

CORPORATE GOVERNANCE

IAG's corporate governance structure and risk management framework is designed to provide a sustainable balance between its core operating purpose (to pay claims, understand and price risk, manage costs and reduce risk) and its responsibility to provide fair and stable returns to shareholders.

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 long-term 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. It is 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.

International

During the past year, the Group's corporate governance framework has continued to evolve in response to changes in its operations and as a result of the Group's international expansion. This has resulted in the formation of a new committee, the International Advisory Panel (IAP), which replaces a former executive management committee, the Asia Management Advisory Council and also resulted in the appointment of Mr Justin Breheny to the new executive role of CEO, Asia.

Formation of the IAP followed a review undertaken of the Group's governance framework to assess its effectiveness to address issues that may arise in the course of the Group's international expansion, as well as to deal appropriately with an expanded Group. The review also included policies adopted by other companies which have implemented successful governance frameworks for their domestic and international operations.

The principal role of the IAP is to provide advice and support to the Group's executives to assist them, particularly in the area of culture and relationships, in the effective execution of the Group's strategy of building an international portfolio of general insurance businesses in regions and countries, outside of Australia and New Zealand in which IAG is operating or proposing to operate.

The IAP's members are drawn from the Group's Board, senior executives and external advisors. A summary of the key responsibilities of this new Committee is provided at page 37.

Other key outcomes from the review of the Group's governance framework, which are currently being implemented, were:

- reviewing executive management committees' terms of reference for escalation thresholds for issues arising from offshore investments. A summary of these committees' roles is provided at pages 36 and 37;

rating overseas investments by the regulatory environment, materiality, reputation and strategic importance to guide decisions around board composition, engagement, risk management and internal audit approaches;

establishing a global people framework that defines the Group's processes for dealing with people and culture matters, including developing a code of ethics to guide business conduct and striving to build a culture that values exemplary ethical standards, honesty and transparency wherever the Group operates;

extending the risk management strategy to incorporate international expansion, addressing, for example, risk appetite, reporting protocols and referral mechanisms for issues that impact the Group;

establishing uniform internal audit processes and risk and reporting criteria; and

positively influencing stakeholders of new investments to support the Group's culture that rewards transparency, honesty, meritocracy, teamwork and social responsibility.

Regulatory

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

New prudential standards have been released by APRA on reinsurance

management; audit and actuarial reporting and valuation; risk management; fit & proper requirements; and governance for general insurers as part of APRA's Stage II General Insurance Prudential Standards. The Group is in the process of making any changes necessary to meet the standards by their effective date of 1 October 2006, and formulated plans for their implementation. The standards will enhance the Group's corporate governance framework. The documentary compliance required by APRA will also increase the Group's regulatory compliance cost burden.

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

The Group believes that active engagement with governments, regulators, industry and professional groups, ensures 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. In this context, the Group strives for regulation that enhances, rather than stifles, competition; protects consumers; encourages efficiency; and promotes and sustains public confidence in insurers and their products.

In the past year, the Group has again actively participated in the debate to improve Australia's corporate governance regime, making submissions to federal and state government committees and enquiries, 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 domestic and overseas insurance industry associations, accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices that have particular application to the general insurance industry.

THE BOARD OF DIRECTORS

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 and approving corporate strategies;
- selecting, regularly evaluating and, if necessary, replacing the Chief Executive Officer;
- setting goals and policies for the Group including risk appetite;
- monitoring management's performance;
- 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;

- monitoring the exercise of authority delegated to the Chief Executive Officer;
- 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:

- developing, implementing and monitoring the strategic and financial plans of the Group, in conjunction with the Board;
- ensuring 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.

Structure and composition of the Board

The company's constitution provides for a minimum of three directors and a maximum of 12 or fewer 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, Mr Michael Hawker.

The Board has determined that the Board must comprise 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 past 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 advisor 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.

CORPORATE GOVERNANCE

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. All current non-executive Directors have confirmed their continued independence.

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 doing so, 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 28 and 29.

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

Non-executive Director 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 program to introduce the executive team and detail the Group's businesses. Orientation also includes site visits by new Directors as well as individual meetings with the Chief Executive Officer, Group executives and other senior management.

'101' workshops are conducted regularly to assist Directors' education on topics which include fundamentals of general insurance, reinsurance and investments. For example, in the past year, a workshop was held on strategic asset allocation for investments.

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.

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 Directors who collectively have the relevant experience and skills required, and assists in maintaining the independence of the Board. This policy, among other things, provided that the standard tenure for a non-executive Director would be up to seven years although the Board retained its discretion to invite Directors to stand for an additional term which may take their total tenure beyond seven years.

Since the policy was introduced, four Directors have left the Board and two new Directors have been appointed to the Board.

The Board invited three Directors, Messrs Astbury, Cousins and Ross to stand again for re-election at the company's 2005 Annual General Meeting (AGM) even though these further terms have taken their respective total individual tenures beyond seven years. As the company

would have lost three of its most experienced and capable non-executive Directors, the Board determined that it was in the best interests of the company for these Directors to remain on the Board for a further period. The Board also announced at the same time that it would review the tenure policy.

Following that review, which included a study of the policies and practices of the 50 largest companies (by reference to market capitalisation) on the ASX, the Board has agreed that the maximum tenure of a non-executive Director shall be 10 years. Tenure includes the aggregate period of service with the company as well as service on the Board of Insurance Australia Limited (formerly NRMA Insurance Limited) accrued prior to service as a director of the company.

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 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 the section below; and
- the expectation that Directors will abide by the company's Code of Conduct and its Continuous Disclosure & Insider Trading policy.

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/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. The review process involves the completion of questionnaires by Directors and Group executives, the collation of results and discussion with individual Directors and the Board as a whole led by the Chairman.

Board operations

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

In addition, the Board meets twice a year with the Group's executive team to review the company's strategic plan and to set the company's overall strategic direction. In the past year, the Board and Group Executive undertook a study trip in Europe which provided them with the opportunity to see first-hand the practices and trends in those markets which may be relevant to anticipated developments in the Group's existing markets, or which may form the basis for further investments by the Group, consistent with its long-term strategy to build a presence in key offshore growth markets.

Directors were also involved in a number of additional Board meetings for specific Group initiatives which, during the past year, principally related to investments in overseas markets.

Directors are encouraged to bring to Board meetings objective independent judgement in relation to the matters under consideration, to ask incisive, robust 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.

As part of the operation of the Board and standing Board Committees, non-executive Directors set aside time in meetings from time to time to meet without any management representatives present. The Board also meets with the Chief Executive Officer (without other executive management present) at the commencement of each meeting. Senior management representatives frequently attend Board meetings at the Board's invitation.

Directors receive agendas, board papers and minutes in advance of meetings in hard copy or may access this information from a secure website established for this purpose.

COMPANY SECRETARY

The company has appointed two Company Secretaries who are responsible to the Board for ensuring board procedures are complied with and who also provide advice and counsel to the board in relation to the company's constitution, corporate governance, investor relations and other matters.

The qualifications and experience of IAG's Company Secretaries are set out at page 41.

STANDING COMMITTEES

The company 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.

Committee processes

All standing Board Committees are required to have three members and currently comprise only independent non-executive Directors. Each Committee meets at least four times each year.

The Committees have unfettered access to Group executives, senior management and advisors. The Chief Executive Officer, Group executives and senior management are invited to meetings as required. All Directors receive Committee papers and may attend any Committee meeting.

The Chairs of the Committees give oral reports on outcomes at the next Board meeting immediately following each Committee meeting and copies of all Committee minutes are made available to the full Board.

Each Committee annually reviews fulfilment of its responsibilities under its respective charter. Performance of each Committee is reviewed at the same time as the Board conducts its review of performance.

Nomination, Remuneration & Sustainability Committee

The three members of the Nomination, Remuneration & Sustainability Committee are currently Messrs James Strong (Chairman), John Astbury and Rowan Ross.

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 of the company and subsidiary boards and committees 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;

CORPORATE GOVERNANCE

- ensuring the issues of corporate reputation, social responsibility, and the Group's commitments around safety, environment, and community and 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, environmental 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.

Audit Committee

The three members of the Audit Committee are Messrs John Astbury (Chairman), Geoffrey Cousins and Brian Schwartz. All three members have financial experience and two have accounting experience.

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 and other stakeholders' 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 reporting and consulting actuaries on at least an annual basis without other management being present;
- approving the internal annual audit plan proposed by Group Risk Assurance and monitoring progress against the plan;
- meeting with the Head of Group Risk Assurance on at least an annual basis without other management being present;
- monitoring the independence and effectiveness of the internal audit function and overseeing adherence to the Group Internal Audit Charter;
- making recommendations to the Board on the appointment and removal of the Head of Group Risk Assurance and monitoring his/her effectiveness; 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 ASX.

Risk Management & Compliance Committee

The three members of the Risk Management & Compliance Committee are Messrs Rowan Ross (Chairman) and Neil Hamilton and Ms Yasmin Allen.

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.

PROMOTING 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.

Code of Conduct

The company's Code of Conduct extends to all people employed by the Group including the Directors 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.

Code of Ethics

A Code of Ethical Business Conduct is currently being developed to provide all Group employees with a framework to make good, informed business decisions and to act on them with integrity. The Code will set out the behaviours that can be expected from every employee in the Group so that the Group's stakeholders, when interacting with Group employees, will be assured that Group employees act in a responsible, ethical, transparent and honest way wherever the Group operates.

The Code will apply to all employees of the Group's subsidiaries.

Whistleblowing

Employees are encouraged to raise any material matters of concern through the Group's management structure as part of the Group's objective of building a culture where people perform their duties in an ethical and appropriate manner.

The Group is proactive about preventing, detecting and investigating all instances of suspected serious inappropriate behaviour. ActionLine, a phone and internet reporting system hosted and monitored by an external service provider, was introduced to capture the most serious incidents of inappropriate behaviour within the organisation and to encourage employees to raise other material matters of concern that they believe have not been appropriately addressed through the Group's management structure. This can be done anonymously through the external host.

Continuous disclosure and insider trading

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 also includes a protocol outlining how information is released to the public and 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, Group Executives and other specified designated 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 the Committee imposes, subject again to not being in possession of inside information as defined by the law.

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

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 emails, and are posted on the company's website, www.iag.com.au. Approximately 9,000 shareholders and other registered users currently use the email messaging service.

There are approximately 62,000 shareholders who have registered their email address to be advised when shareholder communications, including the annual and interim reports, dividend advices and holding balance statements, are available electronically.

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 and 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 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.

CORPORATE GOVERNANCE

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.

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 Meeting (ORM)

ORM is responsible for:

- reviewing 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 the Group's performance in the areas of health, safety, environment and community performance; and
- reviewing human resource performance and reward strategies.

ORM is now also responsible for monitoring operational, financial and community risks which have the potential to manifest themselves in severe reputation damage. These responsibilities were formerly undertaken by a separate executive management committee, the Reputation Committee. This committee is still convened by ORM where significant issues warrant a more particular focus and development of reputation risk mitigation strategies.

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.

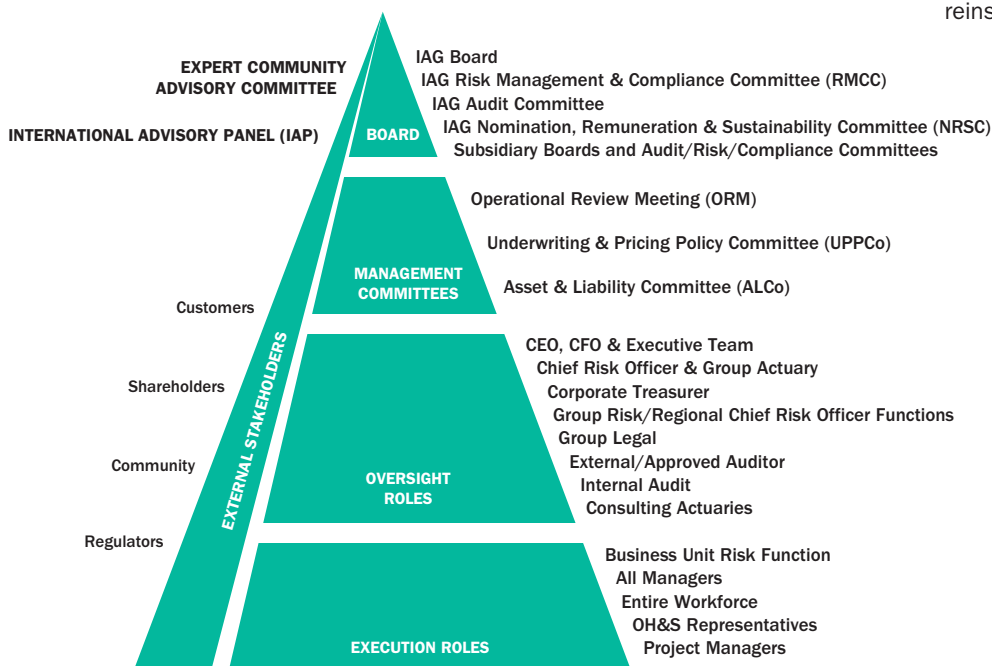
Its members include Mr Michael Hawker (Chairman) and the Group's executives with operational and financial roles and other key senior management with responsibility for finance, treasury, actuarial, investment and reinsurance functions.

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 (Chairman) 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.



International Advisory Panel (IAP)

The IAP is responsible for:

- assisting with the preparation and updating of cultural and business risk assessments on market participants in which the Group has or is contemplating making an investment;
- developing relationships with and an understanding of the key shareholders/owners, Directors, heads of business, regulators and other government representatives relevant to proposed and ongoing investments by the Group; and
- providing advice on the Group's international operations as requested by the Board or by panel members.

Its members include Messrs James Strong (Chairman), Neil Hamilton, Michael Hawker and Brian Schwartz, selected Group Executives and two external members, Mr Ian Brown, former Deputy Chief Executive Officer of the company, and Mr Ian Buchanan, Senior Advisor to and former Regional Chairman of Booz Allen Hamilton New Zealand, Australia and South East Asia.

Internal policies

Together with the Codes of Conduct and Ethical Business Conduct and the Continuous Disclosure and Insider Trading Policy, the RMS details the Group's principles, risk appetite, key controls and monitoring processes for managing the risks outlined in the diagram 'IAG's Risk Categories' below.

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.

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 Chief Executive Officer, Chief Financial Officer 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 and UPPCo) 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, where relevant and appropriate.

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). This function reports to the Chief Risk Officer 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.



IAG's Risk Categories

CORPORATE GOVERNANCE

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 culture, access is provided to the Chief Executive Officer, and the Chairs of the Board, Audit and Risk Management & Compliance Committees.

In particular, the Group has established:

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

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 (OH&S), human rights and community involvement.

The company provides information on its social, economic and environmental performance against a series of indicators through its annual Sustainability Report, which is available at www.iag.com.au. A selection of these indicators is included in this report. In addition, the Group's Statement of Commitment to Community, Safety and the Environment is available on the website.

Ongoing stakeholder dialogue is a key element that drives the Group's community-based initiatives. After inviting key community leaders in 2004/05 to participate in a survey about social issues and the role of insurance in addressing those issues, in July 2005 the company produced a report entitled "We're Listening" on the key findings from the survey (the report is available at www.iag.com.au). Almost 80% of survey respondents said working to secure safer roads, homes and workplaces for Australians is the most important challenge facing their community, which is indeed the focus of the Group's community programs and advocacy. Ongoing feedback from stakeholder surveys will be used by the Group to ensure it remains focused on issues perceived most critical by the community. A follow-up survey is under way.

In addition, in 2006 the Group convened an Expert Community Advisory Committee in Australia. The Committee's mandate is to provide the Board and executive with advice on economic, social, environmental and cultural issues that may impact the Group's standing within the communities in which it operates. The Committee is an independent panel made up of individuals who represent a range of community interests and professional experience and expertise, as well as a mix of geographical areas. Their advice and comments are being considered and integrated into the Group's decision-making processes.

The Group acknowledges that its social impact also occurs indirectly through its suppliers, vendors and contractors. Accordingly, it has established Supplier Selection Guidelines which set minimum standards on social and environmental issues that must be met by contractors of services and suppliers for the purchase, hire or lease of equipment and materials. In addition to providing guidelines, the Group also supports its suppliers by providing tools that help assess and manage social and environmental risk.

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 45.