

IAG ANNUAL REPORT 2007

A RISK MANAGEMENT STORY: **PART 4**
(FROM A SHAREHOLDER'S PERSPECTIVE)

“I WANT TO
INVEST FOR THE
LONG TERM...”

ABOUT THIS ANNUAL REPORT

This is the fourth in a series of annual reports which explores how Insurance Australia Group (IAG or the Group) manages risk for the long term.

Having told the story from the point of view of our customers and our employees, this report aims to demonstrate how we create sustainable growth and value for our shareholders.

While the basic principle of insurance is the same for all insurance companies – our customers pay us premiums to reduce the financial hardship of an unexpected loss – it is how we do it at IAG that adds value for our shareholders.

It's the way we pay claims, how we understand and price risk, the approach we take to managing costs, and our strategies to reduce risk in communities where we operate that enhance returns to shareholders and create value for society.

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“...AND EXPECT MY COMPANY TO DO THE SAME.”

PERFORMANCE HIGHLIGHTS

\$552m

NET PROFIT AFTER TAX

The net result after allowing for income taxes and the share of profit owing to minority shareholders within the Group.

11.4%

INSURANCE MARGIN

The insurance result as a percentage of net earned premium.

29.5c

TOTAL DIVIDENDS PER SHARE

This comprises an interim dividend of 13.5c per ordinary share and a final dividend of 16c per ordinary share, fully franked.

13.5%

RETURN ON EQUITY (ROE)

The net profit attributable to our shareholders as a percentage of the average equity of those shareholders. ROE was 12.9% on a normalised basis.

61%

EMPLOYEE ENGAGEMENT

This is a measurement of the level of our Australian employees' engagement drawn from our annual employee survey.

83%

CUSTOMER SATISFACTION

This is an overall measure of customer satisfaction in our largest portfolios of direct motor and home insurance in Australia.

\$12m

FUNDS FOR COMMUNITY INVESTMENT

These are direct funds invested by IAG in programmes across the Australian community.

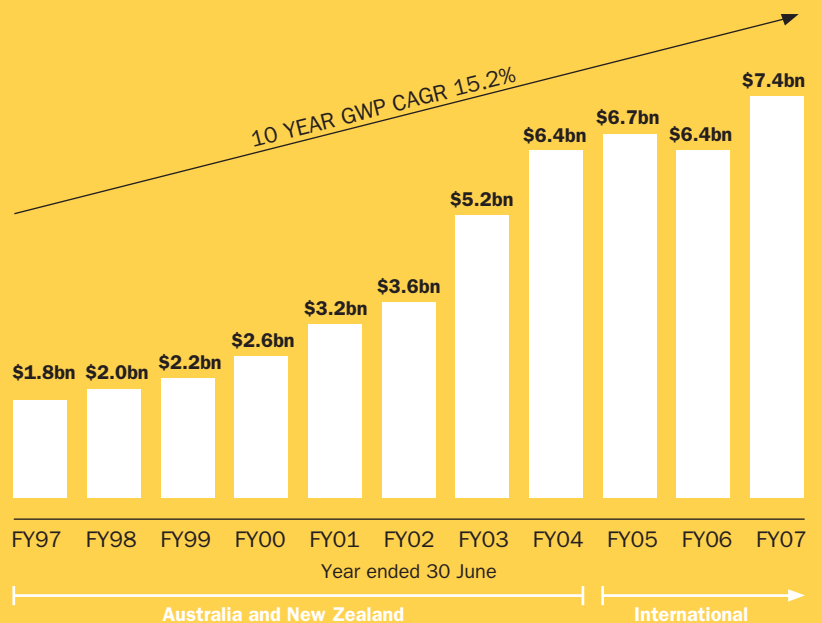
62,575t

CO₂E EMISSIONS

This is a measure of IAG's CO₂e emissions in Australia and New Zealand, through, for example, electricity usage and paper consumption.

GWP GROWTH AND DIVERSIFICATION

IAG's business, measured by gross written premium (the total payment received from customers for their insurance policies) has grown at a compound annual growth rate of 15.2%, as it has diversified internationally and broadened its product range.



OUR MAJOR BRANDS

From its beginnings as an Australian motor vehicle insurer, focused on NSW and the ACT, IAG has grown to become a fully diversified insurance group operating throughout Australia and internationally. Our operations now extend to New Zealand, Asia and the United Kingdom.

IAG is now the name behind some of the most trusted and respected insurance brands. We operate different brands across three continents, providing a wide range of general insurance products to protect the homes, lifestyles and businesses of our millions of customers.

AUSTRALIA



NEW ZEALAND



GROWING INTERNATIONALLY HELPS DIVERSIFY OUR BUSINESS. THIS IS PART OF THE WAY WE MANAGE RISK FOR THE LONG TERM

UNITED KINGDOM



ASIA



WE DELIVER LONG-TERM SHAREHOLDER VALUE BY ALIGNING OUR BUSINESS AROUND FOUR KEY PRINCIPLES.

PAYING CLAIMS



Insurers exist to pay claims. What makes us different is the way we pay claims.



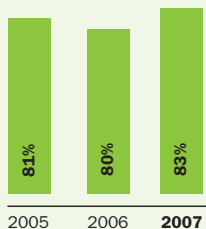
IAG's operations paid out about \$5 billion in claims during the year. That's around \$14 million a day. But paying claims is the easy part. The real work is getting customers back on the road or back to work, replacing their goods or rebuilding their homes, as quickly as possible. We believe what matters most is the way we treat our customers. That's why our shareholders can be confident that IAG stands by its customers, in good times and bad.

See why we are proud of the way we pay claims on page 17.



24-HOUR HELP LINE CALLS

Number of customer calls for emergency assistance through our 24-hour help line during the year.



CUSTOMER SATISFACTION INDEX

Overall measures of customer satisfaction in our largest portfolios of direct motor and home insurance in Australia.

UNDERSTANDING AND PRICING RISK



Our long-term sustainability relies on our ability to price risk accurately and fairly.



Insurers set premiums before the cost of claims is known. The challenge is to anticipate the potential risk and price it accurately and fairly, ensuring it's neither overpriced nor underpriced. Expertise in understanding risk is vital to an insurer's long-term viability. That's why we have the most extensive record of claims history in Australia, and have specialists such as industry researchers, climatologists, underwriters and actuaries, who collect and analyse data every day.

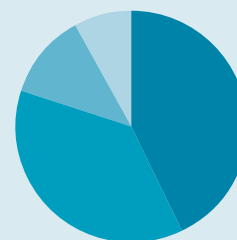
Read about how we put our expertise to use on page 19.

- Claims management
- Frontline (sales and distribution)
- Risk management
- Corporate and infrastructure



TOTAL PROPERTY VALUES INSURED

Total property values insured by IAG businesses as at 30 June 2007.



IAG PEOPLE INVOLVED IN MANAGING RISK

Around 12,000 employees across different areas of our business in Australia and New Zealand are involved in managing risk.

MANAGING COSTS



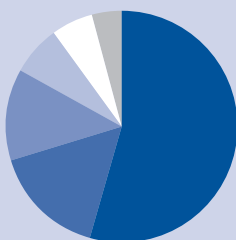
Operating costs are factored into premium prices, so we must be as efficient and productive as possible.



IAG insured property valued at around \$990 billion during the year across Australia, New Zealand, Asia and the United Kingdom. Operating with such large scale allows us to manage our costs efficiently. For example, we can access volume discounts across our supply chain without sacrificing quality for customers. It also means we can spread our costs across a large number of policies, delivering greater stability of earnings for shareholders.

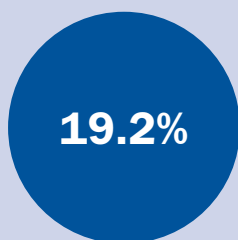
One way we manage costs is explained on page 21.

- Claims expense
- Government levies and taxes
- Underwriting and administration
- Commissions
- Reinsurance expense
- Underwriting profit



CONTRIBUTORS TO THE COST OF RUNNING OUR BUSINESS

The split between costs and underwriting profit for every dollar of premium IAG earned, for the year to 30 June 2007.



ADMINISTRATION RATIO

Underwriting and administration costs measured as a percentage of our net earned premium.

REDUCING RISK



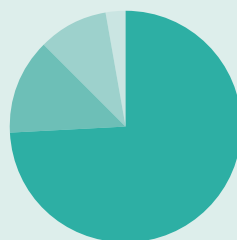
Reducing risk makes good business sense for an insurer.



As a business that deals in risk, it is vital for us to factor in long-term trends when managing our business. We work to reduce risk in the community, because fewer risks mean fewer claims. This means customers benefit from safer communities and lower premiums. We also work to reduce our operational risks by diversifying our business across different insurance markets and products, which means our shareholders benefit from more stable earnings.

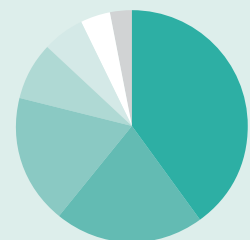
We talk more about how we have reduced risk through diversification on page 23.

- Australia
- New Zealand
- United Kingdom
- Asia
- Motor
- Home
- Short-tail commercial
- CTP/Motor liability
- Liability
- Other short-tail
- Workers' compensation



GEOGRAPHIC SPREAD

IAG's regional breakdown by percentage of GWP for the year to 30 June 2007.



PORTFOLIO PRODUCT MIX

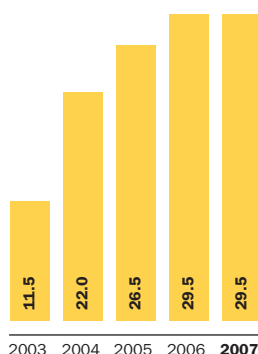
IAG's mix of insurance products by percentage of GWP for the year to 30 June 2007.

CHAIRMAN'S REVIEW

HISTORY OF DIVIDENDS

Dividends (interim and final) in respect of the year ended 30 June

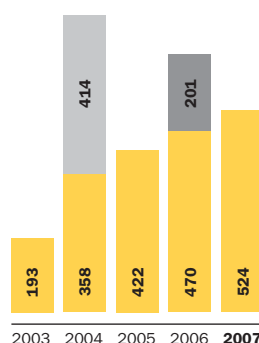
● Cents per ordinary share



CASH RETURNS

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

● Dividends (\$m)
● Buybacks (\$m)
● Special dividends (\$m)



During the 2007 financial year, we entered the United Kingdom general insurance market through the acquisitions of Equity Insurance Group and Hastings. This was in line with our goal to diversify our business internationally and increase earnings for shareholders.

We also remained a leader in both the Australian and New Zealand general insurance markets and continued to improve these businesses, whilst our Asian presence grew.

The Group increased gross written premium by 15% to a record \$7.4 billion, compared with the previous year. This strong improvement reflects renewed growth in our domestic business, and the first contribution from our newly acquired UK businesses.

Net profit after tax of \$552 million was achieved, compared with \$759 million in the previous year. This result was affected substantially by the \$200 million pre-tax impact of the severe June storms in Australia and the UK, as well as amortisation costs associated with the newly acquired UK businesses, and lower investment returns on shareholders' funds.

The Board has declared a final fully franked dividend of 16 cents per ordinary share to be paid on 8 October 2007 to shareholders registered as at 5 September 2007. This brings the annual dividend for the year to 29.5 cents per ordinary share, fully franked, consistent with the previous year.

Since listing in August 2000, the Group has delivered total shareholder return of 176%. This means, if you have held \$1,000 worth of ordinary shares since the Group listed, it would have grown to \$2,760 by 30 June 2007.

CAPITAL MANAGEMENT

We retained a strong capital position, with an APRA minimum capital requirement (MCR) multiple of 1.67 times as at 30 June 2007. Return on equity (ROE) was 13.5%, and when normalised to exclude the volatility of investment returns and amortisation of intangible assets, ROE was 12.9%.

The strength of our capital position reflects the cautious approach the Group takes to reserving and the prudence behind reserve releases over the past few reporting periods.

BOARD AND GOVERNANCE

After the end of the reporting year, Mr John Astbury and Mr Geoffrey Cousins, who joined the Board shortly before IAG became a listed public company in 2000, retired on 31 August 2007.

On behalf of the Board, I would like to thank both Directors for the tremendous contribution they have made to the Group over the past seven years. They each played a significant role in guiding the Group from listing through a period of rapid growth.

We also welcomed three Non-executive Directors to the Board during the year. Mr Phillip Colebatch was appointed on 1 January 2007, and Mr Hugh Fletcher and Ms Anna Hynes joined on 1 September 2007.

These Directors bring a wealth of experience, particularly in the insurance and financial services sector, and knowledge gained through senior positions held in multinational businesses. Biographical details are contained in IAG's 2007 Notice of Annual General Meeting.

“OUR ENTRY INTO A NEW INTERNATIONAL MARKET DURING THE YEAR HAS FURTHER DIVERSIFIED OUR BUSINESS. THIS IS PART OF OUR STRATEGY TO DELIVER SUSTAINABLE SHAREHOLDER RETURNS OVER THE LONG TERM.”

These appointments also diversify our Board's international representation, with Directors now based in Australia, the United Kingdom and New Zealand. We believe this is an important reflection of the continued strengthening of our international governance principles and risk framework as the Group expands offshore.

We also introduced a Group-wide Code of Ethics, which sets out principles to guide behaviours of all employees, providing a common framework to make good, informed business decisions and act on them with integrity. This is part of the way we are continuing to embed a risk management culture throughout our organisation.

The Board has worked closely with our Executive team, led by CEO Michael Hawker. On behalf of the Board I would like to thank them for their commitment to sustaining the performance of the Group.

SHAREHOLDER COMMUNICATION

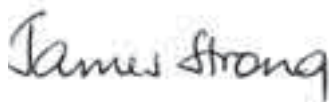
Regulatory reform was introduced during the year that has changed the obligations of companies regarding the provision of annual reports to shareholders. IAG is no longer obliged to mail hard copies of annual reports to shareholders, unless requested to do so.

To ensure our shareholders remain fully informed of our activities and performance, we will continue to make our annual reports available online at www.iag.com.au, and will offer shareholders a choice to be mailed a short shareholder review or the full statutory accounts, if they wish. We welcome the benefits brought by this reform, particularly from an environmental and cost management perspective.

LOOKING FORWARD

The Group will continue to grow in the current financial year. We have created scope for progress on multiple fronts by ensuring sustained improvement domestically and by building new growth platforms internationally, while maintaining our 'AA' ratings for our key wholly owned licensed insurers.

Our aim remains to deliver returns to shareholders of at least 1.5 times our weighted average cost of capital, barring any other major losses for the year outside our normal allowances.



JAMES STRONG
Chairman

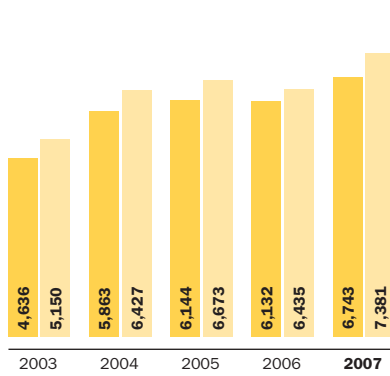


CEO'S REVIEW

REVENUE GROWTH

For the year ended 30 June

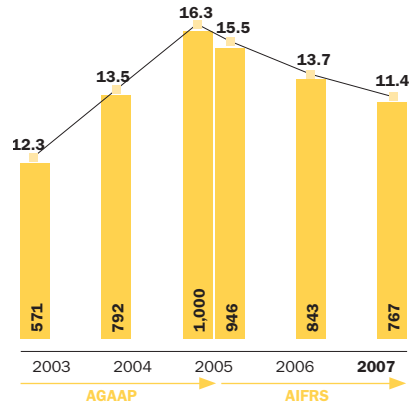
- Net earned premium (\$m)
- Gross written premium (\$m)



INSURANCE RESULT AND MARGIN

For the year ended 30 June

- Result (\$m)
- Margin (%)



As a business that deals in risk, it is vital for us to manage our business over long-term trends to ensure we continue to deliver sustainable, quality shareholder returns.

Five years ago, we determined the best way to achieve this was to set in place a strategy to build a general insurance business based on scale, with diversity across products, geography and distribution channels. The goal is to diversify and increase our revenue streams, reduce volatility and lower our cost of capital.

This means we aim to broaden our exposure to different regional insurance markets, which have varying economic and social influences, weather patterns and other factors, such as insurance cycles and levels of competition. We also aim to expand our portfolio of general insurance products, and the channels through which they are sold.

Adhering to this strategy has seen IAG transition from its beginnings as an Australian motor insurer selling policies direct to customers, to become a multi-line general insurance group with both direct and indirect distribution channels, operating across multiple international insurance markets.

During the past year, our most significant achievement against this strategy was the acquisition of general insurance businesses in the UK. These added to our growing international portfolio, which includes businesses in New Zealand and Asia, and now contributes about 26% to our Group's insurance premium revenue.

Since we set the strategy five years ago, we have achieved the following financial results:

- we met our stretch goal of doubling our gross written premium over five years;
- our profit has grown on a normalised basis at a compound annual growth rate of 8.8%;
- our return on equity over that time has averaged 17.3%, which is above our target of 1.5 times our weighted average cost of capital; and
- we have increased shareholder dividends by a compound annual growth rate of 22.9%.

PERFORMANCE IN 2007

The Group recorded a net profit after tax of \$552 million for the 12 months to 30 June 2007, compared with \$759 million in the previous year, and an insurance margin of 11.4%, compared with 13.7%.

Our profit was significantly affected by the impact of the severe storms which struck Australia and the UK in June 2007, causing a \$200 million pre-tax loss and reducing our insurance margin by 3%.

In addition, when compared to the previous year, the reported result includes a \$47 million increase in amortisation costs on the newly acquired UK businesses and an expected \$167 million after-tax decrease in investment returns following the Group's decision to de-risk its portfolio by reducing its exposure to equities and investing in its core businesses.

The Group achieved strong premium revenue growth during the year. Gross written premium increased by 15% to a record \$7.4 billion compared with the previous year, which was ahead of our target.

This was achieved on the back of growth in our domestic franchise, particularly in our largest business of Australian Personal Insurance, and the first contribution from the newly acquired UK businesses. These UK businesses constituted almost 16% of the Group's gross written premium in the second half and delivered an \$86 million pre-tax diversification benefit.

The Group's key wholly owned licensed insurers retained their very strong capital position, with a 'AA' insurer financial strength rating from Standard & Poor's and the Group had a multiple of 1.67 times APRA's minimum capital requirement at 30 June 2007. This remains above our internal benchmarks.

IMPROVED DOMESTIC PERFORMANCE

Our largest business, Australian Personal Insurance, reported improved results during the year. Revenue from insurance products sold direct to customers, which makes up about 74% of Australian Personal Insurance, grew by around 5% in the second half of the year compared to the first half, after adjusting for the impact of the NSW Lifetime Care & Support Scheme. The business also improved its position in a number of domestic markets, including CTP, where NSW share hit our target of 38% and Queensland share grew to 3.7% during the same period.

A major contributor to the growth in our personal insurance portfolio has been a renewed focus during the year on improving our customers' experience. Evidence of these efforts can be seen in our direct personal lines customer satisfaction score which has increased by 3% to 83%, while customer renewals remained over 90%.

Our commercial business, CGU, also performed strongly, growing both revenue and profit. However, a fourth consecutive year of falling premiums and significant competitive pressure mean the reported profitability of commercial insurance across the industry has relied on unsustainable levels of prior period reserve releases.

Our Australian Business Partnerships division experienced a turnaround in its underlying performance during the year, and our New Zealand business grew revenue in local currency terms.

Costs have been closely managed across the Australian and New Zealand businesses, and have been kept flat for four consecutive years. This means we made productivity gains in real terms.

GROWING OUR INTERNATIONAL PLATFORM

Our newly acquired general insurance businesses in the UK contributed around 10% or \$725 million to the Group's total gross written premium for the year.

Within the combined UK business, the niche insurance portfolio performed well while the private motor market remained challenging as rate increases in the market took longer to come through than originally anticipated.

We are integrating our UK businesses, and expect to deliver synergies of £25 million, which is about 14% ahead of our original target.

We welcomed Equity Insurance Group's CEO Mr Neil Utley to the Executive team as IAG CEO, UK. He now has responsibility for building our business within that market.



CEO'S REVIEW (CONTINUED)



TONY COLEMAN
Chief Risk Officer &
Group Actuary

GEORGE VENARDOS
Chief Financial Officer

PERFORMANCE HIGHLIGHTS

	12 months to 30 June 2006 \$m	12 months to 30 June 2007 \$m
Gross written premium (GWP)	6,435	7,381
Net earned premium (NEP)	6,132	6,743
Net claims expense	(3,900)	(4,474)
Underwriting profit	533	407
Net investment income on technical reserves	310	360
Insurance profit	843	767
Net investment income on shareholders' funds	539	301
Net profit after tax attributable to holders of ordinary shares	759	552

We also made further progress in strengthening our Asian operations. Our Thai businesses grew, and we reached agreement with our Malaysian partners to increase our ownership in the general insurance business of AmAssurance from 30% to 49% in the coming year, while divesting our interest in the associated life insurance business.

We remain committed to pursuing long-term investment opportunities in general insurance markets in China and other countries in Asia, to meet our ambition to grow our portfolio of general insurance businesses in the region.

The Group also completed the acquisition of Alba, a Lloyd's syndicate and its managing agency now known as Diagonal Underwriting Agency Limited, and established IAG Re Labuan (L) Berhad during the year. These businesses, which form our Asian Reinsurance operations, aim to benefit from retaining individual business unit exposures and gain efficiencies in managing all reinsurance covers centrally.

MANAGING RISK ACROSS OUR BUSINESS

Managing risk plays an important element in all areas of business, and often means adjustments are made to suit changing circumstances.

During the year, we took the decision to restructure the Group away from a reliance on volatile investment returns towards a greater focus on diversified insurance returns with lower volatility. As a result, the Group reduced its asset management investment exposure to Australian and international equities.

The Group's investment return on shareholders' funds contributed \$301 million of pre-tax income on the back of another year of strong underlying equity market returns. This result compares with \$539 million achieved in the previous year, a higher return due in part to the previously greater equities exposure. Investment return from reserves for insurance liabilities also contributed \$360 million to the Group's pre-tax profit.



CHRISTINE McLOUGHLIN
Group Executive, Strategy

JAN VAN DER SCHALK
CEO, Asset Management
& Reinsurance

SAM MOSTYN
Group Executive,
Culture & Reputation

PROGRESS AGAINST STRATEGIC FINANCIAL GOALS

GOALS	PROGRESS
Top quartile shareholder return	Since listing on 8 August 2000, the Group has delivered a total shareholder return of 176% as at 30 June 2007. While this does not rank us in the top quartile of companies in the S&P/ASX 100 during the period, we remain committed to this long-term goal.
Return on equity of at least 1.5 times weighted average cost of capital	The Group reported return on equity of 13.5% (or 12.9% on a normalised basis) for the 2007 financial year. Our aim remains to exceed our goal.
Build an international platform	Entered the UK general insurance market with the acquisition of businesses including Equity Insurance Group and Hastings. IAG now has three international divisions, with NZ representing 14% of GWP, the UK 10%, and Asia 2%.
Maintain an 80:20 mix of short-tail:long-tail premiums	The Group's mix of short-tail:long-tail premiums remained at 80:20.
Maintain an 'AA' category rating	Maintained 'AA' insurer financial strength rating from Standard & Poor's for our key wholly owned licensed insurers.

One of the largest exposures inherent in our business is to extreme weather events. This was particularly evident this year, having managed the impact of one of the most severe storms on record in Australia.

We cater for these events in two ways. We have extensive, high quality reinsurance covers in place to mitigate the effect on our financial results. We also have operational procedures in place to ensure we respond quickly to assist our affected customers get on with their lives as quickly as possible.

The frequency and severity of such weather-related events is expected to increase as a result of climate change. That is why we believe it is good management to address climate change.

To that end, we have announced our intention to become carbon neutral by 2012, and we have made progress toward this goal. The initiatives we are taking are not only benefiting the community, but they also make sense from a cost reduction perspective.

Further information on how we manage risk across our business – in terms of economic, social, workplace and environmental aspects – to ensure the longevity of our business, can be found in our 2007 Sustainability Report, to be released in November and available at www.iag.com.au.

As part of ensuring we are well-placed to successfully manage our increasingly diverse portfolio, we have continued to invest in our risk management systems. The quality of our processes was recognised earlier this year when Standard & Poor's advised us that IAG was one of only seven insurers globally whose Enterprise Risk Management System had been assessed as 'Excellent' – the highest assessment available under its methodology.

CEO'S REVIEW (CONTINUED)

OUR PEOPLE

The sustainability of our business relies on the ongoing participation and commitment of our employees. I am pleased to report that the overall engagement of our employees increased during the year. This is the fourth consecutive year of improvement since we started measuring employee engagement, and many business units now score within the 'best employer' zone.

As we become an international organisation we must continue to build a sustainable culture with common values, and continue to improve engagement. That is why we are investing in identifying and addressing emerging labour force trends, such as providing a more flexible working environment which helps us attract both working parents and mature age workers. Initiatives in this area include extending paid parental leave from six to 12 weeks, and trialling working from home solutions for our claims management employees.

I would like to thank all those people who have contributed to the success of our Group. I am proud of what we have all achieved.

Finally, I would like to thank my Executive team for their dedication to the performance of the Group.

In particular, I would like to pay tribute to Ms Sam Mostyn, Group Executive, Culture & Reputation, who will leave her full-time role on the Executive team in October 2007. Sam has made a significant contribution over the past six years in shaping the company culture and I look forward to her ongoing contribution in a more flexible advisory role. Sam's portfolio will transition to Ms Christine McLoughlin, currently Group Executive, Strategy.

LOOKING FORWARD

Our long-term strategy remains to build a general insurance business based on scale, with diversity across products, geography and distribution channels.

Ultimately, our aim is to deliver top quartile total shareholder return over the long term, with our return to ordinary shareholders exceeding 1.5 times our weighted average cost of capital, and to maintain our 'AA' rating from Standard & Poor's for our key wholly owned licensed insurers.

The Group remains committed to its ambition of doubling the size of the business over the next five years. We have made significant progress this year in building our international operations, and we are currently actively pursuing opportunities in China, India and Europe.

We will also continue to improve the momentum and strength of our domestic businesses. As a result, for the 2008 financial year, we are targeting gross written premium or revenue growth of 10–12%.

While we expect operating conditions to remain challenging, we're executing plans to respond to various parts of the cycle. To ensure a more sustainable outcome in terms of a fair price for risk, we have started increasing rates in short-tail commercial in Australia and New Zealand and have already put rate rises through in private motor in the UK, which now appear to be holding across the market.

By managing our business over these long-term trends, we will continue to deliver sustainable, quality earnings for our shareholders.



MICHAEL HAWKER
Chief Executive Officer

INVESTING FOR LONG-TERM SUSTAINABILITY

Managing our business for the long term requires investment in initiatives to reduce risk. That means improving safety on roads, in homes, in the community and in the workplace, reducing crime and minimising environmental impacts. That way we can help reduce the number of claims made in the first place. Some of the initiatives IAG undertook during the year are listed below.

The 'Safehome' partnership between NRMA Insurance and the Queensland Fire and Rescue Service is just one of the many initiatives in which we invest to help reduce risk in the community.



RECOGNITION

We are proud of the recognition we've received during the year:

- Qualified for the first time for inclusion in the **Dow Jones Sustainability Index**, a global index tracking the financial performance of the leading sustainability-driven companies.
- Listed in the 2007 **Global 100 Most Sustainable Corporations in the World** at the World Economic Forum by Corporate Knights and Innovest Strategic Value Advisors.
- Recognition as Ethical Investor's 2006 **Sustainable Company of the Year**.

INITIATIVES TO REDUCE ENVIRONMENTAL IMPACT:

- Announced our intention for the Group to become **carbon neutral** by 2012.
- Reduced our electricity consumption in Australia by 14%, reducing costs on our energy bills of \$630,000.
- Introduced a **fuel efficient saving** under which NRMA Insurance, SGIO and SGIC customers insuring cars with a fuel economy of 5.5 litres per 100 kilometres or better receive a saving on their comprehensive car insurance of approximately 10%.
- Trialling a **contents collection service** under which NRMA Insurance collects home insurance customers' damaged items and either re-uses or recycles them.
- Co-chaired the insurance working group to produce the **United Nations Environment Programme Finance Initiative (UNEP FI) 'Insuring for Sustainability'** report.

- Member of the Climate Change Adaptation Working Group of the **World Business Council for Sustainable Development**.
- Joined **Greenhouse Challenge Plus**, an Australian Government initiative which enables Australian companies to form working partnerships with the Government to improve energy efficiency and reduce greenhouse gas emissions.
- Wrote detailed submissions for the States' **carbon emissions trading schemes** and the Prime Minister's taskforce on emissions trading.
- Presented to the Prime Minister's **Science, Engineering and Innovation Council Working Group on Climate Change**.

COMMUNITY, SOCIAL AND CUSTOMER INITIATIVES:

- Introduced **Risk Radar for Business**, an online risk management tool available to CGU Business Insurance customers to help actively manage the safety, health and environmental issues in more than 500 business types.
- Participated in the **Business for Poverty Relief Alliance** working group and report.
- Deployed **crime prevention** vans to new areas of NSW.
- Granted over \$550,000 to more than **170 community groups** whose aim is to reduce risk.
- Continued the **'Prevent and Report Rural Crime'** partnership between CGU and the NSW Police Force.
- Continued the **'Safehome'** partnership between NRMA Insurance and the Queensland Fire and Rescue Service, with firefighters visiting 3,420 homes to provide free advice to householders on fire prevention for their property.

- Continued a five-year research project with the **Pain Management Research Institute** to reduce the emotional, physical, social and financial burden of pain from injuries sustained in the workplace or as a result of a car crash.
- Our employees **volunteered 10,734 hours** to charity organisations.

INITIATIVES TO BUILD A SUSTAINABLE WORKFORCE:

- Developed a Group-wide **Code of Ethics** to provide all employees with a framework to make good, informed business decisions and to act on them with integrity.
- Increased paid primary carers' **parental leave** from six weeks to 12 weeks.
- Prepared a Group-wide **Flexibility Skilling Programme** for all managers to address this skill gap.
- Continued to support and achieve positive results from a **Women's Career Development Programme**.
- Launched a **Stress Minimisation Programme** to help staff anticipate and manage work and life stress.
- Continued to expand the **CGU Academy**, which helps develop our people's technical insurance skills.
- Awarded **Employer of Choice for Women** status for the third consecutive year, by the Australian Government's Equal Opportunity for Women in the Workplace Agency.

Further information about our sustainability performance will be contained in our 2007 Sustainability Report, available from November 2007 at www.iag.com.au.



AUSTRALIAN OPERATIONS

WHAT WE DO

- IAG's Australian businesses include some of Australia's leading general insurance brands – NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance.
- Personal insurance products are distributed through a network of branches, franchises and country service centres, call centres and online facilities.
- Commercial insurance products are primarily sold through insurance brokers and authorised representatives.
- A range of commercial and personal insurance products are also distributed through partnerships with governments, financial institutions, affinity groups, motor dealers and motor manufacturers.

2007 FINANCIAL PERFORMANCE

Gross written premium	\$5,489 million
Net earned premium	\$5,126 million
Combined ratio	92.7%
Insurance margin	13.1%

INSURANCE PRODUCTS

- Commercial and motor fleet
- Commercial property
- Construction and engineering
- Consumer credit
- CTP
- Directors' and officers' liability
- Extended warranty
- Farm, crop and livestock
- Home and contents
- Home warranty
- Marine
- Motor vehicle and motorcycle
- Niche, such as veteran, vintage and classic car, boat, caravan and travel
- Professional indemnity
- Public and product liability
- Travel
- Workers' compensation



PERSONAL INSURANCE

IAG's largest division, Australian Personal Insurance, increased gross written premium in its core portfolios of home and motor insurance and regained CTP market share during the year.

A combination of increased volume of insurance policies sold, as well as higher average premium, including higher average value of assets insured in the home insurance portfolio, contributed strongly to top line revenue growth, particularly in the second half of the year.

The introduction of the NSW Government's Lifetime Care & Support Scheme in October 2006 impacted our NSW CTP portfolio. Funded by a levy on all CTP policies, the scheme is designed to support children who are severely injured in motor accidents, regardless of who was at fault. It will be extended to adults from October 2007.

We regained CTP market share, increasing our share to 38% of registrations, in line with our target for the year.

Customer renewals in our NRMA Insurance, SGIO and SGIC direct personal lines portfolios remained over 90% and customer satisfaction improved by 3% to 83%.

These pleasing results were achieved against a background of significant consolidation in the Australian personal insurance industry and continuing competition across all personal insurance product lines.

The most significant claims event for our business during the year occurred when severe storms hit the Newcastle and Central Coast region of NSW in June 2007, causing hundreds of millions of dollars worth of damage to our customers' property.

We are proud of the response of our people to the storms, who came together to help our affected customers get on with their lives as quickly as possible.

A major contributor to the growth in our personal insurance portfolio has been a renewed focus during the year on improving our customers' insurance experience. We achieved this on a number of fronts.

Feedback from our employees indicated that the pace of change in our business was making it difficult for them to focus solely on delivering customer service. Addressing this concern contributed to a 7% improvement in employee engagement across the board, with scores as high as 85% among groups of our customer-facing staff, and this has translated into customer satisfaction improvements.

We also invested significantly in new marketing campaigns for our personal insurance brands to continue to differentiate their value propositions and products, including customer rewards and product features. At the same time, we continued our focus on customer segmentation and maintaining competitive pricing positions in each of our markets. This included tailored pricing for specific segments, for example small versus large cars.

Our aim to manage our business sustainably saw us continue to work closely with the community and our customers to help make roads and homes safer, reduce crime and minimise our environmental impact.



DAVID ISSA
CEO, Personal Insurance

MARIO PIRONE
CEO, CGU Insurance

We invested more than \$12 million in community-based initiatives, including grants to local community groups that aim to reduce risk, and continued support for our community partners, including the Salvation Army Emergency Services and NRMA Careflight.

We also introduced a new product feature to reward our customers for their efforts to reduce their own impact on the environment. Our NRMA Insurance Fuel Efficient Saving gives a saving of approximately 10% on premiums for comprehensive car insurance policies to owners of cars with a fuel economy of 5.5 litres per 100 kilometres or better.

LOOKING FORWARD

We aim to build on the momentum generated throughout the year, and further grow gross written premium in our major portfolios, while reducing expenses. We will achieve this by continually improving our customers' experience by:

- creating a great working environment, and operating in the best employer range;
- working with the community to build a safe, sustainable world to live in; and
- building a strong business landscape in which we can forge mutually beneficial partnerships with our suppliers.

CGU INSURANCE

IAG's Australian commercial insurance business, CGU, again delivered profitable returns this year, despite the continuing downward pressure on commercial insurance premiums.

Intense competition from local and international insurers continued, and was particularly strong in general liability, professional indemnity and workers' compensation. Average commercial insurance premiums reduced across the market.

Our ability to generate a strong performance was supported by maintaining our disciplined approach to risk selection, rather than writing business at prices below the level we consider necessary to generate an adequate return. Renewal rates through the year remained high, particularly among small to medium sized businesses and rural customers.

Claims performance is one of the most important satisfaction drivers for our intermediaries and their customers. We continued to partner with intermediaries to improve this performance leading to the introduction of a number of initiatives designed to meet evolving needs.

These include the launch of iClaims – a monitoring tool enabling brokers to track their clients' claims online; and FastTrack – a system to provide settlement within 48 hours for common claims, such as minor motor and property claims.

We also introduced risk management solutions, including CGU Right Cover, a new service designed to address the issue of underinsurance, particularly among small businesses, of which half are underinsured. Working in partnership with professional loss adjustors and our customers' brokers, we visit businesses to ensure assets are correctly valued. In addition, we evolved our suite of Risk Radar products. These are online tools to help our customers identify and address safety risks.

Brokers continued to rank CGU highly, and JP Morgan Delloitte's latest insurance survey nominated CGU as one of the top three insurers overall.

CGU was one of the first insurers on the ground supporting customers when the devastating storms hit the Newcastle and Central Coast region of NSW in June 2007, which ranked as the most significant claims events of the year.

CREATING SAFER WORKPLACES



CGU customer and farmer, Rodney Minato, discusses the benefits of Farm Risk Radar.

On average, 100 deaths occur each year on farms in Australia, including one child dying every 10 days. More than 20% of farms have an accident each year resulting in 6,500 hospital admissions and almost 6,000 workers' compensation claims.

That's why our business CGU – Australia's largest regional and rural insurer – has introduced Farm Risk Radar.

Free for CGU customers, Farm Risk Radar is a web-based tool that helps farmers better understand their risks and implement programmes to reduce them. This not only increases safety, it also helps keep insurance premiums down.

Farm Risk Radar received the National Safety Council of Australia Award for Excellence in October 2006 and is now being used by over 3,000 farmers across Australia.

CGU is working with the NSW Department of Environment & Climate Change and farming groups to further enhance Farm Risk Radar to help farmers manage environmental issues and develop sustainable farming practices.

Farm Risk Radar is just one of the many risk management initiatives IAG's businesses have introduced. This demonstrates how we put our expert understanding of risk to use to help our customers minimise the risks they face. It also shows how we can put this knowledge to work to help ensure premiums are priced fairly and accurately.



JACKI JOHNSON
CEO, Business Partnerships

As CGU is often dealing with specialised markets, including the small business, rural and corporate markets, our people need specialised training to enhance technical knowledge and skills.

We launched the CGU Academy in July 2006 to meet this need, and more than 7,000 training modules have already been completed. This training has contributed to strong levels of CGU employee engagement.

LOOKING FORWARD

We believe the industry needs to move to more rational, risk-based commercial pricing to ensure the long-term sustainability of the cover it provides to Australian businesses. This will avoid the need for significant increases in future years, making cover unaffordable or inaccessible for some customers.

CGU is taking a leadership position on this issue and will introduce targeted rate increases on under-performing portfolios in the coming year.

We are working closely with intermediaries to manage the impact of these increases on their clients and demonstrate the value of our superior underwriting and claims service. We are also adding value to our existing competitive rates by offering risk management solutions, such as Risk Radar and CGU Right Cover.

We remain committed to our business goals for CGU to become number one in small business, regional and brokered personal lines, and in the top three in other chosen markets.

Initiatives being implemented to achieve these goals include:

- establishing a best-in-class account management model;
- moving from national to region-based pricing;
- increasingly targeting the medium-sized business market, particularly in regard to professional risks; and
- building capability in construction/engineering, motor fleet and marine insurance.

A number of other focus areas crucial to CGU's goals include:

- becoming the number one employer of choice;
- becoming the best in the business at claims; and
- claiming a leadership position in the provision of innovative solutions.

BUSINESS PARTNERSHIPS

IAG's Business Partnerships division experienced a significant turnaround in its underlying performance during the year.

Improvements occurred in both the retention of our workers' compensation customers and the management of our third party distribution relationships. We achieved strong sales results, particularly in our financial institutions and dealer channels, as we focused on improving our strategic approach to our relationships and a more disciplined approach to pricing and technology.

Our measures show satisfaction has improved among our financial institution and dealer business partners in our third party distribution business and workers' compensation customers, particularly in NSW.

Initiatives undertaken to build on mutually beneficial partnerships with our business partners and improve employee retention and engagement contributed to these improved results.

Our businesses have been actively working on improving operational efficiency. One initiative was the launch of .Live, an electronic portal that cuts 'red tape' by allowing employers to lodge notifications of injury and obtain quotes and certificates of currency. This has enabled us to improve our response to injury management through earlier notification of injury by our business partners.

We worked with NSW WorkCover to secure a change in state legislation to allow details to be submitted electronically and, when the legislation was enacted in late 2006, .Live was launched. The results have been significant for our NSW business:

- more than 19,000 requests for cover notes have been received and, of these, 93% have been generated automatically;
- about 2,700 injury notifications have been received; and
- quotes provided to employers online for workers' compensation have resulted in a 64% conversion to policies.

Activ8, a front end sales system developed by Swann Insurance, has seen similar success. More than 80% of motorcycle and motor dealer gross written premium was derived through the channel, reducing costs and improving service to our customers. We plan to deploy similar point of sale technology for the financial institution distribution channel.

While these initiatives have improved customer service, sustaining this progress means ensuring the ongoing commitment and development of our highly trained professionals and a focus on staff retention and engagement.



“A BUSINESS IS ONLY AS GOOD AS THE WAY IT TREATS ITS CUSTOMERS.”

To meet this need, we are working with Deakin University, other insurers and workers' compensation and motor accident authorities as part of the Personal Injury Education Foundation (PIEF). PIEF offers a Masters programme in Personal Injury, covering scheme design, leadership and injury management. Employees from across our personal injury business are participating in the programme.

In addition, in NSW and Victorian workers' compensation, we have initiated new staff development programmes focusing on continual coaching and support. At our national Customer Care Centre we have also improved recruitment practices, including recruiting more mature age staff and reviving our induction programme. These programmes have led to lower staff turnover and increased engagement during the year.

LOOKING FORWARD

We believe that strengthening our partnerships and value proposition is key to our success. We will continue to develop strategic plans with our key business partners to ensure we design a mutually agreed strategy to drive value for both organisations and delivering improved service to the end customer.

The deployment of Salesforce.com, which began in early 2007, will strengthen our account management approach.

All businesses are exploring new opportunities with our current partners and focusing on new markets.

Harmonisation of workers' compensation schemes across Australia will further cut 'red tape' for national employers and we will continue to work with governments across Australia toward this goal.



NRMA Insurance customer Margaret Foxon surveys the damage to her home in Adamstown following the severe June long weekend storms.

When storms lashed the NSW Central Coast and Hunter region in June 2007, our people mobilised to help our customers. Many cut short their long-weekend holidays, and some travelled from interstate to support our local teams to respond to the disaster.

In the first 24 hours, we set up vans to help customers lodge claims and our 24 hour teleclaims centre was taking calls from thousands of customers. We arranged temporary accommodation for those worst hit, set up generators for people without power and authorised emergency payments for many customers.

In the first two weeks, we received more than 22,000 claims for home, business, car and contents damage.

In the same time we removed about 3,000 damaged household items, and allocated builders to almost 5,200 jobs, contents restorers to over 2,400 items and carpet suppliers to over 650 properties. We answered almost 35,000 calls for help and – even at the height of the storms – we were able to answer those calls in around 12 minutes.

We are proud of our response in times of disaster – when cyclones, bush fires, hailstorms or snow storms hit – wherever we operate around the world.

Whether it is responding to disasters, or to any other claim, we believe the way we treat our customers is what sets us apart. It makes good business sense to look after our customers, and helps to create long-term value for our shareholders.



NEW ZEALAND OPERATIONS

WHAT WE DO

- IAG's New Zealand business, through our brands NZI and State, is the country's leading general insurance provider.
- Around 1 million cars, 580,000 homes and around 300,000 businesses and rural risks are insured by IAG's businesses in New Zealand.
- Insurance products are predominantly sold directly to customers under the State brand, and through intermediaries such as brokers and agents under the NZI brand.
- Personal and commercial products are also distributed under third party brands by corporate partners such as large financial institutions.

2007 FINANCIAL PERFORMANCE

Gross written premium	\$968 million
Net earned premium	\$860 million
Combined ratio	92.6%
Insurance margin	10.0%

INSURANCE PRODUCTS

- Commercial and motor fleet
- Commercial liability
- Commercial property
- Construction and engineering
- Home and contents
- Income protection
- Marine
- Motor vehicle
- Niche, such as veteran, vintage and classic car, boat, caravan and travel
- Personal liability
- Professional indemnity
- Rural and horticultural



NICK HAWKINS
CEO, New Zealand

IAG's New Zealand operation delivered sustainable returns during the year and is poised for growth following a period of investment.

Our intermediary brand, NZI, has gained momentum with a series of high profile advertising, marketing and sponsorship campaigns, which relaunched the iconic New Zealand brand.

We also strengthened our broker relationships throughout the year to market-leading levels and broadened the commercial product offering. This included the establishment of the NZI Professional Risks business unit, formed in response to broker requests for a complete suite of liability products. It includes professional indemnity and directors' and officers' cover.

Our Net Promoter Score for NZI – which measures the likelihood of brokers recommending NZI products to clients – is the highest in the New Zealand industry.

Our direct brand, State, continued to be the direct insurance market leader with a strong focus on profitable growth. We embarked on a number of initiatives to achieve ongoing growth for the well known brand, including advertising, promotions, and the successful implementation of a new underwriting and claims management technology platform modelled on the Group's Australian personal insurance platform. This will give us a competitive edge in pricing and customer segmentation and is a good example of sharing assets and capability across the Group.

We recently launched State EasyBiz, a package of commercial products for small retail and trade customers, tailored to simplify what can be a complicated process of finding the right business insurance.

With our focus on continuously improving our customer service, State has started to move some of its telephone activity to its regional network of sales centres across the country. This decentralisation has boosted employee engagement by allowing our people to work in their local communities. We also saw a positive result from the merger of our three Christchurch premises into one building, improving communication, team dynamics and workplace culture.

In our business partners area, through our relationship with local bank ASB, we introduced a new basic contents policy tailored to young renters and tertiary students to help protect their possessions.

We responded to a number of major claims events during the year, including severe flooding in the upper North Island in March and heavy snow storms in the South Island.

Our people are integral to the success and achievement of our business objectives. We were pleased our recent staff survey showed an improvement in our employees' engagement score, which is now up 16% from the first measurement four years ago. This is particularly pleasing as New Zealand moves further into a tightening labour market.



“I LIKE THE WAY IAG UNDERSTANDS LONG-TERM RISK.”

LOOKING FORWARD

IAG's New Zealand operation will build on improved customer advocacy across all its business channels to generate sustainable, profitable growth by:

- maximising the value of our brands by building on campaigns proven to yield results;
- leveraging our investment in leading-edge technologies and providing a seamless service for our customers;
- continuing to look at ways to meet customer needs, through innovative product development, such as bundling products and developing products that align with our sustainability position;
- ensuring we have an engaged and valued workforce, through initiatives such as taking a localised and flexible approach to meet the needs of our people wherever they are located; and
- building one of New Zealand's first 5 Green Star rated buildings – meaning it achieves the highest standards in terms of environmentally sustainable design – as our flagship new corporate centre in Auckland.



State staff discuss the benefits of EasyBiz to small business owners in New Zealand.

Small businesses have a major role in powering the New Zealand economy. They employ an estimated 30% of all New Zealand workers, and accounted for about 60% of all new jobs in the five years to 2006.

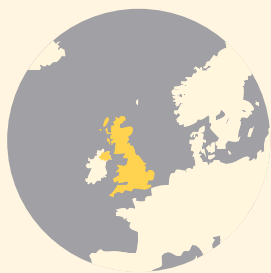
So when a small business suffers an unexpected loss – such as damage from fire, storm, theft or vandalism – the impact on the community can be significant. And too often, a business' recovery is delayed because it is underinsured, or does not have any insurance at all.

IAG's direct insurer in New Zealand, State, has found that the complexities involved in choosing the most suitable insurance product may be contributing to underinsurance among small businesses.

That is why State has introduced EasyBiz, which demystifies and packages insurance cover for small retail and trade customers. It is designed to give them insurance cover that meets their essential needs, with an appropriate premium which neither overprices, nor underprices the cover.

We have drawn on our extensive underwriting experience to offer EasyBiz, which brings together a range of covers for a range of events targeted to small business owners.

EasyBiz is just one of the many risk management initiatives IAG's businesses have introduced for customers. This demonstrates how we put our expert understanding of risk to use to help our customers minimise the risks they face. It also shows how we can put this knowledge to work to help ensure premiums are priced fairly and accurately.



UNITED KINGDOM OPERATIONS

WHAT WE DO

- IAG's businesses in the United Kingdom include Equity Insurance Group and Hastings.
- Combined, these brands have strong motor insurance businesses and provide a combination of direct and third party multi-channel distribution.
- IAG is now the fifth largest motor insurer group, the largest motorcycle insurer and a leading personal lines broker in the UK.
- Hastings trades under the brands Hastings Direct and Peoples Choice.
- Equity Insurance Group operates through Equity Red Star and Equity Insurance Brokers.

2007 FINANCIAL PERFORMANCE

Gross written premium	\$725 million
Net earned premium	\$592 million
Combined ratio	100.5%
Insurance margin	5.1%

INSURANCE PRODUCTS

- Agricultural vehicles
- Caravan
- Classic car
- Commercial vehicle
- Fleet
- Household
- Motorcycle
- Personal accident
- Private car
- Roadside rescue
- Travel



NEIL UTLEY
CEO, United Kingdom

IAG entered the United Kingdom general insurance market in September 2006 with the purchase of Hastings Insurance Services Limited (Hastings) and Advantage Insurance Company Limited (Advantage) for approximately \$350 million.

The acquisition of Equity Insurance Group (Equity) for approximately \$1.4 billion expanded the newly established UK division in January 2007.

Combined, the businesses position IAG as the UK's fifth largest motor insurer, the largest motorcycle insurer and the fourth largest broker in personal lines. They added \$725 million to the Group's gross written premium in the nine months to 30 June 2007.

Hastings, trading under the brands Hastings Direct and Peoples Choice, is a personal lines insurance broker. Launched in 1997, it has grown at a compound annual rate of 20% over the past five years. Advantage was established in 2002 to underwrite personal lines insurance, specialising in motor insurance.

Equity Insurance Group operates through Equity Red Star, the UK's largest Lloyd's motor insurance syndicate and the UK's largest motorcycle insurer, with an unbroken record of profitability since 1969; and through Equity Insurance Brokers, with a multi-channel distribution strategy including telesales, internet and a network of almost 80 high street branches.

Significant progress was made during the year to integrate the Hastings and Equity Insurance Group businesses. With a UK Board and governance framework now in place, the integration aims to deliver synergy benefits by streamlining processes, strengthening IAG's presence in the volume

motor insurance and targeted specialist markets, and positioning the businesses for further growth.

Against this background, our UK businesses operated in a competitive environment. Our goal has been to adhere to disciplined pricing and strive for an optimum business mix, and to ensure our range of distribution channels meets the evolving ways people choose to access insurance.

A growing trend has been for customers to buy insurance products through direct channels such as the internet, now the second largest sales channel for personal insurance products in the UK. Accordingly, we began expanding our online distribution capabilities and product offerings, enhancing our online marketing and loyalty programmes and building a stronger, more flexible and user friendly online environment to capitalise on this rapidly evolving market.

We have also been expanding our branch network and developing new affinity brand relationships with partners including Alliance + Leicester, First Direct, Renault and Nissan.

A major claims event for our businesses occurred when severe flooding affected areas of mid and northern England during June and July 2007. These were among the worst floods on record, with some areas receiving a month's rainfall in just 24 hours. In January, windstorms swept through an area from the Bristol Channel to Manchester, resulting in a number of smaller claims, predominantly from our home insurance customers.



“BELIEVE ME, WHEN IT’S YOUR MONEY, EVERY DOLLAR COUNTS.”

LOOKING FORWARD

We will continue integrating our UK businesses and have upgraded our synergies target by close to 14%, from £22 million to £25 million per annum.

Our focus will be on delivering profitable growth in both the direct and external broker distribution channels by reducing costs through improved operational processes, adhering to disciplined pricing and optimising our mix of business.

We plan to grow distribution revenue by expanding our branch network and offering competitive products, and are well positioned to develop our direct distribution through both channel development and marketing.

Our presence in the volume motor insurance market will continue to be strengthened and we aim to capitalise on our expertise in a number of specialist sectors, such as motorcycle, fleet and haulage.



A new car is crashed at IAG's Research Centre to test repair costs.

Each year, IAG's businesses worldwide repair or replace hundreds of thousands of cars for our customers.

With such large costs involved, it is in our interest to know a lot about cars.

That's why, for more than 15 years we have been conducting low speed crash tests at our research facility and actively researching the costs involved in repairing cars.

The findings from these tests and other research programmes have been used to help car manufacturers alter the design of cars, to improve safety, reduce repair costs and reduce the risk of theft. For example, we've provided input into the design of many car models, up to five years before the cars have gone into production.

We publish our research findings to help customers factor in safety, security and repair cost considerations when buying a car. A car with a better risk rating means a cheaper insurance premium for our customers.

We also monitor the prices of about six million car parts each year, and the feedback we give car manufacturers helps to ensure the pricing of parts remains as competitive as possible.

All this research means our customers can benefit from safer, more secure cars, which can be repaired more quickly and at less cost. It's one of the ways IAG works to manage its costs and ensure we can deliver benefits to customers and shareholders, because we know that every dollar counts.



ASIAN OPERATIONS

WHAT WE DO

- IAG's Asian operations offer personal and commercial insurance products through local brands in different Asian markets.
- IAG has the fourth largest share of the Thai insurance market through the Safety Insurance and NZI Thailand brands.
- In Malaysia, IAG has a 30% interest in personal insurer AmAssurance.
- In China, IAG has a roadside assistance operation and insurance agent, China Automobile Association (CAA).

2007 FINANCIAL PERFORMANCE

Gross written premium	\$168 million
Net earned premium	\$130 million
Combined ratio	99.2%
Insurance margin	6.9%

INSURANCE AND OTHER PRODUCTS

- Commercial property
- Home protection
- Education
- Family and protection
- Fire
- Healthcare
- Marine
- Motor vehicle
- Product and public liability
- Retirement
- Roadside assistance
- Saving and investment
- Travel



JUSTIN BREHENY
CEO, Asia

IAG's Asia division made further progress during the year towards its aspiration to be a leading general insurer in the region.

The focus for our existing businesses in Thailand and Malaysia was to continue to create value through transferring capability, particularly in core competencies such as underwriting, product development, and claims and risk management.

In Thailand, our NZI Thailand and Safety Insurance businesses increased gross written premium by a combined 4%, and expanded market share. This improved result was achieved despite a challenging environment caused by political unrest and marked by a significant decline in car sales, strong competition and a decline in consumer confidence.

As the Thai market slowed, competition intensified with a number of insurers seeking to maintain market share through aggressive pricing. Our businesses used the opportunity to undertake a comprehensive review of our portfolio to implement improvements to claims management, pricing and underwriting practices. Taking a disciplined underwriting approach has meant we have chosen not to write some risks that we believe to be unprofitable. Instead we have focused on growing segments, markets and products where we have a competitive advantage.

In Malaysia, our joint venture AmAssurance grew gross written premium by 10%. This was the result of growth in our motor agency business as well as product diversification, particularly through IAG's capability transfer programme of extended warranty, which achieved a 76% penetration rate in targeted areas, as well as commercial, health and personal accident products.

During the year, we continued our disciplined review of a number of acquisition opportunities in the Asian region to build our portfolio of businesses.

We remain committed to pursuing long-term investment opportunities in China's general insurance market, and are actively pursuing investment opportunities.

To support sustainable growth in the Asian region, we have built a risk framework for our current and future operating businesses and this is central to the way our Asian companies conduct business.

We also focused on building a unified culture across our businesses. As part of that process, employee engagement was measured across all our employees in Asia for the first time. The results of the employee survey are enabling us to target our engagement efforts, to ensure we're addressing issues that are important to our people.



“DIVERSIFICATION? IT REALLY MEANS ALL THE EGGS AREN'T IN THE ONE BASKET.”

LOOKING FORWARD

We will continue to take a two-fold approach to support our aspiration to become a leading general insurer in the Asian region.

We will continue to build via acquisition a portfolio of strategic investments in predominantly personal lines insurers in key priority Asian countries.

At the same time, we will look to unlock and create value in those assets through capability transfer of our core competencies in underwriting, product development, claims management, risk management, direct distribution, reinsurance and asset management.

In Thailand, the insurance market is expected to grow about 8% over the coming year as the economy recovers, consumer confidence returns and industry reforms continue. We aim to capitalise on that growth by continuing to diversify our product suite to include consumer credit, gap, travel and accident, mid-market commercial and health insurance. We will also expand the geographic reach of Safety Insurance with new branches in the north and north-east of Thailand.

In Malaysia, we expect premium revenue growth to exceed 10% as AmAssurance continues to further diversify from traditional motor into commercial, health, warranty, consumer credit and gap insurance. We have also reached agreement with our Malaysian partners to increase our ownership in the general insurance business of AmAssurance from 30% to 49% in the coming year, while divesting our interest in the associated life insurance business.



Our Thai business, Safety Insurance, is one of the companies in IAG's growing international portfolio.

Just five years ago, almost 100% of IAG's business was in Australia. Now, more than 25% of our business is written overseas, and these operations contributed about \$1.9 billion to our revenue for the year.

New Zealand remains our second biggest market with about 13% of our gross written premium generated there, ahead of the United Kingdom at about 10%. And premiums written in Asia now make up around 3% of our business.

Expanding our business across different international geographies is one way in which we are reducing risks for our shareholders. It means we diversify and increase our revenue streams, reduce volatility, and lower our cost of capital.

As well as expanding internationally, we've also diversified our portfolio of general insurance products, and the channels through which we sell them. From our historical base as a motor insurer selling policies direct to customers through our branches, we now offer many lines of insurance, with multiple products in each, sold via branches, phone, internet and via intermediaries and partnerships.

We will continue our targeted international expansion, and aim to grow our portfolio of general insurance products. For our customers it means the security of belonging to one of the world's largest general insurance groups. And for shareholders it means we reduce our overall operating and investment risk.

BOARD OF DIRECTORS



The Board is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and long-term value for its shareholders.

MR JA (JAMES) STRONG AO

age 63 – Independent
Non-executive Director

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

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

Mr Strong was Chief Executive and Managing Director of Qantas Airways Limited from 1993 to 2001. Previous positions he has held include Group Chief Executive of DB Group Limited in New Zealand, National Managing Partner and later Chairman of law firm Corrs Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council. Mr Strong has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia.

In 2006, Mr Strong 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.

MR MJ (MICHAEL) HAWKER

BSc, FAICD, FAIM, SF Fin,
age 47 – Chief Executive
Officer and Managing Director

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

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

He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies.

Mr Hawker is the immediate Past President of the Insurance Council of Australia; a Member of the Financial Sector Advisory Council; Chairman of the Australian Business in the Community Network; Member of the Business Council of Australia; Member of the Business Roundtable for Sustainable Development; and Member of the Australian Business and Arts Foundation (AbaF). He was previously Chairman of the Australian Financial Markets Association; Director of the Australian Chamber of Commerce and Industry; Member of the Federal Treasurer's Consumer and Financial Literacy Council; an Advisory Board Member of the Australian Graduate School of Management and an Advisory Board Member for the Police Commissioner of NSW.

Directorships of other listed companies held in past three years

- IAG Finance (New Zealand) Limited – since 9 November 2004.

MS YA (YASMIN) ALLEN

BCom, FAICD,
age 43 – Independent
Non-executive Director

Ms Yasmin Allen was appointed as a Director of IAG in November 2004. She is Chair of the IAG Audit Committee and is a member of the IAG Nomination, Remuneration & Sustainability Committee.

Ms Allen has had more than six years experience as a company director. She has extensive experience in strategic analysis, in investment banking, as an equities analyst and in senior management.

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

Ms Allen is currently a Director of Macquarie Specialised Asset Management (and the Chair of its Audit Committee), Film Australia (and the Chair of its Audit Committee) and the Salvation Army Advisory Board. Ms Allen was previously a director of Export Finance & Insurance Corporation, Australia's export institution.

Directorships of other listed companies held in past three years

- None.

MR JF (JOHN) ASTBURY

FAICD
age 63 – Independent
Non-executive Director

Mr John Astbury was appointed as a Director of IAG in July 2000. He retired from the Board on 31 August 2007. Before retirement, he was Chairman of the IAG Audit Committee and a member of the IAG Nomination, Remuneration & Sustainability Committee.

Mr Astbury is a Director of Woolworths Limited and AMP Limited. He was previously the Finance Director of Lend Lease Corporation Limited and a Chief General Manager of National Australia Bank Limited. He has had a long career in banking and financial services in both the UK and Australia.

Directorships of other listed companies held in past three years

- Woolworths Limited – since 29 January 2004; and
- AMP Limited – since 1 September 2004.



**MR PM (PHILLIP)
COLEBATCH**

BSc, BE (Hons), SM, DBA
age 62 – Independent
Non-executive Director

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

Mr Colebatch, a UK-based Australian, is a non-executive director of Lend Lease Corporation Limited (appointed December 2005). He also holds directorships on the Board of Swiss Re Capital Markets Ltd, IAG UK Holdings Limited and has served on the Group Executive Boards of Swiss Re and Credit Suisse Group.

Before joining Swiss Re as Division Head, Capital Management and Advisory, he spent 17 years with the Credit Suisse Group where, in addition to his Executive Board position, he served as Group CFO and then as CEO of Credit Suisse Asset Management. He has also served as Head of European banking activities for Credit Suisse First Boston Limited.

He 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. He has a Doctorate in Business Administration from Harvard University, a Master of Science from the Massachusetts Institute of Technology and an Undergraduate degree from the University of Adelaide.

Directorships of other listed companies held in past three years

- Lend Lease Corporation Limited – since December 2005.

**MR GA (GEOFFREY)
COUSINS**

age 64 – Independent
Non-executive Director

Mr Geoffrey Cousins was appointed as a Director of IAG in July 2000. He retired from the Board on 31 August 2007. Before retirement, he was a member of the IAG Audit Committee.

Mr Cousins has more than 26 years experience as a company director. Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network, Hoyts Cinemas group and NM Rothschild & Sons Limited. He was the first Chief Executive of Optus Vision and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia. He was also a consultant to the Prime Minister for a number of years.

Mr Cousins is a Director of Telstra Corporation Limited.

Directorships of other listed companies held in past three years

- Telstra Corporation Limited – since 14 November 2006.

**MR ND (NEIL)
HAMILTON**

LLB
age 55 – Independent
Non-executive Director

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

Mr Hamilton is the Chairman of IRESS Market Technology Limited and Mount Gibson Iron Limited and a Director of Programmed Maintenance Services Limited. He 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;
- Chieftain Securities Limited – from 12 June 2002 to 19 November 2004;
- Sons of Gwalia Ltd – from 19 January 2004 to 28 January 2005;
- Mount Gibson Iron Limited – from 24 April 2007; and
- Programmed Maintenance Services Limited – from 8 June 2007.

**MR RA (ROWAN)
ROSS**

BEc BCom, FCPA, SF Fin
age 58 – Independent
Non-executive Director

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

Mr Ross is currently Chairman of Macquarie Capital Alliance Limited and Sydney IVF Limited. He is the former Chairman of Bankers Trust Investment Bank, former National President of the Securities Institute of Australia and former Chairman of the Sydney Dance Company and the Australian Major Performing Arts Group. Mr Ross has more than 35 years experience in investment banking and is an Executive Director of Macquarie Bank Limited.

Directorships of other listed companies held in past three years

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

**MR B (BRIAN)
SCHWARTZ**

FCA AM
age 55 – Independent
Non-executive Director

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

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

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

Directorships of other listed companies held in past three years

- None.

**CHANGES IN BOARD
COMPOSITION**

Mr John Astbury and Mr Geoffrey Cousins retired from the Board on 31 August 2007. Mr Hugh Fletcher and Ms Anna Hynes were appointed to the Board on 1 September 2007. Biographical details for Mr Fletcher and Ms Hynes are contained in the 2007 Notice of Annual General Meeting.

CORPORATE GOVERNANCE

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

1. IAG'S APPROACH TO CORPORATE GOVERNANCE

1a. Evolving framework

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

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

During the past year, the Group's corporate governance framework has continued to evolve in response to changes in its operations and as a result of the Group's international expansion.

In the past year, IAG accelerated its overseas expansion, investing approximately \$1.8 billion in new insurance businesses in the United Kingdom. The Group strengthened its corporate governance and Board oversight by appointing to the IAG Board the Chairs of the main overseas country subsidiary Boards in the United Kingdom and New Zealand. Mr Phillip Colebatch and Mr Hugh Fletcher are respectively the Chairs of IAG UK Holdings Limited and IAG New Zealand Limited.

1b. Regulatory

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

A sound regulatory regime is required to assist with stability and sustainability of the insurance sector. The regime needs to be competitively neutral – one that allows all industry participants to compete on the same consistent regulatory playing field and avoids or minimises incidents of regulatory overlap between prudential, market conduct and competition and consumer regulators.

The Australian Federal Government has made significant progress in relation to regulatory reform. A number of positive steps have been taken in the UK which is considering a move to a more principles-based regulatory regime.

The Group believes that active engagement with governments, regulators, industry and professional groups ensures that the interests of the Group and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, general insurance prudential regime and insurance industry practices. In this context, the Group strives for regulation that enhances, rather than stifles, competition; protects consumers; encourages efficiency; and promotes and sustains public confidence in insurers and their products.

In the past year, the Group has again actively participated in the debate to improve Australia's corporate governance regime, making submissions to Federal and State Government committees and enquiries, and regulators in relation to new legislation and regulation affecting the insurance industry. The Group has also participated in a number of reviews of the New Zealand regulatory and legislative framework.

ASX Principles of Good Corporate Governance	Where you can find commentary on how IAG applies these Principles
Lay solid foundations for management and oversight	2a
Structure the board to add value	2b–2g and 4b
Promote ethical and responsible decision making	5a–5b
Safeguard integrity in financial reporting	4a and 4c
Make timely and balanced disclosure	5c
Respect the rights of shareholders	6
Recognise and manage risk	4d and 7
Encourage enhanced performance	2f and 9a
Remunerate fairly and responsibly	Refer to the Remuneration Report at pages 40 to 58
Recognise the legitimate interests of stakeholders	8

In addition, IAG representatives continued to participate in forums, working parties and committees of domestic and overseas insurance industry associations, accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices that have particular application to the general insurance industry.

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

2. THE BOARD OF DIRECTORS

2a. Roles and responsibilities

The Board

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

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

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

- Driving the strategic direction of the Group by setting goals and policies, and approving Group strategies and the Corporate Plan;
- Selecting, regularly evaluating and, if necessary, replacing the Chief Executive Officer;
- Setting the Group's risk appetite;
- Monitoring management's performance and the exercise of the Board's delegated authority;
- Appointing and, where appropriate, removing the Chief Financial Officer, Approved Actuary and the Company Secretary;
- Reviewing CEO, CFO and senior management succession planning;
- Providing advice and counsel to senior management;
- Selecting appropriate candidates and recommending to IAG shareholders the election or removal of directors;
- Evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Directors;

- Monitoring financial performance and reporting;
- Approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- Reviewing the adequacy of systems to comply with all laws and regulations which apply to the Group and its businesses;
- Monitoring key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;
- Ensuring that all relevant legal and commercial requirements are met in terms of proper reporting and disclosure; and
- Setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, social and environmental responsibility) are adhered to at all times.

The Chief Executive Officer

The Board has delegated responsibility for the overall management and profit performance of the Group, including all the day-to-day operations and administration of the Group to the Chief Executive Officer, who is responsible for:

- Developing with the Board, implementing and monitoring the strategic and financial plans of the Group;
- The efficient and effective operation of the Group;
- Fostering a culture that rewards transparency, integrity, meritocracy, teamwork and social responsibility;
- Ensuring the ongoing development, implementation and monitoring of the Group's risk management and internal controls framework;
- Ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision-making by the Board; and
- Ensuring all material matters affecting the Group are brought to the Board's attention.

The Chief Executive Officer manages the Group in accordance with the policies, Budget, Corporate Plan, and strategies approved by the Board, and has the power to manage the Group, subject to the limits set out in the Charter of CEO Delegated Authority Limits (a copy of which can be found attached to the IAG Board Charter at IAG's website at www.iag.com.au).

The Chairman

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

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

2b. Structure and composition of the Board

Structure and composition

The Company's Constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the Directors from time to time. The Directors have determined that, for the present, the maximum number of directors is nine.

The Board currently comprises eight Non-executive Directors and one Executive Director, Mr Michael Hawker.

The Board considers its size and composition annually. In considering the size and composition of the Board, Directors will consider, among other things:

- The nature, size and complexity of the Group; and
- The efficiency and effectiveness of the Board, balancing the need to have sufficient skills and expertise to fulfil the needs of the Board and all its Committees, with the need to maintain a Board size where all Directors can effectively participate and contribute.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or Executive Director and their experience, expertise, and biographical details are set out at pages 24 and 25.

The Board from time to time and as considered appropriate, engages reputable recruitment consultants to assist the Board to identify suitable candidates for appointment to the Board.

CORPORATE GOVERNANCE (CONTINUED)

Director independence

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

The Board will determine whether each Director is independent, using the principles outlined in its Charter. Independence will be taken to be met when a Director is a Non-executive Director and:

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

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

Non-executive Directors are required to confirm their independence periodically while they remain in office. All current Non-executive Directors have confirmed their continued independence.

Potential conflicts of interest

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

2c. Non-executive Director induction and training

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

New Directors and senior executives have access to an orientation programme to introduce the Executive team and detail the Group's businesses. Orientation includes individual meetings with the CEO, Group Executives and other senior management as well as site visits by new Directors.

'101' workshops are conducted regularly to assist Directors' education on topics which include fundamentals of general insurance, reinsurance and investment. For example, in the past year workshops for Directors were held on insurance reserving including premium liabilities and the application of liability adequacy tests.

Executive Directors appointed to subsidiary and associated company boards are required to undertake Director training and to demonstrate that they have undertaken ongoing development and training to continue to effectively and competently perform their roles as Executive Directors.

2d. Tenure

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

In September 2003, the Board introduced a tenure policy to apply to Non-executive Directors to ensure the Board comprises Directors who collectively have the relevant experience and skills required, and assist in maintaining the independence of the Board. The policy today, amongst other things, provides that the standard tenure for a Non-executive Director would be up to 10 years although the Board retained its discretion to invite Directors to stand for an additional term which may take their total tenure beyond 10 years.

Tenure includes the aggregate period of service with the company as well as service on the Board of Insurance Australia Limited (formerly NRMA Insurance Limited) accrued prior to service as a Director of the Company.

Non-executive Directors	Term in office (at the date of this statement)
James Strong	6 years
Yasmin Allen	2 years and 9 months
Phillip Colebatch	8 months
Hugh Fletcher	Appointed 1 September 2007
Neil Hamilton	7 years and 2 months
Anna Hynes	Appointed 1 September 2007
Rowan Ross	7 years and 1 month
Brian Schwartz	2 years and 8 months

2e. Appointment terms

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

The appointment letters also provide for:

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

2f. Measuring the performance of Directors

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

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

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

A formal review of individual Directors' performance was conducted in June 2005, with assistance and input from an independent board performance expert. The review process involves the completion of questionnaires by Directors and Group Executives, the collation of results and discussion with individual Directors and the Board as a whole led by the Chairman.

2g. Board operations

The Board meets formally at least nine times during the year. Following the company's expansion overseas, scheduled Board meetings are planned to be held in Europe and New Zealand annually.

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

The Board meets each September with the Group's Executive team to review the Company's strategic plan and to set the Company's overall strategic direction.

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

Directors' attendance at Board and Committee meetings held during the year are shown at page 36 in the Directors' Report.

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

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

3. COMPANY SECRETARY

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

The qualifications and experience of IAG's Company Secretaries are set out at page 36.

4. STANDING COMMITTEES

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

4a. Committee processes

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

The Committees have unfettered access to Group Executives, senior management and advisors. The CEO, Group Executives and senior management are invited to meetings as required. All Directors have access to Committee papers and may attend any Committee meeting.

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

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

4b. Nomination, Remuneration & Sustainability Committee

The four members of the Nomination, Remuneration & Sustainability Committee are currently Mr Brian Schwartz (Chairman), Ms Yasmin Allen, Mr Rowan Ross and Mr James Strong.

The main responsibilities of this Committee include:

- Formally reviewing Board performance, size and composition every three years, and recommending candidates for appointment to the Board;
- Providing assistance to the Chairman on the review of the performance of individual Directors and making recommendations on the operation of the Board;
- Approving the Group's remuneration policies and governance practices relating to Directors' and executives' remuneration, succession planning, and incentive schemes, recruitment, retention and termination policies;
- Making recommendations to the Board in respect of the remuneration of Non-executive Directors of the Company and Committees and the Chief Executive Officer including incentive and equity based remuneration;
- Approving the remuneration of Non-executive Directors appointed to subsidiary and associated companies' boards and committees and to executive committees as well as the direct reports to the Chief Executive Officer;
- Reviewing management succession plans for executive positions;
- Reviewing the continuous improvement of human resource policies and practices against relevant benchmarks to achieve best practice;
- Providing oversight on how the Group ensures it acts with a high standard of social, environmental and ethical responsibility and making recommendations to the Board and management in relation to policies for these areas to enhance the corporate reputation and business performance of the Group;
- Monitoring how effectively the views of IAG's key stakeholder groups (people, customers, community and shareholders) are considered and compliance with IAG's published social, environmental and ethical responsibility policies and practices and the level of their integration into the business; and
- Considering social, environment and ethical impacts of the Group's business practices and setting standards for social, environmental and ethical practices.

CORPORATE GOVERNANCE (CONTINUED)

4c. Audit Committee

The three members of the Audit Committee are Ms Yasmin Allen (Chairman), Mr Hugh Fletcher and Mr Brian Schwartz. All three members have financial management experience and one has accounting experience.

The main responsibilities of this Committee include:

- Assisting the Board and insurer subsidiary Boards to discharge their responsibility to exercise due care, diligence and skill in relation to the integrity of the Group's internal and external financial and statutory reporting;
- Reviewing the appropriateness of the Group's accounting policies and principles and monitoring the application of accounting and actuarial standards, policies and practices in the preparation of full and half-year financial and statutory reports;
- Reviewing and assessing significant estimates and judgements in financial and statutory reports and monitoring management processes for ensuring compliance with laws, regulations and other requirements relating to the Group's external financial and statutory reporting;
- Assessing information from the external auditors, internal audit and risk and compliance functions that affects the quality of external and internal financial and statutory reports;
- Reviewing external auditor engagement, remuneration, independence and effectiveness;
- Making recommendations to the Board on the appointment, reappointment, removal and remuneration of the external auditor and monitoring his/her effectiveness;
- Monitoring compliance with an agreed framework for dealing with the external auditor's and consulting actuaries' firms for the provision of other services to ensure that such services and any relevant relationships do not compromise their objective and impartial judgement;
- Approving the internal annual audit plan and monitoring progress against the plan;
- Monitoring the independence and effectiveness of the internal audit function and overseeing adherence to the Group Internal Audit Charter; and
- Making recommendations to the Board on the appointment and removal of the Approved Actuary.

The Audit Committee is also empowered as the audit committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited (IMA), which has a separate Audit,

Risk Management & Compliance Committee. In addition, the Audit Committee acts as the audit committee for IAG Finance (New Zealand) Limited, a company with debt securities listed on the ASX.

4d. Risk Management & Compliance Committee

The three members of the Risk Management & Compliance Committee are Mr Rowan Ross (Chairman), Mr Phillip Colebatch and Mr Neil Hamilton.

The main responsibilities of this Committee include:

- Overseeing the Group's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;
- Reviewing and monitoring all material risks in the Group's risk management systems: balance sheet, market (including investment, insurance, liquidity, product, pricing, underwriting, liability, claims management and derivatives risks), credit, operational and reinsurance risks to ensure the effective management of all such risks;
- Reviewing and evaluating the effectiveness of the Group's risk management framework and internal control systems;
- Ensuring that the Group risk function has the appropriate organisational structure, authority, standing and resources to effectively execute its mandate;
- Reviewing the reinsurance renewal strategies and approval of the implementation of reinsurance renewal strategies;
- Approving, in conjunction with the Audit Committee, the internal annual audit plan and monitoring progress against the plan;
- Making recommendations to the Board on the appointment and removal of the Head of Group Risk & Compliance and monitoring his/her effectiveness;
- Ensuring that a properly resourced risk management and compliance framework and structure exists throughout the Group and that appropriate reporting and monitoring systems are in place; and
- Ensuring that policies and procedures are in place for Group employees to confidentially raise concerns and that these are appropriately addressed.

The Risk Management & Compliance Committee is also empowered as the risk management and compliance committee of IAG's subsidiaries that are authorised general insurers in Australia, except for IMA, which has a separate Audit, Risk Management & Compliance Committee.

5. PROMOTING ETHICAL AND RESPONSIBLE DECISION-MAKING

The Group takes ethical and responsible decision-making very seriously. It expects its employees and Directors to do the same, as reflected in its internal Group-wide ethical principles, outlined in the IAG Code of Ethics.

5a. IAG Code of Ethics

The IAG Code of Ethics has been developed to provide all Group employees with a framework to make good, informed business decisions and to act on them with integrity. The Code sets out the principles to guide the behaviours of every employee in the Group. This means that when the Group's stakeholders interact with our employees they should feel assured that employees will act in a responsible, ethical, transparent and honest way, wherever the Group operates.

In developing the Code of Ethics, the Group saw an opportunity to strengthen our value of 'honesty' to 'integrity'. The foundation of an ethical organisation is the integrity of each member in acting in a way that is true to our shared values and purpose.

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

In some regions, the IAG Code of Ethics is also supported by a Code of Conduct which provides more specific guidance for operating in the local legal and regulatory environments.

5b. Whistleblowing

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

The Group is proactive about preventing, detecting and investigating all instances of suspected serious inappropriate behaviour. ActionLine, an independent whistleblowers hotline, was introduced to capture the most serious incidents of inappropriate behaviour within the organisation and to encourage employees to raise other material matters of concern that they believe have not been appropriately addressed through the Group's management structure. This can be done anonymously through the external provider via web application, telephone, email and facsimile.

5c. Continuous Disclosure and Security Trading policies

The Group's Continuous Disclosure and Security Trading policies reinforce its commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading.

The Continuous Disclosure policy includes a protocol outlining how information is released to the public and provides examples of what could constitute price sensitive information.

The Security Trading Policy sets the framework for employee dealings in IAG securities, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that Directors, Group Executives and designated employees may only buy or sell IAG securities in the four-week period commencing two trading days after the Group's half-year and full-year results announcements and the annual general meeting (AGM) or any other period approved by the Board, subject to these persons not being in possession of inside information as defined by the law.

In addition, IAG Directors, Group Executives and certain designated executives may only trade in IAG securities in these periods after they have received prior consent from the Nomination, Remuneration & Sustainability Committee (NRSC) and complied with any conditions on trading in IAG securities that the Committee imposes, subject again to not being in possession of inside information as defined by the law.

Designated persons including IAG Directors and Group Executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements (such as Performance Award Rights and Deferred Award Rights) to IAG securities. In addition these designated persons must notify the NRSC before entering into transactions in associated products which operate to limit the economic risk of their vested security holdings in the Company.

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

6. SHAREHOLDERS

In keeping with the Code of Ethics and the spirit of continuous disclosure, the Group is committed to ensuring shareholders are informed of significant developments for the Group. Regular announcements to the ASX are posted on the Company's website, www.iag.com.au.

There are approximately 54,000 shareholders who have registered their email address to be advised when shareholder communications including the Annual and Half Year Reports, dividend advices and holding balance statements are available electronically.

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

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

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

The Company is seeking the approval of shareholders at the 2007 AGM to amend IAG's Constitution to allow direct voting at IAG's general meetings held after 2007 as a simple, convenient voting alternative for shareholders appointing proxies or representatives.

Electronic proxy voting is available to IAG shareholders and helps to facilitate ease and timeliness of and lodgement by shareholders of their voting on resolutions to be put to general meetings.

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

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

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

7. RISK MANAGEMENT

Managing risk is central to the sustainability of our business and delivery of value to shareholders. The Group's international risk management framework is based on the interaction of the oversight structure, internal policies, key management processes and culture.

INTERNATIONAL RISK MANAGEMENT FRAMEWORK



CORPORATE GOVERNANCE (CONTINUED)

The underlying principles that influence the Group's approach to risk management are:

- Risk is part of business: risk management is not about trying to avoid all risks, rather risks need to be identified, understood and assessed against the levels of risk the Group is willing to take, and appropriately managed and monitored; and
- A proactive risk management culture provides the foundation for appropriate and sustainable risk management.

7a. Oversight structure

The following key forums and roles oversee the Group's management of risk. These are summarised below and detailed in approved charters and role descriptions.

Executive management committees

Executive Committee (EXCO)

The EXCO provides the operational oversight and management of the Group's risks and risk management framework. EXCO is complemented by two other executive committees that oversee the Group's risk management framework:

- The Asset & Liability Committee (ALCo); and
- The Underwriting & Pricing Policy Committee (UPPCo).

EXCO is responsible for:

- Reviewing corporate strategies and the performance of the Group and its business units compared to budgets and corporate plans;
- Monitoring the Group's operational risks;
- Authorising capital allocation to major projects within financial delegation limits approved by the Board;
- Reviewing the Group's performance in the areas of health, safety, environment and community performance;
- Reviewing human resource performance and reward strategies; and
- Promoting and reinforcing the Group's risk management culture.

EXCO comprises Mr Michael Hawker (Chair) and his Group Executive team.

Asset & Liability Committee (ALCo)

The role of ALCo is to allow the Group's senior management to:

- Formulate recommendations to the Board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- Oversee implementation of Board policies concerning risk and capital management;

- Oversee the ongoing implementation of, and compliance with, the Group's Risk Management Strategy (RMS) and the Group's Reinsurance Management Strategy (REMS); and
- Report to the Risk Management & Compliance Committee concerning compliance with, and the effectiveness of, the RMS.

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

Underwriting & Pricing Policy Committee (UPPCo)

The role of UPPCo is to provide the Group's senior management with a forum in which to:

- Establish or modify the Group's pricing principles and framework;
- Determine and monitor Group underwriting standards; and
- Monitor Group insurance risk accumulations and reinsurance requirements.

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

7b. Internal policies

The RMS details the Group's principles, risk appetite, policies, key controls and monitoring processes for managing the risks outlined in the diagram 'IAG's Risk Categories'.

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

The RMS is reviewed annually by the Risk Management & Compliance Committee before being recommended for adoption by the IAG Board.

7c. Key risk management processes

Management employs the following key processes to meet, as well as monitor, the requirements of the Group's RMS.

Management Assurance Framework

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

IAG'S RISK CATEGORIES



Risk Profiling

Each Business Unit identifies, assesses, and designs controls and related action plans for risks to achieving business objectives.

Risk Reporting

Reporting on risk management initiatives and issues is supplied to:

- EXCO by each Business Unit;
- ALCo and UPPCo for the specific risks that these bodies oversee;
- The IAG Risk Management & Compliance and Audit Committees; and
- Regulators and industry groups, where relevant and appropriate.

Internal Audit

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

Independent Auditor's Reviews

External independent reviews of key financial risk areas, processes and issues are also carried out by the independent auditor.

7d. Culture

The Board and management actively promote a culture of integrity, transparency, teamwork, meritocracy, and social responsibility, and encourage early and open communication of risk. To facilitate this culture, open access is provided to the CEO and the Chairs of the IAG Board and its standing Board committees.

In particular, the Group has established:

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

8. COMMUNITY AND ENVIRONMENT

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

As such, the Group acknowledges that the sustainability of its businesses is directly tied to the sustainability of the communities in which it operates. The Group's purpose and values have been built on the premise that returns to shareholders will be enhanced by

conducting business in a way that creates value for societies across environmental, social and economic dimensions.

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

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

Ongoing stakeholder dialogue is a key element that drives the Group's sustainability-based initiatives. IAG has continued to undertake extensive stakeholder mapping for key issues and activities in the business. This mapping informs the Group's strategy and approach to managing many of these issues. In addition, IAG has conducted ongoing research of stakeholder perceptions of the Group's sustainability strategy, and tested the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues. The research tests the perception of stakeholders to questions such as how well the Group works with others to improve home, road and workplace safety, and how the Group shows real leadership on the issue of climate change. Results from the ongoing research help to shape the Group's strategies.

The Group's Expert Community Advisory Committee, established in 2006, has advised the Board and executives throughout the year on economic, social, environmental and cultural issues that may impact the Group's standing within the communities in which it operates.

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

In addition to providing guidelines, the Group is increasingly factoring sustainability performance indicators into its ongoing performance management process with major suppliers.

Finally, through some of IAG's major operating brands such as NRMA Insurance, SGIO and SGIC, several customer offers have been introduced that encourage positive sustainability outcomes and appeal to customer attitudes. For example, NRMA Insurance, SGIO and SGIC now offer lower motor insurance premiums for highly fuel efficient vehicles, plus offer opportunities for customers to offset the carbon emissions from their vehicles via the 'Climate Help' website (available at www.climatehelp.com.au).

NRMA Insurance has also been trialling a new customer service to offer free collection of damaged home items from customers' homes that are the subject of insurance claims. The items are either on-sold for re-use or recycled via specialist recyclers. IAG will continue to investigate and implement practical customer offers that make business sense and have concurrent social and environmental benefits.

9. REMUNERATION FRAMEWORK

Details of the Group's remuneration policies for its Non-executive Directors and Executives, the relationship of these policies to IAG's performance and details of the remuneration paid to the Non-executive Directors and to relevant executives are disclosed in the Remuneration Report commencing on pages 40 to 58.

9a. Performance assessment – Executives

Financial and non-financial goals are set for each executive in conjunction with IAG's Chief Executive Officer (IAG CEO) at the commencement of each financial year. The goals are stretch goals and are designed to encourage executives to strive for exceptional performance. Measuring achievement against these goals is the basis for assessing an individual executive's performance. At the end of the financial year the IAG CEO completes a formal review of each executive's performance. This assessment is the basis for determining any short-term incentive payments and for allocating long-term incentives, both of which require approval by the NRSC. Financial and non-financial goals and performance of IAG's CEO are determined and assessed by the Board using the approach outlined above.

Further detail on short- and long-term incentives of the IAG CEO and Executives are set out in the Remuneration Report.

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Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2007. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Insurance Australia Group Limited and its subsidiaries as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report and auditor's report will be sent to equity holders on request, free of charge. Please call 1300 360 688 (free call) and a copy will be forwarded to you. Alternatively, you can access both the full financial report and the concise report via the internet at our Shareholders' Centre on our website: www.iag.com.au.

FIVE YEAR FINANCIAL SUMMARY

The financial information for the 2007, 2006 and 2005 years has been prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"). All financial information prior to 2004 was prepared under previous Australian Accounting Standards.

Insurance Australia Group Five Year Performance	2007 \$m	2006 \$m	2005 \$m	2004 \$m	2003 \$m
Gross written premium	7,381	6,435	6,673	6,427	5,150
Gross earned premium	7,207	6,537	6,561	6,265	4,885
Reinsurance expense	(464)	(405)	(417)	(402)	(249)
Net earned premium	6,743	6,132	6,144	5,863	4,636
Net claims expense	(4,474)	(3,900)	(4,090)	(3,815)	(3,363)
Underwriting expenses	(1,862)	(1,699)	(1,624)	(1,500)	(1,074)
Underwriting profit	407	533	430	548	199
Investment income on asset backing insurance liabilities	360	310	516	244	372
Insurance profit	767	843	946	792	571
Investment income from equity holders' and external funds	319	537	500	508	(76)
Other operating revenue	463	218	179	216	177
Share of net profit of associates	5	2	–	–	–
Finance costs	(119)	(86)	(69)	(57)	(46)
Corporate and administration expenses	(454)	(265)	(258)	(268)	(267)
Amortisation of goodwill and intangibles	(73)	(14)	(13)	(118)	(81)
Financial services and life insurance result (net)	–	–	–	18	19
Non-recurring items ⁽¹⁾	–	–	–	61	–
Profit/(loss) before income tax	908	1,235	1,285	1,152	297
Income tax (expense)/credit	(279)	(373)	(357)	(346)	(80)
Net profit/(loss)	629	862	928	806	217
Net (profit)/loss attributable to minority interests	(77)	(103)	(117)	(141)	(64)
Net profit/(loss) attributable to equity holders of Insurance Australia Group Limited	552	759	811	665	153
Ordinary shareholders' equity (\$ million)	4,660	3,491	3,378	2,999	3,036
Total assets (\$ million)	21,610	16,972	17,102	16,291	16,470
Premium growth					
– gross written	14.7%	(3.6%)	3.8%	24.8%	44.7%
– net earned	10.0%	(0.2%)	4.8%	26.5%	45.1%
Key ratios					
Loss ratio	66.4%	63.6%	66.6%	65.1%	72.5%
Expense ratio	27.6%	27.7%	26.4%	25.6%	23.2%
Combined ratio	94.0%	91.3%	93.0%	90.7%	95.7%
Insurance margin ⁽²⁾	11.4%	13.7%	15.4%	13.5%	12.3%
After-tax return on ordinary equity ⁽³⁾	13.5%	22.1%	24.5%	21.1%	5.1%
Share information					
Dividends per ordinary share – fully franked (cents)	29.50	42.00	26.50	22.00	11.50
Basic earnings per ordinary share (cents)	32.79	47.66	49.31	37.87	8.65
Ordinary share price at 30 June (\$) (ASX code: IAG)	5.70	5.35	6.01	5.00	3.40
5.63% reset preference share price at 30 June (\$) (IAGPA)	99.80	101.80	103.90	104.70	107.94
4.51% reset preference share price at 30 June (\$) (IAGPB)	99.25	98.50	99.05	98.35	100.10
Reset exchangeable securities price at 30 June (\$) (IANG)	100.09	100.00	99.00	n/a	n/a
Issued ordinary share capital (million shares)	1,794	1,595	1,594	1,591	1,683
Issued reset preference share capital (million shares)	6	6	6	6	6
Market capitalisation (ordinary shares) at 30 June (\$ million)	10,226	8,533	9,582	7,954	5,722
Net tangible asset backing per ordinary share (\$)	0.90	1.22	1.18	0.96	0.84

Notes:

(1) This includes profit on disposal of ClearView retirement services businesses of \$61 million in 2004.

(2) Insurance margin is a ratio of insurance profit over net earned premium.

(3) Net profit/(loss) attributable to ordinary equity holders to average ordinary equity holders' equity.

DIRECTORS' REPORT

The Directors present their report together with the concise financial report of the consolidated entity, being Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2007 and the auditor's report thereon.

The following terminology is used throughout the financial report:

* IAG, Parent or Company – Insurance Australia Group Limited

* 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 are as follows. Directors were in office for the entire period unless otherwise stated.

CHAIRMAN

Mr JA (James) Strong appointed in August 2001

OTHER DIRECTORS

Ms YA (Yasmin) Allen appointed in November 2004

Mr JF (John) Astbury appointed in July 2000

Mr PM (Phillip) Colebatch appointed in January 2007

Mr GA (Geoffrey) Cousins appointed in July 2000

Mr ND (Neil) Hamilton appointed in June 2000

Mr RA (Rowan) Ross appointed in July 2000

Mr B (Brian) Schwartz appointed in January 2005

Mr MJ (Michael) Hawker appointed in December 2001

Particulars of Directors' qualifications and experience are set out on pages 24 and 25.

SECRETARIES OF INSURANCE AUSTRALIA GROUP LIMITED

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

Ms Anne O'Driscoll is the Company Secretary and Head of Valuations & Capital Planning. Before this appointment, Ms O'Driscoll held a number of senior positions in the IAG Group, including the position of Group Company Secretary, Head of Investor Relations and General Manager, Finance.

Mr GD (Glenn) Revell BCom, MBus, FCPA, FCIS, GAICD

Mr Revell was appointed Group Company Secretary in August 2006. Before this appointment, Mr Revell 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.

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		Risk Management & Compliance Committee		IAG Board Sub Committee		IAG Due Diligence Funding Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Total number of meetings held	16		5		4		6		3		5	
Directors	A	B	A	B	A	B	A	B	A	B	A	B
Mr JA Strong	16	16	–	–	4	4	–	–	2	2	–	–
Ms YA Allen	16	15	2	2	2	2	3	3	1	1	5	5
Mr JF Astbury	16	15	5	5	4	4	–	–	–	–	–	–
Mr PM Colebatch*	6	6	–	–	–	–	–	–	–	–	–	–
Mr GA Cousins**	16	14	5	5	–	–	–	–	–	–	–	–
Mr ND Hamilton	16	15	–	–	–	–	6	6	–	–	5	5
Mr RA Ross	16	16	–	–	4	4	6	6	–	–	–	–
Mr B Schwartz	16	16	3	3	2	2	3	3	–	–	–	–
Mr MJ Hawker	16	15	–	–	–	–	–	–	3	3	5	–

Notes:

A Meetings eligible to attend as a member.

B Meetings attended as a member.

* Mr PM Colebatch was appointed a Director on 1 January 2007.

** Mr GA Cousins was granted a leave of absence by the Board from 23 May 2006 to 31 July 2006.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The IAG Group's net profit after tax for the financial year was \$629 million (2006 – \$862 million). After adjusting for minority interests in the IAG Group result, net profit attributable to the shareholders of the Company was \$552 million (2006 – \$759 million). The IAG Group made its entry in the United Kingdom ("UK") market in the 2007 financial year through its acquisitions of Hastings Insurance Services Limited ("Hastings") and Advantage Insurance Company Limited ("Advantage") announced on 29 September 2006 and EIG (Investments) Limited ("Equity Insurance Group") completed on 8 January 2007.

UNDERWRITING RESULT

The IAG Group produced an underwriting profit before investment income on technical reserves of \$407 million (2006 – \$533 million). The underwriting profit is affected by interest rate movements which change the discount rate applicable to claims reserves. In 2007, this resulted in a decrease in claims expense by \$78 million compared to a decrease of \$107 million in 2006. On an immunised basis (ie excluding the impact of the change in discount rates), the loss ratio was 67.5% (2006 – 65.3%) and the combined ratio was 95.1% (2006 – 93.1%). The expense ratio remained stable at 27.6% (2006 – 27.7%).

The insurance profit of \$767 million (2006 – \$843 million), which equates to an insurance margin of 11.4% (2006 – 13.7%), was achieved despite challenging market conditions including the effect of June 2007 storms in New South Wales ("NSW") (estimated to be Australia's third largest insured loss event) and the UK floods, challenging market conditions in UK private motor lines, higher underwriting expenses in New Zealand due to the systems upgrade and lower active investment returns. All these items more than offset the continued strong performance of the IAG Group's Australian long-tail business classes.

In the following discussion of underwriting result by business segment the Australian personal and commercial lines and the New Zealand insurance operations incorporate the allocation of the result of the IAG Group's captive reinsurer on a line by line basis.

(a) Australian personal lines insurance operations

The personal lines insurance operations produced an insurance margin of 11.2% for the financial year (2006 – 12.4%). The decline in the insurance margin is attributable to increased claims frequency as a result of storms and unfavourable weather experience affecting the short-tail portfolio which has been offset by the reserve releases from the long-tail portfolio.

Gross written premium increased by 1.3% to \$3,909 million (2006 – \$3,860 million), due to strong performance in short-tail products of 3.3% increase versus a 2.6% decline in the prior year. This is offset by the lower average premium in the NSW Compulsory Third Party ("CTP") portfolio mainly due to the lower privately underwritten risk as a result of the introduction of the Life Time Care and Support Scheme early in the financial year.

(b) Australian commercial lines insurance operations

The commercial lines insurance operations produced an insurance margin of 18.1% for the financial year (2006 – 17.0%). The increase in the margin over the prior year was due to favourable claims experience in liability classes. This was against the backdrop of increased competition and the softer market conditions.

Gross written premium increased by 2.7% to \$1,580 million (2006 – \$1,539 million), despite strong competition in a softening rate environment, by improving retention rates.

Fee based income produced a profit of \$65 million (2006 – \$8 million). The significant turnaround was due to incentive payments on the non-risk workers' compensation scheme in Victoria and NSW. The premium funding business continued to generate profits.

(c) International insurance operations

New Zealand insurance operations:

The New Zealand insurance operations produced an insurance margin of 10.0% for the financial year (2006 – 14.5%). The decrease in the insurance margin was mainly attributable to strong competition amongst consolidated players and the increase in direct costs associated with the new technology platform.

Gross written premium decreased by 0.4% to \$968 million (2006 – \$971 million), the reduction being entirely attributable to the depreciation of the New Zealand dollar. In New Zealand dollar terms, the New Zealand operations achieved growth in gross written premium of 2.1%.

Thailand insurance operations:

Gross written premium for the financial year was \$168 million (2006 – \$65 million). The growth reflects both underlying portfolio growth and a full year's business for Safety Insurance (consolidated since April 2006). The IAG Group has identified and implemented initiatives to capitalise on growth relevant to the Thailand insurance market, including introducing new products, skills, technology and distribution strategies.

AmAssurance, Malaysia:

The profit contribution from IAG Group's 30% share of AmAssurance (an associate company) was \$7 million compared to \$2 million in 2006. The profit contribution in 2007 was for a full year compared to three months in 2006.

Reinsurance operations:

The international reinsurance operations generated gross written premium of \$31 million for the financial year. The reinsurance operations segment result, which includes both intragroup and third party business underwritten by IAG Re Labuan and Alba (Lloyd's syndicate 4455), commenced operations in July 2006 and their results include setup costs. The major impact on the international reinsurance business was the June 2007 UK flood claims which resulted in a net loss of \$25 million.

European operations:

The IAG Group entered the European insurance market via the acquisitions of Hastings, Advantage and Equity Insurance Group. Hastings is a UK based personal lines broker operating for close to 10 years. Advantage is a Gibraltar based licensed underwriter which has had common ownership with Hastings for approximately four years. It writes motor insurance (including motorcycle) and sources most of its premium from Hastings as a panel underwriter. Equity Insurance Group is a UK based direct insurer with its core insurance underwriting operations being its Lloyd's Equity Red Star Motor Syndicate 218.

Gross written premium for the financial year from the dates of acquisition was \$725 million. The UK business generated an insurance margin of 5.1% and insurance profit of \$30 million.

The European operations also generated fee income from the broking business and Lloyd's syndicate administration in the United Kingdom. This business generated a net income of \$18 million for the year.

(d) Corporate and investments

Investment income on corporate and equity holders' funds (net of investment expenses) decreased by 40.6% to \$319 million. The decrease was due to:

- the decision to reduce the IAG Group's holdings of equities backing the equity holders' fund in favour of cash and fixed income securities such that fixed income securities as at 30 June 2007 represent around 57% of the equity holders' fund with a target benchmark of 55%; and
- lower active returns in all the major asset classes, particularly Australian equities, in the current financial year.

The net corporate expenses have increased by \$90 million (54%) to \$258 million. This increase was mainly attributable to the:

- increase in borrowing costs by \$33 million in the current financial year due to the raising of debt for the UK acquisitions;
- increase in the amortisation of acquired intangible assets by \$47 million; and
- increase in head office costs by \$10 million due to increased merger and acquisition activities.

REVIEW OF FINANCIAL CONDITION

(a) Financial position

(i) Assets

The total assets of the IAG Group as at 30 June 2007 are \$21,610 million (2006 – \$16,972 million). The increase is mainly attributable to the acquisitions of Hastings, Advantage and Equity Insurance Group during the current financial year and the funds raised for these acquisitions. The funds raised were as follows:

- issue of ordinary shares of \$1,098 million (net of expenses and income tax); and
- issue of GBP subordinated term notes to the face value of \$625 million (GBP250 million).

Other factors contributing to the increase in total assets were:

- net profit after income tax generated from operations of \$629 million during the financial year;
- the acquisition of Alba in July 2006 and Open & Direct Insurance Services Limited in January 2007;
- increase in actuarial gains on the Australian defined benefit superannuation plan during the financial year resulting in the recognition of a defined benefit superannuation asset of \$62 million; and
- the impact of the stronger New Zealand dollar spot rate as at 30 June 2007 compared to the corresponding spot rate as at 30 June 2006 on New Zealand assets.

Offsetting these increases to some extent was the weakening of the British pound during the period since the first UK acquisition and its impact on the UK assets.

(ii) Liabilities

The total liabilities of the IAG Group as at 30 June 2007 are \$16,778 million (2006 – \$13,301 million) with the major component being general insurance liabilities of \$12,775 million (2006 – \$10,419 million), which includes the effect from the acquisitions of Hastings, Advantage, Equity Insurance Group and Alba during the financial year.

The increase in other liabilities is mainly attributable to the:

- issue of GBP subordinated term notes to the face value of \$625 million (GBP250 million); and
- impact of the stronger New Zealand dollar spot rate as at 30 June 2007 compared to the corresponding spot rate as at 30 June 2006 on New Zealand liabilities.

Offsetting these increases to some extent was the weakening of the British pound during the period since our first UK acquisition and its impact on the UK liabilities.

(iii) Equity

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

Increase:

- issue of ordinary shares of \$1,098 million (net of expenses and income tax); and
- net profit of \$629 million.

Decrease:

- payment of the 2006 final and 2007 interim dividends totalling \$492 million.

(b) Cash from operations

(i) Cash flows from operating activities

Cash flows from operating activities have increased by 3.6% to \$401 million. The increase is mainly attributable to the cash flows generated from the newly acquired entities Hastings, Advantage and Equity Insurance Group. Excluding the impact of net cash inflows of \$70 million from these acquisitions and related funding costs, cash flows from operating activities decreased by \$56 million mainly due to an increase in claims costs paid as a result of increased storm frequency and severity.

These were offset to some extent by the following:

- the turnaround in the domestic personal written premium received was offset by the decrease in premium receipts in the NSW CTP portfolio due to the implementation of the Life Time Care and Support Scheme in October 2006 and the impact of weaker average New Zealand exchange rate on New Zealand premium received;
- a decrease in income taxes paid compared to the prior period. The prior period included payments for both 2005 and 2006 tax years due to timing of tax instalments paid; and
- net increase in investment income yield as a result of a change in investment strategy to increase cash and fixed interest securities and reduce equity investment holdings.

(ii) Cash flows from investing activities

Cash flows from investing activities have decreased by \$946 million to a net outflow of \$124 million. The decrease is largely attributable to the cash outflow of \$446 million (net of cash acquired) for the acquisitions of subsidiaries during the financial year, investing activities of the newly acquired entities and investing \$294 million from the net proceeds from the issue of the GBP subordinated term notes in short term investments.

(iii) Cash flows from financing activities

Cash flows from financing activities have increased by \$1,110 million to a net inflow of \$173 million. This increase is attributable to:

- \$350 million short term notes issued for the acquisition of Hastings and Advantage;

DIRECTORS' REPORT

- \$619 million raised from the issue of GBP subordinated term notes (net of discount);
- \$1,093 million raised from the issue of ordinary shares (net of transaction costs only) including the fully underwritten 2007 interim dividend of \$237 million;
- net outflow of \$13 million from the net redemption of units in IAG controlled trusts in the financial year compared to a net redemption of \$136 million in 2006; and
- decrease in dividends paid due to the payment of a special dividend in 2006 of \$201 million.

These were offset to some extent by the following:

- repayment of the short term notes and the perpetual subordinated loan totalling \$352 million compared to a repayment of NZD senior term notes of \$46 million in 2006.

(c) Capital adequacy/minimum capital requirements

The IAG Group minimum capital requirement ("MCR") multiple, calculated by applying Australian Prudential Regulation Authority standards for individual licensed insurers to the consolidated results, is 1.67 times as at 30 June 2007 (2006 – 1.83 times). The decrease in the MCR multiple is mainly attributable to the increase in the MCR due to the acquisitions in the UK during the financial year.

The multiple remains above the IAG Group's current benchmark multiple of 1.55 times MCR.

Further information on the IAG Group's result and review of operations can be found in the 30 June 2007 Investor Report on IAG's website, www.iag.com.au.

LIKELY DEVELOPMENTS

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

The IAG Group expects to continue to grow gross written premium by around 10–12% in the 2008 financial year and deliver a return on equity (normalised for investment returns and excluding amortisation of intangible assets) of at least 1.5 times weighted average cost of capital ("WACC") – subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond our allowances and no major falls in bond values.

Following the improved gross written premium trends in the second half of the current financial year, the reinvigorated Australian personal lines and New Zealand businesses are well positioned to continue to deliver quality returns in competitive markets.

In the IAG Australian commercial lines business the current level of reserve releases is unlikely to be maintained in the medium term. The business is selectively withdrawing capacity from certain short-tail product lines if it is unable to earn an appropriate rate of return for the risks underwritten.

A significantly improved financial contribution from the European business is expected as premium rate increases flow into the earned premium and further cost synergies are captured. It is expected that rates will continue to rise as insurers seek to restore margins in an environment of increasing claims cost.

The IAG Group continues to investigate potential bolt-on acquisition opportunities, both in the countries in which it is operating and in other regions, to progress its strategy of growing and diversifying its earnings streams in a shareholder accretive fashion and remains focused on motor led propositions.

The IAG Group expects the 2008 financial year dividend will be unchanged from the 2007 financial year. This is because the IAG Group expects additional earnings will be retained to enable the IAG Group to continue its planned expansion to create shareholder value.

DIVIDENDS

Details of dividends paid or declared by the Company are set out in note 5.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- effective from 3 July 2006 the IAG Group acquired a newly formed Lloyd's managing agency and specialist Asian syndicate to support the development and management of its expanding Asian business. The businesses operate as Alba Group Pte Limited ("Alba"). The syndicate has access to all markets in which Lloyd's is licensed;
- effective 29 September 2006 the IAG Group acquired 100% of the share capital of Hastings Insurance Services Limited ("Hastings") and Advantage Insurance Company Limited ("Advantage") which are involved in general insurance broking and underwriting in the United Kingdom;
- effective 8 January 2007 the IAG Group acquired 100% of the share capital of EIG (Investments) Limited, the holding company of the Equity Insurance Group. Equity Insurance Group is the UK's fifth largest motor underwriter, the eighth largest motor insurance broker and the largest motorcycle insurer. It operates through two key businesses – Equity Insurance Brokers and Equity Red Star, Lloyd's largest motor insurance syndicate; and
- during the financial year, IAG and IAG Group raised additional share capital and various forms of long term debt to fund the acquisition of Equity Insurance Group:
 - \$750 million of ordinary share capital issued through an institutional placement at \$5.50 per ordinary share (completed 12 December 2006);
 - GBP250 million (\$625 million) of GBP subordinated term notes placed to UK institutional investors (completed 21 December 2006). GBP140 million (\$350 million) of the proceeds of the notes were used to repay the short term notes raised for the acquisition of Hastings and Advantage;
 - \$125 million of ordinary share capital issued through a Share Purchase Plan at \$5.50 per ordinary share (completed 31 January 2007); and
 - GBP37 million (\$93 million) of unsecured notes issued.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year are set out in note 9. These include:

- declaration of final dividend of 16 cents per ordinary share; and
- sale of premium funding business.

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

No officers of the IAG Group who have been a partner of KPMG, the Company's auditor, were appointed during the financial year.

DIRECTORS' REPORT

NON-AUDIT SERVICES

During the financial year, KPMG has performed certain other services for the IAG Group in addition to its 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 22.9% of total audit fees paid to KPMG (refer to note 5 to the full 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 58 and forms part of the Directors' report for the year ended 30 June 2007.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

- (a) a Director of the Company or a subsidiary of the Company;
- (b) a secretary of the Company or of a subsidiary of the Company; or
- (c) a person making, or participating in making, decisions that affect the whole or a substantial part of the business of the Company or of a subsidiary of the Company; or
- (d) 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

This report outlines IAG's remuneration policies and practices and provides details of the remuneration of the IAG directors (including the Chief Executive Officer and Managing Director) 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 key management personnel in accordance with the Australian Accounting Standard AASB 124 *Related Party Disclosures*. However, the Non-executive Directors do not consider that they are 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. The key responsibilities of the NRSC in relation to remuneration are to:

- (a) provide assurance to the Board relating to the effectiveness, integrity and compliance of the Company's remuneration policies and practices; and
- (b) ensure the overall remuneration policy and approach fit the strategic goals of IAG.

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

The Committee receives reports from Egan Associates, Mercer Human Resources Consulting, PricewaterhouseCoopers and various other consultants on remuneration for executives and directors.

DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED INFORMATION

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;
- 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 our shareholders.

IAG aims to set base pay around the median of the market. Total reward outcomes (which includes 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.

2. SIGNIFICANT CHANGES TO EXECUTIVE REMUNERATION

The Deferred Award Rights ("DARs") plan was introduced in the current financial year ended 30 June 2007 to ensure that IAG's executive remuneration offering had an element designed to retain key executives. Each DAR is a right to acquire one ordinary IAG share, subject to continued employment with the IAG Group for a period (generally between two and three years) determined by the Board. Other elements of executive remuneration were adjusted to ensure that the DARs plan was implemented without increasing overall expenditure on executive remuneration.

During the year DARs grants were made to executives as part of the long term incentive allocation process. Grants of DARs were based on an assessment of the executive's performance, leadership capability and strategic impact. In future years, grants of DARs will be used as a deferred short term incentive ("STI"), such that executives will receive a portion of their STI as cash and a portion in the form of DARs. In addition, awards of DARs will be used as a means of retaining key employees below executive level.

Note 28 of the full financial statements sets out further details of the DARs plan.

3. EXECUTIVE REMUNERATION STRUCTURE

Executive remuneration consists of four components:

- base salary;
- superannuation;

- short term incentives; and
- share based remuneration (short term and long term incentives).

(a) Base salary

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

(b) Superannuation

Executives are members of defined contribution superannuation plans. The contribution rates are consistent with the contribution provided to other employees of IAG in the country in which the executive is based.

(c) Short term incentives

Short term incentives ("STI") are used to motivate and reward performance, typically over a one year period. Payments are based on both IAG's performance and achievement of individual goals.

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

The balanced scorecard sets goals under the following broad categories:

- financial;
- customer;
- people management; and
- risk.

At the commencement of each financial year, financial and non-financial goals are set for each executive. Goals may be those specified in the tables below or goals that are more specifically related to the executive's role. The goals set are stretch goals and are designed to encourage executives to strive for exceptional performance. At the end of the financial year the amount of any incentive payment is determined based on measured achievement against those goals and a review of the executive's overall performance by the CEO and NRSC. The NRSC reviews the performance of the CEO and makes a recommendation to the Board in relation to any incentive payment for the CEO. The NRSC and Board have an overriding discretion to determine short term incentive 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.

Short term incentives can be settled as cash and as DARs.

DIRECTORS' REPORT

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

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	Met

The following table is a summary of typical non-financial goals that are used to assess performance at both IAG Group and business unit levels:

Category	Goal	Reason chosen	Method of assessment
Customer	Improvement in customer satisfaction measures	Meeting or exceeding customer expectations is a key part of establishing and maintaining competitive advantage	Outcome of customer satisfaction surveys and measurement of customer retention rates compared to outcomes from previous years
Risk	Improvement in risk management behaviours	Positive risk management behaviour in relation to prevention, detection and recovery from operational risks and issues is critical for a sustainable business	Increased employee awareness of risk prevention, detection and recovery compared to target set at the start of the year
People management	Employee engagement score target	Measures how engaged employees are with IAG's purpose, strategy and goals	Outcome of annual employee survey compared to target set at the start of the year
People management	Reduction in employee turnover	A solid employee base is critical for growing IAG's business for the benefit of customers, shareholders and the wider community	Comparison of outcome achieved against target set at the start of the year
People management	Reduction in workers' compensation claims per million hours worked	A safe work environment and the well-being of employees is vital for growing IAG's business for the benefit of customers, shareholders and the wider community	Comparison of reduction achieved against target set at the start of the year

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

Actual short term incentive payments made to executives for the year ended 30 June 2007 reflect the degree of achievement against these goals and the degree of achievement against each individual executive's goals.

(d) Share based remuneration (short term and long term incentives)

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. The DARs plan and PARs plan create a direct link between the delivery of value to shareholders and the remuneration of executives.

(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.

DIRECTORS' REPORT

(ii) PARs plan

The Performance Award Rights ("PARs") plan is used to deliver long term incentives.

PARs are rights over issued shares held by a trustee. The rights are granted at no cost to executives and may be exercised for a nominal price if a performance hurdle related to IAG's Total Shareholder Return ("TSR") is met.

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:

Plan	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 ⁽ⁱ⁾	3–5 years from grant date	3–5 years from base date ⁽ⁱⁱ⁾	3–5 years from base date ⁽ⁱⁱ⁾	3–5 years from base date ⁽ⁱⁱ⁾	3–5 years from base date ⁽ⁱⁱ⁾
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	Not achieved			
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

The table below applies to all the PARs plans 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	<50th percentile – 0% vesting = 50th percentile – 50% vesting >=75th percentile – 100% vesting The percentage of PARs which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile

Notes:

(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 30 June that immediately precedes the grant date are announced to the ASX.

DIRECTORS' REPORT

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 on takeover

Under the PARs plan the Board has discretion to determine if and when PARs vest if a takeover bid is made for the Company. In exercising this discretion the Board would consider issues such as the objectives of the PARs plan and the circumstances surrounding the takeover.

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 PARs and DARs); and
- any trading in IAG securities without prior approval of the NRSC.

4. RELATIONSHIP BETWEEN EXECUTIVE REWARD AND IAG'S PERFORMANCE

A significant component of executive remuneration is "at risk" which ensures a direct link between IAG's performance and reward for executives. For further details of the percentage of "at risk" remuneration, refer to the table in section 7.

The payment of short term incentives is directly linked to IAG's performance over the previous year based on a balanced scorecard of measures, which includes measures of profitability and growth in IAG's core business. For the 2006/2007 year one of the two IAG financial goals was met. Non-financial measures are also used as they are lead indicators of delivering future value for shareholders.

The use of share based remuneration creates a direct link between return to shareholders and executive reward. The introduction of the DARs plan has strengthened the link between the return to shareholders and executive reward as the value of an executive's deferred shareholding will change as the IAG share price moves.

IAG's PARs plan provides a direct link between return to shareholders over a three to five year period and executive reward. Grants of PARs to executives are based on an assessment of each executive against a range of factors including the executive's performance, their strategic impact and leadership capability. Information on the achievement in the PARs plan performance hurdle are set out in section 3(d).

The following table outlines the returns delivered to IAG shareholders since listing in August 2000:

	Year ended 30 June 2001	Year ended 30 June 2002	Year ended 30 June 2003	Year ended 30 June 2004	Year ended 30 June 2005	Year ended 30 June 2006	Year ended 30 June 2007
Closing share price (\$)	3.40	3.15	3.40	5.00	6.01	5.35	5.70
Dividends paid (cents)	10.00	10.50	11.50	22.00	26.50	42.00	29.50
Earnings per share (cents)*	9.40	(1.78)	8.65	37.87	49.31	47.66	32.79
Normalised net profit ⁽ⁱ⁾ after tax (\$ million)*	178	294	360	434	601	542	467

Notes:

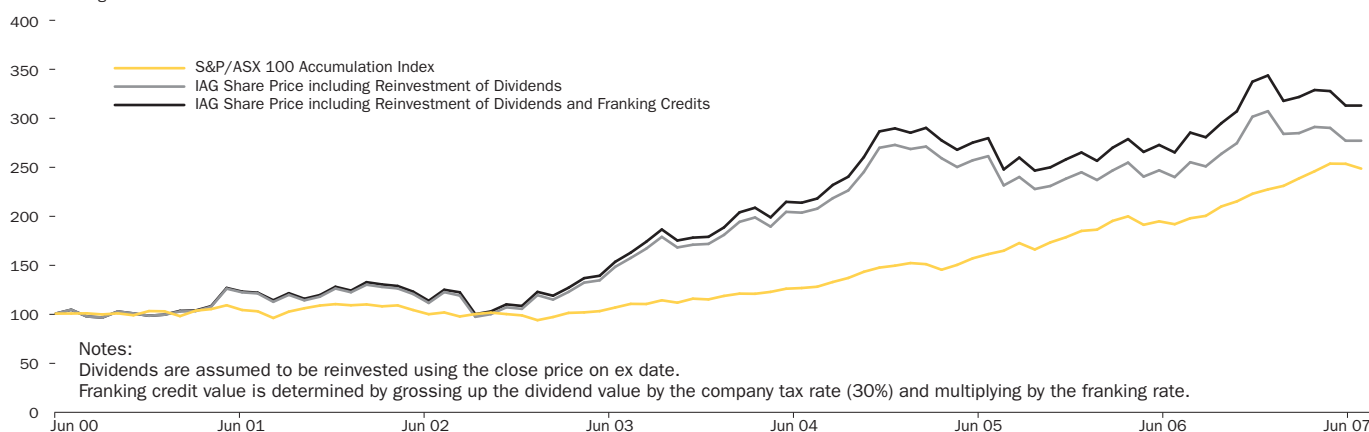
(i) Normalised net profit is determined by excluding the amortisation of intangible assets and substituting actual investment earnings on equity holders' funds with long term returns.

* Amounts in 2005, 2006 and 2007 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.

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

IAG Historical Share Price Performance – Since Listing

Returns using a base index of 100



DIRECTORS' REPORT

5. SERVICE AGREEMENTS

During the year the following persons were the executives identified as key management personnel ("KMP"), with the greatest authority and responsibility for planning, directing and controlling the activities of the IAG Group:

Name	Current title
Mr MJ Hawker	Chief Executive Officer and Managing Director
Mr JP Breheny	Chief Executive Officer – Asia
Mr AM Coleman	Chief Risk Officer and Group Actuary
Mr NB Hawkins	Chief Executive Officer – IAG New Zealand
Mr DA Issa	Chief Executive Officer – Personal Insurance
Ms JS Johnson	Chief Executive Officer – Business Partnerships
Ms CF McLoughlin	Group Executive – Strategy
Ms SJ Mostyn	Group Executive – Culture & Reputation
Mr MJ Pirone	Chief Executive Officer – CGU Insurance
Mr N Utley ⁽ⁱ⁾	Managing Director – UK
Mr J van der Schalk	Chief Executive Officer – Asset Management and Reinsurance
Mr G Venardos	Group Chief Financial Officer

Note:

(i) Mr N Utley joined the IAG Group as Chief Executive Officer Equity Insurance Group on 8 January 2007.

Mr P Connell joined the IAG Group as Chief Executive Officer – Hastings Insurance Services ("Hastings") on 29 September 2006. He was a KMP only for the period up to 20 February 2007 at which time the process of integrating the Hastings operations with the newly acquired Equity Insurance Group commenced. Given the short period of time as a KMP, only his remuneration for the period between 29 September 2006 to 20 February 2007 is disclosed and not the other detailed information that is provided for other longer serving KMP such as grants of PARs and DARs in section A.8. IAG granted 29,400 PARs and 22,050 DARs to Mr Connell on 19 December 2007. He still holds these PARs and DARs.

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

Name	Notice period, Company	Notice period, employee	Termination provisions	Additional payment if IAG invokes a restraint clause
Mr MJ Hawker	12 months	6 months	12 months base salary, plus payment for annual leave, long service leave and short term incentive that would have accrued for 12 months had termination not occurred	6 months base salary
Mr JP Breheny	12 months	3 months	12 months base salary	–
Mr AM Coleman	12 months	3 months	12 months base salary	6 months base salary
Mr NB Hawkins	12 months	3 months	12 months base salary	–
Mr DA Issa	12 months	3 months	12 months base salary	–
Ms JS Johnson	12 months	3 months	12 months base salary	–
Ms CF McLoughlin	12 months	3 months	12 months base salary	–
Ms SJ Mostyn	12 months	3 months	12 months base salary	–
Mr MJ Pirone	12 months	3 months	12 months base salary	6 months base salary
Mr N Utley	12 months	12 months	12 months base salary, plus payment for the value of benefits (excluding short term incentive) that would have accrued for 12 months had termination not occurred	–
Mr J van der Schalk	12 months	3 months	12 months base salary	–
Mr G Venardos	12 months	3 months	12 months base salary	6 months base salary

Note:

Executives are employed by Insurance Australia Group Services Pty Limited, except for: (i) Mr NB Hawkins who is employed by IAG New Zealand Limited; and (ii) Mr N Utley who is employed by Equity Insurance Management Limited.

DIRECTORS' REPORT

Retrenchment

In the event of retrenchment, the executives listed above (except for Mr MJ Hawker and Mr 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 Mr MJ Hawker and Mr N Utley, the retrenchment payment is in accordance with the termination provisions specified in the table above.

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 twelve 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.

Termination of employment without notice and without payment in lieu of notice

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

Termination of employment with notice or payment in lieu of notice

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

6. REMUNERATION DETAILS

(a) Remuneration of executives for the IAG Group for 2007

	Short term employment benefits					Other ⁽⁵⁾	Post employment benefits		Other long term employment benefits	Termination benefits	Share based payment	Total
	Cash salary ⁽¹⁾	Non monetary benefits ⁽²⁾	Base salary (Sub total of ⁽¹⁾ & ⁽²⁾)	Annual leave accruals ⁽³⁾	Short term incentives ⁽⁴⁾		Super-annuation ⁽⁶⁾	Retirement benefits				
2007	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<i>Executives (including Executive Director):</i>												
Mr MJ Hawker	1,297	41	1,338	(41)	722	-	174	-	24	-	1,381	3,598
Mr JP Breheny	654	2	656	11	349	175	85	-	5	-	137	1,418
Mr AM Coleman	673	8	681	(42)	431	-	89	-	16	-	264	1,439
Mr NB Hawkins	633	-	633	14	351	45	84	-	10	-	174	1,311
Mr DA Issa	686	38	724	(23)	456	-	94	-	12	-	251	1,514
Ms JS Johnson	628	28	656	59	356	-	84	-	15	-	116	1,286
Ms CF McLoughlin	541	8	549	(8)	318	-	71	-	5	-	116	1,051
Ms SJ Mostyn	550	8	558	(5)	301	-	73	-	10	-	227	1,164
Mr MJ Pirone	667	36	703	16	444	-	91	-	24	-	268	1,546
Mr N Utley ^(part year)	529	20	549	-	262	-	68	-	-	-	15	894
Mr J van der Schalk	614	8	622	37	327	-	81	-	27	-	146	1,240
Mr G Venardos	686	69	755	27	480	-	98	-	21	-	305	1,686
<i>Executives who ceased as key management personnel during the year:</i>												
Mr P Connell ⁽ⁱ⁾	246	7	253	-	162	-	24	-	-	-	14	453
Total remuneration	8,404	273	8,677	45	4,959	220	1,116	-	169	-	3,414	18,600

Note:

(i) Mr P Connell was a key management personnel for the period from 29 September 2006 to 20 February 2007. The remuneration information provided in the table above relates only to this period.

Refer to section (c) below for details of notes (1) to (8) referencing in the above table.

DIRECTORS' REPORT

(b) Remuneration of executives for the IAG Group for 2006

2006	Short term employment benefits					Post employment benefits		Other long term employment benefits	Termination benefits	Share based payment	Total	
	Cash salary ⁽¹⁾	Non monetary benefits ⁽²⁾	Base salary (Sub total of ⁽¹⁾ & ⁽²⁾)	Annual leave accruals ⁽³⁾	Short term incentives ⁽⁴⁾	Other ⁽⁵⁾	Super-annuation ⁽⁶⁾	Retirement benefits	Long service leave accruals ⁽⁷⁾	Value of PSRs/PARs granted ⁽⁸⁾		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<i>Executives (including Executive Director):</i>												
Mr MJ Hawker	1,201	23	1,224	15	632	–	164	–	23	–	982	3,040
Mr JP Breheny ^{(part year)(i)}	172	–	172	16	76	–	22	–	1	–	21	308
Mr AM Coleman	613	8	621	44	367	–	81	–	14	–	213	1,340
Mr NB Hawkins ^{(part year)(i)}	187	–	187	12	84	25	25	–	2	–	52	387
Mr DA Issa	571	8	579	22	331	–	75	–	11	–	187	1,205
Ms JS Johnson ^{(part year)(i)}	149	6	155	22	94	–	19	–	7	–	21	318
Ms CF McLoughlin ^{(part year)(i)}	428	7	435	12	195	–	57	–	3	–	49	751
Ms SJ Mostyn	511	8	519	41	336	–	67	–	10	–	211	1,184
Mr MJ Pirone	558	59	617	16	395	–	80	–	20	–	203	1,331
Mr J van der Schalk ^{(part year)(i)}	38	1	39	2	17	–	5	–	1	–	9	73
Mr G Venardos	654	61	715	29	393	–	91	–	20	–	247	1,495
<i>Executives who ceased as key management personnel during the year:</i>												
Mr IF Brown	324	22	346	39	225	–	47	–	41	–	136	834
Mr RJ Jackson	573	73	646	10	351	–	84	–	23	650	176	1,940
Mr DRA Pearce	71	10	81	(1)	17	–	11	–	6	820	117	1,051
Mr DJP Smith	436	–	436	41	545	100	59	–	5	970	195	2,351
Total remuneration	6,486	286	6,772	320	4,058	125	887	–	187	2,440	2,819	17,608

Note:

(i) These executives were all newly appointed to the executive team during this financial year. Therefore, the remuneration information provided in the table above relates to the period from the date of their appointment to the executive team to 30 June 2006. The balances are calculated based on the proportion of the year that they were key management personnel.

Refer to section (c) below for details of notes (1) to (8) referencing in the above table.

(c) Details of notes (1) to (8) used in the tables in sections 6(a) and 6(b)

(1) Salary represents amounts paid in cash during the financial year.

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

(3) Annual leave accruals as determined in accordance with AASB 119 *Employee Benefits*.

(4) Short term incentive 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 short term incentive 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. Refer note 27 of the full financial statements for details of how this plan operates.

(5) Mr Hawkins received an accommodation allowance in New Zealand. Mr Breheny received a special payment which was only payable after his completion of the first 12 months service with the IAG Group.

(6) Superannuation represents the employer's contributions.

(7) Long service leave accruals as determined in accordance with AASB 119 *Employee Benefits*.

(8) An allocated portion of Performance Share Rights ("PSRs" – related to unissued shares) and unvested Performance Award Rights ("PARs" – related to issued shares) and unvested Deferred Awards Rights ("DARs" – related to issued shares, new rights issued in 2007) is included in the total remuneration disclosure above. To determine the PSRs and PARs values the Monte Carlo simulation model has been applied. The valuation takes into account the exercise price of the PSRs/PARs, life of the PSRs/PARs, current price of IAG shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, the performance of the shares in the Peer Group of companies, early exercise and non-transferability, and turnover which is assumed to be zero for an individual's remuneration calculation. DARs are valued using a Black Scholes valuation model.

DIRECTORS' REPORT

7. 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 short term incentives and share based remuneration provided through the DARs and PARs plans are "at risk".

(a) Details of total remuneration that is "at risk"

Name 2007	Total remuneration \$000	Short term incentives \$000	Share based remuneration (DARs/PARs) \$000	Percentage of remuneration at risk ⁽¹⁾ %	Percentage of option/right remuneration %
Mr MJ Hawker	3,598	722	1,381	58	38
Mr JP Breheny	1,418	349	137	34	10
Mr AM Coleman	1,439	431	264	48	18
Mr NB Hawkins	1,311	351	174	40	13
Mr DA Issa	1,514	456	251	47	17
Ms JS Johnson	1,286	356	116	37	9
Ms CF McLoughlin	1,051	318	116	41	11
Ms SJ Mostyn	1,164	301	227	45	19
Mr MJ Pirone	1,546	444	268	46	17
Mr N Utley	894	262	15	31	2
Mr J van der Schalk	1,240	327	146	38	12
Mr G Venardos	1,686	480	305	47	18
2006					
Mr MJ Hawker	3,040	632	982	53	32
Mr JP Breheny	308	76	21	31	7
Mr AM Coleman	1,340	367	213	43	16
Mr NB Hawkins	387	84	52	35	13
Mr DA Issa	1,205	331	187	43	16
Ms JS Johnson	318	94	21	36	7
Ms CF McLoughlin	751	195	49	32	7
Ms SJ Mostyn	1,184	336	211	46	18
Mr MJ Pirone	1,331	395	203	45	15
Mr J van der Schalk	73	17	9	36	12
Mr G Venardos	1,495	393	247	43	17

Note:
(1) Increases in the percentage of remuneration at risk from 2006 to 2007 are mainly the result of new grants of DARs and PARs during the year.

(b) Short term incentives

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

(c) Share based remuneration

No DARs or PARs became exercisable during the year ended 30 June 2007 and no DARs or PARs issued to executives 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 DARs or PARs issued up to 30 June 2007 because the value is directly linked to (i) the future IAG share price at the time of vesting; and (ii) with respect to 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.

DIRECTORS' REPORT

8. SHARE BASED REMUNERATION – DARS, PARS AND PSRS

Rights under the DARS and PARS plan were issued by IAG. Refer to section 3(d) and note 28 of the full financial statements for further details of these plans.

The following sections provide details of movements in DARS, PARS, and PSRs for each executive during the financial years ended 30 June 2006 and 30 June 2007.

(a) PARS

(i) Details of PARS granted

The IAG Group has issued PARS to the executives during the financial year for nil consideration. Each executive who participates in the plan becomes eligible to receive an ordinary share per PAR, by paying the exercise price of \$1 per tranche of PARS exercised, subject to a specific performance hurdle being met. Refer to section 3(d) for details of the performance hurdle.

	Grant date	Date first exercisable	Last expiry date	Value per PAR at grant date \$	PARs granted during the year Number
2007					
Mr MJ Hawker	19/12/2006	30/09/2009	19/12/2016	4.013	250,000
Mr JP Breheny	19/12/2006	30/09/2009	19/12/2016	4.013	47,000
Mr AM Coleman	19/12/2006	30/09/2009	19/12/2016	4.013	47,000
Mr NB Hawkins	19/12/2006	30/09/2009	19/12/2016	4.013	47,000
Mr DA Issa	19/12/2006	30/09/2009	19/12/2016	4.013	56,500
Ms JS Johnson	19/12/2006	30/09/2009	19/12/2016	4.013	47,000
Ms CF McLoughlin	19/12/2006	30/09/2009	19/12/2016	4.013	42,500
Ms SJ Mostyn	19/12/2006	30/09/2009	19/12/2016	4.013	42,500
Mr MJ Pirone	19/12/2006	30/09/2009	19/12/2016	4.013	56,500
Mr N Utley	13/03/2007	30/09/2009	13/03/2017	3.660	44,500
Mr J van der Schalk	19/12/2006	30/09/2009	19/12/2016	4.013	47,000
Mr G Venardos	19/12/2006	30/09/2009	19/12/2016	4.013	56,500
Total					784,000
2006					
Mr MJ Hawker	30/11/2005	30/09/2008	30/11/2015	2.596	600,000
Mr JP Breheny	22/03/2006	30/09/2008	22/03/2016	3.150	100,000
Mr AM Coleman	19/09/2005	30/09/2008	19/09/2015	3.187	90,000
Mr NB Hawkins	*	*	*	*	*
Mr DA Issa	19/09/2005	30/09/2008	19/09/2015	3.187	83,500
Ms JS Johnson	*	*	*	*	*
Ms CF McLoughlin	19/09/2005	30/09/2008	19/09/2015	3.187	80,000
Ms SJ Mostyn	19/09/2005	30/09/2008	19/09/2015	3.187	80,000
Mr MJ Pirone	19/09/2005	30/09/2008	19/09/2015	3.187	90,000
Mr J van der Schalk	*	*	*	*	*
Mr G Venardos	19/09/2005	30/09/2008	19/09/2015	3.187	100,000
<i>Executives who ceased as key management personnel during the year:</i>					
Mr IF Brown	–	–	–	–	–
Mr RJ Jackson	19/09/2005	30/09/2008	19/09/2015	3.187	90,000
Mr DRA Pearce	–	–	–	–	–
Mr DJP Smith	19/09/2005	30/09/2008	19/09/2015	3.187	80,000
Total					1,393,500

* All PARS granted to Mr Hawkins, Ms Johnson and Mr van der Schalk prior to their appointment to the executive team are excluded.

DIRECTORS' REPORT

(ii) Movements in number of PARs on issue

	PARs on issue 1 July Number	PARs granted during the year Number	PARs exercised during the year ⁽¹⁾ Number	PARs lapsed during the year Number	PARs on issue 30 June Number	PARs vested and exercisable 30 June Number
2007						
Mr MJ Hawker	1,632,000	250,000	–	–	1,882,000	–
Mr JP Breheny	100,000	47,000	–	–	147,000	–
Mr AM Coleman	294,019	47,000	–	–	341,019	–
Mr NB Hawkins	168,456	47,000	–	–	215,456	–
Mr DA Issa	259,002	56,500	–	–	315,502	–
Ms JS Johnson	81,328	47,000	–	–	128,328	–
Ms CF McLoughlin	80,000	42,500	–	–	122,500	–
Ms SJ Mostyn	248,799	42,500	–	–	291,299	–
Mr MJ Pirone	282,206	56,500	–	–	338,706	–
Mr N Utley	–	44,500	–	–	44,500	–
Mr J van der Schalk	149,004	47,000	–	–	196,004	22,753
Mr G Venardos	338,303	56,500	–	–	394,803	–
Total	3,633,117	784,000	–	–	4,417,117	22,753
2006						
Mr MJ Hawker	1,200,000	600,000	(168,000)	–	1,632,000	–
Mr JP Breheny	–	100,000	–	–	100,000	–
Mr AM Coleman	258,195	90,000	(54,176)	–	294,019	–
Mr NB Hawkins	168,456 ⁽²⁾	–	–	–	168,456	–
Mr DA Issa	223,177	83,500	(47,675)	–	259,002	–
Ms JS Johnson	87,300 ⁽²⁾	–	(5,972)	–	81,328	–
Ms CF McLoughlin	–	80,000	–	–	80,000	–
Ms SJ Mostyn	214,307	80,000	(45,508)	–	248,799	–
Mr MJ Pirone	239,881	90,000	(47,675)	–	282,206	–
Mr J van der Schalk	149,004 ⁽²⁾	–	–	–	149,004	22,753
Mr G Venardos	305,048	100,000	(66,745)	–	338,303	–
Total	2,845,368	1,223,500	(435,751)	–	3,633,117	22,753
<i>Executives who ceased as key management personnel during the year:</i>						
Mr IF Brown	221,716	–	–	–	221,716	45,508
Mr RJ Jackson	161,451	90,000	–	–	251,451	–
Mr DRA Pearce	196,232	–	–	–	196,232	49,029
Mr DJP Smith	238,167	80,000	(48,560)	–	269,607	–
Total	817,566	170,000	(48,560)	–	939,006	94,537

Notes:
(1) \$1 per tranche of PARs is payable to exercise. Nil remains unpaid per issued share acquired. For each PAR exercised, one IAG share was issued.
(2) This balance represents the PARs held by Mr Hawkins, Ms Johnson and Mr van der Schalk at the date of their appointment to the executive team.

DIRECTORS' REPORT

(b) PSRs

The PSRs plan was closed for issuing further PSRs from the financial year ended 30 June 2003.

(i) Movements in number of PSRs on issue

2007

There were no movements of PSRs for the year. Mr J van der Schalk held 40,000 PSRs at the beginning and end of the financial year.

	PSRs on issue 1 July Number	PSRs exercised during the year ⁽¹⁾ Number	PSRs lapsed during the year Number	PSRs on issue 30 June Number	PSRs vested and exercisable 30 June Number
2006					
Mr MJ Hawker	60,000	(60,000)	–	–	–
Ms SJ Mostyn	68,670	(68,670)	–	–	–
Mr J van der Schalk	40,000 ⁽²⁾	–	–	40,000	40,000

Notes:

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

(2) This balance represented the PSRs held by Mr van der Schalk at the date of his appointment to the executive team.

(c) DARs

(i) Details of DARs granted

The DARs plan commenced during the current financial year. The IAG Group has issued DARs to the executives during the financial year for nil consideration. Each executive who participates in the 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
2007					
Mr MJ Hawker	19/12/2006	19/12/2009	19/12/2016	5.354	187,500
Mr JP Breheny	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr AM Coleman	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr NB Hawkins	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr DA Issa	19/12/2006	19/12/2009	19/12/2016	5.354	42,375
Ms JS Johnson	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Ms CF McLoughlin	19/12/2006	19/12/2009	19/12/2016	5.354	31,875
Ms SJ Mostyn	19/12/2006	19/12/2009	19/12/2016	5.354	31,875
Mr MJ Pirone	19/12/2006	19/12/2009	19/12/2016	5.354	42,375
Mr N Utley	13/03/2007	13/03/2009	13/03/2017	5.156	33,375
Mr J van der Schalk	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr G Venardos	19/12/2006	19/12/2009	19/12/2016	5.354	42,375
Total					588,000

DIRECTORS' REPORT

(ii) Movements in total number of DARs on issue

	DARs on issue 1 July Number	DARs granted during the year Number	DARs exercised during the year Number	DARs lapsed during the year Number	DARs on issue 30 June Number	DARs vested and exercisable 30 June Number
2007						
Mr MJ Hawker	–	187,500	–	–	187,500	–
Mr JP Breheny	–	35,250	–	–	35,250	–
Mr AM Coleman	–	35,250	–	–	35,250	–
Mr NB Hawkins	–	35,250	–	–	35,250	–
Mr DA Issa	–	42,375	–	–	42,375	–
Ms JS Johnson	–	35,250	–	–	35,250	–
Ms CF McLoughlin	–	31,875	–	–	31,875	–
Ms SJ Mostyn	–	31,875	–	–	31,875	–
Mr MJ Pirone	–	42,375	–	–	42,375	–
Mr N Utley	–	33,375	–	–	33,375	–
Mr J van der Schalk	–	35,250	–	–	35,250	–
Mr G Venardos	–	42,375	–	–	42,375	–
Total	–	588,000	–	–	588,000	–

(d) Analysis of movements in DARs, PARs and PSRs

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

	Total value of PARs and DARs granted during the year (1) \$000	Total value of PSRs, PARs and DARs exercised during the year (2) \$000	Total value of PARs, PSRs and DARs that lapsed during the year (3) \$000	Total of (1) to (3) \$000
2007				
Mr MJ Hawker	2,007	–	–	2,007
Mr JP Breheny	377	–	–	377
Mr AM Coleman	377	–	–	377
Mr NB Hawkins	377	–	–	377
Mr DA Issa	454	–	–	454
Ms JS Johnson	377	–	–	377
Ms CF McLoughlin	341	–	–	341
Ms SJ Mostyn	341	–	–	341
Mr MJ Pirone	454	–	–	454
Mr N Utley	179	–	–	179
Mr J van der Schalk	377	–	–	377
Mr G Venardos	454	–	–	454
Total	6,115	–	–	6,115

Notes:

- (i) The value of DARs and PARs granted in the year is the fair value of the DARs and PARs at grant date using Black Scholes and Monte Carlo simulation models respectively. The total value of the DARs and PARs granted is included in the table above. This amount is allocated to remuneration over the vesting period (ie in years 30 June 2006 to 30 June 2010).
- (ii) No PSRs, PARs or DARs were exercised during the year.
- (iii) No DARs, PARs or PSRs lapsed during the year.
- (iv) Related parties of executives cannot participate in the DARs, PARs or PSRs Plans.

DIRECTORS' REPORT

B. NON-EXECUTIVE DIRECTORS

1. 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.

2. 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 million 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	\$390,000*
	Director	\$130,000
IAG Audit Committee	Chairman	\$32,500
	Member	\$16,250
IAG Risk Management & Compliance Committee	Chairman	\$32,500
	Member	\$16,250
IAG Nomination, Remuneration & Sustainability Committee	Chairman	\$32,500
	Member	\$16,250

* The Chairman does not receive additional fees for attendance at Committee meetings or for serving as a director of IAG Re Limited.

(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 Directors' fees into a superannuation fund nominated by the Director. Directors' fees and superannuation contributions are paid monthly.

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

3. INCREASE TO DIRECTORS' FEES

Egan Associates completed an independent review of the remuneration of Non-executive Directors, taking into account the remuneration paid to the Non-executive Directors of companies of comparable size to the IAG Group, market movements in directors' fees, and the responsibility and workload of Non-executive Directors. Having regard to the advice of Egan Associates and to ensure that remuneration is market competitive, the Board has determined that fees payable to Non-executive Directors will be as follows, with effect from 1 July 2007:

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 (unchanged)
	Member	\$16,250 (unchanged)

DIRECTORS' REPORT

4. INCREASE TO AGGREGATE REMUNERATION

At the 2007 AGM shareholders will be asked to approve an increase in the aggregate maximum annual remuneration of the Non-executive Directors from \$2,000,000 to \$2,750,000 per annum.

In 2006 IAG invested approximately \$1.8 billion in new insurance businesses in the United Kingdom. The Board has taken steps to establish and strengthen corporate governance structures that support this expansion including the establishment of country/regional Boards in the United Kingdom and New Zealand. These Boards will be chaired by Non-executive Directors of the IAG Board. Separate fees will be paid to those Directors for service on these Boards and will be included in the aggregate annual remuneration of Non-executive Directors.

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

Director	Subsidiary	Capacity	Annual fee
Mr JA Strong	Insurance Manufacturers of Australia Pty Limited ("IMA")	Chairman	\$195,000 ⁽ⁱ⁾
Mr PM Colebatch	IAG UK Holdings Limited	Chairman	\$110,616*
Mr ND Hamilton	Mutual Community General Insurance Proprietary Limited	Chairman	\$25,000
Ms YA Allen	Mutual Community General Insurance Proprietary Limited	Director	\$16,250

Notes:

(i) This fee increased from \$172,000 to \$195,000 with effect from 1 July 2007.

* This amount is denominated in British pounds and is translated into Australian dollars using the exchange rate as at 30 June 2007.

The current maximum aggregate annual remuneration of \$2,000,000 would be insufficient to pay the increased fees to Non-executive Directors and the fees for service on subsidiary boards for a full year. An increase in maximum aggregate annual remuneration to \$2,750,000 will allow the Board to pay the fees as set out above and to attract and retain suitable candidates for the Board in the future. The Board has no plans to increase Non-executive Directors fees above the levels specified above.

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

6. REMUNERATION DETAILS

	Short term benefits		Post employment benefits		Other long term employment benefits	Termination benefits	Share based payment	Total
	IAG Board fees received as cash \$000	Other Board and Committee fees ⁽ⁱ⁾ \$000	Super-annuation \$000	Retirement benefits \$000	\$000	\$000	IAG Board fees received as IAG shares \$000	
2007								
Mr JA Strong	201	172	50	-	-	-	189	612
Ms YA Allen	105	37	15	-	-	-	25	182
Mr JF Astbury	105	54	17	-	-	-	25	201
Mr PM Colebatch ⁽ⁱⁱ⁾	33	48	6	-	-	-	33	120
Mr GA Cousins	105	16	13	-	-	-	25	159
Mr ND Hamilton	17	55	17	-	-	-	113	202
Mr RA Ross	67	49	16	-	-	-	63	195
Mr B Schwartz	92	51	16	-	-	-	38	197
Total remuneration	725	482	150	-	-	-	511	1,868

Notes:

(i) Mr Strong, Ms Allen, Mr Astbury, Mr Colebatch, Mr Hamilton and Mr Schwartz received fees for service on subsidiary Boards and committees in addition to their fees for serving on the IAG Board and Committees.

(ii) Mr Colebatch was appointed to the Board on 1 January 2007.

DIRECTORS' REPORT

	Short term benefits		Post employment benefits		Other long term employment benefits	Termination benefits	Share based payment	Total
	IAG Board fees received as cash \$000	Other Board and Committee fees \$000	Super-annuation \$000	Retirement benefits \$000	\$000	\$000	IAG Board fees received as IAG shares \$000	
2006								
Mr JA Strong ⁽ⁱ⁾	192	160	47	–	–	–	168	567
Ms YA Allen	98	15	12	–	–	–	22	147
Mr JF Astbury	98	45	15	–	–	–	22	180
Mr GA Cousins	98	15	12	–	–	–	22	147
Mr ND Hamilton	20	15	12	–	–	–	100	147
Mr RA Ross	64	45	15	–	–	–	56	180
Mr B Schwartz	87	15	12	–	–	–	33	147
Total remuneration	657	310	125	–	–	–	423	1,515

Note:

(i) Board fees for Mr Strong included \$160,000 for his service as Chairman of the Board of IMA.

7. 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.

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:

Name	Retirement benefit \$000
Mr JA Strong	295
Mr JF Astbury	184
Mr GA Cousins	169
Mr ND Hamilton	248
Mr RA Ross	232

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

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

DIRECTORS' REPORT

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 prohibited 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.

D. EQUITY AND DEBT INSTRUMENT DISCLOSURE

1. HOLDING OF ORDINARY SHARES

The relevant interest of each of the key management personnel and their related parties in ordinary shares of IAG is disclosed as below:

	Shares held at 1 July Number	Shares granted as remuneration during the year Number	Shares received on exercise of PSRs Number	Shares received on exercise of PARs Number	Net movement of shares due to other changes ⁽²⁾ Number	Total shares held at 30 June Number	Shares held nominally at 30 June ⁽¹⁾ Number
2007							
Mr JA Strong	259,465	34,232	–	–	1,230	294,927	282,352
Ms YA Allen	7,959	4,564	–	–	246	12,769	12,523
Mr JF Astbury	65,694	4,564	–	–	738	70,996	60,421
Mr PM Colebatch	–	10,251	–	–	–	10,251	10,251
Mr GA Cousins	176,211	4,564	–	–	–	180,775	30,775
Mr ND Hamilton	101,268	20,539	–	–	520	122,327	116,817
Mr RA Ross	165,406	11,410	–	–	492	177,308	74,505
Mr B Schwartz	10,689	6,846	–	–	246	17,781	17,535
Mr MJ Hawker	1,378,059	–	–	–	60,063	1,438,122	59,817
Mr JP Breheny	–	–	–	–	–	–	–
Mr AM Coleman	62,052	–	–	–	(59,508)	2,544	2,544
Mr NB Hawkins	24,332	–	–	–	246	24,578	–
Mr DA Issa	47,675	–	–	–	–	47,675	–
Ms JS Johnson	5,972	–	–	–	1,343	7,315	1,343
Ms CF McLoughlin	–	–	–	–	9,216	9,216	8,970
Ms SJ Mostyn	130,261	–	–	–	246	130,507	–
Mr MJ Pirone	79,063	–	–	–	–	79,063	11,432
Mr N Utley	–	–	–	–	–	–	–
Mr J van der Schalk	–	–	–	–	–	–	–
Mr G Venardos	110,780	–	–	–	25,891	136,671	48,795

Notes:

(1) Nominally held shares are included in the column headed total shares held at 30 June. Total shares are held by the key management personnel's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the key management personnel.

(2) Net movement of shares relates to acquisition and disposal transactions by the key management personnel and their related parties during the year. It includes any opening balances of shares held by key management personnel who were appointed during the year.

DIRECTORS' REPORT

	Shares held at 1 July Number	Shares granted as remuneration during the year Number	Shares received on exercise of PSRs Number	Shares received on exercise of PARs Number	Net movement of shares due to other changes ⁽²⁾ Number	Total shares held at 30 June Number	Shares held nominally at 30 June ⁽¹⁾ Number
2006							
Mr JA Strong	225,547	33,918	–	–	–	259,465	247,382
Ms YA Allen	3,437	4,522	–	–	–	7,959	7,959
Mr JF Astbury	51,772	4,522	–	–	9,400	65,694	55,611
Mr GA Cousins	171,689	4,522	–	–	–	176,211	26,211
Mr ND Hamilton	80,744	20,351	–	–	173	101,268	96,278
Mr RA Ross	154,100	11,306	–	–	–	165,406	62,849
Mr B Schwartz	3,906	6,783	–	–	–	10,689	10,689
Mr MJ Hawker	1,150,059	–	60,000	168,000	–	1,378,059	–
Mr JP Breheny	–	–	–	–	–	–	–
Mr AM Coleman	65,896	–	–	54,176	(58,020)	62,052	54,176
Mr NB Hawkins	–	–	–	–	24,332 ⁽³⁾	24,332	–
Mr DA Issa	–	–	–	47,675	–	47,675	–
Ms JS Johnson	–	–	–	5,972	–	5,972	–
Ms CF McLoughlin	–	–	–	–	–	–	–
Ms SJ Mostyn	16,083	–	68,670	45,508	–	130,261	–
Mr MJ Pirone	31,388	–	–	47,675	–	79,063	11,432
Mr J van der Schalk	–	–	–	–	–	–	–
Mr G Venardos	38,289	–	–	66,745	5,746	110,780	27,632
<i>Executives who ceased employment during the previous year:</i>							
Mr IF Brown	253,691	36,920	–	–	(2,530)	*	*
Mr RJ Jackson	7,351	–	–	–	–	*	*
Mr DRA Pearce	7,806	–	–	–	(6,738)	*	*
Mr DJP Smith	129,591	–	–	48,560	(54,511)	*	*

Notes:

(1) Nominally held shares are included in the column headed total shares held at 30 June. Total shares are held by the key management personnel's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the key management personnel.

(2) Net movement of shares relates to acquisition and disposal transactions by the key management personnel and their related parties during the year. It includes any opening balances of shares held by key management personnel who were appointed during the year.

(3) This balance represents the shares held by Mr Hawkins at the date of his appointment to the executive team.

* These key management personnel ceased employment during the financial year. Information on shares held has only been disclosed up to the date of their cessation.

(a) The relevant interest of each director and their related parties in ordinary shares of IAG in accordance with the Corporations Act 2001

	For section 205G of the Corporations Act 2001	
	Shares held directly at 30 June ⁽¹⁾	Shares held indirectly at 30 June ⁽²⁾
Mr JA Strong	12,575	233,297
Ms YA Allen	246	12,523
Mr JF Astbury	10,575	60,421
Mr PM Colebatch	–	10,251
Mr GA Cousins	150,000	30,775
Mr ND Hamilton	5,510	116,817
Mr RA Ross	102,803	71,362
Mr B Schwartz	246	17,535
Mr MJ Hawker	1,378,305	59,817

Notes:

(1) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the Australian Securities Exchange in accordance with section 205G of the Corporations Act 2001. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG Director to trade in the shares of the IAG Group where they are in a position to be aware, or are aware, of price sensitive information.

(2) These shares are held by the Director's related parties, inclusive of entities controlled, jointly controlled or significantly influenced by the Directors.

DIRECTORS' REPORT

2. HOLDING OF RESET PREFERENCE SHARES

No key management personnel had any interest in reset preference shares at any time during the financial year.

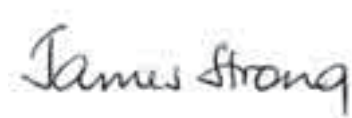
3. HOLDING OF RESET EXCHANGEABLE SECURITIES

Other than Mr Hawker who held 1,000 reset exchangeable securities ("RES") nominally at the beginning and the end of the financial year, there were no key management personnel who held a relevant interest in RES of IAG Finance (New Zealand) Limited (2006 – no movements).

ROUNDING OF AMOUNTS

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

Signed at Sydney this 24th day of August 2007 in accordance with a resolution of the Directors:



James Strong
Director



Michael Hawker
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 2007 there have been:

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



KPMG



Brian Greig
Partner

Sydney
24 August 2007

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	CONSOLIDATED	
		2007 \$m	2006 \$m
Premium revenue	2	7,207	6,537
Outwards reinsurance premium expense		(464)	(405)
Net premium revenue(i)		6,743	6,132
Claims expense		(5,345)	(4,466)
Reinsurance and other recoveries revenue	2	871	566
Net claims expense(ii)		(4,474)	(3,900)
Acquisition costs		(1,223)	(1,081)
Other underwriting expenses		(421)	(395)
Fire services levy		(218)	(223)
Underwriting expenses(iii)		(1,862)	(1,699)
Underwriting profit(i) + (ii) + (iii)		407	533
Investment income on assets backing insurance liabilities	2	381	329
Investment expenses on assets backing insurance liabilities		(21)	(19)
Insurance profit		767	843
Investment income on equity holders' funds	2	343	576
Fee income and other income	2	463	218
Share of net profit of associate	2	5	2
Finance costs		(119)	(86)
Corporate, administration and other expenses		(532)	(298)
Net income attributable to minority interest in unitholders' funds		(19)	(20)
Profit/(loss) before income tax		908	1,235
Income tax (expense)/credit		(279)	(373)
Profit/(loss) for the year		629	862
Profit/(loss) for the year attributable to:			
Equity holders of the Parent		552	759
Minority interests		77	103
Profit/(loss) for the year		629	862
		2007 cents	2006 cents
Basic earnings per ordinary share	4	32.79	47.66
Diluted earnings per ordinary share	4	32.59	47.38

The above consolidated income statement should be read in conjunction with the notes to the concise financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Notes	CONSOLIDATED	
		2007 \$m	2006 \$m
ASSETS			
Cash and cash equivalents		1,163	718
Investments		10,884	9,929
Premium receivable		2,045	1,652
Inventories		1	–
Trade and other receivables		1,206	764
Receivables from related bodies corporate		1	4
Current tax assets		19	1
Defined benefit superannuation asset		62	–
Reinsurance and other recoveries receivable on outstanding claims		1,346	908
Prepayments		62	25
Deferred levies and charges		123	126
Deferred outwards reinsurance expense		224	221
Deferred acquisition costs		789	591
Deferred tax assets		276	159
Property, plant and equipment		297	257
Investment in joint ventures and associates		75	74
Intangible assets		815	57
Goodwill		2,222	1,486
TOTAL ASSETS		21,610	16,972
LIABILITIES			
Trade and other payables		1,120	743
Reinsurance premiums payable		160	166
Payables to related bodies corporate		1	–
Restructuring provision		4	10
Current tax liabilities		55	83
Unexpired risk liability		–	11
Unearned premium liability		4,213	3,503
Minority interest in unitholders' funds		326	305
Lease provision		22	21
Employee benefits provision		242	207
Deferred tax liabilities		56	40
Outstanding claims liability		8,562	6,916
Interest bearing liabilities		2,017	1,296
TOTAL LIABILITIES		16,778	13,301
NET ASSETS		4,832	3,671
EQUITY			
Share capital	6(a)	4,361	3,263
Treasury shares held in trust	6(b)	(69)	(40)
Reserves	6(c)	(4)	(6)
Retained earnings	6(d)	372	274
Parent interest	6	4,660	3,491
Minority interest	6(e)	172	180
TOTAL EQUITY	6	4,832	3,671

The above consolidated balance sheet should be read in conjunction with the notes to the concise financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED	
	2007 \$m	2006 \$m
Income and expenses recognised directly in equity during the year, net of tax		
Actuarial gains and (losses) on defined benefit superannuation plans	39	21
Net movement in foreign currency translation reserve	(19)	(9)
Net movement in hedging reserve	7	(5)
Vesting of share based remuneration	–	(1)
Total net income and (expenses) recognised directly in equity	27	6
Profit for the year	629	862
Total recognised income and (expenses) for the year	656	868
Total recognised income and (expenses) for the year attributable to:		
Equity holders of the Parent	578	765
Minority interests	78	103
Total recognised income and (expenses) for the year	656	868

Other movements in equity arising from transactions with equity holders acting in their capacity as equity holders are set out in note 6.

The above consolidated statement of recognised income and expense should be read in conjunction with the notes to the concise financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	CONSOLIDATED	
		2007 \$m	2006 \$m
Cash flows from operating activities			
Premium received		7,149	6,530
Reinsurance and other recoveries received		577	589
Claims costs paid		(5,037)	(4,423)
Outwards reinsurance premium expense paid		(486)	(434)
Dividends received		65	85
Interest and trust distributions received		467	415
Finance costs paid		(124)	(82)
Income taxes refunded		12	8
Income taxes paid		(403)	(497)
Other operating receipts		1,198	1,051
Other operating payments		(3,017)	(2,855)
Net cash flows from operating activities		401	387
Cash flows from investing activities			
Net cash flows on acquisition of subsidiaries	7(a)	(446)	(92)
Proceeds from disposal of investments and property, plant and equipment		21,961	19,503
Outlays for investments and property, plant and equipment		(21,659)	(18,591)
Repayment of premium funding loans		398	448
Advances of premium funding loans		(378)	(446)
Net cash flows from investing activities		(124)	822
Cash flows from financing activities			
Outlays for purchase of treasury shares		(30)	(19)
Proceeds from issue of trust units		1,118	1,152
Outlays for redemption of trust units		(1,131)	(1,288)
Proceeds from borrowings		969	–
Repayment of borrowings		(1,271)	(46)
Dividends paid to IAG equity holders*		(492)	(647)
Dividends paid to minority interests		(87)	(89)
Proceeds from issue of shares		1,112	–
Share issue costs paid		(19)	–
Dividends received on treasury shares		4	–
Net cash flows from financing activities		173	(937)
Net movement in cash held			
Effects of exchange rate changes on balances of cash held in foreign currencies		(5)	(10)
Cash and cash equivalents at the beginning of financial year		718	456
Cash and cash equivalents at the end of financial year		1,163	718

* Includes dividends settled with shares under the Dividend Reinvestment Plan (refer to note 5) and the fully underwritten 2007 interim dividend (refer to note 6).

The above consolidated cash flow statement should be read in conjunction with the notes to the concise financial statements.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

This concise financial report relates to the consolidated entity consisting of Insurance Australia Group Limited (“the Company”) and its subsidiaries (“IAG Group” or “Consolidated entity”) for the year ended 30 June 2007. The accounting policies adopted have been consistently applied to all years presented, unless otherwise stated.

The Company is a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the “rounding off” of amounts in financial reports. Amounts in the concise financial report have been rounded off in accordance with that Class Order to the nearest million dollars.

NOTE 1: PRESENTATION CURRENCY

The presentation currency used in this financial report is in Australian dollars.

NOTE 2: ANALYSIS OF INCOME

	CONSOLIDATED	
	2007	2006
	\$m	\$m
(a) General insurance revenue		
Gross written premium	7,381	6,435
Movement in unearned premium liability	(174)	102
Premium revenue	7,207	6,537
Direct premium revenue	7,192	6,536
Inwards reinsurance premium revenue	15	1
Premium revenue	7,207	6,537
Reinsurance and other recoveries revenue	871	566
Total general insurance revenue	8,078	7,103
(b) Investment income		
Dividend revenue	59	87
Interest revenue	442	375
Trust revenue	61	33
Total investment revenue	562	495
Net changes in fair values of investments		
– Realised net gains and (losses)	(23)	162
– Unrealised net gains and (losses)	185	248
Total investment income	724	905
Represented by:		
Investment income on assets backing insurance liabilities	381	329
Investment income on equity holders’ funds	343	576
	724	905
(c) Fee and other income		
Fee based revenue	463	218
Total fee and other income	463	218
(d) Share of net profit of associates	5	2
Total income	9,270	8,228

NOTE 3: SEGMENT REPORTING

(a) Primary reporting – business segments

The Parent is a non-operating holding company operating only in Australia.

The Consolidated entity operated in the general insurance industry throughout the year. Revenue from the general insurance industry is derived from underwriting insurance in Australia, New Zealand, United Kingdom and Asia and these form separate reportable segments. The reportable segments comprise the following businesses (each insurance product is predominantly short-tail in duration except where noted):

- Australia personal insurance – The Australia personal insurance business develops and underwrites personal insurance products (through direct and indirect distribution channels), and manages claims and assessing services. Insurance products include motor vehicle, home and contents, compulsory third party (long-tail), consumer credit, and niche insurance products such as pleasure craft, veteran and classic car, boat, caravan, and travel insurance. This includes personal insurance products sold in conjunction with commercial insurance products.
- Australia commercial insurance – The Australia commercial insurance business develops and underwrites insurance for businesses. Insurance products include commercial property, commercial motor and fleet motor, construction and engineering, farm, crop and livestock, home warranty, marine, public and product liability (long-tail), professional indemnity (long-tail), directors and officers (long-tail), and workers’ compensation (long-tail).
- New Zealand insurance – The direct insurance business underwritten through foreign subsidiaries in New Zealand.
- United Kingdom insurance – The insurance underwriting and broker distribution services operating through foreign subsidiaries in the United Kingdom.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 3: SEGMENT REPORTING (CONTINUED)

(a) Primary reporting – business segments (continued)

- Asia insurance – The direct insurance business underwritten through foreign subsidiaries in Asia.
- Reinsurance operations – The inwards reinsurance operation and the captive reinsurer for subsidiaries operating outside Australia.
- Corporate and investments – Other activities, including corporate services, investment management and investment of the equity holders' funds.

The net outstanding claims liability for each segment includes an allocation of the diversification benefit incorporated into the risk margin relating to the combination of the segments at the Consolidated entity level. Depreciation expense is allocated to different business segments as management fees from the Corporate segment and so all depreciation relating to property, plant and equipment is treated as part of the Corporate segment.

The reportable segments have changed from those disclosed in previous periods as a result of the continued geographical expansion of the IAG Group during the current financial year. The revised business segments align with the way in which information is currently viewed by key management personnel for making strategic and operational decisions.

There are no differences between the recognition and measurement criteria used in the segment disclosures and those used in the financial statements.

2007	Australia personal insurance \$m	Australia commercial insurance \$m	New Zealand insurance \$m	United Kingdom insurance \$m	Asia insurance \$m	Reinsurance operations \$m	Corporate and investments \$m	Inter-segment elimination \$m	Total \$m
External revenue	4,740	2,056	1,000	912	193	15	354	–	9,270
Intersegment revenue	–	–	5	27	6	41	–	(79)	–
Total revenue	4,740	2,056	1,005	939	199	56	354	(79)	9,270
Underwriting profit	203	172	64	(3)	1	(30)	–	–	407
Investment income net of investment fees – technical reserves	213	83	22	33	8	1	–	–	360
Insurance profit	416	255	86	30	9	(29)	–	–	767
Investment income net of investment fees – equity holders' funds	–	–	–	–	–	–	319	–	319
Share of net profit of associates	–	–	–	(2)	7	–	–	–	5
Other net operating result	–	65	–	18	(9)	–	(257)	–	(183)
Profit/(loss) before income tax	416	320	86	46	7	(29)	62	–	908
Income tax expense	–	–	–	–	–	–	–	–	(279)
Profit/(loss) for the year	–	–	–	–	–	–	–	–	629
Segment assets	6,010	4,171	674	1,762	131	83	8,835	(56)	21,610
Total assets	–	–	–	–	–	–	–	–	21,610
Segment liabilities	6,010	4,171	674	1,762	131	83	4,003	(56)	16,778
Total liabilities	–	–	–	–	–	–	–	–	16,778
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	–	–	–	–	–	–	1,746	–	1,746
Depreciation expense	21	13	4	11	2	–	10	–	61
Amortisation of acquired intangibles	–	–	–	–	–	–	55	–	55
Total depreciation and amortisation expense	21	13	4	11	2	–	65	–	116
Other non-cash expenses	46	23	11	7	–	–	6	–	93

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

2006	Australia personal insurance \$m	Australia commercial insurance \$m	New Zealand insurance \$m	United Kingdom insurance \$m	Asia insurance \$m	Reinsurance operations \$m	Corporate and investments \$m	Inter-segment elimination \$m	Total \$m
External revenue	4,356	2,086	1,024	–	113	–	649	–	8,228
Total revenue	4,356	2,086	1,024	–	113	–	649	–	8,228
Underwriting profit	266	165	100	–	2	–	–	–	533
Investment income net of investment fees – technical reserves	197	82	30	–	1	–	–	–	310
Insurance profit	463	247	130	–	3	–	–	–	843
Investment income net of investment fees – equity holders' funds	–	–	–	–	–	–	537	–	537
Share of net profit of associates	–	–	–	–	2	–	–	–	2
Other net operating result	–	8	–	–	(7)	–	(148)	–	(147)
Profit/(loss) before income tax	463	255	130	–	(2)	–	389	–	1,235
Income tax expense									(373)
Profit/(loss) for the year									862
Segment assets	5,951	3,702	635	–	142	–	6,542	–	16,972
Total assets									16,972
Segment liabilities	5,951	3,702	635	–	142	–	2,871	–	13,301
Total liabilities									13,301
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	–	–	–	–	–	–	158	–	158
Depreciation expense	20	13	5	–	–	–	9	–	47
Amortisation of acquired intangibles	–	–	–	–	–	–	8	–	8
Total depreciation and amortisation expense	20	13	5	–	–	–	17	–	55
Other non-cash expenses	45	25	9	–	–	–	9	–	88

(b) Secondary reporting – geographical segments

The Consolidated entity operates in the Australia, New Zealand, United Kingdom and Asia (principally Thailand) general insurance industries. Each of these markets forms a separate reportable geographical segment. Australia is the IAG Group's principal market with operations covering all states and territories. The reinsurance operation is a global shared service and there is no sensible transparent manner in which to allocate the results of this operation across the geographic segments.

	Australia		New Zealand		United Kingdom		Asia		Reinsurance		Inter-segment elimination		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
External revenue	7,106	6,928	1,062	1,087	887	–	196	114	19	99	–	–	9,270	8,228
Segment assets	16,685	15,649	1,721	1,508	3,581	–	315	308	228	1,249	(920)	(1,742)	21,610	16,972
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	57	71	42	23	1,622	–	1	64	24	–	–	–	1,746	158

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 4: EARNINGS PER SHARE

	CONSOLIDATED	
	2007 cents	2006 cents
(a) Reporting period values		
Basic earnings per ordinary share ⁽ⁱ⁾	32.79	47.66
Diluted earnings per ordinary share	32.59	47.38

Note:

(i) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 *Earnings per Share*. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the year ended 30 June 2007 would be reduced to 32.60 cents (2006 – 47.39 cents).

	2007 \$m	2006 \$m
(b) Reconciliation of earnings used in calculating earnings per share		
Profit for the year	629	862
Profit attributable to minority interests	(77)	(103)
Profit attributable to equity holders of the Parent which is the earnings used in calculating basic and diluted earnings per share	552	759

	2007 Number of shares in millions	2006 Number of shares in millions
(c) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share		
Ordinary shares on issue ⁽ⁱ⁾	1,691	1,602
Treasury shares held in trust	(10)	(9)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,681	1,593
Weighted average number of dilutive potential ordinary shares relating to:		
– Unvested share based remuneration rights supported by treasury shares held in trust	10	9
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	1,691	1,602

Note:

(i) The weighted average number of ordinary shares used to calculate the basic earnings per share includes an additional 7 million shares that are deemed to be bonus shares. These deemed bonus shares were issued in response to the \$750 million institutional placement (completed on 12 December 2006) and the \$125 million share purchase plan (completed on 31 January 2007) as these capital raisings were considered to be issued at a discount compared to the relevant market price and accordingly these shares are deemed to contain a bonus element. These deemed bonus shares are considered to have been issued on 1 July 2005 (being at the beginning of the corresponding prior period presented in these financial statements) and thus have a retrospective dilutive effect on the basic earnings per share.

The following matters are relevant to the determination of the weighted average number of ordinary shares:

- the reset preference shares are not considered to be dilutive potential ordinary shares even though they may convert into ordinary shares because the contingent conversion conditions were not met at the reporting date; and
- the reset exchangeable securities (refer note 8(b)) are not considered to be dilutive potential ordinary shares because the contingent conversion conditions were not met at the reporting date.

NOTE 5: DIVIDENDS

	Cents per share	Total amount \$m	Payment date	Tax rate for franking credit	Percentage franked
(a) Ordinary shares					
Recognised in year ended 30 June 2007					
2007 interim dividend	13.5	237	16 April 2007	30%	100%
2006 final dividend	16.0	255	9 October 2006	30%	100%
		492			
Recognised in year ended 30 June 2006					
Special dividend	12.5	201	26 June 2006	30%	100%
2006 interim dividend	13.5	215	10 April 2006	30%	100%
2005 final dividend	14.5	231	17 October 2005	30%	100%
		647			

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

It is standard practice to declare the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy (refer note 1(ac) of the full financial statements) a dividend is not accrued for until it is declared and so the dividends for a period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

A special dividend was paid to shareholders during the year ended 30 June 2006 as a return of excess capital in line with the commitment to ensure capital is managed efficiently. The total special dividend is presented inclusive of transaction costs of \$1.3 million.

(b) Dividend reinvestment

A Dividend Reinvestment Plan ("DRP") operates which allows equity holders to elect to receive their dividend entitlement in the form of IAG shares. The price of DRP shares is the average share market price, less a discount if any (determined by the Directors) calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date.

The DRP for the 2007 interim dividend payable on 16 April 2007 was settled with the issuance of 40.5 million fully paid ordinary shares priced at \$5.8507 per share (based on the average market price for the 10 trading days from 19 March 2007 to 30 March 2007 inclusive) with 10.5 million shares issued to existing shareholders with dividend entitlements and 30 million shares issued to the underwriter of the subscriptions for the DRP. There was no discount applied.

The DRP for the 2006 final dividend payable on 9 October 2006 was settled with the on-market purchase of 15.5 million shares priced at \$5.3220 per share (based on the average market price for the 10 trading days from 11 September 2006 to 22 September 2006 inclusive). There was no discount applied.

The 29.5 million shares allocated to equity holders participating in the DRP during the year ended 30 June 2006 were purchased on-market (including 8.7 million shares relating to the special dividend).

(c) Dividend not recognised at reporting date

In addition to the above dividends, the following dividend was declared after the reporting date but before finalisation of this financial report and has not been recognised in this financial report.

	Cents per share	Total amount \$m	Expected payment date	Tax rate for franking credit	Percentage franked
2007 final dividend	16.0	287	8 October 2007	30%	100%

The dividend was declared on 24 August 2007. The Company's dividend reinvestment plan ("DRP") will operate by issuing new ordinary shares to participants. The dividend will be fully underwritten such that the shortfall in the DRP take-up will be underwritten. The last date for the receipt of an election notice for participation in the dividend reinvestment plan in relation to this final dividend is 5 September 2007.

(d) Restrictions that may limit the payment of dividends

There are currently no restrictions on the payment of dividends by the Parent other than:

- the payment of dividends generally being limited to profits subject to ongoing solvency obligations; and
- no dividends can be paid and no returns of capital can be made on ordinary shares, if distributions are not paid on the reset preference shares, unless certain actions are taken by IAG. For further details refer to note 21 of the full financial statements.

There are currently no restrictions on the payment of dividends from subsidiaries to the Parent other than:

- the payment of dividends generally being limited to profits subject to ongoing solvency obligations of the subsidiary;
- for certain subsidiaries, statutory reserve and regulatory minimum capital requirements, in particular, APRA has advised Australian general insurers that a general insurer under its supervision must obtain approval from it before declaring a dividend if the general insurer has incurred a loss, or proposes to pay dividends which exceed the level of profits earned in the current period; and
- the Lloyd's syndicate operations being subject to specific solvency calculation restrictions regarding the payment of distributions from Funds at Lloyd's.

The impact to these requirements caused by the payment of dividends is monitored. Payments of dividends from overseas subsidiaries may attract withholding taxes which have not been provided for in this financial report.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5: DIVIDENDS (CONTINUED)

(e) Dividend franking amount

	CONSOLIDATED	
	2007 \$m	2006 \$m
The amount of franking credits available for the subsequent annual reporting period are:		
Franking account balance at reporting date at 30%	570	483
Franking credits to arise from payment of income tax payable	51	103
Franking debits to arise from receipt of income tax refundable	(15)	(20)
Franking credits to arise from receipt of dividends receivable	2	4
Franking credits available for future reporting periods	608	570
Franking account impact of dividends declared before issuance of financial report but not recognised at reporting date	(123)	(109)
Franking credits available for subsequent financial years based on a tax rate of 30%	485	461

The balance of the franking account arises from:

- franked income received or recognised as a receivable at the reporting date;
- income tax paid, after adjusting for any franking credits which will arise from the payment of income tax provided for in the financial statements; and
- franking debits from the payment of dividends recognised as a liability at the reporting date.

In accordance with the tax consolidation legislation, the Parent, as the head entity in the tax consolidated group, has also assumed the benefit of the franking credits available. The consolidated amounts include franking credits that would be available to the Parent if distributable profits of non-wholly owned subsidiaries were paid as dividends.

All of the distributions paid in relation to the reset preference shares and the interest payments in relation to the reset exchangeable securities for the current financial year were fully franked at 30% (2006 – fully franked at 30%).

NOTE 6: RECONCILIATION OF TOTAL EQUITY

	CONSOLIDATED			
	2007 Number of shares in millions	2006 Number of shares in millions	2007 \$m	2006 \$m
Share capital				
<i>Ordinary shares</i>				
Balance at the beginning of the financial year	1,595	1,594	3,263	3,263
Shares issued under institutional placement	136	-	750	-
Institutional placement share issue costs, net of tax	-	-	(13)	-
Shares issued under Share Purchase Plan	23	-	125	-
Share Purchase Plan issue costs, net of tax	-	-	(1)	-
Shares issued for the fully underwritten dividend	40	-	237	-
Shares issued under Performance Share Rights Plan	-	1	-	-
Balance at the end of the financial year	1,794	1,595	4,361	3,263
<i>Treasury shares held in trust</i>				
Balance at the beginning of the financial year	(8)	(6)	(40)	(34)
Acquisition of shares	(5)	(2)	(30)	(19)
Shares vested and/or released to participants	-	-	1	13
Balance at the end of the financial year	(13)	(8)	(69)	(40)

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED	
	2007 \$m	2006 \$m
(a) Share capital (refer above)	4,361	3,263
(b) Treasury shares held in trust (refer above)	(69)	(40)
(c) Reserves		
<i>Foreign currency translation reserve</i>		
Balance at the beginning of the financial year	(15)	(6)
Net exchange difference on translation of foreign operations	(73)	(18)
Hedge of net investment in a subsidiary	54	9
Balance at the end of the financial year	(34)	(15)
<i>Share based remuneration reserve</i>		
Balance at the beginning of the financial year	19	13
Charged to profit for the year	15	19
Transfers from the reserve upon vesting of rights/shares	(1)	(13)
Balance at the end of the financial year	33	19
<i>Hedging reserve</i>		
Balance at the beginning of the financial year	(10)	(5)
Net movements in fair value of derivatives forming hedge	(30)	1
Net movements in fair value recognised in profit	40	(8)
Net tax impact on movements	(3)	2
Balance at the end of the financial year	(3)	(10)
Total reserves	(4)	(6)
(d) Retained earnings		
Balance at the beginning of the financial year	274	142
Profit attributable to equity holders of the Parent	552	759
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax	39	21
Vesting of share based remuneration	–	(1)
Dividends declared and paid	(492)	(647)
Acquisition of minority interest in subsidiaries	(5)	–
Dividends on treasury shares held in trust	4	–
Balance at the end of the financial year	372	274
Parent interest	4,660	3,491
(e) Minority interests		
Balance at the beginning of the financial year	180	164
Profit attributable to minority interests	77	103
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax, attributable to minority interests	1	–
Distributions to minority interests	(86)	(89)
Business combination	–	2
Balance at the end of the financial year	172	180
Minority interests comprising:		
– Share capital	126	126
– Retained earnings	46	54
Minority interests	172	180
Total equity	4,832	3,671

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 7: ACQUISITIONS AND DISPOSALS OF BUSINESSES

(a) Acquisition of subsidiaries

Details of acquisitions of subsidiaries for the financial year ended 30 June 2007 are as follows:

(i) Acquisition of a United Kingdom based general insurance business and insurance broker

On 4 December 2006, the Consolidated entity announced that it would acquire EIG (Investments) Limited, the holding company of the Equity Insurance Group. Equity Insurance Group is the United Kingdom's fifth largest motor underwriter, the eighth largest motor insurance broker and the largest motorcycle insurer. It operates through two key businesses – Equity Insurance Brokers and Equity Red Star, Lloyd's largest motor insurance syndicate.

The acquisition was completed on 8 January 2007 upon receipt of regulatory approval. The IAG Group consolidated Equity Insurance Group from and including 1 January 2007.

The total consideration for the acquisition was \$1,425 million (including transaction costs) and was funded by the issue of ordinary shares, raising of long term debt and use of existing internal funds. Fund raisings included:

- \$750 million of ordinary share capital issued through an institutional placement at \$5.50 per ordinary share (completed 12 December 2006);
- GBP250 million (\$625 million) of GBP subordinated term notes placed to UK institutional investors (completed 21 December 2006). GBP140 million (\$350 million) of the proceeds of the notes were used to repay the short term bank loans raised for the acquisition of Hastings and Advantage;
- \$125 million of ordinary share capital issued through a Share Purchase Plan at \$5.50 per ordinary share (completed 31 January 2007);
- GBP37 million (\$93 million) of unsecured notes issued; and
- sell down of \$190 million of assets from existing internal funds.

The key changes made to bring the financial position of the acquired entities prepared in accordance with UK GAAP in line with the significant accounting policies of the Consolidated entity related to alignment of outstanding claims liability reserving policies. After those adjustments were made there were no significant fair value adjustments acquired. The fair value of the net assets and liabilities acquired are provisional.

(ii) Acquisition of a United Kingdom based insurance broker and general insurance business

The Consolidated entity, effective 29 September 2006, acquired 100% of the share capital of Hastings Insurance Services Limited ("Hastings") and Advantage Insurance Company Limited ("Advantage") which are involved in general insurance broking and underwriting in the United Kingdom, for total acquisition cost (including transaction costs) of \$349 million.

The key changes made to bring the financial position of the acquired entities prepared in accordance with UK GAAP in line with the significant accounting policies of the Consolidated entity related to alignment of outstanding claims liability reserving policies. After those adjustments were made, there was only one significant fair value adjustment that revalued a property upwards from its historical cost. The fair value of the net assets and liabilities acquired are provisional.

(iii) Acquisitions of a Lloyd's managing agency and specialist Asian syndicate

Effective from 3 July 2006 the Consolidated entity acquired a newly formed Lloyd's managing agency and specialist Asian syndicate to support the development and management of its expanding Asia business for a total acquisition cost of \$23 million. The businesses operate as Alba Group Pte Limited ("Alba"). The syndicate has access to all markets in which Lloyd's is licensed.

(iv) Acquisition of a Northern Ireland based insurance broker business

The Consolidated entity acquired Open & Direct Insurance Services Limited ("Open & Direct") and its subsidiaries effective 17 January 2007 for a total acquisition cost (including transaction costs) of \$57 million.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

Details of the financial impact of the acquisitions made are as follows:

	CONSOLIDATED			
	Open & Direct \$m	Alba \$m	Hastings and Advantage \$m	Equity Insurance Group \$m
2007				
Purchase price:				
Cash paid	55	–	346	1,323
Deferred settlement	–	23	–	93 ⁽ⁱ⁾
Costs directly associated with acquisition	2	–	3	9
Total purchase consideration	57	23	349	1,425
Fair value of net identifiable assets acquired:				
Cash and cash equivalents	9	–	81	1,202
Investments	–	–	187	889
Receivables	6	–	114	463
Deferred acquisition costs	–	–	8	104
Property, plant and equipment	1	–	34	51
Deferred tax assets	–	–	–	81
Capitalised software development expenditure	–	–	–	31
Payables	(16)	–	(78)	(91)
Current tax liabilities	(1)	–	(3)	–
Unearned premium liability	–	–	(138)	(383)
Outstanding claims liability	–	–	(132)	(1,044)
Interest bearing liabilities	–	–	(71)	(906)
Other	(1)	–	23	(115)
Net identifiable assets acquired during the financial year	(2)	–	25	282
Intangible assets	45	–	168	598
Goodwill	14	23	156	545
	59	23	324	1,143

Note:

(i) Deferred settlement on Equity Insurance Group comprised of unsecured notes and deferred award rights.

The fair value of assets and liabilities is based on discounted cash flow models or the book values have been used as a proxy for fair value. In addition to the intangible assets recognised and disclosed above, there are other intangible benefits that have been acquired as part of the transactions. These benefits have not been recognised separately from goodwill because they were not separately recognisable and/or were not able to be reliably measured. These assets are principally the value of the workforce acquired and the value of cost and revenue synergies.

The measurement of identifiable intangible assets acquired in a business combination is highly subjective and there are a range of possible values that could be attributed for initial recognition. The IAG Group uses the skills and experience of valuation specialists in establishing an initial range within which the fair value is to be recognised. Judgement is then applied in selecting the value to be recognised on the balance sheet. Judgement is also applied in determining the useful life of the intangible assets which impacts directly on the amortisation charges to be incurred following an acquisition.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 7: ACQUISITIONS AND DISPOSALS OF BUSINESSES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

2007	CONSOLIDATED			
	Open & Direct \$m	Alba \$m	Hastings and Advantage \$m	Equity Insurance Group \$m
The net cash flow in relation to acquisitions is as follows:				
Cash consideration paid	57	–	349	1,332
Cash balance acquired	(9)	–	(81)	(1,202)
Net outflow of cash	48	–	268	130
Contribution from the acquired businesses (from date of acquisition):				
Income	n/a*	12	329	557
Profit/(loss) before income tax	n/a*	(13)	(21)	2

* Amounts for Open & Direct are included in the disclosure for Equity Insurance Group for these items.

The income, gross written premium and profit of the Consolidated entity for the year ended 30 June 2007 would have increased by \$578 million and \$408 million and \$43 million respectively, had the subsidiaries acquired during the financial year been consolidated from the beginning of the financial year.

This information is at least in part based on the acquiree's unaudited management accounts prepared in accordance with the acquiree's accounting policies and does not include fair value adjustments. This information is not necessarily indicative of the operating results that would have occurred if the acquisition had been completed at the beginning of the financial year or of the operating results in future years at least in part because the information does not include expenses relating to integration of the businesses or the operating synergies to be realised.

Details of acquisitions of subsidiaries for the financial year ended 30 June 2006 are as follows:

(i) Acquisition of a Thailand based general insurance business

The Consolidated entity acquired all of the ordinary shares in IAG Insurance (Thailand) Ltd ("IAG Thailand") (formerly Royal and Sun Insurance Alliance (Thailand) Ltd) effective 4 July 2005. This subsidiary is involved in general insurance underwriting in Thailand.

The key changes made to bring the financial position of IAG Thailand prepared in accordance with Thai GAAP in line with the significant accounting policies of the Consolidated entity related to an analysis of all insurance products on offer to confirm the status as insurance contracts, the measurement of all investments at fair value through profit or loss, and the alignment of outstanding claims liability reserving policies. After those adjustments were made, there were no significant fair value adjustments required.

(ii) Acquisition of a further interest in a Thailand based listed general insurance business

On 10 February 2006, an additional 16.7% interest was acquired in Safety Insurance Public Company Limited ("Safety Insurance") taking the then 21.6% shareholding to 38.3%. A general tender offer to all Safety Insurance shareholders was subsequently lodged at the end of February 2006. The tender closed on 27 March 2006 with the Consolidated entity holding 96.09% of the voting share capital. The entity has been deemed to be a subsidiary from 31 March 2006.

Safety Insurance, which has been listed on the Stock Exchange of Thailand since 1977, is Thailand's seventh largest general insurer and sixth largest motor insurer and generated approximately A\$100 million in gross written premium per annum at the time. Providing predominantly motor insurance, as well as fire, marine and other general insurance, Safety Insurance distributes its products through insurance agents and brokers, as well as selling direct to customers.

The key changes made to bring the financial position of Safety Insurance prepared in accordance with Thai GAAP to comply with the significant accounting policies of the Consolidated entity related to an analysis of all insurance products on offer to confirm the status as insurance contracts, the measurement of all investments at fair value through profit or loss, and the alignment of outstanding claims liability reserving policies. After those adjustments were made, there were no significant fair value adjustments required.

(iii) Acquisition of a specialist New Zealand underwriter

On 3 May 2006 IAG New Zealand Limited acquired a 51% share of DriveRight Limited, a specialist underwriter of mechanical breakdown insurance in New Zealand, with a contractual obligation, subject to certain criteria being satisfied, to acquire the remaining 49% on or before 31 August 2008. This obligation was fulfilled in October 2006 (see note 7(b)).

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

Details of the financial impact of the acquisitions made are as follows:

CONSOLIDATED

2006	Safety Insurance \$m	IAG Thailand \$m
Purchase price:		
Cash paid	68	34
Costs directly associated with acquisition	2	2
Total purchase consideration	70	36
Fair value of net identifiable assets acquired:		
Cash and cash equivalents	10	6
Investments	107	18
Receivables	30	22
Deferred acquisition costs	–	1
Property, plant and equipment	9	1
Deferred tax assets	8	–
Capitalised software development expenditure	(19)	(18)
Payables	(3)	(1)
Current tax liabilities	(58)	(5)
Unearned premium liability	(30)	(14)
Other	(2)	–
Less: transfer of associate to subsidiary	(11)	–
Net identifiable assets acquired during the financial year	41	10
Intangible assets	–	5
Goodwill*	29	21
	29	26

* The goodwill on Safety Insurance includes the goodwill amount on the first acquisition in 1998 (which rounded to zero).

The fair value of assets and liabilities are based on discounted cash flow models or the book values have been used as a proxy for fair value. In addition to the intangible assets recognised and disclosed above, there are other intangible benefits that have been acquired as part of the transactions. These benefits have not been recognised separately from goodwill because they were not separately recognisable and/or were not able to be reliably measured. These assets are principally the value of the workforce acquired and the value of cost and revenue synergies.

The net cash flow in relation to acquisitions is as follows:

Cash consideration paid	70	36
Cash balance acquired	(10)	(6)
Net outflow of cash	60	30
Contribution from the acquired businesses (from date of acquisition):		
Income	28	37
Profit/(loss) before income tax	1	1

The gross written premium and profit of the Consolidated entity for the year ended 30 June 2006 would have been higher by \$63 million and \$3 million respectively, had the subsidiaries acquired during the year been consolidated from the beginning of the financial year.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 7: ACQUISITIONS AND DISPOSALS OF BUSINESSES (CONTINUED)

(b) Other acquisitions

Details of other acquisitions for the financial year ended 30 June 2007 are as follows:

(i) Mike Henry Travel Insurance Limited

On 7 July 2006 the remaining 49.9% share of Mike Henry Travel Insurance Limited, a specialist travel underwriter, was acquired for a purchase consideration of \$4 million.

(ii) DriveRight Limited

On 20 October 2006 IAG New Zealand Limited acquired the remaining 49% share of DriveRight Limited, a specialist underwriter of mechanical breakdown insurance in New Zealand, was acquired for a purchase consideration of \$2 million.

Details of other acquisitions for the financial year ended 30 June 2006 are as follows:

(i) Acquisition of an interest in a Malaysian based composite insurance business

On 31 March 2006, the Consolidated entity acquired a 30% strategic stake in AmAssurance Berhad, a Malaysian based general and life insurer. Based on the annual report for the year ended 31 March 2006 prepared under Malaysian generally accepted accounting principles, AmAssurance Berhad had gross assets of RM1,783 million (approximately \$653 million). The general insurance operations generate an annual gross written premium of RM438 million (approximately \$161 million).

(c) Disposal of subsidiaries

During the financial year ended 30 June 2007 there were no disposals of subsidiaries by the Consolidated entity.

During the year ended 30 June 2006 the Consolidated entity disposed of New Zealand Car Parts Limited. As this disposal was not significant to the Consolidated entity no further disclosure is provided.

NOTE 8: CONTINGENCIES

(a) Contingent liabilities

Contingent liabilities are not recognised on the balance sheet but are disclosed here where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure.

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include:

- (i) litigation arising out of insurance policies;
- (ii) Hastings Insurance Services Limited ("Hastings"), a wholly owned subsidiary of IAG, has received a claim for alleged breaches of its duties under an agency agreement. The claim is for loss and damage suffered in excess of \$24 million. Hastings was acquired by the Consolidated entity on 29 September 2006. The claims against Hastings may, if proved, constitute a breach of warranty under the Share Purchase Agreement ("SPA") relating to the Hastings acquisition, which if proved, would give rise to warranty claims against the previous owner;
- (iii) undertakings for maintenance of net worth and liquidity support to subsidiaries in the Consolidated entity. It is normal practice to provide wholly owned subsidiaries with support and assistance as may be appropriate with a view to enabling them to meet their obligations and to maintain their

good standing. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation;

- (iv) guarantees for performance obligations, including a guarantee in relation to a standby letter of credit issued in support of the Consolidated entity's participation in Lloyd's of London; and
- (v) there is a potential assessment by the United Kingdom tax authority of outstanding tax payments relating to Hastings for tax years prior to the date when the company was acquired by the IAG Group. The amount of the assessment would not be significant to the IAG Group. The claim, if successful, would give rise to a claim under a tax indemnity provided by the previous owner.

It is not believed that there are any other potential material exposures to the Consolidated entity and there are no known events that would require it to satisfy the guarantees or take action under a support agreement.

(b) Reset exchangeable securities

In respect of the issue of reset exchangeable securities ("RES") by a wholly owned subsidiary, IAG Finance (New Zealand) Limited ("IAGF NZ"):

- (i) IAGF NZ has granted to Permanent Trustee Company Limited ("Trustee"), the trustee of the RES, a fixed charge over its right, title and interest in the payments to it under the Portfolio Management Agreement and certain intragroup receivables. IAG Portfolio Limited, a wholly owned subsidiary of IAG, has granted to the Trustee a mortgage over IAG Portfolio Limited's portfolio of investments ("Portfolio") and a floating charge over its rights, property and undertaking as security to the RES holders.
- (ii) Insurance Australia Limited has put in place an interest rate floor with IAG Portfolio Limited in the event the bank bill rate applicable to the calculation of the interest rate payable on the RES falls below a specified rate. This will enable IAG Portfolio Limited to generate sufficient income to allow IAGF NZ to make part or full interest payments on the RES.
- (iii) In the event of an interest payment on the RES being unfranked, IAG must pay an amount into IAG Portfolio Limited to fund a gross-up of the interest payment on the RES.
- (iv) IAG may exchange some or all of the RES for preference shares issued by IAG at any time. This exchange right is considered an embedded derivative within the RES and is recognised at fair value on the balance sheet. The exchange right has been assessed as having a fair value of \$Nil at 30 June 2007 (2006 – \$Nil).
- (v) IAGF NZ may, in relation to the RES, change their terms, redeem them for cash or convert them into ordinary shares issued by IAG on any reset date. The next reset date is 15 March 2010.
- (vi) IAGF NZ may, in relation to the RES, redeem them for cash or convert them into ordinary shares issued by IAG, if a tax event, regulatory event or acquisition event, as defined in the RES terms, occurs.
- (vii) RES holders may redeem the RES on any reset date or if a trigger event, as defined in the RES terms, occurs.
- (viii) IAG has an obligation to pay all costs, charges and expenses in managing the Portfolio including costs of the trustee and custodian.
- (ix) IAG and other members of the IAG Group may be entitled to any surplus in the Portfolio from excess income from the Portfolio after the payment of aggregate interest payments on the RES or from excess net assets of the Portfolio after the payment of aggregate redemption amounts on the RES.

NOTES TO THE CONCISE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

(c) Fiduciary activities

The Consolidated entity's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in the Consolidated entity's balance sheet had a fair value as at 30 June 2007 of \$2,012 million (2006 – \$1,969 million). This does not include the investment by third parties in the IAG Asset Management Wholesale Trusts presented as minority interests in unitholders' funds on the balance sheet. The Consolidated entity is exposed to operational risk relating to managing these funds on behalf of third parties.

NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the year ended 30 June 2007.

(a) Declaration of final dividend

On 24 August 2007, a final dividend of 16 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 8 October 2007. The Company's dividend reinvestment plan ("DRP") will operate by issuing new ordinary shares to participants. The dividend will be fully underwritten such that the shortfall in the DRP take up will be underwritten.

(b) Sale of premium funding business

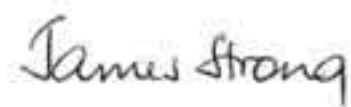
On 17 August 2007, a contract was entered into for the sale of the existing and ongoing loan business of CGU Premium Funding Pty Limited. It is expected that the transaction will be completed in September 2007.

DIRECTORS' DECLARATION

In the opinion of the Directors of Insurance Australia Group Limited, the accompanying concise financial report of the Consolidated entity, comprising Insurance Australia Group Limited and its subsidiaries for the year ended 30 June 2007, set out on pages 59 to 75:

- (a) complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*;
- (b) has been derived from or is consistent with the full financial report for the financial year; and
- (c) cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Consolidated entity as the full financial report, which is available on request.

Signed at Sydney this 24th day of August 2007 in accordance with a resolution of the Directors.



James Strong
Director



Michael Hawker
Director

INDEPENDENT AUDITOR'S REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED



The accompanying concise financial report of the Consolidated entity comprising Insurance Australia Group Limited (the "Company"), and its subsidiaries comprises the consolidated balance sheet as at 30 June 2007, the consolidated income statement, consolidated statement of recognised income and expense and consolidated cash flow statement for the year then ended and related notes 1 to 9, derived from the audited financial report of Insurance Australia Group Limited and its subsidiaries for the year ended 30 June 2007. The concise financial report does not contain all the disclosures required by Australian Accounting Standards.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report – sections A to D" in the directors' report and not in the concise financial report. We have audited these remuneration disclosures.

DIRECTORS' RESPONSIBILITY FOR THE CONCISE FINANCIAL REPORT AND THE AASB 124 REMUNERATION DISCLOSURES CONTAINED IN THE DIRECTORS' REPORT

The directors of the Company are responsible for the preparation and presentation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the Remuneration Report contained in the directors' report.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit in accordance with Australian Auditing Standards, of the financial report and the Remuneration Report of Insurance Australia Group Limited and its subsidiaries for the year ended 30 June 2007. Our audit report on the financial report and the Remuneration Report for the year was signed on 24 August 2007 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report and the Remuneration Report for the year are free of material misstatement.

Our procedures in respect of the concise financial report include testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITOR'S OPINION

In our opinion the concise financial report of Insurance Australia Group Limited and its subsidiaries for the year ended 30 June 2007 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

KPMG

KPMG

Brian Greig

Partner

Sydney

24 August 2007

INDEPENDENT VERIFICATION STATEMENT

TO THE BOARD AND STAKEHOLDERS OF INSURANCE AUSTRALIA GROUP (IAG)

IAG commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent verification of selected sustainability performance data (the Performance Data) for the year ended 30 June 2007, as reported in the IAG Annual Report 2007 (the Report) on page 1, and reported in the IAG Concise Annual Report 2007 (also referred to as the Report) on page 1. IAG was responsible for the preparation of the report and the information and assessments contained within it, for determining IAG's sustainability performance objectives, and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived. This statement represents the verification team's independent opinion. Net Balance's responsibility in performing our verification activities is to the management of IAG alone and in accordance with the terms of reference agreed with them. Any reliance any such third party may place on the Report is entirely at their own risk.

VERIFICATION OBJECTIVE

The objective of the verification process is to provide IAG and its stakeholders with an independent opinion on the accuracy of the sustainability information presented within this Report. This is confirmed through verification of the information provided at a broad desk-top level, reviewing underlying systems, processes and competencies that support data presented.

VERIFICATION PROCESS AND LIMITATIONS

Our approach to assurance provision is aligned to the AA1000 Assurance Standard. The data verification engagement was undertaken in August 2007, and is combined with the overall assurance over IAG's Sustainability Report 2007 produced separately. IAG applies its own internal reporting guidelines for sustainability reporting ("the Criteria"), a concise version of which can be found in the Glossary in the report. Accordingly, the verification process involved:

- the examination of the aggregation and/or derivation of, and underlying evidence for Australian and New Zealand business data relating to employee engagement survey response rate and score, customer satisfaction, community investment and carbon dioxide emissions (page 1 of the Report); and
- a review of the internal control structure which management has established and from which the above data have been derived.

Our scope of work did not involve verification of the accuracy and robustness of financial data, other than that relating to environmental, social or broader economic aspects of performance as discussed above.

OUR INDEPENDENCE AND CREDENTIALS

Independence was ensured by selecting a verification team that had no other involvement with IAG during the reporting period that could impair the team's independence or objectivity. Net Balance was not responsible for preparation of any part of this Report. Net Balance has not undertaken any commissions for IAG in the reporting period concerning reporting or data collection. The team comprised of individuals with expertise in the insurance and finance sector and in environmental and social performance measurement. The verification team has collectively undertaken over 60 assurance engagements in Australia over the past 10 years and is also led by a Lead Sustainability Assurance Practitioner (Lead CSAP) accredited by the Independent Register of Certified Auditors (IRCA UK).

OUR OPINION

Based on the scope of the verification process, the following represents Net Balance's opinion:

- The findings of the engagement provide confidence in the reporting processes and systems established. The level of data accuracy was found to be high. Data trails selected were easily identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data.
- The internal review process established for both Australian and New Zealand data is appropriate and provides quality control around the data derived.

CONCLUSIONS AND RECOMMENDATIONS

The following key recommendations are made:

- Consistency between Australian and New Zealand definitions for certain data sets needs to be improved. This will also present a challenge when data from the United Kingdom and Asian operations are included in the future.
- Community investment data requires further improvement to definition and collation.
- Data that is provided by external parties generally lacked the level of accuracy found in internally sourced data. This requires further process improvements.

Net Balance has provided suggestions for reporting improvement in some areas outlined in a more detailed report presented to IAG management.

On behalf of the verification team

24th August 2007
Melbourne, Australia



Terence Jeyaretnam

Director, Net Balance & Lead CSAP (IRCA UK)

SHAREHOLDER INFORMATION

You can access information about Insurance Australia Group Limited including company announcements, presentations and reports at www.iag.com.au.

ASX CODES

Insurance Australia Group Limited's shares are listed on the ASX under:

IAG Ordinary Shares;

IAGPA Reset Preference Shares – RPS1; and

IAGPB Reset Preference Shares – RPS2.

Insurance Australia Group Limited's wholly owned subsidiary IAG Finance (New Zealand) Limited issued Reset Exchangeable Securities in January 2005 and they are listed on the ASX under:

IANG Reset Exchangeable Securities – RES.

ANNUAL REPORT

Recent amendments to the *Corporations Act 2001* have changed the obligations of Companies regarding the provision of Annual Reports to shareholders. The default option for receiving Annual Reports has changed from a printed copy to an electronic copy via IAG's website.

Details of the legislation change and the options available are set out in the enclosed form. If you require further information please contact the Share Registry on 1300 360 688.

ANNUAL GENERAL MEETING (AGM)

The 2007 AGM of Insurance Australia Group Limited will be held on Tuesday, 13 November 2007 at 10:00am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000. The AGM will be webcast live on the internet at www.iag.com.au and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

ONLINE PROXY VOTING

Shareholders can lodge proxies electronically for the 2007 AGM at www.iag.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), which is shown in the top right corner of your Proxy Form.

QUESTIONS TO THE AUDITOR

If you would like to submit a written question to the Company's auditor relating to the auditor's report or the conduct of the audit please use the reply paid envelope provided or fax to (02) 8235 8220 by 5:00pm on Tuesday 6 November 2007.

Alternatively you may submit a question, after completing your proxy online at www.iag.com.au. Members will also be given a reasonable opportunity to ask questions of the auditor at the AGM.

DIVIDEND PAYMENT METHODS

Insurance Australia Group Limited no longer pays Australian resident shareholders' dividend payments by cheque. Shareholders should provide the Share Registry with their alternative instructions as detailed below.

IAG – Ordinary Shareholders:

- paid directly into your Australian bank, credit union or building society account; or
- eligible ordinary shareholders can choose to participate in IAG's Dividend Reinvestment Plan (DRP) providing the option to increase your shareholding without incurring brokerage or GST.

IAGPA and IAGPB – Reset Preference Shareholders:

- paid directly into your Australian bank, credit union or building society account.

For further details and forms visit www.iag.com.au or call the Share Registry on 1300 360 688.

MANAGE YOUR HOLDING

Using your SRN or HIN and postcode of your registered address you can manage your holding online by registering for Computershare's Investor Centre at www.iag.com.au/shareholder/manage/index.shtml where you will be able to:

- view your holding balance;
- change your address;
- retrieve holding statements, including your dividend payment advice;
- set up payment instructions;
- sign up for electronic shareholder communications, including the Annual Report via email;
- add/change TFN/ABN details;
- sell qualified shares without a broker; and
- access personalised shareholder forms.

Shareholders may also complete a number of transactions or request a form over the phone by contacting the Share Registry on 1300 360 688

UNSOLICITED OFFERS FOR IAG SHARES

IAG shareholders may have been contacted by organisations who have offered to buy their shares at a price well below the price they could receive if they sold their shares on the Australian Securities Exchange Limited (ASX).

If shareholders receive an offer to sell their shares, they should carefully consider their options when deciding whether or not to accept it, particularly if the offer is below the price that the shares are trading on the ASX. Rather than accepting an undervalued offer, shareholders could consider either not accepting or if they wanted to sell their shares, sell them at the current market price, through a broker who is licenced to trade on the ASX.

If you wish to sell your shares but would like more information, you should seek independent financial advice.

EMAIL ENQUIRIES

If you have a question concerning your shareholding, you can email your enquiry directly to iag@computershare.com.au. If your question relates to an IAG company matter and the response is not on the IAG website, you can email your question to investor.relations@iag.com.au.

TFN, ABN OR EXEMPTION

You are strongly advised to lodge your TFN, ABN or exemption. If you choose not to lodge these details with the Share Registry, then Insurance Australia Group Limited is obliged to deduct tax at the highest marginal tax rate (plus the Medicare levy) from the unfranked portion of any dividend payment.

SHAREHOLDER INFORMATION

ORDINARY SHARES INFORMATION

IMPORTANT DATES

	2007
IAG year end	30 June
Full year results and dividend announced	24 August
Record date for final dividend	5 September
Annual Report and Notice of Meeting mailout commences	26 September
Final dividend paid	8 October
Written questions for the auditor close (5:00pm)	6 November
Proxy return closes (10:00am)	11 November
Annual General Meeting (10:00am)	13 November
IAG half-year end	31 December

Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 29 AUGUST 2007

	UNITS	ISSUED CAPITAL %
J P MORGAN NOMINEES AUSTRALIA LIMITED	251,502,748	14.01
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	125,056,031	6.97
NATIONAL NOMINEES LIMITED	120,741,545	6.73
ANZ NOMINEES LIMITED <CASH INCOME A/C>	60,635,418	3.38
CITICORP NOMINEES PTY LIMITED	48,293,990	2.69
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	26,235,376	1.46
COGENT NOMINEES PTY LIMITED	21,494,281	1.21
QUEENSLAND INVESTMENT CORPORATION	19,091,149	1.06
CITICORP NOMINEES PTY LIMITED <CFS WSLE GEARED SHR FND A/C>	17,689,479	0.99
CITICORP NOMINEES PTY LIMITED <CFS WSLE IMPUTATION FND A/C>	15,437,175	0.86
AUSTRALIAN REWARD INVESTMENT ALLIANCE	14,908,974	0.83
CITICORP NOMINEES PTY LIMITED <CFS WSLE 452 AUST SHARE A/C>	14,838,373	0.83
UBS NOMINEES PTY LTD	13,101,041	0.73
CITICORP NOMINEES PTY LIMITED <CFS IMPUTATION FUND A/C>	10,286,884	0.57
AMP LIFE LIMITED	9,346,713	0.52
IAG SHARE PLANS NOMINEE PTY LIMITED <IAG PAR UNALLOCATED A/C>	8,587,035	0.48
CITICORP NOMINEES PTY LIMITED <CFSIL CFSWS GEAR 452 AU A/C>	7,155,423	0.40
CITICORP NOMINEES PTY LIMITED <CFS WSLE AUST SHARE FND A/C>	7,053,983	0.39
ARGO INVESTMENTS LIMITED	5,783,333	0.32
WARBONT NOMINEES PTY LTD <SETTLEMENT ENTREPOT A/C>	4,934,836	0.27
TOTAL FOR TOP TWENTY	802,173,787	44.70

RANGE OF SHAREHOLDERS AS AT 29 AUGUST 2007	NO OF HOLDERS	NO OF SHARES	ISSUED CAPITAL %
1 – 1,000	609,908	320,524,274	17.86
1,001 – 5,000	301,869	459,226,947	25.59
5,001 – 10,000	5,612	38,952,131	2.17
10,001 – 100,000	2,770	56,258,406	3.13
100,001 and over	199	919,671,934	51.25
Total	920,358	1,794,633,692	100.00
Shareholders with less than a marketable parcel of 99 shares as at 29 August 2007	13,367	372,554	

DIVIDEND DETAILS

Share Class	Dividend	Franking	Amount per Share	DRP Issue Price	Payment Date
Ordinary	Interim	Fully Franked	13.5 cents	\$5.8507	16 April 2007
Ordinary	Final	Fully Franked	16.0 cents	*	8 October 2007

* The DRP issue price for the final dividend is scheduled to be announced on 2 October 2007.

SUBSTANTIAL HOLDINGS AS AT 29 AUGUST 2007

The two shareholders who had a substantial shareholding as at 29 August 2007 were The Capital Group Companies, Inc. who held 110,072,164 ordinary shares representing 6.13% of the ordinary shares on issue (by notice dated 12 July 2007) and Commonwealth Bank of Australia who held 171,285,124 ordinary shares representing 9.54% of the ordinary shares on issue (by notice dated 27 July 2007).

SHAREHOLDER INFORMATION

IAGPA RESET PREFERENCE SHARES INFORMATION

IMPORTANT DATES

	2007
Record date for final dividend	30 November
Interim dividend paid	17 December

Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 29 AUGUST 2007

	UNITS	ISSUED CAPITAL %
J P MORGAN NOMINEES AUSTRALIA LIMITED	440,101	12.58
UBS NOMINEES PTY LTD	171,233	4.89
CITICORP NOMINEES PTY LIMITED	129,677	3.71
ANZ NOMINEES LIMITED <CASH INCOME A/C>	123,809	3.54
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	80,750	2.31
TRESCO HOLDINGS PTY LTD	73,364	2.10
CITICORP NOMINEES PTY LIMITED <CFSIL CFS WS ENH YIELD A/C>	61,306	1.75
M F CUSTODIANS LTD	49,769	1.42
ARMADA INVESTMENTS PTY LTD	39,500	1.13
ARGO INVESTMENTS LIMITED	30,800	0.88
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	26,579	0.76
NATIONAL NOMINEES LIMITED	25,346	0.72
G JAMES AUSTRALIA PTY LTD	25,000	0.71
MOUNT PRITCHARD & DISTRICT COMMUNITY CLUB	25,000	0.71
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	20,447	0.58
CATHOLIC CHURCH INSURANCES LTD	20,000	0.57
CITICORP NOMINEES PTY LIMITED <CMIL CWLTH INCOME FUND A/C>	20,000	0.57
DIMBULU PTY LTD	20,000	0.57
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSENIPT A/C>	20,000	0.57
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	15,050	0.43
TOTAL FOR TOP TWENTY	1,417,731	40.50

RANGE OF SHAREHOLDERS AS AT 29 AUGUST 2007	NO OF HOLDERS	NO OF SHARES	ISSUED CAPITAL %
1 – 1,000	4,208	1,259,465	35.99
1,001 – 5,000	258	590,226	16.86
5,001 – 10,000	24	178,525	5.10
10,001 – 100,000	20	606,964	17.34
100,001 and over	4	864,820	24.71
Total	4,514	3,500,000	100.00
Shareholders with less than a marketable parcel of 5 shares as at 29 August 2007	1	4	

DIVIDEND DETAILS

Share Class	Dividend	Franking	Amount per Share	Payment Date
IAGPA	Interim	Fully Franked	\$2.9079	15 December 2006
IAGPA	Final	Fully Franked	\$2.8921	15 June 2007

SHAREHOLDER INFORMATION

IAGPB RESET PREFERENCE SHARES INFORMATION

IMPORTANT DATES

	2007
Record date for final dividend	30 November
Interim dividend paid	17 December

Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 29 AUGUST 2007

	UNITS	ISSUED CAPITAL %
J P MORGAN NOMINEES AUSTRALIA LIMITED	254,002	12.70
AMP LIFE LIMITED	199,374	9.97
SHARE DIRECT NOMINEES PTY LTD <NATIONAL NOMINEES A/C>	150,000	7.50
CITICORP NOMINEES PTY LIMITED	132,386	6.62
CITICORP NOMINEES PTY LIMITED <CFSIL CFS WS ENH YIELD A/C>	128,873	6.44
COGENT NOMINEES PTY LIMITED <SMP ACCOUNTS>	123,914	6.21
UBS NOMINEES PTY LTD	103,024	5.15
NATIONAL NOMINEES LIMITED	85,669	4.28
ANZ NOMINEES LIMITED <CASH INCOME A/C>	73,839	3.69
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	35,065	1.75
COGENT NOMINEES PTY LIMITED	32,369	1.62
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	29,824	1.49
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	29,088	1.45
UCA CASH MANAGEMENT FUND LIMITED	22,593	1.13
SUNCORP CUSTODIAN SERVICES PTY LIMITED <AFT>	20,000	1.00
MRS FAY CLEO MARTIN-WEBER	20,000	1.00
GOLDMAN SACHS JBWERE CAPITAL MARKETS LTD <HYBRID PORTFOLIO A/C>	18,944	0.95
FORTIS CLEARING NOMINEES P/L <SETTLEMENT ACCOUNT>	14,284	0.71
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSENIPT A/C>	13,587	0.68
OMINECA PTY LIMITED	13,000	0.65
TOTAL FOR TOP TWENTY	1,499,835	74.99

RANGE OF SHAREHOLDERS AS AT 29 AUGUST 2007	NO OF HOLDERS	NO OF SHARES	ISSUED CAPITAL %
1 – 1,000	1,076	300,303	15.01
1,001 – 5,000	62	145,233	7.26
5,001 – 10,000	6	41,765	2.09
10,001 – 100,000	14	421,126	21.06
100,001 and over	7	1,091,573	54.58
Total	1,165	2,000,000	100.00
Shareholders with less than a marketable parcel of 6 shares as at 29 August 2007	0	0	

DIVIDEND DETAILS

Share Class	Dividend	Franking	Amount per Share	Payment Date
IAGPB	Interim	Fully Franked	\$2.2612	15 December 2006
IAGPB	Final	Fully Franked	\$2.2488	15 June 2007

Actuary

An actuary applies mathematical, economic and financial analyses as well as risk assessment to financial contracts, in a wide range of practical business problems.

AGAAP

AGAAP (Australian Generally Accepted Accounting Principles) were used by the Group to prepare financial reports up to and including the year ended 30 June 2005. From 1 July 2005, the financial reports were required to be prepared under AIFRS (defined below).

AIFRS

AIFRS (Australian equivalents to International Financial Reporting Standards) were required to be adopted by the Group when preparing its financial report from 1 July 2005.

APRA

APRA (Australian Prudential Regulation Authority) is the prudential regulator of insurance companies, banks, superannuation funds, credit unions, building societies and friendly societies in Australia. APRA is responsible for ensuring that policyholders, depositors and superannuation fund members are protected by, for example, ensuring that companies have enough capital to be able to meet their ongoing business needs, including reserving to pay claims.

Business volume

This measures the volume of business at a point in time. The basis of the measure depends on the class of business. In the personal lines class, the relevant volume measure is 'risks in force'. In commercial classes, the volume measure is 'policies in force'. The difference in the definition is required to capture the distinct nature of IAG's business mix.

Claims reserves

The portion of premium set aside to cover obligations for unexpired insurance contracts, claims and expenses to be incurred. This amount is invested and the returns on these investments form part of pricing and profit from insurance operations.

CO₂e emissions

In this instance, CO₂e emissions are calculated for electricity use, office paper and print paper consumption, tool of trade fuel consumption and air travel. For Australia, emission factors are obtained from the Australian Greenhouse Office (AGO) 2006 workbook (electricity and tool of trade), from the Australian Paper Industry Council 2005 (paper) and the World Business Council for Sustainable Development (Greenhouse Gas Protocols – air travel). For New Zealand, data factors were obtained from the New Zealand Business Council for Sustainable Development "Emission Factors for New Zealand Businesses" for air travel and tool of trade, as per the Australian source for paper, and have been advised by their energy supplier for electricity. New Zealand brands included in this measurement: State, NZI, Swann, NAC.

Customer satisfaction index

In Australia, this measures the end to end customer experience when enquiring, taking out, renewing or making a claim for direct personal insurance. Customer satisfaction levels are determined by a third party through telephone interviews with a random sample of customers contacted. During the prior year, there was a change in the survey provider; however only the customer satisfaction index for the retained provider was included (results for the six months to June 2006). In New Zealand, this is a measure of customer satisfaction with non-claims related contact. The survey is a random sample of customers who have had a non-claims related contact (eg requested a quote, changed their address, taken out a policy) within the last month. Satisfaction is measured by a third party survey where the percentage of customers rating 5, 6 or 7 on a 7 point scale are considered to be satisfied (7 = extremely satisfied and 1 = extremely dissatisfied).

Employee engagement score

Determined through six questions in the 'Your Voice' employee survey conducted by a third party. The survey assesses the extent to which employees consistently say positive things about working at IAG, want to stay with IAG and strive to achieve above and beyond what is expected of them. Participation in the survey is voluntary but is made available to all employees. For New Zealand, this includes the State, NZI, NAC, Swann and DriveRight brands.

FTE

FTE (full-time equivalent) is a measure of the size of employees that takes account of part-time employees. It is determined by dividing working hours (excluding overtime) for all employees by the standard full-time hours. The FTE includes all permanent full-time and part-time employees but excludes casual employees, guests, employees on a fixed-term contract and employees on extended leave (over 28 consecutive calendar days) on the day that we report the data.

Funds for community investment

This estimates direct financial support of community groups and programmes, as well as indirect support to help promote and raise awareness of these community organisations (including commitments), plus salary costs and on-costs for employee volunteering hours recorded in the Human Resources systems. For Australia, this also includes direct IAG management and administration-related costs. Figures reported are exclusive of GST.

Head count

The number of people employed by IAG, regardless of hours worked, excluding casuals, guests and employees on a fixed-term contract.

Insurance cycle

Insurance is a cyclical business. The insurance cycle represents the peaks and troughs of insurance premiums and profitability. When capacity (ie the availability of capital from insurers to underwrite risks) increases in a market, insurers may reduce premiums, which is called a 'soft cycle'. When there is limited capacity, and premiums rise, this is called a 'hard cycle'.

Long-tail and short-tail insurance

In general terms, this name stems from the length of time (the 'tail') that it takes for a claim to be made and settled. For 'short-tail' insurance products, claims are usually known and settled within 12 months, and are generally based around property. For 'long-tail' insurance products, claims may not even be reported within 12 months, and settlements can take many years, and are generally based around injury compensation (eg medical, legal and loss of income) or other risks such as professional indemnity.

Market capitalisation

The size of a company is often measured by its market capitalisation. This is calculated by multiplying the total number of shares on issue by the market price of the shares.

**Share Registry Contact Details
Computershare Investor Services Pty Limited**

GPO Box 4709
Melbourne VIC 3001

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Sydney NSW 2000

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IAG MAJOR BRANDS



This annual report is printed on 100% recycled paper made from 100% post-consumer waste, which is bleached chlorine free (PCF) and FSC CoC certified. The mill operates under the ISO 14001 Environmental Management System which guarantees continuous improvement and is PEFC certified for traceability.