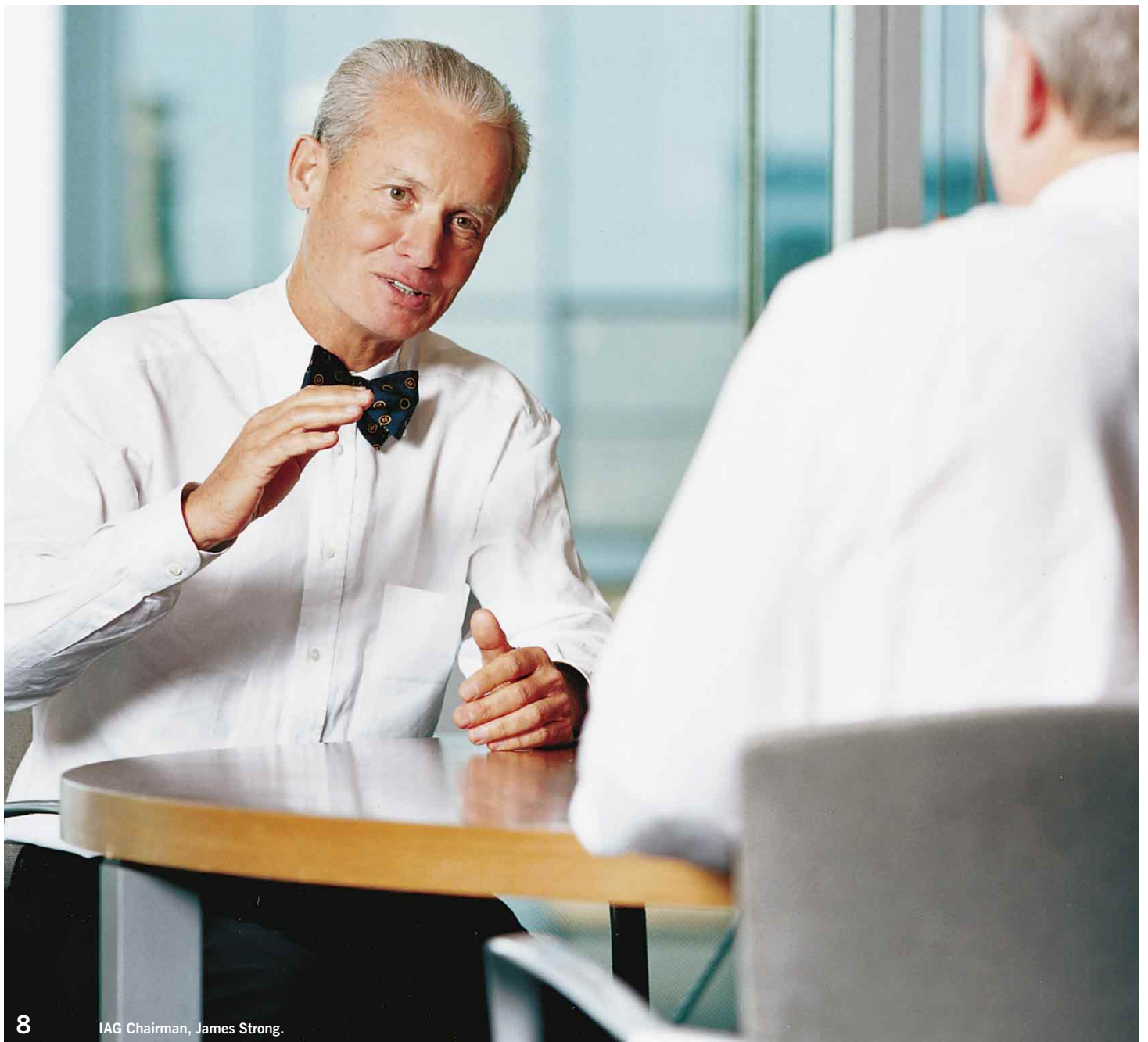


# CHAIRMAN'S REVIEW

In this report, my main purpose is to provide a clear overview of our position today, describe broad developments that have occurred, and talk about future directions. The report by our Chief Executive, Michael Hawker, set out on pages 16 to 20, contains an informative review of the past financial year and the performance of IAG.



**EVENTFUL YEAR** The 2001/02 financial year was an eventful and difficult year for both the insurance industry (World Trade Center, HIH collapse, and major storms, floods and bushfires in Australia and New Zealand) and IAG. Major new regulatory arrangements have been established to strengthen the insurance industry. Ensuring proper compliance with these new requirements has been complex and time consuming, but beneficial for the long-term.

I was appointed Chairman of IAG in August 2001 with two important priorities – to work with the Board to stabilise governance of the Company after a period of internal disruption, and to appoint a new Chief Executive Officer (CEO) to lead the Company forward.

**THE BOARD** I am pleased to say the Board has been working effectively throughout the past year. Its attention has been focused on working closely with the management team to improve our operations. I would like to take this opportunity to thank my Board colleagues for concentrating on the interests of shareholders, policyholders and our people.

Meetings were efficient and effective throughout the year, and interaction with management was very positive. In general terms, our business is commencing a new era on a stable basis.

**CHIEF EXECUTIVE AND MANAGEMENT** Michael Hawker was selected as our new CEO and commenced in December 2001.

With a distinguished background academically, in international banking and finance, and in sport representing Australia, Michael was the outstanding candidate and the Board was delighted to have him join IAG.

In the relatively short time since his appointment he has displayed genuine leadership and high performance standards in working closely with the management team. Prior to Michael's appointment, Ian Brown made a strong contribution as Acting CEO, and has continued to do so as Deputy CEO.

The Board believes the management team is well qualified, is performing well, and is dedicated to future success for our stakeholders. Michael and his team are reviewing what we do and how we do it, and are vigorously pursuing future growth options.

**BUSINESS PERFORMANCE** It is easy to describe our past year of operations – excellent insurance results but depressed investment returns due to falling stock market prices throughout the year. The CEO's review contains more detail of the unusual combination of cyclical events which affected our business.

Initiatives in investment strategies, customer services, and the way we run our business are creating exciting possibilities, while improving our fundamental business, which remains our priority.

**GOVERNANCE** A comprehensive report on corporate governance is set out on pages 11 to 13.

The past year has seen some poor examples in Australia and overseas of what can happen if companies are not run properly. Unacceptable behaviour can occur if robust controls and diligence are not present.

As with most companies in Australia, IAG has moved to adopt even tighter rules relating to the audit of our accounts. These are set out in detail on page 12.

Internally, IAG has two separate Board groups specifically monitoring key aspects of our business standards. These are the Audit Committee and the Risk Management and Compliance Committee. This extra surveillance mechanism is necessary because our business is centred around risk, insurance, and investment, as well as the complicated legislative and regulatory requirements of our industry.

In terms of remuneration, IAG naturally fulfils all requirements in this report in relation to Directors and management. We have also indicated we support the move towards expensing share options or similar incentive plans, and we will comply with new standards as they are introduced in this area.

Unfortunately, extreme cases have dominated public debate. We believe well designed plans with aggressive targets linked to generating benefits for stakeholders are an appropriate and effective incentive to drive and reward outstanding performance. Agreeing with management on ambitious improvement targets and sharing a small portion of the increase in capital value and dividends has been a successful strategy where appropriate rules and controls have applied.

While indicating the cost or value of Performance Share Rights (PSRs) issued this year (see Directors' Report, page 34 and Notes to the Financial Statements), we intend to expense these amounts in our accounts when appropriate rules have been established for such reporting.

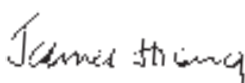
We will closely monitor developments in this area, including public debate, and take these aspects into account for future plans.

**THE FUTURE** We believe there is substantial room for further improvement in our current business, and management is making real progress with excellent levels of performance in many areas, and ambitious targets in others.

There is potential for organic growth and expansion of our current business. In addition, there are prospects for consolidation within the Australian industry, and, in due course, for examining carefully selected overseas opportunities.

Improvements and local growth come first and are well underway. Further investment requires careful analysis and evaluation. I believe IAG is in a position to be not only a leading company in the insurance industry, but also an outstanding company in this part of the world.

In emerging from a troubled period, IAG is now very well positioned for the future. We have the resources and people, as well as the knowledge, commitment and the energy to grow and succeed.



**James Strong**  
Chairman

# FINANCIAL HIGHLIGHTS

## -25 \$MILLION

**NET PROFIT / (LOSS)** attributable to shareholders decreased from a profit of \$143 million to a loss of \$25 million, following the equity market's worst performance in 14 years and a number of unusually severe and sustained catastrophes.

## 3.56 \$BILLION

**GROSS WRITTEN PREMIUM** increased 11% from \$3.19 billion to \$3.56 billion.

## 142 \$MILLION

**OUR UNDERWRITING RESULT** improved from a loss of \$22 million last year to a profit of \$142 million.

## +32%

**OUR INSURANCE PROFIT** increased 32% from \$210 million to \$278 million.

## 95.6%

**OUR COMBINED RATIO** – claims and underwriting expenses measured as a percentage of net earned premium – improved from 100.8% in the previous year to 95.6% and was well ahead of the target 100%.

## 10.5 CENTS

**WE WILL PAY** a final, fully franked dividend of 6.0 cents per ordinary share on 21 October 2002, to shareholders registered on 25 September 2002, taking the total dividend for the year to 10.5 cents per share, up 5% on last year's dividend.

IAG (formerly NRMA Insurance Group Limited) commenced operations on 22 July 2000 when it acquired NRMA Insurance Limited and its controlled entities upon its demutualisation. The figures used above for comparative purposes represent a full 12 months of operation, including the three weeks prior to acquisition of NRMA Insurance Limited by IAG.