

CORPORATE GOVERNANCE

IAG's corporate governance structure and supporting risk management framework reflect the need to balance the community requirement for affordable and reliable insurance products, with our shareholders' need for a fair and stable return on their investment.

THE BOARD

The IAG Board is accountable to shareholders for the performance, operations and affairs of IAG.

The Board is responsible for:

- Driving the strategic direction of the organisation by setting goals and policies, and approving corporate strategies
- Monitoring management's performance
- Monitoring financial performance and reporting.

COMPOSITION OF THE BOARD

With the exception of the Chief Executive Officer (CEO), IAG's Board is comprised of nine non-executive Directors, including the Chairman.

Responsibility for the day-to-day operations and administration of the Company has been delegated by the Board to the CEO. To maintain an appropriate division between the roles and responsibilities of the Board and management, the roles of Chairman and CEO are separate.

BOARD COMPETENCIES

Before Directors are appointed to IAG's Board they must demonstrate a range of skills and experience such as industry knowledge, strategic planning, executive management, customer relations, accounting, legal and human resources expertise. Within these areas, the following experience is regarded as important:

- Long-term planning in social, business and regulatory frameworks
- Ability to work in team environments
- Knowledge of, or experience in, accounting and reporting issues
- Working with executives, internal audit and risk teams, and external auditors
- Working with industry bodies, regulators and Government
- Establishing policies and ethical standards of corporate behaviour
- Challenging views and proposals and taking well-researched risks.

While this list is not exhaustive, it demonstrates the importance of having both functional and more generalist skills on the Board.

This ensures the Board collectively possesses the necessary expertise in insurance, as well as a range of related and more generalist skills.

An orientation program is available for new Directors to meet the Executive Team and develop an understanding of the business. IAG has also developed "Insurance 101", which introduces Directors to the fundamentals of general insurance. We encourage Directors to expand and renew their skills on an ongoing basis.

IAG's constitution requires each Director (excluding the CEO) to retire at least every three years. Directors may stand for re-election by shareholders at the Annual General Meeting. The ultimate test of a Director's performance is reflected in the votes of shareholders. The Chairman and other Board members make recommendations to shareholders on Board directorships because it is difficult to assess their performance and abilities without direct knowledge of their contributions.

Performance measures for Directors considered by IAG's 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
- Input regarding regulatory, industry and social developments surrounding the business.

BOARD MEETINGS

The Board meets approximately 10 times during the year and holds other meetings to deal with specific matters as required. These meetings include bi-annual Board strategy forums, which are also attended by IAG's Executive Team. These forums provide the Board and Executive Team with the opportunity to closely examine various areas of the business and review and critique longer-term strategic issues pertaining to particular businesses or focus areas. Board strategy forums were held in October 2001 and April 2002.

In addition to the formal Board meetings held during 2001/02, a number of Directors participated in due diligence meetings relating to specific Company developments, such as the buy-back of IAG ordinary shares and issue of reset preference shares.

CORPORATE GOVERNANCE

BOARD COMMITTEES

To reflect the importance of corporate governance, the Board has established committees and mechanisms to systematically deal with certain matters.

During the year, the Board reorganised its permanent committee structure. This action was taken in conjunction with the Chairman's commitment to improve the efficiency and effectiveness of the Board.

IAG has three standing Board Committees, each with terms of reference and established procedures.

Chairman's Committee The Chairman's Committee can have up to five members, who must be non-executive Directors of IAG. Currently, the membership of this Committee comprises James Strong (Chairman), John Astbury and Rowan Ross.

The Chairman's Committee's main responsibilities include:

- Reviewing Board composition and recommending candidates for appointment to the Board
- Monitoring the effectiveness, integrity and compliance of the Company's remuneration policies and practices
- Reviewing human resources policies
- Considering social and ethical impacts of the Company's business practices and setting standards for social and ethical practices.

Audit Committee IAG's Audit Committee can have up to five members, who must be non-executive Directors of IAG. Currently, the membership of this Committee is comprised of John Astbury (Chairman), Geoffrey Cousins, Mary Easson and Anne Keating.

The major responsibilities of the Audit Committee relate to external financial reporting, including audit engagement. The Committee assists the Board in its responsibility to exercise due diligence in relation to the Company's reporting of full and half year financial information, and the application of accounting and actuarial standards, policies and practices.

The Committee is also responsible for audit activities and coverage. It makes recommendations to the Board on the appointment, remuneration, effectiveness and independence of the Company's external auditor.

Some of the guiding principles governing IAG's relationship with its external auditor include:

- Certain services should not be provided by the external auditor's firm, including actuarial opinion services, legal services and management services of a decision-making, supervisory or monitoring nature
- Fees for other services provided by the auditor's firm should not be greater than audit fees
- The external auditor's firm should only be used in reviewing financial information, not in the preparation of this information
- The external auditor's firm will not be engaged for any project that would put the firm in a position of auditing its own work
- No ex-partners from the external auditor's firm are to be appointed as Directors of IAG and any proposed appointment to management is subject to the Board's consent
- The Audit Committee and the Board are to review the external auditor's appointment every three years
- Audit partner rotation is to occur at least every seven years.

The Group's external audit firm, KPMG, was appointed on 30 October 1997.

Risk Management and Compliance Committee The Risk Management and Compliance Committee can have up to five members, who must be non-executive Directors of IAG. Currently, the membership of this Committee is comprised of Rowan Ross (Chairman), Maree Callaghan, Dominique Fisher and Neil Hamilton.

The Committee provides the key structural link between the Board and IAG's risk and control framework. The Committee's specific responsibilities relate to:

- Risk management
- Internal control
- Compliance.

The scope of the Committee's responsibilities has recently been expanded to address all types of risk to which insurers are exposed. This change reflects a broader strategy to align the governance structure with the Group's management structure.

COMPENSATION ARRANGEMENTS

At the 2001 Annual General Meeting, IAG shareholders approved a resolution requiring non-executive Directors to receive at least 20%, and up to 90%, of their annual base fee in IAG shares, rather than cash.

The purpose of this was to align the interests of Directors with those of shareholders.

Group executives and employees participate in a number of share option plans. Share option arrangements have been the subject of considerable public debate in recent months. In particular, the issue of accounting for executive options has been the subject of widespread public comment. This is a difficult issue given the uncertainty and subjectivity involved in valuing options over time. However, the current global standard of not recognising options as a corporate expense at the time they are granted is inconsistent with the principles of proper accountability to shareholders.

IAG has made a commitment to expense options for performance share rights once the international accounting standards are finalised and the rules become clear.

Ordinary shareholdings of IAG Directors as at 20 August 2002 were:

James Strong	61,157
Michael Hawker	100,736
John Astbury	15,857
Maree Callaghan	11,250
Geoffrey Cousins	157,857
Mary Easson	8,842
Dominique Fisher	21,214
Neil Hamilton	18,498
Anne Keating	8,566
Rowan Ross	64,538

INSIDER TRADING

Directors and other employees are subject to the provisions of the Corporations Act 2001 relating to dealing in securities. Buying or selling shares is not permitted at any time by any person in possession of price-sensitive information.

Our policy is that Directors and designated employees may only buy or sell shares or options in the 2 to 30 day period immediately following our half year and full year results announcements and the Annual General Meeting.

CODE OF CONDUCT

We have a Code of Conduct to help our people perform their duties in an ethical and appropriate manner. The Code includes the following key 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
- Avoiding conflicts of interest.

SHAREHOLDERS

IAG is a listed entity incorporated in the Australian Capital Territory. There are two classes of equity securities on issue: ordinary shares, trading under the Australian Stock Exchange (ASX) code "IAG"; and reset preference shares, trading under the code "IAGPA". As at 28 June 2002, we had 1.1 million IAG ordinary shareholders with 1.3 billion IAG shares on issue and 3,427 reset preference shareholders with 3.5 million IAGPA shares on issue.

At a general meeting, every ordinary shareholder present, either in person or by proxy, attorney or representative, has one vote on a show of hands and, in the case of a poll, one vote for each fully paid share held.

The Board is committed to keeping shareholders informed of significant Company developments. Information is communicated to shareholders through the annual report and interim report and as required for significant Company developments.

IAG makes regular announcements to the ASX regarding Company developments. This information is also proactively communicated to the media. In addition, all Company announcements are posted on the IAG website (www.iag.com.au). IAG also has an email messaging service, which distributes key Company announcements to registered shareholders. Shareholders can register for this service by visiting www.iag.com.au and clicking on shareholder services.

IAG has adopted a continuous disclosure compliance policy and procedure to ensure it meets the disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.