INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

PRELIMINARY FINAL REPORT 30 JUNE 2008
APPENDIX 4E (ASX listing rule 4.3A)

CONTENTS

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 2008

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Up / Down	% change	2008 $m	2007 $m
Revenue from ordinary activities	Down	0.6%	9,211	9,270
Profit / (loss) from ordinary activities after tax attributable to shareholders	Down	147%	(261)	552
Net profit / (loss) attributable to shareholders	Down	147%	(261)	552

Dividends – ordinary shares	Amount per security	Franked amount per security
Final dividend	9.0 cents	9.0 cents
Interim dividend	13.5 cents	13.5 cents

The record date of the dividend is 3 September 2008. The dividend is to be paid on 3 October 2008. The Dividend Reinvestment Plan (DRP) will operate by issuing new ordinary shares to participants with no discount applied. The last date for the receipt of an election notice for participation in the company's DRP is 3 September 2008.

Eligible shareholders may now lodge their DRP elections electronically by logging on to IAG's website at http://www.iag.com.au/shareholder/manage/index.shtml.

INSURANCE AUSTRALIA GROUP LIMITED

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 2008

APPENDIX 4E COMPLIANCE MATRIX

Appendix 4E disclosure requirements	Insurance Australia Group Appendix 4E	Page Number	Note Number
1. Details of the reporting period and the previous corresponding period	All financial data headings		
2. Key information in relation to the following. This information must be identified as "Results for announcement to the market". 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities. 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members. 2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members. 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends. 2.5 The record date for determining entitlements to the dividends (if any). A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	"Results for announcement to the market" page 1 Appendix 4E		
3. A statement of financial performance together with notes to the statement, prepared in compliance with AASB 1018 or the equivalent foreign accounting standard.	Attachment A: Financial report 30 June 2008: • Income Statement • Notes to the financial statements - Summary of significant accounting policies - Analysis of income - Analysis of expenses - Income tax - Claims expense	 P.38 P.43 P.57 P.58 P.61 P.77	 Note 1 Note 3 Note 4 Note 6 Note 11 (a)

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Appendix 4E disclosure requirements	**Insurance Australia Group Appendix 4E**	**Page Number**	**Note Number**
4. A statement of financial position together with notes to the statement. The statement of financial position may be condensed but must report as line items each significant class of asset, liability, and equity element with appropriate sub-totals.	Attachment A: Financial report 30 June 2008:		
	• Balance Sheet	P.39	
	• Notes to the financial statements		
	- Assets – Reinsurance and other recoveries on outstanding claims	P.85	Note 12
	- Assets – Deferred acquisition costs	P.88	Note 13
	- Assets – Investments	P.90	Note 15
	- Assets – Receivables	P.93	Note 16
	- Assets – Deferred tax assets -	P.62	Note 6 (d)
	- Assets – Property, plant and equipment	P.95	Note 17
	- Assets – Intangible assets	P.96	Note 18
	- Assets – Goodwill	P.99	Note 19
	- Liabilities - Outstanding claims liability	P.79	Note 11 (c)
	- Liabilities – Unearned premium liability	P.89	Note 14
	- Liabilities – Trade and other payables	P.101	Note 20
	- Liabilities – Interest-bearing liabilities	P.102	Note 21
	- Liabilities – Restructuring provision	P.162	Note 36
	- Liabilities – Employee benefits provision	P.125	Note 27 (a)
	- Reconciliation of total equity	P.110	Note 22
	- Minority interests	P.112	Note 22 (e)
5. A statement of cash flows together with notes to the statement. The statement of cash flows may be condensed but must report as line items each significant form of cash flow and comply with the disclosure requirements of AASB 1026 Statement of Cash Flows, or for foreign entities, the equivalent foreign accounting standard.	Attachment A: Financial report 30 June 2008:		
	• Cash Flow Statement	P.41	
	• Notes to the financial statements		
	- Reconciliation of cash	P.113	Note 23 (a)
	- Reconciliation of profit / (loss) for the year to net cash flows from operating activities	P.114	Note 23 (c)
6. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.	Attachment A: Financial report 30 June 2008:		
	• Notes to the financial statements		
	- Dividends	P.69	Note 9
	- Dividend franking account	P.70	Note 9 (e)
7. Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Attachment A: Financial report 30 June 2008:		
	• Notes to the financial statements		
	- Reconciliation of total equity	P.110	Note 22
	- Dividends	P.69	Note 9
	- Dividend franking account	P.70	Note 9 (e)
8. A statement of retained earnings showing movements.	Attachment A: Financial report 30 June 2008:		
	• Notes to the financial statements		
	- Retained earnings / (accumulated losses)	P.111	Note 22 (d)

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Appendix 4E disclosure requirements	**Insurance Australia Group Appendix 4E**	**Page Number**	**Note Number**
9. Net tangible assets per security with the comparative figure for the previous corresponding period.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Net tangible assets	P.162	Note 35
10. Details of entities over which control has been gained or lost during the period, including the following.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Acquisition and disposal of businesses	P.115	Note 24
10.1 Name of the entity. 10.2 The date of the gain or loss of control. 10.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit / (loss) from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Acquisition of subsidiaries - Disposal of subsidiaries	P.115 P.119	Note 24 (a) Note 24 (c)
11. Details of associates and joint venture entities including the following. 11.1 Name of the associate or joint venture entity. 11.2 Details of the reporting entity's percentage holding in each of these entities. 11.3 Where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Investment in joint ventures and associates - Details of subsidiaries	P.123 P.120	Note 26 Note 25
12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.	Attachment A: Financial report 30 June 2008		
13. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).	Not applicable		

INSURANCE AUSTRALIA GROUP LIMITED

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Appendix 4E disclosure requirements	Insurance Australia Group Appendix 4E	Page Number	Note Number
14. A commentary on the results for the period. The commentary must be sufficient for the user to be able to compare the information presented with equivalent information for previous periods. The commentary must include any significant information needed by an investor to make an informed assessment of the entity's activities and results, which would include but not be limited to discussion of the following.	Attachment A: Financial report 30 June 2008		
14.1 The earnings per security and the nature of any dilution aspects.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Earnings per share	P.68	Note 8
14.2 Returns to shareholders including distributions and buy backs.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Reconciliation of total equity - Dividends - Dividend franking account	P.110 P.69 P.70	Note 22 Note 9 Note 9 (e)
14.3 Significant features of operating performance.	Attachment A: Financial report 30 June 2008: • Directors' report	P.1	
14.4 The results of segments that are significant to an understanding of the business as a whole.	Attachment A: Financial report 30 June 2008: • Notes to the financial statements - Segment reporting	P.64	Note 7
14.5 A discussion of trends in performance.	Attachment A: Financial report 30 June 2008: • Directors' report - Operating and financial review	P.5	
14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.	Attachment A: Financial report 30 June 2008: • Directors' report • Notes to the financial statements - Events subsequent to reporting date	P.1 P.162	Note 37
15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.	The financial report 30 June 2008 has been fully audited. • Independent auditor's report	P.164	
16. if the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.	Not applicable		

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

FINANCIAL REPORT – 30 JUNE 2008

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923
AND SUBSIDIARIES

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2008

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

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

The following terminology is used throughout the financial report:
* IAG, Parent or Company - Insurance Australia Group Limited
* IAG Group, Group or Consolidated - 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:

James (JA) Strong AO, age 64 - Independent non-executive Director

Insurance industry experience

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

Other business experience

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

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

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

Directorships of other listed companies held in past 3 years

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

Other directors:

Yasmin (YA) Allen BCom, FAICD, age 44 - Independent non-executive Director

Insurance industry experience

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

Other business experience

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Macquarie Specialised Asset Management (and chairman of its Audit Committee) and a member of the Salvation Army advisory board. Previous non-executive director roles include Export Finance & Insurance Corporation (EFIC) and Film Australia.

Yasmin was formerly a vice president at Deutsche Bank AG, a director at ANZ Investment Bank in Australia, an associate director at James Capel UK Ltd (HSBC Group) and an analyst at Kleinwort Benson plc Investment Bank in the UK.

Directorships of other listed companies held in past 3 years

- None.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Phillip (PM) Colebatch BE (Hons), BSc, DBA, SM, age 63 - Independent non-executive Director

Insurance industry experience

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

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

Other business experience

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

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

Directorships of other listed companies held in past 3 years

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

Hugh (HA) Fletcher BSc/BCom, MCom (Hons), MBA, age 60 - Independent non-executive Director

Insurance industry experience

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

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

Other business experience

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

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

Directorships of other listed companies held in past 3 years

- Fletcher Building Limited since 31 January 2001.

Neil (ND) Hamilton LLB, age 56 - Independent non-executive Director

Insurance industry experience

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

Other business experience

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

Neil was formerly the chairman of Western Power Corporation.

Directorships of other listed companies held in past 3 years

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

Anna (A) Hynes BSc (Hons), MBA (Harvard), age 49 - Independent non-executive Director

Insurance industry experience

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

Other business experience

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

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

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

Directorships of other listed companies held in past 3 years

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

Rowan (RA) Ross BEc, BCom, FCPA, SF Fin, age 59 - Independent non-executive Director

Insurance industry experience

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

Other business experience

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

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

Directorships of other listed companies held in past 3 years

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

Brian (BM) Schwartz FCA, AM, age 55 - Independent non-executive Director

Insurance industry experience

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

Other business experience

Brian is also chief executive of Investec Bank (Australia) Limited, and deputy chairman of the board of Football Federation Australia Limited.

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

Brian was appointed a Member of the Order of Australia in 2004 for his services to business and the community.

Directorships of other listed companies held in past 3 years

- None.

Philip (P) Twyman BSc, MBA, FIA, FIAA, FAICD, age 64 - Independent non-executive Director

Insurance industry experience

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

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

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

Other business experience

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

Directorships of other listed companies held in past 3 years

- Perpetual Limited since November 2004.

Michael (MJ) Wilkins BCom, MBA, DLi, FCA, age 51 - Chief Executive Officer and Managing Director

Insurance industry experience

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

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

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

Other business experience

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

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

Directorships of other listed companies held in past 3 years

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

Former directors who retired/resigned during the financial year

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

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

Secretary of Insurance Australia Group Limited

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

Glenn Revell was appointed Group Company Secretary in August 2006. Before this appointment, Glenn held the position of Company Secretary in the IAG Group. Prior to joining IAG, he held the position of General Manager Corporate Affairs & Company Secretary of Howard Smith Limited for eight years.

Fraser (F) MacLennan-Pike GAICD

Fraser MacLennan-Pike is Deputy Company Secretary. Before this appointment, Fraser held positions in IAG's Group Business Development and Group Legal teams.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Meetings of directors

The number of meetings each Director was eligible to attend and actually attended during the financial year is summarised as follows:

	Board of Directors		IAG Audit Committee		IAG Nomination, Remuneration & Sustainability Committee		IAG Risk Management & Compliance Committee		IAG Board Sub-Committee	
Total number of meetings held	24		5		8		6		5	
Directors	A	B	A	B	A	B	A	B	A	B
JA Strong	24	24	-	-	8	8	-	-	5	5
YA Allen	24	24	5	5	8	8	-	-	-	-
JF Astbury(i)	2	2	1	1	1	1	-	-	-	-
PM Colebatch	24	22	-	-	-	-	5	4	-	-
GA Cousins(i)	2	2	1	1	-	-	-	-	-	-
HA Fletcher(ii)	22	22	4	4	-	-	-	-	-	-
ND Hamilton	24	23	-	-	-	-	6	6	-	-
A Hynes(ii)	22	20	-	-	-	-	5	5	-	-
RA Ross	24	23	-	-	8	8	6	6	-	-
BM Schwartz	24	24	4	4	8	8	1	1	-	-
MJ Hawker(iv)	22	22	-	-	-	-	-	-	5	5
MJ Wilkins(iii)	18	18	-	-	-	-	-	-	-	-

A - Meetings eligible to attend as a member

B - Meetings attended as a member

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

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

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

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

Principal activities

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

Operating and financial review

Operating result for the financial year

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

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

(a) Underwriting result

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

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

The key factors driving the current year underwriting result were:

- the increase in claims expenses due to the increased incidence of storms in all geographical locations and an earthquake in the New Zealand (NZ) of $502 million or loss ratio of 6.9% (2007 – $411 million or loss ratio of 5.7%);

Operating and financial review (continued)

- reserve releases of $406 million or loss ratio of 5.6% (2007 – $485 million or loss ratio of 7.2%) due to the continuing stability of liability and CTP classes and a one off diversification benefit in 2007; and
- continued soft cycle conditions in commercial business and UK motor.

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

*(i) Australia insurance operation*s

Gross written premium of the Australia insurance operation increased slightly to $5,494 million for the current year (2007 – $5,489 million). This was mainly due to:

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

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

The key factors driving the current year underwriting results were:

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

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

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

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

(ii) New Zealand insurance operations

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

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

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

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

Operating and financial review (continued)

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

(iii) UK insurance operations

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

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

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

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

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

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

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

(iv) Asia insurance operations

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

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

(v) Reinsurance operations

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

Gross written premium from external parties decreased to $26 million (2007 – $31 million).

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

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

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

(b) Corporate and investments

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

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

Operating and financial review (continued)

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

The increase was mainly attributable to the:

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

Review of financial condition

(a) Financial position

(i) Assets

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

- reduction in investments mainly due to:
  - the repayment of $300 million AUD subordinated term notes and $112 million of unsecured and floating rate notes. These repayments were offset to some extent by the proceeds from the issue of $87 million of NZD subordinated term notes;
  - the repayment of $200 million reset preference shares;
  - the net decrease in investments as a result of the net redemption of units by minority interests in IAG controlled unit trusts of $233 million;
  - the negative returns in equity market investments and adverse effect of widening in credit spreads on fixed interest securities; and
  - funding of net claims payments for significant storm and other events;
- an impairment provision on acquired intangibles and goodwill of $342 million as a result of the IAG Group's refined strategy in the UK operations to focus on the specialist motor classes and exit the private motor market, together with amortisation of intangibles;
- decrease in reinsurance recoveries due to a reduction in the gross estimate of the Newcastle storms in June 2007;
- a decrease in defined benefit plan assets as a result of the increase in Australian plan actuarial losses by $59 million; and
- the strengthening of the Australian dollar exchange rate against other currencies as at 30 June 2008 compared to the corresponding exchange rate as at 30 June 2007. This resulted in a reduction in value of assets held in the UK and New Zealand operations.

Operating and financial review (continued)

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

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

(iii) Equity:

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

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

(b) Cash from operations

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

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

- an increase in claims paid (net of recoveries received) by $1,067 million or 24% compared to an increase in premium receipts (net of reinsurance expense paid) of only $689 million or 10%. The increase in claims paid has been largely due to adverse claims experience in 2008 and the payment of large losses incurred in June 2007 in all major operating segments and a full year of UK operations included in 2008 compared to nine months for Hastings and Advantage and six months of Equity Insurance Group in 2007. The increase in premium receipts is due to increase in gross premiums written as well as collection of prior year receivables and a full year of UK operations included in 2008; and
- an increase in other operating payments (net of other operating receipts) by $329 million or 18% due to a full year of UK operations included in 2008.

These decreases were offset to some extent by:

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

Operating and financial review (continued)

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

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

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

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

These decreases were offset to some extent by:

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

(c) Capital adequacy / minimum capital requirements

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

The decrease in MCR multiple was mainly attributable to:

Decrease in regulatory capital:

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

Offset by increase in regulatory capital:

- the issue of NZD subordinated term notes (NZ$100 million); and
- reductions in deduction from the capital base for intangible assets as a result of:
    - continuing amortisation of acquired intangibles of $65 million in 2008;
    - an impairment charges of $342 million on acquired intangible assets and goodwill; and
    - strengthening of the Australian dollar exchange rate against British pound and New Zealand dollar, thereby reducing the total value of intangible assets which are deducted from the capital base.

Operating and financial review (continued)

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

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

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

Further information on the IAG Group's result and review of operations can be found in the 30 June 2008 Investor Report on IAG's website, www.iag.com.au.

Likely developments

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

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

- Improve the performance in Australia and New Zealand as well as delivering superior, differentiated customer experiences and managing operating costs;
- Pursue selective growth opportunities in Asia and other narrow specialist opportunities;
- Operate a devolved model with the Corporate Office as portfolio manager; and
- Drive operational performance and execution.

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

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

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

Dividends

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

Significant changes in state of affairs

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

(a) There were changes in the executive team during the financial year:

- Michael Wilkins, Leona Murphy, Duncan West were appointed; and
- Michael Hawker, David Issa and Mario Pirone resigned and Sam Mostyn changed to an advisor role.

(b) There was a net reduction in debts of the IAG Group resulting from:

- The issue of ordinary shares to fund dividends of $379 million;
- The repayment of reset preference shares ($200 million), AUD subordinated term notes ($300 million) and other notes ($112 million); and
- The issue of $87 million NZD subordinated term notes.

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

Events subsequent to reporting date

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

- declaration of final dividend of 9 cents per ordinary shares.

Officers who were previously partners of the auditors

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

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

Non-audit services

During the financial year, KPMG has performed certain other services for the IAG Group in addition to their statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the Audit Committee, are satisfied that the provision of those non-audit services by the IAG Group's auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit assignments were approved in accordance with the process set out in the IAG Audit Committee Charter ("Charter") on the agreed framework for engaging auditors for non-audit services; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants of the Institute of Chartered Accountants in Australia and CPA Australia, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The level of fees for total non-audit services amount to approximately 37.3% of total audit fees (refer to note 5 to the financial statements for further details on costs incurred on individual non-audit assignments.)

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 37 and forms part of the Directors' report for the year ended 30 June 2008.

Indemnification and insurance of directors and officers

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

(a) a Director 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 or Company or of a subsidiary of the Company; or

(d) a 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 misbehavior or fraud. Under each deed, the Company is also required to maintain and pay the premiums on a contract of insurance covering the current or former Directors or members of senior management against liabilities incurred in respect of the relevant office except as precluded by law. The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance is prohibited by the relevant contract of insurance.

Environmental regulation

The IAG Group's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the IAG Group's operations. The Board of Directors believes that the IAG Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the IAG Group.

Remuneration Report - Audited

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

The Company's Non-executive Directors are specifically required to be included as KMP in accordance with the Australian Accounting Standard *AASB 124 Related Party Disclosures*. However, the Non-executive Directors are not part of 'management'.

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

Nomination, Remuneration & Sustainability Committee

The role and responsibilities of the Nomination, Remuneration & Sustainability Committee (Committee or NRSC) are set out in the Committee's charter which is available at www.iag.com.au. The key responsibilities of the NRSC in relation to remuneration are to:

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

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

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

A. Executives

1. Executive remuneration policy

IAG's approach to executive remuneration is to ensure that IAG can attract and retain the best people and reward performance in line with returns delivered to shareholders. Building and retaining a high quality management team will enable IAG to achieve superior long term performance.

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

- the remuneration offering is sufficiently competitive to attract and retain a high calibre executive team;
- remuneration practices are consistent with IAG's values;
- the mix of fixed and variable remuneration reflects the impact of each executive position on IAG's short term and long term results;
- reward outcomes are significantly differentiated based on performance;
- remuneration practices will help drive business objectives and motivate employees to perform at the highest level; and
- measures of performance are based on a balanced scorecard with a focus on the delivery of sustainable value to our shareholders.

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

2. Significant changes related to executive remuneration

(a) Remuneration structure and policy

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Remuneration Report - Audited (continued)

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

(b) Executive team changes for the next financial year

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

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

The remuneration details in section 6(a) are only in respect of remuneration for services provided during the current financial year.

3. Executive remuneration structure

Policy	How delivered	Details
Base salary Base salary is targeted at the median of the market. Unless there has been significant change in job responsibility, increases in base salary generally do not exceed external market movements.	- Paid in cash - Reviewed annually	Includes all components that make up an executive's salary. Components include cash, salary sacrifice items such as superannuation, cars or parking and any related taxes. Base salary is determined by a review of job size, internal relativities and market benchmarking. Mercer provides advice on job responsibility and market benchmarking. The comparator groups for market benchmarking are the largest 50 companies in the S&P/ASX 100 index and the financial services companies that are among the largest 50 companies in the S&P/ASX 100 index.
Superannuation Contribution rates are consistent with the contribution provided to other employees of IAG in the country in which the executive is based.	- Paid in accordance with legislative requirements - For Australian executives, superannuation is capped at the concessional contribution limits.	

Remuneration Report - Audited (continued)

Short term incentives (STI) Short term incentives 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. The STI payment recognises individual high performance. No maximum amounts are set.	Annually, a proportion of STI is paid as cash and a proportion of STI is paid as Deferred Award Rights (DARs) which is referred to as 'Deferred STI' later in this report. DARs are rights over issued shares held by a trustee. If an executive remains employed by the IAG Group, the DARs will become exercisable in tranches as follows: - 50% (after Year 1) - 30% (after Year 2) - 20% (after Year 3)	IAG uses a balanced scorecard for setting goals and measuring performance. This ensures that assessment of performance is viewed holistically and assists the development of sustainable business that meets the performance expectations of IAG shareholders, stakeholders and the communities in which it conducts its business. At the commencement of each financial year, financial and non-financial goals are set for each executive. The goals set are stretch goals and are designed to encourage executives to strive for exceptional performance. Financial performance determines 50% of the STI outcome, with the remainder dependent on the achievement of objectives relating to business operations, customer, people (employee engagement, turnover and productivity), risk and community. Financial performance includes the IAG Group financial targets (growth in net written premium and ROE) as well as specific business unit financial targets. At the end of the financial year the amount of any incentive payment is determined based on measured achievement against those goals and a review of the executive’s overall performance by the CEO and NRSC. The Chairman reviews the performance of the CEO and makes a recommendation to the Board in relation to any incentive payment for the CEO. The Chairman and Board have an overriding discretion to determine STI payments and will only approve payments when the goals are achieved in the context of the IAG Group’s strategy and risk appetite (eg. risk of ruin parameters and business mix) as approved by the Board. Section 4(a) ('At risk' remuneration - short term) details the link between IAG's performance and STI outcomes for executives.
Long term incentives (LTI) EPRs are awarded to executives to strengthen the alignment between the interests of executives and shareholders. The EPRs plan has replaced the PARs plan as IAG's executive long term incentive plan	Under the EPRs plan, awards are made annually in the form of rights over issued shares held by a trustee that vest, subject to the performance conditions, as follows: - 50% are subject to a relative TSR hurdle (entities in the S&P / ASX 100 index), measured on the 3rd, 4th and 5th anniversaries of the base date - 50% are subject to a ROE hurdle, measured after three financial years Awards that do not vest, lapse.	EPR grants are based on an assessment of performance, leadership capability and strategic input. Section 4(b) ('At risk' remuneration – long term) details the link between return to shareholders and LTI reward for executives.

Remuneration Report - Audited (continued)

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 section 7.

(a) 'At risk' remuneration - short term

The payment of STI is directly linked to IAG's performance over the previous year based on a balanced scorecard of measures, which includes a measure of the profitability and growth in IAG's core business.

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

Category	*Goal*	*Reason chosen*	*Method of assessment*	*Outcome*
Financial	Return on equity	Measures the profitability of the core business of IAG	Comparison of achievement against target	Not met
Financial	Growth in net written premium	Measures the 'top line' growth of IAG's business.	Comparison of achievement against target	Partially met (1)

(1) Where a goal is partially met, there has been improvement in performance but the stretch goal has not been met.

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

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

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

(b) 'At risk' remuneration - long term

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

(i) DARs plan

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

Remuneration Report - Audited (continued)

(ii) EPRs plan

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

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

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

Plan	**EPRs plan 2007/2008 - Series 1**	
	TSR	Normalised ROE
Grant date	29/10/2007 29/11/2007 13/03/2008	29/10/2007 29/11/2007 13/03/2008
Base date	30 September 2007	N/A
Performance period definition	3 - 5 years from grant date	1 July 2007 - 30 June 2010
IAG share price at base date ($)	5.31	N/A
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following Board approval of financial results for period ending 30 June 2010
First day test	30/09/2010	30/06/2010
Last day test	30/09/2012	30/06/2010
Performance hurdle achievement		
Last exercise date ***(Continuing employees only)***	29/10/2017 29/11/2017 13/03/2018	29/10/2017 29/11/2017 13/03/2018

The table below applies to the EPRs plan disclosed above:

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

Remuneration Report - Audited (continued)

Performance hurdle testing

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

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

ROE performance hurdle (50% of total allocation) – The normalised ROE hurdle is measured relative to IAG's weighted average cost of capital. Normalised ROE is measured for each six month period during the three financial years over which the performance hurdle is measured. There is only one test date for the ROE portion of the EPRs. For any of the ROE portion of EPRs to be exercisable, the ROE (the average of the six monthly normalised ROE measurements over the three financial years) must reach at least 1.3 times WACC.

Vesting of EPRs - change of control

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

(iii) PARs plan

The PARs plan has been replaced by the EPRs plan to deliver LTI. No further allocations will be made under the PARs plan.

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

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

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	3-5 years from base date
IAG share price at base date ($)	2.92	3.90	5.08	5.87	5.29
Performance hurdle test schedule	Quarterly - Last trading day of each calendar quarter in performance period	Quarterly - Last trading day of each calendar quarter in performance period	Quarterly - Last trading day of each calendar quarter in performance period	Quarterly - Last trading day of each calendar quarter in performance period	Quarterly - Last trading day of each calendar quarter in performance period
First day test	30/12/2005	29/09/2006	28/09/2007	30/09/2008	30/09/2009
Last day test	28/09/2007	30/06/2008	30/06/2009	30/06/2010	30/09/2011
Performance hurdle achievement	Partially achieved, 56% of PARs are exercisable and remaining 44% lapsed	Not achieved	Not achieved		
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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Remuneration Report - Audited (continued)

The table below applies to all the PAR 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 =50% 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 twelve month period ending on the 30 June that immediately precedes the grant date are announced to the Australian Securities Exchange (ASX).

Performance hurdle testing

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

Vesting of PARs - change of control

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

Restrictions on dealing in IAG securities

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

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

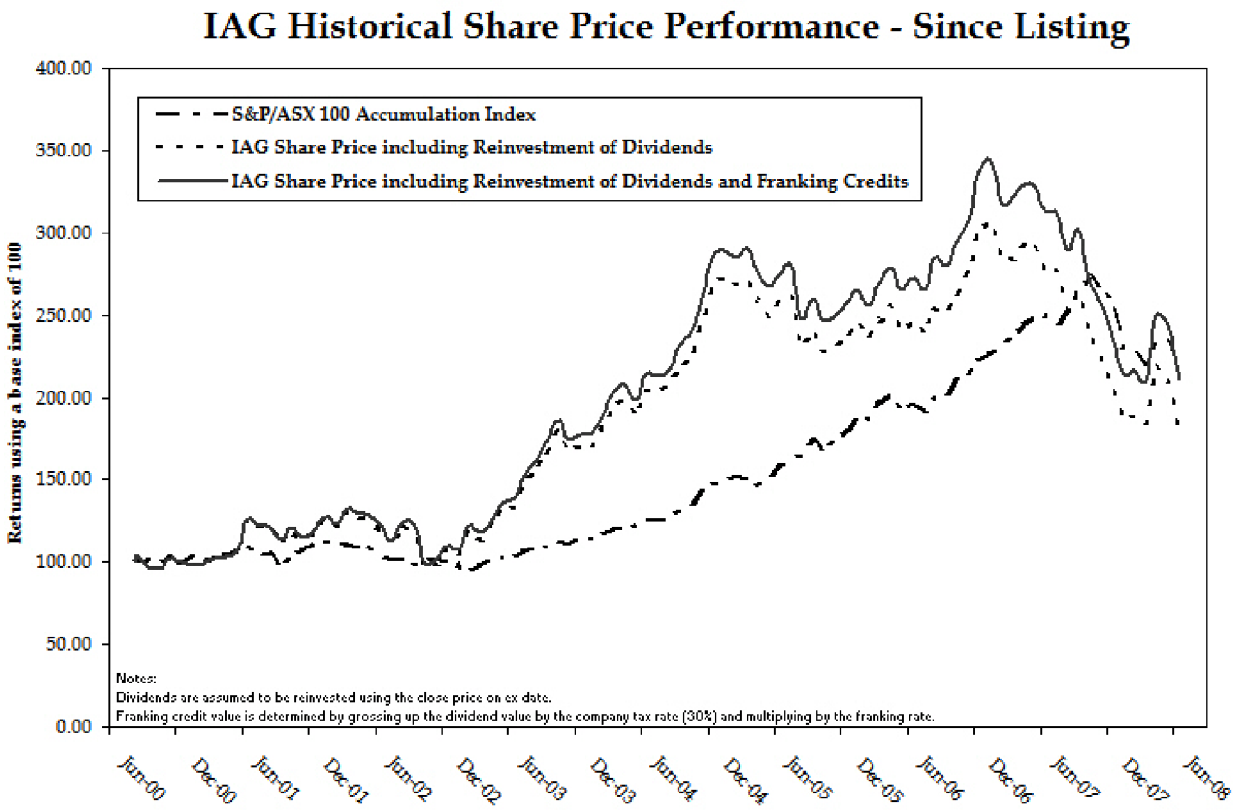
The following table outlines the returns delivered to IAG shareholders since 30 June 2002:

	Year ended 30 June 2002	**Year ended 30 June 2003**	**Year ended 30 June 2004**	**Year ended 30 June 2005**	**Year ended 30 June 2006**	**Year ended 30 June 2007**	**Year ended 30 June 2008**
Closing share price ($)	3.15	3.40	5.00	6.01	5.35	5.70	3.47
Dividends paid (cents)	10.50	11.50	22.00	26.50	42.00	29.50	22.50
Earnings per share (cents) *	(1.78)	8.65	37.87	49.31	47.66	32.79	(14.29)
Normalised net profit(i) after tax ($ million) *	337	441	552	614	550	522	290

(i) Normalised net profit is determined by excluding the amortisation and impairment charges of intangible assets and goodwill and substituting actual investment earnings on equity holders' funds with long-term returns.
* All amounts post 2005 have been measured under current Australian Accounting Standards (AASBs) which became applicable for years commencing on or after 1 January 2005. All amounts prior to 2005 were measured under previous AASBs.

Remuneration Report - Audited (continued)

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



5. Service agreements

All service agreements for executives are unlimited in term but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The service agreements outline the components of remuneration paid to executives and require the remuneration of executives to be reviewed annually. The service agreements do not require IAG to increase base salary, pay a short term incentive or offer a long term incentive in any given year. N Utley's service agreement, which was in force prior to the acquisition of the Equity Insurance Group, provides for an annual base salary adjustment based on the movement in the Retail Prices Index in the United Kingdom.

Remuneration Report - Audited (continued)

Name	Notice period, Company	Notice period, Employee	Termination provisions	Additional payment if IAG invokes a restraint clause
MJ Wilkins	12 months	6 months	12 months base salary, plus payment for annual leave, long service leave and short-term incentive that would have accrued for 12 months had termination not occurred	6 months base salary
JP Breheny	12 months	3 months	12 months base salary	-
AM Coleman	12 months	3 months	12 months base salary	6 months base salary
NB Hawkins	12 months	3 months	12 months base salary	-
JS Johnson	12 months	3 months	12 months base salary	-
CF McLoughlin	12 months	3 months	12 months base salary	-
LC Murphy	12 months	3 months	12 months base salary	-
N Utley	12 months	12 months	12 months base salary, plus payment for the value of benefits (excluding short-term incentive) that would have accrued for 12 months had termination not occurred.	-
J van der Schalk	12 months	3 months	12 months base salary	6 months base salary
G Venardos	12 months	3 months	12 months base salary	6 months base salary
DG West	12 months	3 months	12 months base salary	-

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

Retrenchment

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

(a) the written notice or payment in lieu of notice as provided in their service agreement; or

(b) the retrenchment benefits due under the relevant company retrenchment policy.

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

Company retrenchment policy

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

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

(b) 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:

(a) at least twelve weeks notice or payment in lieu of notice (calculated on the employee’s base salary); and

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Remuneration Report - Audited (continued)

6. Remuneration details

(a) Remuneration of executives for the IAG Group

	Short-term employment benefits			**Post-employment benefits**		**Other long-term employment benefits**	**Termination benefits**	**Share-based payment**		**Total**
	Base salary (1)	Short term incentives (2)	Other (3)	Superannuation (4)	Retirement benefits	Long service leave accruals (5)		Value of Deferred 2007 STI granted as DARs(6)	Value of DARs / EPRs/ PARs/ shares granted (7,8)	
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Executives (including Executive Director):										
MJ Wilkins, Chief Executive Officer and Managing Director, KMP since 26 November 2007 (i)										
2008	**857**	**395**	**-**	**78**	**-**	**4**	**-**	**-**	**133**	**1,467**
JP Breheny, Chief Executive Officer - Asia										
2008	**736**	**226**	**-**	**89**	**-**	**6**	**-**	**115**	**261**	**1,433**
2007	667	349	175	85	-	5	-	-	137	1,418
NB Hawkins, Chief Executive Officer - IAG New Zealand, KMP since 1 March 2006 (ii)										
2008	**648**	**137**	**57**	**89**	**-**	**10**	**-**	**115**	**303**	**1,359**
2007	647	351	45	84	-	10	-	-	174	1,311
JS Johnson, Chief Executive Officer - eVentures										
2008	**726**	**280**	**-**	**50**	**-**	**13**	**-**	**138**	**232**	**1,439**
2007	715	356	-	84	-	15	-	-	116	1,286
LC Murphy, Group Executive - Business Services, KMP since 3 December 2007 (i)										
2008	**270**	**145**	**-**	**35**	**-**	**1**	**-**	**-**	**18**	**469**
N Utley, Chief Executive Officer - United Kingdom, KMP since 9 January 2007										
2008	**978**	**590**	**-**	**127**	**-**	**-**	**-**	**90**	**202**	**1,987**
2007	549	262	-	68	-	-	-	-	15	894
DG West, Chief Executive Officer - CGU, KMP since 29 January 2008 (i)										
2008	**358**	**229**	**-**	**43**	**-**	**2**	**-**	**-**	**20**	**652**
AM Coleman, Chief Risk Officer and Group Actuary (ii)										
2008	**713**	**538**	**-**	**93**	**-**	**17**	**-**	**134**	**395**	**1,890**
2007	639	431	-	89	-	16	-	-	264	1,439

Remuneration Report - Audited (continued)

CF McLoughlin, Group Executive - Strategy, People & Reputation (ii)										
2008	**699**	**421**	**-**	**50**	**-**	**8**	**-**	**100**	**233**	**1,511**
2007	541	318	-	71	-	5	-	-	116	1,051
J van der Schalk, Chief Executive Officer - Asset Management and Reinsurance (ii)										
2008	**634**	**360**	**-**	**50**	**-**	**10**	**-**	**69**	**267**	**1,390**
2007	659	327	-	81	-	27	-	-	146	1,240
G Venardos, Group Chief Financial Officer (ii)										
2008	**826**	**594**	**-**	**100**	**-**	**27**	**-**	**149**	**464**	**2,160**
2007	782	480	-	98	-	21	-	-	305	1,686
Executives who ceased as key management personnel :(iii)										
MJ Hawker, former Chief Executive Officer and Managing Director, KMP until 26 May 2008										
2008	**1,561**	**1,565**	**-**	**45**	**-**	**(77)**	**1,939**	**174**	**(1,446)**	**3,761**
2007	1,297	722	-	174	-	24	-	-	1,381	3,598
DA Issa, former Chief Executive Officer - Direct Insurance, KMP until 4 July 2008										
2008	**858**	**784**	**-**	**50**	**-**	**45**	**1,075**	**142**	**405**	**3,359**
2007	701	456	-	94	-	12	-	-	251	1,514
SJ Mostyn, former Group Executive - Culture & Reputation, KMP until 15 October 2007										
2008	**155**	**112**	**-**	**21**	**-**	**2**	**-**	**32**	**87**	**409**
2007	553	301	-	73	-	10	-	-	227	1,164
MJ Pirone, former Chief Executive Officer - CGU, KMP until 29 January 2008										
2008	**806**	**580**	**-**	**50**	**-**	**29**	**725**	**119**	**408**	**2,717**
2007	719	444	-	91	-	24	-	-	268	1,546
P Connell only KMP for the period 29 September 2006 to 20 February 2007										
2007	253	162	-	24	-	-	-	-	14	453

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

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

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

Refer to section (b) below for details of Notes (1) - (8) referencing in the above table 6(a).

Remuneration Report - Audited (continued)

(b) Details of notes (1) to (6) used in the tables in the tables in section 6(a)

(1) Base salary represents amounts paid in cash and the value of non monetary benefits such as cars and parking and annual leave accruals, as determined in accordance with AASB 119 *Employee Benefits.*

(2) 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 28(c) for details of how this plan operates.

(3) NB Hawkins received an accommodation allowance in New Zealand. In 2007, JP Breheny received a special payment which was only payable after completion of twelve months service with the IAG Group.

(4) Superannuation represents the employer's contributions. Refer note 29 for details of how this plan operates.

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

(6) The deferred 2007 STI is granted as DARs and an allocated portion of unvested DARs is included in the total remuneration disclosure above. DARs are valued using a Black Scholes valuation model. The deferred 2008 STI will be granted in next financial year and therefore, no value was included in the table above.

(7) An allocated portion of unvested EPRs (new rights issued in 2008), DARs and PARs is included in the total remuneration disclosure above. The year ended 30 June 2008 value included shares issued under a once off share allocation (refer to section 8(a) for further details).

To determine the EPRs and PARs values the Monte-Carlo simulation methodology model has been applied. The valuation takes into account the exercise price of the EPRs and PARs, life of the EPRs and PARs, current price of IAG shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, the performance of the shares in the Peer Group of companies, early exercise and non transferability, and turnover which is assumed to be zero for an individual's remuneration calculation. DARs are valued using a Black Scholes valuation model.

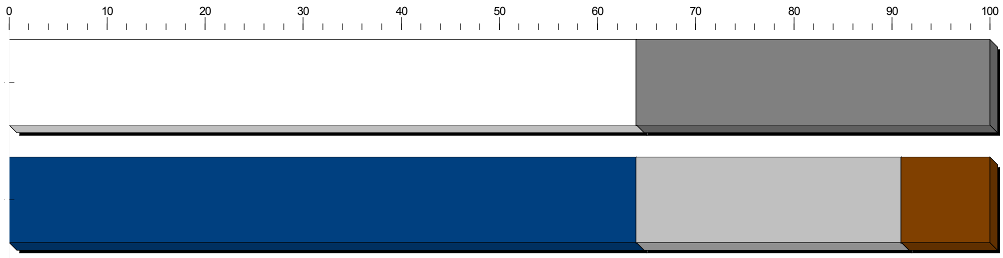
(8) The year ended 30 June 2008 included a reversal adjustment on lapsed rights which was recognised as share based remuneration for services provided since date of grant in prior periods. These rights lapsed on MJ Hawker's ceasing employment with the IAG Group.

7. At risk remuneration

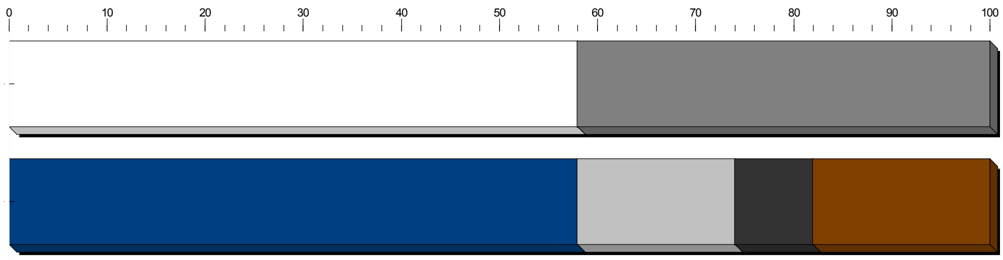
Total remuneration for executives is comprised of 'at risk' and 'not at risk' remuneration. Base salary and superannuation is 'not at risk', while short term incentives and share based remuneration provided through the DARs, EPRs and PARs Plans is 'at risk'.

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

MJ Wilkins



JP Breheny



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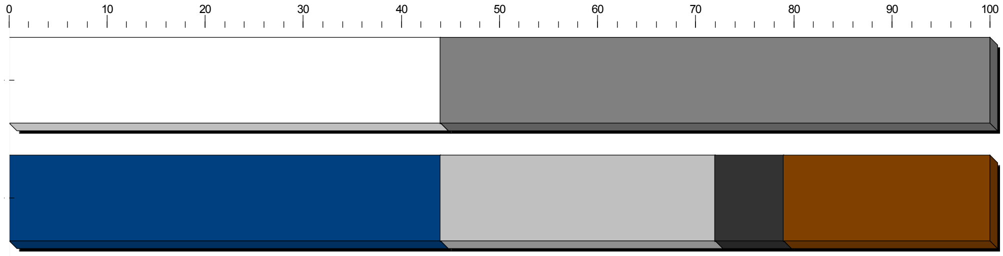
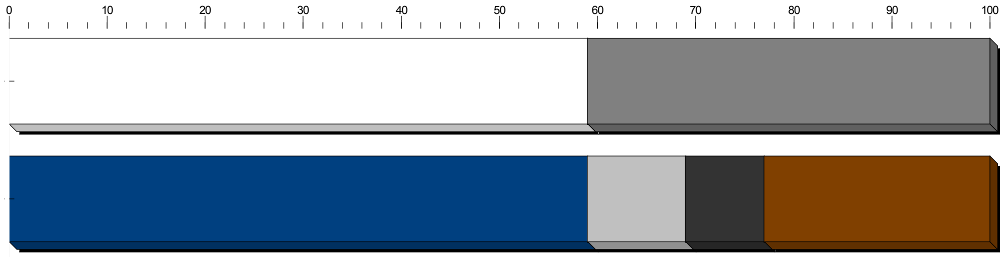
DIRECTORS' REPORT

Remuneration Report - Audited (continued)

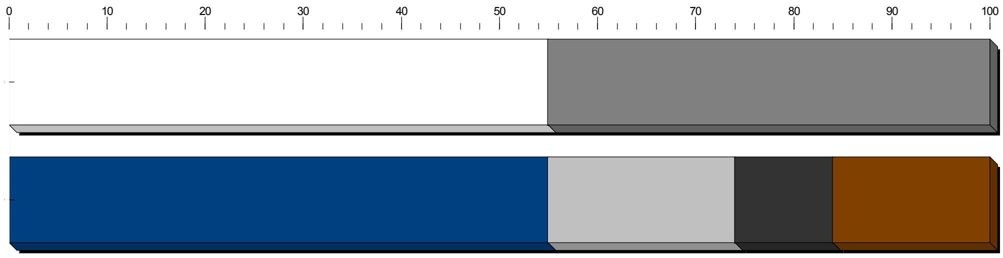
AM Coleman



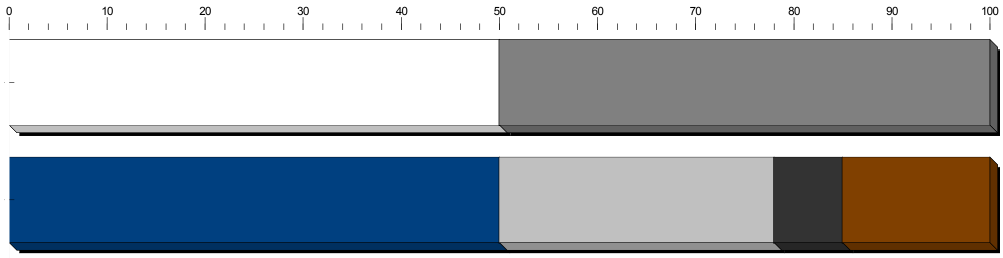
NB Hawkins



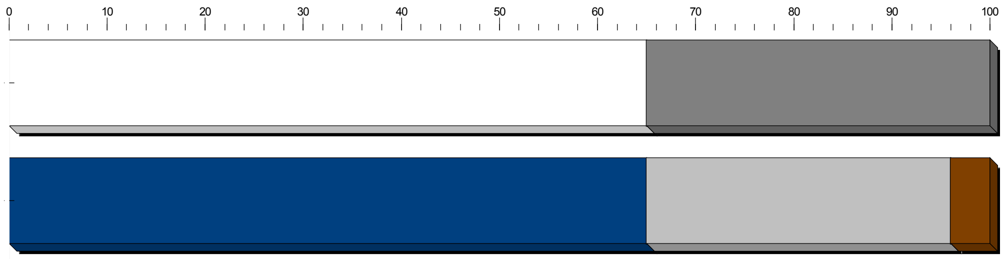
JS Johnson



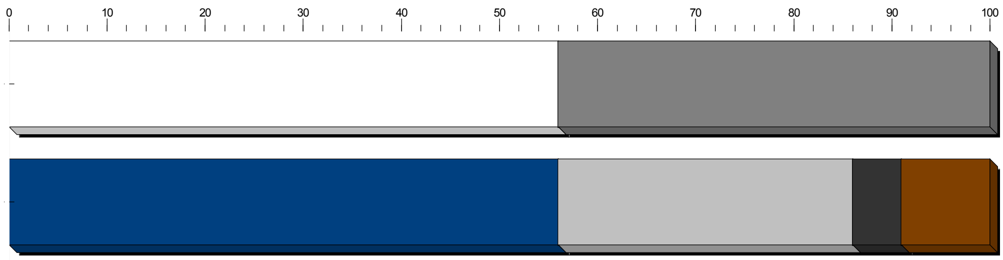
CF McLoughlin



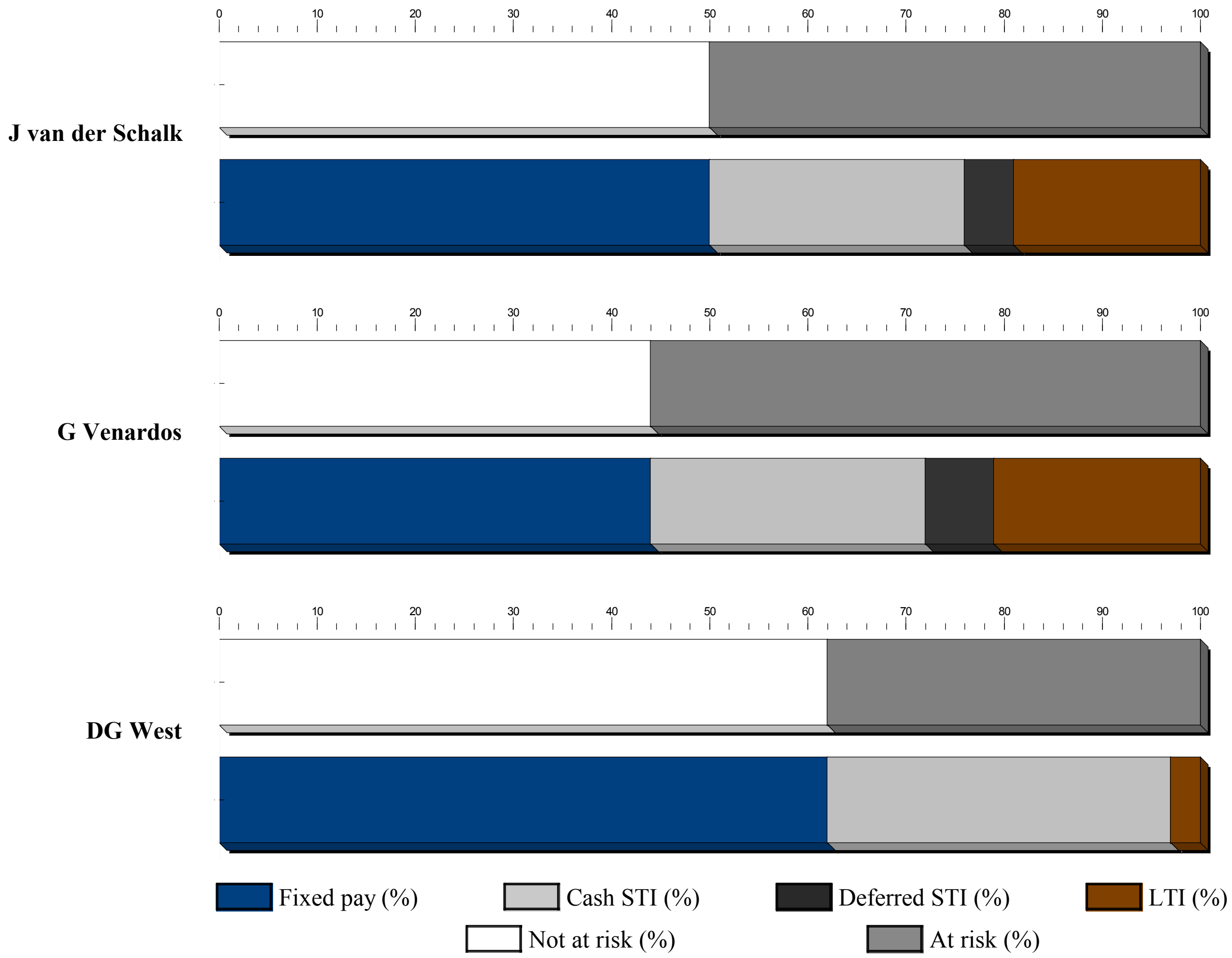
LC Murphy



N Utley



Remuneration Report - Audited (continued)



(b) Short term incentives

The portion of the STI 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 STI based on IAG's performance and their own performance. The amount of STI paid to an executive is recommended by the CEO and approved by the NRSC. The amount of STI paid to the CEO is recommended by the NRSC and approved by the Board.

(c) Share based remuneration

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

It is not practical to provide an estimate of the maximum possible total value of share based remuneration that may vest in future years for any EPRs, DARs or PARs issued up to 30 June 2008 because the value is directly linked to (i) the future IAG share price at the time of vesting; and (ii) with respect to EPRs and PARs, the future TSR performance of IAG and companies in the S&P / ASX 100 index. The minimum possible total value of share based remuneration is zero.

Remuneration Report - Audited (continued)

8. Share based remuneration - Share allocation, DARs, EPRs, PARs & PSRs

(a) Share allocation

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

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

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

(b) DARs

(i) Details of DARs granted

The IAG Group has issued DARs to the executives during the financial year for nil consideration. Each executive who participates in the 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.

2008	Grant date	Date first exercisable	Last expiry date	Value per DAR at grant date	Number of DARs granted during the year
				$	Number
MJ Wilkins	-	-	-	-	-
JP Breheny	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**47,900**
AM Coleman	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**55,700**
NB Hawkins	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**47,900**
JS Johnson	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**57,100**
CF McLoughlin	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**41,500**
LC Murphy	-	-	-	-	-
N Utley	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**37,500**
J van der Schalk	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**28,600**
G Venardos	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**61,900**
DG West	-	-	-	-	-
Executives who ceased as key management personnel:					
MJ Hawker	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**144,500**
DA Issa	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**73,800**
SJ Mostyn	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**45,400**
MJ Pirone	**27/09/2007**	**01/07/2008**	**27/09/2017**	**4.82**	**61,500**
					703,300

(ii) Details of DARs vested and exercised

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

(c) EPRs

(i) Details of EPRs granted

The EPRs plan replaced the PARs plan as IAG's new executive long term incentive plan. The IAG Group issued EPRs to the executives during the financial year for nil consideration. Each executive who participates in the plan becomes eligible to receive an ordinary share per EPR at no exercise price, subject to specific performance hurdles being met. Refer to section A.4(b) for details of the performance hurdles.

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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Remuneration Report - Audited (continued)

(ii) EPRs subject to TSR performance hurdle

2008	Grant date	Date first exercisable	Last expiry date	Value per EPR at grant date	Number of EPRs granted during the year
				$	Number
MJ Wilkins	29/11/2007	30/09/2010	29/11/2017	2.35	125,000
JP Breheny	29/10/2007	30/09/2010	29/10/2017	2.87	49,250
AM Coleman	29/10/2007	30/09/2010	29/10/2017	2.87	51,500
NB Hawkins	29/10/2007	30/09/2010	29/10/2017	2.87	48,000
JS Johnson	29/10/2007	30/09/2010	29/10/2017	2.87	49,750
CF McLoughlin	29/10/2007	30/09/2010	29/10/2017	2.87	48,000
LC Murphy	29/10/2007	30/09/2010	29/10/2017	2.87	17,500
N Utley	29/10/2007	30/09/2010	29/10/2017	2.87	71,750
J van der Schalk	29/10/2007	30/09/2010	29/10/2017	2.87	47,500
G Venardos	29/10/2007	30/09/2010	29/10/2017	2.87	56,750
DG West	13/03/2008	30/09/2010	13/03/2018	1.63	50,000
Executives who ceased as key management personnel:					
MJ Hawker	29/10/2007	30/09/2010	29/10/2017	2.87	175,000
DA Issa	29/10/2007	30/09/2010	29/10/2017	2.87	58,500
SJ Mostyn	29/10/2007	30/09/2010	29/10/2017	2.87	14,250
MJ Pirone	29/10/2007	30/09/2010	29/10/2017	2.87	51,500
					914,250

(iii) EPRs subject to the ROE performance hurdle

2008	Grant date	Date first exercisable	Last expiry date	Value per EPR at grant date	Number of EPRs granted during the year
				$	Number
MJ Wilkins	29/11/2007	30/06/2010	29/11/2017	3.68	125,000
JP Breheny	29/10/2007	30/06/2010	29/10/2017	4.31	49,250
AM Coleman	29/10/2007	30/06/2010	29/10/2017	4.31	51,500
NB Hawkins	29/10/2007	30/06/2010	29/10/2017	4.31	48,000
JS Johnson	29/10/2007	30/06/2010	29/10/2017	4.31	49,750
CF McLoughlin	29/10/2007	30/06/2010	29/10/2017	4.31	48,000
LC Murphy	29/10/2007	30/06/2010	29/10/2017	4.31	17,500
N Utley	29/10/2007	30/06/2010	29/10/2017	4.31	71,750
J van der Schalk	29/10/2007	30/06/2010	29/10/2017	4.31	47,500
G Venardos	29/10/2007	30/06/2010	29/10/2017	4.31	56,750
DG West	13/03/2008	30/06/2010	13/03/2018	2.71	50,000
Executives who ceased as key management personnel:					
MJ Hawker	29/10/2007	30/06/2010	29/10/2017	4.31	175,000
DA Issa	29/10/2007	30/06/2010	29/10/2017	4.31	58,500
SJ Mostyn	29/10/2007	30/06/2010	29/10/2017	4.31	14,250
MJ Pirone	29/10/2007	30/06/2010	29/10/2017	4.31	51,500
					914,250

(iv) Details of EPRs vested and exercised

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

Remuneration Report - Audited (continued)

(d) PARs

(i) Details of PARs granted

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

(ii) Details of PARs vested and exercised

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

(e) PSRs

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

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

(f) Analysis of movements in share based remuneration

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

2008	Total value of DARs and EPRs granted (i)	Total value of DARs, EPRs, PARs and PSRs exercised (ii)	Total value of share allocation (iii)	Total value DARs, EPRs and PARs that lapsed (iv)
	\$000	**\$000**	**\$000**	**\$000**
MJ Wilkins	**754**	**-**	**-**	**-**
JP Breheny	**584**	**-**	**-**	**-**
AM Coleman	**638**	**-**	**70**	**(223)**
NB Hawkins	**576**	**-**	**51**	**(162)**
JS Johnson	**632**	**-**	**8**	**(25)**
CF McLoughlin	**545**	**-**	**-**	**-**
LC Murphy	**126**	**-**	**-**	**-**
N Utley	**696**	**-**	**-**	**-**
J van der Schalk	**479**	**132**	**29**	**(94)**
G Venardos	**706**	**-**	**92**	**(275)**
DG West	**217**	**-**	**-**	**-**
Total	**5,953**	**132**	**250**	**(779)**
Executives who ceased as key management personnel:				
MJ Hawker	**495**	**-**	**231**	**(7,493)**
DA Issa	**191**	**-**	**61**	**(248)**
SJ Mostyn	**74**	**-**	**59**	**(188)**
MJ Pirone	**165**	**-**	**61**	**(239)**
Total	**925**	**-**	**412**	**(8,168)**

Remuneration Report - Audited (continued)

Notes:

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

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

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

(iv) Rights lapsed during the financial year included 44% of PARs series 1 and rights lapsed upon KMP ceasing employment with the IAG Group.

PARs series 1 are valued at the market value of IAG shares at the last date of performance hurdle testing.

MJ Hawker's lapsed PARs, DARs and EPRs and DA Issa and MJ Pirone lapsed DARs were valued based on the market value of IAG shares at 30 June 2008.

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

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 $2,750,000 per annum. The aggregate annual remuneration is inclusive of employer superannuation contributions paid by IAG on behalf of Non-executive Directors.

(a) IAG Board and Committee fees

Board / Committee	Role	Fee
IAG Board	Chairman Director	$450,000 $150,000
IAG Audit Committee	Chairman Member	$36,000 $18,000
IAG Risk Management & Compliance Committee	Chairman Member	$36,000 $18,000
IAG Nomination, Remuneration & Sustainability Committee	Chairman Member	$32,500 $16,250

(b) Non-executive Directors' share plan

The Board has agreed that each Non-executive Director should take a minimum of 20% and up to a maximum of 90% of their annual Board fee (at the time shares are allocated), on a fee sacrifice basis, in the form of IAG shares provided under the Non-executive Directors' Share Plan, which was approved by shareholders on 13 November 2002. IAG shares are purchased by a trustee on market and allocated to directors in December each year. Non-executive Directors may elect to restrict the disposal of these shares for a minimum period of one year and up to 10 years or until the Director retires. No other share-based remuneration is available to Non-executive Directors.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Remuneration Report - Audited (continued)

(c) Superannuation

IAG pays superannuation contributions on Director's fees into a superannuation fund nominated by the Director. Directors' fees and superannuation contributions are paid monthly.

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

(d) Non-executive directors' service on subsidiary boards

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

Director	Subsidiary	Capacity	Annual fee
JA Strong	Insurance Manufacturers of Australia Pty Limited	Chairman	$195,000
PM Colebatch	IAG UK Holdings Limited	Chairman	$100,497 (i)
HA Fletcher	IAG New Zealand Limited	Chairman	$89,916 (ii)
ND Hamilton	Mutual Community General Insurance Proprietary Limited	Chairman	$25,000
YA Allen	Mutual Community General Insurance Proprietary Limited	Director	$16,250

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

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

3. Performance

Directors' performance is subject to evaluation by the Chairman at least every two years, by discussion between the Chairman and the individual Director. In these discussions, the individual Directors also evaluate the Chairman's performance. Performance measures for Directors considered by the Chairman and Board include:

- contribution of the Director to Board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- in the case of the Chairman's performance, the fulfilment of the additional role as Chairman; and
- input regarding regulatory, industry and social developments surrounding the business.

The NRSC has responsibility for coordinating the Board's review of the Chairman's performance.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Remuneration Report - Audited (continued)

4. 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	Other Boards and committee fees	Superannuation	Retirement benefits			IAG Board fees received as IAG shares	
	$000	$000	$000	$000	$000	$000	$000	$000
JA Strong								
2008	**238**	**195**	**58**	**-**	**-**	**-**	**213**	**704**
2007	201	172	50	-	-	-	189	612
YA Allen								
2008	**128**	**66**	**13**	**-**	**-**	**-**	**28**	**235**
2007	105	37	15	-	-	-	25	182
PM Colebatch, appointed 1 January 2007								
2008	**79**	**115**	**15**	**-**	**-**	**-**	**71**	**280**
2007	33	48	6	-	-	-	33	120
HA Fletcher, appointed 1 September 2007								
2008	**46**	**90**	**13**	**-**	**-**	**-**	**79**	**228**
ND Hamilton								
2008	**27**	**43**	**13**	**-**	**-**	**-**	**128**	**211**
2007	17	55	17	-	-	-	113	202
A Hynes, appointed 1 September 2007								
2008	**108**	**14**	**12**	**-**	**-**	**-**	**18**	**152**
RA Ross								
2008	**79**	**52**	**18**	**-**	**-**	**-**	**71**	**220**
2007	67	49	16	-	-	-	63	195
BM Schwartz								
2008	**112**	**50**	**13**	**-**	**-**	**-**	**43**	**218**
2007	92	51	16	-	-	-	38	197
Directors retired during the year:								
JF Astbury, Director until 31 August 2007								
2008	**17**	**8**	**3**	**184**	**-**	**-**	**4**	**216**
2007	105	54	17	-	-	-	25	201
GA Cousins, Director until 31 August 2007								
2008	**17**	**3**	**2**	**169**	**-**	**-**	**4**	**195**
2007	105	16	13	-	-	-	25	159

5. 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.

Remuneration Report - Audited (continued)

The terms of the retirement benefits scheme provided for:

(a) 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.

(b) 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.

(c) 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:

(a) Non-executive Directors joining the Board from 1 September 2003 would have no retirement benefit;

(b) 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

(c) For a Non-executive Director with less than three years of service at 31 August 2003, a retirement benefit was assessed as if they had three years of service as at that date, and then reduced on a pro-rata basis based on their uncompleted period of service as a proportion of three years. The retirement benefit was not subsequently payable to such a Non-executive Director if they had less than three years of service as a Non-executive Director at the date of their retirement.

Retirement benefits of $184,000 and $169,000 were paid to JF Astbury and GA Cousins respectively, following their retirement from the Board on 31 August 2007.

The following table sets out the frozen retirement benefits of the remaining Directors who held office on 31 August 2003 and who have continued in office since then:

Name	Retirement benefit
	$000
JA Strong	295
ND Hamilton *	248
RA Ross *	232

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

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

C. Other benefits

Remuneration does not include premiums paid by IAG for an insurance contract covering current and former Directors' and executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid in respect of individual Directors and executives and the terms of contract specifically prohibit the disclosure of the premium paid. Insurance products provided by the IAG Group are also available to all directors and executives on the same terms and conditions available to other employees.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' REPORT

Relevant interest of each director and their related parties in listed securities of IAG Group in accordance with the Corporations Act 2001

1. Holding of ordinary shares

	For Section 205G of the Corporations Act 2001	
	Shares held directly (1)	**Shares held indirectly (2)**
JA Strong	**12,575**	**283,940**
YA Allen	**-**	**19,521**
PM Colebatch	**-**	**27,132**
HA Fletcher	**-**	**51,126**
ND Hamilton	**5,900**	**147,203**
A Hynes	**-**	**17,752**
RA Ross	**102,803**	**88,243**
BM Schwartz	**246**	**27,663**
P Twyman	**-**	**15,000**
MJ Wilkins	**-**	**100,000**

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

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

2. Holding of reset preference shares

No Director and their related parties had any interest in reset preference shares at reporting date.

3. Holding of reset exchangeable securities

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

Rounding of amounts

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

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

....

Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: the directors of Insurance Australia Group Limited

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

(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

KPMG

Brian Greig
Partner

Sydney
22 August 2008

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Notes	PARENT		CONSOLIDATED	
		2008	2007	2008	2007
		$m	$m	$m	$m
Premium revenue	3	-	-	**7,765**	7,207
Outwards reinsurance premium expense	4	-	-	**(470)**	(464)
Net premium revenue (i)		-	-	**7,295**	6,743
Claims expense	4	-	-	**(5,593)**	(5,345)
Reinsurance and other recoveries revenue	3	-	-	**438**	871
Net claims expense (ii)	11	-	-	**(5,155)**	(4,474)
Acquisition costs	4	-	-	**(1,318)**	(1,223)
Other underwriting expenses	4	-	-	**(590)**	(421)
Fire services levies	4	-	-	**(216)**	(218)
Underwriting expenses (iii)		-	-	**(2,124)**	(1,862)
Underwriting profit / (loss) (i) + (ii) + (iii)		-	-	**16**	407
Investment income on assets backing insurance liabilities	3	-	-	**456**	381
Investment expenses on assets backing insurance liabilities	4	-	-	**(24)**	(21)
Insurance profit		-	-	**448**	767
Investment income on equity holders' funds	3	**759**	426	**(1)**	343
Fee and other income	3	**69**	-	**556**	463
Share of net profit / (loss) of associates	3	-	-	**(3)**	5
Finance costs	4	**(60)**	(77)	**(101)**	(119)
Fee based, corporate and other expenses	4	-	-	**(1,017)**	(532)
Net income attributable to minority interests in unitholders' funds	4	-	-	**(18)**	(19)
Profit / (loss) before income tax		**768**	349	**(136)**	908
Income tax (expense) / credit	6	**(4)**	4	**(90)**	(279)
Profit / (loss) for the year		**764**	353	**(226)**	629
Profit / (loss) for the year attributable to:					
Equity holders of the Parent		**764**	353	**(261)**	552
Minority interests		-	-	**35**	77
Profit / (loss) for the year		**764**	353	**(226)**	629

	Notes	CONSOLIDATED	
		2008	2007
		cents	cents
Basic earnings per ordinary share	8	**(14.29)**	32.79
Diluted earnings per ordinary share	8	**(14.18)**	32.59

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

BALANCE SHEETS AS AT 30 JUNE 2008

	Notes	PARENT		CONSOLIDATED	
		2008	2007	2008	2007
		$m	$m	$m	$m
ASSETS					
Cash and cash equivalents	23	**-**	-	**1,234**	1,163
Investments	15	**1**	-	**9,479**	10,884
Premium receivable	16	**-**	-	**2,046**	2,045
Inventories		**-**	-	**1**	1
Trade and other receivables	16	**69**	-	**1,207**	1,233
Receivables from related bodies corporate		**120**	155	**-**	1
Current tax assets		**-**	-	**18**	19
Defined benefit superannuation asset		**-**	-	**3**	62
Loans to related bodies corporate		**671**	667	**-**	-
Reinsurance and other recoveries receivable on outstanding claims	12	**-**	-	**1,043**	1,346
Prepayments		**-**	-	**54**	62
Deferred levies and charges		**-**	-	**120**	123
Deferred outwards reinsurance expense		**-**	-	**308**	224
Deferred acquisition costs	13	**-**	-	**758**	789
Deferred tax assets	6	**7**	6	**288**	276
Property, plant and equipment	17	**-**	-	**291**	297
Investments in joint ventures and associates	26	**-**	-	**70**	75
Intangible assets	18	**-**	-	**585**	781
Investment in subsidiaries	25	**5,785**	5,578	**-**	-
Goodwill	19	**-**	-	**1,875**	2,256
TOTAL ASSETS		**6,653**	6,406	**19,380**	21,637
LIABILITIES					
Trade and other payables	20	**16**	20	**906**	1,139
Reinsurance premiums payable		**-**	-	**285**	160
Payables to related bodies corporate		**48**	109	**-**	1
Restructuring provisions	36	**-**	-	**61**	4
Current tax liabilities		**42**	28	**65**	63
Unearned premium liability	14	**-**	-	**4,097**	4,213
Minority interest in unitholders' funds		**-**	-	**93**	326
Lease provision		**-**	-	**22**	22
Employee benefits provision	27	**-**	-	**243**	242
Unexpired risk liability		**-**	-	**12**	-
Deferred tax liabilities	6	**-**	-	**17**	56
Loans from related bodies corporate		**173**	211	**-**	-
Outstanding claims liability	11	**-**	-	**7,827**	8,562
Interest-bearing liabilities	21	**860**	1,130	**1,401**	2,017
TOTAL LIABILITIES		**1,139**	1,498	**15,029**	16,805
NET ASSETS		**5,514**	4,908	**4,351**	4,832
EQUITY					
Share capital	22	**4,740**	4,361	**4,740**	4,361
Treasury shares held in trust	22(b)	**-**	-	**(71)**	(69)
Reserves	22(c)	**-**	-	**(7)**	(4)
Retained earnings / (accumulated losses)	22(d)	**774**	547	**(458)**	372
Parent interest	22	**5,514**	4,908	**4,204**	4,660
Minority interests	22(e)	**-**	-	**147**	172
TOTAL EQUITY	22	**5,514**	4,908	**4,351**	4,832

The above balance sheets should be read in conjunction with the notes to the financial statements.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2008

	Notes	PARENT		CONSOLIDATED	
		2008	2007	2008	2007
		$m	$m	$m	$m
Income and (expenses) recognised directly in equity during the year, net of tax					
Actuarial gains and (losses) on defined benefit superannuation plans		**-**	-	**(37)**	40
Net movement in foreign currency translation reserve		**-**	-	**(31)**	(19)
Net movement in hedging reserve		**-**	-	**5**	7
Total net income and (expenses) recognised directly in equity		**-**	-	**(63)**	28
Profit / (loss) for the year		**764**	353	**(226)**	629
Total recognised income and (expense) for the year		**764**	353	**(289)**	657
Total recognised income and (expense) for the year attributable to:					
Equity holders of the Parent		**764**	353	**(321)**	579
Minority interests		**-**	-	**32**	78
Total recognised income and (expense) for the year		**764**	353	**(289)**	657

Other movements in equity arising from transactions with equity holders acting in their capacity as equity holders are set out in note 22.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Notes	PARENT 2008 $m	PARENT 2007 $m	CONSOLIDATED 2008 $m	CONSOLIDATED 2007 $m
Cash flows from operating activities					
Premium received		**-**	-	**7,836**	7,149
Reinsurance and other recoveries received		**-**	-	**739**	577
Claims costs paid		**-**	-	**(6,266)**	(5,037)
Outwards reinsurance premium expense paid		**-**	-	**(484)**	(486)
Dividends received		**716**	396	**51**	65
Interest and trust distributions received		**45**	5	**585**	467
Finance costs paid		**(60)**	(84)	**(102)**	(124)
Income taxes refunded		**25**	-	**51**	12
Income taxes paid		**(142)**	(228)	**(257)**	(403)
Other operating receipts		**94**	273	**1,328**	1,198
Other operating payments		**-**	-	**(3,476)**	(3,017)
Net cash flows from operating activities	23(b)	**678**	362	**5**	401
Cash flows from investing activities					
Net cash flows on acquisition of subsidiaries		**-**	-	**(35)**	(446)
Proceeds from disposal of premium funding loan portfolio		**-**	-	**114**	-
Proceeds from disposal of investments and property, plant and equipment		**38**	-	**37,279**	21,961
Outlays for investments and property, plant and equipment acquired		**(246)**	(783)	**(36,255)**	(21,659)
Repayment of premium funding loans		**-**	-	**85**	398
Advances of premium funding loans		**-**	-	**(99)**	(378)
Net cash flows from investing activities		**(208)**	(783)	**1,089**	(124)
Cash flows from financing activities					
Outlays for purchase of treasury shares		**-**	-	**(4)**	(30)
Proceeds from issue of trust units		**-**	-	**876**	1,118
Outlays for redemption of trust units		**-**	-	**(1,104)**	(1,131)
Proceeds from borrowings		**665**	827	**87**	969
Repayment of borrowings		**(977)**	(1,008)	**(612)**	(1,271)
Dividends paid to IAG equity holders*		**(537)**	(492)	**(537)**	(492)
Dividends paid to minority interests		**-**	-	**(57)**	(87)
Proceeds from issue of shares *		**379**	1,112	**379**	1,112
Share issue costs paid		**-**	(19)	**-**	(19)
Dividends received on treasury shares		**-**	-	**2**	4
Net cash flows from financing activities		**(470)**	420	**(970)**	173
Net movement in cash held		**-**	(1)	**124**	450
Effects of exchange rate changes on balances of cash held in foreign currencies		**-**	-	**(53)**	(5)
Cash and cash equivalents at the beginning of financial year		**-**	1	**1,163**	718
Cash and cash equivalents at the end of financial year	23(a)	**-**	-	**1,234**	1,163

* Includes dividends settled by issue of shares under the Dividend Reinvestment Plan (refer to note 9) and the fully underwritten 2007 interim and 2007 final dividend (refer to note 22).

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Index

For ease of reference we provide here an index of the notes to the financial statements showing those relevant to the financial statements of the Consolidated entity and those relevant to the financial statements of the Parent.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (Company, Parent and IAG) is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000. This financial report is for the year ended 30 June 2008 and includes separate financial statements for IAG as an individual entity and consolidated financial statements for the Company and its subsidiaries (referred to as Consolidated entity and IAG Group).

This general purpose financial report was authorised by the Board of Directors for issue on 22 August 2008.

(a) Statement of compliance

This general purpose financial report for the year ended 30 June 2008 has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board, other authoritative pronouncements of the Australian Accounting Standards Board and the Australian Securities Exchange Listing Rules.

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board. IFRS forms the basis of AASBs. This financial report of the Parent and the Consolidated entity complies with IFRS.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

(b) Basis of preparation of the financial report

The significant accounting policies adopted in the preparation of this financial report are set out below. The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Consolidated entity and are the same as those of the previous year unless otherwise noted. The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions for the Consolidated entity being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is Australian dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within twelve months after the reporting date) and non-current amounts (expected to be recovered or settled more than twelve months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding longer than twelve months is included within the relevant note to the financial statements.

(i) Australian accounting standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting period.

Of these standards the following have been early adopted in the current reporting period:

- AASB 2008-7 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.* This standard eliminates the distinction between pre-acquisition and post-acquisition dividends but establishes a new requirement to immediately assess, based on minimum mandatory checks, whether the payment of a dividend triggers a test for impairment of the investment in the subsidiary from which the dividend was received. The standard also clarifies that when a parent reorganises the structure of its group by establishing a new entity as a parent in a manner that satisfies specified criteria, the new parent measures the cost of its investment in the previous parent at the carrying amount of its share of the equity of the previous parent at the date of the reorganisation. There has been no immediate financial impact from the adoption of this standard.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The standards that have not been early adopted and that are relevant to current operations are:

- AASB 3 *Business combinations* (revised March 2008) and AASB 2008-3 which makes a number of consequential amendments to other standards arising from the issue of the revised AASB 3. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report and is expected to be applied prospectively from 1 July 2009.
- AASB101 *Presentation of Financial Statements* (revised September 2007) and 2007-8 which makes a number of consequential amendments to other standards arising from the issue of the revised AASB 101. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report. The revised standard requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the statements.
- AASB 2008 - 2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation.* The standard is mandatorily applicable for the first time to the 31 December 2009 financial report. This amending standard introduces an exception to the definition of financial liability to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity. These changes will have no financial impact.
- AASB 2008-1 *Amendments to Australian Accounting Standard AASB 2 Share-based Payments: Vesting Conditions and Cancellations.* The standard is mandatorily applicable for the first time to the 31 December 2009 financial report. This amending standard clarifies that only service and performance conditions are vesting conditions (change impacts only those arrangements which include conditions unrelated to service such as including a condition that the employee must hold a number of shares or awards linked to savings plans), and that if a share based payment arrangement is cancelled by a counterparty it is accounted for in the same way as a cancellation by the entity being acceleration of the expense (this change was to deal with companies trying to structure cancellations as if the employee had cancelled trying to avoid acceleration of the expense). These changes will have no financial impact.
- AASB 2008-5 *Amendments to Australia Accounting Standards arising from the Annual Improvements Project* and the related 2008-6 which make 24 amendments to 15 standards impacting recognition, measurement or presentation requirements as well as other terminology or editorial amendments. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report with early adoption permitted. These changes are not expected to have a significant, if any, financial impact.
- IFRIC 14 AASB 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* The interpretation is mandatorily applicable for the first time to the 31 December 2008 financial report. This interpretation is not expected to have a significant, if any, financial impact
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* which clarifies three main areas; i) A parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation (confirming that the presentation currency does not create an exposure to which an entity may apply hedge accounting), ii) Which entity within a group can hold a hedging instrument, and iii) How an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment. This interpretation is not expected to have a significant, if any, financial impact.
- AASB 8 *Operating Segments* and AASB 2007-3 which makes a number of consequential amendments to other standards arising from the issue of AASB 8. The standards are mandatorily applicable for the first time to the 31 December 2009 financial report. The revised standards will have no financial impact but will impact on financial report disclosures. The new standards require adoption of a 'management approach' to reporting on the financial performance. The information to be reported will be based on information used internally by key decision makers to evaluate performance. A single set of operating segments will replace the business and geographical segments currently disclosed.

(ii) Changes in accounting policies

There have been no changes in accounting policies which have a material financial impact during the current financial year reporting period.

(iii) Reclassifications of comparatives

Certain items have been reclassified from the Consolidated entity's prior year's financial reports to conform to the current period's presentation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Rounding

Amounts in this financial report have been rounded to the nearest million dollars, unless otherwise stated. The Company is the kind of company 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.

(c) Principles of consolidation

(i) Subsidiaries

Consolidation is the incorporation of the assets and liabilities of the Parent and all subsidiaries as at the reporting date and the results of the Parent and all subsidiaries for the period then ended as if they had operated as a single entity. The balances and effects of intragroup transactions are eliminated from the consolidation. Subsidiaries are those entities controlled by the Parent. Control exists when one company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when more than half of the voting power of an entity is owned either directly or indirectly. In assessing control, potential voting rights that are exercisable or convertible are taken into account. Where an entity either began or ceased to be controlled during the financial year, the results are included only from the date control commenced or up to the date control ceased.

The financial statements of all subsidiaries are prepared for consolidation for the same reporting period as the Parent, using consistent accounting policies. The financial statements of entities operating outside Australia that maintain accounting records in accordance with overseas accounting principles are adjusted where necessary to comply with the significant accounting policies of the Consolidated entity.

Where a subsidiary is less than wholly-owned, the equity interests held by external parties are presented separately as minority interests on the consolidated balance sheet, except where the subsidiary is a trust or similar entity for which the core equity is presented as a liability (this is the case with the IAG Asset Management Wholesale Trusts that are subsidiaries, refer note 25) in which case the third party interest is presented separately on the consolidated balance sheet as a liability.

(ii) Associates

Associates, those entities over which significant influence is exercised and which are not intended for sale in the near future, are accounted for using equity accounting principles. Significant influence is presumed to exist where between 20 per cent and 50 per cent of the voting rights of an entity are held, but can also arise where less than 20 per cent is held through active involvement and influencing policy decisions affecting the entity. The investment in associates is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and is subsequently adjusted for the post-acquisition change in the investor's share of net assets of the investee (generally referred to as the equity method). The investor's share of the profit or loss of the investee is included in the profit or loss of the Consolidated entity and disclosed as a separate line in the income statement. Distributions received reduce the carrying amount of the investment and are not included as dividend revenue of the Consolidated entity. Movements in the total equity of the investee that are not recognised in the profit or loss of the investee are recognised directly in equity of the Consolidated entity and disclosed in the statement of recognised income and expense. The investments are reviewed annually for impairment.

Where an entity either began or ceased to be an associate during the financial year, the investment is equity accounted from the date significant influence commenced or up to the date significant influence ceased.

The financial statements of associates are adjusted where necessary to comply with the significant accounting policies of the Consolidated entity.

When the investor's share of losses exceeds its interest in the investee, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the investor has incurred obligations or made payments, on behalf of the investee.

Significant accounting policies related to general insurance contracts

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significance insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled. Insurance contracts that meet the definition of a financial guarantee contract are accounted for as insurance contracts. This means that all of the general insurance products are accounted for in the same manner.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts. Premium includes fire service levies, but excludes stamp duties and taxes collected on behalf of third parties, including the goods and services tax. Premium is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous years' experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

Premium receivable is recognised at the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment.

(e) Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense on the balance sheet at the reporting date.

(f) Claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on the advice of/valuations performed by, or under the direction of, the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the year in which the estimates are changed.

(g) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims liabilities (notified and not yet notified) are recognised as income. Recoveries receivable on paid claims are presented as part of trade and other receivables net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims liabilities are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet.

(h) Acquisition costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs. Profit commission received from third party names relating to providing managing agency services to Lloyd's syndicates is also included in acquisition costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business, are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Liability adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the balance sheet recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised on the balance sheet as an unexpired risk liability.

(j) Levies and charges

Levies and charges, for which the amount paid does not depend on the amounts collected, as is the case with fire service levies in Australia, are expensed on the same basis as the recognition of premium revenue. The portion relating to unearned premium is treated as a prepayment and presented as deferred levies and charges on the balance sheet. A liability for levies and charges payable is recognised on business written to the reporting date. Other levies and charges that are simply collected on behalf of third parties are not recognised as income or expense in profit or loss.

Significant accounting policies applicable to other activities

(k) Fee and other income

Fee based revenue is brought to account on an accruals basis being recognised as revenue on a straight line basis in accordance with the passage of time as the services are provided. Other income is recognised on an accruals basis.

(l) Leases

The majority of leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. The majority of the lease arrangements are entered into as lessee for which the lease payments are recognised as an expense on a straight line basis over the term of the lease. Certain sub-lease arrangements are entered into as the lessor for which the lease payments are recognised as revenue on a straight line basis over the term of the lease.

Lease incentives relating to the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset. Operating lease incentives received are initially recognised as a liability, are presented as trade and other payables, and are subsequently reduced through recognition in profit or loss as an integral part of the total lease expense (lease payments are allocated between rental expense and reduction of the liability) on a straight line basis over the period of the lease.

(m) Taxation

(i) Income tax

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates for each jurisdiction, and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except in the following circumstances when no deferred tax asset or liability is recognised:

- temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss;
- temporary differences between the carrying amount and tax bases of investments in subsidiaries where it is probable that the differences will not reverse in the foreseeable future; and
- temporary differences relating to the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Tax consolidation

The Parent and its Australian resident wholly-owned subsidiaries adopted the tax consolidation legislation with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The Parent entity is the head entity within the tax-consolidated group.

Current tax expense / income and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts receivable / (payable) from / (to) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by IAG as an equity contribution or distribution.

IAG recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group with respect to tax amounts. The tax funding arrangements require payments to / from the head entity equal to the current tax liability / (asset) assumed by the head entity and any tax loss deferred tax assets (associated with tax losses of the wholly-owned subsidiaries) assumed by the head entity. This results in the head entity recognising an intercompany receivable / (payable) equal in amount to the tax liability / (asset) assumed. The intercompany amount receivable / (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities of the tax-consolidated group should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(iii) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of other receivables and payables on the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Investments

Investments comprise assets held to back insurance liabilities (also referred to as technical reserves) and assets that represent equity holders' funds. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented risk management strategy.

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred and presented in the income statement as investment expenses on assets backing insurance liabilities and corporate, administration and other expenses for investments that represent equity holders' funds. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For securities traded in an active market, fair value is determined by reference to published bid price quotations. For trust securities this generally means using the redemption price provided by the trustee. For securities not traded, and for securities traded in a market that is not active, fair value is determined using valuation techniques with the most common technique being reference to observable market data by reference to the fair values of recent arm's length transactions involving the same instruments or other instruments that are substantially the same. An alternative valuation technique that is used for a small number of investments is a discounted cash flow methodology.

Investment revenue, comprising dividends, trust distributions and interest, is brought to account on an accruals basis. Revenue on investment in equity securities and property trusts is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date. Dividend revenue from Australian equities is received net of any franking credits.

(o) Investment in subsidiaries

Investment in subsidiaries is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and are subsequently carried in the Parent's financial statements at the lower of cost and recoverable amount. Costs incurred in investigating and evaluating an acquisition up to the point of formal commitment to an acquisition are expensed as incurred. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss which can subsequently be reversed in certain conditions.

Income from these investments, comprising dividends and trust distributions, are brought to account on an accruals basis. Dividend revenue is accrued on the date the dividends are declared.

(p) Investment in joint ventures and associates

Investment in joint ventures and associates is initially recognised at cost (fair value of consideration provided plus directly attributable costs) by the entity holding the ownership interest, including attributed goodwill, and is subsequently carried in the entity's financial statements at the lower of cost and recoverable amount.

(q) Derivatives

A variety of derivatives are used for the sole purpose of managing risk exposures. Derivatives are not held for trading or speculative purposes.

Derivatives are initially recognised at fair value (generally the transaction price; the fair value of the consideration given or received) on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The fair value is determined by reference to current market quotes (current bid price for derivatives presented as assets and the current ask price for derivatives presented as liabilities) or generally accepted valuation principles. The derivatives become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Transaction costs for purchases of derivatives are expensed as incurred and presented in the income statement as investment expenses for assets backing insurance liabilities and corporate, administration and other expenses for assets representing equity holders' funds.

(i) Investment operations

All of the derivatives managed in conjunction with the investment operations are recognised on the balance sheet (presented together with the underlying investments) at fair value with movements in fair value being recognised as part of investment income in profit or loss. None of the derivatives are designated for hedge accounting. This matches the accounting for the derivatives with the accounting for the underlying investments.

(ii) Corporate treasury operations

Derivatives are used to hedge exposure to foreign currency and interest rate movements in relation to corporate treasury transactions, including borrowings. While there are a number of economic hedges in place, not all of these transactions have been selected for hedge accounting. Where hedge accounting is not applied the derivative and the hedged item are recognised and measured independently as if there was no hedging relationship with the derivative being recognised on the balance sheet at fair value with movements in fair value being recognised in profit or loss. The derivatives are classified as assets and presented as receivables when the fair value is positive, or as liabilities and presented as payables when the fair value is negative, except for cross currency swaps relating to borrowings, which are presented together with the borrowings.

(iii) Hedge accounting

Where derivatives are designated for hedge accounting, they are classified as either: (i) hedge of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedge); (ii) hedge of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); (iii) hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting may be applied to derivatives designated as hedging instruments provided certain criteria are met. Certain transactions have been designated as either a cash flow hedge or a net investment hedge.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

To qualify for hedge accounting, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) in the range of 80 per cent to 125 per cent must also be demonstrated on an ongoing basis. At the inception of a hedging relationship, the relationship between the hedging instruments and hedged items is documented, as well as the risk management objective and strategy for undertaking the hedge.

Cash flow hedge - The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in reserves as part of equity. Any gain or loss relating to an ineffective portion is immediately recognised in profit or loss.

When the forecast transaction that is hedged results in the recognition of a financial asset or a financial liability, the associated gains and losses that had been deferred in equity are transferred into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that had been deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

More specifically, derivatives are used to hedge a forecast acquisition of a business only when the derivative is expected to reduce exposure to the risks being hedged, is designated prospectively so that it is clear when a forecast transaction has or has not occurred, and it is probable the forecast transaction will occur. Hedge accounting is applied where such hedges meet the hedge accounting requirements. Gains or losses on the derivative arising up to the date of the forecast transaction, together with any costs arising at the time of entering into the derivative, are deferred and included in the measurement of the transaction (typically cost of acquisition of a business). Any gains or losses on the derivative after the transaction date are recognised in profit or loss. If the transaction does not occur as anticipated, the costs are immediately expensed.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Net investment hedge - Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity while the gain or loss relating to the ineffective portion is immediately recognised in profit or loss. Gains and losses accumulated in the equity reserve are recognised in profit or loss upon the disposal of the foreign operation.

(iv) Embedded derivatives

Derivatives embedded in other financial instruments or other non-financial host contracts are treated separately when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with movements recognised in profit or loss. Where an embedded derivative is required to be separated, it is measured at fair value.

Embedded derivatives are assessed for separation from their host contract when the entity first becomes a party to the contract and are not reassessed unless there is a significant change in the terms of the contract.

(r) Trade and other receivables

Trade and other receivables are stated at the amounts to be received in the future and are presented net of any provision for impairment. The amounts are discounted where the effect of the time value of money is material. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in profit or loss. Debts which are known to be uncollectible are written off.

(s) Property, plant and equipment

Property, plant and equipment is initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition (for land and buildings held as at 30 June 2004, the fair value at that date has been used as the deemed cost). The cost of plant and equipment that is located on certain leased premises is increased by the present value of the estimated future cost for dismantling and removing the items when the relevant alterations are made to the premises with a corresponding recognition of a lease provision (refer to note 1(y)). All items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment charges. Items other than land are depreciated using the straight line method at rates based on the expected useful lives of the assets taking into account estimated residual values. Depreciation rates and residual values are reviewed annually and any changes are accounted for prospectively. The per annum depreciation rates used for each class of asset are as follows:

- Buildings 2 % - 5 %
- Motor vehicles 12.5 % - 20 %
- Other plant and equipment 6.67 % - 40 %

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying amount of each class of property, plant and equipment is reviewed each reporting date by determining whether there is an indication that the carrying value of a class may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. An impairment charge is recognised whenever the carrying value exceeds the recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been an indication that the loss may no longer exist and / or a change in the estimates used to determine the recoverable amount.

The net gain or loss on disposal of items of property, plant and equipment is recognised in profit or loss and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal including transaction costs and other expenses associated with the disposal.

(t) Business combinations

Business combinations are accounted for using the acquisition method. Business combinations occur when control is obtained over an entity or business.

The accounting for an acquisition involves the cost of the business combination being allocated to the individual assets acquired (tangible and intangible) and the individual liabilities assumed (including contingent liabilities) based on their separate fair values determined at the acquisition date. Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the net identifiable assets and contingent liabilities acquired. If the cost of acquisition is less than the fair value of the net identifiable assets and contingent liabilities acquired, the difference is recognised immediately in profit.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the initial accounting for a business combination is determined only provisionally by the first reporting date after acquisition date, the business combination is accounted for using those provisional values. Any subsequent adjustments to those provisional values are recognised within twelve months of the acquisition date and are applied effective from the acquisition date.

Where a business combination is achieved in stages (commonly referred to as a step acquisition), each exchange transaction is treated separately, using the cost of the transaction and the fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. Before qualifying as a business combination, a transaction may qualify as an investment in an associate (refer note 1(c)). With investments in joint ventures and associates, where control is not obtained, the goodwill is included in the carrying amount of the investment in the joint venture and associate, rather than being presented as a separate asset.

Acquisitions and disposals (where control is retained) of minority interests are treated as transactions between equity holders. Therefore, any difference between the acquisition cost of the minority interest and the carrying amount of the minority interest is recognised as an increase or decrease in equity.

(u) Intangible assets

(i) Acquired intangible assets

Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the period in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively. The per annum amortisation rates used for each class of asset are as follows:

- Lloyd's syndicate capacity n/a
- Brands 5% - 20%
- Distribution channels 8% - 14%
- Customer relationships 10% - 17%
- Other contractual arrangements 20% - 33%

The carrying amount of intangible assets with finite useful lives is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where the recoverable amount is determined by the value in use, the projected net cash flows are discounted using a pre-tax discount rate. For assets with indefinite useful lives, the recoverability of the carrying value of the assets is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Software development expenditure

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the balance sheet and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. Only software development projects with total budgeted expenditure of more than $2 million are considered for capitalisation or where such services are provided under a comprehensive outsourcing agreement. Smaller projects and other costs are treated as maintenance costs, being an ongoing part of maintaining effective computer systems, and are expensed as incurred.

All such capitalised costs are deemed to have an expected useful life of 3 years unless it can be clearly demonstrated for a specific project that the majority of the net benefits are to be generated over a longer period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project. The recoverability of the carrying amount of the asset is assessed in the same manner as for acquired intangible assets with finite useful lives.

(v) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the purchase consideration plus incidental costs over the fair value of the net identifiable assets and contingent liabilities acquired and is subsequently presented net of any impairment charges. Goodwill arising on acquisitions prior to 1 July 2004 has been carried forward on the basis of its deemed cost being the net carrying amount as at that date.

Goodwill is allocated to cash generating units (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets) expected to benefit from the synergies of a business combination for the purpose of impairment testing. Cash generating units are determined based principally on how goodwill is monitored by management. The recoverability of the carrying value of the goodwill allocated to each cash generating unit is tested for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired, by determining the present value (using a pre-tax discount rate that reflects the current market assessments of the risks specific to the cash generating unit) of projected net cash flows based on the five year business plans approved by management. Net cash flows beyond the five year period are extrapolated based on growth rates relevant to the asset / business which are consistent with long-term industry averages. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss and cannot subsequently be reversed.

At the date of disposal of a business, attributed goodwill is included in the share of net assets used in the calculation of the gain or loss on disposal.

(w) Trade and other payables

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. The amounts are discounted where the effect of the time value of money is material.

(x) Restructuring provision

A restructuring provision is recognised for the expected costs associated with restructuring where there is a detailed formal plan for restructure and a valid expectation has been raised in those person expected to be affected. The provision is based on the direct expenditure to be incurred which is both directly and necessarily caused by the restructuring, including termination benefits, decommissioning of information technology systems and exiting surplus premises, and does not include costs associated with on-going activities. The adequacy of the provision is reviewed regularly and adjusted if required. Revisions in the estimated amount of a restructuring provision are reported in the period in which the revision in the estimate occurs. The provision is discounted using a pre-tax discount rate where the effect of the time value of money is material. Where discounting is applied, the increase in the provision due to the passage of time is recognised as a finance cost.

(y) Lease provision

Certain of the operating leases for property require that the land and / or building be returned to the lessor in its original condition, however, the related operating lease payments do not include an element for the cost this will involve. The present value of the estimated future cost for the plant and equipment to be removed and the premises to be returned to the lessor in its original condition are recognised as a lease provision when the relevant alterations are made to the premises. The costs are capitalised as part of the cost of plant and equipment and then depreciated over the useful lives of the assets (refer note 1(s)).

(z) Onerous contracts provision

A provision is recognised for onerous contracts when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries (including bonuses), annual leave and sick leave are recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when these liabilities are settled, including on-costs. A liability for sick leave is considered to exist only when it is probable that sick leave taken in the future will be greater than entitlements that will accrue in the future.

(ii) Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using interest rates on national government guaranteed securities which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are incorporated in the measurement.

(iii) Share based incentive arrangements

Share based remuneration is provided in different forms to eligible employees and IAG directors. All of the arrangements are equity settled share based payments. The fair value at grant date (the date at which the employer and the employee have a shared understanding of the terms and conditions of the arrangement) is determined for each equity settled share based payment using a valuation model which excludes the impact of any non market vesting conditions. This fair value does not change over the life of the instrument. At each reporting date during the vesting period (the period during which related employment services are provided), and upon the final vesting or expiry of the equity instruments, the total accumulated expense is revised based on the fair value at grant date and the latest estimate of the number of equity instruments that are expected to vest based on non market vesting conditions only, and taking into account the expired portion of the vesting period. Changes in the total accumulated expense from the previous reporting date are recognised in profit or loss with a corresponding movement in an equity reserve. Upon exercise of the relevant instruments, the balance of the share based remuneration reserve relating to those instruments is transferred within equity.

The different treatment of market and non-market vesting conditions means that if an equity instrument does not vest because a participant ceases relevant employment then the accumulated expense charged in relation to that participant is reversed, but if an equity instrument does not vest only because a market condition is not met, the expense is not reversed.

To satisfy obligations under the various share based remuneration plans, shares are generally bought on market at or near grant date of the relevant arrangement and held in trust. Shares held in trust that are controlled for accounting purposes are treated as treasury shares held in trust (refer note 1(ag)).

(iv) Superannuation

Contributions are made to various superannuation plans, both defined contribution and defined benefit superannuation plans, in accordance with their governing rules and, for defined benefit superannuation plans, recommendations from their respective actuaries, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities over the longer term.

For defined contribution superannuation plans, obligations for contributions are recognised in profit or loss as they become payable. For defined benefit superannuation plans, the net financial position of the plans is recognised on the balance sheet and the movement in the net financial position is recognised in profit or loss, except for actuarial gains and losses (experience adjustments and changes in actuarial assumptions), which are recognised directly in retained earnings.

(ab) Interest-bearing liabilities and finance costs

Interest-bearing liabilities are initially recognised at fair value less transaction costs that are directly attributable to the transaction. After initial recognition the liabilities are carried at amortised cost using the effective interest method.

Finance costs include interest, which is accrued at the contracted rate and included in payables, amortisation of transaction costs which are capitalised, presented together with the borrowings, and amortised over the life of the borrowings or a shorter period if appropriate, and amortisation of discounts or premiums (the difference between the original proceeds, net of transaction costs, and the settlement or redemption value of borrowings) over the term of the liabilities. Where interest payments are subject to hedge accounting, they are recognised as finance costs net of any effect of the hedge.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ac) Foreign currency

(i) Functional and presentation currency

Items included in the financial records of each of the entities within the Consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For nearly all entities, this is the local currency of the country in which it operates. The financial statements are presented in Australian dollars, which is the functional and presentation currency of the Parent and the presentation currency of the Consolidated entity.

(ii) Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency for each of the entities within the Consolidated entity using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date, are translated to Australian dollars using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss except for those relating to foreign operations and hedging transactions as per (iii) and (iv) below.

(iii) Translation of the financial results of foreign operations

The financial position and performance of foreign operations with a functional currency other than Australian dollars are translated into the presentation currency for inclusion in the consolidated financial statements. The assets and liabilities are translated using reporting date exchange rates while equity items are translated using historical rates. Items from the income statement are translated using weighted average rates for the reporting period. Exchange differences arising from the translations are recorded directly in equity in the foreign currency translation reserve. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated using reporting date exchange rates.

On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the foreign currency translation reserve relating to that foreign operation is recognised in profit or loss.

(iv) Hedge transactions

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(q)(iii) for details of the relevant accounting policies.

(v) Principal exchange rates used

We provide here the reporting date exchange rates and the annual average daily exchange rates for selected currencies as an indication of the rates used for the current period.

	Balance Sheet		Income statements and cash flows	
	2008	**2007**	**2008**	**2007**
New Zealand dollar	**0.79310**	0.91060	**0.85634**	0.87139
British pound	**2.07383**	2.36486	**2.23326**	2.45813
Thai baht	**0.03117**	0.03701	**0.03551**	0.03587
United States dollar	**1.04205**	1.17869	**1.11508**	1.27269

(ad) Provision for dividends

Provision for dividends is made in respect of ordinary shares where the dividends are declared on or before the reporting date but have not yet been distributed at that date.

(ae) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the profit or loss attributable to equity holders of the Parent by the weighted average number of shares of the Parent on issue during the reporting period, net of treasury shares held in trust.

(ii) Diluted earnings per share

Diluted earnings per share is determined by dividing the profit or loss attributable to equity holders of the Parent used in the calculation of basic earnings per share, adjusted for relevant costs associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(af) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(ag) Treasury shares held in trust

Ordinary shares of IAG that are controlled for accounting purposes by share based remuneration trusts that are subsidiaries of the Consolidated entity, are presented on the balance sheet as treasury shares held in trust. The shares are measured at cost (total amount paid to acquire the shares including directly attributable costs), and are presented as a deduction from equity until they are otherwise dealt with. No gain or loss is recognised in profit or loss on the sale, cancellation or reissue of the shares. The shares are derecognised as treasury shares held in trust when the shares vest or are released to the participant.

(ah) Reset exchangeable securities

Reset exchangeable securities (RES) were initially measured at fair value (which was equivalent to the face value) less transaction costs incurred in issuing the securities. On the balance sheet, the RES liability is offset against the investments purchased (Portfolio) from the proceeds of the RES, as there is a legal right of set-off and it is the intention that the Portfolio and the RES liability would be settled simultaneously. Transaction costs are capitalised, presented together with interest-bearing liabilities, and are amortised using the effective interest method over five years from the date of issue. Interest expense on the RES is brought to account on an accruals basis and payable quarterly subject to the terms of issue. The interest expense on the RES is offset against the interest income generated from the Portfolio in the income statement.

The RES incorporates an embedded derivative which is recognised separately.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgment or complexity and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- Insurance contracts related:

  - Claims, refer note 11;

  - Reinsurance and other recoveries on outstanding claims, refer note 12;

  - Liability adequacy test, refer note 14(b) ;

  There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (eg deferred acquisition costs; which costs in the shared services model (refer note 4) are related to the acquisition of general insurance contracts and so eligible for deferral). The estimates relate to past events, do not incorporate forward looking considerations, and do not change from year to year.

- Other

  - Restructuring provisions, refer note 36;

  - Intangible assets and goodwill impairment testing, refer notes 18 and 19;

  - Acquired intangible assets initial measurement and determination of useful life, refer notes 18 and 24;

  - Provisional accounting of business combinations, refer note 24;

  - Share based remuneration, refer note 28;

  - Defined benefit superannuation arrangements, refer note 29; and

  - Embedded derivatives, refer note 33.

The accounting judgements made during the year that did not involve estimations, including determination of the existence of control when entities are not wholly-owned, the recognition of the identifiable intangible assets acquired in a business combination, and the probability of recovering carry forward tax losses, are considered to have had no significant impact on the amounts recognised in the financial report (2007– none).

	PARENT		CONSOLIDATED	
	2008	2007	2008	2007
	$m	$m	$m	$m
NOTE 3: ANALYSIS OF INCOME				
(a) General insurance revenue				
Gross written premium	-	-	**7,793**	7,381
Movement in unearned premium liability	-	-	**(28)**	(174)
Premium revenue	-	-	**7,765**	7,207
Direct premium revenue	-	-	**7,741**	7,192
Inwards reinsurance premium revenue	-	-	**24**	15
Premium revenue	-	-	**7,765**	7,207
Reinsurance and other recoveries revenue	-	-	**438**	871
Total general insurance revenue	-	-	**8,203**	8,078
(b) Investment income				
Dividend revenue	**716**	396	**49**	59
Interest revenue	**40**	29	**531**	442
Trust revenue	-	-	**55**	61
Total investment revenue	**756**	425	**635**	562
Net changes in fair values of investments				
- Realised net gains and (losses)	**10**	7	**29**	(23)
- Unrealised net gains and (losses)	**(7)**	(6)	**(209)**	185
Total investment income	**759**	426	**455**	724
Represented by:				
Investment income on assets backing insurance liabilities	-	-	**456**	381
Investment income on equity holders' funds	**759**	426	**(1)**	343
	759	426	**455**	724
(c) Fee and other income				
Fee based revenue	-	-	**320**	313
Brokerage and commission	-	-	**146**	111
Other income	-	-	**21**	39
Unrealised gains and (losses) on embedded derivatives	**69**	-	**69**	-
Total fee and other income	**69**	-	**556**	463
(d) Share of net profit / (loss) of associates	-	-	**(3)**	5
Total income	**828**	426	**9,211**	9,270

NOTE 4: ANALYSIS OF EXPENSES

	PARENT		CONSOLIDATED	
	2008	2007	2008	2007
	$m	$m	$m	$m
(a) Expenses as presented in the income statement				
Outwards reinsurance premium expense	**-**	-	**470**	464
Claims expense	**-**	-	**5,593**	5,345
Acquisition costs	**-**	-	**1,318**	1,223
Other underwriting expenses	**-**	-	**590**	421
Fire service levies	**-**	-	**216**	218
Investment expenses on assets backing insurance liabilities	**-**	-	**24**	21
Finance costs	**60**	77	**101**	119
Fee based, corporate and other expenses	**-**	-	**1,017**	532
Net income attributable to minority interests in unitholders' funds	**-**	-	**18**	19
Total expenses	**60**	77	**9,347**	8,362
(b) Analysis of expenses by function				
General insurance business expenses	**-**	-	**8,211**	7,692
Fee based business expenses	**-**	-	**438**	346
Investment and other expenses	**-**	-	**47**	62
Corporate and administration expenses	**60**	77	**651**	262
Total expenses	**60**	77	**9,347**	8,362
(c) Other items				
Disclosure of the following items is considered relevant in explaining the results for the financial year:				
Insurance protection tax levied by the NSW State Government	**-**	-	**20**	21
Depreciation and amortisation				
Acquired intangibles	**-**	-	**65**	55
Capitalised software development expenditure	**-**	-	**54**	18
Property, plant and equipment	**-**	-	**78**	61
	-	-	**197**	134

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 4: ANALYSIS OF EXPENSES (Continued)

	PARENT		CONSOLIDATED	
	2008	2007	2008	2007
	$m	$m	$m	$m
Impairment charges				
Property, plant and equipment	-	-	9	-
Goodwill	-	-	277	-
Acquired intangibles	-	-	65	-
Trade and other receivables	-	-	3	2
Capitalised software development	-	-	-	7
	-	-	354	9
Employee benefits				
Defined contribution superannuation plans	-	-	91	70
Defined benefit superannuation plans	-	-	7	10
Share based remuneration	-	-	25	15
Salaries and other employee benefits expense	-	-	1,316	1,126
	-	-	1,439	1,221
Transfers to provisions charged to profit or loss				
Restructuring provision	-	-	60	2
	-	-	60	2
Finance costs				
Reset preference shares distributions paid/payable	28	29	28	29
Subordinated term notes interest paid/payable	30	23	64	76
Loans from related bodies corporate interest paid/payable	-	23	-	-
Amortisation of capitalised transaction costs	2	2	3	4
Other debts of operational nature, interest paid/payable	-	-	11	10
Ineffective portion of hedges	-	-	(5)	-
	60	77	101	119
Other				
Net loss on disposal of property, plant and equipment	-	-	-	4
Operating lease payments	-	-	164	184
Software research and development costs expensed	-	-	44	37
Net foreign exchange (gains) / losses	-	-	39	(22)
Liability adequacy test deficiency	-	-	15	-

The IAG Group operated a shared services model throughout the period with the use of dedicated units and entities to provide services throughout the IAG Group. The costs incurred by business units and entities directly, together with internal charges between them, are allocated to the various operating functions and so are included within the various expense classifications in the income statement. For example, the Consolidated entity incurs expense in meeting the superannuation contribution obligations for employees involved in a wide range of functions including sales and marketing, underwriting, and claims management. Hence the superannuation expense is allocated across the lines in the income statement based on the areas for which these employees provide services.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	CONSOLIDATED 2008	CONSOLIDATED 2007
	$000	**$000**
NOTE 5: REMUNERATION OF AUDITORS		
(a) KPMG Australia		
(i) Assurance services		
Audit of the financial statements prepared for the Parent and subsidiaries	**5,155**	4,964
Audit of statutory returns in accordance with regulatory requirements	**786**	799
Other assurance services	**111**	453
	6,052	6,216
(ii) Advisory services		
Taxation services	**566**	395
Due diligence in relation to potential acquisitions outside Australia	**503**	1,041
Other attestation and advisory	**1,631**	455
	2,700	1,891
(b) Overseas related practices of KPMG Australia		
(i) Assurance services		
Audit of the financial statements prepared for subsidiaries	**3,186**	2,142
Audit of statutory returns in accordance with regulatory requirements	**219**	38
Other assurance services	**179**	71
	3,584	2,251
(ii) Advisory services	**890**	48
(c) Other auditors		
(i) Assurance services		
Audit of the financial statements prepared for subsidiaries	**502**	1,181
(ii) Advisory services	**25**	25
Total remuneration of auditors	**13,753**	11,612

It is IAG Group policy that KPMG may provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by a regulator such as the Australian Prudential Regulation Authority (APRA). KPMG may not provide services that are perceived to be materially in conflict with the role of auditor. It is IAG Group policy to contract KPMG on assignments additional to their statutory audit and assurance duties where KPMG's expertise and experience with the IAG Group are important. The total fees for such services cannot exceed the audit fees without the approval of the IAG Audit Committee and KPMG can be contracted only in relation to reviewing financial information and not in its preparation. The Board is of the opinion that audit independence was not impaired during the current financial year as a result of the provision of these services.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	PARENT		CONSOLIDATED	
	2008	**2007**	**2008**	**2007**
	$m	**$m**	**$m**	**$m**

NOTE 6: INCOME TAX

(a) Income tax expense

Current tax	**5**	(6)	**201**	359
Deferred tax	**(1)**	1	**(115)**	(74)
(Over) / under provided in prior years	**-**	1	**4**	(6)
Income tax (credit) / expense	**4**	(4)	**90**	279
Deferred income tax expense / (credit) included in income tax comprises:				
(Increase) / decrease in deferred tax asset	**(1)**	1	**1**	23
Increase / (decrease) in deferred tax liability	**-**	-	**(116)**	(97)
	(1)	1	**(115)**	(74)

(b) Income tax reconciliation

The income tax for the financial year differs from the amount calculated on the profit / (loss) before income tax. The differences are reconciled as follows:

Profit / (loss) for the year before income tax	**768**	349	**(136)**	908
Income tax calculated at 30% (2007 - 30%)	**230**	105	**(41)**	272
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Rebateable dividends	**(215)**	(119)	**(9)**	(9)
Capital profits / (losses) not subject to income tax	**(20)**	-	**1**	6
Other non-deductible items:				
- Amortisation and impairment charge on acquired intangible assets and goodwill	**-**	-	**122**	15
- Interest on reset preference shares	**9**	9	**9**	9
- Unrealised (gains) and losses on embedded derivatives	**-**	-	**(21)**	-
Other	**-**	-	**25**	(8)
Income tax (credit) / expense applicable to current year	**4**	(5)	**86**	285
Adjustment relating to prior year	**-**	1	**4**	(6)
Income tax (credit) / expense attributable to profit for the year before impact of tax consolidation	**4**	(4)	**90**	279
Income tax (credit) / expense attributable to profit for the year after impact of tax consolidation	**4**	(4)	**90**	279

(c) Tax consolidation

Effective 1 July 2002, the Company became the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries and the requirements of the relevant accounting standards have been applied.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 6: INCOME TAX (Continued)

	PARENT		CONSOLIDATED	
	2008	2007	2008	2007
	$m	$m	$m	$m
(d) Deferred tax assets				
(i) The balance comprises temporary differences attributable to:				
Amounts recognised in profit				
Property, plant and equipment	**-**	-	**69**	80
Employee benefits	**-**	-	**88**	68
Insurance provisions	**-**	-	**132**	146
Investments	**-**	-	**31**	5
Provisions	**-**	-	**15**	8
Tax losses	**-**	-	**47**	65
Other	**1**	-	**-**	4
	1	-	**382**	376
Amounts recognised directly in equity				
Hedges	**-**	-	**-**	1
Defined benefit superannuation plans	**-**	-	**(8)**	(24)
Share based remuneration	**-**	-	**-**	1
Other	**6**	6	**6**	6
	7	6	**380**	360
Set-off of deferred tax liabilities	**-**	-	**(92)**	(84)
	7	6	**288**	276
(ii) Movements				
Balance at the beginning of the financial year	**6**	1	**360**	281
Credited / (charged) to profit or loss	**1**	(1)	**(1)**	(23)
Credited / (charged) to equity	**-**	6	**14**	(12)
Acquisitions	**-**	-	**-**	118
Transfers	**-**	-	**1**	(6)
Adjustments relating to prior year	**-**	-	**18**	6
Foreign exchange difference	**-**	-	**(12)**	(4)
Balance at the end of the financial year	**7**	6	**380**	360

(iii) Tax losses

The Consolidated entity has not recognised $25 million of tax losses (2007 - $Nil).

NOTE 6: INCOME TAX (Continued)

	PARENT		CONSOLIDATED	
	2008	**2007**	**2008**	**2007**
	$m	**$m**	**$m**	**$m**
(e) Deferred tax liabilities				
(i) The balance comprises temporary differences attributable to:				
Amounts recognised in profit				
Investments	**-**	-	**(34)**	70
Other provisions	**-**	-	**36**	43
	-	-	**2**	113
Amounts recognised directly in equity				
Hedges	**-**	-	**107**	27
	-	-	**109**	140
Set-off against deferred tax assets	**-**	-	**(92)**	(84)
	-	-	**17**	56
(ii) Movements				
Balance at the beginning of the financial year	**-**	-	**140**	162
Charged / (credited) to profit or loss	**-**	-	**(116)**	(97)
Charged / (credited) to equity	**-**	-	**80**	23
Foreign exchange differences	**-**	-	**(3)**	1
Transfers	**-**	-	**1**	(5)
Acquisition	**-**	-	**-**	44
Adjustments relating to prior year	**-**	-	**7**	12
Balance at the end of the financial year	**-**	-	**109**	140

NOTE 7: 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 insurance – comprises the Australia insurance business which distributes a range of direct and intermediated insurance products, under several brands. Direct insurance products are distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands. Intermediated insurance products are primarily sold under the CGU and Swann insurance brands through insurance brokers and authorised representatives. This segment includes the operations of an Australian dedicated captive reinsurer.

- New Zealand insurance – comprises the general insurance business underwritten through subsidiaries in New Zealand. The insurance products are predominantly sold directly to customers using the State brand, and through intermediaries such as brokers and agents using the NZI brand. Personal and commercial products are also distributed using third party brands by corporate partners such as large financial institutions.

- United Kingdom insurance – comprises the general insurance underwriting and broker distribution services operating through subsidiaries in the United Kingdom. The underwriting businesses include a Lloyd's syndicate and a licensed Gibraltar based underwriter. The broking business includes Equity insurance brokers which is a specialist small businesses insurer offering commercial insurance including haulage and heavy goods vehicles and Hastings which offers motor insurance online. These brands provide a combination of direct and third party multi-channel distribution.

- Asia insurance – comprises the direct insurance business underwritten through subsidiaries in Asia. The business offers personal and commercial insurance products through local brands in different Asian markets.

- Reinsurance operations – comprises the inwards reinsurance operation (which is classified as held for sale at current reporting date) and the captive reinsurer for subsidiaries operating outside Australia.

- Corporate and investments – comprises 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 reported segments have changed from those disclosed in the previous annual report as a result of the continued expansion of the IAG Group and the way the business is managed. The change resulted in the merging of what were previously disclosed as two separate segments, being Australia personal insurance and Australia commercial insurance to form a single Australia insurance segment. The revised business segments align with the way in which information was viewed by key management personnel at reporting date for making strategic and operational decisions. The comparative information provided has been reclassified to conform to the current period's presentation.

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 7: SEGMENT REPORTING (Continued)

2008	Australia insurance	New Zealand insurance	United Kingdom insurance	Asia insurance	Reinsurance operations	Corporate and investments	Inter-segment elimination	Total
	$m	$m	$m	$m	$m	$m	$m	$m
External revenue	6,160	1,026	1,715	203	40	67	-	9,211
Intersegment revenue	-	14	119	4	178	-	(315)	-
Total revenue	6,160	1,040	1,834	207	218	67	(315)	9,211
Underwriting profit	139	(39)	(33)	(1)	(50)	-	-	16
Investment income net of investment fees - technical reserves	347	22	61	4	(2)	-	-	432
Insurance profit	486	(17)	28	3	(52)	-	-	448
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	41	-	41
Share of net profit / (loss) of associates	-	-	(3)	-	-	-	-	(3)
Other net operating result	33	-	(1)	(4)	-	(650)	-	(622)
Profit / (loss) before income tax	519	(17)	24	(1)	(52)	(609)	-	(136)
Income tax expense								(90)
Profit / (loss) for the year								(226)
Segment assets	9,666	629	1,493	124	287	7,456	(275)	19,380
Total assets								19,380
Segment liabilities	9,666	629	1,493	124	287	3,105	(275)	15,029
Total liabilities								15,029
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	-	-	216	-	216
Depreciation expense	39	5	32	2	-	9	-	87
Amortisation and impairment charges on acquired intangibles and goodwill	-	-	-	-	-	407	-	407
Total depreciation, amortisation expenses and impairment charges	39	5	32	2	-	416	-	494
Other non-cash expenses	62	9	3	-	-	65	-	139

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 7: SEGMENT REPORTING (Continued)

2007	Australia insurance	New Zealand insurance	United Kingdom insurance	Asia insurance	Reinsurance operations	Corporate and investments	Inter-segment elimination	Total
	$m	$m	$m	$m	$m	$m	$m	$m
External revenue	6,796	1,000	912	193	15	354	-	9,270
Intersegment revenue	-	5	27	6	41	-	(79)	-
Total revenue	6,796	1,005	939	199	56	354	(79)	9,270
Underwriting profit	375	64	(3)	1	(30)	-	-	407
Investment income net of investment fees - technical reserves	296	22	33	8	1	-	-	360
Insurance profit	671	86	30	9	(29)	-	-	767
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	320	-	320
Share of net profit / (loss) of associates	-	-	(2)	7	-	-	-	5
Other net operating result	65	-	18	(9)	-	(258)	-	(184)
Profit / (loss) before income tax	736	86	46	7	(29)	62	-	908
Income tax expense								(279)
Profit / (loss) for the year								629
Segment assets	10,181	674	1,762	131	83	8,862	(56)	21,637
Total assets								21,637
Segment liabilities	10,181	674	1,762	131	83	4,030	(56)	16,805
Total liabilities								16,805
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	-	-	-	-	-	1,746	-	1,746
Depreciation expense	34	4	11	2	-	10	-	61
Amortisation and impairment charges on acquired intangibles and goodwill	-	-	-	-	-	55	-	55
Total depreciation, amortisation expenses and impairment charges	34	4	11	2	-	65	-	116
Other non-cash expenses	69	11	7	-	-	6	-	93

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 7: SEGMENT REPORTING (Continued)

(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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
External revenue	**6,261**	7,106	**1,050**	1,062	**1,660**	887	**200**	196	**40**	19	**-**	-	**9,211**	9,270
Segment assets	**16,177**	16,685	**1,523**	1,721	**2,931**	3,608	**272**	315	**553**	228	**(2,076)**	(920)	**19,380**	21,637
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	**109**	57	**15**	42	**83**	1,622	**3**	1	**6**	24	**-**	-	**216**	1,746

NOTE 8: EARNINGS PER SHARE

	CONSOLIDATED	
	2008	**2007**
	cents	**cents**
(a) Reporting period values		
Basic earnings per ordinary share (i)	**(14.29)**	32.79
Diluted earnings per ordinary share	**(14.18)**	32.59

(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 2008 would be reduced to (14.18) cents (2007 - 32.60 cents).

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
(b) Reconciliation of earnings used in calculating earnings per share		
Profit / (loss) for the year	**(226)**	629
Profit attributable to minority interests	**(35)**	(77)
Profit / (loss) attributable to equity holders of the Parent which is the earnings used in calculating basic and diluted earnings per share	**(261)**	552

	CONSOLIDATED	
	2008	**2007**
	Number of shares in millions	**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)	**1,842**	1,691
Treasury shares held in trust	**(13)**	(10)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,829**	1,681
Weighted average number of dilutive potential ordinary shares relating to:		
- Unvested share based remuneration rights supported by treasury shares held in trust	**13**	10
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**1,842**	1,691

(i) The 30 June 2007 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 included as dilutive potential ordinary shares even though they may convert into ordinary shares because the contingent conversion conditions were not met at the reporting date.
- The reset exchangeable securities (refer note 31(b)) are not included as dilutive potential ordinary shares because the contingent conversion conditions were not met at the reporting date.

NOTE 9: DIVIDENDS

	Cents per share	Total amount	Payment date	Tax rate for franking credit	Percentage franked
		$m			
(a) Ordinary shares					
Recognised in year ended 30 June 2008					
2008 interim dividend	**13.5**	**250**	**14 April 2008**	**30%**	**100%**
2007 final dividend	**16.0**	**287**	**8 October 2007**	**30%**	**100%**
		537			
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			

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(ad)) 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.

The dividends recognised in the year ended 30 June 2008 includes $2 million (2007 - $4 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

(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 2008 interim dividend payable on 14 April 2008 was settled with the issuance of 25.2 million fully paid ordinary shares priced at $3.6443 per share (based on the average market price for the eight trading days from 17 March 2008 to 28 March 2008 inclusive, less a discount of 1.5%) to existing shareholders with dividend entitlements.

(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	Expected payment date	Tax rate for franking credit	Percentage franked
		$m			
2008 final dividend	**9.0**	**169**	**3 October 2008**	**30%**	**100%**

The dividend was declared on 22 August 2008. The Company's dividend reinvestment plan ("DRP") will operate by issuing new ordinary shares to participants with no discount applied.

The last election notice for participation in the dividend reinvestment plan in relation to this final dividend is 3 September 2008.

NOTE 9: DIVIDENDS (Continued)

(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.

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.

(e) Dividend franking amount

	PARENT		CONSOLIDATED	
	2008	**2007**	**2008**	**2007**
	$m	$m	**$m**	$m
The amount of franking credits available for the subsequent annual reporting period are:				
Franking account balance at reporting date at 30%	**466**	538	**498**	570
Franking credits to arise from payment of income tax payable	**49**	39	**62**	51
Franking debits to arise from receipt of income tax refundable	**-**	(15)	**-**	(15)
Franking credits to arise from receipt of dividends receivable	**1**	2	**1**	2
Franking credits available for future reporting periods	**516**	564	**561**	608
Franking account impact of dividends declared before issuance of financial report but not recognised at reporting date	**(72)**	(123)	**(72)**	(123)
Franking credits available for subsequent financial years based on a tax rate of 30%	**444**	441	**489**	485

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 financial year were fully franked at 30% (2007 - fully franked at 30%).

NOTE 10: INSURANCE CONTRACTS RISK MANAGEMENT

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse affects arising from the occurrence of specified uncertain future events. The risk is that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Consolidated entity is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Consolidated entity also faces other risks relating to the conduct of the general insurance business including financial risks (refer principally to note 33) and capital risks (refer principally to note 34).

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

(a) Risk management framework

The IAG Group has in place a dedicated risk management function responsible for the development and maintenance of the risk management framework. The risk management framework provides reasonable assurance that the IAG Group's risks are being prudently and soundly managed. The framework includes a written Risk Management Strategy ("RMS") which is a high-level, strategic document intended to describe key elements of the risk management framework. The RMS:

- Describes Board and management approved parameters (ie risk appetite) within which key decisions must be made;
- Is a key input into how regulators understand and assess the approach to risk management; and
- Forms the basis of twice yearly declarations provided by executives and senior management to the Board.

The framework also includes clearly defined managerial responsibilities and risk management policies, procedures and controls to identify, assess, monitor, report on and mitigate all material risks, financial and non-financial, likely to be faced. A review process is in place to ensure that the risk management framework remains effective. Standard & Poor's (S&P's) has rated the IAG Group enterprise risk management program to be 'excellent' which is the highest assessment available under S&P's classification system.

The RMS is updated annually and approved by the Board and resubmitted to APRA after any material changes are made. A three-year rolling business plan is also submitted to APRA after each annual review or whenever material changes are made.

The IAG Group has in place a range of monitoring activities assessing both the financial management and risk management aspects of the business. The Appointed Actuary for each Australian licensed insurer in the IAG Group is required to prepare a Financial Condition Report (FCR) and an Insurance Liability Valuation Report (ILVR). The ILVR is more quantitative in nature than the FCR. Both documents are required to be submitted to APRA annually.

The FCR includes specific items such as an assessment of asset and liability management, reinsurance arrangements and the risk management framework and incorporates recommendations where issues are noted.

The ILVR advises on the valuation of insurance liabilities including specific details such as assumptions and valuation methods. The ILVR is peer-reviewed by another Actuary (the Reviewing Actuary) who must not be an employee of the insurer. The Reviewing Actuary must provide a review report on the ILVR to the insurer's Board and management, the Appointed Auditor and Appointed Actuary, but not directly to APRA unless specifically requested to do so.

(b) Risk management objectives and policies for mitigating insurance risk

The insurance activities primarily involve the underwriting of risks and the management of claims. A disciplined approach to risk management is adopted in accordance with IAG Group protocols rather than a premium volume or market share orientated approach. It is believed this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders; including policyholders, lenders and equity holders.

The risk management activities can be broadly separated into underwriting (acceptance and pricing of risk), claims management, reserving (including investment in data capabilities), and investment management. The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations. The policies for the management of risk are applied consistently across the IAG Group with certain allowances made for non-Australian jurisdictions. There is a transition period for newly acquired businesses to comply with these policies.

NOTE 10: INSURANCE CONTRACTS RISK MANAGEMENT (Continued)

The key policies in place to mitigate risks arising from underwriting insurance contracts include the following:

- Acceptance of risk - The IAG Group Underwriting and Pricing Policy Committee establishes, reviews and monitors the underwriting and pricing standards and strategies. This committee is supported by regional committees that conduct a similar role but focusing on issues specific to each region. Insurance and reinsurance policies are written in accordance with local management practices and regulations within each geographical region taking into account the Consolidated entity's risk tolerance and underwriting standards.

  The underwriting of large numbers of uncorrelated individual risks, across a range of classes of insurance businesses, in different geographical regions reduces the variability in overall claims experience. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. Having limited exposure to long tail classes of business (where the settlement of claims typically takes longer than one year), currently approximately 20% of the business as measured by gross written premium, limits risk. Management information systems are maintained that provide up to date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including plain language policy terms, to ensure there is no misalignment between what policyholders perceive will be paid when a policy is initially sold and what is actually paid when a claim is made.

  The charts in section (d) of this note provide a dissection of gross written premium by geography and product for the current and prior financial year demonstrating the limited exposure to the additional risks associated with long-tail classes of business;

- Pricing - Statistical models are used which combine historical and projected data to calculate premiums and monitor claims patterns for each class of business. The data used includes historical pricing and claims analysis for each class of business as well as current developments in the respective markets and classes of business. All data used is subject to rigorous verification and reconciliation processes. The models incorporate consideration of market conditions;

- Reinsurance - The use of reinsurance to limit exposure to large single claims and accumulation of claims that arise from the same event or the accumulation of similar events. This includes the monitoring of reinsurers' credit risk to control exposure to reinsurance counterparty default (refer note 12);

- Claims management - initial claim determination is managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge. It is the IAG Group policy to respond and settle all genuine claims quickly whenever possible and to pay claims fairly, based on policyholders full entitlements;

- Investment management - assets and liabilities are managed so as to effectively match the maturity of the assets that are held to back insurance liabilities with the expected pattern of claims payments; and

- Risk reduction - Reducing the frequency and severity of a claim in the first place by supporting and assisting the community by engaging in risk reduction activities (such as fire prevention strategies, crime prevention programs and motor vehicle safety initiatives), conducting research to reduce future risk in the community, improving risk management understanding in the community, and reducing the environmental footprint of the IAG Group.

(c) Terms and conditions of insurance contracts

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted. Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiable. The majority of direct insurance contracts written are entered on a standard form basis. Non-standard and long term policies may only be written if expressly approved by a person with appropriate delegated authority. Risks are only assumed where the IAG Group has the skills to analyse, structure and price the risk appropriately. There are no special terms and conditions in any non standard direct insurance contracts that would have a material impact on the financial report. Insurance contracts written in all geographical regions are subject to substantially the same terms and conditions. There are no embedded derivatives that are separately recognised from a host insurance contract.

Individual reinsurance contracts have a greater potential to have a significant financial impact. Refer to note 12 for more information.

NOTE 10: INSURANCE CONTRACTS RISK MANAGEMENT (Continued)

(d) Concentrations of insurance risk

The exposure to concentrations of insurance risk is mitigated by a portfolio diversified into many classes of business across different countries. A high level indication of the spread of insurance risk may be obtained from the segment reporting note.

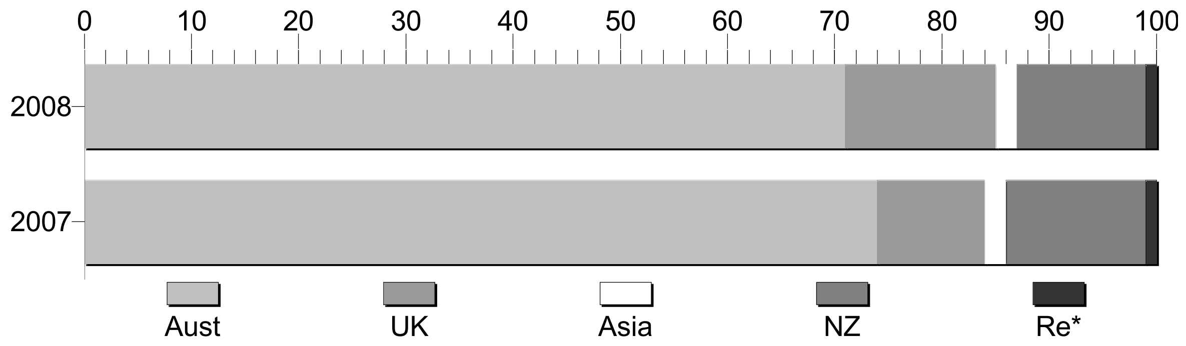
Concentration risk is particularly relevant in the case of natural disasters and other catastrophes which generally result in a concentration of affected policyholders over and above the norm and which constitutes the largest individual potential financial loss. Each year, the Consolidated entity sets its tolerance for concentration risk. Various models are used to estimate the impact of different potential natural disasters and other catastrophes. The tolerance for concentration risk is used to determine the maximum event retention which is the maximum net exposure to insurance risk determined appropriate for any single event with a given probability. While it is desirable to limit the net exposure, it is reduced to only the maximum event retention limit because the cost of purchasing reinsurance cover to reduce the net exposure further is not considered capital efficient.

The maximum event retention limit for a second event during the period of reinsurance cover is generally lower than that for the first event.

The charts below demonstrate the diversity of the IAG Group's operations by both geography (noting that the insurance risks underwritten in Australia are written in all states and territories) and product indicating that the concentration of insurance risk is not significant.

The following bar chart provides a percentage analysis of gross written premium by region.

CONSOLIDATED



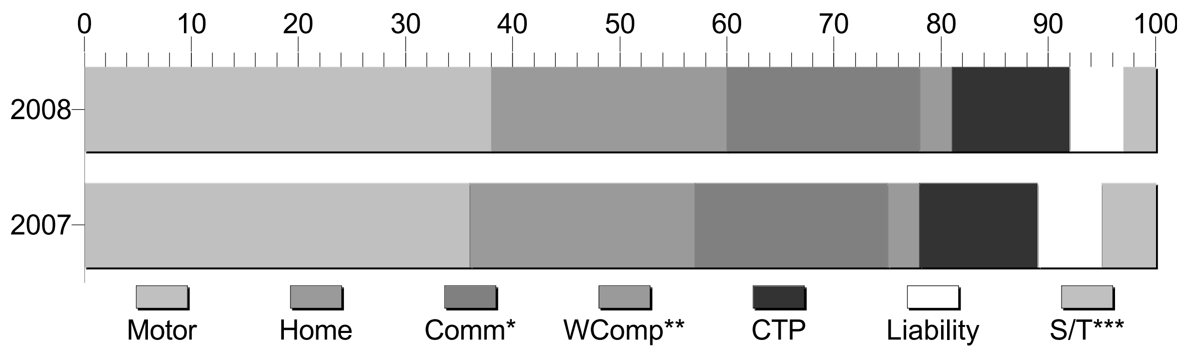
* Re = Reinsurance

The main reason for the increase in relative size of the gross written premium for the United Kingdom is because that operation was acquired during the comparative period and so the comparative figures do not include a full year's premiums.

NOTE 10: INSURANCE CONTRACTS RISK MANAGEMENT (Continued)

The following bar chart provides a percentage analysis of gross written premium by product.

CONSOLIDATED



* Comm = Short-tail commercial

** WComp = Workers' compensation

*** S/T = Other short-tail

Specific processes for monitoring identified key concentrations are set out below:

Risk	Source of concentration	Risk management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Multiple liability retentions being involved in the same event	Response by a multitude of policies to the one event	Purchase of reinsurance clash protection

As an example of the impact of a potential catastrophe on the Consolidated entity, the exposure to an earthquake in Sydney with associated claims costs of $4 billion would be limited to an estimated $118 million (based on the current first event maximum event retention limit for natural peril).

For concentrations of risk relating to the reinsurance contracts refer to note 12.

(e) Credit risk

Financial assets or liabilities arising from insurance contracts are presented on the balance sheet at the amount that best represents the maximum credit risk exposure at reporting date.

The credit risk relating to insurance contracts relates primarily to:

- Premium receivable which is due from individual policyholders and intermediaries (brokers, agents and business partners). The brokers and agents collect premium from policyholders and remit the monies to the insurer in accordance with contractual arrangements being generally within 90 days for brokers and 30-60 days for agents. Clearly defined credit policies are applied in dealing with these counterparties. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Concentrations of credit risk are considered low due to the large number of customers/corporate partners comprising the customer base and their dispersion across different industries and geographies. For more detailed credit risk information for the premium receivable balance refer to the receivables note.

- Reinsurance recoveries receivable which are discussed further in note 12.

For information regarding the management of credit risk refer to the financial risk management note.

NOTE 10: INSURANCE CONTRACTS RISK MANAGEMENT (Continued)

(f) Liquidity risk

Underwriting insurance contracts exposes the IAG Group to liquidity risk through the obligation to make payments of unknown amount on unknown dates. Information regarding the maturity of the net discounted outstanding claims liability is provided in note 11(f). For information regarding the management of liquidity risk refer to the financial risk management note.

(g) Interest rate risk

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the outstanding claims liability. Movements in interest rates impact the determination of the liability through the selection of discount rates. Discounting the liability is in effect allowing for future investment earnings on the assets held to back the insurance liabilities. The funds held to pay outstanding claims are invested principally in fixed interest securities matched to the settlement durations of the outstanding claims. Movements in market interest rates affect the value of the fixed interest securities. Hence movements in interest rates should have minimal impact on the insurance profit for a year due to movements in investment income on assets backing insurance liabilities offsetting the impact of movements in discount rates on the claims liabilities other than the changes in credit spread on fixed interest securities. The fixed interest securities are expected to be held to maturity and so the unrealised losses from the widening credit spread are expected to reverse upon maturity of these securities.

(h) Currency risk

The IAG Group is an international general insurance group underwriting insurance contracts in Australia, New Zealand, United Kingdom and Asia in operating currencies. The translation of the assets, liabilities, income and expenses of foreign operations with a functional currency other than the Australia dollar exposes the IAG Group to currency risk. This risk is principally managed through the matching of the currency in which assets held to back insurance liabilities are invested to the currency in which the related insurance contracts are written. For additional information regarding the management of currency risk refer to the financial risk management note.

(i) Reinsurance risk

For information regarding outwards reinsurance refer to notes 12(e) and (f).

Inwards reinsurance or retrocession is accepted from various subsidiaries within the IAG Group but these transactions are eliminated upon consolidation. Inwards reinsurance or retrocession from entities not controlled by the IAG Group can only be accepted for exposures that are consistent with the organisation’s risk appetite and within limits approved by the Board. The Alba group, a subsidiary group of IAG, can only accept inwards reinsurance on a ‘single risk’ basis (ie it provides facultative reinsurance) and therefore is provided full details of each risk from the cedant.

(j) Regulatory risk

The general insurance operations of the IAG Group are subject to regulatory supervision in the jurisdictions in which they operate. The regulatory frameworks continue to develop in a number of those jurisdictions but at a minimum include requirements in relation to reserving, capital and the payment of dividends. The IAG Group works closely with regulators and monitors regulatory developments across its international operations to assess any potential impact on the ongoing ability to meet the various regulatory requirements.

(k) Operational risk

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and / or inadequate or failed internal processes, people and systems to perform as required. Operational risk can have overlaps with all of the other risk categories. When controls fail, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The IAG Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the IAG Group is able to manage risks.

The IAG Group Risk Management Strategy includes consideration of operational risk. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The IAG Group has an internal audit function which monitors processes and procedures surrounding operational risk.

(l) Acquisition risk

The Consolidated entity’s strategy of international expansion exposes it to additional risks. Acquisition risks are principally managed by the Consolidated entity’s controls over the due diligence and subsequent integration process. The Consolidated entity mitigates this risk as much as possible by performing due diligence appropriate to its risk appetite for each target entity and by using dedicated teams to manage the integration process.

NOTE 10: INSURANCE CONTRACTS RISK MANAGEMENT (Continued)

(m) Lloyd's syndicates

The IAG Group participates in three Lloyd's syndicates being Equity Red Star Motor Syndicate 218 (64%), Syndicate 4455 (100% - classified as held for sale at reporting date), and Syndicate 1208 (100%- in run-off).

Every Lloyd's member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities and members fail to meet those liabilities when called upon to do so. The minimum level of FAL is determined by the Individual Capital Assessment (ICA) conducted by each syndicate’s managing agency and approved by Lloyd’s. The ICA is based on local regulatory requirements and resource criteria and the level of FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the Insurance, Credit, Liquidity, Market, Operation and Group risks in respect of business that has been underwritten as well as the systems and controls that exist both with the syndicate and its managing agency.

In addition, Lloyd’s has a Central Fund for which contributions are collected from all members on an annual basis. The purpose of this fund is to pay legitimate claims incurred by syndicates where members are unable to meet their obligations and their FAL have been exhausted. All members at Lloyd’s have joint and several liability and, in extreme cases, Lloyd’s can also require ‘special contributions’ from members at the discretion of the Council of Lloyd’s to maintain the Central Fund. Lloyd's has an A+ Strong rating issued by Standard & Poor's Rating Services.

NOTE 11: CLAIMS

	CONSOLIDATED 2008	2007
	$m	$m
(a) Claims expense, net		
Direct business	**5,149**	4,464
Inwards reinsurance business	**6**	10
Net claims expense	**5,155**	4,474

(b) Claims development

(i) Net claims expense recognised in the income statement

Given the uncertainty in establishing the outstanding claims liability, it is likely that the final outcome will be different from the original liability established. Claims development refers to the financial adjustment in the current period relating to claims incurred in previous periods because of new and more up to date information that has become available and to reflect changes in inflation and discount assumptions. The information is presented on an accident year basis (claims are related to the period in which the insured event occurred and not the period in which the policy was underwritten).

	CONSOLIDATED 2008 Current year	Prior years	Total	2007 Current year	Prior years	Total
	$m	$m	$m	$m	$m	$m
Gross claims - undiscounted	**6,602**	**(970)**	**5,632**	6,257	(886)	5,371
Discount	**(328)**	**289**	**(39)**	(347)	321	(26)
Gross claims - discounted	**6,274**	**(681)**	**5,593**	5,910	(565)	5,345
Reinsurance and other recoveries - undiscounted	**(745)**	**299**	**(446)**	(1,002)	109	(893)
Discount	**32**	**(24)**	**8**	51	(29)	22
Reinsurance and other recoveries - discounted	**(713)**	**275**	**(438)**	(951)	80	(871)
Net claims expense	**5,561**	**(406)**	**5,155**	4,959	(485)	4,474

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods. A major component of the prior year movement is the release of risk margins in respect of claims payments during the year. In order to maintain strong reserves, much of this release is transferred to current accident year reserves for which the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. Another factor contributing to the prior year claims development in the current financial year are releases in liability portfolios.

(ii) Net outstanding claims liability recognised on the balance sheet

The following table shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claims costs for the seven most recent accident years as estimated at each reporting date. The table also shows a reconciliation of the net discounted liability for the seven most recent accident years to the gross outstanding claims liability on the balance sheet.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 11: CLAIMS (Continued)

	CONSOLIDATED							
	Accident year							
2008	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Net ultimate claims costs	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Probability of adequacy of outstanding claims liability as at reporting date	**90 %**	**90 %**	**90 %**	**93 %**	**90 %**	**90 %**	**90 %**	
Development								
At end of accident year	**2,323**	**3,696**	**3,893**	**4,028**	**4,389**	**5,583**	**5,317**	
One year later	**2,236**	**3,387**	**3,541**	**3,776**	**4,117**	**5,355**		
Two years later	**2,159**	**3,276**	**3,521**	**3,681**	**3,996**			
Three years later	**2,109**	**3,192**	**3,451**	**3,600**				
Four years later	**2,070**	**3,090**	**3,399**					
Five years later	**2,021**	**3,079**						
Six years later	**2,019**							
Cumulative development	**(304)**	**(617)**	**(494)**	**(428)**	**(393)**	**(228)**	**n/a**	
Cumulative development as a percentage of original reserves	**(13.1)%**	**(16.7)%**	**(12.7)%**	**(10.6)%**	**(9.0)%**	**(4.1)%**	**n/a**	
Current estimate of net ultimate claims cost	**2,019**	**3,079**	**3,399**	**3,600**	**3,996**	**5,355**	**5,317**	
Cumulative payments	**(1,888)**	**(2,849)**	**(3,054)**	**(3,031)**	**(3,211)**	**(3,770)**	**(2,843)**	
Net undiscounted outstanding claims liability for the seven most recent accident years	**131**	**230**	**345**	**569**	**785**	**1,585**	**2,474**	**6,119**
Discount to present value	**(36)**	**(46)**	**(54)**	**(85)**	**(123)**	**(214)**	**(266)**	**(824)**
Net discounted outstanding claims liability for the seven most recent accident years	**95**	**184**	**291**	**484**	**662**	**1,371**	**2,208**	**5,295**

Reconciliation	
Claims handling expense (inclusive of risk margin)	**394**
Net discounted outstanding claims for accident years 2001 and prior	**193**
Net outstanding claims liability for accident years prior to acquisition year of 2003 for CGU Insurance Group	**506**
Net outstanding claims liability for inwards reinsurance run-off relating to accident years 2002 and prior	**28**
	6,416
Gross outstanding claims liability on the balance sheet	**7,827**
Reinsurance and other recoveries on outstanding claims liabilities	**(1,043)**
GST recoverable on net outstanding claims liability	**(368)**
Net outstanding claims liability	**6,416**

Favourable development of claims provisions has given rise to the release of risk margins, and in some cases central estimates, as the ultimate claims costs were settled or became more certain.

Conditions and trends that have affected the development of the liabilities in the past may, or may not, occur in the future, and accordingly, conclusion about future results may not necessarily be derived from the information presented in the tables above.

NOTE 11: CLAIMS (Continued)

Short-tail claims are normally reported soon after the incident and are generally settled within months following the reported incident. Hence any development on short-tail claims is normally limited to the year the incident occurred and the following year. For long-tail classes of business it can be several years before a claim is reported and settled, hence the original estimation involves greater uncertainty and so inherently there is more likely to be greater disparity between the original and current estimates. It is for these long-tail classes of business that the development of the outstanding claims liability generally occurs over a number of years.

Where an entity or business has been acquired that includes outstanding claims liabilities, the claims costs for the acquired businesses are included in the claims development table from and including the year of acquisition. Development on the liabilities of such acquired businesses relating to accident years prior to the year of acquisition is included in the table in the year of acquisition (except for CGU Insurance Group, refer to the previous table).

The Consolidated entity conducts general insurance business in local currencies in foreign countries. The gross outstanding claims liability for international operations outside Australia includes contracts written in New Zealand dollars, United Kingdom pounds and Thai Baht. The translation of the outstanding claims liabilities denominated in foreign currencies into Australian dollars over a number of reporting dates, includes exchange rate movements that have no bearing on the development of the measurement of the underlying claims. All claims liabilities not denominated in Australian dollars have been converted to Australian dollars using constant exchange rates being the rates as at the current reporting date to eliminate this factor and aid comparability.

The claims development table disclosed each period will not be directly reconcilable to the tables presented in previous periods with the key difference being the application of current reporting date exchange rates to the claims liability relating to all accident years.

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
(c) Composition of outstanding claims liability - gross, discounted		
Expected future payment for claims incurred		
- Central estimate	**6,194**	6,775
- Claims handling costs	**332**	413
- Risk margin	**1,301**	1,374
Outstanding claims liability	**7,827**	8,562

The outstanding claims liability includes $4,725 million (2007 - $5,205 million) which is expected to be settled after more than twelve months from reporting date. The gross and net outstanding claims liability at the financial reporting date relating to the inwards reinsurance business was $285 million (2007 - $384 million) and $189 million (2007 - net $255 million) respectively.

NOTE 11: CLAIMS (Continued)

(d) Reconciliation of movements in outstanding claims liability

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
Outstanding claims liability at the beginning of the financial year - gross, discounted	**8,562**	6,916
Reinsurance and other recoveries receivable on outstanding claims at the beginning of the financial year (refer note 12(a))	**(1,346)**	(908)
GST recoverable on net outstanding claims liability at beginning of the financial year	**(417)**	(278)
Net outstanding claims liability at the beginning of the year	**6,799**	5,730
Risk margin at the beginning of the year	**(1,068)**	(1,042)
Net central estimate at the beginning of the year	**5,731**	4,688
Claims incurred in the current year	**6,268**	5,811
Reinsurance and other recoveries in the current year	**(982)**	(924)
Claims cost paid	**(6,428)**	(5,037)
Reinsurance and other recoveries received	**1,000**	486
Unwind of the discount	**240**	222
Development on prior year net central estimate	**(284)**	(249)
Movement in discounting	**(20)**	(63)
Net foreign exchange movement	**(120)**	(23)
Net movement for acquired businesses	**-**	820
Net central estimate at the end of the year	**5,405**	5,731
Risk margin at the end of the year	**1,011**	1,068
Net outstanding claims liability at the end of the year	**6,416**	6,799
Reinsurance and other recoveries receivable on outstanding claims at the end of the financial year (refer note 12(a))	**1,043**	1,346
GST recoverable on net outstanding claims liability at end of the financial year	**368**	417
Outstanding claims liability at the end of the financial year - gross, discounted	**7,827**	8,562

(e) Discounting of net outstanding claims liability

Net outstanding claims liability - undiscounted	**7,666**	8,250
Discount to present value	**(1,250)**	(1,451)
Net outstanding claims liability - discounted	**6,416**	6,799

(f) Maturity analysis

A maturity analysis of the estimated net discounted outstanding claims liability based on the remaining term to payment at reporting date is provided in the table below. This maturity profile is a key tool used in the investment of assets backing insurance liabilities in accordance with the policy of matching the maturity profile of the assets with the estimated pattern of claims payments.

Within 1 year or less	**2,245**	2,312
Within 1 to 2 years	**1,147**	1,244
Within 2 to 3 years	**853**	918
Within 3 to 4 years	**597**	643
Within 4 to 5 years	**393**	408
Over 5 years	**1,181**	1,274
Total	**6,416**	6,799

NOTE 11: CLAIMS (Continued)

	CONSOLIDATED	
	2008	**2007**
	%	**%**
(g) Central estimate and risk margin		
(i) Reporting date values		
The percentage risk margin applied to the present value of expected future payments for claims incurred net of expected recoveries on outstanding claims liability and expected input tax credit	**18.7**	18.6
The probability of adequacy of the risk margin	**90**	90

The high level of professional judgement applied by actuaries in calculating the outstanding claims liability, and hence the probability of adequacy of the liability, means that for a certain probability of adequacy, different risk margins may be applied for similar risks, which is important in considering the overall reserving strength of an insurer.

(ii) Process

The outstanding claims liability is determined based on three building blocks being:

- An estimate of the future cash flows;
- Discounting for the effect of the time value of money; and
- Adding a risk margin for uncertainty.

Future cash flows

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The claims estimation process commences with the actuarial projection of the future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs.

The estimation process involves using the Consolidated entity's specific data, relevant industry data and more general economic data. Each class of business is usually examined separately and the process involves consideration of a large number of factors including the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business as well as the key actuarial assumptions set out in 11(h), and the impact of reinsurance and other recoveries (refer note 12).

Different actuarial valuation models are used for different claims types with the results then being aggregated. This aggregation of results enhances the valuation process by allowing the use of the model best suited to particular claims types. The selection of the appropriate model takes into account the characteristics of a class of business and the extent of development of each past accident period.

The different components of the outstanding claims liability are subject to different levels of uncertainty. The estimation of the cost of claims reported but not yet paid or not yet paid in full is made on a case-by-case basis by claims personnel having regard to the facts and circumstances of the claim as reported, any information available from assessors and information on the cost of settling claims with similar characteristics in previous periods. A further amount, which may be a reduction, is included for IBNER on the basis of past experience with the accuracy of initial claims estimates. With IBNR, the estimation is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as no information is currently available about the claim. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claim have occurred. In calculating the estimated cost of unpaid claims a variety of estimating techniques are used, generally based on statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims. For new products the growing experience with the development of claims is closely monitored.

Reserves are not established for catastrophes in advance of such events and so these events may cause volatility in the results for a period and in the levels of the outstanding claims liability, subject to the effects of reinsurance recoveries.

NOTE 11: CLAIMS (Continued)

Discounting

A projection of future claims payments, both gross and net of reinsurance and other recoveries, is undertaken. Projected future claims payments and associated claims handling costs are discounted to a present value as required using appropriate risk free discount rates.

The valuation of the outstanding claims liability for the major portfolios is primarily performed by actuaries who do not have any direct role in the pricing function so as to ensure that an objective and independent assessment of the outstanding claims liability is maintained on a regular basis.

Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution. It is considered appropriate for the measurement of the claims liability to represent a higher degree of certainty regarding the sufficiency of the liability over time, and so a risk margin is added to the central estimate. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability. The risk margin added to the central estimate increases the probability that the net outstanding claims liability will ultimately prove to be adequate.

Risk margins are held to allow for uncertainty surrounding the outstanding claims liability estimation process. Potential uncertainties include those relating to the actuarial models and assumptions, the quality of the underlying data used in the models, general statistical uncertainty, the general insurance environment, scope for and experience of political intervention (particularly for long-tail classes) and the impact of legislative reform. Uncertainty from the above sources is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis. Certain product classes may be subject to the emergence of new types of latent claims and such uncertainties are considered when setting the risk margin appropriate for those classes.

The long-tail classes of business generally have the highest volatilities of the insurance classes as the longer average time for claims to be reported and settled allows more time for sources of uncertainty to emerge. Short-tail classes generally have lower levels of volatility.

The risk margin is set using a probability of adequacy approach. The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. Two key components of the valuation methodology are the selection of coefficients of variation (CoV) for each class of business and the correlation factors between each pair of classes of business. The CoV is a measure of the volatility of a class of business and is generally greater for long tail classes when compared to short-tail classes because of the increased uncertainty relating to the longer time until settlement of claims. The correlation factors are a measure of the correlation between pairs of business classes and measure the strength of the relationship of movements in that pair of class liabilities. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. The correlations adopted are normally derived from industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The risk margin is set taking into account the correlations assessed between the outstanding claims liabilities arising from the various forms of business underwritten by the different entities within the Consolidated entity. The Group Actuary estimates the overall risk margin on a diversified basis, taking into account the diversification benefit arising from combining all classes of business within the Consolidated entity. Allowance is made for diversification between portfolios, between entities and between geographies. The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results are aggregated. The aggregated central estimate plus the risk margin calculated on a diversified basis forms the outstanding claims liability. The policy is for the risk margin to be set so as to provide an overall probability of adequacy for the outstanding claims liability at 90% or greater which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment.

NOTE 11: CLAIMS (Continued)

(h) Actuarial assumptions

The following key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at reporting date:

	CONSOLIDATED				
	Australia insurance	**New Zealand insurance**	**United Kingdom insurance**	**Asia insurance**	**Reinsurance operations**
2008					
Weighted average terms to settlement	4.5 years	0.5 years	1.7 years	1.0 years	1.3 years
Inflation rate	3.0% - 4.75%	3.4%	3.0% - 4.0%	0.0%	3.5% - 4.0%
Superimposed inflation rate	2.5% - 5.0%	4.0%	3.5% - 4.0%	0.0%	2.0% - 3.5%
Discount rate	5.9% - 7.1%	8.3%	1.6% - 5.4%	0.0%	5.9% - 7.1%
Claims handling expense ratio	5.3%	5.0%	3.1%	0.8%	1.9%
2007					
Weighted average terms to settlement	4.1 years	0.4 years	1.7 years	0.4 years	0.6 years
Inflation rate	3.3% - 4.5%	3.1%	4.0%	0.0%	0.0%
Superimposed inflation rate	2.5% - 8.0%	4.0%	3.0%	0.0%	0.0%
Discount rate	5.7% - 6.6%	6.7% - 7.9%	4.3% - 6.0%	0.0%	0.0%
Claims handling expense ratio	5.9%	5.8%	4.3%	2.7%	1.4%

(i) Process used to determine assumptions

The process for establishing the outstanding claims liability involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. One of the key elements of the valuation processes is rigorous data verification and reconciliation.

A description of the key assumptions and the processes used to determine those assumptions is provided below:

- Weighted average term to settlement - The weighted average term to settlement relates to the expected payment pattern for claims (inflated and undiscounted). The payment pattern is important in considering the timing of future cash outflows and hence discounting and in managing the assets backing insurance liabilities to support the outflows. The future cashflow pattern is estimated separately for each class of business based on historic settlement patterns and estimated future settlement patterns. The weighted average term to settlement, while not itself an assumption, provides a summary indication of the future cashflow pattern.

- Inflation rate – Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators. For example, for the motor and property classes, claims costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs.

- Superimposed inflation rate - Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than wages or CPI inflation and from social and environmental pressures. Where appropriate, the effect of superimposed inflation is made either in the underlying model for the class of business, for example where the past pattern of development in claims cost are used to estimate future claims cost development factors, or by including a specific superimposed inflation rate assumption designed to allow for all other claims inflation not modelled. The level of superimposed inflation is estimated after considering both the superimposed inflation present in the portfolio and industry superimposed inflation trends.

- Discount rate – Because the outstanding claims liability represents payments that will be made in the future, they are discounted to reflect the time value of money effectively recognising that the assets held to back insurance liabilities will earn a return during that period. Discount rates represent a risk-free rate derived from market yields on government securities.

NOTE 11: CLAIMS (Continued)

- Claims handling expense ratio – In respect of claims incurred up to the reporting date, it is known that costs will be incurred in the management of claims to finalisation. An estimate of these costs is incorporated into the outstanding claims liability using the claims handling expense ratio. The ratio incorporates assumptions about the future costs to be incurred based on past experience of such costs for each class of business.

(j) The effect of changes in assumptions

(i) General impact of changes

Sensitivity analyses are conducted to quantify the exposure to changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the financial position and performance for a period. The information below describes how a change in each assumption will affect claims liabilities and provides an analysis of the sensitivity of the net outstanding claims liability to changes in these assumptions.

- Weighted average term to settlement - A decrease in the average term to settlement would reflect claims being paid sooner than anticipated and so increase the claims expense. Note this sensitivity only extends or shortens the term of the payments assumed in the valuation, without changing the total amount of the payments.

- Inflation and superimposed inflation rates - Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of inflation would have a corresponding impact on claims expense, with particular reference to long-tail business. The inflation rate sensitivity is provided as an indicator of the impact of inflation on the portfolio, whether it be from economic inflation, inflation implied from the use of the past pattern of development in claims cost in the valuation method or inflation related to a specific superimposed inflation rate specified.

- Discount rate - The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.

- Claims handling expense ratio - An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims which will increase the outstanding claims liability.

(ii) Sensitivity analysis of changes

The impact of changes in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the relevant impact assuming that there is no change to:

- Any of the other variables – This is considered unlikely as, for example, an increase in interest rates is normally accompanied by an increase in the rate of inflation.

- The probability of adequacy – The directors and management have set an internal target for the probability of adequacy for the outstanding claims liability. It is likely that if, for example, the central estimate was to increase by 5%, at least part of the increase would result in a decrease in the probability of adequacy rather than being reflected wholly in the net outstanding claims liability as inferred below.

An economic assumption may be relevant to only a part of a business segment and so a large change in the assumption may have only a small financial impact on the business segment. It is not possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The impact on the net outstanding claims liability is disclosed for each of the key assumptions. The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate. All movements are recognised directly through profit.

NOTE 11: CLAIMS (Continued)

		CONSOLIDATED				
Variable	Movement in variable	Australia insurance	New Zealand insurance	United Kingdom insurance	Asia insurance	Reinsurance operations
		$m	$m	$m	$m	$m
2008						
Weighted average term to settlement	+10%	(110)	(1)	(6)	-	(1)
	-10%	113	1	6	-	1
Inflation rate	+1%	149	-*	12	-	1
	-1%	(138)	-*	(12)	-	(1)
Discount rate	+1%	(132)	(1)	(12)	-	-*
	-1%	146	1	12	-	-*
Claims handling expense ratio	+1%	59	2	6	-*	-*
	-1%	(59)	(2)	(6)	-*	-*
2007						
Weighted average term to settlement	+10%	(104)	-	(9)	-*	(1)
	-10%	107	-	9	-*	1
Inflation rate	+1.0%	148	1	15	-*	-
	-1.0%	(135)	(1)	(15)	-*	-
Discount rate	+1.0%	(131)	(1)	(15)	-*	-*
	-1.0%	147	1	15	-*	-*
Claims handling expense ratio	+1.0%	67	2	10	1	-*
	-1.0%	(67)	(2)	(10)	(1)	-*

* Rounds to zero.

The movements in the net outstanding claims liability would have an opposing net impact on the profit or loss before tax for a year.

	CONSOLIDATED	
	2008	2007
	$m	$m

NOTE 12: REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

(a) Reinsurance and other recoveries receivable on outstanding claims

	2008 $m	2007 $m
Reinsurance recoveries receivable on outstanding claims	**679**	970
Other recoveries receivable on outstanding claims	**364**	376
Reinsurance and other recoveries receivable on outstanding claims	**1,043**	1,346

The carrying value of reinsurance and other recoveries receivable on outstanding claims includes $718 million (2007 - $814 million) which is expected to be settled more than twelve months from reporting date. Reinsurance and other recoveries on paid claims are included in trade and other receivables.

(b) Actuarial assumptions

Reinsurance and other recoveries on outstanding claims are computed using actuarial assumptions and methods similar to that used for outstanding claims (refer note 11(g)). The outstanding claims liability is calculated gross of any reinsurance recoveries and a separate estimate is then made of the amounts that are expected to be recoverable from reinsurers based upon the gross provisions. Estimates of potential reinsurance recoveries are made on an individual claim basis for reported claims. The recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received.

NOTE 12: REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS (Continued)

(c) The effect of changes in assumptions

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance and other recoveries receivable on outstanding claims, is disclosed in note 11(i).

(d) Significant risks

Credit risk

Reinsurance arrangements mitigate insurance risk but expose the IAG Group to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage, and price. The IAG Group has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. The Consolidated entity monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil its obligations to the Consolidated entity under respective existing and future reinsurance contracts. Some of the reinsurers are domiciled outside of the jurisdictions in which the Company operates and so there is the potential for additional risk such as country risk and transfer risk.

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. There is limited value in purchasing reinsurance protection from a reinsurer when that reinsurer may be unable to meet its payment obligations upon submission of a claim. The longer the tail of the direct insurance, the more important is the credit rating of the reinsurer.

It is IAG Group policy to only deal with reinsurers with credit ratings of at least Standard & Poor's "BBB+" (or other rating agency equivalent) without collateralisation with exposure to "BBB+" and below limited to 1.5% of the capital base. The principle being that the IAG Group does not trade off price for risk below this minimum acceptable level. For some newly acquired businesses a transition period is used for implementation of this policy. Where the credit rating of a reinsurer falls below the threshold level during the period of risk, there exists a contractual right to replace the counterparty. Some of the reinsurance protection is purchased on a 'collateralised' basis, where reinsurers have deposited funds equivalent to their participation in a trust fund. The counterparty credit profile of the catastrophe reinsurance program currently stands with more than 70% of the limit for the 2008 program with parties rated by Standard & Poor's as AA- or better. For long tail reinsurance arrangements more than 94% of the program is placed with parties rated by Standard & Poor's as AA- or better.

Having reinsurance protection with strong reinsurers also benefits the Consolidated entity in its regulatory capital calculations. The risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower APRA regulatory capital charges.

The following table provides information regarding the credit risk relating to the reinsurance and other recoveries on outstanding claims balance based on Standard & Poor's counterparty credit ratings. These rating allocations relate to balances accumulated from reinsurance programs in place over a number of years and so will not necessarily align with the rating allocations noted above for the current program.

	CONSOLIDATED	
	2008	2007
Rating	**% of total**	% of total
AAA	**2**	5
AA	**63**	42
A	**26**	44
BBB and lower / unrated	**9**	9
	100	100

Because of the nature of the amounts being estimates, the credit risk is incorporated into the estimate rather than being presented separately as a provision for impairment.

Concentrations of credit risk

Reinsurance contracts are entered into with a number of reinsurers from different countries. There is some concentration of credit risk within the reinsurance recoveries receivable balance due to the nature of the reinsurance market and the preference to reinsure with companies that have stronger credit ratings, as well as some counterparties having accumulated balances from reinsurance programs in place over a number of years. The level of reinsurance cover entered into with individual reinsurers are sufficiently diversified so as to avoid a concentration charge in the regulatory capital calculation (refer note 34).

Maturity analysis

Information regarding the maturity of the reinsurance and other recoveries on outstanding claims is incorporated into the maturity analysis in note 11(f) which is provided on a net basis.

NOTE 12: REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS (Continued)

Currency risk

The majority of the reinsurance program is denominated in Australian dollars and so there is insignificant currency risk arising from the reinsurance premiums payable or reinsurance recoveries receivable.

(e) Risk management

The IAG Group has in place a dedicated risk management function responsible for the development and maintenance of the risk management framework. The framework includes a written Reinsurance Management Strategy (REMS) which sets out key elements of the reinsurance management framework, processes for setting and monitoring the Maximum Event Retention (MER), processes for selecting, implementing, monitoring and reviewing reinsurance arrangements and identification, roles and responsibilities of those charged with managerial responsibility for the reinsurance management framework. The REMS is in accordance with the prudential standards issued by APRA. The REMS is updated annually and approved by the Board.

The REMS identifies the IAG Group's policies and procedures, processes and controls that comprise its risk management and control systems relating to reinsurance. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that systems are in place to ensure compliance with legislative and prudential requirements, and that the Board has satisfied itself as to compliance with the REMS.

Following changes in the regulatory framework in 2007, an insurer must have processes in place to achieve legally binding reinsurance arrangements and in addition the insurer must make a declaration annually that the insurer has placed its reinsurance arrangements and that those arrangements are legally binding. Failure to have a legally binding reinsurance arrangement may result in a deduction of the relevant reinsurance recoveries from Tier 1 capital. As at the reporting date the transition provisions for these APRA requirements have been complied with.

(f) Reinsurance program

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. Each subsidiary that is an insurer has its own reinsurance program and determines its own risk limits. To facilitate the reinsurance process and to create economies of scale, the IAG Group has established a captive reinsurance operation comprising companies located in Australia and Malaysia (liabilities previously held in a captive reinsurer based in Ireland have been transferred to the Australian captive). This operation acts as the reinsurer for the IAG Group by being the main buyer of the IAG Group's outwards reinsurance program. The reinsurance operation is intended to manage reinsurance and earnings volatility and the IAG Group's exposure to catastrophe risk. The operation retains a portion of the intercompany business it assumes and retrocedes (passes on) the remainder to external reinsurers. The REMS provides that the reinsurance retention is not to exceed 4% of net earned premium .

While a large portion of the business ceded by the Consolidated entity's subsidiaries is reinsured with Group's captive reinsurance operation, individual business units located outside of Australia do purchase additional reinsurance protection outside the IAG Group. This generally relates to facultative reinsurance covers and selected treaty reinsurance arrangements.

Current program

The reinsurance operation purchases reinsurance on behalf of IAG Group entities to cover a maximum return period of at least APRA's minimum of 1:250 year event on a single site basis but is authorised to elect to purchase covers up to 1:250 year event on a whole of portfolio basis. Dynamic financial analysis modelling is used to determine the optimal level to which reinsurance should be purchased for capital efficiency, compared with the cost and benefits of covers available in the market.

The external reinsurance programs consist of a combination of the following reinsurance protection:

- A Group Catastrophe cover which is placed in line with the strategy of buying to the level of a 1:250 year event on a modified whole of portfolio basis. The catastrophe program is negotiated on an annual calendar year basis. Covers purchased are dynamic; the maximum event retention (MER) changes as total requirements change and as the reinsurance purchase strategy evolves.
- An aggregate cover which protects against a frequency of attritional event losses in Australia, New Zealand, Asia and the United Kingdom and operates below the Group catastrophe cover.
- Excess of loss and proportional reinsurances which provide "per risk" protection for retained exposures of the commercial property and engineering businesses in Australia, New Zealand and Thailand.
- Excess of loss reinsurance for all casualty portfolios including CTP, public liability, workers' compensation and home owners warranty products.
- Excess of loss reinsurance for all marine portfolios.

NOTE 12: REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS (Continued)

Changes during the year

The catastrophe cover purchased was increased to a limit of $4.0 billion. The maximum event retention (MER) for a first event arising from a physical peril was reduced from $169 million to $118 million for Australia dropping to a lower amount for a second event. In respect of New Zealand the MER was reduced to $102.5 million and for the United Kingdom cover was purchased above an MER of $104 million. These MERs will remain in place for the next three years (increasing by 10% per annum), as purchases were made on a multi-year basis. The decision to decrease the retained single event physical peril loss was made as the cost of the coverage available in the reinsurance market was such that the transaction proved to be capital efficient compared with retaining the risk against the Consolidated entity's capital. An aggregate cover, indemnifying Australia, New Zealand, Asia and the United Kingdom was also secured (placed to 92% at reporting date) providing protection against a frequency of attritional physical peril losses.

NOTE 13: DEFERRED ACQUISITION COSTS

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
Reconciliation of movements for the financial year		
Deferred acquisition costs at beginning of the financial year	**789**	591
Write down for liability adequacy test	**(3)**	-
Deferred acquisition costs acquired as part of business combination	**-**	112
Acquisition costs deferred during the year	**1,320**	1,305
Amortisation charged to profit for the year	**(1,315)**	(1,223)
Net foreign exchange movement	**(33)**	4
Deferred acquisition costs at the end of the financial year	**758**	789

The carrying value of deferred acquisition costs includes $47 million (2007 - $45 million) which is expected to be amortised more than twelve months from reporting date.

	CONSOLIDATED	
	2008	2007
	$m	$m
NOTE 14: UNEARNED PREMIUM LIABILITY		
(a) Reconciliation of movements for the financial year		
Unearned premium liability at beginning of the financial year	**4,213**	3,503
Unearned premium acquired as part of business combination	**-**	521
Deferral of premiums on contracts written during the year	**4,099**	3,531
Earning of premiums written in previous years	**(4,071)**	(3,357)
Net foreign exchange movement	**(144)**	15
Unearned premium liability at the end of the financial year	**4,097**	4,213

The carrying value of unearned premium liability includes $143 million (2007 - $142 million) which is expected to be earned more than twelve months from reporting date.

(b) Liability adequacy test

The liability adequacy test has been conducted using the central estimate of the premium liabilities calculation for reporting to APRA (refer note 34), adjusted as appropriate, together with an appropriate margin for uncertainty for each portfolio of contracts, being Australia insurance operations (including the Australia dedicated captive reinsurer), the New Zealand insurance operations, the United Kingdom insurance operations, the Asia insurance operations, Labuan reinsurance operation, and the Alba inwards reinsurance operation (for the comparative period the Labuan reinsurance operation portfolio and the Alba inwards reinsurance operation portfolio were a single portfolio). The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The liability adequacy test as at reporting date resulted in a surplus for each portfolio of contracts except for the New Zealand insurance operation and the Labuan reinsurance operation. (2007 - surplus for each portfolio of contracts). Those amounts were recognised as follows:

- For the New Zealand insurance operation the deficiency of $2 million was recognised as an impairment of the deferred acquisition costs. This deficiency represented the amount by which the present value of the net expected future cash flows relating to future claims of $287 million (which is inclusive of risk margin and is net of related reinsurance recoveries of $20 million) exceeded the unearned premium liability of $423 million less the related deferred acquisition costs of $89 million and deferred reinsurance expense of $49 million.

- For the Labuan reinsurance operation the deficiency of $13 million was recognised partly as an unexpired risk liability of $12 million and partly as an impairment of the deferred acquisition costs of $1 million. This deficiency represented the amount by which the present value of the net expected future cash flows relating to future claims of $113 million (which is inclusive of risk margin and is net of related reinsurance recoveries of $52 million) exceeded the unearned premium liability of $164 million less the related deferred acquisition costs of $4 million and the related deferred reinsurance expense of $58 million.

For the purposes of the liability adequacy test, the present value of net expected future cash flows for future claims including the risk margin for the Consolidated entity of $2,927 million (2007 - $3,134 million) comprises the discounted central estimate of $2,794 million (2007 - $2,977 million), and a risk margin of $133 million (2007 - $157 million).

The risk margin included in the Consolidated entity's expected future cash flows for future claims as a percentage of the central estimate is 4.8% (2007 - 5.3%). The margin used in testing individual portfolios is determined based on an assessment of the recent historical experience in relation to the volatility of the insurance margin for each portfolio of contracts. Where there is insufficient historical experience for a portfolio, such as for a start up business, a probability of adequacy of 75% is used.

The test has not been applied using the statistical concept of probability of adequacy. Hence the risk margin applied for the purposes of the liability adequacy test has been determined using a different methodology to that used for the determination of the risk margin for the outstanding claims liability. The probability of adequacy represented by the liability adequacy test, which for each portfolio fell in the range from 60% to 75%, also differs from the probability of adequacy adopted in determining the outstanding claims liability. The reason for these differences is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability carried on the balance sheet.

NOTE 15: INVESTMENTS

	CONSOLIDATED 2008	CONSOLIDATED 2007
	$m	$m
(a) Composition		
(i) Money market securities		
Listed		
- Australian government and semi government	**1,820**	2,227
- Australian financial institutions and corporate	**259**	235
- Foreign government	**427**	449
- Foreign financial institutions and corporate	**519**	888
Unlisted		
- Australian financial institutions and corporate	**4,983**	4,231
- Foreign government and institutions	**72**	373
	8,080	8,403
(ii) Equity and trust securities		
Listed		
- Australian	**797**	1,411
- International	**314**	270
Unlisted		
- Australian	**201**	186
- International	**82**	612
	1,394	2,479
(iii) Derivatives		
Exchange traded	**4**	1
Over the counter	**1**	1
	5	2
	9,479	10,884

The Parent had an investment of $1 million being an investment in a former subsidiary which was put into liquidation during the financial year (2007 - $Nil).

(b) Significant risks

Information is provided here regarding exposures as at reporting date for the significant risks faced in relation to investments. When considering the risks facing the investment balance it is important to note that different objectives and policies are applied in managing assets backing insurance liabilities and shareholder's funds.

The following table provides the composition of the assets backing insurance liabilities and shareholders' funds as at the current reporting date noting that these portfolios include not only investments but also cash.

	CONSOLIDATED Shareholders funds		CONSOLIDATED Assets backing insurance liabilities	
	$m	% of total	$m	% of total
Cash and cash equivalents	**439**	**14.1**	**795**	**10.5**
Money market securities	**1,663**	**53.5**	**6,417**	**84.4**
Equity and trust securities / other	**1,005**	**32.4**	**394**	**5.1**
	3,107	**100.0**	**7,606**	**100.0**

NOTE 15: INVESTMENTS (Continued)

Liquidity risk

Investments are not a source of liquidity risk but are a key part of managing the risk. A maturity analysis of the investments that have a fixed term is provided in the table below. The investments that represent assets held to back insurance liabilities have a maturity matched to the estimated payment pattern of the underlying claims. Some information is also provided in the table regarding the interest rate risk exposure of the securities for key operating environments.

			Fixed interest rate securities maturing in						
		Floating interest rate	**1 year or less**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
CONSOLIDATED									
2008									
Money market securities	**$m**	**193**	**1,813**	**1,298**	**2,434**	**640**	**948**	**754**	**8,080**
Weighted average interest rate - Australia	**%**	**-**	**8.11**	**7.91**	**7.99**	**8.36**	**8.79**	**7.16**	**8.05**
Weighted average interest rate - New Zealand	**%**	**-**	**8.21**	**7.53**	**8.77**	**8.52**	**8.70**	**8.91**	**8.03**
2007									
Money market securities	$m	389	3,527	1,360	719	718	386	1,304	8,403
Weighted average interest rate - Australia	%	-	6.15	6.45	6.71	6.81	6.79	5.66	6.28
Weighted average interest rate - New Zealand	%	-	7.44	6.28	7.20	7.34	7.78	8.17	7.02

The breakdowns are provided by contractual maturity. Actual maturities may differ from contractual maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

None of the investments have been pledged as collateral at reporting date (2007 - none).

For information regarding the management of liquidity risk refer to the financial risk management note.

Credit risk

The IAG Group is exposed to credit risk from investments in third parties where the IAG Group holds debt and similar securities issued by those companies. The credit risk relating to investments is monitored and assessed, and maximum exposures are limited. The maximum exposure to credit risk as at reporting date is the carrying amounts of the investments on balance sheet as they are measured at fair value. The investments comprising assets held to back insurance liabilities are restricted to investment grade securities.

The following table provides information regarding the credit risk relating to the money market securities based on Standard & Poor's counterparty credit ratings.

	CONSOLIDATED			
	2008		2007	
Rating	**$m**	**% of total**	$m	% of total
AAA	**4,464**	**55.3**	5,791	68.9
AA	**3,485**	**43.1**	2,475	29.5
A	**86**	**1.1**	81	0.9
BBB and lower	**19**	**0.2**	23	0.3
Unrated	**26**	**0.3**	33	0.4
	8,080	**100.0**	8,403	100.0

For information regarding the management of credit risk refer to the financial risk management note.

NOTE 15: INVESTMENTS (Continued)

Interest rate risk

The IAG Group is exposed to interest rate risk on those investments that are money market securities. Some information regarding the interest rate conditions of these instruments is provided in the maturity analysis table included above. The majority of the money market securities bear a fixed rate of interest. Movements in market interest rates therefore impact the price of the securities (and hence their fair value measurement) but not the contractual cash flows of the securities.

Derivatives are used to manage interest rate risk. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the financial risk management note.

A key policy used in the management of interest rate risk is the investment of assets held to back insurance liabilities in securities whose interest rate sensitivity matches the related insurance liabilities. For additional information regarding the management of interest rate risk refer to the financial risk management note.

Currency risk

The IAG Group's exposure to currency risk from investments arises directly from the investment of shareholders' funds in assets denominated in currencies other than the functional currencies of the IAG Group entities. Assets held to back insurance liabilities are held in the same currency as the related insurance liabilities eliminating any net foreign exchange exposure from foreign operations with the IAG Group exposed only to the residual net investment in these foreign operations.

The following table provides information regarding the composition of the reporting date shareholders' funds balance (including both investments and cash and cash equivalents) by currency.

	CONSOLIDATED			
	2008		2007	
	$m	**% of total**	$m	% of total
Australian dollar	**2,430**	**78.2**	3,186	78.7
New Zealand dollar	**101**	**3.2**	70	1.7
British pound	**408**	**13.2**	521	12.9
United States dollar	**54**	**1.7**	125	3.1
Other	**114**	**3.7**	146	3.6
	3,107	**100.0**	4,048	100.0

Derivatives are not used to manage the currency risk on investments.

For information regarding the management of currency risk refer the financial risk management note.

Equity price risk

The Group is exposed to equity price risk through its investment in equities and the use of equity related derivative contracts.

Derivatives are used to manage equity price risk. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the financial risk management note.

For information regarding the management of equity price risk refer to the financial risk management note.

Concentration of risks

While the asset mix for investments is concentrated in money market securities, within this category the investments are diversified by issuer type, industry and specific counterparty. When this is combined with the counterparty credit rating of the investments the concentration risk is considered low.

(c) Fair value information

All investments are initially recorded at fair value and are then subsequently remeasured to fair value at each reporting date. For those investments traded in an active market this involves applying the published bid price quotations. For trust securities this generally means using the redemption price provided by the trustee.

There is an insignificant portion of investments (less than 1%) for which a valuation methodology is used to determine the fair value. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

	CONSOLIDATED	
	2008	2007
	$m	$m
NOTE 16: RECEIVABLES		
(a) Composition		
Premium receivable	**2,070**	2,072
Provision for impairment	**(24)**	(27)
	2,046	2,045
Reinsurance and other recoveries on paid claims	**217**	227
Provision for impairment	**(12)**	(12)
	205	215
Other trade debtors	**60**	47
Provision for impairment	**(3)**	(3)
	57	44
Premium funding loans secured on policies (net of unearned interest)	**-**	106
Provision for impairment	**-**	(2)
	-	104
GST recoverable on gross outstanding claims liability	**372**	434
Investment income receivable	**123**	124
Investment transactions not yet settled at reporting date	**117**	50
Corporate treasury derivatives receivable	**-**	1
Other debtors	**333**	261
	3,253	3,278

The Parent had a receivable at reporting date of $69 million being the RES embedded derivative (2007 - $Nil). For information regarding the embedded derivative refer to the financial risk management note.

(b) Significant risks

Information is provided here regarding exposures as at reporting date for the significant risks faced in relation to receivables.

The receivables are non-interest bearing (with the exception of premium funding loans in the comparative) and are normally settled between 30 days and 12 months. The balance has not been discounted because the effect of the time value of money is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets because of the short term nature of the assets.

Credit risk

The key risk to which the receivables amounts are exposed is credit risk. The maximum exposure to credit risk as at reporting date is the carrying amounts of the receivables on balance sheet. A portion of the trade and other receivables balance is owed by related parties, which are considered to be fully recoverable.

An ageing analysis for certain receivables balances is provided here. The other trade debtors provision of $3 million (2007 - $3 million) represents specific provisions in an Australian subsidiary that relate to balances overdue more than one year. The other receivables balances have either no overdue amounts or an insignificant portion of overdue amounts. The amounts are aged according to their original due date. Receivables for which repayment terms have been renegotiated represent an insignificant portion of the balances.

NOTE 16: RECEIVABLES (Continued)

		Overdue			
	Not overdue	**< 30 days**	**30 - 120 days**	**> 120 days**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
Premium receivable	1,655	253	139	23	2,070
Provision for impairment - Specific	-	-	-	(3)	(3)
Provision for impairment - Collective	-	(12)	(4)	(5)	(21)
Net balance	1,655	241	135	15	2,046
Reinsurance and other recoveries on paid claims	163	10	7	37	217
Provision for impairment - Specific	-	-	-	(12)	(12)
Net balance	163	10	7	25	205

The majority of the premium receivable balance relates to policies which are paid on a monthly instalment basis. It is important to note that the late payment of these amounts allows the Group to cancel the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts. Upon cancellation of a policy the outstanding premium receivable is reversed.

The total provision for impairment at reporting date for receivables balances totalled $39 million (2007 - $44 million). The net movement in the aggregated provision for the current period was $5 million. A reconciliation of the movements during the period has not been provided as the information is not material.

Concentrations of risk

There are no significant concentrations of risk within receivables as the IAG Group transacts with a large and unrelated customer base in different geographical regions and non-customer related receivables are generally with statutory bodies (eg national tax authorities) which are considered fully recoverable.

NOTE 17: PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Land and buildings	Motor vehicles	Other plant and equipment	Total
	$m	$m	$m	$m
2008				
(a) Composition				
At cost	**125**	**86**	**476**	**687**
Accumulated depreciation	**(19)**	**(40)**	**(318)**	**(377)**
Impairment charges	**(9)**	**-**	**-**	**(9)**
Foreign exchange gains/(losses)	**(5)**	**-**	**(5)**	**(10)**
Balance at the end of the financial year	**92**	**46**	**153**	**291**
2008				
(b) Reconciliation of movements for the financial year				
Balance at the beginning of the financial year	**101**	**48**	**148**	**297**
Additions	**13**	**24**	**65**	**102**
Disposals	**(1)**	**(12)**	**(2)**	**(15)**
Additions through business combinations	**-**	**1**	**3**	**4**
Depreciation	**(7)**	**(15)**	**(56)**	**(78)**
Impairment losses	**(9)**	**-**	**-**	**(9)**
Net foreign exchange movement	**(5)**	**-**	**(5)**	**(10)**
Balance at the end of the financial year	**92**	**46**	**153**	**291**
2007				
(c) Composition of comparatives				
Cost	113	73	410	596
Accumulated depreciation	(12)	(25)	(262)	(299)
Balance at the end of the financial year	101	48	148	297

The net carrying amount of all classes of property, plant and equipment is considered a reasonable approximation of the fair value of the assets in the context of the financial statements. There are no items of property, plant and equipment pledged as security for liabilities. The depreciation expense amounts are allocated across various lines in the income statement.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 18: INTANGIBLE ASSETS

CONSOLIDATED	Software development expenditure	Lloyd's syndicate capacity	Brands	Other contractual arrangements	Distribution channels	Customer relationships	Total
	$m	$m	$m	$m	$m	$m	$m
2008							
(a) Composition							
Cost	241	138	177	24	269	203	1,052
Accumulated amortisation	(149)	-	(33)	(14)	(32)	(41)	(269)
Accumulated impairment charges	(7)	-	(52)	-	-	(13)	(72)
Net foreign exchange movements	(9)	(23)	(26)	(1)	(41)	(26)	(126)
Balance at the end of the financial year	76	115	66	9	196	123	585
2008							
(b) Reconciliation of movements for the financial year							
Balance at the beginning of the financial year	92	131	154	17	245	142	781
Additions acquired and developed	46	-	-	-	-	-	46
Additions through business combinations	-	-	-	-	-	29	29
Amortisation	(54)	-	(19)	(7)	(21)	(18)	(119)
Impairment losses recognised during the year	-	-	(52)	-	-	(13)	(65)
Net foreign exchange movements	(8)	(16)	(17)	(1)	(28)	(17)	(87)
Balance at the end of the financial year	76	115	66	9	196	123	585

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 18: INTANGIBLE ASSETS (Continued)

CONSOLIDATED	Software development expenditure	Lloyd's syndicate capacity	Brands	Other contractual arrangements	Distribution channels	Customer relationships	Total
	$m	$m	$m	$m	$m	$m	$m
2007							
(c) Composition of comparatives							
Cost	195	138	177	24	269	174	977
Accumulated amortisation	(95)	-	(14)	(7)	(11)	(23)	(150)
Accumulated impairment charges	(7)	-	-	-	-	-	(7)
Net foreign exchange movements	(1)	(7)	(9)	-	(13)	(9)	(39)
Balance at the end of the financial year	92	131	154	17	245	142	781

NOTE 18: INTANGIBLE ASSETS (Continued)

(1) Software development expenditure

The software development expenditure asset comprises both internally generated assets and acquired assets. The capitalisation of the software development expenditure involves the exercise of judgement in determining whether the costs incurred will be recovered through the probable generation of future economic benefits from the internal use of the asset. This process is supported by the preparation of detailed business cases and subsequent review processes that are required to approve a greater than $2 million project including a detailed business case. The asset represents both projects that have been completed and the developed software implemented as well as projects that continue in development. The future economic benefits expected to be realised from the capitalised software development expenditure will benefit various operating functions and so the amortisation of the assets is included in the claims expense, acquisition costs, other underwriting expenses, and corporate, administration and other expenses lines in the income statement.

(2) Acquired intangible assets

All of the intangible assets other than the capitalised software development expenditure intangible asset have been acquired. With the exception of the Lloyd's syndicate capacity, each of the acquired intangible assets have finite useful lives. The amortisation of the acquired intangible assets forms part of corporate, administration and other expenses in the income statement. A broad description of the nature of each of the significant intangible assets is provided here:

- Lloyd's syndicate capacity – The Lloyd's syndicate capacity relates to the syndicate capacity acquired as part of the acquisition of the Equity Insurance Group in 2007 (refer note 24) which at acquisition date held 64.02% of the capacity of Syndicate 218. The value of the syndicate capacity is in the access it gives to the future underwriting profits of the business. The basis of the determination of recoverable amount is a return (profit) to be generated on the expected premiums to be written by the syndicate. The growth assumptions used were 2.5% until 2014 and 2.0% after that. A reduction in growth below these levels is not regarded as reasonably foreseeable. A 1% change in the expected return (to 9% or 11%) would move the value by approximately $50 million.
- Brands – This represents the revenue generating value of acquired brands.
- Customer relationships - This is in effect the capitalisation of future profits relating to the insurance contracts in place at acquisition and the expected renewals of those contracts. It represents the amount paid to the vendor for the value of the customer relationships developed prior to acquisition.
- Distribution channels – The value of the distribution channels is in the future revenue expected to be generated as a result of the existing relationships with the broker networks and affinity accounts.

Current year impairment

During the year ended 30 June 2008, the following acquired intangible assets were impaired:

- Hastings Insurance brand – This broking brand was originally valued using a royalty relief methodology, based on a royalty rate of 4.38% of premium revenue serviced. However, since then there have been a number internal issues and external market factors which have negatively impacted the strength of the brand. These include both operational issues which led to the panel of underwriters used by the broker being seriously curtailed from August 2007 and reduced call volumes and conversion as the UK private motor market increasingly relies on purely price-led offerings through the internet. Marketing expenditure in the market has also increased substantially. The royalty rate adopted to value this brand at the current reporting date was 0.875%. Applying this rate to the lower premium revenue expected to be generated by Hastings resulted in a recoverable value for this brand which was $50 million lower than its carrying value, and an impairment loss of this amount was recognised in the income statement.
- Equity Insurance Broking distribution brand – A management decision to discontinue use of this brand led to a full write down of the carrying value of $2 million.
- Equity Insurance "Direct" channel customer relationships – The Equity Insurance "Direct" channel intangible asset reflects the anticipated profits from a mix of over-the-phone and internet insurance broking. Internet sourced business is growing as a proportion of this channel. It carries higher acquisition costs and lower customer retention rates which reduce the value of this channel. This migration of the business to the internet accelerated during the period and applying these updated assumptions resulted in an estimated recoverable value which was $13 million lower than the carrying value and an impairment loss of this amount was recognised in the income statement.

(3) Other intangible assets

There are a number of other intangible assets that are controlled but which are not presented on the balance sheet because they do not meet the recognition criteria. These are both acquired and internally generated intangible assets. These include brands, information technology systems, and distribution channels.

	CONSOLIDATED	
	2008	2007
	$m	$m
NOTE 19: GOODWILL		
(a) Composition		
Goodwill	**2,313**	2,282
Net cumulative foreign exchange movements	**(161)**	(26)
Accumulated impairment charges	**(277)**	-
	1,875	2,256
(b) Reconciliation of movement for the financial year		
Goodwill at beginning of the financial year	**2,256**	1,486
Additional goodwill amounts arising from business combinations	**33**	777
Disposal goodwill amounts arising from business disposals	**(2)**	
Net foreign exchange movements during the year	**(135)**	(7)
Impairment charge for the year	**(277)**	-
Goodwill at the end of the financial year	**1,875**	2,256
(c) Allocation to cash generating units		
Australia insurance operations*	**1,156**	1,148
New Zealand insurance operations	**281**	319
Asia insurance operations	**45**	53
United Kingdom insurance operations	**393**	715
Alba inwards reinsurance operation**	**-**	21
	1,875	2,256

* In previous periods this goodwill amount was tested on the basis of two cash generating units. The cash generating units changed following a restructuring of the operation of the IAG Group. These cash generating units align with the way goodwill was monitored for internal management purposes at the current reporting date.

** This cash generating unit previously consisted of all non Australia reinsurance operations but changed following the classification of the Alba inwards reinsurance operation as held for sale.

As the IAG Group continues to incorporate businesses into the IAG Group and/or reorganises the way businesses are managed, reporting structures may change requiring a reconsideration of the identification of the cash generating units.

The goodwill relating to certain acquisitions outside Australia is denominated in currencies other than Australian dollars and so is subject to foreign exchange rate movements.

The impairment testing of the goodwill involves the use of accounting estimates and assumptions. The recoverable amount of each cash generating unit is determined on the basis of value in use calculations. The value in use is calculated using a discounted cash flow methodology covering a five or ten year period with an appropriate terminal value at the end of year five or ten, less net assets, for each of the key business units within a cash generating unit.

The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Cash flow forecasts - Cash flow forecasts are based on five year business plans.
- Terminal value - Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five or ten, the discount rate (after tax), terminal growth rate in profit or premium and, where appropriate, terminal insurance margin.
- Terminal growth rates and insurance margin - Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country.
- Discount rate - Discount rates used reflect the risk free rate, an appropriate beta and equity risk premium (after tax) in each segment and country, risk adjusted where applicable. Discount rates used are pre tax.

The carrying value of identified intangible assets is deducted from the values generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

NOTE 19: GOODWILL (Continued)

Cash generating units with current year impairment charges

Goodwill impairment charges have been recognised in the current period relating to the United Kingdom cash generating unit and the Alba inwards reinsurance operation cash generating unit as the cash flow projections derived values that were lower than the carrying value of goodwill.

While the United Kingdom operation as a whole forms a cash generating unit, the sub-component that is the key driver for the current impairment is the combined Hastings insurance broking operation and Advantage underwriting operation purchased together effective 29 September 2006. The events and conditions giving rise to the impairment of the value of these businesses are, in summary:

- Reduced volumes of business and income generated by the Hastings and Equity retail broking operations. This reflected both operational issues which led to the Hastings panel of underwriters used by the broker being seriously curtailed from August 2007 and reduced call volumes and conversion as the UK private motor market increasingly relies on purely price-led offerings through the internet. Marketing expenditure in the market has also increased substantially. Consideration of these conditions, and the likely prospects of the business, led to reductions in both the forecast volume of business and profitability of this operation.
- Continued losses from the Advantage underwriting operations, which operates primarily in the UK private motor market. This business is highly dependant on Hastings for distribution. The combination of significant price increases implemented to restore profitability and the challenges faced by Hastings meant this business has continued to report losses and the decision has been taken to either sell the insurance licence or put the business into run-off and the cash flow projections used reflect a run-off assumption.
- The gross discount rate used to value the United Kingdom cash generating unit as at 30 June 2008 was 13.8% (10.4% net of tax). This compares with 14.1% (10.7% net of tax) used for the previous assessment as at 31 December 2007. The change in discount rate resulted from a change in the Group's estimate of its weighted average cost of capital.

There are a number of key sensitivities within the valuation and these are noted below. They are stated in isolation although they are not wholly independent – for example, changes in interest rates leading to a change in discount rate could also lead to a change in profitability as the investment income would change.

- An increase/decrease of 1% in the discount rate used would have increased/decreased the impairment loss by approximately $136 million;
- An increase/decrease of 3% in the year-on-year premium growth over the valuation period would have decreased/increased the impairment loss by approximately $102 million;
- An increase/decrease of 1% in the terminal growth rate used would have decreased/increased the impairment loss by approximately $72 million; and
- An increase/decrease of 1% in the terminal insurance margin used would have decreased/increased the impairment loss by approximately $60 million.

The Alba inwards reinsurance operation was acquired as a start up operation on 3 July 2006. The operation has since that time failed to perform as originally expected and the operation no longer fits within the Group's altered plans in Asia. Thus, the decision was taken to dispose of this operation which consists of an Asian-based Lloyd's syndicate and a UK-based managing agent. The operation was classified as held for sale at the current reporting date. The recoverable value is based on the carrying value of the tangible assets and liabilities. The realisable value on sale (including allowance for selling costs), is unclear at this time and an impairment loss for the full carrying value of $25 million was recognised in the income statement.

Cash generating units with no impairment

The cash flow projections derived values for each of the other cash generating units that were in excess of the carrying value of goodwill. Reasonably foreseeable changes in the key assumptions on which the recoverable amounts are based would not be expected to cause the respective recoverable amounts to fall short of the carrying amounts at reporting date.

	CONSOLIDATED 2008	2007
	$m	$m
NOTE 20: TRADE AND OTHER PAYABLES		
(a) Composition		
Trade creditors		
Commissions payable	**122**	112
Stamp duty payable	**65**	60
GST payable on premium receivable	**76**	75
Other	**207**	267
	470	514
Loan from former related party (i)	**-**	79
Deferred payable under acquisition agreement (ii)	**30**	21
Other payables		
Other creditors and accruals	**262**	306
Investment creditors	**121**	193
Interest payable on interest-bearing liabilities	**23**	26
	906	1,139

The Parent had interest payable on interest bearing liabilities of $16 million at reporting date (2007 - $20 million).

(i) The loan from former related party related to an entity that was previously a subsidiary, but which was placed in liquidation. The loan was settled upon the completion of its liquidation process.

(ii) Cash flow hedge accounting is applied in relation to this payable.

(b) Significant risks

Information is provided here regarding exposures as at reporting date for the significant risks faced by the Group in relation to trade and other payables.

Trade and other payables are unsecured, non interest bearing and are normally settled within 30 days with the exception of the deferred payable under acquisition agreement which is expected to be settled in 2009 (the expected settlement was previously 2011 but this changed with the classification of the Alba operation as held for sale) and the loan from former related party. Amounts have not been discounted because the effect of the time value of money is not material (the deferred payable under acquisition agreement was discounted in the comparative period). The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short term nature of the liabilities.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

		PARENT		CONSOLIDATED	
		2008	**2007**	**2008**	**2007**
		$m	**$m**	**$m**	**$m**
NOTE 21: INTEREST-BEARING LIABILITIES					
(a) Composition					
(i) Capital nature					
Tier 1 Regulatory capital					
AUD reset preference shares	(c)(i)	**350**	550	**350**	550
Tier 2 Regulatory capital					
USD subordinated term notes	(c)(ii)	**-**	-	**250**	283
Derivatives for USD subordinated term notes*	(c)(ii)	**-**	-	**151**	125
GBP subordinated term notes	(c)(iii)	**519**	591	**519**	591
AUD subordinated term notes	(c)(iv)	**-**	-	**-**	299
NZD subordinated term notes	(c)(x)	**-**	-	**79**	-
(ii) Operational nature					
NZD senior term notes	(c)(v)	**-**	-	**40**	45
GBP unsecured notes	(c)(vi)	**-**	-	**4**	89
Euro floating rate notes	(c)(vii)	-	-	**20**	37
USD floating rate notes	(c)(viii)	-	-	-	9
GBP receivables refinancing debt	(c)(ix)	-	-	-	6
GBP secured mortgage		-	-	-	2
Less: capitalised transaction costs		**(9)**	(11)	**(12)**	(19)
		860	1,130	**1,401**	2,017

* the derivatives related to the USD subordinated term notes are disclosed together with the notes but do not form part of tier 2 regulatory capital

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

		PARENT		CONSOLIDATED	
		2008	2007	2008	2007
		$m	$m	$m	$m
(b) Reconciliation of movements for the financial year					
Balance at the beginning of the financial year		**1,130**	547	**2,017**	1,296
Debts taken on through acquisitions of subsidiaries					
Secured variable rate bank loan		**-**	-	**-**	556
15.6% deep discounted bonds		**-**	-	**-**	348
Secured mortgage		**-**	-	**-**	2
Unsecured notes issued to vendor (Equity Insurance Group)		**-**	-	**-**	93
Euro / USD floating rate notes and receivables refinancing		**-**	-	**-**	71
New issues					
GBP short term notes issued for acquisition of subsidiaries	(c)(vi)	**-**	350	**-**	350
Issue of NZD subordinated term notes		**-**	-	**87**	-
Issue of GBP subordinated term notes		**-**	625	**-**	625
Repayments					
Repayment of reset preference shares		**(200)**	-	**(200)**	-
Repayment of AUD subordinated term notes		**-**	-	**(300)**	-
Repayment of GBP short term notes		**-**	(350)	**-**	(350)
Repayment of secured variable rate bank loan		**-**	-	**-**	(556)
Repayment of 15.6% deep discounted bonds		**-**	-	**-**	(348)
Repayment of GBP unsecured notes		**-**	-	**(80)**	-
Other repayments		**-**	-	**(32)**	(17)
Other movements					
Foreign exchange movement on notes		**(72)**	-	**(125)**	(40)
Foreign exchange movement on cash flow hedge		**-**	-	**33**	40
Other fair value movement on cash flow hedge		**-**	-	**(8)**	(10)
Other foreign exchange movements		**1**	(33)	**5**	(38)
Discount on GBP subordinated term notes		**-**	(6)	-	(6)
Transaction costs capitalised during the financial year		**-**	(6)	**-**	(6)
Amortisation of capitalised transaction costs		**1**	3	**4**	7
		860	1,130	**1,401**	2,017

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

(c) Significant terms and conditions

(i) AUD reset preference shares

The reset preference shares (RPS) are a hybrid security with characteristics of both debt and equity. The securities were issued in two tranches referred to as RPS1 (face value of $350 million issued June 2002, ASX code IAGPA) and RPS2 (face value of $200 million issued June 2003, ASX code IAGPB). The RPS2 were bought back on 16 June 2008 for an amount of $100 per RPS2.

The RPS entitle the holder to a preferred, but not cumulative, distribution of 5.63% per annum for RPS1 and prior to the buy-back on 16 June 2008, 4.51% per annum for RPS2. The distributions are payable semi-annually in arrears on 15 December and 15 June and are able to be franked. The distributions are expected to be fully franked and if a distribution is unfranked or partially franked, the distribution will be increased to compensate for the unfranked component. Because of the hybrid nature of the securities, distributions on the RPS are not the same as interest payments and may not always be paid, as there are a number of conditions that must be met before a distribution can be paid. If distributions are not paid on the RPS, no dividends can be paid and no returns of capital can be made on ordinary shares unless IAG takes certain actions.

The RPS may be exchanged by IAG or the holder on a reset date, by the holder upon a specified trigger event (such as change in control of IAG by a takeover bid), or by IAG on a tax event (such as a more than insignificant increase in taxation costs), regulatory event (such as not all of the RPS being entitled to be treated as Tier 1 capital for regulatory reporting purposes) or following certain takeovers or schemes of arrangements. While the holder may initiate an exchange, IAG is able to select the method of exchange being either conversion into ordinary shares, arranging for a third party to acquire the RPS for their face value, or to redeem, buy back or cancel the RPS (subject to APRA approval). The RPS convert into ordinary shares that would rank equally in all respects with all other ordinary shares. All conversions into ordinary shares, other than a holder requesting conversion on a reset date, will receive a discount of 2.5% of the ordinary share price used in calculating the number of ordinary shares to be issued on conversion. The next reset date for RPS1 is 15 June 2012.

The RPS rank in priority to ordinary shares for the payment of dividends and in the event of a winding up. In a winding up, all RPS will rank equally for return of capital behind all other creditors of IAG, and ahead of ordinary shares. The RPS would rank equally with RES if the RES are exchanged into preference shares. Except in limited circumstances, the RPS do not carry voting rights at general meetings.

(ii) *USD subordinated term notes*

The USD subordinated term notes have a face value of US$240 million and were issued at par by NRMA Insurance Funding 2003 Limited (a wholly-owned subsidiary of Insurance Australia Limited). They are fixed rate notes (5.19% payable semi- annually), with the principal and interest flows denominated in US dollars, which are hedged with cross currency swaps and interest rate swaps. Cash flow hedge accounting is applied for this hedge arrangement (refer note 33 for further information). The notes mature in April 2015, however, they may be redeemed at par at the issuer's option from April 2010 onwards, subject to the approval of the APRA. If the notes are not redeemed in April 2010, all notes become floating rate notes with an interest rate of the three month Libor plus a margin of 2.04% per annum. The notes qualify as Lower Tier 2 capital for the purposes of Insurance Australia Limited's APRA regulatory capital position.

(iii) GBP subordinated term notes

The GBP subordinated term notes were issued with face value of GBP250 million (equivalent to $625 million at date of issue) by the Company and were issued at a discount. They are fixed rate notes (5.625% payable annually) listed on the London Stock Exchange with the principal and interest flows denominated in GBP. Amounts are translated into the equivalent Australian dollars using the reporting date exchange rate. The primary difference between the Australian dollar equivalent of the face value of the notes at inception and the carrying value is due to foreign exchange rate movements. The notes mature on 21 December 2026 (non-callable for the first ten years). If the notes are not redeemed by 21 December 2016, all notes become floating rate notes with an interest rate of the three month GBP Libor plus 1.62%. The notes qualify as Lower Tier 2 capital for the purpose of the APRA's regulatory capital position.

The notes were issued to UK institutional investors as part of the funding of the acquisition of Equity Insurance Group and repayment of the short term notes of GBP140 million (equivalent to $350 million) which was raised to fund the earlier acquisition of the Hastings and Advantage insurance operations.

(iv) AUD subordinated term notes

The AUD subordinated term notes had a face value of $300 million and were issued through Insurance Australia Limited's debt issuance program. The notes were redeemed for face value on 27 November 2007. Of the notes, $250 million carried a fixed rate of 6.35% and were issued at a discount whilst $50 million carried a floating interest rate equal to the prevailing bank bill swap rate plus a margin of 1.08%. The notes qualified as lower tier 2 capital for the purposes of Insurance Australia Limited's APRA regulatory capital position.

(v) NZD senior term notes

The NZ$50 million senior term notes were issued through IAG (NZ) Holdings Limited's medium-term note program. The notes were issued at a discount and mature in August 2008. They are fixed rate notes (7.25% payable semi-annually) with the principal and interest flows denominated in New Zealand dollars. Amounts are translated into the equivalent Australian dollars using the reporting date exchange rate. The primary difference between the Australian dollar equivalent of the face value of the notes at inception and the carrying value is due to foreign exchange rate movements.

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

(vi) GBP unsecured notes

Unsecured notes with a face value of GBP38 million were issued to the management of Equity Insurance Group by IAG UK Holdings Ltd on 8 January 2007. Amounts are translated into the equivalent Australian dollars using the reporting date exchange rate. The primary difference between the Australian dollar equivalent of the face value of the notes at inception and the carrying value is due to foreign exchange movements. The obligations under the notes are guaranteed by IAG. The notes were issued in three tranches. The first tranche has a face value of GBP33 million with an interest rate of GBP 6 month Libor per annum. The notes mature in January 2009 and are redeemable at the option of the holder on a six monthly basis from July 2007 onwards. The second tranche has a face value of GBP2 million, with an interest rate of GBP 12 month Libor per annum and is due to be redeemed in January 2010. The third tranche has a face value of GBP3 million, with an interest rate of GBP 6 month Libor per annum. The notes are redeemable at the option of the holder at July 2008 and January 2009.

At reporting date, only GBP 2 million remains outstanding after GBP 36 million was redeemed or placed in trust during the current period (2007 - NIL).

(vii) Euro floating rate notes

The Euro floating rate notes comprise two issues:

- Notes with a face value of EUR12 million issued by Empire Equity Limited. They are senior variable rate notes with an interest rate of the three month Euribor plus 4.25%. The notes mature on 7 September 2025 but are redeemable at the option of the issuer from 7 September 2010. In July 2008, IAG was substituted as the issuer of these notes.
- Notes with a face value of EUR12 million issued by Advantage Insurance Company Limited were redeemed during the current year. They were subordinated variable rate notes with an interest rate of the three month Euribor plus 3.95%.

Cross currency swaps are used to convert the currency exposure of these liabilities to GBP. Hedge accounting is not applied for this arrangement. For information regarding the notional principal or contractual amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the financial risk management note.

(viii) USD floating rate notes

The USD floating rate notes with a face value of US$8 million issued by Advantage Insurance Company Limited were redeemed during the current year. They were subordinated variable rate notes with an interest rate of the three month US dollar Libor plus 3.95%.

Cross currency swaps were used to convert the currency exposure of this liability to GBP. Hedge accounting was not applied for this arrangement.

(ix) GBP receivables refinancing debt

Hastings Insurance Services Limited has entered into a receivables financing agreement for a minimum period of three years commencing 10 January 2006. The facility under the agreement is GBP 15 million with an interest rate of the published base rate of Barclays Bank PLC plus 1.25%.

(x) NZD subordinated term notes

The NZD subordinated term notes have a face value of NZ$100 million, and were issued at par by Insurance Australia Funding 2007 Limited (a wholly-owned subsidiary of Insurance Australia Limited). They are fixed rate notes with an interest rate of 9.105% per annum, payable semi-annually. The notes mature in November 2017, however, they may be redeemed at par at the issuer's option from November 2012 onwards, subject to the approval of APRA. If the notes are not redeemed in November 2012, all notes become floating notes with an interest rate of the three month New Zealand Bank Bill Swap Rate plus a margin of 1.5% per annum. The notes qualify for lower tier 2 capital for the purpose of Insurance Australia Limited's APRA regulatory capital position.

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

(d) Liquidity risk

The following table provides information about the maturity periods of the interest bearing liabilities based on the contractual maturity dates of undiscounted cash flows. Some of the liabilities have call or reset dates which may result in the actual maturities being different to the contractual maturities.

		Maturity dates of contractual undiscounted cash flows					
	Carrying value	**Within 1 year**	**1 - 2 years**	**2 - 5 years**	**Over 5 years**	**Perpetual**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
2008							
(i) Capital nature							
Tier 1 Regulatory capital							
AUD reset preference shares(i), (iii)	**350**	**-**	**-**	**-**	**-**	**350**	**350**
Tier 2 Regulatory capital							
USD subordinated term notes (i)	**250**	**-**	**-**	**-**	**250**	**-**	**250**
GBP subordinated term notes(i), (iii)	**519**	**-**	**-**	**-**	**519**	**-**	**519**
NZD subordinated term notes (i)	**79**	**-**	**-**	**-**	**79**	**-**	**79**
(ii) Operational nature							
Various instruments	**64**	**44**	**-**	**-**	**20**	**-**	**64**
Total contractual undiscounted principal payments		**44**	**-**	**-**	**868**	**350**	**1,262**
Contractual undiscounted interest payments (ii)		**88**	**86**	**192**	**N/A**	**-**	**366**
Total contractual undiscounted payments		**132**	**86**	**192**	**868**	**350**	**1,628**
2007							
(i) Capital nature							
Tier 1 Regulatory capital							
AUD reset preference shares(i), (iii)	550	-	-	-	-	550	550
Tier 2 Regulatory capital							
USD subordinated term notes (i)	283	-	-	-	283	-	283
GBP subordinated term notes(i), (iii)	591	-	-	-	591	-	591
AUD subordinated term notes (i)	299	-	-	-	300	-	300
(ii) Operational nature							
Various instruments	188	-	130	11	47	-	188
Total contractual undiscounted principal payments		-	130	11	1,221	550	1,912
Contractual undiscounted interest payments (ii)		91	83	215	N/A	-	389
Total contractual undiscounted payments		91	213	226	1,221	550	2,301

(i) These liabilities have call or reset dates upon which certain terms, including the distribution rate, can be changed. For further information refer to the chart below and the detailed descriptions of the instruments provided in section (c) of this note.

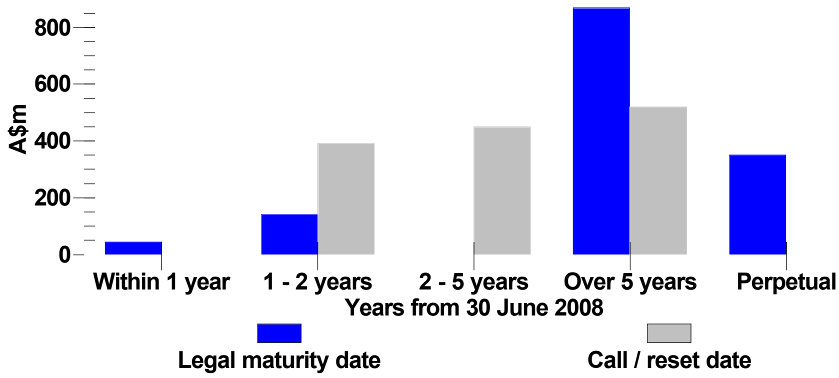
(ii) Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Interest payments have not been included beyond 5 years. Reporting date exchange rates have been used for interest projections for liabilities in foreign currencies.

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

(iii) These liabilities are liabilities of the Parent entity.

The following graph presents the same information as the table above (together with the derivatives related to the USD subordinated term notes) for the current period together with information regarding the call or reset dates. The chart demonstrates that there are limited facilities that need to be refinanced in the near term though some liabilities have call or reset dates.

Group debt profile



The IAG Group also has the reset exchangeable securities which are set off on the balance sheet which are perpetual with reset dates and which are convertible at any time into preference shares.

(e) Interest rate risk

Details about the exposure to interest rate risk as at reporting date for interest bearing liabilities is provided in the tables and detailed instrument descriptions provided elsewhere in this note.

The IAG Group is exposed to interest rate risk directly from the unhedged interest bearing liabilities that bear a variable interest rate but this is only a small portion of the liabilities. The interest bearing liabilities bearing a fixed interest rate are measured at amortised cost and so the IAG Group is not exposed at a particular reporting date to changes in the fair value of the liabilities relating to interest rate movements or to changes in the related cash flow obligations. The IAG Group will however be exposed on a call or reset or maturity date when the terms of a liability, including the interest rate, may need to be reset to market rates.

(f) Currency risk

Details about the exposure to currency risk as at reporting date for interest bearing liabilities is provided in the tables and detailed instrument descriptions provided elsewhere in this note.

The foreign currency risk exposure from interest bearing liabilities arises primarily from our long term borrowings denominated in USD, NZD and GBP. There is no significant impact on profit from foreign currency movements associated with these borrowings as the USD subordinated term notes are specifically hedged with cross currency swaps and interest rate swaps for which hedge accounting is applied (refer section (c)(ii) of this note) and the NZD and GBP subordinated term notes are effectively hedging a portion of the net investment in the New Zealand and United Kingdom operations respectively for which hedge accounting is applied (refer (c)(iii) of this note).

For information regarding the management of currency risk refer to the financial risk management note.

(g) Use of derivatives

The IAG Group uses derivatives to manage the exposure to risks relating to the interest bearing liabilities. Hedge accounting is applied to only a limited number of these arrangements. In each case where hedge accounting is applied the arrangements are designated as cash flow hedges. Additional information is provided below for those related derivative positions. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the financial risk management note.

It is important to note that some of the interest bearing liabilities themselves are used to hedge currency risk relating to the net investment in foreign operations by forming part of arrangements for which hedge accounting is applied, refer to the financial risk management note. Cross currency swaps are also used to convert the currency exposure on the Euro floating rate notes (and previously the USD floating rate notes) into British pound but hedge accounting is not applied for these economic hedges.

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

Cross currency swaps on USD subordinated term notes

Insurance Australia Limited (IAL) has entered into cross currency swaps to fully hedge the Australian dollar value of principal and interest flows on the Consolidated entity's USD subordinated term notes. The swaps mature in 2010. Over the term of the swaps, the Consolidated entity will receive US dollar payments equal to the interest payable on the notes and will pay interest at either a fixed rate or variable rate of the three month bank bill swap rate plus a margin on a principal amount of A$401 million. On maturity of the swap, the IAG Group will repay the principal amount of A$401 million and receive US$240 million based on the original spot exchange rate at inception. This has the economic effect of converting the USD borrowing into an Australian dollar borrowing. Hedge accounting is applied in relation to these swap agreements.

Interest rate swap agreements on USD subordinated term notes

IAL has entered into interest rate swap agreements to manage the interest rate exposure on the Consolidated entity's USD subordinated term notes (previously swaps were also used in relation to a portion of the now redeemed AUD subordinated term notes). IAL pays a fixed rate of interest under the swap agreements and receives a variable rate of interest equal to the amount payable on the underlying hedged borrowings. The interest income and expense associated with the swap agreements are recognised in profit or loss on a daily basis over the term for which the swap is effective as a hedge of the underlying borrowing. As at reporting date, the weighted average fixed interest rate payable under the swap agreements was 6.92% per annum (2007 - 6.77% per annum) and the weighted average floating rate receivable was 9.36% per annum (2007 - 7.88% per annum) for the Consolidated entity.

(h) Compliance risk

Throughout the current reporting period the IAG Group has conformed with the requirements of its debt agreements, including all financial and non-financial covenants.

(i) Fair value information

The interest bearing liabilities are initially measured at fair value (net of transaction costs) but are subsequently measured at amortised cost. Based on market conditions at any point in time, the carrying value of the liabilities may not be representative of the fair value of the liabilities. A comparison of the carrying amount and fair value for the liabilities is provided in the table below.

	2008		**2007**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	$m	**$m**	**$m**	**$m**
(i) Capital nature				
Tier 1 regulatory capital				
AUD reset preference shares (i)	**350**	**298**	550	548
Tier 2 regulatory capital				
USD subordinated term notes	**250**	**249**	283	279
Derivatives for USD subordinated term notes	**151**	**151**	125	125
GBP subordinated term notes (i)	**519**	**433**	591	548
AUD subordinated term notes	**-**	**-**	299	300
NZD subordinated term notes	**79**	**78**	-	-
(ii) Operating nature				
Various instruments	**64**	**65**	188	190
Total	**1,413**		2,036	
Less: capitalised transaction costs	**(12)**		(19)	
	1,401		2,017	

(i) These instruments are liabilities of the Parent entity.

NOTE 21: INTEREST-BEARING LIABILITIES (Continued)

Methodology

The individual interest bearing liabilities are not standardised market instruments and so it is not possible for the fair value to be determined by mark to market with the exception of the AUD reset preference shares for which the fair value is determined using the reporting date offer price per the Australian Securities Exchange. Hence the fair values have been determined by mark to model applying valuation techniques using objective market inputs sourced from third parties wherever possible. The inputs are based on known similar financial instruments in the market around reporting date noting that some of the liabilities are not as directly comparable to other market instruments as some liabilities in which case a greater level of judgement has been applied in determining the inputs.

The differences between the carrying value of the liabilities and the fair value has been driven predominantly by widening in credit spreads in the current period. Under the IAG Group's current accounting policy of measuring the interest bearing liabilities at amortised cost in line with the purpose and nature of the instruments to the IAG Group the differences in value will not be realised by the IAG Group as the liabilities are not transferable.

(j) Financing arrangements

		CONSOLIDATED			
		Facilities drawn at reporting date		**Facilities available**	
		2008	2007	**2008**	2007
		$m	$m	**$m**	$m
Standby letter of credit facilities	(i)	**52**	59	**53**	65
Standby facility	(ii)	**-**	-	**-**	30
Debt issuance program	(iii)	**-**	299	**750**	750
NZ medium-term note program	(iv)	**40**	45	**40**	45
Receivables refinancing debt		**-**	6	**31**	35

Various entities within the Consolidated entity have facilities outstanding with external service providers, mostly banks, providing short term financing arrangements for specific situations not significant to the Consolidated entity including standby letters of credit, and guarantees for lease guarantees and performance bonds.

Notes:

(i) The standby letter of credit facilities are denominated in US dollars and are translated into equivalent Australian dollars using the reporting date exchange rate. The majority of the amount shown relates to standby letter of credit issued in support of the Consolidated entity's participation in Lloyd's of London.

(ii) The standby facility was for liquidity support in the event that Insurance Australia Limited was unable to refinance maturing obligations under the debt issuance program due to a market disturbance. The facility was not renewed during the current financial year.

(iii) Insurance Australia Limited has a $750 million debt issuance program. Standard & Poor's has assigned its AA- long-term and A-1+ short-term ratings to the program's senior obligations and A+ to its subordinated notes. Insurance Australia Limited is rated AA- for its insurer financial strength and counterparty credit ratings.

(iv) IAG (NZ) Holdings Limited has a NZ$50 million medium-term note program. Standard & Poor's has assigned a AA- long-term rating to the guaranteed and unsubordinated series of wholesale notes issued under the program. The program is guaranteed by Insurance Australia Limited. This program is denominated in New Zealand dollars and is translated into equivalent Australian dollars using the reporting date exchange rate. Exchange rate movements are recognised in the foreign currency translation reserve.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	PARENT / CONSOLIDATED			
	2008	2007	2008	2007
	Number of Shares in millions	Number of Shares in millions	$m	$m
NOTE 22: RECONCILIATION OF TOTAL EQUITY				
Share capital				
Ordinary shares				
Balance at the beginning of the financial year	**1,794**	1,595	**4,361**	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	**59**	40	**287**	237
Shares issued under dividend reinvestment plan	**25**	-	**92**	-
Balance at the end of the financial year	**1,878**	1,794	**4,740**	4,361

	PARENT		CONSOLIDATED	
	2008	2007	2008	2007
	$m	$m	$m	$m
(a) Share capital (refer above)	**4,740**	4,361	**4,740**	4,361
(b) Treasury shares held in trust				
Balance at the beginning of the financial year	**-**	-	**(69)**	(40)
Acquisition of shares	**-**	-	**(4)**	(30)
Shares vested and/or released to participants	**-**	-	**2**	1
Balance at the end of the financial year	**-**	-	**(71)**	(69)

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22: RECONCILIATION OF TOTAL EQUITY (Continued)

	PARENT		CONSOLIDATED	
	2008	2007	2008	2007
	$m	$m	$m	$m
(c) Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	-	-	**(34)**	(15)
Net exchange difference on translation of foreign operations	-	-	**(214)**	(73)
Hedge of net investment in a subsidiary	-	-	**183**	54
Balance at the end of the financial year	-	-	**(65)**	(34)
Share based remuneration reserve				
Balance at the beginning of the financial year	-	-	**33**	19
Charged to profit for the year	-	-	**25**	15
Transfers from the reserve upon vesting of rights/shares	-	-	**(2)**	(1)
Balance at the end of the financial year	-	-	**56**	33
Hedging reserve				
Balance at the beginning of the financial year	-	-	**(3)**	(10)
Net movements in fair value of derivatives forming hedge:				
- Cash flow hedges	-	-	**(26)**	(30)
Net movements in fair value recognised in profit:				
- Cash flow hedges	-	-	**33**	40
Net tax impact on movements	-	-	**(2)**	(3)
Balance at the end of the financial year	-	-	**2**	(3)
Total reserves	-	-	**(7)**	(4)
(d) Retained earnings / (accumulated losses)				
Balance at the beginning of the financial year	**547**	686	**372**	274
Profit / (loss) attributable to equity holders of the Parent	**764**	353	**(261)**	552
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax	-	-	**(34)**	39
Dividends declared and paid	**(537)**	(492)	**(537)**	(492)
Acquisition of minority interest in subsidiaries	-	-	-	(5)
Dividends on treasury shares held in trust	-	-	**2**	4
Balance at the end of the financial year	**774**	547	**(458)**	372
Parent interest	**5,514**	4,908	**4,204**	4,660

NOTE 22: RECONCILIATION OF TOTAL EQUITY (Continued)

	PARENT		CONSOLIDATED	
	2008	**2007**	**2008**	**2007**
	$m	**$m**	**$m**	**$m**
(e) Minority interests				
Balance at the beginning of the financial year	**-**	-	**172**	180
Profit attributable to minority interests	**-**	-	**35**	77
Actuarial gains and (losses) on defined benefit superannuation plans, net of tax, attributable to minority interests	**-**	-	**(3)**	1
Distributions to minority interests	**-**	-	**(57)**	(86)
Balance at the end of the financial year	**-**	-	**147**	172
Minority interests comprising:				
– Share capital	**-**	-	**126**	126
– Retained earnings	**-**	-	**21**	46
Minority interests	**-**	-	**147**	172
Total equity	**5,514**	4,908	**4,351**	4,832

(f) Notes to sections (a) to (e) above

(i) Share capital

All ordinary shares on issue are fully paid. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up the Company in proportion to the number of, and amounts paid on, the shares held. Dividends, if declared, are subject to there being distributable profits available and not breaching APRA capital adequacy requirements.

During the year ended 2008, the Company made the following two issues of ordinary shares to fund dividend payments:

- 2008 interim dividend - $287 million issued through a fully underwritten arrangement; and
- 2007 final dividend - $92 million issued to the dividend reinvestment plan participants.

During the year ended 30 June 2007 the Company made the following two issues of ordinary shares to fund the acquisition of Equity Insurance Group:

- $750 million issued through an institutional placement at $5.50 per ordinary share (completed 12 December 2006); and
- $125 million issued through a Share Purchase Plan at $5.50 per ordinary share (completed 31 January 2007).

During the year ended 30 June 2007, the Company settled its interim dividend payable on 16 April 2007 with the issuance of 40.5 million fully paid ordinary shares priced at $5.8507 per share.

(ii) Treasury shares held in trust

Share based remuneration is provided in different forms to eligible employees and non-executive directors. To satisfy obligations under the various share based remuneration plans, shares are generally bought on-market at or near grant date of the relevant arrangement and held in trust. Upon consolidation of the trusts, the shares held that are controlled for accounting purposes are recognised as treasury shares held in trust, as described in note 1(af). The balance of treasury shares held in trust at a reporting date represents the cumulative cost of acquiring IAG shares that have not yet been distributed to employees as share based remuneration.

NOTE 22: RECONCILIATION OF TOTAL EQUITY (Continued)

(iii) Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of the financial position and performance of subsidiaries that have a functional currency other than Australian dollars.

Share based remuneration reserve

The share based remuneration reserve is used to recognise the fair value at grant date of equity-settled share based remuneration provided to employees and non-executive directors over the vesting period, as described in note 1(aa).

Hedging reserve

The hedging reserve is used to record gains or losses on derivatives that form part of hedging relationships which have been designated as cash flows hedges or net investment hedges, as described in note 1(q).

(iv) Minority interests

Minority interests represent the proportion of equity holders' equity that is attributable to minority shareholders. Minority interests relates to Insurance Manufacturers of Australia Pty Limited (Australia), World Class Accident Repairs (Cheltenham North) Pty Limited (Australia), Mutual Community General Insurance Proprietary Limited (Australia), NHCT Limited (Thailand), and Safety Insurance Public Company Limited (Thailand). During the financial year ended 30 June 2007, the Consolidated entity acquired the minority interests in Mike Henry Travel Insurance Limited (New Zealand) and DriveRight Limited (New Zealand).

	PARENT		CONSOLIDATED	
	2008	**2007**	**2008**	**2007**
	$m	**$m**	**$m**	**$m**
NOTE 23: NOTES TO THE CASH FLOW STATEMENTS				
(a) Composition				
Cash and cash equivalents	-	-	**1,234**	1,163
	-	-	**1,234**	1,163

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and money market securities readily convertible to cash within two working days, net of any bank overdraft. There are no cash balances held that are not available for use in normal operations. The carrying amount of the cash and cash equivalents presented on the balance sheet is the same as that used for the purposes of the cash flow statements as there are no bank overdrafts used which are repayable upon demand.

(b) Significant risks

The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk relevant to cash and cash equivalents at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk and frequent repricing.

A portion of the cash balances are held in currencies other than Australian dollar. For information regarding the management of currency risk by the Group refer to financial risk management note.

The majority of the amounts bear variable rates of interest. Those balances bearing a fixed rate of interest mature in less than one year. A small portion of the amounts bear no interest.

NOTE 23: NOTES TO THE CASH FLOW STATEMENTS (Continued)

	PARENT		CONSOLIDATED	
	2008	**2007**	**2008**	**2007**
	$m	**$m**	**$m**	**$m**
(c) Reconciliation of profit / (loss) for the year to net cash flows from operating activities				
Profit / (loss) for the year	**764**	353	**(226)**	629
Depreciation and impairment of property, plant and equipment	**-**	-	**87**	61
Amortisation and impairment of intangible and goodwill assets	**-**	-	**461**	80
Net realised (gains) and losses on disposal of investments	**(10)**	-	**(29)**	23
Net unrealised (gains) and losses on revaluation of investments	**7**	-	**209**	(184)
Net (gain) and losses on disposal of property, plant and equipment	**-**	-	**-**	4
Provision for doubtful debts and impairment	**-**	-	**3**	2
Retained earnings adjustment for actuarial gains and (losses) on defined benefit superannuation plans	**-**	-	**(37)**	40
Retained earnings adjustment for share based remuneration	**-**	-	**25**	15
Unrealised (gains) and losses on embedded derivatives	**(69)**	-	**(69)**	-
Other	**2**	2	**(14)**	(16)
Decrease / (increase) in operating assets:				
Premium and other receivables	**37**	5	**372**	(652)
Prepayments and deferred levies and expenses	**-**	-	**(42)**	(73)
Deferred tax assets	**(2)**	(5)	**(12)**	(36)
Current tax assets	**-**	-	**1**	(18)
Inventories	**-**	-	**-**	(1)
Defined benefit superannuation asset	**-**	-	**59**	(62)
Increase / (decrease) in operating liabilities:				
Trade and other payables	**(65)**	43	**36**	(51)
Provisions	**-**	-	**57**	8
Current tax liabilities	**14**	(36)	**2**	(32)
Deferred tax liabilities	**-**	-	**(39)**	16
Outstanding claims liability	**-**	-	**(735)**	470
Unearned premium liability	**-**	-	**(116)**	189
Unexpired risk liability	**-**	-	**12**	(11)
Net cash flows from operating activities	**678**	362	**5**	401

(d) Significant non-cash transactions relating to financing and investing transactions

There were no financing or investing transactions during the year which have had a material effect on the assets and liabilities that did not involve cash flows.

NOTE 24: ACQUISITIONS AND DISPOSALS OF BUSINESSES

There were no acquisitions or disposals of businesses by the Parent during the year (2007 – none). The following acquisitions and disposals of businesses relate to the Consolidated entity.

(a) Acquisition of subsidiaries

For the financial year ended 30 June 2008

(i) Acquisition of regional broking businesses in the United Kingdom

The IAG Group continued with its strategy in the UK of acquiring smaller regional brokers. There were several businesses acquired during the year with total consideration paid of $45 million. The largest three acquisitions during the year were the purchase of Barnett & Barnett effective 10 March 2008 for a total acquisition cost (including transaction costs) of $26 million, the purchase of Just Idol Limited (trading as Diamond Insurance Services) effective 2 November 2007 for a total acquisition cost (including transaction costs) of $5 million and purchase of Bryan & Knott Holdings Limited effective 4 April 2008 for a total acquisition cost (including transaction costs) of $5 million. The additional information regarding these three larger acquisitions provided below is disclosed on an aggregated basis as the individual acquisitions were not significant to the IAG Group. The acquired businesses form part of the United Kingdom cash generating unit.

(ii) Acquisition of New Zealand based general insurance business

The IAG Group acquired the renewal business of Anthony Runacres and Associates Limited effective 30 November 2007 for a total acquisition cost of $7 million including transaction costs and the estimated present value of deferred consideration. The business consists of insurance and risk professionals who specialise in fire and general insurance broking in the commercial sector. This business forms part of the New Zealand cash generating unit.

(iii) Acquisition of specialist underwriter in the Australia commercial insurance market

The IAG Group acquired Strata Unit Underwriting Agency Pty Ltd effective from 18 April 2008. The business consists of an underwriting operation specialising in strata insurance. This business forms part of the Australia cash generating unit.

2008	UK branch acquisitions $m
Purchase price:	
Cash paid	33
Present value of deferred payments	1
Present value of contingent payments	1
Costs directly associated with acquisitions	1
Total purchase consideration	36
Fair value of net identifiable assets acquired recognised by acquiree:	
Cash and cash equivalents	10
Receivables	11
Payables	(14)
Current tax liabilities	(1)
Net identifiable assets acquired	6
Intangible assets recognised upon acquisition:	
Customer relationships	14
Goodwill	16
	30

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. 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 relating largely to an ability to provide improved products and services to customers.

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.

NOTE 24: ACQUISITIONS AND DISPOSALS OF BUSINESSES (Continued)

2008	UK branch acquisitions $m
Cash consideration paid	33
Cash balance acquired	(10)
Net outflow of cash	23
Contribution from the acquired businesses (from date of acquisition):	
Income	5
Profit / (loss) before income tax	1

For the financial year ended 30 June 2007

(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.

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.

(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.

(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.

NOTE 24: ACQUISITIONS AND DISPOSALS OF BUSINESSES (Continued)

Changes during 2008 on 2007 acquisitions

The Consolidated entity, effective 29 September 2006, acquired 100% of the share capital of Hastings and Advantage which are involved in general insurance broking and underwriting in the UK. The fair value of the net assets and acquired intangible assets were reported in the 30 June 2007 financial report on a provisional basis. The table below shows the final amounts used in accounting for the transaction together with adjustments made to the provisional amounts.

		CONSOLIDATED		
	Notes	**Provisional**	**Adjustment**	**Final**
		$m	**$m**	**$m**
Purchase consideration (including transaction costs)	(i)	349	(28)	321
Total assets		447	-	447
Total liabilities	(i)	(422)	(28)	(450)
Fair value of net identifiable assets acquired		25	(28)	(3)
Customer relationships	(ii)	52	(36)	16
Brands		96	-	96
Other contractual arrangements - software		20	-	20
Fair value of identifiable intangible assets acquired		168	(36)	132
Goodwill	(ii)	156	36	192
		324	-	324

(i) This adjustment to the acquired tax liabilities reflects a final assessment received from the UK tax authority of tax liabilities relating to Hastings for tax periods prior to the date when the company was acquired by the IAG Group. The change has been reflected as an adjustment to the consideration paid as the amount is being recovered from the retention account with a portion of the original consideration paid having being retained to settle this known liability. This adjustment has therefore had no impact on the goodwill recognised.

(ii) Detailed work completed in the first half year of the current reporting period resulted in the identification of errors with certain inputs used in the provisional acquisition date valuation of one of the acquired intangible assets. The correction of these inputs resulted in a reallocation of value between the acquired intangible asset and goodwill.

NOTE 24: ACQUISITIONS AND DISPOSALS OF BUSINESSES (Continued)

	CONSOLIDATED			
2007	**Open & Direct**	**Alba**	**Hastings and Advantage**	**Equity Insurance Group**
	$m	**$m**	**$m**	**$m**
Details of the 2007 acquisitions of subsidiaries are as follows:				
Purchase price:				
Cash paid	55	-	318	1,323
Present value of deferred payments (i)	-	23	-	93
Costs directly associated with acquisitions	2	-	3	9
Total purchase consideration	57	23	321	1,425
Fair value of net identifiable assets acquired recognised by acquiree:				
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)	-	(97)	(91)
Current tax liabilities	(1)	-	(12)	-
Unearned premium liability	-	-	(138)	(383)
Outstanding claims liability	-	-	(132)	(1,044)
Interest-bearing liabilities	-	-	(71)	(906)
Other	(1)	-	23	(115)
Net identifiable assets acquired	(2)	-	(3)	282
Intangible assets recognised upon acquisition:				
Distribution channels	-	-	-	269
Customer relationships	44	-	16	112
Brands	1	-	96	79
Other contractual arrangements	-	-	20	-
Lloyd's syndicate capacity	-	-	-	138
Goodwill	14	23	192	545
	59	23	324	1,143

(i) Deferred settlement on Equity Insurance Group comprised of unsecured notes (face value of GBP 38 million) and deferred awards rights (2,141,170 rights with a grant date fair value of AUD$12 million).

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. 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 relating largely to an ability to provide improved products and services to customers.

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.

NOTE 24: ACQUISITIONS AND DISPOSALS OF BUSINESSES (Continued)

	CONSOLIDATED			
2007	**Open & Direct**	**Alba**	**Hastings and Advantage**	**Equity Insurance Group**
	$m	**$m**	**$m**	**$m**
The net cash flow in relation to acquisitions is as follows:				
Cash consideration paid	57	-	321	1,332
Cash balance acquired	(9)	-	(81)	(1,202)
Net outflow of cash	48	-	240	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 $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.

(b) Other acquisitions

There were no other acquisitions for the financial year ended 30 June 2008.

For the financial year ended 30 June 2007

(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 in New Zealand, was acquired for a purchase consideration of $4 million.

(ii) DriveRight Limited

On 20 October 2006 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.

(c) Disposal of subsidiaries

For the financial year ended 30 June 2008

(i) Disposal of CGU Premium Funding loan business

Effective 17 August 2007, the IAG Group disposed of the existing and ongoing loan business of CGU Premium Funding Pty Limited. A net profit of $9 million was recognised from the sale of the business.

(ii) Held for Sale - Alba Group

The Alba inwards reinsurance operation which consists of an Asian-based Lloyd's syndicate and a UK-based managing agent was classified as held for sale at the current reporting date. The disposal of this business is expected to complete in the coming financial year.

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

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25: DETAILS OF SUBSIDIARIES

The following entities constitute the Consolidated entity:

		Country of incorporation / formation	Extent of beneficial interest if not 100%	
			2008	**2007**
			%	**%**
Ultimate Parent				
Insurance Australia Group Limited		Australia	-	-
Subsidiaries				
Australian general insurance operations				
Insurance Australia Limited		Australia		
NRMA Personal Lines Holdings Pty Limited		Australia		
Insurance Manufacturers of Australia Pty Limited		Australia	**70.00**	70.00
World Class Accident Repairs (Cheltenham North) Pty Limited		Australia	**70.00**	70.00
CGU Insurance Australia Limited		Australia		
CGU Insurance Limited		Australia		
Swann Insurance (Aust) Pty Ltd		Australia		
Mutual Community General Insurance Proprietary Limited		Australia	**51.00**	51.00
IAG Re Australia Limited (formerly NZI Insurance Australia Limited)		Australia		
Sitrof Australia Limited		Australia		
CGU-VACC Insurance Limited		Australia		
CGU Workers Compensation (NSW) Limited		Australia		
CGU Workers Compensation (VIC) Limited		Australia		
CGU Workers Compensation (SA) Limited		Australia		
CGU Premium Funding Pty Ltd		Australia		
Strata Unit Underwriting Agency Pty Limited		Australia		-
New Zealand operations				
IAG (NZ) Holdings Limited	C	New Zealand		
IAG New Zealand Limited	C,E	New Zealand		
Mike Henry Travel Insurance Limited	C	New Zealand		
National Auto Club Underwriters Agency (NZ) Limited	C	New Zealand		
Clipper Club Underwriters Limited	C	New Zealand		
DriveRight Limited	B	New Zealand		
New Zealand Insurance Limited	C	New Zealand		
State Insurance Limited	C	New Zealand		
Direct Insurance Services Limited	C	New Zealand		
Swann Insurance (NZ) Limited	C	New Zealand		
IAG (NZ) Share Plan Nominee Limited	C	New Zealand		
The IAG New Zealand Limited Employee Share Plan	C	New Zealand		
The IAG Performance Awards Rights Plan for Executives in New Zealand	C	New Zealand		
NZI Staff Superannuation Fund Nominees Limited	C	New Zealand		
Belves Investments Limited	C	New Zealand		
Anthony Runacres and Associates Limited	C	New Zealand		

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25: DETAILS OF SUBSIDIARIES (Continued)

		Country of incorporation / formation	Extent of beneficial interest if not 100% 2008	2007
			%	%
United Kingdom operations				
IAG UK Holdings Limited	C	United Kingdom		
EIG (Investments) Limited	C	United Kingdom		
Equity Insurance Group Limited	C	United Kingdom		
Equity Insurance Holdings Ltd	C	United Kingdom		
Equity Red Star Limited	C	United Kingdom		
Equity Syndicate Management Limited	C	United Kingdom		
Equity Red Star Services Limited	C	United Kingdom		
Equity Group 2005 Limited	C	United Kingdom		
Equity Insurance Management Limited	C	United Kingdom		
Equity Red Star Holdings Limited	C	United Kingdom		
Equity Insurance Properties Limited	C	United Kingdom		
Can Do Finance Limited	C	United Kingdom		
Equity Nominee Services Limited	C	United Kingdom		
ERSH Limited	C	United Kingdom		
Cox Managing Agency Limited	C	United Kingdom		
Equity Shared Services Limited	C	United Kingdom		
Cox Commercial Limited	C	United Kingdom		
CDCM (No2) Limited	C	United Kingdom		
CDCM Limited	C	United Kingdom		
Equity Broking Management Limited	C	United Kingdom		
Equity Red Star (accident & health) Limited	C	United Kingdom		
Argent Insurance Practice Limited	C	United Kingdom		
Bennetts UK Limited	C	United Kingdom		
J McWhirter (Insurance Brokers) Limited	C	United Kingdom		
M K Lyle (Life & Pensions) Limited	C	United Kingdom		
HML Marketing Limited	C	United Kingdom		
Brokersure.co.uk Limited	C	United Kingdom		
Equity Claims Limited	C	United Kingdom		
Equity Insurance Brokers Limited	C	United Kingdom		
Anthony Kidd Agencies Limited	C	United Kingdom		
Direct Insurance Services Limited	C	United Kingdom		
Open & Direct Insurance Services Limited	C	United Kingdom		
Open & Direct Insurance Services (Newtownards) Limited	C	United Kingdom		
Open & Direct Insurance Services (Dungiven) Limited	C	United Kingdom		
W.G. O'Kane Life & Pensions Ltd	C	United Kingdom		
Advantage Insurance Company Limited	C	Gibraltar		
Hastings Insurance Services Limited	C	United Kingdom		
IAG Conquest House Limited	C	United Kingdom		
Empire Equity Limited	C	Gibraltar		
Logan Consultants Limited	C	Gibraltar		
EIG (Finance) Limited	C	United Kingdom		
Wedring Limited	C	United Kingdom		-
Barnett & Barnett Holdings Limited	C	United Kingdom		-
Barnett & Barnett Ltd	C	United Kingdom		-
Barnett & Barnett Financial Services Ltd	C	United Kingdom		-
Bryan & Knott Insurance Services Ltd	C	United Kingdom		-
Just Idol Limited	C	United Kingdom		-

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25: DETAILS OF SUBSIDIARIES (Continued)

		Country of incorporation / formation	Extent of beneficial interest if not 100%	
			2008	2007
			%	%
Other International operations				
IAG Re Labuan (L) Berhad	C	Malaysia		
IAG (Asia) General Pte Ltd	C	Singapore		
NHCT Limited	(i), C	Thailand	**49.10**	49.00
IAG Insurance (Thailand) Ltd	D	Thailand		
Safety Insurance Public Company Limited	D	Thailand	**96.09**	96.09
Beijing Continental Automobile Association Limited	C,D	China		
IAG India (Mauritius) (formerly IAG China (Mauritius))	C	Mauritius		
IAG Investments Management Services (Shanghai) Company Limited	B,D	China		
Investment operations				
IAG Asset Management Limited		Australia		
IAG Nominees Pty Limited		Australia		
IAG Portfolio Limited		Australia		
IAG Asset Management Cash Management Trust		Australia	**94.21**	73.22
IAG Asset Management Private Equity Trust		Australia	**83.21**	83.20
IAG Asset Management Fund of Hedge Funds		Australia		
Merrill Lynch Market Neutral Trust		Australia		
Perpetual Market Neutral Trust		Australia	**97.11**	
GMO Market Neutral Trust		Australia	**85.20**	78.23
ACA Acadian Market Neutral Trust		Australia		
IAGAM Arrowstreet Macquarie Market Neutral Trust		Australia		-
IAGAM Sustainable Investment Trust		Australia	**50.00**	-
Corporate operations				
IAG International Pty Limited		Australia		
NRMA Information Services Pty Limited		Australia		
NRMA Insurance Funding 2003 Limited		Australia		
IAG Finance (New Zealand) Limited		Australia		
Insurance Australia Group Services Pty Limited		Australia		
IAG & NRMA Superannuation Pty Limited	A	Australia		
IAG Share Plan Nominee Pty Limited	A	Australia		
The IAG Share and Performance Award Rights Plan Trust		Australia		
The IAG Deferred Awards Rights Plan		Australia		
The IAG Executive Performance Rights Plan		Australia		
ACN 007 078 140 Pty Limited	A	Australia		
Insurance Australia Funding 2007 Limited		Australia		-
Micro Wind Turbines Australia Pty Limited	A	Australia	**50.00**	-
Subsidiaries that commenced deregistration after 30 June 2008				
China Investments (Mauritius)	C	Mauritius		
Subsidiaries held for sale as at 30 June 2008				
Alba Group Pte Ltd	C	Singapore		
Alba Pte Ltd	C	Singapore		
Alba Underwriting Ltd	C	United Kingdom		
Diagonal Underwriting Agency Limited	C	United Kingdom		
Entities de-registered during the year ended 30 June 2008				
EIG (Acquisitions) Limited	C	United Kingdom	-	

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25: DETAILS OF SUBSIDIARIES (Continued)

		Country of incorporation / formation	Extent of beneficial interest if not 100% 2008	2007
			%	%
Entities put into liquidation during the year ended 30 June 2008				
IAG Re Limited	C	Ireland	-	

General notes relating to a number of subsidiaries

A Small proprietary companies that are not required to prepare, and have not prepared, audited financial statements.

B Audited by accounting firms not affiliated with KPMG.

C Audited by overseas KPMG firms.

D All subsidiaries have a 30 June financial year end, except these companies which have a 31 December year end. These entities have been consolidated using financial information as at 30 June.

E All subsidiaries have only ordinary shares on issue except this entity also has perpetual preference shares on issue.

The following special conditions exist with respect to the IAG Group's Thailand subsidiaries

(i) IAG International Pty Limited owns 49% of the share capital of NHCT Limited and has a majority voting right and the right to appoint the board of directors of NHCT Limited. Therefore, NHCT Limited is considered a subsidiary of IAG International Pty Limited. The remaining 51% is held by Allessi Capital Co., Ltd, a company registered in Thailand.

(ii) IAG International Pty Limited owns 25% directly in IAG Insurance (Thailand) Ltd and is able to govern the financial and operating policies of the company through a further 75% interest held indirectly through its holding in NHCT Limited.

NOTE 26: INVESTMENT IN JOINT VENTURES AND ASSOCIATES

(a) Interests in joint ventures and associates

	Notes	Reporting date	Country of formation	Carrying value 2008	Principal Activity	Ownership interest 2008	2007
				$m		%	%
Joint venture							
NTI Limited	(i), A,C	30 June	Australia	2	Managing co-insurance arrangement	**50.00**	50.00
Assetinsure Financial Risk Products Pty Limited	A	30 June	Australia	-	Risk insurance products	**50.00**	-
Associates							
AmAssurance Berhad	C	31 March	Malaysia	68	Insurance underwriting	**30.00**	30.00
First Rescue and Emergency (NZ) Limited	A,C	31 March	New Zealand	-*	Roadside assistance	**50.00**	50.00
Loyalty New Zealand Limited	A,C	31 March	New Zealand	-*	Loyalty program	**25.00**	25.00
Sureplan NZ Limited	A,C	31 March	New Zealand	-*	Fleet risk management	**30.00**	30.00
AR Hub Pty Ltd	A,B	30 June	Australia	-*	Software development	**33.33**	33.33
Arista Insurance Limited		31 December	United Kingdom	-*	Wholesale broker	**25.60**	25.60
InsuranceWide.com Services Limited		31 December	United Kingdom	-*	Online aggregator	**26.70**	26.70
AmG Insurance Berhad		31 March	Malaysia	-*	Holding company	**30.00**	-
				70			

* Amounts round to zero.

NOTE 26: INVESTMENT IN JOINT VENTURES AND ASSOCIATES (Continued)

General notes relating to a number of joint ventures and associates

A Investment is measured at cost in the Consolidated entity due to materiality.

B Small proprietary companies that are not required to prepare, and have not prepared, audited financial statements.

C Audited by accounting firms not affiliated with KPMG.

None of the associates are listed on a stock exchange. Those entities that are equity accounted and that do not have a 30 June financial year end are equity accounted for using financial information for the year to 30 June which includes, at least in part, unaudited management results.

The following special conditions exist with respect to the NTI Limited joint venture

(i) CGU Insurance Limited, a subsidiary of the Consolidated entity, has a 50% interest in NTI Limited, the principal activity of which is to facilitate a co-insurance arrangement of commercial motor vehicle business. The Consolidated entity's portion of the results of the co-insurance arrangement is recorded directly in its accounting records.

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
(b) Reconciliation of movements in investment in joint ventures and associates for the financial year		
Balance at the beginning of the financial year	**75**	74
Investment in associate acquired during the financial year	**-**	3
Share of associate's net profit / (loss)	**(3)**	5
Net foreign exchange movements	**(1)**	(6)
Dividends received	**(1)**	(1)
Balance at the end of the financial year	**70**	75

(c) Summarised financial information of associate

These disclosures relate only to the investment in AmAssurance Berhad ("AmAssurance"), as all other investments in joint ventures and associates are not significant.

	2008	2007
Assets	**803**	731
Liabilities	**173**	657
Revenue	**340**	343
Profit*	**13**	18

* These amounts are for the year ended 31 March, being the financial year of AmAssurance, and have been extracted from the audited financial report of AmAssurance.

(d) Commitments and contingent liabilities

There are no capital or other commitments or contingent liabilities arising from the investment in AmAssurance that are significant to the Consolidated entity.

NOTE 27: EMPLOYEE BENEFITS

	CONSOLIDATED	
	2008	2007
	$m	$m
(a) Employee benefits provision		
Annual leave	**82**	82
Long service leave	**61**	59
Cash based incentive arrangements	**86**	76
Defined benefit pensions [i]	**9**	10
Defined benefit superannuation plans liabilities	**5**	15
	243	242

(i) There is one defined benefit pension arrangement in Australia with a discounted liability of $7 million as at 30 June 2008 (2007 - $7 million) involving 78 participants (2007 - 82) and one defined benefit pension arrangement in New Zealand with a discounted liability of $2 million as at 30 June 2008 (2007 - $3 million) involving 48 participants (2007 – 51). These liabilities are met from the general assets of the relevant subsidiary rather than assets being set aside in trust.

The employee benefits provision includes $50 million (2007 - $59 million) which is expected to be settled after more than 12 months from reporting date.

(b) Employee numbers

The Consolidated entity had 14,626 employees on a full time equivalent basis as at 30 June 2008 (2007 - 15,445).

(c) Cash based incentive arrangements

(i) Short-term incentive plan

The short-term incentive plan continued in operation during the year ended 30 June 2008. Eligible employees have the capacity to earn a proportion of their base pay as a cash incentive annually. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 10%, 15% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

(ii) IMA long-term incentive scheme

A long-term incentive is provided to senior employees of Insurance Manufacturers of Australia Pty Limited (IMA). This is a cash based incentive arrangement involving hurdles relating to compound growth in the IMA underwriting result and growth of risks in force.

(iii) Employee share plans

The following two employee share plans do not represent a remuneration benefit and so are not treated as share based remuneration but rather provide access for employees to available tax concessions.

Exempt Purchase Offer (EPO) – Australia only

The EPO allows Australian employees to voluntarily elect to receive up to $1,000 of their salary in the form of IAG shares, free of income tax, provided certain conditions are met. The plan is designed to utilise a tax concession known as the Tax Exemption Concession. Employees set aside funds for the purchase through a salary sacrifice arrangement. Brokerage is subsidised by the IAG Group. There is no vesting period. The shares are purchased on market and are subject to a three year restriction period during which the shares cannot be sold or dealt with. The employee is entitled to dividends and voting rights from the date of allocation. There are no circumstances under which the shares can be forfeited.

Deferred Purchase Offer (DPO) – Australia only

The DPO allows all full and part time Australian employees of the IAG Group to voluntarily elect to receive a minimum of $1,500 of their salary, up to a maximum 30% of salary, in the form of IAG shares. The plan is designed to utilise a tax concession known as the Tax Deferral Concession. Employees set aside funds for the purchase through a salary sacrifice arrangement. Brokerage is subsidised by the IAG Group. There is no vesting period. The shares are purchased on market and held in trust subject to a restriction period for tax purposes of up to ten years. The employee is entitled to receive dividend distributions and can vote (by providing voting instructions to the trustee) from the date of allocation. The only circumstance under which the shares can be forfeited is in the case of serious misconduct.

NOTE 28: SHARE BASED REMUNERATION

The provision of share based remuneration creates a link between shareholder value creation and rewarding employees. Share based remuneration encourages employee share ownership, links employee reward to the performance of the IAG Group and assists with retention of key personnel. This type of remuneration encourages employees to focus on creating shareholder value over the longer term.

The obligations under share based payment arrangements are covered by the on-market purchase of IAG ordinary shares which are held in trust. The shares are purchased on or near grant date at the prevailing market price. The arrangements are managed using in-house trusts, one for Australia and two for New Zealand, which are controlled for accounting purposes and so are subsidiaries of the Consolidated entity. The trustee for each trust is a subsidiary of the Consolidated entity. The trusts are administered by an external company.

The number of shares purchased to cover each tranche is determined by the trustee based on independent actuarial advice. The trusts allow for excess shares purchased in relation to one plan to be used to meet obligations of the other plans at the trustee's discretion. The trusts held 14,640,418 shares as at 30 June 2008 (2007 - 13,863,210 shares) representing 0.78% (2007 - 0.77%) of the share capital. This includes shares that are not controlled for accounting purposes and so not recognised as treasury shares.

Trading in IAG shares that are awarded under the share based remuneration arrangements is covered by the same restrictions that apply to all forms of share ownership by employees. These restrictions limit an employee trading in IAG shares where they are in a position to be aware, or are aware, of price sensitive information.

Share based remuneration is provided through a range of different plans each of which have different purposes and different rules. The share based remuneration expense amounts are included in the claims expense, other underwriting expenses, and corporate, administration and other expenses lines in the income statement.

(a) Non-executive directors' share plan

The non-executive director's share plan continued in operation during the year ended 30 June 2008. Non-executive Directors are required to receive at least 20%, but not in excess of 90%, of their annual IAG Board fee (at the time shares are allocated) in IAG shares, rather than in cash. Annual share allocations are generally made effective from 1 December each year. The shares vest on a pro-rata daily basis with limited forfeiture conditions and the participant is entitled to dividends and other shareholder rights during the vesting period. The on-market share price at grant date is used as the fair value of the equity instruments granted which for those granted during the current reporting period was $4.44. The shares are purchased on market and held in trust subject to a restriction period, for tax purposes, of between one and ten years. The number of shares purchased is determined by the amount of the base fee each Director is to receive in IAG shares, the weighted average market price of the shares at the date of allocation, and the trustee's discretion to use excess shares from another plan.

(b) Senior management and executive share plans

The senior management and executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the executive performance rights plan and the deferred award rights plan which are detailed below. The IAG Nomination Remuneration & Sustainability Committee (NRSC) approve the participation of each individual in the plans. There remain in place share plan arrangements that are now closed to new offers but within which there remain outstanding rights to be settled with the most significant being the performance award rights plan.

(i) Deferred award rights (DARs) plan

The DARs Plan continued in operation during the year ended 30 June 2008 having been implemented in November 2006. The structure and operation of the plan is the same for employees in each geographical region. The rights are granted for nil consideration, are non transferable, and can be settled only with existing IAG shares. Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price for all rights is a nominal value of $1 per tranche of rights exercised. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG shares are bought on-market and held in trust to satisfy future exercise of the rights.

The rights vest after a period (current maximum is three years) as determined by the Board subject to the participants continuing in relevant employment for the full period. When a participant ceases employment in special circumstances such as redundancy, rights may vest on cessation of employment. If there is a change of control of IAG, the Board has discretion to determine if and when rights should vest.

If the vesting condition is not met then the rights lapse. The rights also lapse where the holder chooses to forego the rights, and all rights expire ten years from grant date where they have not previously lapsed or been exercised.

NOTE 28: SHARE BASED REMUNERATION (Continued)

The following information relates to the current financial year for rights issued under the DARs Plan:

Grant date	Fair value at grant date	Rights on issue at beginning of year	Rights granted during year	Rights exercised during year	Rights lapsed during year	Number of rights at end of year: On issue	Exercisable
19/12/2006	**$5.354**	**2,310,480**	**-**	**(133,063)**	**(153,408)**	**2,024,009**	**8,905**
13/03/2007	**$5.156**	**217,312**	**-**	**-**	**(8,250)**	**209,062**	**-**
27/09/2007	**$4.820**	**-**	**4,868,200**	**(66,550)**	**(227,200)**	**4,574,450**	**3,350**
11/02/2008	**$2.810**	**-**	**26,345**	**-**	**-**	**26,345**	**-**
14/04/2008	**$3.330**	**-**	**55,370**	**-**	**-**	**55,370**	**-**
		2,527,792	**4,949,915**	**(199,613)**	**(388,858)**	**6,889,236**	**12,255**

The following information relates to the prior financial year for rights issued under the DARs Plan:

Grant date	Fair value at grant date	Rights on issue at beginning of year	Rights granted during year	Rights exercised during year	Rights lapsed during year	Number of rights at end of year: On issue	Exercisable
19/12/2006	$5.354	-	2,370,852	(21,937)	(38,435)	2,310,480	30,598
13/03/2007	$5.156	-	219,562	-	(2,250)	217,312	-
		-	2,590,414	(21,937)	(40,685)	2,527,792	30,598

In addition to the grant of DARs shown above, an additional 2,141,470 DARs were issued from 8 January 2007 as part of the consideration for the acquisition of the Equity Insurance Group (refer notes 24(a) and 32(c)(iii)).

The fair value of the rights is calculated as at the grant date using a Black Scholes valuation.

For those rights granted during the current finanical year, the following significant factors and assumptions were used:

Grant date	**27/09/2007**	**11/02/2008**	**14/04/2008**
Share price on grant date ($)	**$5.24**	**$3.57**	**$3.86**
Exercise price ($)	**$1 per tranche exercised**	**$1 per tranche exercised**	**$1 per tranche exercised**
Risk free interest rate (%)	**6.94%**	**7.61%**	**7.32%**
Expected dividend yield (%)	**5.73%**	**8.26%**	**7.64%**
Expected life of rights (years)	**2 years**	**3 years**	**2 years**

For those rights granted during the prior financial year, the following significant factors and assumptions were used:

Grant date	19/12/2006	13/03/2007
Share price on grant date ($)	$6.16	$5.96
Exercise price ($)	$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)	6.39%	6.34%
Expected dividend yield (%)	4.79%	4.95%
Expected life of rights (years)	3 years	3 years

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

(ii) Executive performance rights (EPRs) plan

The EPRs plan was implemented in October 2007. The structure and operation of the plan is the same for employees in each geographical region. The rights are granted for nil consideration, are non transferable, and can be settled only with existing IAG shares. Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. There is no exercise price. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG shares are bought on market and held in trust to satisfy future exercise of the rights.

EPR allocations are divided equally into two portions (TSR Allocation and ROE Allocation) and each portion has two vesting conditions. The first vesting condition for both portions is not market related and requires the participant to continue in relevant employment. Rights may be retained when a participant ceases employment in special circumstance such as redundancy.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 28: SHARE BASED REMUNERATION (Continued)

Under the TSR Allocation, the second vesting condition is a market related performance hurdle based on a comparison of IAG's total shareholder return (TSR, the measure of return on an investment in ordinary IAG shares) with the TSR of a peer group of entities in the S&P/ASX 100 index. The peer group includes insurers and non-insurers because the IAG Group competes for capital with a range of large listed companies across many industries. For the performance hurdle, a tiered vesting scale is applied, such that all rights in the TSR Allocation vest if IAG's relative TSR is at the 75th percentile of the peer group, scaling down so that 50% of rights in the TSR Allocation vest if IAG's TSR performance is at the 50th percentile of the peer group. No rights vest if IAG's TSR performance is below the 50th percentile of the peer group. Testing for the satisfaction of the performance hurdle occurs on the 3rd, 4th and 5th anniversary of the base date. If this vesting condition is not met, the TSR Allocation will lapse. The rights also lapse where the holder chooses to forego the rights and all rights expire 10 years from grant date where they have not previously lapsed or been exercised.

Under the ROE Allocation, the second vesting condition is based on IAG's normalised ROE which is a performance hurdle that is not market related. The ROE hurdle compares IAG's normalised ROE performance with IAG's weighted average cost of capital. Normalised ROE is measured for each six month period during the three financial years over which the performance hurdle is measured. There is only one test date for the ROE portion of the EPRs. For any of the ROE portion of EPRs to be exercisable, the normalised ROE (the average of the six monthly normalised ROE measurements over the three financial years) must reach at least 1.3 times WACC. The number of EPRs that will become exercisable under the ROE allocation is presented in the table below. WACC means the weighted average cost of capital of IAGL on a basis determined by the Board.

Level of normalised ROE performance	**Vesting scale**
>1.6 x WACC	100% vests
=1.5 x WACC	80% vests
=1.4 x WACC	50% vests
=1.3 x WACC	20% vests
<1.3 x WACC	0% vests

A sliding scale operates between the points represented in the table above. If normalised ROE is less than 1.3 times WACC, no rights in the ROE allocation will vest. If this vesting condition is not met, the ROE Allocation will lapse. The rights also lapse where the holder chooses to forego the rights and all rights expire 10 years from grant date where they have not previously lapsed or been exercised.

If there is a change of control of IAG, the Board has discretion to determine if and when rights should vest.

The following information relates to the current financial year for rights issued under the EPRs plan:

							Number of rights at end of year	
Grant date	**Fair value at grant date (TSR)**	**Fair value at grant date (ROE)**	**Rights on issue at beginning of year**	**Rights granted during year**	**Rights exercised during year**	**Rights lapsed during year**	**On issue**	**Exercisable**
29/10/2007	**$2.870**	**$4.310**	**-**	**2,375,300**	**-**	**(34,500)**	**2,340,800**	**-**
29/11/2007	**$2.350**	**$3.680**	**-**	**250,000**	**-**	**-**	**250,000**	**-**
13/03/2008	**$1.630**	**$2.710**	**-**	**152,400**	**-**	**-**	**152,400**	**-**
27/05/2008	**$2.120**	**$3.220**	**-**	**65,370**	**-**	**-**	**65,370**	**-**
			-	**2,843,070**	**-**	**(34,500)**	**2,808,570**	**-**

The fair value of the rights is calculated as at the grant date using a Monte Carlo valuation.

NOTE 28: SHARE BASED REMUNERATION (Continued)

For those rights granted during the current financial year, the following significant factors and assumptions were used.

Grant date	29/10/2007	29/11/2007	13/03/2008	27/05/2008
Share price on grant date ($)	$5.03	$4.39	$3.46	$3.99
Risk free interest rate (%)	7.23%	7.35%	7.50%	7.75%
Expected dividend yield (%)	5.96%	6.83%	8.53%	7.39%
Expected life of rights (years)*	3 or 4 years	3 or 4 years	3 or 4 years	3 or 4 years

*The expected life for the ROE EPRs is 3 years and 4 years for TSR EPRs.

(iii) Performance award rights (PARs) plan

The PARs plan closed to new offers during the year ended 30 June 2007. The last performance hurdle testing date for the rights is expected to be 29 August 2011. The structure and operation of the plan is the same for employees in each geographical region. The rights were granted for nil consideration, are non-transferable, and can be settled only with existing IAG shares. Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price for all rights is a nominal value of $1 per tranche of rights exercised. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG shares are bought on-market and held in trust to satisfy future exercise of the rights.

The rights may vest between three and five years (the performance period) from a base date (calculation date for each tranche) subject to the satisfaction of two vesting conditions. The first vesting condition is not market related and requires the participant to continue in relevant employment. The second vesting condition is a market related performance hurdle based on a comparison of IAG’s total shareholder return (TSR, the measure of return on an investment in IAG ordinary shares) with the TSR of a peer group of companies in the S&P/ASX 100 index. The peer group includes insurers and non insurers because the IAG Group competes for capital with a range of large listed companies across many industries. For the performance hurdle, a tiered vesting scale is applied, such that all rights vest if IAG's relative TSR is at the 75th percentile of the peer group, scaling down so that 50% of rights vest if IAG's TSR performance is at the 50th percentile of the peer group. No rights vest if IAG's TSR performance is below the 50th percentile of the peer group. Testing for the satisfaction of the performance hurdle occurs quarterly during the performance period. If either of the vesting conditions is not met then the rights lapse. The rights also lapse where the holder chooses to forego the rights, and all rights expire ten years from grant date where they have not previously lapsed or been exercised.

If there is a change of control of IAG, the Board has discretion to determine if and when rights should vest.

The following information relates to the current financial year for rights issued under the PARs Plan:

						Number of rights at end of year	
Grant date	Fair value at grant date	Rights on issue at beginning of year	Rights granted during year	Rights exercised during year	Rights lapsed during year	On issue	Exercisable
24/12/2002	$1.870	1,344,659	-	(85,651)	(1,162,288)	96,720	96,720
22/09/2003	$2.840	3,835,078	-	-	(1,507,296)	2,327,782	-
10/12/2003	$2.764	400,000	-	-	-	400,000	-
26/03/2004	$3.287	896,764	-	-	(297,456)	599,308	-
17/09/2004	$2.715	4,016,000	-	-	(347,000)	3,669,000	-
30/11/2004	$2.718	882,500	-	-	(5,500)	877,000	-
30/03/2005	$3.269	41,000	-	-	-	41,000	-
19/09/2005	$3.187	4,319,000	-	-	(350,500)	3,968,500	-
30/11/2005	$2.596	693,000	-	-	(22,500)	670,500	-
22/03/2006	$3.145	189,000	-	-	-	189,000	-
19/12/2006	$4.013	3,111,750	-	-	(216,550)	2,895,200	-
13/03/2007	$3.660	301,500	-	-	(3,000)	298,500	-
		20,030,251	-	(85,651)	(3,912,090)	16,032,510	96,720

NOTE 28: SHARE BASED REMUNERATION (Continued)

The following information relates to the prior financial year for rights issued under the PARs Plan:

						Number of rights at end of year	
Grant date	Fair value at grant date	Rights on issue at beginning of year	Rights granted during year	Rights exercised during year	Rights lapsed during year	On issue	Exercisable
24/12/2002	$1.870	2,188,614	-	(336,246)	(507,709)	1,344,659	186,792
22/09/2003	$2.840	3,913,469	-	-	(78,391)	3,835,078	-
10/12/2003	$2.764	400,000	-	-	-	400,000	-
26/03/2004	$3.287	941,786	-	-	(45,022)	896,764	-
17/09/2004	$2.715	4,126,000	-	-	(110,000)	4,016,000	-
30/11/2004	$2.718	905,500	-	-	(23,000)	882,500	-
30/03/2005	$3.269	41,000	-	-	-	41,000	-
19/09/2005	$3.187	4,500,000	-	-	(181,000)	4,319,000	-
30/11/2005	$2.596	693,000	-	-	-	693,000	-
22/03/2006	$3.145	189,000	-	-	-	189,000	-
19/12/2006	$4.013	-	3,149,500	-	(37,750)	3,111,750	-
13/03/2007	$3.660	-	304,500	-	(3,000)	301,500	-
		17,898,369	3,454,000	(336,246)	(985,872)	20,030,251	186,792

For those rights granted during the prior financial year, the following significant factors and assumptions were used:

Grant date	19/12/2006	13/03/2007
Share price on grant date ($)	$6.16	$5.96
Exercise price ($)	$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)	6.39%	6.34%
Expected share price volatility (%)	25%	25%
Expected dividend yield (%)	4.79%	4.95%
Expected life of rights (years)	3.673 years	3.660 years

Some of the assumptions, including expected share price volatility, are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

(c) Employee share plans

There are currently three employee share plans in operation but only one of them represents a form of remuneration (the Exempt Reward Offer) with the other two plans simply allowing IAG to facilitate Australian employees choosing to receive part of their base salary or short term incentive in the form of IAG shares (Exempt Purchase Offer and the Deferred Purchase Offer) principally to take advantage of taxation concessions available under Australian law.

(i) Exempt Reward Offer (ERO)

The ERO continued in operation during the year ended 30 June 2008. The ERO involves the granting of shares (sometimes restricted shares which are subject to a holding lock) to a substantial percentage of employees in both Australia and New Zealand from time to time, arranged through different trusts with different terms and conditions.

Each financial year where the IAG Total Shareholder Return (TSR) is higher than half of the companies in the S&P / ASX 100 index, and an offer is approved by the NRSC, an award of shares is made to eligible employees. The result of each tranche to date is as follows:

- For the 2009 financial year, the Board will determine in August 2008 whether the hurdle for the year ended 30 June 2008 was met and appropriate action will be taken at that time.
- For the 2008 financial year, the hurdle for the year ended 30 June 2007 was not met and so there was no issue of shares under the plan during the 2008 financial year.
- For the 2007 financial year, the hurdle for the year ended 30 June 2006 was not met and so there was no issue of shares under the plan during the 2007 financial year.
- For the 2006 financial year, the hurdle for the year ended 30 June 2005 was met and so there was an issue of shares under the plan during the 2006 financial year.

NOTE 28: SHARE BASED REMUNERATION (Continued)

- For Australia, a grant of 1,472,064 shares was made to 7,872 employees (187 shares to each participant). The grant date was 18 November 2005. The full cost of purchasing the shares on-market (used as the proxy for fair value of the grant) of $8 million (including brokerage) was recognised as an expense in the year to 30 June 2006.
- For New Zealand, a grant of 287,232 shares was made to 1,536 employees (187 shares to each participant). The grant date was 18 November 2005. There were 177,307 shares available from a previous employee share plan arrangement which were able to be used for the current tranche and so only an additional 109,925 shares were purchased for the current tranche. The full cost of purchasing the shares on-market (used as the proxy for fair value of the grant) is being expensed over the three year vesting period with the last amount to be expensed in the 2009 financial year.

Further details regarding the arrangement in Australia and New Zealand is provided below.

Australia

Participation in the plan is open to employees that are not directors, that are not participants in the PARs plan, that have completed at least twelve months service on a date set prior to the allocation date, and that remain in relevant employment on the allocation date.

Eligible employees who accept the offer receive an allocation of IAG shares to the equivalent value of $1,000 based on the volume weighted average price at which IAG shares traded on the ASX for the week up to and including the allocation date. The arrangement is designed to comply with the conditions set out in the Australian tax legislation which gives permanent employees the opportunity to acquire up to $1,000 worth of shares at their tax market value in any one financial year as tax-exempt remuneration; known as the Tax Exemption Concession. Although the number of shares paid to each employee is determined by a cash amount, the payment is made in shares and is therefore treated as an equity settled share based payment.

The shares are granted for nil consideration. Shares granted under the plan vest immediately but remain held in trust on behalf of the participants subject to a restriction period of the earlier of three years from the allocation date or cessation of employment. The participants are entitled to dividends, which are paid directly to the participants, and other shareholder rights during the restriction period. There are no circumstances under which the shares can be forfeited. The cost of acquiring the shares on-market in the days leading up to the grant is generally used as a proxy for the grant date fair value of the equity instruments. Shares granted under this plan are purchased on-market.

New Zealand

The general terms of the offer are the same as the Australian plan however because of the different taxation laws, shares granted under the New Zealand plan are subject to a three year vesting period. Employees that cease relevant employment before completion of the vesting period forfeit any entitlement to the shares. Under certain circumstances such as retirement, death or permanent disability, the vesting period may be waived. Forfeited shares may be reallocated as part of a future approved offer or disposed of at the discretion of the trustee. Dividends received on forfeited shares may, at the trustee's discretion, be used to defray costs of administering the plan. Participants are entitled to dividends and full voting rights during the vesting period.

NOTE 29: SUPERANNUATION

Contributions are made to a number of superannuation plans in various countries. The majority of employees are defined contribution members with fewer than 6.0% (2007 - 9.0%) of employees participating on a defined benefit basis. Entry to defined benefit superannuation plans is closed and so all new employees are provided with defined contribution arrangements. The plans provide benefits for members or their dependants in the form of lump sum or pension payments generally upon retiring from relevant employment.

The superannuation expense for the year is included in the claims expense, other underwriting expenses, and corporate, administration and other expenses lines in the income statement.

(a) Defined contribution superannuation arrangements

Contributions to the plans are made in accordance with the governing rules of each plan together with relevant legislative requirements in each geographical region. The contributions are generally based on a percentage of employees' salaries.

The Consolidated entity contributed $82 million to the IAG & NRMA Superannuation Plan for defined contribution members during the year (2007 - $67 million) and there were no employer contributions payable at the end of the year for those members (2007 - $Nil).

The Consolidated entity is not exposed to risks or rewards of the defined contribution arrangements and has no obligations beyond the payment of contributions.

NOTE 29: SUPERANNUATION (Continued)

(b) Defined benefit superannuation arrangements

Employees who are entitled to defined benefit superannuation arrangements are members of one of eight superannuation plans each of which are funded plans. The defined benefit sections of those plans are closed to new members and so membership is reducing over time. Contributions to the plans are made in accordance with the governing rules of each plan and the contribution recommendations of an independent actuary. In contrast to defined contribution superannuation arrangements, the future cost of the defined benefit superannuation plans is not known with certainty in advance. The benefits received for defined benefit members are generally based on length of service and final average salary together with the member's own contributions (if any). The net financial positions of the plans are recognised on the balance sheet.

Australia

All Australian employees with defined benefit superannuation arrangements are members of the IAG & NRMA Superannuation Plan (the IAG Plan). There were 774 members as at reporting date (2007 - 812). The Consolidated entity has contributed to the IAG Plan during the year in accordance with the recommendations of the actuary and has contributed $5 million for defined benefit members (2007 - $6 million). There were no employer contributions payable at the end of the year (2007 - $Nil). The governing rules of the Plan allow any surplus to be used to meet the contributions that would otherwise have been payable for both the defined benefit and defined contribution members of the Plan.

There are two subsidiaries in the Consolidated entity, being Insurance Australia Group Services Pty Ltd and Insurance Manufacturers of Australia Pty Limited, with employees that are defined benefit members of the IAG Plan. While separate records are maintained for the liabilities relating to each member, there is effectively a sharing of the risks associated with the assets of the IAG Plan. For the measurement of the net financial position of the IAG Plan for recognition on the balance sheets of the employer sponsors, the assets of the IAG Plan are allocated between the employers in proportion to the actuarial reserves for each entity.

United Kingdom

The United Kingdom operation contributes to six defined benefit superannuation arrangements being The Christopherson's Final Salary Scheme, The Red Star Insurance Association Limited 1978 Retirement and Death Benefit Scheme, The Anthony Kidd Agencies Scheme, The Open and Direct Insurance Services Final Salary Scheme and two 'B' schemes within the Lloyd's Superannuation Fund (a multi-employer scheme) being the Cox Services Limited Staff Pension Scheme and the HML Marketing Limited Staff Pension Scheme (the exposure for the Lloyd's funds is being capped through an arrangement with Lloyd's). They are referred to collectively as the UK Plans. The UK Plans had 555 defined benefit members as at reporting date (2007 - 559). The Consolidated entity contributed $7 million to the UK Plans for defined benefit members during the year (2007 - $4 million).

None of the UK plans is individually significant to the financial report and so the information disclosed below is provided for the UK Plans in aggregate.

New Zealand

The New Zealand operation contributes to one defined benefit superannuation arrangement being the NZI Superannuation Fund which had 10 defined benefit members as at 30 June 2008 (2007 - 11) and a Nil net deficit (2007 - Nil). There was previously another defined benefit superannuation arrangement being the IAG New Zealand Limited Staff Pension Scheme which had a net surplus of $3 million as at 30 June 2007 but this arrangement was settled during the current reporting period resulting in a charge to profit of $2 million being recognised in the current year. These New Zealand defined benefit superannuation arrangements are not disclosed in more detail as the financial impact of these arrangements is not significant to the Consolidated entity.

(i) *Reporting date balances*

	IAG Plan 2008 $m	**UK Plans 2008 $m**	**Total 2008 $m**	IAG Plan 2007 $m	UK Plans 2007 $m	Total 2007 $m
Fair value of net assets	**179**	**117**	**296**	215	141	356
Present value of defined benefit obligations (net discount rate)	**(176)**	**(124)**	**(300)**	(165)	(162)	(327)
Net defined benefit asset / (liability)	**3**	**(7)**	**(4)**	50	(21)	29
Contribution tax asset / (liability)	**-**	**2**	**2**	9	6	15
Net asset / (liability) recognised on the balance sheet	**3**	**(5)**	**(2)**	59	(15)	44

Where a plan incorporates both defined benefit and defined contribution arrangements, the amounts disclosed in this note represent only the defined benefit portion of the plan. Actuarial valuations are performed at each reporting date by an independent specialist. The financial information disclosed has been prepared in accordance with AASB 119 *Employee benefits* except where otherwise noted.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 29: SUPERANNUATION (Continued)

Those plans with a net financial position that is an asset are presented with the defined benefit superannuation asset on the balance sheet while those plans with a net financial position that is a liability are presented within the employee benefits provision.

(ii) Recognition of movement in net asset / (liability)

	IAG Plan 2008 $m	**UK Plans 2008 $m**	IAG Plan 2007 $m	UK Plans 2007 $m
Contributions expensed during the year	**5**	**7**	6	5
Reporting date valuation adjustment to profit	**(1)**	**(7)**	(2)	(4)
	4	**-**	4	1
Reporting date valuation adjustment to retained earnings	**56**	**(4)**	(52)	(5)
Total amount recognised for financial year in closing retained earnings	**60**	**(4)**	(48)	(4)
Reporting date valuation adjustments represent:				
Current service cost	**6**	**1**	8	-
Past service cost	**1**	**-**	-	-
Interest cost (net of tax)	**12**	**7**	9	5
Expected return on plan assets	**(15)**	**(7)**	(13)	(4)
Actuarial (gains) and losses	**56**	**(5)**	(52)	(5)
Total net amount recognised from reporting date valuation	**60**	**(4)**	(48)	(4)

(iii) Reconciliation of the movement in the present value of the defined benefit obligation

Defined benefit obligation at the beginning of the financial year	**165**	**162**	187	164
Current service cost	**6**	**-**	8	-
Past service cost	**1**	**-**	-	-
Interest cost	**12**	**7**	9	5
Contributions by plan participants	**2**	**-**	4	-
Actuarial (gains) and losses	**7**	**(16)**	(28)	(5)
Benefits paid	**(17)**	**(9)**	(15)	(2)
Net exchange difference on translation of foreign operations	**-**	**(20)**	-	-
Defined benefit obligation at the end of the financial year	**176**	**124**	165	162

NOTE 29: SUPERANNUATION (Continued)

(iv) Reconciliation of the movement in the fair value of assets

	IAG Plan 2008 $m	**UK Plans 2008 $m**	IAG Plan 2007 $m	UK Plans 2007 $m
Fair value of assets at the beginning of the financial year	**215**	**141**	191	135
Expected return on plan assets	**15**	**7**	13	4
Actuarial gains and (losses)	**(41)**	**(11)**	16	-
Contributions by employers	**5**	**7**	6	4
Contributions by plan participants	**2**	**-**	4	-
Benefits paid	**(17)**	**(9)**	(15)	(2)
Net exchange difference on translation of foreign operations	**-**	**(18)**	-	-
Fair value of assets at the end of the financial year	**179**	**117**	215	141

* The UK Plans information disclosed in section (iii) and (iv) for the comparative period provide the full year movement and not the period since the acquisitions.

(v) Plan assets

The percentage invested in each asset class at reporting date:

	Allocation percentage			
	IAG Plan 2008 %	**UK Plans 2008 %**	IAG Plan **2007 %**	UK Plans **2007 %**
Australian shares	**34.0**	**-**	36.0	-
Overseas shares	**26.0**	**38.0**	24.0	38.0
Listed property trusts	**10.0**	**-**	10.0	-
Fixed interest	**25.0**	**62.0**	25.0	61.0
Cash	**5.0**	**-**	5.0	1.0

The assets of the IAG Plan are managed by the IAG Group. The assets of the IAG Plan do not include any shares issued by the Consolidated entity nor any property or other assets used by the Consolidated entity. The assets of the UK Plans are managed by independent trustee boards.

To determine the expected rate of return on assets, the actuary has considered the expected future investment returns for each major asset class net of investment tax and investment fees. These estimated returns for each asset class have been used to calculate the expected rate of return on the assets supporting the defined benefits based on the plans' target asset allocation and allowing for correlations of the investment returns between asset classes. The actual return on the IAG Plan assets for the year ended 30 June 2008 was a loss of 11.3% (2007 - a gain of 13.9%). The actual return on the UK Plans assets for the year ended 30 June 2008 was a loss of 4.1% (2007 - a gain of 2.7%).

NOTE 29: SUPERANNUATION (Continued)

(vi) Actuarial assumptions

Assumptions used in the determination of the financial position of the plans are reviewed annually and determined in conjunction with the independent actuaries to the plans. The principal actuarial assumptions used in determining the financial position of the plans include:

	IAG Plan 2008 %	**UK Plans 2008 %**	IAG Plan 2007 %	UK Plans 2007 %
Discount rate (gross) *	**7.2**	**5.8**	5.8	5.3
Expected rate of return on plan assets supporting pension liabilities	**7.4**	**5.8**	7.4	5.8
Expected rate of return on other plan assets	**6.9**	**5.8**	6.9	5.8
Expected future salary increases	**4.0**	**4.6**	4.0	4.6
Future pension increases - adult / child	**2.5/ 0.0**	**3.7**	2.5 / 0.0	3.1

*The discount rate for the IAG Plan has been determined by reference to the market yields on 10-year government bonds in Australia (2007 - AA rated corporate bonds). The UK Plans discount rate has been determined by reference to the market yields on AA rated corporate bonds in the United Kingdom.

(vii) Sensitivity of measurement to actuarial assumptions

The superannuation arrangements are by nature long term. The majority of the assumptions reflect this and are not changed to reflect short term variations in factors. The discount rate required to be applied for the IAG Plan must reflect the market yields on government bonds (2007 - corporate bonds) and so is subject to change if those yields change. A one percent reduction in the discount rate would result in a $13.9 million increase in the present value of the defined benefit obligation of the IAG Plan and result in the net financial surplus becoming a $13.1 million deficit.

(viii) Historical information

The experience adjustments are as follows:

	IAG Plan 2008 $m	**UK Plans 2008 $m**	IAG Plan 2007 $m	UK Plans 2007 $m	IAG Plan 2006 $m	IAG Plan 2005 $m
Plan liabilities	**(6)**	**(9)**	6	2	6	6
Plan assets	**(41)**	**6**	16	-*	10	19

* Amount rounds to zero.

The experience adjustments are based on the actuarial gain or loss after removing the impact of any change in assumptions.

(ix) Funding obligations for the IAG & NRMA Superannuation Plan in Australia

The financial information disclosed below has been determined in accordance with AAS 25 *Financial Reporting by Superannuation Plans*, using the Attained Age Actuarial Funding method.

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
Net market value of plan assets	**176**	206
Present value of accrued benefits	**(168)**	(165)
Defined benefit surplus / (deficit)	**8**	41
Vested benefits	**162**	160

NOTE 29: SUPERANNUATION (Continued)

	CONSOLIDATED	
	2008	**2007**
	%	**%**
The principal actuarial assumptions used in determining the financial position of the Plan in accordance with AAS 25 and the funding recommendation include:		
Expected investment returns – pension assets / other assets (gross)	**7.5**	7.5
Expected future salary increases	**4.0**	4.0
Future pension increases – adult / child	**2.5/0.0**	2.5/ 0.0

The accrued benefits are determined on the basis of the present value of expected future payments that arise from membership up to the measurement date. The accrued benefits are determined by reference to expected future salary levels and are discounted by using a market-based, risk-adjusted discount rate. Vested benefits are the benefits which would be payable to members if they all voluntarily resigned as at the reporting date.

Assumptions used in the determination of the financial position of the Plan are reviewed annually and determined in conjunction with the independent actuary to the Plan. Changes in financial and/or demographic assumptions, or changes in the relevant regulatory environment, could significantly impact the financial position of the Plan. The financial position of the Plan is calculated at a specific point in time, however the superannuation arrangements are by nature long term. Short term variations between long term actuarial assumptions and actual experience will cause the net funding status of the Plan to change without impacting on the long term viability of the Plan.

The contribution recommendation uses a different actuarial methodology and a different discount rate assumption to that used in determining the financial position for measurement on the balance sheet of the employer sponsor. In determining the contribution recommendation, the actuarial valuation method focuses on the funding of benefits for current members, irrespective of whether they stem from past or future membership, whereas, for financial reporting purposes, the present value of expected future benefit payments does not include benefits that have not yet accrued. The difference in methodologies used for determining the employer contributions and the measurement of the asset/liability recognised on the balance sheet mean that a liability may be recognised even where the employer has met all of the superannuation contribution obligations.

	CONSOLIDATED	
	2008	2007
	$m	$m

NOTE 30: COMMITMENTS

Commitments are not recorded on the balance sheet but are disclosed here at face value.

(a) Capital commitments		
Software development		
- due within 1 year	**10**	11
- due within 1 to 2 years	**10**	11
- due within 2 to 5 years	**33**	36
- due after 5 years	**24**	26
	77	84
(b) Operating lease commitments		
Property		
- due within 1 year	**108**	88
- due within 1 to 2 years	**90**	92
- due within 2 to 5 years	**247**	205
- due after 5 years	**451**	435
Plant and equipment		
- due within 1 year	**33**	16
- due within 1 to 2 years	**22**	14
- due within 2 to 5 years	**28**	8
	979	858

Certain property, motor vehicles and computer equipment are leased under non-cancellable operating leases. Most leases are subject to annual reviews with increases subject to a set percentage or based on either movements in consumer price indices or operating criteria. Where appropriate, a right of renewal has been incorporated into the lease agreements at which time all terms and conditions may be renegotiated. There are no options to purchase the relevant assets on expiry of the lease. The operating lease commitments for property are to an extent offset by the receipt of sub-lease income of approximately $6 million per year from non-cancellable subleases.

(c) Software licence and rental commitments		
- due within 1 year	**34**	29
- due within 1 to 2 years	**18**	7
- due within 2 to 5 years	**19**	3
	71	39
(d) Other commitments		
- due within 1 year	**24**	5
- due within 1 to 2 years	**5**	6
- due within 2 to 5 years	**-**	6
	29	17

NOTE 31: CONTINGENCIES

The IAG Group is exposed to a range of contingencies with some specific to instruments or transactions while others relate more to operational risk faced in the normal course of business.

(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. The measurement involves judgement.

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 of approximately GBP 10 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.

NOTE 31: CONTINGENCIES (Continued)

(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. The dividend rate will be calculated in a similar manner to the interest rate on the RES. The exchange right is considered an embedded derivative within the RES and is recognised at fair value on balance sheet.

(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.

(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 2008 of $932 million (2007 - $2,012 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 32: RELATED PARTY DISCLOSURES

(a) Controlling entities

The ultimate parent entity in the Consolidated entity is Insurance Australia Group Limited which is incorporated in Australia.

(b) Subsidiaries

The Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries (information in relation to ownership interests is provided in note 25). The IAG Group operated a shared services model throughout the year with the use of dedicated units (such as head office finance providing accounting and processing services to operational entities) and entities (such as dedicated entities that provide employee services, technology development services, and reinsurance services which provide services across the Group). All such intragroup transactions are charged to the relevant entities on either normal commercial terms and conditions, a direct and actual cost recovery basis or time allocation basis. Certain entities are economically dependent on other entities in the IAG Group. There are also loans between entities in the Consolidated entity. Only the transactions between the Parent and the wholly owned subsidiaries are disclosed here because all other transactions that have occurred among entities within the Consolidated entity have been eliminated for consolidation purposes.

(i) *Transaction during the year*

Aggregate amounts included in the determination of profit before income tax for the year that resulted from transactions with related parties within the wholly-owned group were as follows:

	PARENT	
	2008	**2007**
	$m	**$m**
Income		
Dividend revenue	**716**	396
Expenses		
Interest expense	**-**	23

(ii) *Balances outstanding at reporting date*

Aggregate amounts receivable from, and payable to, subsidiaries were as follows:

	PARENT 2008 $m	PARENT 2007 $m
Receivables		
Amounts receivable	**120**	155
Loans receivable	**671**	667
Payables		
Amounts payable	**48**	109
Loans payable	**173**	211

These intragroup balances are considered highly liquid and of negligible credit risk and so the carrying amount is a reasonable approximation of the fair value of the balances except for the fixed rate loans for which the fair value currently exceeds the carrying value. The intragroup balances either bear a fixed or variable interest rate or bear no interest but are repayable on demand.

There are no amounts past due though some amounts outstanding represent part of the IAG Group's cash flow management operations which do not have fixed payment terms. Other than one loan denominated in British pound of $87 million at reporting date (2007 - $150 million) all other balances are denominated in Australian dollars and so the Parent has limited exposure to currency risk from these balances.

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

Other notes:

(i) Dividends and tax arrangements

While the Parent does not transact directly with all subsidiaries, the Parent does however generally receive dividends from all subsidiaries even if indirectly through other subsidiaries. Details of the tax sharing and tax funding agreements are disclosed in note 1(m)(ii).

(ii) IAG & NRMA Superannuation Plan

Two subsidiaries in the Consolidated entity, Insurance Manufacturers of Australia Pty Limited and Insurance Australia Group Services Pty Limited, have employees that are defined benefit members of the IAG & NRMA Superannuation Plan (refer note 29). While separate records are maintained for the liabilities relating to each member, there is effectively a sharing of the risks associated with the assets of the plan.

(iii) Transactions with IAG Asset Management Wholesale Trusts

IAG Asset Management Wholesale Trusts (some of which are disclosed as non-wholly owned subsidiaries in note 25), were established to enable higher investment yields for smaller investment portfolios. All subsidiaries within the IAG Group can invest in the trusts in accordance with their investment mandates. All investments in these trusts are on normal commercial terms and conditions.

The IAG & NRMA Superannuation Plan, the net financial position of which is recognised on the balance sheet, has a significant holding in some of the IAG Asset Management Wholesale Trusts. All transactions between the plan and the trusts are on normal commercial terms and conditions.

(iv) Other

Both the amount of the transactions and the outstanding balances at reporting date relating to transactions between the Parent and other subsidiaries are not significant and no further information is disclosed.

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

(c) Key management personnel

(i) Details of compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. It is important to note that the Company's Non-executive Directors are specifically required to be included as key management personnel in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*. However, the Non-executive Directors do not consider that they are part of "management".

The aggregate compensation of the key management personnel is set out below:

	CONSOLIDATED	
	2008	**2007**
	$000	$000
Short-term employee benefits	**19,325**	15,108
Post-employment benefits	**1,483**	1,266
Other long-term benefits	**97**	169
Termination benefits	**3,739**	-
Share-based payments	**4,018**	3,925
	28,662	20,468

The key management personnel receive no compensation specifically in relation to the management of the Company. The compensation disclosed in the table above represents the key management personnel's estimated compensation received from the IAG Group in relation to their involvement in the activities with the Consolidated entity.

(ii) Interest in securities

The tables below disclose the movements in total number of DARs, EPRs, PARs and PSRs on issue held by each of the key management personnel. The DARs, EPRs, PARs and PSRs were granted as payment of the share based payments remuneration of the share based payment remuneration policy. The Non-executive Directors, who are key management personnel, did not receive share based payments in the form of DARs, EPRs, PARs and PSRs.

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

Holdings of DARs

2008	DARs on issue 1 July	DARs granted during the year	DARs exercised during the year	DARs lapsed during the year	DARs on issue 30 June	DARs vested and exercisable 30 June
	Number	Number	Number	Number	Number	Number
MJ Wilkins	-	-	-	-	-	-
JP Breheny	**35,250**	**47,900**	-	-	**83,150**	-
AM Coleman	**35,250**	**55,700**	-	-	**90,950**	-
NB Hawkins	**35,250**	**47,900**	-	-	**83,150**	-
JS Johnson	**35,250**	**57,100**	-	-	**92,350**	-
CF McLoughlin	**31,875**	**41,500**	-	-	**73,375**	-
LC Murphy	-	-	-	-	-	-
N Utley	**33,375**	**37,500**	-	-	**70,875**	-
J van der Schalk	**35,250**	**28,600**	-	-	**63,850**	-
G Venardos	**42,375**	**61,900**	-	-	**104,275**	-
DG West	-	-	-	-	-	-
Total	**283,875**	**378,100**	-	-	**661,975**	-
Executives who ceased as key management personnel:						
MJ Hawker	**187,500**	**144,500**	-	**(259,750)**	**72,250**	-
DA Issa	**42,375**	**73,800**	-	**(14,760)**	**101,415**	-
SJ Mostyn	**31,875**	**45,400**	-	-	**77,275**	-
MJ Pirone	**42,375**	**61,500**	-	**(12,300)**	**91,575**	-
Total	**304,125**	**325,200**	-	**(286,810)**	**342,515**	-

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

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

Movements in total number of EPRs on issue

2008	EPRs on issue 1 July	EPRs granted during the year	EPRs exercised during the year	EPRs lapsed during the year	EPRs on issue 30 June	EPRs vested and exercisable 30 June
	Number	Number	Number	Number	Number	Number
MJ Wilkins	-	250,000	-	-	250,000	-
JP Breheny	-	98,500	-	-	98,500	-
AM Coleman	-	103,000	-	-	103,000	-
NB Hawkins	-	96,000	-	-	96,000	-
JS Johnson	-	99,500	-	-	99,500	-
CF McLoughlin	-	96,000	-	-	96,000	-
LC Murphy	-	35,000	-	-	35,000	-
N Utley	-	143,500	-	-	143,500	-
J van der Schalk	-	95,000	-	-	95,000	-
G Venardos	-	113,500	-	-	113,500	-
DG West	-	100,000	-	-	100,000	-
Total	-	1,230,000	-	-	1,230,000	-
Executives who ceased as key management personnel:						
MJ Hawker	-	350,000	-	(350,000)	-	-
DA Issa	-	117,000	-	-	117,000	-
SJ Mostyn	-	28,500	-	-	28,500	-
MJ Pirone	-	103,000	-	-	103,000	-
Total	-	598,500	-	(350,000)	248,500	-

Movements in number of PARs on issue

Movements in total number of PARs on issue by each key management personnel are as follows:

2008	PARs on issue 1 July	PARs granted during the year	PARs exercised during the year	PARs lapsed during the year	PARs on issue 30 June	PARs vested and exercisable 30 June
	Number	Number	Number	Number	Number	Number
MJ Wilkins	-	-	-	-	-	-
JP Breheny	147,000	-	-	-	147,000	-
AM Coleman	341,019	-	-	(42,568)	298,451	-
NB Hawkins	215,456	-	-	(30,931)	184,525	-
JS Johnson	128,328	-	-	(4,693)	123,635	-
CF McLoughlin	122,500	-	-	-	122,500	-
N Utley	44,500	-	-	-	44,500	-
J van der Schalk	196,004	-	-	(17,879)	178,125	22,753
G Venardos	394,803	-	-	(52,444)	342,359	-
DG West	-	-	-	-	-	-
Total	1,589,610	-	-	(148,515)	1,441,095	22,753
Executives who ceased as key management personnel:						
MJ Hawker	1,882,000	-	-	(1,482,000)	400,000	-
DA Issa	315,502	-	-	(37,460)	278,042	-
SJ Mostyn	291,299	-	-	(35,757)	255,542	-
MJ Pirone	338,706	-	-	(37,460)	301,246	-
Total	2,827,507	-	-	(1,592,677)	1,234,830	-

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

2007	PARs on issue 1 Jul	PARs granted during the year	PARs exercised during the year	PARs lapsed during the year	PARs on issue 30 June	PARs vested and exercisable 30 June
	Number	Number	Number	Number	Number	Number
MJ Hawker	1,632,000	250,000	-	-	1,882,000	-
JP Breheny	100,000	47,000	-	-	147,000	-
AM Coleman	294,019	47,000	-	-	341,019	-
NB Hawkins	168,456	47,000	-	-	215,456	-
DA Issa	259,002	56,500	-	-	315,502	-
JS Johnson	81,328	47,000	-	-	128,328	-
CF McLoughlin	80,000	42,500	-	-	122,500	-
SJ Mostyn	248,799	42,500	-	-	291,299	-
MJ Pirone	282,206	56,500	-	-	338,706	-
N Utley	-	44,500	-	-	44,500	-
J van der Schalk	149,004	47,000	-	-	196,004	22,753
G Venardos	338,303	56,500	-	-	394,803	-
Total	3,633,117	784,000	-	-	4,417,117	22,753

Holdings of PSRs

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

During the year ended 30 June 2008, J van der Schalk, the only KMP that held PSRs, exercised all of the 40,000 vested PSRs (2007 - no movements).

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

Holding of ordinary shares

The relevant interest of each key management personnel and their related parties in ordinary shares of IAG for the current year:

2008	Shares held at 1 July	Shares acquired in lieu of IAG Board fee during the year	Shares received on exercise of PSRs	Shares received on share allocation (1)	Net movement of shares due to other changes (2)	Total shares held at 30 June	Shares held nominally at 30 June (3)
	Number	Number	Number	Number	Number	Number	Number
JA Strong	**294,927**	**50,643**	-	-	-	**345,570**	**332,995**
YA Allen	**12,769**	**6,752**	-	-	-	**19,521**	**19,521**
JF Astbury	**70,996**	**(1,137)**	-	-	-	*	*
PM Colebatch	**10,251**	**16,881**	-	-	-	**27,132**	**27,132**
GA Cousins	**180,775**	**(1,137)**	-	-	-	*	*
HA Fletcher	-	**30,386**	-	-	**20,740**	**51,126**	**51,126**
ND Hamilton	**122,327**	**30,386**	-	-	**390**	**153,103**	**147,203**
A Hynes	-	**6,752**	-	-	**11,000**	**17,752**	**17,752**
RA Ross	**177,308**	**16,881**	-	-	-	**194,189**	**91,386**
BM Schwartz	**17,781**	**10,128**	-	-	-	**27,909**	**27,663**
MJ Wilkins	-	-	-	-	**100,000**	**100,000**	**100,000**
JP Breheny	-	-	-	-	-	-	-
AM Coleman	**2,544**	-	-	**19,349**	**716**	**22,609**	**2,544**
NB Hawkins	**24,578**	-	-	**14,047**	-	**38,625**	-
JS Johnson	**7,315**	-	-	**2,133**	**2,500**	**11,948**	**3,843**
CF McLoughlin	**9,216**	-	-	-	**14,357**	**23,573**	**23,327**
LC Murphy	-	-	-	-	-	-	-
N Utley	-	-	-	-	**101,852**	**101,852**	**101,852**
J van der Schalk	-	-	**40,000**	**8,126**	-	**48,126**	-
G Venardos	**136,671**	-	-	**23,838**	**9,290**	**169,799**	**50,985**
DG West	-	-	-	-	-	-	-
Executives who ceased as key management personnel:							
MJ Hawker	**1,438,122**	-	-	**60,000**	**202,000**	*	*
DA Issa	**47,675**	-	-	**17,027**	-	*	*
SJ Mostyn	**130,507**	-	-	**16,253**	-	*	*
MJ Pirone	**79,063**	-	-	**17,027**	-	*	*

(1) During the year, the Board approved an ex gratia grant of shares to some of these KMP following a PwC review of IAG's executive remuneration arrangements in 2007.

(2) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year. It includes any opening balances of shares, if any, held by KMP who commenced during the year.

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

* These non-executive directors or executives ceased as KMP during the financial year. Information on shares held are disclosed up to the date of their cessation.

There were no shares received on exercise of DARs or PARs by the key management personnel as no DARs or PARs vested during the year.

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

The relevant interest of each of the key management personnel and their related parties in ordinary shares of IAG for the financial year ended 30 June 2007:

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

(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.

Holding of reset preference shares

No key management personnel had any interest in reset preference shares at any time during the financial year (2007 - nil).

Holdings of reset exchangeable securities

Other than MJ 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 (2007 - no movements).

NOTE 32: RELATED PARTY DISCLOSURES (Continued)

(iii) Other related party transactions with key management personnel

N Utley was a shareholder of the Equity Insurance Group at the time it was acquired by the IAG Group. As part of that acquisition, N Utley received consideration for the sale of his shares. The consideration was paid in the form of unsecured notes with face value of GBP15 million (comprising three tranches that bear different terms and conditions) and 1.2 million DARs with a grant date fair value of $5.73 per right. The DARs issued as part of the consideration for the sale of shares, are not included as part of his share based remuneration. GBP12 million of the outstanding unsecured notes as at 30 June 2007 was settled during the year ended 30 June 2008 (2007 - no payment made). Further, GBP3 million of the outstanding unsecured loan notes were redeemed during the year into a trust account, to be held until their due dates for payment under the terms and conditions. As at 30 June 2008, no unsecured notes remain outstanding (2007 - GBP15 million).

N Utley is a Non-Executive Director of, and has a 25.77% ownership interest in, Destiny Legal Services Limited (DLSL) and Destiny Business Services Limited (DBSL). N Utley received GBP50,000 (2007 - GBP60,000) for his service as a Non - Executive Director and has not received any income (2007 - no income) from his ownership interest in DLSL and DBSL. DLSL and DBSL derive fees for legal services performed for the Equity Insurance Group and Hastings. The services provided relate to uninsured loss recovery legal cases and personal injury litigation. The Equity Insurance Group has advances outstanding at 30 June 2008 to DLSL and DBSL of GBP0.5 million (2007 - GBP0.5 million) which are not interest bearing. The share of fees earned by the Equity Insurance Group and Hastings are more than GBP1.57 million (2007 - GBP1.1 million). All transactions are conducted on normal commercial terms and conditions.

(d) Other related parties

Contributions are made to various superannuation plans, both defined contribution and defined benefit plans. Information regarding transactions with the plans is provided in note 29.

NOTE 33: FINANCIAL RISK MANAGEMENT

The Parent

The Parent is a non-operating holding company and so has limited direct exposure to financial risks. The Board of the Parent sets the risk management policies for the IAG Group.

The financial assets and liabilities of the Parent are limited to amounts receivable from / payable to related bodies corporate, loans to / from related bodies corporate, and interest-bearing liabilities. The Parent does not use derivatives instruments but is party to an embedded derivative in relation to reset exchangeable securities outlined in note 31(b).

For information regarding the significant risk exposures on these financial instruments as at reporting date refer to:

- Note 16: Receivables;
- Note 21: Interest-bearing liabilities; and
- Note 32: Related party disclosures.

The Consolidated entity

The Consolidated entity is exposed to a variety of financial risks in the normal course of business; market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Board and senior management of the IAG Group have developed, implemented and maintain a Risk Management Strategy (RMS) which is discussed in more detail in note 10.

That part of the IAG Group's RMS concerning financial risk focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. Key aspects of the processes established in the RMS to mitigate financial risks include:

- Having an Asset and Liability Committee (ALCO) comprised of key executives with relevant oversight responsibilities that meets on a regular basis;
- Monthly stress testing is undertaken to determine the impact of adverse market movements and the impact of any derivative positions; and
- Maintenance of an approved counterparty credit risk policy which is reviewed at least annually.

The IAG Group’s risk management policies include the use of derivatives for both investment operations and corporate treasury operations. The RMS sets out the permissible use of derivatives in relation to investment strategies, the parameters within which the derivatives may be used, and the control environment within which they are used.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates, and equity prices. Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At IAG Group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders. For each of the major components of market risk, described below in more detail, the IAG Group has in place policies and procedures to set out how each risk should be managed and monitored.

(i) Currency risk

Nature of the risk and how managed

Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates. The Consolidated entity operates internationally and so is exposed to currency risk from various activities conducted in the normal course of business.

The key currency risk exposures relate to the following:

- The investment of shareholders' funds in assets denominated in currencies different to the functional currency of the investing subsidiary being primarily Australian dollars, United States dollars and British pound. Where a subsidiary that has a functional currency other than Australian dollars holds investments and cash in that functional currency the impact to the Consolidated entity from exchange rate movements is through the translation of the net investment in the foreign operation (refer below). Note that assets held to back insurance liabilities are held in the same currency as the related insurance liabilities eliminating any net foreign exchange exposure;

- Foreign currency denominated borrowings of a capital nature however note that some of these are designated as hedging instruments; and

- Net investment in foreign operations (note that this investment is technically not a financial instrument for accounting purposes but is included here because movements in exchange rates have a financial impact on this process and because the outcome is hedged with derivatives which are financial instruments) through the translation of the financial position and performance of foreign operations that have a functional currency other than the Australian dollar with the key currencies being New Zealand dollars, British pound and Thai Baht.

Foreign currency is a centrally managed risk, with hedging coordinated at the corporate office. The IAG Group's policy is to actively manage, where possible, both its operational foreign currency exposures at a controlled entity level and its exposures arising on the translation of net investments in foreign operations at a consolidated entity level. The IAG Group manages the foreign currency exposures at the controlled entity level by matching foreign currency positions on local balance sheets within prescribed limits. Residual foreign currency exposures arising at a consolidated entity level on translation of net investments in foreign operations are hedged to between 75-100% of the value on an after tax basis through the use of derivatives and the designation of certain foreign currency borrowings as hedging instruments.

Currency risk exposure

For information regarding the significant currency risk exposures on financial instruments at reporting date refer to:

- Note 7: Segment reporting - Each of the segments conducts business predominantly in the local currency and so the segment reporting note provides information regarding the relevant portions of the financial position and performance that are denominated in various currencies;

- Note 15: Investments;

- Note 21: Interest bearing liabilities; and

- Note 33(d): Financial risk management, Net investment hedges.

The financial impact from exposure to currency risk is reflected in the financial report through two mechanisms:

- Translation of foreign currency transactions - these financial impacts relating primarily to investments and interest bearing liabilities are recognised directly in profit (except that some of the interest bearing liabilities are hedged); and

- Translation of the financial results of foreign operations - these financial impacts are recognised directly in equity in the foreign currency translation reserve and so have no impact on profit.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

Use of derivatives

Derivatives are used to manage currency risk.

The currency risk arising from the translation of net investments in foreign operations to Australian dollars is managed using a combination of foreign currency borrowings designated as hedging instruments and derivative instruments being forward foreign exchange contracts and cross currency swaps designated as hedging instruments.

The currency risk arising from certain other financial instruments is managed using forward foreign exchange contracts.

For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to section (d) of this note.

Sensitivity

The sensitivity analyses provided in this note demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include dependencies among the currencies, but rather show isolated exchange rate movements. It should also be noted that these sensitivities are not necessarily linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into consideration that the assets and liabilities are actively managed and so assume no action by management in response to movements in the factor. Additionally, the financial position may vary at the time that any actual market movement occurs.

The impact on the measurement of various financial instruments held at reporting date of an instantaneous 10% depreciation of the Australian dollar at reporting date compared with selected currencies, on the profit before tax and equity, net of related derivatives, is provided in the table below. An appreciation of the Australian dollar would have the opposite impact.

	CONSOLIDATED	
	2008	**2007**
	$m	**$m**
	Impact to profit	**Impact to profit**
Shareholders' funds including related derivatives		
- Australia dollar	**13**	17
- United States dollar	**5**	12
- British pound	**6**	4
	24	33
	Impact directly to equity	**Impact directly to equity**
Net investments in foreign operations and related hedge arrangements		
- New Zealand dollar	**3**	11
- British pound	**11**	31
- Thai Baht	**1**	2
- Other currencies where considered significant	**1**	1
	16	45

The sensitivity to currency fluctuations is mitigated by the extensive currency hedging measures.

The IAG Group has interest bearing liabilities denominated in a range of currencies but has limited sensitivity to currency risk from these liabilities because the instruments are either denominated in Australian dollars and issued by an entity with Australian dollar as the functional currency, denominated in United States dollar and fully hedged with derivatives, or denominated in another currency and forming part of a net investment hedge of a foreign operation. The Parent's profit for the year would have been impacted by $52 million (2007 - $59 million) from a 10% depreciation at reporting date of the Australian dollar to British pound exchange rate from its holding of British pound denominated interest bearing liabilities.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

(ii) Interest rate risk

Nature of the risk and how managed

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities create exposure to fair value interest rate risk which is a market risk. Financial assets and liabilities with floating interest rates create exposure to cash flow interest rate risk.

Interest rate risk arises primarily from investments in money market securities. Interest bearing liabilities are exposed to interest rate risk but as they are measured at amortised cost and are not traded they therefore do not expose the IAG Group to fair value interest rate risk. In addition, the majority of these interest bearing liabilities bear fixed interest rates (subject to some reset conditions) and so expose the Group to limited cash flow interest rate risk.

Interest rate risk is monitored and managed by the Group Asset and Liability Committee. Exposure to interest rate risk is monitored through several measures that include Value At Risk analysis, position limits, scenario testing, stress testing, and asset and liability matching using measures such as duration.

The assets held to back insurance liabilities are invested principally in fixed interest securities matched to the expected settlement durations of the outstanding claims payments. This minimises the interest rate risk arising directly from underwriting insurance contracts as the movement in investment income on assets backing insurance liabilities offsets the impact of movements in discount rates on the outstanding claims liabilities.

Interest rate risk exposure

For information regarding the significant interest rate risk exposures on financial instruments as at reporting date refer to:

- Note 15: Investments;
- Note 21: Interest-bearing liabilities;
- Note 23: Notes to the Cash Flow Statements; and
- Note 32: Related Party Disclosures.

Use of derivatives

Derivatives are used to manage interest rate risk. The interest rate risk arising from money market securities is managed using interest rate swaps and futures. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to section (d) of this note.

Sensitivity

When considering the sensitivity analysis below, note should be taken of the limiting conditions provided as the introduction to the sensitivity section for currency risk provided above.

The investments in money market securities are recognised on balance sheet at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit. The impact from the measurement of the money market securities held at reporting date of a change in interest rates at reporting date by +1% or -1% (eg, a move from 4% to 5% or 3%) on profit before tax, net of related derivatives, is shown in the table below.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

		CONSOLIDATED 2008	CONSOLIDATED 2007
		$m	$m
		Impact to profit	Impact to profit
Investment - money market securities and related interest rate derivatives	+1%	**(169)**	(200)
	-1%	**169**	200

All investments are measured at fair value through profit and so there would be no direct impact to equity from those movements. The majority of the money market securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments. While movements in interest rates impact the fair value measurement of the securities there is no impact to the contractual cash flows of the securities.

The interest-bearing liabilities are recognised on balance sheet at amortised cost. Hence the reporting date measurement of the liabilities is not sensitive to movements in interest rates and so a change in interest rates as at reporting date would have had no impact on either profit or equity from the measurement of interest-bearing liabilities for the current financial year. The interest rate risk would be more relevant for the valuation of these instruments upon a reset date when the terms of the liabilities, including the interest rate, may need to be reset to market rates or upon maturity when the instrument may need to be replaced. Movements in interest rates would have an impact on the future payment of interest payments on those liabilities bearing a variable interest rate (refer note 21).

The reporting date measurement of the cash and cash equivalents is not sensitive to movements in interest rates and so a change in interest rates as at reporting date would have had no impact on either profit or equity from the measurement of cash and cash equivalents for the current financial year.

The other financial assets and liabilities of the Parent being amounts receivable from / payable to related bodies corporate, and loans to / from related bodies corporate, would be impacted by movements in interest rates at reporting date in the same manner as provided above for interest-bearing liabilities.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

(iii) Other price risk

Nature of the risk and how managed

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The only other price risk to which the IAG Group has significant exposure is equity price risk.

The IAG Group is exposed to equity price risk from its investment in equities and trust securities.

Equity price risk is monitored and managed by the Group Asset and Liability Committee. Exposure to equity price risk is monitored through several measures that include Value At Risk analysis, position limits, scenario testing, and stress testing. The exposure is actively managed against a broad equity market index utilising the experience of a small number of external fund managers.

Reporting date information

For information regarding the significant equity price risk exposures on financial instruments as at reporting date refer to:

- Note 15: Investments;
- Note 33(d): Financial risk management, Use of derivatives.

Use of derivatives

Derivatives are used to manage equity price risk. The equity price risk arising from investing in equity securities is managed using share price index futures and options. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to section (d) of this note.

Sensitivity

When considering the sensitivity analysis below, note should be taken of the limiting conditions provided as the introduction to the sensitivity section for currency risk provided above.

The impact from the measurement of the investments held at reporting date of a change in equity and trust market values at reporting date by +10% or -10% on profit before tax, net of related derivatives, is shown in the table below.

		CONSOLIDATED	
		2008	**2007**
		$m	**$m**
Investments – Equity and trust securities and related equity derivatives	+10%	**140**	248
	-10%	**(140)**	(248)

All equity investments are measured at fair value through profit and so there would be no direct impact to equity from those movements.

(b) Credit risk

Nature of the risk and how managed

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Consolidated entity's credit risk arises predominantly from investment activities, reinsurance activities (refer note 12), and dealings with intermediaries (refer note 10(e)). The Consolidated entity's credit quality management roles, principles and processes are detailed in the IAG Group Credit Risk Management Policy document which is approved by the IAG Board and complies with APRA's requirements for credit risk management by a general insurer. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the IAG Group. The IAG Group Treasury function is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. The IAG Group's credit risk appetite relies heavily on credit rating agency research and is heavily weighted towards counterparties of high quality investment grade. All new, changed and continuing credit risk exposures must be approved in accordance with the IAG Group's approval authority framework.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

The IAG Group is exposed to credit risk from investments in third parties where the IAG Group holds debt and similar securities issued by those companies. The credit risk relating to investments is monitored and assessed, and maximum exposures are limited. The investments comprising assets held to back insurance liabilities are restricted to investment grade securities.

The IAG Group risk management framework also includes the market related aspect of credit risk. This is the risk of a fall in the value of fixed interest securities from changes in the perceived worthiness of the issuer and is manifested through changes in the credit spreads of the fixed interest securities.

Concentrations of credit risk exist if a number of counterparties have similar economic characteristics. At the reporting date, there were no material concentrations of credit risk as the Consolidated entity transacts with a large number of counterparties in various geographical regions without any individual debtor having a material outstanding balance.

Reporting date information

For information regarding the significant credit exposures on financial instruments as at reporting date refer to:

- Note 15: Investments; and
- Note 16: Trade and other receivables.

Use of derivatives

Derivatives are not used to manage credit risk but instead they themselves expose the IAG Group to credit risk. A distinction is made between over the counter derivatives and standardised derivative contracts traded on an exchange. As the exchange traded derivatives are typically settled on a daily basis with the clearing house of the respective exchange, credit risk associated with these contracts is negligible. Over the counter contracts on the other hand harbour a theoretical risk in the amount of the replacement costs. As the primary purpose for using derivatives is hedging, any over the counter derivatives used have been transacted with investment grade quality financial institutions only. The IAG Group's credit policy and procedures ensure that exposures to counterparty risks are monitored constantly to operate within the risk limits approved by the IAG Board.

(c) Liquidity risk

Nature of the risk and how managed

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Consolidated entity. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cashflows, investment portfolios and access to outside sources of liquidity such as bank lines of credit, established debt funding programs, reinsurance arrangements and other sources. The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The liquidity management roles, principles and processes are detailed in the IAG Group Liquidity Risk Management Policy document which is approved by the IAG Board and complies with APRA's requirements for liquidity risk management by a general insurer. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Sound liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The nature of insurance activities means that the timing and amount of cash flows are uncertain. The liquidity risk management policy is concerned with ensuring the ongoing ability to meet the payment obligations to policyholders and other creditors across a wide range of operating conditions without suffering any significant additional cost. These processes are principally in the control of the IAG Group Treasury function.

Management of liquidity risk includes asset and liability management strategies. The assets held to back insurance liabilities consist predominantly of government securities (the most liquid of securities) and other very high quality securities which can generally be readily sold or exchanged for cash. The assets are managed so as to effectively match the maturity profile of the assets with the expected pattern of claims payments. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including issuer, industry, geography and credit rating. The proportion, by market value, of the technical reserves fund invested in high quality liquid assets for each group insurer must exceed 35% of the fund balance. There is a transition period for newly acquired businesses to comply with these policies.

A significant source of liquidity risk for the IAG Group relates to the interest bearing liabilities. The management of this risk includes the issuance of a range of borrowings denominated in different currencies with different maturities.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

Information regarding access to unutilised credit facilities is available in note 21(j).

The reset exchangeable securities (refer note 1(ah)) are a part of the liquidity management of the Consolidated entity. The ability to access external sources of liquidity from domestic and international capital market raisings is assisted by the strong financial strength rating of the IAG Group.

Reporting date information

For information regarding the significant liquidity risk exposures as at reporting date refer to:

- Note 11(f): Claims, Maturity analysis; and
- Note 21(d): Interest bearing liabilities, Maturity analysis.

(d) Use of derivatives

Derivatives are used across the IAG Group to manage various risks. Derivatives are used solely to manage risk exposures and are not used for trading or speculation. Given the complexity and heightened risk typically associated with the use of derivatives we provide information here summarising the use of derivatives.

A distinction is made between over the counter derivatives which are individually negotiated between the contracting parties and standardised derivative contracts traded on an exchange. Over the counter derivatives theoretically bear higher risk. As the primary purpose for using derivatives is hedging, any over the counter derivatives used have been transacted with investment grade quality financial institutions only.

(i) Derivatives for which hedge accounting is applied

Cash flow hedges

At reporting date, cash flow hedge accounting was applied in relation to only a single economic hedge relating to the currency and interest rate risk on the US subordinated term notes (refer note 21(c)(ii)).

Net investment hedges

To manage the IAG Group's exposure to currency risk from investing in foreign operations, the following arrangements were designated as net investment hedges for which hedge accounting is applied:

- New Zealand - AUD/NZD forward foreign exchange contracts are used to hedge between 75-100% of the net investment in the New Zealand operation.
- United Kingdom - AUD/GBP forward foreign exchange contracts, cross currency swaps, the GBP subordinated term notes, a portion of the Euro and USD floating rate notes and an intragroup loan are used to hedge between 75-100% of the net investment in the United Kingdom operation.
- Thailand - AUD/THB forward foreign exchange contracts and an intragroup loan are used to hedge between 75-100% of the net investment in the Thailand operation.
- Malaysia - AUD/MYR forward foreign exchange contracts are used to hedge between 75-100% of the net investment in the Malaysia based associate.

Each of these hedging relationships have been broadly effective throughout the current period or since inception with the small amount of ineffectiveness recognised in the income statement.

Fair value hedges

There was no fair value hedge activity during 2008 (2007 – nil).

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

Reporting date positions

The notional contract amounts associated with derivative financial instruments which form arrangements for which hedge accounting is applied together with maturity profile for the current reporting period and reporting date fair value is provided below.

	2008						2007		
	Maturity profile			Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	1 - 5 years	Over 5 years						
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Cash flow hedges									
AUD/USD Cross currency swaps	**-**	**250**	**-**	**250**	**-**	**(162)**	283	-	(135)
Interest rate swaps	**-**	**350**	**-**	**350**	**14**	**-**	400	10	-
Net investment hedges									
AUD/THB Forward foreign exchange contracts	**131**	**-**	**-**	**131**	**12**	**-**	102	-	-
AUD/NZD Forward foreign exchange contracts	**249**	**-**	**-**	**249**	**13**	**-**	146	-	(2)
AUD/GBP Forward foreign exchange contracts	**490**	**-**	**-**	**490**	**13**	**-**	584	27	(4)
AUD/GBP Cross currency swaps	**433**	**128**	**-**	**561**	**99**	**-**	740	17	1
AUD/MYR Forward foreign exchange contracts	**95**	**-**	**-**	**95**	**6**	**-**	82	3	-

(ii) Derivatives for which hedge accounting is not applied (derivatives held for economic hedging purposes only)

While a variety of derivatives are used to hedge specific risks on various financial instruments, the majority of these derivatives are not designated as part of a hedge for which hedge accounting is applied. These derivatives are measured at fair value with movements in fair value being recognised in the income statement.

In addition to the derivatives described above, certain contracts entered into include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

Reporting date positions

The notional contract amounts associated with derivative financial instruments for which hedge accounting is not applied together with maturity profile for the current reporting period and reporting date fair value is provided below.

	2008						2007		
	Maturity profile			Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	1 - 5 years	Over 5 years						
	$m	$m	$m	$m	$m	$m	$m	$m	$m
(i) Presented in investments (investment related derivatives)									
Foreign exchange contracts									
Over the counter:									
- forward foreign exchange contracts	**-**	**3**	**-**	**3**	**20**	**(17)**	608	-	-
Exchange traded:									
- forward foreign exchange contracts	**-**	**-**	**-**	**-**	**9**	**(9)**	-	6	(7)
Interest rate contracts									
Over the counter:									
- Interest rate swap contracts	**-**	**-**	**-**	**-**	**-**	**-**	361	-	-
Exchange traded:									
- Interest rate swap contracts	**-**	**-**	**-**	**-**	**-**	**-**	158	15	(16)
- Futures	**1,144**	**328**	**150**	**1,622**	**8**	**(4)**	4,162	3	-
Equity/Index contracts									
Over the counter:									
- Share price index futures	**(94)**	**-**	**-**	**(94)**	**-**	**(4)**	(96)	-	-
- Options - purchased	**2**	**-**	**-**	**2**	**2**	**-**	4	1	-
- Options - written	**2**	**-**	**-**	**2**	**-**	**-**	(2)	-	-
(ii) Presented in trade and other receivables / payables (treasury related derivatives)									
AUD/NZD Forward foreign exchange contracts	**86**	**-**	**-**	**86**	**3**	**-**	154	-	(3)
AUD/USD forward foreign exchange contracts	**17**	**31**	**-**	**48**	**-**	**(5)**	31	-	(3)
AUD/GBP forward foreign exchange contracts	**126**	**-**	**-**	**126**	**-**	**(1)**	152	1	-
Interest rate swaps	**359**	**359**	**-**	**718**	**-**	**-**	-	-	-
Cross currency swaps	**-**	**20**	**-**	**20**	**-**	**(3)**	-	-	-
(iii) Embedded derivatives									
- RES exchange right*	**-**	**-**	**-**	**-**	**69**	**-**	-	-	-

*The RES exchange right is an asset of the Parent entity.

NOTE 33: FINANCIAL RISK MANAGEMENT (Continued)

(iii)Fair value information

The notional contract amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the fair value of these transactions.

The following techniques are used to determine the fair value of various derivative instruments:

- Interest rate swap contracts - the fair value is the estimated amount that the IAG Group would receive or pay to terminate the swap at balance date taking into account current interest rates.
- Forward foreign exchange contracts - the fair value is calculated by reference to current forward exchange contracts for contracts with similar maturity profile as at reporting date.

Embedded derivatives

- The fair value of the RES exchange right has been determined as the difference between the fair value of the RES instrument as a whole identified by reference to the ASX listed offer price at reporting date and the estimated fair value of an instrument with comparable terms to those of the RES instrument but without an exchange right.

NOTE 34: CAPITAL MANAGEMENT

(a) Capital management strategy

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the crucial and equally important objective of providing an appropriate level of capital to protect policyholders' and lenders' interests and satisfy regulators. Capital finances growth, capital expenditure and business plans and also provides support in the face of adverse outcomes from insurance and other activities and investment performance.

The IAG Group actively manages its capital on two key parameters:

- an estimated risk of ruin of no more than 1 in 750 years; and
- maintaining a minimum Probability of Adequacy of at least 90% on outstanding claims.

The amount of capital required to meet these parameters varies according to the business and asset mix and is estimated using dynamic financial analysis modelling. For ease of communication, internally and externally, the IAG Group has translated the outcome into a multiple of the minimum capital requirement (MCR) set by applying the APRA methodology for measuring Australian licensed insurer capital as if the rules applied to the IAG Group. On this basis, the IAG Group has been using a benchmark MCR multiple of 1.55 times for the past three years.

From 1 July 2008, the IAG Group has revised its benchmark of 1.55 times down to 1.50 times to reflect the increase in regulatory capital charges that APRA has implemented in relation to various asset classes. These changes have no effect on the amount of capital the IAG Group believes it requires to hold to meet its risk appetite. The reduction in the benchmark reflects the higher minimum capital requirements now sought by APRA from the general insurance industry.

Internal policies are in place to ensure significant deviations from this benchmark will result in the Group's Board considering how any shortfall should be made good or any surplus utilised.

NOTE 34: CAPITAL MANAGEMENT (Continued)

(i) Regulatory capital

All insurers within the IAG Group that carry on insurance business in Australia are registered with APRA and are subject to prudential standards which set out the basis for calculating the MCR which is a minimum level of capital that the regulator deems must be held to meet policyholder obligations. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business and so the MCR utilises a risk-based approach to capital adequacy. IAG uses the standardised framework for calculating the MCR detailed in the relevant prudential standard and referred to as the prescribed method which is determined to be the sum of the capital charges for insurance, investment, investment concentration and catastrophe concentration risk. It is IAG Group policy to ensure that each of the licensed insurers maintains an adequate capital position from an entity perspective. The IAG Group voluntarily applies the MCR prudential standards to the IAG Group as a whole, as if the Consolidated entity was an APRA regulated entity (refer note 34(d)).

It is IAG Group policy to hold regulatory capital levels in excess of the MCR as required by APRA. The current target capital multiple for the Consolidated entity is 1.50 times (2007 - 1.55 times) the MCR which is a derivation of the required capital to meet the 1 in 750 year risk of absolute ruin needed to maintain the target credit rating (refer below). The policy also requires management to not take any action that would further reduce the capital multiple if an identified minimum capital multiple is reached, currently set as 1.35 times MCR for the Consolidated entity. APRA also imposes some restrictions on the composition of capital eligible to meet the MCR.

The IAG Group sets an ongoing capital target sufficient to maintain a probability no larger than 10% per annum of the IAG Group's available Group Capital being lower than 1.2 times Australian MCR. This is also factored into the derivation of the 1.50 times MCR target.

Capital calculations for regulatory purposes are based on the premium liabilities model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model assesses future claims payments arising from future events insured under existing policies. This differs to the measurement of the outstanding claims liability on the balance sheet which considers claims relating to events that occur only up to and including the reporting date.

(ii) Economic capital

In conjunction with the considerations set out above, which are important to the functioning of the business, consideration is given to the operational capital needs of the business. Targeting a capital multiple above the minimum regulatory requirement aims to ensure the ongoing strength and security of the IAG Group whilst suitably protecting policyholders and lenders.

An important influence on the capital levels is the payment of dividends. The Consolidated entity aims to maintain cash earnings payouts within a ratio range approved by the IAG Board. In view of the Group's recent performance, the final dividend has been reduced to 9 cents per share (2007 - final dividend paid on 8 October 2007 was 16 cents per share).

The capital objectives are achieved through dynamic management of the balance sheet and capital mix, the use of a risk based capital adequacy framework for capital needs that relies on explicit quantification of uncertainty or risk, and the use of modelling techniques such as dynamic financial analysis which provide valuable input to the capital management process and provide the capacity to quantify and understand this risk / return trade off. The influence on capital needs of product mix, the reinsurance program, catastrophe exposure, investment strategy, profit margins and capital structure are all assessed through the dynamic financial analysis modelling.

(b) Credit rating

During the current financial year, Standard & Poor's Rating Services (S&P) lowered the counterparty credit rating of IAG to 'A+' from 'AA' and the counter party credit ratings and financial strength ratings of IAG's key wholly owned insurers to 'AA-' from 'AA'. The outlook is stable.

Key wholly owned insurers within the IAG Group had the following ratings published by S&P at 30 June 2008:

Entity	Issuer credit rating	Financial strength rating
Parent:		
Insurance Australia Group Limited	**A+/Stable**	**A+/Stable**
Licensed insurers:		
Insurance Australia Limited	**AA-/Stable**	**AA-/Stable**
IAG New Zealand Limited	**AA-/Stable**	**AA-/Stable**
CGU Insurance Limited	**AA-/Stable**	**AA-/Stable**
Swann Insurance (Aust) Pty Ltd	**AA-/Stable**	**AA-/Stable**
IAG Re Labuan (L) Berhad	**n/a**	**A+/Stable**
IAG Re Australia Limited (formerly NZI Insurance Australia Limited)	**AA-/Stable**	**AA-/Stable**

NOTE 34: CAPITAL MANAGEMENT (Continued)

(c) Capital composition

The IAG Group's capital comprises ordinary shares and interest-bearing liabilities. The balance sheet capital mix at reporting date was:

		CONSOLIDATED	
	Target	**2008**	2007
	%	**%**	%
Ordinary equity	**68**	**75**	70
Interest bearing liabilities - Hybrid securities (i)	**12**	**6**	8
Interest bearing liabilities - Debt	**20**	**19**	22
	100	**100**	100

(i) Currently the only hybrid security on issue by the IAG Group is the reset preference shares which have characteristics of both debt and equity.

The change in the balance sheet capital mix to reporting date has been primarily driven by the issuance of ordinary equity to fund dividends, the repayment of $200 million of AUD reset preference shares, the repayment of $300 million of AUD subordinated term notes, the repayment of GBP unsecured notes and issuance of NZ$100 million of NZD subordinated term notes.

The capital disclosed above does not include the $550 million of contingent capital made available through the RES (refer note 1(ah)).

(d) Regulatory capital compliance

The insurers within the Consolidated entity have at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject. The MCR calculation for the Consolidated entity provided below is based on applying in principle the APRA standards for individual entities to the consolidated position, pending the publication by APRA of a comprehensive standard to determine prudential capital at a consolidated level (such a standard is currently undergoing a consultation process). A similar basis is used for both the Australian and international insurance businesses.

		CONSOLIDATED	
		2008	**2007**
		$m	**$m**
Statutory capital			
Tier 1 capital			
Fundamental tier 1 capital			
Ordinary shares		**4,740**	4,361
Reserves		**(7)**	(4)
Retained earnings		**(458)**	372
Excess technical provisions (net of tax)	(i)	**359**	431
Innovative Residual tier 1 capital			
Reset preference shares, net of transaction costs		**350**	549
Deductions from tier 1 capital	(ii)		
Treasury shares held in trust	(iii)	**(15)**	(36)
Goodwill		**(1,875)**	(2,222)
Intangible assets		**(585)**	(815)
Net deferred tax assets		**(263)**	(223)
Other		**(49)**	(112)
Total Tier 1 capital		**2,197**	2,301
Tier 2 capital			
Subordinated term notes		**844**	1,151
Total statutory capital		**3,041**	3,452

NOTE 34: CAPITAL MANAGEMENT (Continued)

		CONSOLIDATED 2008	2007
		$m	$m
Minimum capital requirement (MCR)			
Insurance risk		**1,224**	1,295
Investment risk		**530**	573
Investment concentration risk	(iv)	**-**	-
Catastrophe concentration risk		**118**	200
Total MCR		**1,872**	2,068
MCR multiple		**1.62**	1.67

(i) The excess technical provisions represent the difference between the insurance liabilities incorporating a risk margin (refer note 11(g)) on the balance sheet based on the deferral and matching model and the insurance liabilities incorporating a risk margin equivalent to a probability of adequacy of 75% used for regulatory reporting purposes based on the premium liabilities model.

(ii) Certain assets that are considered acceptable from an accounting perspective are, from a supervisory perspective, considered to be generally not available or of reduced value should an insurer encounter difficulties. Holdings of such assets are therefore required to be deducted from the regulatory capital base.

(iii) The portion of the treasury shares held in trust that does not meet eligibility criteria under APRA prudential rules.

(iv) The investment concentration risk charge is zero reflecting that the holding of particular assets, including reinsurance recoveries, and exposure to a particular obligor, are sufficiently diversified for the purposes of the regulatory capital calculations.

The IAG Group's MCR was affected by the following:

- The decrease in the insurance risk charge is due to reduction in net insurance liabilities from the large amounts recognised as at the comparative reporting date reflecting the June 2007 storms;
- The decrease in the investment risk charge is due to changes in investment mix. The reductions in charges due to a decrease in equity holdings during the year exceeded the increase in the charges from increased exposure to subordinated debt issued by banks. This debt carries a capital charge equivalent to unlisted equities (10%) though the debt is issued by financial institutions with strong credit ratings; and
- The decrease in catastrophe concentration risk charge is due to increased reinsurance cover which became effective from 1 July 2007.

The MCR calculation does not include the $550 million of contingent capital made available through the reset exchangeable securities (refer note 1(ah)), which if exchanged, would bring the MCR multiple to 1.92 (2007 – 1.94).

Changes during the year

APRA have introduced a number of changes that will impact the MCR calculation methodology going forward.

- reinsurance documentation rules transition provisions – refer to note 12.
- From 1 July 2008 the capital factors to be applied for listed equities and listed trusts has increased to 16% from 8% and for unlisted equities, direct property, unlisted trusts and investments classified as 'other' has increased to 20% from 10%. Changes have also been made to the treatment of certain derivative and trust investments.
- For unsecured reinsurance recoverables on outstanding claims recognised from non-APRA authorised reinsurers in relation to reinsurance contracts entered into from and including 31 December 2008, capital charges will apply based on the credit rating of the reinsurance counterparty on and after the second balance date after the underlying claim event occurred. Prior to this second balance date, an additional charge will apply to reinsurance recoverables from non-APRA authorised reinsurers compared to those from APRA authorised reinsurers. For undisputed reinsurance recoveries due and payable a 100% capital factor is to be applied for those amounts outstanding from a non-APRA authorised reinsurer for more than six months.

The changes in the MCR calculation methodology noted above do not apply retrospectively for the determination of regulatory compliance and so have no impact on the reporting date compliance position.

	CONSOLIDATED	
	2008	2007
	$	$

NOTE 35: NET TANGIBLE ASSETS

Net tangible asset per ordinary share	**0.93**	0.90

Net tangible assets per ordinary share has been determined using the net assets on the balance sheet adjusted for minority interests, intangible assets and goodwill.

NOTE 36: RESTRUCTURING PROVISION

(a) Composition

	2008	2007
Other restructuring provision	**1**	4
IAG Group restructuring	**60**	-
Balance at the end of the financial year	**61**	4

(b) Reconciliation of movements for the financial year

	2008	2007
Balance at the beginning of the financial year	**4**	4
Additions during the financial year	**60**	-
Settled during the financial year	**(3)**	-
Balance at the end of the financial year	**61**	4

All of the provision outstanding at the reporting date is expected to be settled within twelve months (2007- all). The balance has not been discounted.

NOTE 37: 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 2008.

(a) Declaration of final dividend

On 22 August 2008, a final dividend of 9.0 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 3 October 2008. The dividend reinvestment plan will operate by issuing new ordinary shares to participants with no discount applied.

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS' DECLARATION

In the opinion of the Directors of Insurance Australia Group Limited:

(a) the financial statements and notes 1 to 37, including all the remuneration disclosures that are contained in the Remuneration Report of the Directors' report, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the Company and Consolidated entity as at 30 June 2008 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Interpretations) and the Corporations Regulations 2001; and

(b) the Remuneration Report of the Directors' report complies with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declaration required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2008.

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

.... Director

INDEPENDENT AUDITOR'S REPORT TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of Insurance Australia Group Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 37 and the directors' declaration of the Consolidated entity comprising the Company and its subsidiaries at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These 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 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated entity's financial position and of their performance

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

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

Auditor's opinion

In our opinion:

(a) the financial report of Insurance Australia Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report in the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Greig

Brian Greig
Partner

Sydney
22 August 2008