

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 2007 and the auditor's report thereon.

The following terminology is used throughout the financial report:

* IAG, Parent or Company – Insurance Australia Group Limited

* IAG Group, Group or Consolidated entity – the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

The names and details of the Company's Directors in office at any time during or since the end of the financial year are as follows. Directors were in office for the entire period unless otherwise stated.

CHAIRMAN

Mr JA (James) Strong appointed in August 2001

OTHER DIRECTORS

Ms YA (Yasmin) Allen appointed in November 2004

Mr JF (John) Astbury appointed in July 2000

Mr PM (Phillip) Colebatch appointed in January 2007

Mr GA (Geoffrey) Cousins appointed in July 2000

Mr ND (Neil) Hamilton appointed in June 2000

Mr RA (Rowan) Ross appointed in July 2000

Mr B (Brian) Schwartz appointed in January 2005

Mr MJ (Michael) Hawker appointed in December 2001

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

SECRETARIES OF INSURANCE AUSTRALIA GROUP LIMITED

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

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

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

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

MEETINGS OF DIRECTORS

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

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

Notes:

A Meetings eligible to attend as a member.

B Meetings attended as a member.

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

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

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

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

UNDERWRITING RESULT

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

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

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

(a) Australian personal lines insurance operations

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

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

(b) Australian commercial lines insurance operations

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

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

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

(c) International insurance operations

New Zealand insurance operations:

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

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

Thailand insurance operations:

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

AmAssurance, Malaysia:

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

Reinsurance operations:

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

European operations:

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

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

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

(d) Corporate and investments

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

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

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

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

REVIEW OF FINANCIAL CONDITION

(a) Financial position

(i) Assets

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

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

Other factors contributing to the increase in total assets were:

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

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

(ii) Liabilities

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

The increase in other liabilities is mainly attributable to the:

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

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

(iii) Equity

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

Increase:

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

Decrease:

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

(b) Cash from operations

(i) Cash flows from operating activities

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

These were offset to some extent by the following:

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

(ii) Cash flows from investing activities

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

(iii) Cash flows from financing activities

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

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

DIRECTORS' REPORT

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

These were offset to some extent by the following:

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

(c) Capital adequacy/minimum capital requirements

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

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

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

LIKELY DEVELOPMENTS

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

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

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

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

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

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

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

DIVIDENDS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

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

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year are set out in note 36. These include:

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

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

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

DIRECTORS' REPORT

NON-AUDIT SERVICES

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

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

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

The level of fees for total non-audit services amount to approximately 22.9% of total audit fees paid to KPMG (refer to note 5 for further details on costs incurred on individual non-audit assignments.)

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

The lead auditor's independence declaration is set out on page 58 and forms part of the Directors' report for the year ended 30 June 2007.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

- (a) a Director of the Company or a subsidiary of the Company;
- (b) a secretary of the Company or of a subsidiary of the Company; or
- (c) a person making, or participating in making, decisions that affect the whole or a substantial part of the business of the Company or of a subsidiary of the Company; or
- (d) a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings. The indemnity does not apply where the Company is forbidden by statute or, if given, would be made void by statute.

In addition, the Company has granted deeds of indemnity to certain current and former Directors and secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company indemnifies, to the maximum extent permitted by the law, the former or current Directors or secretaries or members of senior management

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

The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance is prohibited by the relevant contract of insurance.

ENVIRONMENTAL REGULATION

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

REMUNERATION REPORT

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

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

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

NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

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

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

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

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

DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED INFORMATION

A. EXECUTIVES

1. EXECUTIVE REMUNERATION POLICY

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

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

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

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

2. SIGNIFICANT CHANGES TO EXECUTIVE REMUNERATION

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

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

Note 28 sets out further details of the DARs plan.

3. EXECUTIVE REMUNERATION STRUCTURE

Executive remuneration consists of four components:

- base salary;
- superannuation;

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

(a) Base salary

Base salary is defined as the total value of components that make up an executive's salary. Components are cash; salary sacrifice items such as superannuation, cars or parking; and any related taxes. Base salary is determined by a review of job size, internal relativities and market benchmarking. Mercer Human Resources Consulting provides advice on job responsibility and market benchmarking. The comparator groups for market benchmarking are the largest 50 companies in the S&P/ASX 100 index and financial services companies that are among the largest 50 companies in the S&P/ASX 100 index. Base salary is targeted at the median of the market. Unless there has been a significant change in job responsibility, increases in base salary generally do not exceed external market movements.

(b) Superannuation

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

(c) Short term incentives

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

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

The balanced scorecard sets goals under the following broad categories:

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

At the commencement of each financial year, financial and non-financial goals are set for each executive. Goals may be those specified in the tables below or goals that are more specifically related to the executive's role. The goals set are stretch goals and are designed to encourage executives to strive for exceptional performance. At the end of the financial year the amount of any incentive payment is determined based on measured achievement against those goals and a review of the executive's overall performance by the CEO and NRSC. The NRSC reviews the performance of the CEO and makes a recommendation to the Board in relation to any incentive payment for the CEO. The NRSC and Board have an overriding discretion to determine short term incentive payments and will only approve payments when the goals are achieved in the context of the IAG Group's strategy and risk appetite (eg risk of ruin parameters and business mix) as approved by the Board.

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

DIRECTORS' REPORT

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

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

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

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

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

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

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

To strengthen alignment between the interests of executives and those of shareholders a significant portion of executive remuneration is delivered in the form of rights over IAG shares. The DARs plan and PARs plan create a direct link between the delivery of value to shareholders and the remuneration of executives.

(i) DARs plan

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

DIRECTORS' REPORT

(ii) PARs plan

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

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

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

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

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

TSR performance condition	IAG TSR compared to a peer group of companies. The peer group comprises the companies in the S&P/ASX 100 index with such inclusions and exclusions as the Board may determine.
Vesting schedule	<p><50th percentile – 0% vesting = 50th percentile – 50% vesting >=75th percentile – 100% vesting</p> <p>The percentage of PARs which vest and become exercisable increases proportionately where IAG's performance ranks between the 50th and 75th percentile</p>

Notes:

- (i) The performance period will be shortened if the employee ceases employment with the IAG Group due to redundancy or in other special circumstances.
 (ii) The base date is the date which is the second trading day after the date on which IAG's financial results for the 12 month period ending on 30 June that immediately precedes the grant date are announced to the ASX.

DIRECTORS' REPORT

Performance hurdle testing

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

Vesting of PARs on takeover

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

Restrictions on dealing in IAG securities

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

- dealing in IAG securities when in possession of price sensitive information;
- short term or speculative trading in IAG securities;

- transactions that limit economic risk associated with unvested entitlements to IAG securities (including PARs and DARs); and
- any trading in IAG securities without prior approval of the NRSC.

4. RELATIONSHIP BETWEEN EXECUTIVE REWARD AND IAG'S PERFORMANCE

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

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

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

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

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

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

Notes:

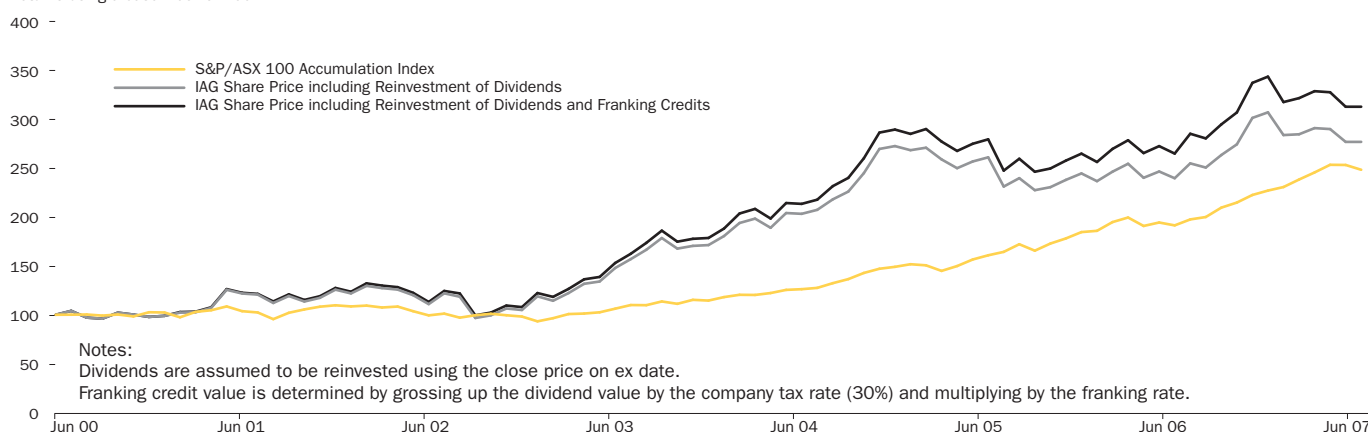
(i) Normalised net profit is determined by excluding the amortisation of intangible assets and substituting actual investment earnings on equity holders' funds with long term returns.

* Amounts in 2005, 2006 and 2007 have been measured under current Australian Accounting Standards ("AASBs") which became applicable for years commencing on or after 1 January 2005. All amounts prior to 2005 were measured under previous AASBs.

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

IAG Historical Share Price Performance – Since Listing

Returns using a base index of 100



DIRECTORS' REPORT

5. SERVICE AGREEMENTS

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

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

Note:

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

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

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

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

Note:

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

DIRECTORS' REPORT

Retrenchment

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

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

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

Company retrenchment policy

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

- at least eight weeks notice or payment in lieu of notice (calculated on the employee's base salary); and
- three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 11 weeks base salary and the maximum benefit that can be received is 83 weeks base salary.

On retrenchment, employees with 25 or more years of service or who are over 45 years of age will receive:

- at least twelve weeks notice or payment in lieu of notice (calculated on the employee's base salary); and
- three weeks base salary for each year of continuous service to a maximum of 75 weeks base salary.

The minimum benefit that can be received is 15 weeks base salary and the maximum benefit that can be received is 87 weeks base salary.

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

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

Termination of employment with notice or payment in lieu of notice

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

6. REMUNERATION DETAILS

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

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

Note:

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

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

DIRECTORS' REPORT

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

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

Note:

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

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

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

- (1) Salary represents amounts paid in cash during the financial year.
- (2) Non-monetary benefits are valued in accordance with the cost to IAG for provision of cars, parking and related fringe benefits tax on a salary sacrifice basis.
- (3) Annual leave accruals as determined in accordance with AASB 119 *Employee Benefits*.
- (4) Short term incentive to be settled for the current performance period accrual and prior performance periods over or under accruals. Executives may elect to receive some of their short term incentive in the form of IAG shares rather than cash through participation in the Bonus Equity Share Plan which is valued in accordance with the market value of IAG shares at grant date. Refer note 27 for details of how this plan operates.
- (5) Mr Hawkins received an accommodation allowance in New Zealand. Mr Breheny received a special payment which was only payable after his completion of the first 12 months service with the IAG Group.
- (6) Superannuation represents the employer's contributions.
- (7) Long service leave accruals as determined in accordance with AASB 119 *Employee Benefits*.
- (8) An allocated portion of Performance Share Rights ("PSRs" – related to unissued shares) and unvested Performance Award Rights ("PARs" – related to issued shares) and unvested Deferred Awards Rights ("DARs" – related to issued shares, new rights issued in 2007) is included in the total remuneration disclosure above. To determine the PSRs and PARs values the Monte Carlo simulation model has been applied. The valuation takes into account the exercise price of the PSRs/PARs, life of the PSRs/PARs, current price of IAG shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, the performance of the shares in the Peer Group of companies, early exercise and non-transferability, and turnover which is assumed to be zero for an individual's remuneration calculation. DARs are valued using a Black Scholes valuation model.

DIRECTORS' REPORT

7. AT RISK REMUNERATION

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

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

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

Note:

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

(b) Short term incentives

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

(c) Share based remuneration

No DARs or PARs became exercisable during the year ended 30 June 2007 and no DARs or PARs issued to executives lapsed during the year.

It is not practical to provide an estimate of the maximum possible total value of share based remuneration that may vest in future years for any DARs or PARs issued up to 30 June 2007 because the value is directly linked to (i) the future IAG share price at the time of vesting; and (ii) with respect to PARs, the future TSR performance of IAG and companies in the S&P/ASX 100 index. The minimum possible total value of share based remuneration is zero.

DIRECTORS' REPORT

8. SHARE BASED REMUNERATION – DARs, PARs AND PSRs

Rights under the DARs and PARs plan were issued by IAG. Refer to section 3(d) and note 28 for further details of these plans.

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

(a) PARs

(i) Details of PARs granted

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

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

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

DIRECTORS' REPORT

(ii) Movements in number of PARs on issue

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

Notes:

(1) \$1 per tranche of PARs is payable to exercise. Nil remains unpaid per issued share acquired. For each PAR exercised, one IAG share was issued.

(2) This balance represents the PARs held by Mr Hawkins, Ms Johnson and Mr van der Schalk at the date of their appointment to the executive team.

DIRECTORS' REPORT

(b) PSRs

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

(i) Movements in number of PSRs on issue

2007

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

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

Notes:

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

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

(c) DARs

(i) Details of DARs granted

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

	Grant date	Date first exercisable	Last expiry date	Value per DAR at grant date \$	DARs granted during the year Number
2007					
Mr MJ Hawker	19/12/2006	19/12/2009	19/12/2016	5.354	187,500
Mr JP Breheny	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr AM Coleman	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr NB Hawkins	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr DA Issa	19/12/2006	19/12/2009	19/12/2016	5.354	42,375
Ms JS Johnson	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Ms CF McLoughlin	19/12/2006	19/12/2009	19/12/2016	5.354	31,875
Ms SJ Mostyn	19/12/2006	19/12/2009	19/12/2016	5.354	31,875
Mr MJ Pirone	19/12/2006	19/12/2009	19/12/2016	5.354	42,375
Mr N Utley	13/03/2007	13/03/2009	13/03/2017	5.156	33,375
Mr J van der Schalk	19/12/2006	19/12/2009	19/12/2016	5.354	35,250
Mr G Venardos	19/12/2006	19/12/2009	19/12/2016	5.354	42,375
Total					588,000

DIRECTORS' REPORT

(ii) Movements in total number of DARs on issue

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

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

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

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

Notes:

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

DIRECTORS' REPORT

B. NON-EXECUTIVE DIRECTORS

1. REMUNERATION POLICY

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

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

2. REMUNERATION STRUCTURE

Non-executive Director remuneration consists of three components; they are:

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

The aggregate limit of remuneration is approved by shareholders and is currently \$2 million per annum. The aggregate annual remuneration is inclusive of employer superannuation contributions paid by IAG on behalf of Non-executive Directors.

(a) IAG Board and Committee fees

Board/Committee	Role	Fee
IAG Board	Chairman	\$390,000*
	Director	\$130,000
IAG Audit Committee	Chairman	\$32,500
	Member	\$16,250
IAG Risk Management & Compliance Committee	Chairman	\$32,500
	Member	\$16,250
IAG Nomination, Remuneration & Sustainability Committee	Chairman	\$32,500
	Member	\$16,250

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

(b) Non-executive Directors' Share Plan

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

(c) Superannuation

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

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

3. INCREASE TO DIRECTORS' FEES

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

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

DIRECTORS' REPORT

4. INCREASE TO AGGREGATE REMUNERATION

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

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

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

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

Notes:

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

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

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

5. PERFORMANCE

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

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

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

6. REMUNERATION DETAILS

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

Notes:

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

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

DIRECTORS' REPORT

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

Note:

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

7. RETIREMENT BENEFITS

IAG decided to freeze the operation of the Non-executive Director retirement benefit scheme adopted by IAG in 2001 with effect from 1 September 2003.

The terms of the retirement benefits scheme provided for:

- any Non-executive Director of IAG who had completed five years' continuous service with IAG (including service with any subsidiaries) at the date of retirement, a retirement benefit equivalent to the last three years' Directors' fees, employer superannuation contributions, committee fees and fees for extra services received from IAG and its subsidiaries.
- a pro-rata retirement benefit for Non-executive Directors who have completed at least three years' service but less than five years' service at the date of their retirement, based on a specified formula; and
- no retirement benefit to be paid to a Non-executive Director who had served for a period of less than three years.

IAG determined that the frozen retirement benefits would be calculated as follows:

- Non-executive Directors joining the Board from 1 September 2003 would have no retirement benefit;
- for each Non-executive Director as at 31 August 2003 who had served a minimum of three years, the retirement benefit was assessed as if they had retired at 31 August 2003; and
- for a Non-executive Director with less than three years of service at 31 August 2003, a retirement benefit was assessed as if they had three years of service as at that date, and then reduced on a pro-rata basis based on their uncompleted period of service as a proportion of three years. The retirement benefit was not subsequently payable to such a Non-executive Director if they had less than three years of service as a Non-executive Director at the date of their retirement.

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

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

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

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

DIRECTORS' REPORT

C. OTHER BENEFITS

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

D. EQUITY AND DEBT INSTRUMENT DISCLOSURE

1. HOLDING OF ORDINARY SHARES

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

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

Notes:

- (1) Nominally held shares are included in the column headed total shares held at 30 June. Total shares are held by the key management personnel's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the key management personnel.
- (2) Net movement of shares relates to acquisition and disposal transactions by the key management personnel and their related parties during the year. It includes any opening balances of shares held by key management personnel who were appointed during the year.

DIRECTORS' REPORT

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

Notes:

- (1) Nominally held shares are included in the column headed total shares held at 30 June. Total shares are held by the key management personnel's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the key management personnel.
- (2) Net movement of shares relates to acquisition and disposal transactions by the key management personnel and their related parties during the year. It includes any opening balances of shares held by key management personnel who were appointed during the year.
- (3) This balance represents the shares held by Mr Hawkins at the date of his appointment to the executive team.
- * These key management personnel ceased employment during the financial year. Information on shares held has only been disclosed up to the date of their cessation.

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

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

Notes:

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

DIRECTORS' REPORT

2. HOLDING OF RESET PREFERENCE SHARES

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

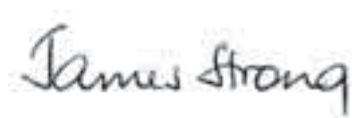
3. HOLDING OF RESET EXCHANGEABLE SECURITIES

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

ROUNDING OF AMOUNTS

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

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



James Strong
Director



Michael Hawker
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



To: the directors of Insurance Australia Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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



KPMG



Brian Greig
Partner

Sydney
24 August 2007