



**RESET EXCHANGEABLE
SECURITIES** | **RES**

ANNUAL REPORT 2008



ANNUAL REPORT 2008

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CHAIRMAN'S LETTER

8 September 2008

Dear Securityholder,

I am pleased to report to you on the performance of your Reset Exchangeable Securities (RES).

The amount of interest you receive on a quarterly basis from your RES is based on the per annum rate equal to the 90 day bank bill rate plus a margin of 1.2% less an adjustment for the value of attached franking credits (and is subject to satisfaction of the interest payment tests described in the RES prospectus).

This portfolio has the highest Australian Bond Fund Rating assigned by independent rating agency Standard & Poor's (S&P). According to S&P, the portfolio holdings of a fund rated AAAf provide extremely strong protection against losses from credit defaults.

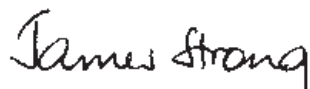
In the 2008 financial year, a total of \$5.8688 in interest has been paid for each RES, up from \$5.2057 in the previous year. This interest was fully franked.

The next interest payment at \$1.5681 per RES is due to be paid on 15 September 2008 subject to satisfaction of the interest payment test. This amount is also expected to be fully franked.

The total value of the portfolio as at 30 June 2008 was \$553,874,733.

RES are listed on the Australian Securities Exchange under the code "IANG". If you have any questions regarding your RES holding, please contact the security registry on 1300 360 688 or visit www.iag.com.au/shareholder/res/index.shtml.

Sincerely,



James Strong
Chairman
IAG Finance (New Zealand) Limited

IAG Finance (New Zealand) Limited
ABN 97 111 268 243

New Zealand branch
IAG House,
Level 10, 151 Queen Street
Auckland, New Zealand

PORTFOLIO

COMPOSITION AND PERFORMANCE

The proceeds of the issue have been lent, through a series of intra-group arrangements, to IAG Portfolio Limited. IAG Portfolio Limited has invested these funds in a portfolio of high quality, short dated, fixed interest securities (Portfolio) managed by IAG Asset Management Limited (IAGAM). This Portfolio has an Australian Bond Fund Rating of 'AAAf' from S&P and IAGAM is required to manage the Portfolio to ensure that it maintains this rating. According to S&P, funds rated 'AAAf' have extremely strong protection against losses from credit default. 'AAAf' is the highest Australian Bond Fund Rating assigned by S&P.

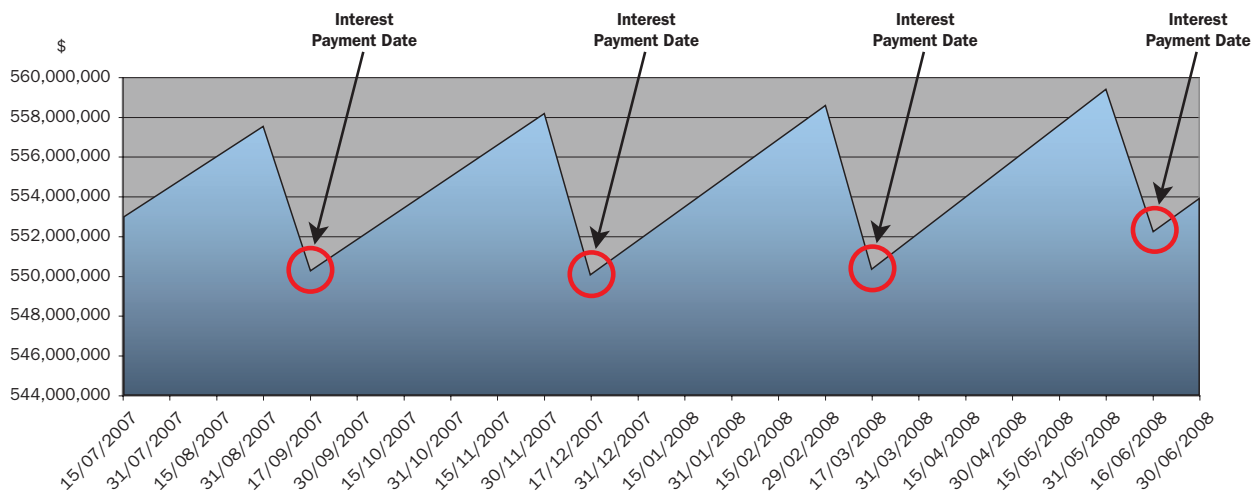
The interest payments to RES holders are derived from income generated by this Portfolio. Any income generated by the Portfolio in excess of the interest payment to RES holders may be paid to Insurance Australia Group Limited and its subsidiaries (IAG Group).

Therefore, the performance of the Portfolio is an important element for RES holders. The Portfolio has been managed in accordance with the investment mandate, and has generated an income in excess of the amount required to pay interest payments to RES holders.

The composition and performance of the Portfolio for the financial year to 30 June 2008 are detailed below for your reference.

PORTFOLIO VALUE

Portfolio Value for period to 30 June 2008



PORTFOLIO INCOME

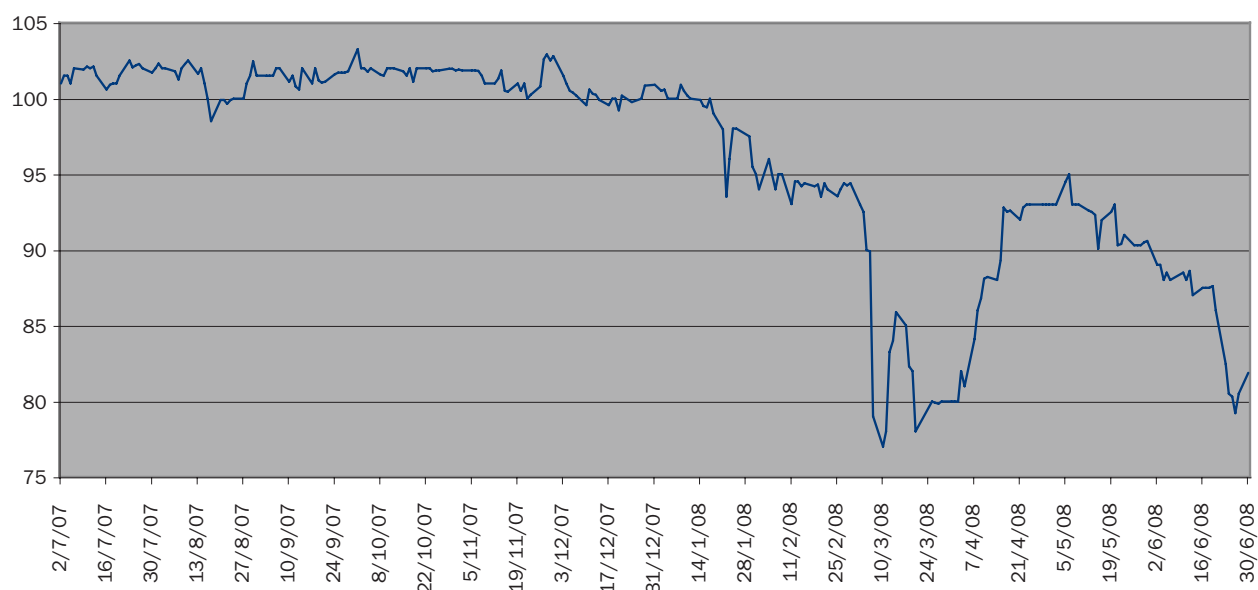
Payment Date	Portfolio Income Received \$	Interest Payments to RES Holders \$	Surplus Paid to IAG Group \$
17 September 2007	8,985,146	7,548,736	1,436,410
17 December 2007	9,858,426	7,839,132	2,019,294
17 March 2008	10,389,552	8,197,186	2,192,366
16 June 2008	9,279,378	8,693,285	586,093
Total	38,512,502	32,278,339	6,234,163

COMPOSITION OF THE PORTFOLIO AS AT 30 JUNE 2008

Counterparty	Security Type	Standard & Poor's Credit Rating	Market Value of Securities \$	Maturity Date
Abel Funding Pty Limited	Commercial Paper	A-1+	103,280,496	15/9/08
Commonwealth Bank of Australia	Bank Bill/NCD	A-1+	98,381,771	15/9/08
HSBC Bank Australia Limited	Medium Term Note	A-1+	100,288,154	15/9/08
National Australia Bank Limited	Bank Deposit	A-1+	8,748,105	At Call
Perry Antipodes Trust No.1	Commercial Paper	A-1+	14,754,663	15/9/08
Spinnaker Capital Pty Limited	Commercial Paper	A-1+	14,770,924	10/9/08
Waratah Securities Australia Limited	Commercial Paper	A-1+	103,280,496	15/9/08
Westpac Banking Corporation	Medium Term Note	A-1+	110,370,124	15/9/08
Total			553,874,733	

RES SECURITY PRICE PERFORMANCE

Reset Exchangeable Securities – ASX Code: IANG



The volatility in the RES price has been largely determined by the impact of market views on interest rates and widening credit spreads.

DIRECTORS' BIOGRAPHIES

IAG FINANCE (NEW ZEALAND) LIMITED

JAMES STRONG AO

Chairman and independent non-executive director, age 64

James Strong was appointed as a director of IAG Finance (New Zealand) Limited in November 2004. James is chairman and director of Insurance Australia Group Limited (IAG) and he is a member of the IAG Nomination, Remuneration & Sustainability Committee.

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

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

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

Directorships of other listed companies held in past three years:

- Woolworths Limited since 10 March 2000,
- Insurance Australia Group Limited since 2 August 2001, and
- Qantas Airways Limited since 1 July 2006.

MICHAEL WILKINS BCom, MBA, DLI, FCA

Executive director, age 51

Michael Wilkins was appointed as a director of IAG Finance (New Zealand) Limited in May 2008. Michael was appointed as CEO and managing director of IAG in May 2008 and previously held the position of Chief Operating Officer and director of IAG since November 2007.

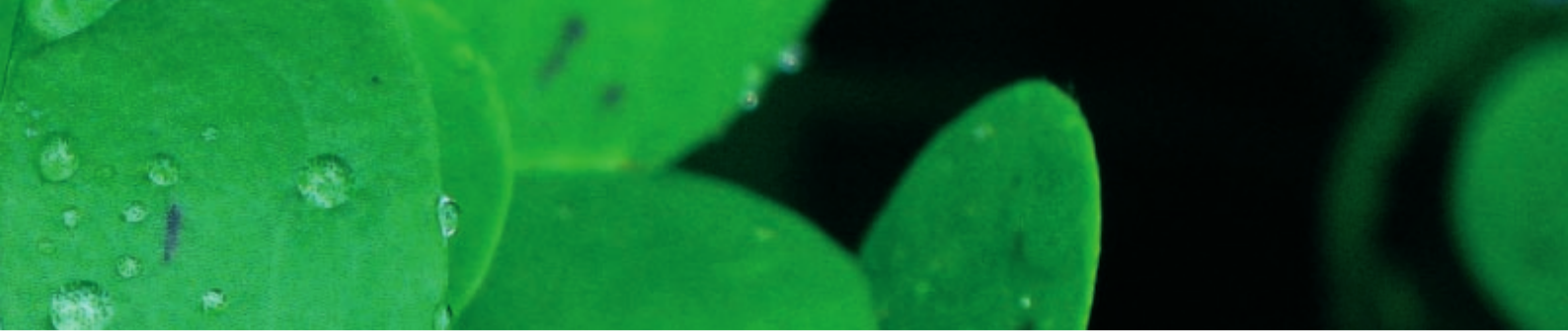
Michael has more than 25 years experience in the insurance and financial services sector. He is currently a non-executive director of Maple-Brown Abbott Limited.

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, a non-executive director of Alinta Limited and a director of IFSA.

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

Directorships of other listed companies held in past three years:

- Promina Group Limited from 1 August 1999 to 20 March 2007,
- Alinta Limited from 18 July 2005 to 31 August 2007, and
- Insurance Australia Group Limited from 26 November 2007.



HUGH FLETCHER BSc/BCom, MCom (Hons), MBA

Independent non-executive director, age 60

Hugh Fletcher was appointed as a director of IAG Finance (New Zealand) Limited on 31 August 2008 and as a director of IAG in September 2007. Hugh was appointed 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.

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

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

Directorships of other listed companies held in past three years:

- Fletcher Building Limited since 31 January 2001.
- Insurance Australia Group Limited since 1 September 2007.

NICHOLAS HAWKINS BCom, CA

Executive director, age 40

Nicholas Hawkins was appointed as a director of IAG Finance (New Zealand) Limited on 31 August 2008 and as chief financial officer of IAG in July 2008. Since joining IAG in 2001 Nicholas has held senior positions in the Group, most recently as chief executive officer of IAG New Zealand.

Nicholas has also had several senior roles in IAG including head of asset management & group strategy, and prior to that, as general manager, group finance.

Before joining IAG, Nicholas was a partner with the international accounting firm KPMG, where he specialised in working with financial services clients.

Directorships of other listed companies held in past three years:

- None.

BOARD CHANGES

Mr Rowan Ross and Mr George Venardos retired from the board on 31 August 2008.

CORPORATE GOVERNANCE

IAG Finance (New Zealand) Limited (the Company) is a wholly owned subsidiary of Insurance Australia Group Limited (IAG). The RES issued by the Company commenced trading on the ASX on 12 January 2005.

The Company has responsibility for raising finance for the New Zealand operations of the IAG Group and for management of their ongoing treasury requirements. The New Zealand Branch of the Company employs a Branch Manager to manage the performance of these functions.

The Company utilises and is subject to IAG's corporate governance framework, including risk, compliance and capital management policies, procedures and controls. Except as noted below, the key corporate governance practices followed by the Company are the same as those of the IAG Group. The corporate governance framework and practices of the IAG Group are disclosed in IAG's 2008 Annual Report, which is separately available on IAG's website at www.iag.com.au from 2 October 2008.

IAG has complied, except as noted below, with the ASX Corporate Governance Council's Principles and Recommendations 2nd edition ("CGC Principles") throughout the reporting period.

The Company has complied with most, but not all, of the CGC Principles. Where the Company has not complied, it is the Company's view that this non-compliance is appropriate given that the corporate governance practices and framework adopted are not separable from the corporate governance practices of IAG and that:

- The Company is a wholly owned subsidiary of IAG.
- The Company is not involved in the management of the Portfolio established out of the proceeds from the RES issue, which is managed by IAGAM according to a strict investment mandate. IAGAM is a related body corporate of the Company and a wholly owned subsidiary of IAG.
- Subject to the interest payment tests, the Company does not have discretion as to whether interest payments are made to RES holders, and if so, the amount of such interest payments, and
- The interest payment tests relate to the return on the Portfolio managed by IAGAM and whether IAG has paid a dividend in the 12 months prior to the interest payment. The Company's obligations on the RES are secured by the Portfolio.



1 | THE BOARD OF DIRECTORS

1a. Roles and Responsibilities

The Board is responsible for oversight of the Company's operations, and specifically:

- monitoring the Company's financial performance and reporting,
- reviewing the adequacy of systems to comply with all laws and regulations which apply to the Company,
- monitoring the Company's key risk areas by ensuring the implementation of a suitable risk management and internal controls framework,
- ensuring that the Company's reporting and disclosure processes include compliance with all relevant and applicable legal and commercial requirements, and
- ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are established, and processes exist to ensure they are adhered to at all times by the Company.

The Branch Manager is responsible for the day to day operations of the Company and reports directly to the IAG Corporate Treasurer and relevant finance executives in the IAG Group's New Zealand operations. The Company does not have a CEO.

1b. Structure and Composition of the Board

The Board currently comprises two non-executive directors who are also non-executive, independent directors of IAG, and two executive directors. The chairman, James Strong, is also chairman of IAG.

James Strong and Rowan Ross have been deemed by the Company as independent directors as long as they remain independent directors of IAG, notwithstanding both are non-executive independent directors of IAG, the Company's sole shareholder as the Company's corporate governance practices, operational and risk frameworks are for the reasons set out earlier, inseparable from that of IAG.

The Company has taken the view that this is an appropriate board structure for the Company and that the appointment to the Company's Board of a majority of non-executive, independent directors is not warranted for the reasons set out in the introduction to this section of the report.

The names of directors in office at the date of this report, their year of appointment, their designation as a non-executive, independent director or executive director, their holdings of RES and directorships of other listed companies in the past three years are set out in the directors' report at pages 9 to 12. In addition, biographical details of directors are included at pages 4 and 5.

1c. Board Operations

The Board meets at least four times during the year.

1d. Board Committees

The Company does not have any standing committees, but has empowered the IAG Audit Committee to perform the same role for the Company as it does for IAG and for most of its authorised insurer subsidiary companies. A copy of the charter of the IAG Audit Committee can be found on IAG's website. The charter also sets out procedures for the appointment, reappointment, and monitoring of the effectiveness and independence of the external auditor including rotation of the lead audit partner.

The names and qualifications of the members of the IAG Audit Committee and the meetings held in the year are set out in IAG's 2008 Annual Report which is also available on IAG's website. The Company has taken the view that it is appropriate for the IAG Audit Committee to perform this task as long as it is composed of directors that are considered to be independent.

The establishment of a nomination committee or, indeed, empowering the IAG Nomination, Remuneration & Sustainability Committee (NRSC) to act for the Company in this capacity, would not add value to the Company's corporate governance practices given that the directors appointed to the Company's Board receive no additional remuneration from the Company or any related parties for their service on the Board. The IAG NRSC evaluates the performance of the IAG Board, its committees, individual directors and IAG key executives. The IAG NRSC also reviews the composition and the performance of IAG subsidiary company boards, including the Company's Board, at least annually.

Corporate Governance (continued)

A copy of the charter of the IAG NRSC Committee can be found on IAG's website. The names and qualifications of the members of this committee and the meetings held in the year are set out in IAG's 2008 Annual Report which is also available on IAG's website.

The sole employee of the Company is not a key management personnel of the Company under the Corporations Act or generally accepted accounting standards and, accordingly, disclosure of remuneration received by this employee is not required.

2 | ETHICAL AND RESPONSIBLE DECISION-MAKING

The directors and the sole employee of the Company are expected to comply with the IAG Group's Codes of Conduct, Continuous Disclosure, and Security Trading Policies, which are set out in further detail in the Corporate Governance Section of IAG's 2008 Annual Report. A copy of the Codes and Policies are available on IAG's website. The IAG Security Trading Policy applies to trading by the Company's directors and sole employee in RES and other IAG securities.

The IAG Group's Code of Ethics and Continuous Disclosure Policy also set out the policies and procedures for how directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep the market fully informed.

3 | RES HOLDERS

The Company makes quarterly announcements to the ASX regarding interest payments and the interest rate for the following quarter. RES holders, who elect to do so, also receive a copy of the Company's annual report.

The value of the Portfolio as at the end of each month is published on the IAG website at www.iag.com.au/shareholder/res/index.shtml. ASX announcements and any annual, financial and Directors' reports are also posted on IAG's website.

The Company is not required, and does not currently intend, to hold Annual General Meetings.

RES holders may raise any issues or concerns at any time by contacting the Company. RES holders should email their questions or comments to investor.relations@iag.com.au or write to the Chairman or Company Secretary at IAG Finance (New Zealand) Limited, Level 26, 388 George Street, Sydney NSW 2000.

4 | RISK MANAGEMENT

Managing risk is at the heart of ensuring ongoing sustainability and delivery of value to IAG's stakeholders. IAG's risk management framework which is set out in the IAG Risk Management Strategy (RMS) is based on the interaction of the oversight structure, internal policies, key risk management processes and culture. The RMS details IAG's principles, risk appetite, policies, key controls, and monitoring processes for managing eleven key risk categories. The IAG Risk Management & Compliance Committee oversees the Company's risk management framework as part of its oversight of the entire IAG Group, including the Company. Further details on the IAG Group's policies on risk oversight and management are available on IAG's website.

The CEO and CFO of IAG have confirmed in writing to the Board that the Company's half year and full year financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with relevant accounting standards. In making this statement the IAG CEO and CFO have also confirmed that:

- the Company has a sound system of risk management and internal control, and that the system is operating in all material respects in relation to financial reporting risks; and
- the Company has an effective and efficient internal control environment and has substantially complied with the IAG RMS.

The Company is subject to a number of additional external and internal reporting requirements:

- Quarterly reports are prepared for the Trustee and ASIC pursuant to Section 283BF of the Corporations Act;
- An annual compliance report is provided to S&P in relation to the Portfolio; and
- Quarterly compliance reports setting out the compliance by the Company's New Zealand Branch with various legal, tax and risk management requirements in New Zealand are prepared for IAG's Head of Group Risk & Compliance.

5 | COMMUNITY AND ENVIRONMENT

The Company recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to RES holders, customers and employees. The Company complies with IAG's Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. Further details are provided in IAG's 2008 Annual Report, which is available on IAG's website.

DIRECTORS' REPORT

The Directors present their report together with the financial report of the Company for the year ended 30 June 2008 and the audit report thereon.

Directors

The Company's directors in office at any time during or since the end of the financial year up to 18 August 2008 (date of this report) are as follows. Directors were in office for the entire period unless otherwise stated.

JA Strong (Director since 9 November 2004), RA Ross (Director since 9 November 2004), MJ Wilkins (Director since 28 May 2008), G Venardos (Director since 6 October 2004), MJ Hawker (Director from 9 November 2004 to 26 May 2008) and MDE Woods (Director from 9 November 2004 to 25 January 2008 - alternate director for MJ Hawker and G Venardos).

Other directorships of directors

Listed below are directorships of other listed companies in the past three years:

JA Strong: Woolworths Limited (from 10 March 2000), Insurance Australia Group Limited (from 2 August 2001) and Qantas Airways Limited (from 1 July 2006).

RA Ross: Insurance Australia Group Limited (from 25 July 2000) and Macquarie Capital Alliance Group (from 25 January 2005).

MJ Wilkins: Promina Group Limited (from 1 August 1999 to 20 March 2007), Alinta Limited (from 18 July 2005 to 31 August 2007) and Insurance Australia Group Limited (from 26 November 2007).

G Venardos: Australian Wealth Management Limited (from 24 January 2008).

None of the other current directors have held any directorships of other listed companies in the past three years.

Principal activity

The principal continuing activity of the Company is to perform all treasury functions of the IAG Group's New Zealand operations. This function is performed through a New Zealand branch of the Company.

Operating and financial review

The net result of the Company after applicable income tax for the financial year ended 30 June 2008 was a profit of \$3,501,000 (2007 - \$4,427,000).

The following quarterly interest payments on the reset exchangeable securities (RES) were made during the financial year:

Payment date	Amount per RES	Interest rate
17 September 2007	\$1.3725	5.3293% per annum
17 December 2007	\$1.4253	5.7167% per annum
17 March 2008	\$1.4904	5.9780% per annum
16 June 2008	\$1.5806	6.3397% per annum

Dividends

Details of dividends paid or declared by the Company are set out in note 7.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year.

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

The lead auditor's independence declaration is set out on page 12 and forms part of the directors' report for the year ended 30 June 2008.

Directors' Report (continued)

Likely developments

The Company is expected to continue to perform all treasury functions of the IAG Group's New Zealand operations. The New Zealand Branch will remain as the issuer of 5,500,000 RES.

Indemnification and insurance of directors and officers

The Company's constitution contains an indemnity in favour of every person who is or has been an Officer 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, IAG 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, IAG 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 to any related body corporates, 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, IAG is also effectively 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. 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.

Non-audit services

During the financial year, KPMG the Company's auditor, has not performed any services, other than audit services for the Company, in accordance with their statutory duties.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in the directors' report.

Environmental regulation

The Company's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the Company's operations. The Board of Directors believes that the Company 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 Company.

Event subsequent to reporting date

Detail of matters subsequent to the end of the financial year is set out in note 16.

Remuneration Report - audited

The Company is a wholly-owned subsidiary of IAG, a public company listed on the Australian Securities Exchange (ASX).

The Company's principal operation is to perform all treasury functions of the IAG Group's New Zealand operations and its New Zealand Branch remains as the issuer of RES, a security publicly traded on the ASX which deems the Company to be a listed entity as defined by *Corporations Act 2001*.

The Company employs only one employee working in the New Zealand branch who does not meet the definition of key management personnel. The Company has not developed a separate remuneration policy but rather follows the IAG Group's policy.

The Company's key management personnel (refer to section A for further details) did not receive any remuneration from the Company or any parties in connection with their position with the Company. IAG or any related entity charged no management fee to the Company which included any remuneration for the key management personnel of the Company. The compensation disclosed in the table below represented the key management personnel's estimated compensation received from the IAG Group in relation to their involvement in the activities with the Company.

IAG's Remuneration Report for the year ended 30 June 2008, which discloses the remuneration policies and the key management personnel of the IAG Group is included in IAG's 2008 directors' report that can be viewed at www.iag.com.au.

A. Remuneration of key management personnel

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 the Australian Accounting Standard AASB 124 *Related Party Disclosures*. However, the non-executive directors do not consider that they are part of 'management'.

Directors' Report (continued)

During the financial year, the following persons, being all directors of the Company, were identified as key management personnel:

JA Strong, RA Ross, MJ Wilkins, G Venardos, MJ Hawker (who resigned on 26 May 2008), and MDE Woods (who resigned on 25 January 2008).

They were in office for the whole financial year, unless otherwise stated.

The employee of the New Zealand Branch of the Company does not meet the definition of key management personnel as defined in AASB 124 or Senior Manager or Officer as defined in the *Corporations Act 2001*.

The term 'remuneration' used in this remuneration report has the same meaning as compensation as prescribed in AASB 124.

	Short term employment benefits		Post employment benefits	Other long term employment benefits	Termination benefits	Share based payment		Total
	Cash salary/fees	Short term incentive	Superannuation	Long service leave accruals		Deferred short term incentive	Other share based payment	
	\$	\$	\$	\$	\$	\$	\$	\$
Directors:								
JA Strong Chairman and Non-executive director								
2008	11,875	-	2,023	-	-	-	10,625	24,523
2007	10,063	-	1,755	-	-	9,438	-	21,256
RA Ross Non-executive director								
2008	329	-	46	-	-	-	177	552
2007	290	-	40	-	-	157	-	487
MJ Wilkins Executive director (appointed 28 May 2008)								
2008	4,286	1,975	390	20	-	-	663	7,334
G Venardos Executive director								
2008	33,053	23,740	4,000	1,080	-	5,967	18,580	86,420
2007	39,109	24,000	4,908	1,033	-	15,267	-	84,317
Executives who ceased as key management personnel during the year:								
MJ Hawker Executive director (resigned 26 May 2008)								
2008	7,805	7,824	225	(383)	9,697	871	(7,230)	18,809
2007	6,484	3,611	870	118	-	6,907	-	17,990
MDE Woods Alternate director (resigned 25 January 2008)								
2008	-	-	-	-	-	-	-	-
2007	-	-	-	-	-	-	-	-

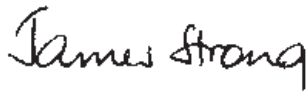
Directors' Report (continued)

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

Director	Reset exchangeable securities held indirectly*	Ordinary shares held directly	Ordinary shares held indirectly*	Reset preference shares held indirectly*
JA Strong	-	12,575	283,940	-
RA Ross	-	102,803	88,243	-
MJ Wilkins	-	-	100,000	-
G Venardos	-	149,764	23,978	-

* These securities are held by the director's related parties, inclusive of entities controlled or significantly influenced by the directors. This represents the relevant interest of each director in listed securities issued by the Company and IAG, 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.

Signed at Sydney this 18th day of August 2008 in accordance with a resolution of the Directors:



James Strong
Director

Lead Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

To: the directors of IAG Finance (New Zealand) 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, 18 August 2008

Income Statement

for the year ended 30 June 2008

	Notes	2008 \$000	2007 \$000
Interest revenue			
- related bodies corporate		47,539	43,175
- other corporations		64	47
Total interest revenue		47,603	43,222
Interest expense			
- related bodies corporate		(5,310)	(7,133)
- reset exchangeable securities		(33,057)	(28,105)
Total interest expense	2	(38,367)	(35,238)
Net interest income		9,236	7,984
Other income		72	73
Finance costs	2	(2,569)	(2,369)
Unrealised foreign exchange gains and (loss)	2	(766)	1,161
Realised foreign exchange gains and (loss)	2	130	(80)
Other administration expenses	2	(451)	(422)
Profit before income tax		5,652	6,347
Income tax expense	5	(2,151)	(1,920)
Profit for the year		3,501	4,427

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

Balance Sheet

as at 30 June 2008

Assets			
Cash and cash equivalents	9	1,176	654
Current tax assets		-	160
Loans to related bodies corporate	12	551,821	552,130
Deferred tax assets	5	4	5
Property, plant and equipment		4	6
Total assets		553,005	552,955
Liabilities			
Trade and other payables		46	33
Interest payable on reset exchangeable securities		1,516	1,285
Payables to related bodies corporate		218	421
Current tax liabilities		9	-
Loans from related bodies corporate		-	454
Employee benefits provision	10	15	17
Reset exchangeable securities	6	546,765	543,810
Total liabilities		548,569	546,020
Net assets		4,436	6,935
Equity			
Share capital		.*	.*
Retained earnings		4,436	6,935
Total equity		4,436	6,935

* The share capital is \$1.00 and rounded down to zero.

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

Statement of Changes In Equity for the year ended 30 June 2008

	Notes	2008 \$000	2007 \$000
Share capital			
Balance at the beginning and end of the financial year		-*	-*
Retained earnings			
Balance at the beginning of the financial year		6,935	3,308
Profit for the year		3,501	4,427
Dividends declared and paid		(6,000)	(800)
Balance at the end of the financial year		4,436	6,935
Total equity			
Balance at the beginning of the financial year		6,935	3,308
Profit for the year		3,501	4,427
Dividends declared and paid		(6,000)	(800)
Balance at the end of the financial year		4,436	6,935

* The share capital is \$1.00 and rounded down to zero.

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

Cash Flow Statement for the year ended 30 June 2008

Cash flows from operating activities			
Interest and trust distributions received		47,911	42,827
Finance costs paid		(38,589)	(35,567)
Income taxes paid		(2,142)	(1,920)
Other operating receipts		233	108
Other operating payments		(643)	(60)
Net cash flows from operating activities	9	6,770	5,388
Cash flows from investing activities			
Net cash flows from investing activities		-	-
Cash flows from financing activities			
Dividends paid to equity holder		(6,000)	(800)
Loan to related body corporate		-	(4,778)
Net cash flows from financing activities		(6,000)	(5,578)
Net movement in cash held			
Effects of exchange rate changes on balances of cash held in foreign currencies		(248)	83
Cash and cash equivalents at the beginning of the financial year		654	761
Cash and cash equivalents at the end of the financial year	9	1,176	654

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

Notes to the Financial Statements for the year ended 30 June 2008

Note 1. Summary of significant accounting policies

The Company is a public company limited by shares, incorporated and domiciled in Australia. It has RES publicly traded on the ASX. Its registered office is Level 26, 388 George Street, Sydney, NSW 2000. Its principal place of business is Level 10, 151 Queen Street, Auckland, New Zealand.

The parent and ultimate parent entity is IAG, an entity incorporated in Australia and listed on the ASX, which owns 100% of the ordinary share capital of the Company. IAG, together with its subsidiaries, forms the IAG Group. As part of the IAG Group, the Company complies with a variety of policies and procedures developed by IAG for application by all entities in the IAG Group where applicable.

This general purpose financial report was authorised by the Board of directors for issue on 18 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 and the ASX 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 Company complies with IFRS.

(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 consistently applied and are the same as those of the previous year unless otherwise noted. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions, with the principal exceptions being derivatives at fair 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, the following standard has been early adopted:

- 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 revised standards have had no financial impact but rather have impacted only on financial report disclosures. The new standards require adoption of a 'management approach' to reporting on the financial performance. The implementation of this standard has not changed the identification of segments for the Company.

The standard that has not been early adopted and that is relevant to current operations is:

- 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(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) Critical accounting estimates and judgements

There are not considered to be any accounting estimates and assumptions used, or judgements made, having a significant impact on the amounts recognised in the financial report (2007 – none).

(iv) Rounding

Amounts in this financial report have been rounded to the nearest thousand 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) Interest income

Interest income on the loan to a related body corporate and amounts with external parties is brought to account on an accruals basis. The loan to a related body corporate is carried at amortised cost using the effective interest method.

(d) Reset exchangeable securities

RES were initially measured at fair value (which was equivalent to face value) less transaction costs incurred in issuing the securities, and have subsequently been carried at amortised cost using the effective interest method. Transaction costs are capitalised, presented together with the RES, and are amortised using the effective interest method over five years from the date of issue and disclosed as finance costs in the income statement. Interest expense on the RES is brought to account on an accruals basis and payable quarterly subject to the terms of issue.

(e) 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 for particular circumstances when no deferred tax asset or liability is recognised.

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.

(ii) Tax consolidation

IAG 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. IAG 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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) New Zealand branch

The New Zealand branch of the Company is resident in New Zealand for tax purposes and is liable for all taxes on income generated in New Zealand. These liabilities or refunds are recognised by the New Zealand branch and disclosed as current tax liabilities or assets in the Company's balance sheet.

(iv) 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.

(f) Derivatives

A variety of derivatives are used for the sole purpose of managing risk exposures. Derivatives are not held for 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. Movements in fair value are recognised as part of interest revenue in profit and loss. Transaction costs for purchases of derivatives are expensed as incurred and presented in the income statement as interest expense.

None of the derivatives are designated for hedge accounting. This matches the accounting for the derivatives with the accounting for the underlying borrowings.

Cross currency swaps – entered into to hedge foreign currency borrowings. Interest receipts and payments on the swaps 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 and are included within the interest expense on borrowings. Revaluation gains and losses are recognised in profit or loss against the revaluation losses and gains of the underlying hedged items.

(g) 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.

(h) Foreign currency

(i) Functional and presentation currency

Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is the functional and presentation currency.

(ii) Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currency 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.

(iii) Hedge transactions

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

Note 2. Analysis of expenses

(a) Expenses as presented in the income statement

	2008 \$000	2007 \$000
Interest expense	38,367	35,238
Finance costs	2,569	2,369
Unrealised foreign exchange (gains) and losses	766	(1,161)
Realised foreign exchange (gains) and losses	(130)	80
Other administration expenses	451	422
Total expenses	42,023	36,948

(b) Analysis of expenses by nature

Interest expense	38,367	35,238
Finance costs	2,569	2,369
Unrealised foreign exchange (gains) and losses	766	(1,161)
Realised foreign exchange (gains) and losses	(130)	80
Employee costs	105	106
Share registry expenses	164	182
Consultant fees	29	16
Audit fees	27	26
Trustee fees	112	81
Other administration expenses	14	11
Total expenses	42,023	36,948

Note 3. Remuneration of auditors

Assurance services

	2008 \$	2007 \$
Audit of the financial statements	27,143	25,975
	27,143	25,975

Note 4. Segment reporting

The Company operates principally as a special purpose vehicle issuing RES in Australia. RES are listed on the ASX. The Company also generates income from providing treasury functions to IAG's New Zealand operations.

The Company operates a single segment and so the information presented in the financial statements represents the segment reporting information.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

	2008 \$000	2007 \$000
Note 5. Income tax		
(a) Income tax expense		
Current tax	2,152	1,925
Deferred tax asset	(1)	(5)
Income tax expense	2,151	1,920
(b) Income tax reconciliation		
The income tax for the financial period differs from the amount calculated on the profit before income tax. The differences are reconciled as follows:		
Profit for the year before income tax	5,652	6,347
Income tax calculated at 30% (2007 – 30%)	1,696	1,904
Differences in tax rates relating to New Zealand branch's result which is calculated at 33%	170	190
Other	285	(174)
Income tax expense attributable to profit for the year before and after impact of tax consolidation	2,151	1,920

Note 6. Reset exchangeable securities

(a) Composition		
5,500,000 Reset exchangeable securities	550,000	550,000
Less: capitalised transaction costs	(3,235)	(6,190)
	546,765	543,810
(b) Reconciliation of movements for the financial year		
Balance at the beginning of the financial year	543,810	542,183
Amortisation of capitalised transaction costs	2,328	2,369
Foreign currency exchange differences	627	(742)
Balance at the end of the financial year	546,765	543,810

Note 6. Reset exchangeable securities (continued)

(c) Terms and conditions

On 11 January 2005, the New Zealand branch of the Company issued 5,500,000 the RES raising a total of \$550,000,000. The RES began trading on the ASX on 12 January 2005.

The gross proceeds of the issue were loaned to a related body corporate, IAG (NZ) Holdings Limited on commercial terms. This is disclosed as a loan to a related body corporate on the balance sheet and includes accrued interest.

RES holders are entitled to an interest payment, subject to the terms of issue, that is noncumulative and based on a floating rate. The following quarterly interest payments on the RES were made during the financial year ended 30 June 2008:

Payment date	Amount per RES	Interest rate
17 September 2007	\$1.3725	5.3293% per annum
17 December 2007	\$1.4253	5.7167% per annum
17 March 2008	\$1.4904	5.9780% per annum
16 June 2008	\$1.5806	6.3397% per annum

The next quarterly interest payment, which is expected to be \$1.5681 per RES (6.2895% per annum), is due for payment on 15 September 2008. This interest payment is expected to be fully franked.

The Company's obligations to RES holders are secured by a portfolio of high quality, shortdated, fixed interest securities (Portfolio). This Portfolio is held by a special purpose related body corporate, IAG Portfolio Limited. The Portfolio was funded by a loan from Insurance Australia Limited, a related body corporate, to IAG Portfolio Limited. At 30 June 2008, the net market value of the Portfolio was \$553,875,000 (2007 - \$551,490,000).

Interest payments on RES depend on the performance of the Portfolio. An interest payment may not be paid in full if the total income from the Portfolio is less than the interest payment on RES. An interest payment may not be made at all if IAG does not have sufficient profits equal to or greater than the interest payment on RES and has not paid a dividend on any of its classes of capital in the preceding 12 months.

RES redemption amount will depend on the performance and creditworthiness of the Portfolio. IAG may, at any time, exercise its right to exchange some or all RES for preference shares issued by IAG.

The Company may change some of the terms of the RES or redeem or convert some or all RES on a reset date. The first reset date is 15 March 2010 after which the reset dates are expected to be every 5 years. RES holders can request redemption of some or all of their RES under certain circumstances.

(d) Significant risks

(i) Interest rate risk

The RES bear a variable rate of interest (calculated based on a fixed margin over an external variable reference rate) and so the Company is exposed to movements in the underlying reference rate which is based on an average mid-rate for the relevant period for bank bills of a term of 90 days. The Company's obligations to RES holders are secured by a high quality portfolio of assets referred to above.

(ii) Liquidity risk

The RES is a perpetual instrument subject to reset dates overlaid by IAG's right to exchange some or all of RES for preference shares issued by IAG, at any time. The next reset date is 15 March 2010.

(e) Fair value

The RES are publicly traded on the ASX which is considered an active market and so the fair value of the instrument at a point in time is taken to be the listed offer price. The listed offer price as at reporting date was \$81.89 per \$100.00 of face value (2007 - \$100.09).

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

Note 7. Dividends

(a) Ordinary shares

Recognised in the year ended 30 June 2008

	\$ per share	Total amount	Payment date
		\$000	
Dividend paid	1,500,000	1,500	17 Sept 2007
Dividend paid	1,300,000	1,300	17 Dec 2007
Dividend paid	1,200,000	1,200	25 Mar 2008
Dividend paid	2,000,000	2,000	16 June 2008
		6,000	

Recognised in year ended 30 June 2007

2007 dividend	800,000	800	26 June 2007
		800	

There are presently no restrictions on the payment of dividends by the Company other than the payment of dividends generally being limited to profits subject to ongoing solvency obligations.

(b) 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.

	\$ per share	Total amount	Expected payment date
		\$000	
2008 dividend	2,000,000	2,000	15 Sept 2008

Note 8. Share capital

As at reporting date there was 1 ordinary share on issue (2007 - 1). The ordinary share is fully paid. The ordinary share entitles the holder to a vote at a general meeting of the Company and participate in the dividends and the proceeds on winding up the Company.

Note 9. Notes to the cash flow statement	2008 \$000	2007 \$000
(a) Composition		
Cash and cash equivalents	1,176	654

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and money market investments readily convertible to cash within two working days, net of any bank overdraft. The net carrying amount of cash and cash equivalents is equivalent to the fair value of the assets because of the negligible credit risk and frequent repricing. 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 statement.

(b) Reconciliation of profit for the year to net cash flows from operating activities

Profit for the year	3,501	4,427
Net foreign exchange (gains) and losses	636	(1,081)
Amortisation of capitalised transaction costs	2,569	2,369
Decrease/(increase) in operating assets:		
Interest receivable from a related body corporate	309	(397)
Current tax assets	160	37
Deferred tax assets	1	(2)
Increase/(decrease) in operating liabilities:		
Trade and other payables	13	(29)
Interest payable on reset exchangeable securities	(223)	(327)
Payables to related bodies corporate	(203)	386
Employee benefits provision	(2)	5
Current tax liability	9	-
Net cash flows from operating activities	6,770	5,388

(c) 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 10. Employee benefits

(a) Employee benefits provision

Annual leave and performance bonus	15	17
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(b) Employee numbers

The New Zealand branch of the Company had 1 employee on full time equivalent basis as at 30 June 2008 (2007 - 1).

Note 11. Contingencies

In respect of the issue of the RES:

- (a) IAG Portfolio Limited, a wholly-owned subsidiary of IAG, has granted to Permanent Trustee Company Limited (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.
- (b) To safeguard the interests of RES holders, the Company has granted the Trustee, a fixed charge over its rights, title and interest in the payments to it under the Portfolio Management Agreement and certain intra group receivables.
- (c) 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 the "floor" rate of 2.80% per annum. This will enable IAG Portfolio Limited to generate sufficient income to allow the Company to make part or full interest payments on the RES.
- (d) 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.
- (e) IAG may exchange some or all of the RES for preference shares issued by IAG at any time.
- (f) The Company 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.
- (g) The Company may, redeem the RES 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.
- (h) RES holders may redeem the RES on any reset date or if a trigger event, as defined in the RES terms, occurs.
- (i) IAG has an obligation to pay all costs, charges and expenses in managing the Portfolio including the Trustee and custodian.
- (j) 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.

Note 12. Related party disclosures

(a) Controlling entity

The ultimate parent entity is IAG which is incorporated in Australia. There were no transactions with the ultimate parent entity during the year (2007 - none).

(b) Related parties within the IAG Group

(i) Transactions during the year

Aggregate amounts included in the determination of profit before income tax for the year that resulted from transactions with other related parties within the IAG Group were as follows:

<i>Income:</i>	2008 \$000	2007 \$000
Interest income received or receivable from IAG (NZ) Holdings Limited	47,539	43,175
Service fee received or receivable from IAG New Zealand Limited	54	55
Services fee received or receivable from IAG (NZ) Holdings Limited	18	18
<i>Expenses:</i>		
Interest expenses on cross currency swap paid or payable to Insurance Australia Limited	5,310	7,133

The foreign exchange loss of \$70,534,000 (2007 - a gain of \$53,634,000) on the loan to related body corporate has been wholly offset by the gain on the cross currency swap (refer to (ii) below) of \$70,534,000 (2007 - a loss of \$53,634,000).

(ii) Balances outstanding at reporting date

Aggregate amounts receivable from, and payable to, other related parties within the IAG Group at reporting date were as follows:

Receivables:

Loan to IAG (NZ) Holdings Limited (i)	477,918	548,783
Cross currency swap with Insurance Australia Limited (ii)	73,903	3,347

Payables:

Amounts payable to Insurance Australia Limited	218	421
Loans payable to Insurance Australia Limited	-	454

(i) The loan to IAG (NZ) Holdings Limited bears a variable rate of interest reset quarterly and is equal to the three month bank bill rate on the first day of an interest period plus a margin of up to 0.55% which is set at the discretion of the Company. The current margin is 0.55%. The loan is repayable on 15 March 2010. The loan is denominated in New Zealand dollars.

(ii) The fair value of the cross currency swap at reporting date was \$73,881,000 (2007 - \$3,347,000). The net gain recognised for the movement in fair value during the current reporting period was \$70,534,000 (2007 - net loss of \$53,634,000).

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. The loans are however measured at amortised cost and so the Company is not exposed at a particular reporting date to changes in fair value.

Notes to the Financial Statements for the year ended 30 June 2008 (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:

	2008 \$	2007 \$
Short term employee benefits	90,887	83,557
Post employment benefits	6,684	7,573
Other long term benefits	717	1,151
Termination benefits	9,697	-
Share based payments	29,653	31,769
	137,638	124,050

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 Company.

(ii) Interest in securities

As at reporting date, the relevant interest of each key management personnel in shares, options and other securities over shares in or debentures of the Company and IAG were as follows:

Director	Reset exchangeable securities ¹	Ordinary shares ²	Performance award rights and deferred award rights ²	Reset preference shares ²
JA Strong	-	345,570	-	-
RA Ross	-	194,189	-	-
MJ Wilkins	-	100,000	250,000	-
G Venardos	-	169,799	560,134	-
MJ Hawker*	*	*	*	*
MDE Woods*	*	*	*	*

¹ These securities have been issued by the Company. The number disclosed includes securities directly held and indirectly held by the directors' related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the directors. There was no movement in RES held by any of the directors for the year ended 30 June 2008 (2007 - no movement). For MJ Hawker and MDE Woods who resigned as directors during the year, information of RES held by them only disclosed up to the date of their resignation.

² These securities have been issued by IAG, the ultimate parent entity, or provide a right over shares in IAG. The number disclosed includes securities directly held and indirectly held by the directors' related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the directors.

* MJ Hawker and MDE Woods resigned as directors from 26 May 2008 and 25 January 2008, respectively. Their holdings of IAG securities (other than RES) were not disclosed as at reporting date.

(d) Other transactions

Insurance products provided by the IAG Group are also available to all directors on the same terms and conditions available to other employees.

Note 13. Financial risk management

The Company is exposed to interest rate risk, currency risk, credit risk and liquidity risk from its business.

(a) Interest rate risk

The Company's exposure to interest rate risk arises primarily from its reset exchangeable securities (variable Australian dollar interest rate payable) and the loan to a related body corporate (variable New Zealand dollar interest rate receivable).

The Company has entered into a cross currency swap with a related body corporate, Insurance Australia Limited, in order to hedge the interest rate and currency risk. Hedge accounting is not applied to this transaction. The swap has no maturity date, but will terminate when the RES are redeemed, converted or exchanged. Over the term of the swap, the Company will receive Australian dollar payments equal to the interest payable on the RES and will pay interest at the variable rate of the New Zealand three month bank bill mid market settlement rate less a margin on a principal amount of NZ\$600 million. The margin is variable and is the difference (whether positive or negative) between the interest rate on the RES and the relevant Australian 90 day bank bill swap rate (3M BBSW).

As a result of the hedging arrangements, the Company has no exposure to the movement in New Zealand interest rates. However as a consequence of the method of calculation of the margin applied to the periodic New Zealand dollar payments under the cross currency swap, the net interest income of the Company is exposed to falls in the 3M BBSW.

Net interest income will reduce by approximately 0.3% for every 1.0% decrease in 3M BBSW.

(b) Currency risk

The Company's only significant exposure to currency risk arises from providing the Australian dollar proceeds of the RES issue to IAG (NZ) Holdings Ltd, a related body corporate, as a loan denominated in New Zealand dollars.

The Company has entered into a cross currency swap with a related body corporate, Insurance Australia Limited, the details for which are provided in section (a) above.

On termination of the cross currency swap, the Company will repay the principal amount of NZ\$600 million and receive \$550 million based on the original spot exchange rate at inception.

A reasonably possible movement in exchange rates would not impact the results of the Company because of the economic hedge in place.

(c) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The credit risk exposures of the Company are in respect of the non-repayment of receivables and loans with related parties and the amounts are as indicated by the carrying amount of the financial assets. The Company complies with the credit risk management policies of the IAG Group. The policies outline the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality.

(d) Liquidity risk

Liquidity risk is concerned with the risk that sufficient cash resources will not be available to meet payment obligations as they become due (without incurring significant additional costs). The liquidity position is derived from operating cashflows and access to liquidity through related body corporates. The Company complies with the liquidity risk management policies of the IAG Group. The policies outline the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Note 14. Capital management

The principal activity of the Company is to perform all treasury functions of the IAG Group's New Zealand operations.

The funds raised through the issue of the RES are in effect the capital of the Company. This capital is managed in consultation with the Company's ultimate parent entity, IAG.

Note 15. Net tangible assets

	2008	2007
	\$000	\$000
Net tangible assets per ordinary share	4,436	6,935

Note 16. 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.

Declaration of dividend

On 18 August 2008, a dividend of \$2,000,000 per share was declared by the Company. The dividend will be paid on 15 September 2008.

DIRECTORS' DECLARATION & INDEPENDENT AUDITOR'S REPORT

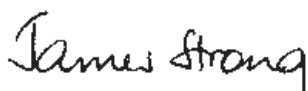
Directors' Declaration

In the opinion of the directors of IAG Finance (New Zealand) Limited:

- (a) the financial statements and notes 1 to 16, 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 as at 30 June 2008 and of its performance, as represented by the results of its operations and its 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 disclosures that are contained in the Remuneration Report of the directors' report comply 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 18th day of August 2008 in accordance with a resolution of the directors.



James Strong
Director

Independent Auditor's Report

To the equity holder of IAG Finance (New Zealand) Limited

Report on the financial report

We have audited the accompanying financial report of IAG Finance (New Zealand) Limited (the Company), which comprises the balance sheet as at 30 June 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 16 and the Directors' declaration.

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 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 financial position and of its performance.

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

Auditor's opinion on the financial report

In our opinion:

- a) the financial report of IAG Finance (New Zealand) Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the financial year ended on that date, and
 - (ii) complying with Australian Accounting Standards (including 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 IAG Finance (New Zealand) Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Brian Greig

Partner

Sydney

18 August 2008

RES HOLDER INFORMATION

You can access information about RES including portfolio value, interest payments and current ASX releases at <http://www.iag.com.au/shareholder/res/index.shtml>.

Code on ASX

RES are listed on the Australian Securities Exchange under the code **IANG**.

RES Holder Registry

All Registry functions are performed by Computershare Investor Services Pty Limited who can be contacted on:

Telephone: 1300 360 688
Email: iag@computershare.com.au
Fax: (03) 9473 2470
Postal address: Computershare Investor Services Pty Limited
GPO Box 2715
Melbourne VIC 8060

Portfolio Value

The value of the RES Portfolio as at 30 June 2008 was \$553,874,733.
This value is updated monthly at www.iag.com.au/shareholder/res/index.shtml.

Interest Payments

Period End	\$ per Security	Ex Date	Record Date	Payment Date	Franking Level	Franking Credit
16/09/07	\$1.3725	04/09/07	10/09/07	17/09/07	100%	30%
16/12/07	\$1.4253	04/12/07	10/12/07	17/12/07	100%	30%
16/03/08	\$1.4904	03/03/08	07/03/08	17/03/08	100%	30%
15/06/08	\$1.5806	02/06/08	06/06/08	16/06/08	100%	30%
14/09/08	\$1.5681*	02/09/08	08/09/08	15/09/08	100%**	30%**

* The interest payment is subject to the interest payment tests set out in the RES terms.

** Expected franking level and franking credit.

Interest Payments

Until the first reset date which is 15 March 2010, RES holders are entitled, subject to the RES terms, to receive quarterly interest payments based on a margin of 1.2% per annum above the 90 day Bank Bill Rate and adjusted for the value of attached franking credits. The interest payments are expected to be fully franked. The interest rate for the current interest period, from 16 June 2008 to 14 September 2008 is 6.2895% per annum.

Annual Report

Amendments to the *Corporations Act 2001* in 2007 have changed the obligations of companies regarding the provision of annual reports. The default option for the RES annual report has changed from a printed version to be via our website.

You will be able to access your Annual Report at www.iag.com.au/shareholder/res/index.shtml or elect to receive email notification when the Annual Report is available online at <http://www.iag.com.au/shareholder/manage/index.shtml>.

Annual General Meeting

The Company is not required, and does not intend, to hold an Annual General Meeting.

Voting

RES holders have no rights in the Company and no voting rights in IAG unless RES are exchanged or converted into shares issued by IAG.

INFORMATION ON RES HOLDINGS

Twenty Largest RES holders as at 18 August 2008	No. of RES	% of RES Issued
J P Morgan Nominees Australia Limited	706,299	12.84
UBS Wealth Management Australia Nominees Pty Ltd	323,074	5.87
Citicorp Nominees Pty Limited	213,054	3.87
HSBC Custody Nominees (Australia) Limited	170,205	3.10
National Nominees Limited	144,682	2.63
ANZ Nominees Limited <Cash Income A/C>	88,728	1.61
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	74,388	1.35
Suncorp Custodian Services Pty Limited <AFT>	69,344	1.26
RBC Dexia Investor Services Australia Nominees Pty Limited <GSJBW A/C>	67,565	1.23
UCA Cash Management Fund Ltd	58,836	1.07
Suncorp Custodian Services Pty Limited <ACT>	52,845	0.96
Cryton Investments No 9 Pty Ltd <Garner Number 1 A/C>	48,000	0.87
Cogent Nominees Pty Limited	42,887	0.78
ANZ Nominees Limited <SL Cash Income A/C>	35,000	0.64
Perpetual Trustees Consolidated Limited <Alliance A/C>	29,550	0.54
Argo Investments Limited	25,000	0.46
SR Consolidated Pty Ltd	22,363	0.41
Meriton Property Finance Pty Ltd	22,361	0.41
Australian Executor Trustees Limited <No 1 Account>	21,964	0.40
The Australian National University	20,000	0.36
Total for Top Twenty	2,236,145	40.66

Range of holders as at 18 August 2008	No. of holders	No. of RES	% of RES Issued
1 - 1,000	6,104	1,887,142	34.31
1,001 - 5,000	427	906,956	16.49
5,001 - 10,000	39	292,007	5.31
10,001 - 100,000	28	856,581	15.58
100,001 & over	5	1,557,314	28.31
Total	6,603	5,500,000	100.00
Holders with less than a marketable parcel of 6 securities as at 18 August 2008	2	6	



DIRECTORY

Company and Registered Office

IAG Finance (New Zealand) Limited
(ABN 97 111 268 243)
Level 26, 388 George Street
Sydney NSW 2000

Telephone (02) 9292 9222
Fax (02) 9292 8072

Website www.iag.com.au/shareholder/res/index.shtml

NZ Branch and Issuer

IAG Finance (New Zealand) Limited
IAG House
Level 10, 151 Queen Street
Auckland, New Zealand

Company Secretary

Glenn Revell BCom, MBus, FCPA, FCIS, GAICD
Fraser MacLennan-Pike LLB (Hons)