difference in the definition is required to capture the distinct nature of IAG's business mix.
Claims frequency	Claims frequency is a measure used to determine how often claims are made per risk insured (eg vehicle, employee, home).
Claims reserves	The portion of premium set aside to cover obligations for unexpired insurance contracts, claims and expenses to be incurred. This amount is invested and the returns on these investments form part of pricing and profit from insurance operations.
Contingent capital	Contingent capital is a capital management tool that enables a company to draw upon a reserve pool of money, providing protection from the financial ramifications of an unforseen event, such as a natural disaster or severe market correction. In January 2005, IAG raised $550 million of contingent capital through the issue of Reset Exchangeable Securities (RES). RES provides the Group access to Tier 1 regulatory capital at any time, should it be required.
Dividend payout ratio	The dividend payout ratio is the proportion of profits that is paid to shareholders by way of a dividend.
Insurance cycle	Insurance is a cyclical business. The insurance cycle represents the peaks and troughs of insurance premiums and profitability. When capacity (ie the availability of capital from insurers to underwrite risks) increases in a market, insurers may reduce premiums, which is called a 'soft cycle'. When there is limited capacity, and premiums rise, this is called a 'hard cycle'.
Long-tail and short-tail insurance	In general terms, this name stems from the length of time (the 'tail') that it takes for a claim to be made and settled. For 'short-tail' insurance products, claims are usually known and settled within 12 months, and are generally based around property. For 'long-tail' insurance products, claims may not even be reported within 12 months, and settlements can take many years, and are generally based around injury compensation (eg medical, legal and loss of income) or other risks such as professional indemnity.
Market capitalisation	The size of a company is often measured by its market capitalisation. This is calculated by multiplying the total number of shares on issue by the market price of the shares.
MCR multiple	APRA (defined above) requires licensed insurers to have a minimum amount of capital to meet its prudential standard. The amount of capital required is determined by APRA based on formulae designed to reflect the risk profile of each insurer's business and balance sheet and is called the Minimum Capital Requirement ('MCR'). Licensed insurers must report their MCR and surplus above it, which is generally stated as a multiple of MCR.
Policies in force	Policies in force is a measure of the total number of policies covered by an insurance company at a point in time.
Reinsurance	Insurers pay premiums to other insurers (reinsurers) to spread their risk or cover major losses from specific events such as large hailstorms. This is called reinsurance.
Risks in force	Risk refers to the subject matter that an insurance policy or contract protects (eg number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force is a measure of the total number of risks covered by an insurance company at a point in time.
S&P	S&P stands for Standard & Poor's, a global financial ratings company that analyses the financial strength of companies and individual securities, and assigns them ratings. S&P has many ratings categories, the highest of which is AAA.
Shareholders' funds	The investment portfolio other than claims reserves. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations.
Short-tail insurance	See long-tail insurance.
Underwriter	This is the company or person who assumes the risk under an insurance policy.