

# DIRECTORS' REPORT.

The directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2008 and the auditor's report thereon.

The following terminology is used throughout the financial report:

- IAG, Parent or Company—Insurance Australia Group Limited; and
- IAG Group, Group or Consolidated entity—the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

## DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

The names and details of the Company's directors in office at any time during or since the end of the financial year up to 22 August 2008 (date of this report) are as follows. Directors were in office for the entire period unless otherwise stated.

### CHAIRMAN

#### JAMES (JA) STRONG AO

Independent non-executive director. Age 64.

### INSURANCE INDUSTRY EXPERIENCE

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

### OTHER BUSINESS EXPERIENCE

James is also Chairman of Woolworths Limited, Rip Curl Group Pty Limited and the Australia Council for the Arts. He is a director of Qantas Airways Limited and the Australian Grand Prix Corporation.

James was formerly the chief executive and managing director of Qantas Airways Limited from 1993 to 2001, group chief executive of DB Group Limited in New Zealand, national managing partner and later chairman of law firm Corrs Chambers Westgarth, chief executive of Trans Australian Airlines (later Australian Airlines) and executive director of the Australian Mining Industry Council.

He has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia. In 2006 James was made an Officer of the Order of Australia.

Directorships of other listed companies held in past three years:

- Woolworths Limited since 10 March 2000;
- IAG Finance (New Zealand) Limited since 9 November 2004; and
- Qantas Airways Limited since 1 July 2006.

### MANAGING DIRECTOR

#### MICHAEL (MJ) WILKINS

BCom, MBA, DLI, FCA

Chief Executive Officer. Age 51.

### INSURANCE INDUSTRY EXPERIENCE

Michael Wilkins was appointed as Managing Director and Chief Executive Officer in May 2008 after holding the position of chief operating officer and director of IAG since November 2007.

Michael has more than 25 years experience in the insurance and financial services sector.

Michael was formerly the managing director of Promina Group Limited (from August 1999 to March 2007), managing director of Tyndall Australia Limited, president (from 2003 to 2005) and director of the Insurance Council of Australia and a director of IFSA.

### OTHER BUSINESS EXPERIENCE

He is currently a non-executive director of Maple-Brown Abbott Limited and a former non-executive director of Alinta Limited.

In 2004, Michael was voted as Outstanding Chartered Accountant in Business and in 2005 as ANZIIF Insurance Personality of the Year.

Directorships of other listed companies held in past three years:

- Promina Group Limited from 1 August 1999 to 20 March 2007;
- Alinta Limited from 18 July 2005 to 31 August 2007; and
- IAG Finance (New Zealand) Limited since 28 May 2008.

## OTHER DIRECTORS

### **YASMIN (YA) ALLEN** **BCom, FAICD**

Independent non-executive director. Age 44.

#### INSURANCE INDUSTRY EXPERIENCE

Yasmin Allen was appointed as a director of IAG in November 2004. She is Chairman of the IAG Audit Committee and a member of the IAG Nomination, Remuneration & Sustainability Committee. Yasmin served six years on the board of the Federal Government's Export Finance and Insurance Corporation.

#### OTHER BUSINESS EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Macquarie Specialised Asset Management (and Chairman of its Audit Committee) and a member of the Salvation Army advisory board. Yasmin was a non-executive director of Film Australia.

Yasmin was formerly 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.

Directorships of other listed companies held in past three years:

- None.

### **PHILLIP (PM) COLEBATCH** **BE (Hons), BSc, DBA, SM**

Independent non-executive director. Age 63.

#### INSURANCE INDUSTRY EXPERIENCE

Phillip Colebatch was appointed as a director of IAG in January 2007. He is a member of the IAG Risk Management & Compliance Committee.

Phillip has served on the group executive boards of Swiss Re and Credit Suisse.

#### OTHER BUSINESS EXPERIENCE

Prior to joining Swiss Re as division head, capital management and advisory, he spent 17 years with the Credit Suisse Group where, in addition to his board position, he served as chief financial officer and then chief executive officer of Credit Suisse Asset Management. He has also served as head of European banking activities for Credit Suisse First Boston. Phillip began his career with Citicorp in New York and has held a number of senior investment banking roles at Citicorp in Asia and the UK.

Phillip is a non-executive director of Lend Lease Corporation Limited (appointed December 2005) and Man Group plc.

Directorships of other listed companies held in past three years:

- Lend Lease Corporation Limited since 1 December 2005; and
- Man Group plc since 1 September 2007.

### **HUGH (HA) FLETCHER** **BSc/BCom, MCom (Hons), MBA**

Independent non-executive director. Age 60.

#### INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed as a director of IAG in September 2007 and as a director of the IAG New Zealand Limited board in July 2003. He is a member of the IAG Audit Committee.

Hugh was formerly chairman (and independent director since December 1998) of New Zealand Insurance Limited and CGNU Australia.

#### OTHER BUSINESS EXPERIENCE

Hugh is also a non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited, Rubicon Limited and Vector Limited and Chancellor of The University of Auckland.

Hugh was formerly chief executive officer of Fletcher Challenge Limited, a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. Hugh retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive.

Directorships of other listed companies held in past three years:

- Fletcher Building Limited since 31 January 2001.

### **NEIL (ND) HAMILTON** **LLB**

Independent non-executive director. Age 56.

#### INSURANCE INDUSTRY EXPERIENCE

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.

#### OTHER BUSINESS EXPERIENCE

Neil is also the Chairman of IRESS Market Technology Limited, Mount Gibson Iron Limited and Northern Iron Limited and a director of Metcash Limited and Programmed Maintenance Services Limited.

Neil was formerly the chairman of Western Power Corporation.

Directorships of other listed companies held in past three years:

- Integrated Group Limited from 2 August 1999 to 8 June 2007;
- IRESS Market Technology Limited since 15 September 2000;
- Mount Gibson Iron Limited since 24 April 2007;
- Programmed Maintenance Services Limited since 8 June 2007;
- Northern Iron Limited since 5 November 2007; and
- Metcash Limited since 7 February 2008.

**ANNA (A) HYNES****BSc (Hons), MBA**

Independent non-executive director. Age 49.

**INSURANCE INDUSTRY EXPERIENCE**

Anna Hynes was appointed as a director of IAG in September 2007. She is a member of the IAG Risk Management & Compliance Committee. Anna was formerly a non-executive director of Promina Group Limited.

**OTHER BUSINESS EXPERIENCE**

Anna has over 20 years experience in general management and marketing roles in financial services and consumer products companies. She has worked in the UK, Asia and the USA, as well as Australia and New Zealand.

Anna spent most of her executive career at American Express where she held a number of senior positions, most recently country head, New Zealand.

Anna was formerly a non-executive director of Country Road Limited.

Directorships of other listed companies held in past three years:

- Country Road Limited from 5 February 2003 to 31 January 2006; and
- Promina Group Limited from 6 December 2004 to 20 March 2007.

**ROWAN (RA) ROSS****BEd, BCom, FCPA, SF Fin**

Independent non-executive director. Age 59.

**INSURANCE INDUSTRY EXPERIENCE**

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

**OTHER BUSINESS EXPERIENCE**

Rowan has over 35 years experience in investment banking. He is currently Chairman of Macquarie Capital Alliance Group and an executive director of Macquarie Capital Advisers Limited.

Rowan was formerly the chairman of Bankers Trust Investment Bank, Sydney Dance Company and the Australian Major Performing Arts Group and national president of the Securities Institute of Australia. He is currently Chairman of Sydney IVF Limited and Brandenburg Ensemble Limited and a director of the Australian Major Performing Arts Group.

Directorships of other listed companies held in past three years:

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

**BRIAN (BM) SCHWARTZ****FCA, AM**

Independent non-executive director. Age 55.

**INSURANCE INDUSTRY EXPERIENCE**

Brian Schwartz was appointed as a director of IAG in January 2005. He is Chairman of the IAG Nomination, Remuneration & Sustainability Committee and a member of the IAG Audit Committee.

**OTHER BUSINESS EXPERIENCE**

Brian is also Chief Executive of Investec Bank (Australia) Limited and Deputy Chairman of the board of Football Federation Australia Limited.

Previously, Brian was with Ernst & Young Australia from 1979 to 2004 becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania region.

Brian 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.

**PHILIP (P) TWYMAN****BSc, MBA, FIA, FIAA, FAICD**

Independent non-executive director. Age 64.

**INSURANCE INDUSTRY EXPERIENCE**

Philip Twyman was appointed as a director of IAG in July 2008.

He was formerly group executive director of Aviva plc, one of the world's largest insurance groups, based in London. He was also chairman of Morley Fund Management and chief financial officer of General Accident plc, Aviva plc and AMP Group.

Philip is on the board of Swiss Re (Australia). He was formerly an independent non-executive director of Insurance Manufacturers of Australia Pty Limited, a joint venture between IAG and Royal Automobile Club of Victoria (RACV) since April 2007.

**OTHER BUSINESS EXPERIENCE**

Philip is also on the board of Perpetual Limited, ANZ Lenders Mortgage Insurance Limited, Tokio Marine Management (Australasia) Pty Ltd and Medibank Private Limited.

Directorships of other listed companies held in past three years:

- Perpetual Limited since November 2004.

**FORMER DIRECTORS WHO RETIRED/RESIGNED DURING THE FINANCIAL YEAR**

The following directors who retired or resigned during the financial year:

- JF Astbury and GA Cousins retired from the board on 31 August 2007; and
- MJ Hawker resigned from the board on 26 May 2008.

**SECRETARIES OF INSURANCE AUSTRALIA GROUP LIMITED****GLENN (GD) REVELL****BCom, MBus, FCPA, FCIS, GAICD**

Glenn Revell was appointed Group Company Secretary in August 2006. Before this appointment, Glenn held the position of Company Secretary in the IAG Group. Prior to joining IAG, he held the position of general manager corporate affairs & company secretary of Howard Smith Limited for eight years.

**FRASER (F) MACLENNAN-PIKE****GAICD**

Fraser MacLennan-Pike is Deputy Company Secretary. Before this appointment, Fraser held positions in IAG's group business development and group legal teams.

## 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		IAG AUDIT COMMITTEE		IAG NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		IAG RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG BOARD SUB COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
Total number of meetings held	24		5		8		6		5	
Directors	A	B	A	B	A	B	A	B	A	B
JA Strong	24	24	–	–	8	8	–	–	5	5
YA Allen	24	24	5	5	8	8	–	–	–	–
JF Astbury <sup>(i)</sup>	2	2	1	1	1	1	–	–	–	–
PM Colebatch	24	22	–	–	–	–	5	4	–	–
GA Cousins <sup>(ii)</sup>	2	2	1	1	–	–	–	–	–	–
HA Fletcher <sup>(ii)</sup>	22	22	4	4	–	–	–	–	–	–
ND Hamilton	24	23	–	–	–	–	6	6	–	–
A Hynes <sup>(ii)</sup>	22	20	–	–	–	–	5	5	–	–
RA Ross	24	23	–	–	8	8	6	6	–	–
BM Schwartz	24	24	4	4	8	8	1	1	–	–
MJ Hawker <sup>(iv)</sup>	22	22	–	–	–	–	–	–	5	5
MJ Wilkins <sup>(iii)</sup>	18	18	–	–	–	–	–	–	–	–

A Meetings eligible to attend as a member.

B Meetings attended as a member.

(i) JF Astbury and GA Cousins retired from the board on 31 August 2007.

(ii) HA Fletcher and A Hynes were appointed as directors from 1 September 2007.

(iii) MJ Wilkins was appointed as director from 26 November 2007.

(iv) MJ Hawker resigned from the board on 26 May 2008.

## 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 FINANCIAL YEAR

The IAG Group's net loss after tax for the financial year was \$226 million (2007—net profit of \$629 million). After adjusting for minority interests in the IAG Group result, net loss attributable to the equity holders of the Company was \$261 million (2007—net profit of \$552 million).

The current year results incorporated the full year impact from the United Kingdom (UK) insurance operations since the IAG Group made its entry in the UK market in the 2007 financial year. The IAG Group acquired Hastings Insurance Services Limited (Hastings) and Advantage Insurance Company Limited (Advantage) on 29 September 2006 and EIG (Investments) Limited and its subsidiaries (Equity Insurance Group) on 8 January 2007.

### A. UNDERWRITING RESULT

Gross written premium (GWP) of the IAG Group increased by \$412 million to \$7,793 million for the current year (2007—\$7,381 million). The strong growth resulted from the full year contribution of the UK operations increasing by \$400 million and the growth in the Australia direct insurance business. This was partially offset by the fall in the Australia intermediated insurance business reflecting the commitment to maintaining pricing discipline rather than writing unprofitable business in soft cycle conditions.

The IAG Group produced an underwriting profit before investment income on technical reserves of \$16 million (2007—\$407 million).

The key factors driving the current year underwriting result were:

- the increase in claims expenses due to the increased incidence of storms in all geographical locations and an earthquake in the New Zealand (NZ) of \$502 million or loss ratio of 6.9% (2007—\$411 million or loss ratio of 5.7%);
- reserve releases of \$406 million or loss ratio of 5.6% (2007—\$485 million or loss ratio of 7.2%) due to the continuing stability of liability and compulsory third party (CTP) classes and a one off diversification benefit in 2007; and
- continued soft cycle conditions in commercial business and UK motor.

The insurance profit of \$448 million (2007—\$767 million), equated to an insurance margin of 6.1% (2007—11.4%). The fixed interest portfolio backing the technical reserves produced improved investment income of \$432 million (2007—\$360 million). This investment income incorporated a \$122 million (equal to 1.7% impact to the insurance margin) mark to market loss due to the widening of credit spreads. Given the very high credit quality of the portfolio, the mark to market loss is expected to unwind as the portfolio matures.

### I. Australia insurance operation

GWP of the Australia insurance operation increased slightly to \$5,494 million for the current year (2007—\$5,489 million). This was mainly due to:

- growth achieved in short-tail motor and home insurance; offset by
- continued soft cycle in commercial insurance; and
- the removal of premium from the private sector in New South Wales (NSW) CTP from the introduction of the Life Time Care and Support Scheme (a \$57 million reduction in premium).

The Australia insurance operation produced an underwriting profit before investment income on technical reserves of \$139 million (2007—\$375 million). The prior year results include the result of the Captive reinsurer, IAG Re Limited.

The key factors driving the current year underwriting results were:

- the increase in claims expenses due to the increased incidence of storms by \$39 million to \$413 million (2007—\$374 million);
- the reduction in reserve releases; and
- the continuing soft underwriting condition in commercial lines.

The insurance profit of \$486 million (2007—\$671 million) equated to an insurance margin of 9.4% (2007—13.1%). The fixed interest portfolio backing the technical reserves produced improved investment income of \$347 million (2007—\$296 million).

Profit from fee based business was \$33 million compared to \$65 million in the prior year. The current year results included:

- a negative adjustment reflecting the unfavourable claims development in the NSW workers' compensation scheme;
- additional performance fees of \$41 million were received in 2007 from the NSW workers' compensation scheme; partially offset by
- a profit of \$9 million in relation to the sale of the premium funding loan portfolio.

## II. New Zealand insurance operation

GWP of the NZ insurance operation increased by 0.6% to \$974 million for the current year (2007—\$968 million) despite the strengthening of the Australian dollar which resulted in a lower premium balance after translating into the equivalent Australian dollar amount. The growth was mainly attributed to the continued success in the commercial market and premium rate increases.

The NZ insurance operation produced an underwriting loss before investment income on technical reserves of \$39 million (2007—underwriting profit of \$64 million). The prior year results in the following discussion incorporated the allocation of the result of the Captive reinsurer, IAG Re Limited.

The key factor driving the current year underwriting results was the increase in claims expenses by \$73 million due to:

- the abnormal severe weather and other natural events;
- the increase in frequency of claims in domestic home and motor insurance; and
- an unusually high number of large fire losses.

The insurance result was a loss of \$17 million (2007—insurance profit of \$86 million) equating to an insurance margin loss of 2.0% (2007—a profit of 10.0%). The fixed interest portfolio backing the technical reserves produced investment income of \$22 million (2007—\$22 million).

## III. United Kingdom insurance operations

This is the first time a full year result was reported for the UK insurance operations since the acquisitions of Hastings and Advantage in September 2006 and Equity Insurance Group in January 2007.

GWP of the UK insurance operations increased by \$400 million to \$1,125 million for the current year (2007—\$725 million) including adverse currency movements of \$113 million due to the strengthening of the Australian dollar against the British pound. Although the UK market continues to be soft, the UK business increased premium rates across most classes of business during the current year.

The underwriting result was a loss of \$33 million for the current year (2007—\$3 million). The underwriting result included a loss ratio of 73.5% for the current year (2007—76.2%). Equity Insurance Group maintained its profitable track record despite the strengthening of reserves for home owners policies. Advantage which operates in the private motor sector incurred significant losses as a result of the challenging and competitive UK private motor market.

The increase in expense ratio to 29.8% from 24.3% was mainly due to the different business operating models of Equity Insurance Group compared to those of Advantage. The current year expense ratio also included:

- an increase in commission due to the increase in volume and change in mix of business; and
- \$5 million one off integration costs.

The insurance result was a profit of \$28 million (2007—\$30 million) equating to an insurance margin of 2.8% (2007—5.1%). The investment assets backing the technical reserves produced investment income of \$61 million (2007—\$33 million).

Loss from fee based business was \$1 million which included one off integration and other costs of \$24 million compared to profit of \$18 million in the prior year.

## IV. Asia insurance operations

GWP of the Asia insurance operations was generated from the Thailand operations with a growth of 3.6% (or 5.1% in local currency) to a total of \$174 million (2007—\$168 million).

The associate company, AmAssurance, operated at a break even position for the current year (2007—a profit of \$7 million).

## V. Reinsurance operations

The reinsurance operations reflect the business underwritten by IAG Re Labuan (from intragroup operations apart from the Australia insurance operation and associates) and Alba (Lloyd's syndicate 4455).

GWP from external parties decreased to \$26 million (2007—\$31 million).

The insurance result was a loss of \$50 million for the current year (2007—\$30 million). This was due to:

- the retention of the severe weather events claims reinsured from the UK and NZ insurance operations; and
- the impact of the Advantage quota share arrangement.

Given the IAG Group's refinement of its strategy, the decision has been taken to sell the Alba business and the related underwriting agency, Diagonal Underwriting Agency with the process initiated in June 2008.

## B. CORPORATE AND INVESTMENTS

Investment income on equity holders' funds (net of investment expenses) was \$41 million (2007—\$320 million). This amount included \$69 million of unrealised gain from the exchange right embedded in the IAG Group's \$550 million contingent capital arrangement. Excluding this unrealised gain on the embedded derivative, the equity holders' funds generated a loss of \$28 million. The decrease was due to:

- negative returns in equity market investments; and
- the adverse impact on fixed interest securities returns due to widening of spreads in the credit market.

The net corporate expenses have increased by \$389 million to \$651 million.

The increase was mainly attributable to:

- impairment charges for acquired identifiable intangible assets and goodwill of \$342 million as a result of the IAG Group's refined strategy in the UK operations to focus on the specialist motor classes and exit the private motor market;
- recognition of the full year's amortisation expenses of \$65 million (2007—\$55 million) on identifiable intangible assets arising from the acquisitions of the UK insurance operations in September 2006 and January 2007;
- restructuring costs of \$60 million as a result of the productivity and efficiency plan implemented in the Australia business; offset by
- decrease in interest expense of \$18 million resulting from the repayment of debt and continuation of the net benefit received from forward foreign exchange points earned from the currency hedging of the IAG Group's international operations.

## REVIEW OF FINANCIAL CONDITION

### A. FINANCIAL POSITION

#### I. Assets

The total assets of the IAG Group as at 30 June 2008 are \$19,380 million (2007—\$21,637 million). The decrease is mainly attributable to:

- reduction in investments mainly due to:
  - the repayment of \$300 million AUD subordinated term notes and \$112 million of unsecured and floating rate notes. These repayments were offset to some extent by the proceeds from the issue of \$87 million of NZD subordinated term notes;
  - the repayment of \$200 million reset preference shares (RPS);
  - the net decrease in investments as a result of the net redemption of units by minority interests in IAG controlled unit trusts of \$233 million;
  - the negative returns in equity market investments and adverse effect of widening in credit spreads on fixed interest securities; and
  - funding of net claims payments for significant storm and other events;

- an impairment provision on acquired intangibles and goodwill of \$342 million as a result of the IAG Group's refined strategy in the UK operations to focus on the specialist motor classes and exit the private motor market, together with amortisation of intangibles;
- decrease in reinsurance recoveries due to a reduction in the gross estimate of the Newcastle storms in June 2007;
- a decrease in defined benefit plan assets as a result of the increase in Australian plan actuarial losses by \$59 million; and
- the strengthening of the Australian dollar exchange rate against other currencies as at 30 June 2008 compared to the corresponding exchange rate as at 30 June 2007. This resulted in a reduction in value of assets held in the UK and NZ operations.

## II. Liabilities

The total liabilities of the IAG Group as at 30 June 2008 were \$15,029 million (2007—\$16,805 million) with the major component being general insurance liabilities of \$12,221 million (2007—\$12,935 million). The movement is mainly attributable to:

- a reduction in interest bearing liabilities due to repayments of the subordinated term notes, unsecured and floating rate notes and RPS mentioned above;
- outstanding claims liability was reduced by the payment of claims relating to the year ended 30 June 2007 weather related events and a reduction in the estimate of the total losses outstanding for the Newcastle storms in June 2007;
- a reduction of minority interests in IAG controlled unit trusts of \$233 million due to the net redemption of units by the unitholders;
- a decrease in investment creditors and trade and other payables; and
- the strengthening Australian dollar exchange rate against other currencies as at 30 June 2008 compared to the corresponding exchange rate as at 30 June 2007. This resulted in a reduction in value of all liabilities held in the UK and NZ operations.

## III. Equity

The decrease in total equity from \$4,832 million at 30 June 2007 to \$4,351 million at 30 June 2008 was mainly impacted by the following activities during the current year:

- net loss of \$261 million;
- 2008 interim dividend payment of \$250 million partially financed (\$92 million) by issuance of new ordinary shares to the equity holders who participated in the Dividend Reinvestment Plan (DRP). The 2007 final dividend paid to IAG equity holders was fully underwritten and has no effect on the movement of total equity from 30 June 2007 to 30 June 2008; and
- the strengthening of the Australian dollar relative to the British pound and NZ dollar resulted in higher foreign currency translation reserve losses.

## B. CASH FROM OPERATIONS

### I. Cash flows from operating activities

The net cash inflows from operating activities decreased by \$396 million to \$5 million. This decrease was mainly attributable to the UK operations which contributed \$241 million of this decrease as a result of its cash flows decreasing from an inflow of \$70 million in 2007 to a net outflow of \$171 million in 2008.

The main factors contributing to the total reduction in operating cash flows were:

- an increase in claims paid (net of recoveries received) by \$1,067 million or 24% compared to an increase in premium receipts (net of reinsurance expense paid) of only \$689 million or 10%. The increase in claims paid was largely due to adverse claims experience in 2008 and the payment of large losses incurred in June 2007 in all major operating segments and a full year of UK operations included in 2008 compared to nine months for Hastings and Advantage and six months of Equity Insurance Group in 2007. The increase in premium receipts is due to increase in gross premiums written as well as collection of prior year receivables and a full year of UK operations included in 2008; and

- an increase in other operating payments (net of other operating receipts) by \$329 million or 18% due to a full year of UK operations included in 2008.

These decreases were offset to some extent by:

- a decrease in income tax paid (net of tax refunds received) of \$185 million or 47% as a result of lower profitability;
- an increase in total dividends and investment income received of \$104 million or 20% as a result of higher yields generated on cash and fixed interest securities, a change in investment mix from growth assets to fixed interest securities and a full year of UK operations in 2008; and
- a decrease in interest and finance costs paid by \$22 million or 18% as a result of repayments of interest bearing liabilities during the year.

### II. Cash flows from investing activities

Cash flows from investing activities increased by \$1,213 million to a net inflow of \$1,089 million. The increase in net cash inflow is mainly attributable to:

- the liquidation of investments to fund the buy-back of RPS of \$200 million and the repayment of the AUD subordinated term notes of \$300 million;
- the proceeds of \$114 million from disposal of the premium funding loan portfolio; and
- a decrease in net cash outflow for acquisition of subsidiaries by \$411 million or 92% as a result of major UK acquisitions in 2007.

### III. Cash flows from financing activities

Cash flows from financing activities decreased by \$1,143 million to a net outflow of \$970 million. This decrease is mainly attributable to:

- the buy-back of RPS of \$200 million;
- the repayment of \$300 million AUD subordinated term notes and \$106 million unsecured and floating rate notes during the current year;
- the issue of \$617 million of GBP subordinated term notes (net of discount) in 2007;
- the \$875 million ordinary share issue during 30 June 2007 to fund the Equity Insurance Group acquisition. This was partially offset by the \$904 million repayment of a loan acquired on acquisition of Equity Insurance Group; and
- the increase in outflow from the net redemption of trust units to minority interest by \$215 million (net of distribution).

These decreases were offset to some extent by:

- the issue of \$87 million (NZ\$100 million) NZD subordinated term notes in November 2007; and
- a reduced cash dividend outflow of \$97 million due to the operation of DRP for the 2008 interim dividend.

## C. CAPITAL ADEQUACY/MINIMUM CAPITAL REQUIREMENTS

The IAG Group regulatory capital position relative to its minimum capital requirement (MCR), calculated by applying the Australian Prudential Regulation Authority (APRA) standards for individual licensed insurers to the relevant consolidated results, is 1.62 times as at 30 June 2008 (2007—1.67 times).

The decrease in MCR multiple was mainly attributable to:

Decrease in regulatory capital:

- net loss attributable to equity holders of \$261 million;
- decrease in tier 1 capital and tier 2 capital due to the buy-back of the RPS of \$200 million and the AUD subordinated term notes of \$300 million respectively; and
- the payment of \$158 million 2008 interim dividend in cash.

Offset by increase in regulatory capital:

- the issue of NZD subordinated term notes (NZ\$100 million); and
- reductions in deduction from the capital base for intangible assets as a result of:
  - continuing amortisation of acquired intangibles of \$65 million in 2008;
  - an impairment charges of \$342 million on acquired intangible assets and goodwill; and

- strengthening of the Australian dollar exchange rate against British pound and NZ dollar, thereby reducing the total value of intangible assets which are deducted from the capital base.

The decrease in the insurance, investment and concentration risk charges is due to:

- reduction in net insurance liabilities since 30 June 2007;
- reduction in reinsurance recoveries receivable;
- reduction in holding of equity securities; and
- reduction in reinsurance maximum event retention (MER).

Given the changes to risk based charges implemented by APRA, the IAG Group has revised its benchmark to 1.50 times effective 1 July 2008.

Further information on the IAG Group's result and review of operations can be found in the 30 June 2008 investor report on IAG's website, [www.iag.com.au](http://www.iag.com.au).

## LIKELY DEVELOPMENTS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult.

The IAG Group has announced a refined strategy that looks to create shareholder value by delivering superior performance and actively managing its portfolio of general insurance businesses. The IAG Group has determined the following strategic priorities:

- improve the performance in Australia and NZ as well as delivering superior, differentiated customer experiences and managing operating costs;
- pursue selective growth opportunities in Asia and other narrow specialist opportunities;
- operate a devolved model with the corporate office as portfolio manager; and
- drive operational performance and execution.

As result of the refined strategy, the IAG Group expects to deliver in the coming year:

- underlying GWP growth of 3%–5%. Reported GWP growth is expected to be 0%–2% based on the planned exit of part of the UK operations and allowing for the impact of the introduction of six month CTP policies in NSW;
- insurance margin of over 10% (including corporate expenses);
- reduced operational costs; and
- dividend payout ratio of 50%–70% of cash earnings.

The expected results are subject to no material movement in foreign exchange rates and no catastrophes or large losses beyond the IAG Group's allowances and no material changes in credit spreads.

## DIVIDENDS

Details of dividends paid or declared by the Company are set out in note 9.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- there were changes in the executive team during the financial year:
  - MJ Wilkins, LC Murphy, DG West were appointed; and
  - MJ Hawker, DA Issa and MJ Pirone resigned and SJ Mostyn changed to an advisor role.
- there was a net reduction in debts of the IAG Group resulting from:
  - the issue of ordinary shares to fund dividends of \$379 million;
  - the repayment of RPS (\$200 million), AUD subordinated term notes (\$300 million) and other notes (\$112 million); and
  - the issue of \$87 million NZD subordinated term notes.

- the IAG Group announced a refined strategy to improve performance in Australia and NZ, scaling back the UK operations and a new operating model. As a result of this refined strategy, the current year's results incorporated one off costs on restructuring and impairment charges from the impacted operations.

## EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year are set out in note 37. This comprises:

- declaration of final dividend of 9.0 cents per ordinary shares.

## OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

The following person is currently an officer of the IAG Group and was a partner of KPMG, the Company's auditor, at a time when KPMG was the auditor of the Company:

- NB Hawkins, currently Chief Executive Officer, NZ will change role to Chief Financial Officer on 29 August 2008 (left KPMG in October 2001).

## NON AUDIT SERVICES

During the financial year, KPMG has performed certain other services for the IAG Group 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 IAG Group'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 APES 110 Code of Ethics for Professional Accountants of the Institute of Chartered Accountants in Australia and CPA Australia, 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.

The level of fees for total non audit services amount to approximately 37.3% of total audit fees (refer to note 5 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 30 and forms part of the directors' report for the year ended 30 June 2008.

## 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 director of the Company;
- a secretary of the Company or of a subsidiary of the Company; or
- a person making or participating in making decisions that affect the whole or a substantial part of the business or Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

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. The indemnity does not apply where the Company is forbidden by statute or, if given, would be made void by statute.

In addition, the Company has granted deeds of indemnity to certain current and former directors and secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company indemnifies, to the maximum extent permitted by the law, the former or current directors or secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud. Under each deed, the Company is also required to maintain and pay the premiums on a contract of insurance covering the current or former directors or members of senior management against liabilities incurred in respect of the relevant office except as precluded by law. 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.

## 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—AUDITED

This report outlines IAG's remuneration policies and practices and provides details of the remuneration of the IAG directors (including the chief executive officer (CEO)) and the senior executives having the greatest authority and responsibility for planning, directing and controlling the activities of the IAG Group. This group is known as IAG key management personnel (KMP).

The Company's non-executive directors are specifically required to be included as KMP in accordance with the AASB 124 Related Party Disclosures. However, the non-executive directors are not part of 'management'.

This report provides the disclosures which meet the remuneration reporting requirements of the Corporations Act 2001 and AASB 124. The term remuneration used in this report has the same meaning as compensation as prescribed in AASB 124.

## 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 which is available at [www.iag.com.au](http://www.iag.com.au). The key responsibilities of the NRSC in relation to remuneration are to:

- provide assurance to the board relating to the effectiveness, integrity and compliance of the Company's remuneration policies and practices; and
- ensure the overall remuneration policy and approach fits the strategic goals of IAG.

The CEO, group executive—strategy, people & reputation and head of performance & reward regularly attend Committee meetings and assist the Committee in its deliberations.

The Committee receives reports from Egan Associates, Mercer, PricewaterhouseCoopers (PwC) and various other consultants on remuneration for executives and directors.

### A. EXECUTIVES

#### 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 will enable IAG to achieve superior long term performance.

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

- the remuneration offering 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;
- reward outcomes are significantly differentiated based on performance;
- remuneration practices will help drive business objectives and motivate employees to perform at the highest level; and
- measures of performance are based on a balanced scorecard with a focus on the delivery of sustainable value to IAG's shareholders.

IAG aims to set base pay around the median of the market. Total reward outcomes (which include short and long term incentives) may be at the 75th percentile or above depending on individual performance and IAG's results. For Australian based executives, market positioning is determined by reference to a number of comparator groups, including the largest 50 companies in the S&P/ASX 100 Index and financial services companies that are among the largest 50 companies in the S&P/ASX 100 Index. Relevant local market comparator groups are used for executives located overseas.

## II. Significant changes related to executive remuneration

### a. REMUNERATION STRUCTURE AND POLICY

The Executive Performance Rights (EPRs) Plan has replaced the Performance Award Rights (PARs) Plan as IAG's long term incentive plan. It is designed to link the reward of executives to IAG's longer term performance and the returns shareholders receive. The EPRs Plan has two performance hurdles—return on equity (ROE) and relative total shareholder return (TSR). ROE is measured relative to IAG's weighted average cost of capital (WACC). ROE is directly linked to IAG's financial performance whilst relative TSR is a measure of the relative return IAG delivers to its shareholders compared to other entities in the S&P/ASX 100 Index. Instead of quarterly performance hurdle testing which occurs under the PARs Plan, the EPRs Plan has only one test for the ROE component and three tests, 12 months apart, for the TSR component. The long term incentive plan has also been restricted to the most senior group of executives.

A minimum IAG shareholding requirement for the executive team was introduced in August 2007. In accordance with this policy, the CEO is required to accumulate and maintain a minimum IAG shareholding equivalent in value to two years of base salary by September 2010. Other senior executives are required to accumulate and maintain a minimum IAG shareholding equivalent in value to one year of base salary by September 2010.

### b. EXECUTIVE TEAM CHANGES FOR THE NEXT FINANCIAL YEAR

On 9 July 2008, IAG announced a change to the executive team effective from the end of August 2008. The changes are:

- NB Hawkins has been appointed to the role of Chief Financial Officer;
- LC Murphy has been appointed to the role of Group Executive, Corporate Office;
- I Foy has been appointed to the role of CEO, NZ; and
- AM Coleman, J van der Schalk and G Venardos will leave the IAG Group on 29 August 2008 and CF McLoughlin will leave the IAG Group on a date to be agreed.

The remuneration details in section VI.a are only in respect of remuneration for services provided during the current financial year.

### III. Executive remuneration structure

POLICY	HOW DELIVERED	DETAILS
<p><b>BASE SALARY</b></p> <p>Base salary is targeted at the median of the market. Unless there has been significant change in job responsibility, increases in base salary generally do not exceed external market movements.</p>	<ul style="list-style-type: none"> <li>■ Paid in cash.</li> <li>■ Reviewed annually.</li> </ul>	<p>Includes all components that make up an executive's salary. Components include cash, salary sacrifice items such as superannuation, cars or parking and any related taxes.</p> <p>Base salary is determined by a review of job size, internal relativities and market benchmarking. Mercer provides advice on job responsibility and market benchmarking. The comparator groups for market benchmarking are the largest 50 companies in the S&amp;P/ASX 100 Index and the financial services companies that are among the largest 50 companies in the S&amp;P/ASX 100 Index.</p>
<p><b>SUPERANNUATION</b></p> <p>Contribution rates are consistent with the contribution provided to other employees of IAG in the country in which the executive is based.</p>	<ul style="list-style-type: none"> <li>■ Paid in accordance with legislative requirements.</li> <li>■ For Australian executives, superannuation is capped at the concessional contribution limits.</li> </ul>	
<p><b>SHORT TERM INCENTIVES</b></p> <p>Short term incentives (STI) are used to motivate and reward performance typically over a one year period.</p> <p>Payments are based on both IAG's performance and achievement of individual goals.</p> <p>The STI payment recognises individual high performance.</p> <p>No maximum amounts are set.</p>	<p>Annually, a proportion of STI is paid as cash and a proportion of STI is paid as deferred award rights (DARs) which is referred to as 'deferred STI' later in this report.</p> <p>DARs are rights over issued shares held by a trustee.</p> <p>If an executive remains employed by the IAG Group, the DARs will become exercisable in tranches as follows:</p> <ul style="list-style-type: none"> <li>■ 50% (after year 1);</li> <li>■ 30% (after year 2); and</li> <li>■ 20% (after year 3).</li> </ul>	<p>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 sustainable business that meets the performance expectations of IAG shareholders, stakeholders and the communities in which it conducts its business.</p> <p>At the commencement of each financial year, financial and non financial goals are set for each executive. The goals set are stretch goals and are designed to encourage executives to strive for exceptional performance.</p> <p>Financial performance determines 50% of the STI outcome, with the remainder dependent on the achievement of objectives relating to business operations, customer, people (employee engagement, turnover and productivity), risk and community.</p> <p>Financial performance includes the IAG Group financial targets (growth in net written premium and ROE) as well as specific business unit financial targets.</p> <p>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 chairman reviews the performance of the CEO and makes a recommendation to the board in relation to any incentive payment for the CEO. The chairman and board have an overriding discretion to determine STI payments and will only approve payments when the goals are achieved in the context of the IAG Group's strategy and risk appetite (eg risk of ruin parameters and business mix) as approved by the board.</p> <p>Section IV.a ('At risk' remuneration—short term) details the link between IAG's performance and STI outcomes for executives.</p>
<p><b>LONG TERM INCENTIVES</b></p> <p>EPRs are awarded to executives to strengthen the alignment between the interests of executives and shareholders.</p> <p>The EPRs Plan has replaced the PARs Plan as IAG's executive long term incentive plan.</p>	<p>Under the EPRs Plan, awards are made annually in the form of rights over issued shares held by a trustee that vest, subject to the performance conditions, as follows:</p> <ul style="list-style-type: none"> <li>■ 50% are subject to a relative TSR hurdle (entities in the S&amp;P/ASX 100 Index), measured on the 3rd, 4th and 5th anniversary of the base date; and</li> <li>■ 50% are subject to a ROE hurdle, measured after three financial years.</li> </ul> <p>Awards that do not vest, lapse.</p>	<p>EPR grants are based on an assessment of performance, leadership capability and strategic input.</p> <p>Section IV.b ('At risk' remuneration—long term) details the link between return to shareholders and long term incentives (LTI) reward for executives.</p>

#### IV. 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 section VII.

##### a. 'AT RISK' REMUNERATION—SHORT TERM

The payment of STI 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 and growth in IAG's core business.

The following table is a summary of key financial goals that are used to assess performance at the IAG Group level for the 2007/2008 year:

CATEGORY	GOAL	REASON CHOSEN	METHOD OF ASSESSMENT	OUTCOME
Financial	Return on equity	Measures the profitability of the core business of IAG	Comparison of achievement against target	Not met
Financial	Growth in net written premium	Measures the 'top line' growth of IAG's business	Comparison of achievement against target	Partially met*

\* Where a goal is partially met, there has been improvement in performance but the stretch goal has not been met.

Note, in addition to the IAG Group level financial goals, specific financial goals that measure profitability and growth are set for each business unit. Achievement of these goals directly impacts the STI paid to the executive who leads the business unit.

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

Actual STI payments made to executives for the year ended 30 June 2008 reflect the degree of achievement against the IAG Group financial goals and the degree of achievement against each individual executive's goals.

##### b. 'AT RISK' REMUNERATION—LONG TERM

The use of share based remuneration creates a direct link between return to shareholders and executive reward. To strengthen alignment between the interests of executives and those of shareholders, a significant portion of executive remuneration is delivered in the form of rights over IAG shares. Note 28 of the financial statements sets out further details of the DARs Plan, EPRs Plan and PARs Plan.

###### i. DARs Plan

DARs are rights over issued shares held by a trustee. The rights are granted at no cost to the executives and may be exercised for a nominal price at a future date determined by the board. Generally, DARs only vest and can be exercised, if the executive remains employed with the IAG Group.

###### ii. EPRs Plan

The EPRs Plan has replaced the PARs Plan as IAG's executive long term incentive plan.

EPRs are rights over issued shares held by a trustee. The rights are granted at no cost to executives and will be exercised at no cost if the performance hurdles related to IAG's TSR and normalised ROE are met.

Details of the terms of allocations made to executives under the EPRs Plan are summarised below:

			EPRs PLAN 2007/2008—SERIES 1	
		TSR		Normalised ROE
Grant date		29/10/2007		29/10/2007
		29/11/2007		29/11/2007
		13/03/2008		13/03/2008
Base date		30 September 2007		n/a
Performance period definition		3–5 years from grant date		1 July 2007–30 June 2010
IAG share price at base date (\$)		5.31		n/a
Performance hurdle test schedule		3rd, 4th and 5th anniversary of the base date	One test following board approval of financial results for period ending 30 June 2010	
First day test		30/09/2010		30/06/2010
Last day test		30/09/2012		30/06/2010
Performance hurdle achievement		n/a		n/a
Last exercise date (continuing employees only)		29/10/2017		29/10/2017
		29/11/2017		29/11/2017
		13/03/2018		13/03/2018

The table below applies to the EPRs Plan disclosed above:

	TSR PERFORMANCE HURDLE (50% OF TOTAL ALLOCATION)	ROE PERFORMANCE HURDLE (50% OF TOTAL ALLOCATION)
Performance condition	IAG TSR compared to a peer group of companies. The peer group comprises the entities in the S&P/ASX 100 Index with such inclusions and exclusions as the board may determine.	ROE relative to IAG's WACC. Normalised ROE is measured for each six month period during the performance period. The average of these six monthly measurements is compared to IAG's WACC. There is one test date.
Vesting schedule	<50th percentile—0% vesting = 50th percentile—50% vesting >=75th percentile—100% vesting The percentage of EPRs which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.	NORMALISED ROE PERFORMANCE SCALE >1.6 x WACC 100% vests =1.5 x WACC 80% vests =1.4 x WACC 50% vests =1.3 x WACC 20% vests <1.3 x WACC 0% vests

### Performance hurdle testing

The total allocation is separated into two equal portions. Each portion has a separate performance hurdle.

#### TSR PERFORMANCE HURDLE (50% OF TOTAL ALLOCATION)

The performance hurdle is tested on the 3rd, 4th and 5th anniversary of the base date. On each test day, the TSR performance hurdle is measured from the base date to the test date, which means that any period of poor TSR performance following the base date is always included in the TSR measurement. The TSR portion of the allocation vests on a test day if IAG's TSR is at or above the 50th percentile of the peer group of companies with vesting increasing on subsequent test days only if the TSR ranking has improved. This approach to performance hurdle testing ensures that executives strive to deliver TSR performance over the full five year period.

#### ROE PERFORMANCE HURDLE (50% OF TOTAL ALLOCATION)

The normalised ROE hurdle is measured relative to IAG's WACC. Normalised ROE is measured for each six month period during the three financial years over which the performance hurdle is measured. There is only one test date for the ROE portion of the EPRs. For any of the ROE portion of EPRs to be exercisable, the ROE (the average of the six monthly normalised ROE measurements over the three financial years) must reach at least 1.3 times WACC.

#### Vesting of EPRs—change of control

Under the EPRs Plan the board has discretion to determine if and when EPRs vest in a change of control situation. In exercising this discretion the board would consider issues such as the objectives of the EPRs Plan and the circumstances surrounding the proposed change of control.

#### iii. PARs Plan

The PARs Plan has been replaced by the EPRs Plan to deliver LTI. No further allocations will be made under 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 TSR is met.

Details of the terms of allocations made to executives under the PARs Plan, including those allocations that at the date of this report are partially exercisable or not exercisable, are summarised below:

	PARs PLAN 2002/2003 SERIES 1	PARs PLAN 2003/2004 SERIES 2	PARs PLAN 2004/2005 SERIES 3	PARs PLAN 2005/2006 SERIES 4	PARs PLAN 2006/2007 SERIES 5
Grant date	24/12/2002	22/09/2003 10/12/2003 26/03/2004	17/09/2004 30/11/2004	19/09/2005 30/11/2005 22/03/2006	19/12/2006 13/03/2007
Performance period definition <sup>(i)</sup>	3–5 years from grant date	3–5 years from base date <sup>(ii)</sup>	3–5 years from base date <sup>(ii)</sup>	3–5 years from base date	3–5 years from base date
IAG share price at base date (\$)	2.92	3.90	5.08	5.87	5.29
Performance hurdle test schedule	Quarterly—last trading day of each calendar quarter 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	Quarterly—last trading day of each calendar quarter in performance period	Quarterly—last trading day of each calendar quarter in performance period
First day test	30/12/2005	29/09/2006	28/09/2007	30/09/2008	30/09/2009
Last day test	28/09/2007	30/06/2008	30/06/2009	30/06/2010	30/09/2011
Performance hurdle achievement	Partially achieved, 56% of PARs are exercisable and remaining 44% lapsed	Not achieved	Not achieved	n/a	n/a
Last exercise date (continuing employees only)	24/12/2012	22/09/2013 10/12/2013 26/03/2014	17/09/2014 30/11/2014	19/09/2015 30/11/2015 22/03/2016	19/12/2016 13/03/2017

(i) The performance period will be shortened if the employee ceases employment with the IAG Group due to redundancy or in other special circumstances.

(ii) The base date is the date which is the second trading day after the date on which IAG's financial results for the 12 month period ending on the 30 June that immediately precedes the grant date are announced to the Australian Securities Exchange (ASX).

The table below applies to all the PARs Plan disclosed above:

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	<p>&lt;50th percentile—0% vesting                      =50th percentile—50% vesting                      &gt;=75th percentile—100% vesting</p> <p>The percentage of PARs which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile.</p>

### Performance hurdle testing

The performance hurdle is tested quarterly during the period that is between three and five years from the base date. On each test day, the TSR performance hurdle is measured from the base date to the test date, which means that any period of poor TSR performance following the base date is always included in the TSR measurement. PARs vest on a test day if IAG's TSR is at or above the 50th percentile of the peer group of companies with vesting increasing on subsequent test days only if the TSR ranking has improved. This approach to performance hurdle testing ensures that executives strive to deliver TSR performance over the full five year period.

### Vesting of PARs—change of control

Under the PARs Plan the board has discretion to determine if and when PARs vest in a change of control situation. In exercising this discretion the board would consider issues such as the objectives of the PARs Plan and the circumstances surrounding the proposed change of control.

### Restrictions on dealing in IAG securities

In addition to legal requirements that prevent any person from dealing in IAG securities when in possession of undisclosed price sensitive information, the board has implemented a policy that prohibits directors, executives and other designated senior managers from:

- dealing in IAG securities when in possession of price sensitive information;
- short term or speculative trading in IAG securities;
- transactions that limit economic risk associated with unvested entitlements to IAG securities (including EPRs, PARs and DARs); and
- any trading in IAG securities without prior approval of the NRSC.

The following table outlines the returns delivered to IAG shareholders since 30 June 2002:

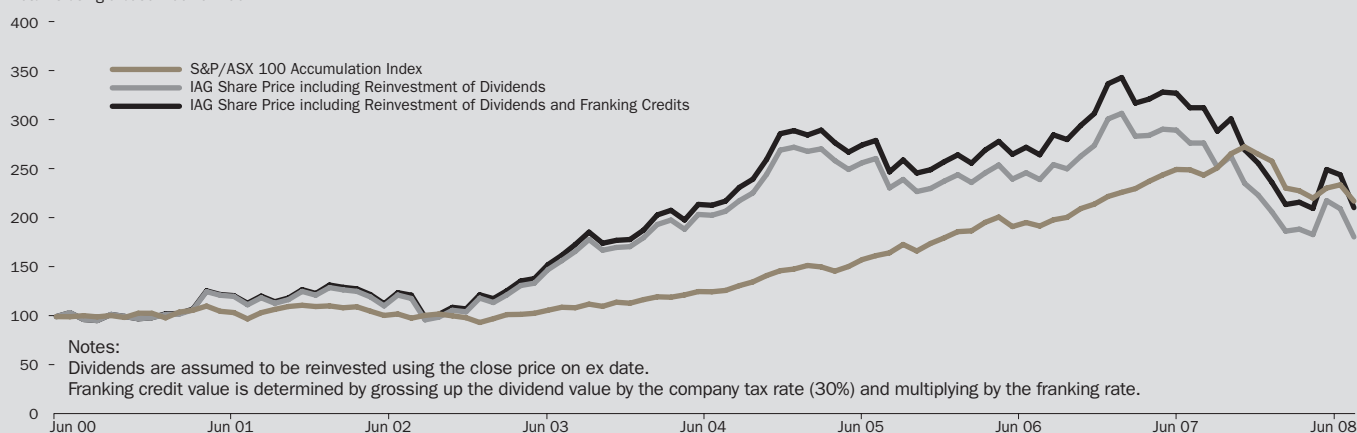
	YEAR ENDED 30 JUNE 2002	YEAR ENDED 30 JUNE 2003	YEAR ENDED 30 JUNE 2004	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006	YEAR ENDED 30 JUNE 2007	YEAR ENDED 30 JUNE 2008
Closing share price (\$)	3.15	3.40	5.00	6.01	5.35	5.70	<b>3.47</b>
Dividends paid (cents)	10.50	11.50	22.00	26.50	42.00	29.50	<b>22.50</b>
Earnings per share (cents) <sup>(i)</sup>	(1.78)	8.65	37.87	49.31	47.66	32.79	<b>(14.29)</b>
Normalised net profit after tax (\$ million) <sup>(i), (ii)</sup>	337	441	552	614	550	522	<b>290</b>

(i) All amounts post 2005 have been measured under current Australian Accounting Standards (AASBs) which became applicable for years commencing on or after 1 January 2005. All amounts prior to 2005 were measured under previous AASBs.

(ii) Normalised net profit is determined by excluding the amortisation and impairment charges of intangible assets and goodwill and substituting actual investment earnings on equity holders' funds with long term returns.

IAG's share price performance from the period since IAG's listing in August 2000 is shown in the following graph:

Returns using a base index of 100



## V. 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 STI or offer a LTI in any given year. N Utley's service agreement, which was in force prior to the acquisition of the Equity Insurance Group, provides for an annual base salary adjustment based on the movement in the Retail Prices Index in the UK.

NAME	NOTICE PERIOD —COMPANY	NOTICE PERIOD —EMPLOYEE	TERMINATION PROVISIONS	ADDITIONAL PAYMENT IF IAG INVOKES A RESTRAINT CLAUSE
MJ Wilkins	12 months	6 months	12 months base salary, plus payment for annual leave, long service leave and STI that would have accrued for 12 months had termination not occurred.	6 months base salary
JP Breheny	12 months	3 months	12 months base salary	—
AM Coleman	12 months	3 months	12 months base salary	6 months base salary
NB Hawkins	12 months	3 months	12 months base salary	—
JS Johnson	12 months	3 months	12 months base salary	—
CF McLoughlin	12 months	3 months	12 months base salary	—
LC Murphy	12 months	3 months	12 months base salary	—
N Utley	12 months	12 months	12 months base salary, plus payment for the value of benefits (excluding STI) that would have accrued for 12 months had termination not occurred.	—
J van der Schalk	12 months	3 months	12 months base salary	6 months base salary
G Venardos	12 months	3 months	12 months base salary	6 months base salary
DG West	12 months	3 months	12 months base salary	—

Executives are employed by Insurance Australia Group Services Pty Limited, except for:

- NB Hawkins who is employed by IAG New Zealand Limited; and
- N Utley who is employed by Equity Insurance Management Limited.

### a. RETRENCHMENT

In the event of retrenchment, the executives listed above (except for N Utley) are entitled to the greater of:

- the written notice or payment in lieu of notice as provided in their service agreement; or
- the retrenchment benefits due under the relevant company retrenchment policy.

For N Utley, the retrenchment payment is in accordance with the termination provisions specified in the table above.

### b. COMPANY RETRENCHMENT POLICY

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

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

- at least 12 weeks notice or payment in lieu of notice (calculated on the employee's base salary); and
- 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.

### c. 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.

### d. 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.

The amount of notice the Company must provide or the payment in lieu of notice is specified above.

## VI. Remuneration details

### a. REMUNERATION OF EXECUTIVES FOR THE IAG GROUP

	SHORT TERM EMPLOYMENT BENEFITS		EMPLOYMENT BENEFITS		POST	OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT		TOTAL
	Base salary <sup>(1)</sup> \$000	STI <sup>(2)</sup> \$000	Other <sup>(3)</sup> \$000	Super-annuation <sup>(4)</sup> \$000	Retirement benefits \$000	Long service leave accruals <sup>(5)</sup> \$000	\$000	Value of deferred 2007 STI granted as DARs <sup>(6)</sup> \$000	Value of DARs/EPRs/PARs/shares granted <sup>(7),(8)</sup> \$000	\$000
Executives (including executive director)										
MJ Wilkins, Chief Executive Officer and Managing Director, KMP since 26 November 2007 <sup>(i)</sup>										
<b>2008</b>	<b>857</b>	<b>395</b>	–	<b>78</b>	–	<b>4</b>	–	–	<b>133</b>	<b>1,467</b>
JP Breheny, Chief Executive Officer, Asia										
<b>2008</b>	<b>736</b>	<b>226</b>	–	<b>89</b>	–	<b>6</b>	–	<b>115</b>	<b>261</b>	<b>1,433</b>
2007	667	349	175	85	–	5	–	–	137	1,418
NB Hawkins, Chief Executive Officer, IAG New Zealand										
<b>2008</b>	<b>648</b>	<b>137</b>	<b>57</b>	<b>89</b>	–	<b>10</b>	–	<b>115</b>	<b>303</b>	<b>1,359</b>
2007	647	351	45	84	–	10	–	–	174	1,311
JS Johnson, Chief Executive Officer, eVentures										
<b>2008</b>	<b>726</b>	<b>280</b>	–	<b>50</b>	–	<b>13</b>	–	<b>138</b>	<b>232</b>	<b>1,439</b>
2007	715	356	–	84	–	15	–	–	116	1,286
LC Murphy, Group Executive, Business Services, KMP since 3 December 2007 <sup>(i)</sup>										
<b>2008</b>	<b>270</b>	<b>145</b>	–	<b>35</b>	–	<b>1</b>	–	–	<b>18</b>	<b>469</b>
N Utley, Chief Executive Officer, United Kingdom, KMP since 9 January 2007										
<b>2008</b>	<b>978</b>	<b>590</b>	–	<b>127</b>	–	–	–	<b>90</b>	<b>202</b>	<b>1,987</b>
2007	549	262	–	68	–	–	–	–	15	894
DG West, Chief Executive Officer, CGU, KMP since 29 January 2008 <sup>(i)</sup>										
<b>2008</b>	<b>358</b>	<b>229</b>	–	<b>43</b>	–	<b>2</b>	–	–	<b>20</b>	<b>652</b>
AM Coleman, Chief Risk Officer and Group Actuary <sup>(ii)</sup>										
<b>2008</b>	<b>713</b>	<b>538</b>	–	<b>93</b>	–	<b>17</b>	–	<b>134</b>	<b>395</b>	<b>1,890</b>
2007	639	431	–	89	–	16	–	–	264	1,439
CF McLoughlin, Group Executive, Strategy, People & Reputation <sup>(ii)</sup>										
<b>2008</b>	<b>699</b>	<b>421</b>	–	<b>50</b>	–	<b>8</b>	–	<b>100</b>	<b>233</b>	<b>1,511</b>
2007	541	318	–	71	–	5	–	–	116	1,051
J van der Schalk, Chief Executive Officer, Asset Management and Reinsurance <sup>(ii)</sup>										
<b>2008</b>	<b>634</b>	<b>360</b>	–	<b>50</b>	–	<b>10</b>	–	<b>69</b>	<b>267</b>	<b>1,390</b>
2007	659	327	–	81	–	27	–	–	146	1,240
G Venardos, Group Chief Financial Officer <sup>(ii)</sup>										
<b>2008</b>	<b>826</b>	<b>594</b>	–	<b>100</b>	–	<b>27</b>	–	<b>149</b>	<b>464</b>	<b>2,160</b>
2007	782	480	–	98	–	21	–	–	305	1,686
Executives who ceased as key management personnel <sup>(iii)</sup>										
MJ Hawker, former Chief Executive Officer and Managing Director, KMP until 26 May 2008										
<b>2008</b>	<b>1,561</b>	<b>1,565</b>	–	<b>45</b>	–	<b>(77)</b>	<b>1,939</b>	<b>174</b>	<b>(1,446)</b>	<b>3,761</b>
2007	1,297	722	–	174	–	24	–	–	1,381	3,598
DA Issa, former Chief Executive Officer, Direct Insurance, KMP until 4 July 2008										
<b>2008</b>	<b>858</b>	<b>784</b>	–	<b>50</b>	–	<b>45</b>	<b>1,075</b>	<b>142</b>	<b>405</b>	<b>3,359</b>
2007	701	456	–	94	–	12	–	–	251	1,514
SJ Mostyn, former Group Executive, Culture & Reputation, KMP until 15 October 2007										
<b>2008</b>	<b>155</b>	<b>112</b>	–	<b>21</b>	–	<b>2</b>	–	<b>32</b>	<b>87</b>	<b>409</b>
2007	553	301	–	73	–	10	–	–	227	1,164
MJ Pirone, former Chief Executive Officer, CGU, KMP until 29 January 2008										
<b>2008</b>	<b>806</b>	<b>580</b>	–	<b>50</b>	–	<b>29</b>	<b>725</b>	<b>119</b>	<b>408</b>	<b>2,717</b>
2007	719	444	–	91	–	24	–	–	268	1,546
P Connell, only KMP for the period from 29 September 2006 to 20 February 2007										
2007	253	162	–	24	–	–	–	–	14	453

(i) For an executive who was newly appointed to the executive team during a financial year, the remuneration information provided in the table above relates to the period from the date of their appointment as KMP to 30 June. The balances are calculated based on the proportion of the year that they were KMP.

(ii) As part of the IAG restructure announced on 9 July 2008, NB Hawkins and LC Murphy will take on the Chief Financial Officer and Group Executive, Corporate Office roles, respectively, whilst AM Coleman, CF McLoughlin, J van der Schalk and G Venardos will cease to be KMP from the end of August 2008 when the new executive team structure is effective. The remuneration details in the table above are only in respect of remuneration for services provided during the current financial year.

(iii) For any executives who ceased as KMP during a financial year, the remuneration information provided in the table above relates only to the period that they were KMP.

Refer to section VI.b for details of notes 1 to 8 referencing in the above table in section VI.a.

b. DETAILS OF NOTES 1 TO 8

USED IN THE TABLES IN SECTION VI.a

- (1) Base salary represents amounts paid in cash and the value of non monetary benefits such as cars and parking and annual leave accruals, as determined in accordance with AASB 119 Employee Benefits.
- (2) STI to be settled for the current performance period accrual and prior performance periods over or under accruals. Executives may elect to receive some of their STI in the form of IAG shares rather than cash through participation in the Bonus Equity Share Plan which is valued in accordance with the market value of IAG shares at grant date.
- (3) NB Hawkins received an accommodation allowance in NZ. In 2007, JP Breheny received a special payment which was only payable after completion of 12 months service with the IAG Group.
- (4) Superannuation represents the employer's contributions. Refer note 29 for details of how this plan operates.
- (5) Long service leave accruals as determined in accordance with AASB 119 Employee Benefits.
- (6) The deferred 2007 STI is granted as DARs and an allocated portion of unvested DARs is included in the total remuneration disclosure above. DARs are valued using a Black Scholes valuation model. The deferred 2008 STI will be granted in next financial year and therefore, no value was included in the table above.
- (7) An allocated portion of unvested EPRs (new rights issued in 2008), DARs and PARs is included in the total remuneration disclosure above. The year ended 30 June 2008 value included shares issued under a one off share allocation (refer to section VIII.a for further details).

To determine the EPRs and PARs values the Monte Carlo simulation methodology model has been applied. The valuation takes into account the exercise price of the EPRs and PARs, life of the EPRs and 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 which is assumed to be zero for an individual's remuneration calculation. DARs are valued using a Black Scholes valuation model.

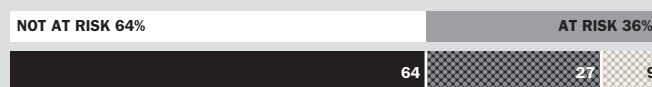
- (8) The year ended 30 June 2008 included a reversal adjustment on lapsed rights which was recognised as share based remuneration for services provided since date of grant in prior periods. These rights lapsed on MJ Hawker's ceasing employment with the IAG Group.

VII. At risk remuneration

Total remuneration for executives is comprised of 'at risk' and 'not at risk' remuneration. Base salary and superannuation are 'not at risk', while STI and share based remuneration provided through the DARs, EPRs and PARs Plans are 'at risk'.

a. DETAILS OF TOTAL REMUNERATION THAT IS 'AT RISK'

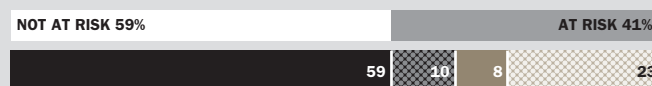
MJ Wilkins



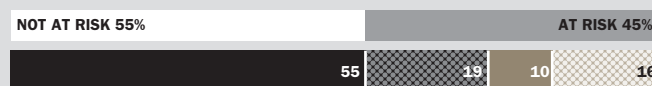
JP Breheny



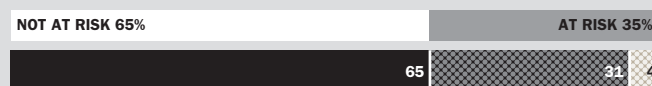
NB Hawkins



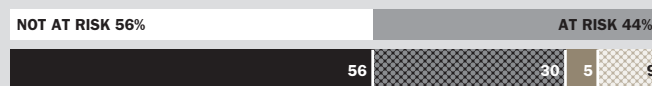
JS Johnson



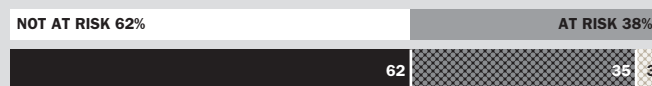
LC Murphy



N Utley



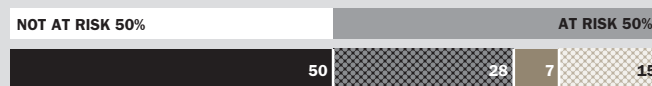
DG West



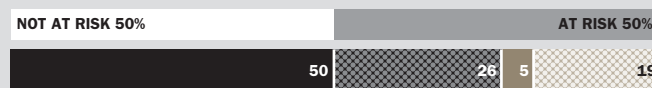
AM Coleman



CF McLoughlin



J van der Schalk



G Venardos



● Fixed pay (%)    ⊗ Cash STI (%)    ● Deferred STI (%)    ⊗ LTI (%)

## b. SHORT TERM INCENTIVES

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

## c. SHARE BASED REMUNERATION

No DARs, EPRs or PARs became exercisable during the year ended 30 June 2008. PARs series 1 reached the end of the performance hurdle testing period and 44% of those PARs, being PARs that had not become exercisable, lapsed on 24 December 2007. No DARs, EPRs or PARs (other than PARs series 1) lapsed during the year.

It is not practical to provide an estimate of the maximum possible total value of share based remuneration that may vest in future years for any EPRs, DARs or PARs issued up to 30 June 2008 because the value is directly linked to:

- the future IAG share price at the time of vesting; and
- with respect to EPRs and PARs, the future TSR performance of IAG and companies in the S&P/ASX 100 Index. The minimum possible total value of share based remuneration is zero.

## VIII. Share based remuneration—share allocation, DARs, EPRs, PARs and PSRs

### a. SHARE ALLOCATION

During the year, the board approved an ex gratia grant of shares to 70 employees. The board made this grant following a PwC review of IAG's executive remuneration arrangements in 2007. PwC found that the approach to determining IAG's peer group for PARs granted in December 2002 was not consistent with market practice. If the peer group was determined in accordance with market practice, IAG's ranking in the peer group was substantially higher. The board made an ex gratia grant of shares to recognise this issue.

The total number of shares granted was 407,552 and the cost of acquiring the shares on market was \$1,494,702.

The total value allocated to each KMP is included in item f of this section.

### b. DARs

#### i. Details of DARs granted

The IAG Group has issued DARs to the executives during the financial year for nil consideration. Each executive who participates in the DARs Plan becomes eligible to receive one ordinary IAG share per DAR, by paying the exercise price of \$1 per tranche of DARs exercised, subject to continuing employment with the IAG Group for a period as determined by the board.

	GRANT DATE	DATE FIRST EXERCISABLE	LAST EXPIRY DATE	VALUE PER DAR AT GRANT DATE \$	DARs GRANTED DURING THE YEAR NUMBER
<b>2008</b>					
MJ Wilkins	—	—	—	—	—
JP Breheny	27/09/2007	01/07/2008	27/09/2017	4.82	47,900
AM Coleman	27/09/2007	01/07/2008	27/09/2017	4.82	55,700
NB Hawkins	27/09/2007	01/07/2008	27/09/2017	4.82	47,900
JS Johnson	27/09/2007	01/07/2008	27/09/2017	4.82	57,100
CF McLoughlin	27/09/2007	01/07/2008	27/09/2017	4.82	41,500
LC Murphy	—	—	—	—	—
N Utley	27/09/2007	01/07/2008	27/09/2017	4.82	37,500
J van der Schalk	27/09/2007	01/07/2008	27/09/2017	4.82	28,600
G Venardos	27/09/2007	01/07/2008	27/09/2017	4.82	61,900
DG West	—	—	—	—	—
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL					
MJ Hawker	27/09/2007	01/07/2008	27/09/2017	4.82	144,500
DA Issa	27/09/2007	01/07/2008	27/09/2017	4.82	73,800
SJ Mostyn	27/09/2007	01/07/2008	27/09/2017	4.82	45,400
MJ Pirone	27/09/2007	01/07/2008	27/09/2017	4.82	61,500
					<b>703,300</b>

#### ii. Details of DARs vested and exercised

There were no DARs vested and exercised during the financial year.

### c. EPRs

#### i. Details of EPRs granted

The EPRs Plan replaced the PARs Plan as IAG's new executive long term incentive plan. The IAG Group issued EPRs 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 EPR at no exercise price, subject to specific performance hurdles being met. Refer to section IV.b for details of the performance hurdles.

EPR allocations are divided equally into two allocations, the TSR and ROE allocation. Each allocation has two vesting conditions with the first vesting condition being, continued employment with the IAG Group. Under the TSR allocation, the second vesting condition is a market related performance hurdle based on a comparison of IAG's TSR with the TSR of a peer group of entities in the S&P/ASX 100 Index. Under the ROE allocation, the second vesting condition is based on IAG's normalised ROE (refer to note 28 of the financial statements for further details).

ii. EPRs subject to TSR performance hurdle

	GRANT DATE	DATE FIRST EXERCISABLE	LAST EXPIRY DATE	VALUE PER EPR AT GRANT DATE \$	EPRs GRANTED DURING THE YEAR NUMBER
<b>2008</b>					
MJ Wilkins	29/11/2007	30/09/2010	29/11/2017	2.35	125,000
JP Breheny	29/10/2007	30/09/2010	29/10/2017	2.87	49,250
AM Coleman	29/10/2007	30/09/2010	29/10/2017	2.87	51,500
NB Hawkins	29/10/2007	30/09/2010	29/10/2017	2.87	48,000
JS Johnson	29/10/2007	30/09/2010	29/10/2017	2.87	49,750
CF McLoughlin	29/10/2007	30/09/2010	29/10/2017	2.87	48,000
LC Murphy	29/10/2007	30/09/2010	29/10/2017	2.87	17,500
N Utley	29/10/2007	30/09/2010	29/10/2017	2.87	71,750
J van der Schalk	29/10/2007	30/09/2010	29/10/2017	2.87	47,500
G Venardos	29/10/2007	30/09/2010	29/10/2017	2.87	56,750
DG West	13/03/2008	30/09/2010	13/03/2018	1.63	50,000
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL					
MJ Hawker	29/10/2007	30/09/2010	29/10/2017	2.87	175,000
DA Issa	29/10/2007	30/09/2010	29/10/2017	2.87	58,500
SJ Mostyn	29/10/2007	30/09/2010	29/10/2017	2.87	14,250
MJ Pirone	29/10/2007	30/09/2010	29/10/2017	2.87	51,500
					<b>914,250</b>

iii. EPRs subject to the ROE performance hurdle

<b>2008</b>					
MJ Wilkins	29/11/2007	30/06/2010	29/11/2017	3.68	125,000
JP Breheny	29/10/2007	30/06/2010	29/10/2017	4.31	49,250
AM Coleman	29/10/2007	30/06/2010	29/10/2017	4.31	51,500
NB Hawkins	29/10/2007	30/06/2010	29/10/2017	4.31	48,000
JS Johnson	29/10/2007	30/06/2010	29/10/2017	4.31	49,750
CF McLoughlin	29/10/2007	30/06/2010	29/10/2017	4.31	48,000
LC Murphy	29/10/2007	30/06/2010	29/10/2017	4.31	17,500
N Utley	29/10/2007	30/06/2010	29/10/2017	4.31	71,750
J van der Schalk	29/10/2007	30/06/2010	29/10/2017	4.31	47,500
G Venardos	29/10/2007	30/06/2010	29/10/2017	4.31	56,750
DG West	13/03/2008	30/06/2010	13/03/2018	2.71	50,000
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL					
MJ Hawker	29/10/2007	30/06/2010	29/10/2017	4.31	175,000
DA Issa	29/10/2007	30/06/2010	29/10/2017	4.31	58,500
SJ Mostyn	29/10/2007	30/06/2010	29/10/2017	4.31	14,250
MJ Pirone	29/10/2007	30/06/2010	29/10/2017	4.31	51,500
					<b>914,250</b>

iv. Details of EPRs vested and exercised

There were no EPRs vested and exercised during the financial year.

d. PARs

i. Details of PARs granted

The PARs Plan was replaced by the EPRs Plan which is now the executive long term incentive plan. No PARs were granted during the financial year.

ii. Details of PARs vested and exercised

There were no PARs vested and exercised during the financial year.

e. PSRs

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

During the year ended 30 June 2008, J van der Schalk exercised 40,000 PSRs. \$1 per tranche of PSRs is payable to exercise. Nil remains unpaid per issued share acquired. For each PSR exercised, one new IAG ordinary share was issued.

#### f. ANALYSIS OF MOVEMENTS IN SHARE BASED REMUNERATION

Following is a summary of the movement during the financial year, by value, of all types of share based remuneration, including DARs, EPRs, PARs, PSRs and the one off share allocation, for each executive:

	TOTAL VALUE OF DARs AND EPRs GRANTED <sup>(i)</sup> \$000	TOTAL VALUE OF DARs, EPRs, PARs AND PSRs EXERCISED <sup>(ii)</sup> \$000	TOTAL VALUE OF SHARE ALLOCATION <sup>(iii)</sup> \$000	TOTAL VALUE DARs, EPRs AND PARs THAT LAPSED <sup>(iv)</sup> \$000
<b>2008</b>				
MJ Wilkins	754	-	-	-
JP Breheny	584	-	-	-
AM Coleman	638	-	70	(223)
NB Hawkins	576	-	51	(162)
JS Johnson	632	-	8	(25)
CF McLoughlin	545	-	-	-
LC Murphy	126	-	-	-
N Utley	696	-	-	-
J van der Schalk	479	132	29	(94)
G Venardos	706	-	92	(275)
DG West	217	-	-	-
	<b>5,953</b>	<b>132</b>	<b>250</b>	<b>(779)</b>
<i>Executives who ceased as key management personnel</i>				
MJ Hawker	495	-	231	(7,493)
DA Issa	191	-	61	(248)
SJ Mostyn	74	-	59	(188)
MJ Pirone	165	-	61	(239)
	<b>925</b>	<b>-</b>	<b>412</b>	<b>(8,168)</b>

(i) The value of DARs and EPRs granted in the year is the fair value of the DARs and EPRs at grant date using Black Scholes and Monte Carlo simulation models respectively. The total value of the DARs and EPRs granted is included in the table above. This amount is allocated to remuneration over the expected vesting period (ie in years 30 June 2008 to 30 June 2012).

(ii) 40,000 PSRs that vested in a prior period were exercised in the financial year. The value of PSRs exercised is based on the market value of IAG shares at date of exercise. \$1 was paid by J van der Schalk to exercise these PSRs. No other PARs, DARs or EPRs were vested and therefore, exercisable during the financial year.

(iii) The value of the share allocation is based on the cost of acquiring the IAG shares on market for allocating to the executives who were eligible to receive this once off share allocation.

(iv) Rights lapsed during the financial year included 44% of PARs series 1 and rights lapsed upon KMP ceasing employment with the IAG Group. PARs series 1 are valued at the market value of IAG shares at the last date of performance hurdle testing. MJ Hawker's lapsed PARs, DARs and EPRs and DA Issa's and MJ Pirone's lapsed DARs were valued based on the market value of IAG shares at 30 June 2008.

Related parties of executives cannot participate in the EPRs, DARs, PARs or PSRs Plans.

## B. NON-EXECUTIVE DIRECTORS

### I. Remuneration policy

The principles that underpin IAG's approach to remuneration for non-executive directors are that remuneration should be:

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

### II. Remuneration structure

Non-executive director remuneration consists of three components, they are:

- board fees (payable as cash and IAG shares);
- subsidiary board and committee fees; and
- superannuation.

The aggregate limit of remuneration is approved by shareholders and is currently \$2,750,000 per annum. The aggregate annual remuneration is inclusive of employer superannuation contributions paid by IAG on behalf of non-executive directors.

#### a. IAG BOARD AND COMMITTEE FEES

BOARD/COMMITTEE	ROLE	FEE
IAG Board	Chairman	\$450,000
	Director	\$150,000
IAG Audit Committee	Chairman	\$36,000
	Member	\$18,000
IAG Risk Management & Compliance Committee	Chairman	\$36,000
	Member	\$18,000
IAG Nomination, Remuneration & Sustainability Committee	Chairman	\$32,500
	Member	\$16,250

#### b. NON-EXECUTIVE DIRECTORS' SHARE PLAN

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 board 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 a 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 share based remuneration is available to non-executive directors.

#### c. SUPERANNUATION

IAG pays superannuation contributions on 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.

#### d. NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS

A summary of non-executive directors' service on subsidiary boards and the fees payable is set out in the following table:

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
JA Strong	Insurance Manufacturers of Australia Pty Limited	Chairman	\$195,000
PM Colebatch	IAG UK Holdings Limited	Chairman	\$100,497 <sup>(i)</sup>
HA Fletcher	IAG New Zealand Limited	Chairman	\$89,916 <sup>(ii)</sup>
ND Hamilton	Mutual Community General Insurance Proprietary Limited	Chairman	\$25,000
YA Allen	Mutual Community General Insurance Proprietary Limited	Director	\$16,250

(i) This amount was paid in British pound and has been converted to Australian dollar using the average exchange rate for the year.

(ii) This amount was paid in NZ dollar and has been converted to Australian dollar using the average exchange rate for the year.

### III. 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 the additional role as chairman; and
- input regarding regulatory, industry and social developments surrounding the business.

The NRSC has responsibility for coordinating the board's review of the chairman's performance.

#### IV. Remuneration details

	SHORT TERM BENEFITS		EMPLOYMENT BENEFITS	POST RETIREMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash \$000	Other boards and committees fees \$000						
JA Strong								
<b>2008</b>	<b>238</b>	<b>195</b>	<b>58</b>	–	–	–	<b>213</b>	<b>704</b>
2007	201	172	50	–	–	–	189	612
YA Allen								
<b>2008</b>	<b>128</b>	<b>66</b>	<b>13</b>	–	–	–	<b>28</b>	<b>235</b>
2007	105	37	15	–	–	–	25	182
PM Colebatch, appointed 1 January 2007								
<b>2008</b>	<b>79</b>	<b>115</b>	<b>15</b>	–	–	–	<b>71</b>	<b>280</b>
2007	33	48	6	–	–	–	33	120
HA Fletcher, appointed 1 September 2007								
<b>2008</b>	<b>46</b>	<b>90</b>	<b>13</b>	–	–	–	<b>79</b>	<b>228</b>
ND Hamilton								
<b>2008</b>	<b>27</b>	<b>43</b>	<b>13</b>	–	–	–	<b>128</b>	<b>211</b>
2007	17	55	17	–	–	–	113	202
A Hynes, appointed 1 September 2007								
<b>2008</b>	<b>108</b>	<b>14</b>	<b>12</b>	–	–	–	<b>18</b>	<b>152</b>
RA Ross								
<b>2008</b>	<b>79</b>	<b>52</b>	<b>18</b>	–	–	–	<b>71</b>	<b>220</b>
2007	67	49	16	–	–	–	63	195
BM Schwartz								
<b>2008</b>	<b>112</b>	<b>50</b>	<b>13</b>	–	–	–	<b>43</b>	<b>218</b>
2007	92	51	16	–	–	–	38	197
DIRECTORS RETIRED DURING THE YEAR								
JF Astbury, director until 31 August 2007								
<b>2008</b>	<b>17</b>	<b>8</b>	<b>3</b>	<b>184</b>	–	–	<b>4</b>	<b>216</b>
2007	105	54	17	–	–	–	25	201
GA Cousins, director until 31 August 2007								
<b>2008</b>	<b>17</b>	<b>3</b>	<b>2</b>	<b>169</b>	–	–	<b>4</b>	<b>195</b>
2007	105	16	13	–	–	–	25	159

#### V. 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:

- 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;
- 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; and
- 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:

- non-executive directors joining the board from 1 September 2003 would have no retirement benefit;
- for each non-executive director as at 31 August 2003 who had served a minimum of three years, the retirement benefit was assessed as if they had retired at 31 August 2003; and
- 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 \$184,000 and \$169,000 were paid to JF Astbury and GA Cousins respectively, following their retirement from the board on 31 August 2007.

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:

DIRECTOR	RETIREMENT BENEFIT
	\$000
JA Strong	295
ND Hamilton*	248
RA Ross*	232

\* ND Hamilton and RA Ross have decided to retire before the next annual general meeting in November 2008. Their retirement benefits were accrued in the financial year ending 30 June 2008.

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.

### C. 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 prohibit the disclosure of the premium paid. Insurance products provided by the IAG Group are also available to all directors and executives on the same terms and conditions available to other employees.

## RELEVANT INTEREST OF EACH DIRECTOR AND THEIR RELATED PARTIES IN LISTED SECURITIES OF IAG GROUP IN ACCORDANCE WITH THE CORPORATIONS ACT 2001

### A. HOLDING OF ORDINARY SHARES

	FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	Shares held directly <sup>(i)</sup>	Shares held indirectly <sup>(ii)</sup>
JA Strong	12,575	283,940
YA Allen	–	19,521
PM Colebatch	–	27,132
HA Fletcher	–	51,126
ND Hamilton	5,900	147,203
A Hynes	–	17,752
RA Ross	102,803	88,243
BM Schwartz	246	27,663
P Twyman	–	15,000
MJ Wilkins	–	100,000

(i) This represents the relevant interest of each director in ordinary shares issued by the Company, as notified by the directors to the ASX 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.

(ii) These shares are held by the director's related parties, inclusive of entities controlled, jointly controlled or significantly influenced by the directors, as notified by the directors to the ASX in accordance with section 205G of the Corporation Act 2001.

### B. HOLDING OF RESET PREFERENCE SHARES

No director and their related parties had any interest in RPS at reporting date.

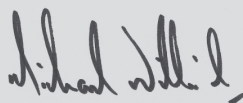
### C. HOLDING OF RESET EXCHANGEABLE SECURITIES

No director and their related parties had any interest in reset exchangeable securities of IAG Finance (New Zealand) Limited at reporting date.

### ROUNDING OF AMOUNTS

Unless otherwise stated, amount in the financial report and directors' report have been rounded to the nearest million dollars. The Company is of a kind referred to in the class order 98/100 dated 10 July 1998 issued by the Australian Securities & Investments Commission. All rounding has been conducted in accordance with that class order.

Signed at Sydney this 22nd day of August 2008 in accordance with a resolution of the directors:



**Michael Wilkins**  
Director

# LEAD AUDITOR'S INDEPENDENCE DECLARATION.

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



To the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

**KPMG**

**KPMG**

A handwritten signature in black ink, appearing to read 'Brian Greig'. The signature is stylized and written in a cursive-like font.

**Brian Greig**  
Partner

Sydney  
22 August 2008