STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED 2012 $m	2011 $m
Premium revenue	5	**8,577**	7,858
Outwards reinsurance premium expense	6	**(734)**	(620)
Net premium revenue (i)		**7,843**	7,238
Claims expense	6	**(7,455)**	(8,493)
Reinsurance and other recoveries revenue	5	**1,664**	3,404
Net claims expense (ii)	11	**(5,791)**	(5,089)
Acquisition costs	6	**(1,130)**	(1,009)
Other underwriting expenses	6	**(716)**	(721)
Fire services levies	6	**(298)**	(248)
Underwriting expenses (iii)		**(2,144)**	(1,978)
Underwriting profit/(loss) (i) + (ii) + (iii)		**(92)**	171
Investment income on assets backing insurance liabilities	5	**944**	508
Investment expenses on assets backing insurance liabilities	6	**(20)**	(19)
Insurance profit/(loss)		**832**	660
Investment income on equity holders' funds	5	**101**	222
Fee and other income	5	**253**	264
Share of net profit/(loss) of associates	5	**(12)**	(8)
Finance costs	6	**(97)**	(86)
Fee based, corporate and other expenses	6	**(625)**	(434)
Net income attributable to non-controlling interests in unitholders' funds	6	**(9)**	(4)
Profit/(loss) before income tax		**443**	614
Income tax (expense)/credit	7	**(178)**	(276)
Profit/(loss) for the year		**265**	338
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Actuarial gains and (losses) on defined benefit arrangements		**(73)**	7
Net movement in foreign currency translation reserve		**18**	(4)
Income tax (expense)/credit on other comprehensive income and (expense)		**18**	(46)
Other comprehensive income and (expense), net of tax		**(37)**	(43)
Total comprehensive income and (expense) for the year, net of tax		**228**	295
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the Parent		**207**	250
Non-controlling interests		**58**	88
Profit/(loss) for the year		**265**	338
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the Parent		**170**	207
Non-controlling interests		**58**	88
Total comprehensive income and (expense) for the year, net of tax		**228**	295

	NOTE	CONSOLIDATED 2012 cents	2011 cents
EARNINGS PER SHARE			
Basic earnings per ordinary share	9	**10.01**	12.08
Diluted earnings per ordinary share	9	**9.96**	12.01

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

BALANCE SHEET
AS AT 30 JUNE 2012

	NOTE	CONSOLIDATED	
		2012	2011
		$m	$m
ASSETS			
Cash held for operational purposes	24	**969**	509
Investments	15	**12,953**	11,893
Premium receivable	16	**2,502**	2,081
Trade and other receivables	16	**449**	560
Reinsurance and other recoveries on outstanding claims	12	**3,928**	4,010
Deferred levies and charges		**178**	142
Deferred outwards reinsurance expense		**493**	371
Deferred acquisition costs	13	**753**	683
Deferred tax assets	7	**373**	311
Property and equipment	17	**274**	284
Investment in joint ventures and associates	27	**384**	284
Intangible assets	18	**225**	225
Goodwill	19	**1,625**	1,644
Other assets		**26**	32
Total assets		**25,132**	23,029
LIABILITIES			
Trade and other payables	20	**1,135**	826
Reinsurance premium payable		**264**	204
Restructuring provision	21	**20**	10
Current tax liabilities		**257**	280
Unearned premium liability	14	**4,942**	4,355
Non-controlling interests in unitholders' funds		**216**	184
Employee benefits provision	28	**358**	275
Deferred tax liabilities	7	**9**	12
Outstanding claims liability	11	**11,709**	10,889
Interest bearing liabilities	22	**1,659**	1,377
Other liabilities		**39**	37
Total liabilities		**20,608**	18,449
Net assets		**4,524**	4,580
EQUITY			
Share capital		**5,353**	5,353
Treasury shares held in trust		**(55)**	(57)
Reserves		**(68)**	(84)
Retained earnings		**(887)**	(795)
Parent interest		**4,343**	4,417
Non-controlling interests		**181**	163
Total equity		**4,524**	4,580

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 2012

CONSOLIDATED	SHARE CAPITAL $m	TREASURY SHARES HELD IN TRUST $m	FOREIGN CURRENCY TRANSLATION RESERVE $m	SHARE BASED REMUN-ERATION RESERVE $m	RETAINED EARNINGS $m	NON-CONTROLLING INTERESTS $m	TOTAL EQUITY $m
2012							
Balance at the beginning of the financial year	**5,353**	**(57)**	**(109)**	**25**	**(795)**	**163**	**4,580**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**207**	**58**	**265**
Other comprehensive income and (expense)	**-**	**-**	**15**	**-**	**(52)**	**-**	**(37)**
Total comprehensive income/(expense) for the year	**-**	**-**	**15**	**-**	**155**	**58**	**228**
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	**-**	**(14)**	**-**	**-**	**-**	**-**	**(14)**
Share based payment expense recognised	**-**	**-**	**-**	**18**	**-**	**-**	**18**
Share based remuneration vested	**-**	**16**	**-**	**(17)**	**1**	**-**	**-**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(250)**	**(40)**	**(290)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Balance at the end of the financial year	**5,353**	**(55)**	**(94)**	**26**	**(887)**	**181**	**4,524**
2011							
Balance at the beginning of the financial year	5,353	(58)	(61)	27	(775)	170	4,656
Profit/(loss) for the year	-	-	-	-	250	88	338
Other comprehensive income and (expense)	-	-	(48)	-	5	-	(43)
Total comprehensive income/(expense) for the year	-	-	(48)	-	255	88	295
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	-	(14)	-	-	-	-	(14)
Share based payment expense recognised	-	-	-	18	-	-	18
Share based remuneration vested	-	15	-	(13)	(2)	-	-
Share based remuneration lapsed	-	-	-	(7)	7	-	-
Non-controlling interests in acquisitions during the year	-	-	-	-	-	2	2
Dividends determined and paid	-	-	-	-	(281)	(97)	(378)
Dividends received on treasury shares held in trust	-	-	-	-	1	-	1
Balance at the end of the financial year	5,353	(57)	(109)	25	(795)	163	4,580

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 2012

	NOTE	CONSOLIDATED 2012 $m	2011 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**8,692**	8,020
Reinsurance and other recoveries received		**1,688**	1,056
Claims costs paid		**(6,524)**	(5,991)
Outwards reinsurance premium expense paid		**(796)**	(768)
Dividends received		**31**	40
Interest and trust distributions received		**616**	601
Finance costs paid		**(88)**	(84)
Income taxes refunded		**3**	6
Income taxes paid		**(253)**	(150)
Other operating receipts		**1,239**	980
Other operating payments		**(3,094)**	(3,090)
Net cash flows from operating activities	24	**1,514**	620
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on acquisition of subsidiaries and associates		**(236)**	(37)
Proceeds from disposal of investments and property and equipment		**9,090**	9,123
Outlays for investments and property and equipment		**(9,623)**	(9,048)
Net cash flows from investing activities		**(769)**	38
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for purchase of treasury shares		**(14)**	(14)
Proceeds from issue of trust units		**128**	133
Outlays for redemption of trust units		**(104)**	(75)
Proceeds from borrowings		**611**	-
Repayment of borrowings		**(350)**	(4)
Dividends paid to IAG equity holders		**(250)**	(281)
Dividends paid to non-controlling interests		**(40)**	(97)
Dividends received on treasury shares		**2**	1
Net cash flows from financing activities		**(17)**	(337)
Net movement in cash held		**728**	321
Effects of exchange rate changes on balances of cash held in foreign currencies		**6**	(42)
Cash and cash equivalents at the beginning of the financial year		**1,332**	1,053
Cash and cash equivalents at the end of the financial year	24	**2,066**	1,332

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. This financial report is for the current reporting period ended 30 June 2012 and consolidated financial statements for the Company and its subsidiaries (Group or Consolidated entity). The Group is a for-profit entity.

This general purpose financial report was authorised by the board of directors for issue on 23 August 2012.

A. STATEMENT OF COMPLIANCE

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board, other authoritative pronouncements of the Australian Accounting Standards Board and the 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 the Australian Accounting Standards. This financial report of the Consolidated entity complies with IFRS.

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

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

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

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

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 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 12 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.

None of these standards have been early adopted and applied in the current reporting period. These standards will be adopted in the year commencing 1 July after the operative date. For example, AASB 9 will be operative in the financial year commencing 1 July 2013.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2013	A
AASB 10	Consolidated Financial Statements	1 January 2013	A
AASB 11	Joint Arrangements	1 January 2013	A
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	B
AASB 13	Fair Value Measurement	1 January 2013	A
AASB 119	Employee Benefits (September 2011)	1 January 2013	A
AASB 127	Separate Financial Statements (2011)	1 January 2013	A
AASB 128	Investments in Associates and Joint Ventures (2011)	1 January 2013	A
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	C
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013	C
AASB 2010-8	Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets	1 January 2012	A
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	B
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	A
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	A
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	1 July 2012	B
AASB 2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)	1 January 2013	A
AASB 2012-2	Amendments to Australian Accounting Standards arising from AASB 7- Disclosures on offsetting financial assets and financial liabilities	1 January 2013	B
AASB 2012-3	Amendments to Australian Accounting Standards arising from AASB 132 - Disclosures on offsetting financial assets and financial liabilities	1 January 2014	A
AASB 2012-5	Amendments to Australian Accounting Standards arising from annual improvements 2009-2011 cycle	1 January 2013	A

TABLE NOTE

A These changes are not expected to have a significant, if any, financial impact.

B These changes will only impact disclosures when preparing the annual financial report.

C This standard gives effect to consequential changes arising from the issuance of AASB 9. This standard is required to be adopted in the same reporting period when AASB 9 is adopted.

II. Changes in accounting policies

There were a number of Australian Accounting Standards and Interpretations applicable for the current reporting period. Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the Group.

III. Reclassifications of comparatives

Certain items have been reclassified from the Consolidated entity's prior year financial report to conform to the current period's presentation. The reclassifications are:

- A $106 million balance sheet reclassification between reinsurance and other recoveries on outstanding claims and outstanding claims liability as at 30 June 2011. The balances have been reclassified to better reflect the risk margin on reinsurance recoveries in the United Kingdom. There is no impact to the profit/(loss) for the period.

IV. Rounding

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

C. PRINCIPLES OF CONSOLIDATION

I. Subsidiaries

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

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

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

II. Associates

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

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

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

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

III. Lloyd's syndicates

The nature of Lloyd's syndicates is such that even when one party provides the majority of capital, the syndicate as a whole is still not controlled for accounting purposes. Members of Lloyd's accept insurance business through syndicates on a separate basis for their own profit and are not jointly responsible for each other's losses. Hence, even where the Group contributes the majority of capital for a syndicate, only the portion of the syndicate represented by the capital contribution is recognised in the consolidated financial report.

SIGNIFICANT ACCOUNTING POLICIES RELATED TO GENERAL INSURANCE CONTRACTS

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

D. PREMIUM REVENUE

Premium revenue comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts. Premium includes amounts collected for levies and charges for which the amount to be paid by the insurer does not depend on the amounts collected, such as for fire services levies in Australia, but excludes stamp duties and taxes collected on behalf of third parties, including the goods and services tax in Australia. Premium is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

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

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES

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

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

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

M. TAXATION

I. Income tax

Income tax expense for a reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

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.

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. Any difference between these amounts is recognised by IAG as an equity contribution or distribution.

All entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly owned entities in the case of a default by the head entity.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate the Company for any current tax payable assumed.

III. Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable. 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. Cash flows are included in the cash flow statement on a gross basis.

N. INVESTMENTS

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

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs.

Investment revenue is brought to account on an accruals basis. Revenue on investments in equity securities and property trusts is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date.

O. INVESTMENT IN SUBSIDIARIES

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

Where an additional interest is purchased in an existing subsidiary, the acquisition is treated as a transaction between owners and has no impact on the statement of comprehensive income.

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

P. INVESTMENT IN JOINT VENTURES AND ASSOCIATES

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

Q. DERIVATIVES

The Group uses a variety of derivatives to manage various risks. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

I. Derivatives without hedge accounting applied

Derivatives are initially recognised at trade date at fair value excluding transaction costs. The fair value is determined by reference to current market quotes or generally accepted valuation principles.

Transaction costs for purchases of derivatives are expensed as incurred.

For derivatives that do not qualify for hedge accounting, the changes in fair value are immediately recognised in profit or loss. The derivatives in relation to the investment operations are presented together with the underlying investments while the derivatives in relation to corporate treasury transactions are presented as receivables when the fair value is positive, or as payable when the fair value is negative.

Where derivatives qualify for hedge accounting, the treatment is set out in section II.

II. Hedge accounting

Hedge accounting may be applied to derivatives designated as hedging instruments provided certain criteria are met. Certain transactions have been designated as the following:

- Fair value hedge: hedge of a change in fair value of an asset or liability or an unrecognised firm commitment; or
- Cash flow hedge: hedge of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction; or
- Net investment hedge: hedge of a net investment in a foreign operation.

To qualify for hedge accounting, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective. Actual effectiveness in the range of 80% to 125% must also be demonstrated on an ongoing basis. When it is determined that a derivative for which hedge accounting has been designated is not (or ceases to be) effective, hedge accounting is discontinued prospectively from the date of ineffectiveness.

a. FAIR VALUE HEDGE

Changes in the fair value of hedging instrument are recognised in profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b. CASH FLOW HEDGE

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

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

c. NET INVESTMENT HEDGE

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

III. Embedded derivatives

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

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

S. PROPERTY AND EQUIPMENT
Property and equipment is initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

All items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment charges. Depreciation is calculated using the straight line method to allocate the cost of assets less any residual value over the estimated useful economic life.

The carrying amount of property and equipment is reviewed each reporting date. If any impairment indicates or exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where an existing carrying value exceeds the recoverable amount, the difference is recognised in profit or loss.

The net gain or loss on disposal of property and equipment is recognised in profit or loss and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

T. BUSINESS COMBINATIONS
Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition is the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the date of exchange. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. The group measures any non-controlling interest, on a transaction-by-transaction basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the identifiable assets and liabilities.

Acquisition related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Where settlement of any part of cash consideration is contingent upon some future event or circumstance, the estimated amounts payable in the future are discounted to their present value at the date of exchange. When the contingent consideration is classified as a liability, the impact on any subsequent changes in fair value is recognised as profit or loss in the statement of comprehensive income.

Where the initial accounting for a business combination is determined only provisionally by the first reporting date after acquisition date, the business combination is accounted for using those provisional values. Any subsequent adjustments to those provisional values are recognised within 12 months of the acquisition date and are applied effective from the acquisition date.

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

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

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

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

V. GOODWILL

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

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units (CGUs). CGUs are determined principally based on how goodwill is monitored by management. The carrying value of goodwill is tested for impairment at each reporting date.

Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss and cannot subsequently be reversed. The recoverable amount of goodwill is determined by the present value of the estimated future cash flows by using a pre-tax discount rate that reflects current market assessment of the risks specific to the CGUs.

At the date of disposal of a business, attributed goodwill is used to calculate the gain or loss on disposal.

W. TRADE AND OTHER PAYABLES

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

X. RESTRUCTURING PROVISION

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

Y. LEASE PROVISION

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

Z. EMPLOYEE BENEFITS

I. Wages and salaries, annual leave and sick leave

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

II. Long service leave

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

III. Share based incentive arrangements

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

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

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

IV. Superannuation

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

AA. INTEREST BEARING LIABILITIES AND FINANCE COSTS

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

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

AB. 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 (functional currency). The financial statements are presented in Australian dollars, which is the presentation currency of the Group.

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 the functional currency using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

III. Translation of the financial results of foreign operations

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

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

IV. Principal exchange rates used

The reporting date exchange rates for balance sheet translation and the annual average daily exchange rates for statement of comprehensive income and cash flow statement translation are provided here for selected currencies to Australian dollars as an indication of the rates used for the current period.

	BALANCE SHEET		STATEMENT OF COMPREHENSIVE INCOME AND CASH FLOW STATEMENT	
	2012	2011	**2012**	2011
New Zealand dollar	**0.78286**	0.77201	**0.77973**	0.76660
British pound	**1.53403**	1.49961	**1.53516**	1.60983
Thai baht	**0.03094**	0.03031	**0.03141**	0.03307
United States dollar	**0.97656**	0.93210	**0.96914**	1.01252

AC. PROVISION FOR DIVIDENDS

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

AD. EARNINGS PER SHARE

I. Basic earnings per share

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

II. Diluted earnings per share

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

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

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

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

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

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

- insurance contracts related:
  - claims, refer to note 11;
  - reinsurance and other recoveries on outstanding claims, refer to note 12; and
  - liability adequacy test, refer to note 14.B.

  The estimation process of the gross cash flows for the recent natural catastrophe events in New Zealand is conducted in a similar manner to that described above, but is subject to a high degree of uncertainty owing to the unique nature of the events including the allocation of costs between the events for policies affected by multiple events, the decision process surrounding the zoning of land for rebuilding and the estimated cost of the event relative to the size of the New Zealand economy.

  There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (e.g. deferred acquisition costs). The estimates relate to past events, do not incorporate forward looking considerations, and generally do not change from year to year.

- other:
  - intangible assets and goodwill impairment testing, refer to notes 18 and 19;
  - acquired intangible assets initial measurement and determination of useful life, refer to notes 18 and 25;
  - income tax and related assets and liabilities, refer to note 7;
  - share based remuneration, refer to note 29; and
  - defined benefit superannuation arrangements, refer to note 30.

The accounting judgements made during the reporting period that did not involve estimations, other than described above, are considered to have had no significant impact on the amounts recognised in the financial report (2011–none).

NOTE 3. INSURANCE RISK MANAGEMENT
A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Consolidated entity is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Consolidated entity also faces other risks relating to the conduct of the general insurance business including financial risks (refer to the financial risk management note) and capital risks (refer to the capital management note).

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

A. RISK MANAGEMENT FRAMEWORK

The Group has in place a dedicated group risk management function responsible for the development and maintenance of the risk management framework. The risk management framework provides reasonable assurance that the Group's material risks are being prudently and soundly managed. At the same time it is acknowledged that all business activity entails risk so the focus is on management of this risk rather than complete risk avoidance. The risk management framework is outlined in a written Risk Management Strategy (RMS) which is in accordance with the prudential standards issued by the Australian Prudential Regulation Authority (APRA). The RMS:

- is a high level, strategic document intended to describe key elements of the risk management framework;
- describes board and management approved parameters (i.e. risk appetite) within which key decisions must be made;
- is a key input into how regulators understand and assess the approach to risk management; and
- forms the basis of twice yearly declarations provided by executives and senior management to the board.

The framework also includes clearly defined managerial responsibilities, details of the group level risk management related policies and the key processes to identify, assess, monitor, report on and mitigate material risks, financial and non financial, likely to be faced. The group level policies for the management of risk are required to be applied by all businesses consistently across the Group and take into consideration local circumstances in non-Australian jurisdictions. There is a transition period for newly acquired businesses to comply with these policies.

A review process is in place to ensure that the risk management framework remains appropriate and effective. The Group has an internal audit function. As part of the internal audit plan there are reviews undertaken on various aspects of the risk management framework usage in the business divisions. Standard & Poor's (S&P) has rated the Group enterprise risk management program to be 'strong'.

The RMS is updated annually or as required to ensure it is materially correct and is approved by the board. It is resubmitted to APRA after any material changes are made. A three year rolling business plan is also submitted to APRA after each annual review or whenever material changes are made.

The framework also includes a written Reinsurance Management Strategy (REMS) which sets out key elements of the reinsurance management framework, processes for setting and monitoring the maximum event retention (MER), processes for selecting, implementing, monitoring and reviewing reinsurance arrangements and identification, roles and responsibilities of those charged with managerial responsibility for the reinsurance management framework. The REMS is in accordance with the prudential standards issued by APRA. The REMS is updated annually and approved by the board.

B. RISK MANAGEMENT OBJECTIVES AND POLICIES FOR MITIGATING INSURANCE RISK

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

The policies for the management of risk are applied consistently across the Group and take into consideration local circumstances in non-Australian jurisdictions. There is a transition period for newly acquired businesses to comply with these policies.

The key policies and processes put in place to mitigate insurance risk include the following.

I. Acceptance and pricing of risk

The underwriting of large numbers of less than fully correlated individual risks, across a range of classes of insurance businesses, in different regions reduces the variability in overall claims experience over time. Business divisions are set underwriting criteria covering the types of risks they are licensed to underwrite. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. Management information systems are maintained that provide up to date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including plain language policy terms, to ensure there is no misalignment between what policyholders perceive will be paid when a policy is initially sold and what is actually paid when a claim is made.

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

The table in section C of this note provides an analysis of gross written premium by region and product for the current and prior financial year demonstrating the limited exposure to the additional risks associated with long-tail classes of business.

II. Reinsurance

Reinsurance is used to limit exposure to large single claims as well as accumulation of claims that arise from the same or similar events.

Risks underwritten are also reinsured in order to stabilise earnings and protect capital resources. Each subsidiary that is an insurer has its own reinsurance program and determines its own risk tolerances, subject to principles set out in the REMS. To facilitate the reinsurance process, manage counter party exposure and to create economies of scale, the Group has established a captive reinsurance operation comprising companies located in Australia, Singapore and Labuan. This operation acts as the reinsurer for the Group by being the main buyer of the Group's outwards reinsurance program. A key responsibility of the reinsurance operation is to manage reinsurance and earnings volatility and the Group's exposure to catastrophe risk. The operation retains a portion of the intercompany business it assumes and retrocedes (passes on) the remainder to external reinsurers. The REMS provides that the reinsurance retention for catastrophe is not to exceed 4% of net earned premium.

While the majority of business ceded by the Consolidated entity's subsidiaries is reinsured with the Group's captive reinsurance operation, individual business units do purchase additional reinsurance protection outside the Group. This generally relates to facultative reinsurance covers.

The use of reinsurance introduces credit risk. The management of reinsurance includes the monitoring of reinsurers' credit risk and controls the exposure to reinsurance counterparty default. Refer to the financial risk management note for further details.

a. CURRENT PROGRAM

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

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

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

b. CHANGES DURING THE YEAR

The limit of catastrophe cover purchased was increased to $4.7 billion. Should a loss event occur that is greater than $4.7 billion, the Group could potentially incur a net loss greater than the MER. This would occur if the extent of the loss exceeded the upper limit of cover provided by the reinsurance protection. The Group holds capital to mitigate the impact of this possibility. Further, specific protection was purchased to provide cover up to NZD1.4 billion for catastrophe exposures generated through the acquisition of AMI Insurance in New Zealand.

At 30 June 2012, the Group MER for a first event arising from a catastrophe event was $150 million.

III. Claims management and provisioning

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

Claims provisions are established using actuarial valuation models and include a risk margin for uncertainty (refer to the claims note).

C. CONCENTRATIONS OF INSURANCE RISK

The exposure to concentrations of insurance risk is mitigated by a portfolio diversified into many classes of business across different regions and by the utilisation of reinsurance.

Concentration risk is particularly relevant in the case of catastrophes, usually natural disasters, which generally result in a concentration of affected policyholders over and above the norm and which constitutes the largest individual potential financial loss. Catastrophe losses are an inherent risk of the general insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in the results of operations and financial position. Catastrophes are caused by various natural events including earthquakes, bushfires, hailstorms, tropical storms and high winds. The Group is also exposed to certain human-made catastrophic events such as industrial accidents and building collapses. The nature and level of catastrophes in any period cannot be predicted accurately but can be estimated through the utilisation of predictive models. The Group actively limits the aggregate insurance exposure to catastrophe losses in regions that are subject to high levels of natural catastrophes.

Each year, the Group sets its tolerance for concentration risk and purchases reinsurance in excess of these tolerances. Various models are used to estimate the impact of different potential natural disasters and other catastrophes. The tolerance for concentration risk is used to determine the MER which is the maximum net exposure to insurance risk determined appropriate for any single event with a given probability. The selected MER is determined based on the cost of purchasing the reinsurance and capital efficiency.

The tables below demonstrate the diversity of the Group's operations by both region (noting that the insurance risks underwritten in Australia are written in all states and territories) and product. The tables show risk concentrations before reinsurance.

	CONSOLIDATED	
	2012	2011
	%	%
Australia	**79**	79
New Zealand	**13**	12
United Kingdom	**6**	7
Asia	**2**	2
	100	100

The consolidated gross written premium increased by 11.7% to $8,992 million during the 2012 financial year.

Motor	**34**	35
Home	**24**	23
Short-tail commercial	**19**	18
CTP (motor liability)	**11**	12
Liability	**5**	5
Other short-tail	**4**	4
Workers' compensation	**3**	3
	100	100

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

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

D. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can have overlaps with all of the other risk categories. When controls fail, operational risk events can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and responding to potential risks, and thereby minimises exposure to such risks.

As outlined in the RMS, operational risk is to be identified and assessed on an ongoing basis. The capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Group has an internal audit function that reviews the effectiveness of processes and procedures surrounding operational risk.

I. Regulatory and compliance risk

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

Throughout the current reporting period the Group has conformed with the requirements of its debt agreements, including all financial and non financial covenants (2011-full conformance).

The Group participates in two Lloyd's syndicates being Equity Red Star Motor Syndicate 218 (64.9% share of capacity) and Alba Group Syndicate 4455 (100%-in run off). All members at Lloyd's have joint and several liability and, in extreme cases, Lloyd's can also require 'special contributions' from members at the discretion of the Council of Lloyd's to maintain the Central Fund. Lloyd's has an A 'strong' rating issued by Standard & Poor's Rating Services.

E. ACQUISITION RISK

Acquisition risks are principally managed by governance controls over the due diligence and subsequent integration process of significant acquisitions. This includes performing due diligence appropriate to the entity's risk appetite for each target and by using a team of relevant and appropriate subject matter experts to manage the integration process.

NOTE 4. FINANCIAL RISK MANAGEMENT

The Group's RMS, as outlined in the insurance risk management note, considers financial risk, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Key aspects of the processes established to mitigate financial risks include:

- having an Asset and Liability Committee constituted by the IAG Board and comprising key executives with relevant oversight responsibilities that meets on a regular basis;
- monthly stress testing undertaken to determine the impact of adverse market movements and the impact of any derivative positions;
- maintenance of an approved Group Credit Risk Policy and Group Foreign Exchange Policy which are reviewed at least annually; and
- implementation of a Derivatives Risk Management Statement that considers the controls in the use of derivatives and sets out the permissible use of derivatives in relation to investment strategies.

A. MARKET RISK

Market risk is the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices.

I. Currency risk

a. NATURE OF THE RISKS AND HOW MANAGED

Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates. The Consolidated entity operates internationally and so is exposed to currency risk from various activities conducted in the normal course of business. Foreign currency exposure is a centrally managed risk, with hedging coordinated at the corporate office. Refer to the derivatives note for further detail on the hedging arrangements used to manage currency risk.

The key currency risk exposures relate to the following:

i. Investment of equity holders' funds

The investment of equity holders’ funds in assets denominated in currencies different to the functional currency of the investing subsidiary. Note that assets held to back insurance liabilities are held in the same currency as the related insurance liabilities mitigating any net foreign exchange exposure.

ii. Interest bearing liabilities

Foreign currency denominated interest bearing liabilities are normally of a capital nature. Some of these have been designated as hedging instruments to manage the foreign currency risk associated with investments in foreign operations as noted below.

iii. Investment in foreign operations

Net investment in foreign operations through the translation of the financial position and performance of foreign operations that have a functional currency other than the Australian dollar with the key currencies being New Zealand dollars, British pounds, Indian rupees, Malaysian ringgit, Chinese renminbi and Thai baht.

b. CURRENCY RISK EXPOSURE

The financial impact from exposure to currency risk is reflected in the financial report through two mechanisms:

- translation of foreign currency transactions - these financial impacts relating primarily to investments are directly recognised in profit and loss;
- translation of the financial performance of foreign operations - these financial impacts are directly recognised in profit and loss; and
- translation of the financial position of foreign operations - these financial impacts are recognised directly in equity in the foreign currency translation reserve and so have no impact on profit.

i. Sensitivity

The following tables provide information regarding the exposure of the Consolidated entity to foreign currency risk. The sensitivity analysis provided in the following tables demonstrates the effect of a change in one key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among the currencies, but rather show isolated exchange rate movements. The sensitivity analysis does not take into consideration that the assets and liabilities are actively managed and assume no action by management in response to movements in the factor. Additionally, the financial position may vary at the time that any actual market movement occurs.

The impact on the measurement of various financial instruments held at reporting date of an instantaneous 10% depreciation of the Australian dollar at reporting date compared with selected currencies, on profit before tax and equity, net of related derivatives, is provided in the table below. An appreciation of the Australian dollar would have predominantly the opposite impact.

	CONSOLIDATED	
	2012	2011
	$m	$m
	Impact to profit	Impact to profit
Equity holders' funds including related derivatives		
United States dollar	**7**	34
British pound	**1**	3
Other currencies where considered significant	**-**	9
	8	46

	CONSOLIDATED	
	2012	2011
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**27**	17
British pound	**5**	32
Other currencies where considered significant	**19**	14
	51	63

The sensitivity to currency fluctuations is mitigated by the extensive currency hedging measures. Refer to the derivatives note for further details.

II. Interest rate risk

a. NATURE OF THE RISK AND HOW MANAGED

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities are exposed to changes in market value derived from mark-to-market revaluations. Financial assets and liabilities with floating interest rates create exposure to cash flow volatility.

Interest rate risk arises primarily from investments in interest bearing securities. Interest bearing liabilities are exposed to interest rate risk but as they are measured at amortised cost and are not traded they therefore do not expose the Group to fair value interest rate risk. In addition, interest bearing liabilities bearing fixed interest rates (subject to some reset conditions) reduce the Group's exposure to cash flow interest rate risk. Movements in market interest rates therefore impact the price of the securities (and hence their fair value measurement) however have a limited effect on the contractual cash flows of the securities.

Exposure to interest rate risk is monitored through several measures that include Value At Risk analysis, position limits, scenario testing, stress testing, and asset and liability matching using measures such as duration. Derivatives are used to manage interest rate risk. The interest rate risk arising from money market securities is managed using interest rate swaps and futures. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the derivatives note.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to the Group's policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities.

b. SENSITIVITY

The sensitivity analysis provided in the following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among variables, but rather show isolated interest rate movements.

The investments in interest bearing securities are recognised on the balance sheet at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit. The impact from the measurement of the interest bearing securities held at reporting date of a change in interest rates at reporting date by +1% or -1% on profit before tax, net of related derivatives, is shown in the table below.

		CONSOLIDATED	
		2012	2011
		$m	$m
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(372)**	(258)
	-1%	**399**	276

The majority of the interest bearing securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments.

III. Price risk

a. NATURE OF THE RISK AND HOW MANAGED

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Group has exposure to equity price risk.

The Group is exposed to equity price risk through its investment in equities (both directly and through certain trusts) and the use of equity related derivative contracts.

Exposure to equity price risk is monitored through several measures that include Value At Risk analysis, position limits, scenario testing, and stress testing. The exposure is actively managed against a broad equity market index utilising the experience of a small number of external fund managers. For information regarding the notional contract amounts associated with these derivative financial instruments together with a maturity profile and reporting date fair values refer to the derivatives note.

b. SENSITIVITY

The impact from the measurement of the investments held at reporting date of a change in equity values at reporting date by +10% or -10% on profit before tax, net of related derivatives, is shown in the table below.

		CONSOLIDATED	
		2012	2011
		$m	$m
Investments – equity and trust securities, and related equity derivatives	+10%	**100**	114
	-10%	**(100)**	(114)

All equity investments are measured at fair value through profit and loss and so there would be no direct impact to equity from those movements.

B. CREDIT RISK

I. Nature of the risk and how managed

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Group credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The Group has a Group Credit Risk Policy which is approved by the IAG Board and complies with APRA's guidance of credit risk management by licensed general insurers and insurance groups. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the Group.

IAG Group Treasury is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. The Group's credit risk appetite relies heavily on credit rating agency research and is heavily weighted towards counterparties of high quality investment grade. Any new or amended credit risk exposures must be approved in accordance with the Group's approval authority framework.

Concentrations of credit risk exist where a number of counterparties have similar economic characteristics. At the reporting date, there are material concentrations of credit risk to the four major banks in Australia, and to reinsurers in relation to the reinsurance recoverables. The level of reinsurance cover entered into with individual reinsurers is sufficiently diversified so as to avoid a concentration charge in the regulatory capital calculation (refer to the capital management note).

II. Credit risk exposure

a. PREMIUM AND REINSURANCE RECOVERIES ON PAID CLAIMS RECEIVABLE

The maximum exposure to credit risk as at reporting date is the carrying amount of the receivables on the balance sheet.

An ageing analysis for certain receivables balances is provided here. The other trade debtors provision of $4 million (2011-$5 million) represents specific provisions in an Australian subsidiary that relate to balances overdue more than one year. The other receivables balances not included below have either no overdue amounts or an immaterial portion of overdue amounts. The amounts are aged according to their original due date. Receivables for which repayment terms have been renegotiated represent an immaterial portion of the balances.

	NOT OVERDUE			OVERDUE	TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
Premium receivable	**2,042**	**221**	**230**	**44**	**2,537**
Provision for impairment - specific	**-**	**(1)**	**(4)**	**(13)**	**(18)**
Provision for impairment - collective	**(5)**	**(2)**	**(2)**	**(8)**	**(17)**
Net balance	**2,037**	**218**	**224**	**23**	**2,502**
Reinsurance recoveries on paid claims	**36**	**17**	**11**	**2**	**66**
Net balance	**36**	**17**	**11**	**2**	**66**

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

The total provision for impairment at reporting date for receivables balances totalled $39 million (2011-$37 million). The net movement in the aggregated provision for the current period was $2 million (2011-$4 million).

b. REINSURANCE RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS

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

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. The financial condition of a reinsurer is a critical deciding factor when entering into a reinsurance agreement. The longer the tail of the direct insurance, the more important is the credit rating of the reinsurer.

It is Group policy to only deal with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collateralisation. Exposure to individual BBB+ rated reinsurers is limited to approximately 1.25% of the capital base. Where IAG acquires a business a transition period is used for implementation of this policy. Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists. Some of the reinsurance protection is purchased on a 'collateralised' basis, where reinsurers have deposited funds equivalent to their participation in a trust fund. The counterparty credit profile of the catastrophe reinsurance program currently stands with more than 87% of the limit for the 2012 program with parties rated by Standard & Poor's as A+ or better. For long-tail reinsurance arrangements 100% of the program is placed with parties rated by Standard & Poor's as A+ or better.

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

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

CREDIT RATING	CONSOLIDATED	
	2012	2011
	%	%
AAA	**4**	1
AA	**51**	36
A	**44**	61
BBB and below	**1**	2
Total	**100**	100

No separate provision for impairment has been recognised for the reinsurance recoveries on outstanding claims balance. The actuarial estimates include a credit risk component in the underlying balance and therefore no separate provision is required.

Of these, approximately $1,135 million (2011-$290 million) is secured directly as follows, which reduces the credit risk:

- deposits held in trust: $270 million (2011-$121 million);
- letters of credit: $674 million (2011-$169 million); and
- loss deposits: $191 million (2011-nil).

c. INVESTMENTS

The Group is exposed to credit risk from investments in third parties where the Group holds debt and similar securities issued by those companies.

The credit risk relating to investments is monitored and assessed, and maximum exposures are limited. The maximum exposure to credit risk loss as at reporting date is the carrying amount of the investments on the balance sheet as they are measured at fair value. The investments comprising assets backing insurance liabilities are restricted to investment grade securities.

The following table provides information regarding the credit risk relating to the interest bearing investments based on Standard & Poor's counterparty credit ratings.

CREDIT RATING	CONSOLIDATED	
	2012	2011
	%	%
AAA	**41**	43
AA	**45**	51
A	**12**	4
BBB and below	**2**	2
Total	**100**	100

C. LIQUIDITY RISK

I. Nature of the risk and how managed

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Consolidated entity. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and reinsurance arrangements.

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 cash flows and access to liquidity through related bodies corporate. The Company complies with the liquidity risk management policies of the Group. The policies outline the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts expose the Group to liquidity risk through the obligation to make payments of unknown amount on unknown dates. The assets backing insurance liabilities consist predominantly of government securities (the most liquid of securities) and other very high quality securities which can generally be readily sold or exchanged for cash. The assets are managed so as to broadly match the maturity profile of the assets with the expected pattern of claims payments. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including: issuer, industry, geography and credit rating.

An additional source of liquidity risk for the Group relates to interest bearing liabilities. The management of this risk includes the issuance of a range of interest bearing liabilities denominated in different currencies with different maturities.

II. Liquidity risk exposure

a. OUTSTANDING CLAIMS LIABILITY AND INVESTMENTS

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

A maturity analysis of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date and the investments that have a fixed term is provided in the table below.

This maturity profile is a key tool used in the investment of assets backing insurance liabilities in accordance with the policy of broadly matching the maturity profile of the assets with the estimated pattern of claims payments.

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Floating interest rate (at call)	**-**	-	**1,043**	785
Within 1 year or less	**2,503**	2,479	**3,195**	1,331
Within 1 to 2 years	**1,451**	1,108	**2,515**	2,546
Within 2 to 3 years	**933**	999	**2,209**	2,392
Within 3 to 4 years	**711**	693	**600**	1,372
Within 4 to 5 years	**484**	401	**1,281**	655
Over 5 years	**1,699**	1,199	**840**	1,453
Total	**7,781**	6,879	**11,683**	10,534

Timing of future claim payments are inherently uncertain. The table above represents estimated timing.

b. INTEREST BEARING LIABILITIES

The following table provides information about the residual maturity periods of the interest bearing liabilities of a capital nature based on the contractual maturity dates of undiscounted cash flows. All of the liabilities have call or reset dates which occur prior to any contractual maturity.

	CARRYING VALUE	MATURITY DATES OF CONTRACTUAL UNDISCOUNTED CASH FLOWS					
		Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Perpetual	Total
	$m	$m	$m	$m	$m	$m	$m
2012							
Tier 1 regulatory capital[(a)]	**927**	**-**	**-**	**-**	**-**	**927**	**927**
Tier 2 regulatory capital[(a)]	**727**	**-**	**-**	**-**	**727**	**-**	**727**
Contractual undiscounted interest payments[(b)]		**93**	**93**	**279**	**-**	**-**	**465**
Total contractual undiscounted payments		**93**	**93**	**279**	**727**	**927**	**2,119**
2011							
Tier 1 regulatory capital[(a)]	900	-	-	-	-	900	900
Tier 2 regulatory capital[(a)]	463	-	-	-	463	-	463
Contractual undiscounted interest payments[(b)]		78	77	231	-	-	386
Total contractual undiscounted payments		78	77	231	463	900	1,749

(a) These liabilities have call or reset dates upon which certain terms, including the interest or distribution rate, can be changed or the security may be redeemed or converted. The detailed descriptions of the instruments are provided in section B of the interest bearing liabilities note.

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

NOTE 5. ANALYSIS OF INCOME

	CONSOLIDATED	
	2012	2011
	$m	$m
A. GENERAL INSURANCE REVENUE		
Gross written premium	**8,992**	8,050
Movement in unearned premium liability	**(415)**	(192)
Premium revenue	**8,577**	7,858
Reinsurance and other recoveries revenue	**1,664**	3,404
Total general insurance revenue	**10,241**	11,262
B. INVESTMENT INCOME		
Dividend revenue	**32**	39
Interest revenue	**598**	595
Trust revenue	**10**	19
Total investment revenue	**640**	653
Net change in fair value of investments		
Realised net gains and (losses)	**283**	168
Unrealised net gains and (losses)	**122**	(91)
Total investment income	**1,045**	730
Represented by		
Investment income on assets backing insurance liabilities	**944**	508
Investment income on equity holders' funds	**101**	222
	1,045	730
C. FEE AND OTHER INCOME		
Fee based revenue	**201**	204
Other income	**52**	60
Total fee and other income	**253**	264
D. SHARE OF NET PROFIT/(LOSS) OF ASSOCIATES	**(12)**	(8)
Total income	**11,527**	12,248

NOTE 6. ANALYSIS OF EXPENSES

	CONSOLIDATED	
	2012	2011
	$m	$m
A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME		
Outwards reinsurance premium expense	**734**	620
Claims expense	**7,455**	8,493
Acquisition costs	**1,130**	1,009
Other underwriting expenses	**716**	721
Fire services levies	**298**	248
Investment expenses on assets backing insurance liabilities	**20**	19
Finance costs	**97**	86
Net income attributable to non-controlling interests in unitholders' funds	**9**	4
Fee based, corporate and other expenses	**625**	434
Total expenses	**11,084**	11,634
B. ANALYSIS OF EXPENSES BY FUNCTION		
General insurance business expenses	**10,353**	11,110
Fee based business expenses	**189**	198
Investment and other expenses	**20**	16
Corporate and administration expenses	**522**	310
Total expenses	**11,084**	11,634
C. OTHER ITEMS		
Disclosure of the following items is considered relevant in explaining the results for the financial year:		
I. Depreciation and amortisation		
Acquired intangible assets	**28**	20
Capitalised software development expenditure	**39**	20
Property and equipment	**58**	57
	125	97
II. Impairment charges		
Goodwill	**163**	90
Acquired intangible assets	**134**	60
	297	150
III. Employee benefits		
Defined contribution superannuation plans	**85**	81
Defined benefit superannuation plans	**6**	12
Share based remuneration	**18**	18
Salaries and other employee benefits expense	**1,185**	967
	1,294	1,078
IV. Transfers to provisions charged to profit or loss		
Restructuring provision	**23**	6
	23	6
V. Finance costs		
Reset preference shares distributions paid/payable	**18**	20
Subordinated term notes interest paid/payable	**24**	26
Convertible preference share distributions paid/payable	**4**	-
Reset exchangeable securities interest paid/payable	**35**	36
Other debts of an operational nature, interest paid/payable	**2**	2
Amortisation of capitalised transaction costs	**4**	2
Subordinated bonds, interest paid/payable	**10**	-
	97	86
VI. Other		
Operating lease payments	**166**	143
Software research and development costs	**80**	61
Net foreign exchange (gains)/losses	**1**	33
Liability adequacy test deficiency	**-**	58
Insurance Protection Tax levied by the NSW State Government	**-**	19

NOTE 7. INCOME TAX

	CONSOLIDATED 2012 $m	2011 $m
A. INCOME TAX EXPENSE		
Current tax	**241**	338
Deferred tax	**(58)**	(77)
(Over)/under provided in prior year	**(5)**	15
Income tax expense/(credit)	**178**	276
Deferred income tax expense/(credit) included in income tax comprises		
(Increase)/decrease in deferred tax assets	**(97)**	(62)
Increase/(decrease) in deferred tax liabilities	**39**	(15)
	(58)	(77)
B. INCOME TAX RECONCILIATION		
The income tax for the financial year differs from the amount calculated on the profit/(loss) before income tax. The differences are reconciled as follows:		
Profit/(loss) for the year before income tax	**443**	614
Income tax calculated at 30% (2011 - 30%)	**133**	184
Amounts which are not deductible/(taxable) in calculating taxable income		
Rebateable dividends	**(4)**	(8)
Deferred tax asset on tax (profit)/loss (United Kingdom) not recognised in current year	**(3)**	50
Amortisation and impairment charge on acquired intangible assets and goodwill	**93**	51
Interest on reset convertible and preference shares	**6**	6
Other	**(42)**	(22)
Income tax expense/(credit) applicable to current year	**183**	261
Adjustment relating to prior year	**(5)**	15
Income tax expense/(credit) attributable to profit/(loss) for the year before impact of tax consolidation	**178**	276
Income tax expense/(credit) attributable to profit/(loss) for the year after impact of tax consolidation	**178**	276
C. DEFERRED TAX ASSETS		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	**57**	44
Employee benefits	**64**	63
Insurance provisions	**114**	119
Investments	**16**	13
Provisions	**13**	7
Tax losses	**211**	139
	475	385
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	**36**	14
Other	**1**	1
	512	400
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	**(139)**	(89)
	373	311
II. Reconciliation of movements		
Balance at the beginning of the financial year	**400**	347
Credited/(charged) to profit or loss	**97**	62
Credited/(charged) to equity	**22**	1
Acquisitions	**(12)**	-
Transfers	**(1)**	(1)
Adjustments relating to prior year	**4**	(9)
Foreign exchange differences	**2**	-
Balance at the end of the financial year prior to set-off	**512**	400

III. Tax losses

The Consolidated entity has not recognised $203 million of United Kingdom tax losses (2011-$217 million).

	CONSOLIDATED	
	2012	2011
	$m	$m
D. DEFERRED TAX LIABILITIES		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	**69**	35
Other	**37**	28
	106	63
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	**42**	38
	148	101
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	**(139)**	(89)
	9	12
II. Reconciliation of movements		
Balance at the beginning of the financial year	**101**	80
Charged/(credited) to profit or loss	**39**	(15)
Charged/(credited) to equity	**4**	27
Foreign exchange differences	**-**	(3)
Transfers	**(1)**	(1)
Adjustments relating to prior year	**5**	13
Balance at the end of the financial year prior to set-off	**148**	101

NOTE 8. SEGMENT REPORTING

The Consolidated entity has general insurance products in Australia, New Zealand, United Kingdom and Asia. In Australia, the financial results are generated from three different divisions being Australia direct insurance, Australia intermediated insurance and Corporate and other.

The Consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (being the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the insurance products are underwritten and the related services provided to customers through the various distribution channels in various countries. Discrete financial information about each of these operating segments is reported to the Chief Executive Officer on a monthly basis.

The reportable segments are based on aggregated operating segments as these are the source of the Consolidated entity's major risks and have the most effect on the rates of return.

The reportable segments comprise the following business divisions.

A. AUSTRALIA DIRECT INSURANCE

This segment comprises insurance products distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands as well as via a distribution relationship and underwriting joint venture with RACV Limited.

B. AUSTRALIA INTERMEDIATED INSURANCE

This segment comprises insurance products primarily sold under the CGU and Swann insurance brands through insurance brokers, authorised representatives and distribution partners.

C. NEW ZEALAND INSURANCE

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

D. UNITED KINGDOM INSURANCE

This segment comprises the general insurance underwriting and broker distribution services operating through subsidiaries in the United Kingdom. The underwriting business, Equity Red Star operates through a Lloyd's syndicate.

E. ASIA INSURANCE

This segment comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand and the share of the operating result from the investment in associates in Malaysia, Vietnam, India and China. The businesses offer personal and commercial insurance products through local brands.

F. CORPORATE AND OTHER

This segment comprises other activities, including corporate services, funding costs on the Group's interest bearing liabilities, inwards reinsurance from associates, investment management and investment of the equity holders' funds. The results of the run off of the Alba Group are also included in this segment.

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

CONSOLIDATED	AUSTRALIA DIRECT INSURANCE	AUSTRALIA INTER-MEDIATED INSURANCE	NEW ZEALAND INSURANCE	UNITED KINGDOM INSURANCE	ASIA INSURANCE	CORPORATE AND OTHER	TOTAL
	$m	$m	$m	$m	$m	$m	$m
2012							
External revenue	**5,028**	**3,390**	**1,732**	**737**	**533**	**107**	**11,527**
Total revenue	**5,028**	**3,390**	**1,732**	**737**	**533**	**107**	**11,527**
Underwriting profit/(loss)	**20**	**(117)**	**93**	**(23)**	**(64)**	**(1)**	**(92)**
Investment income net of investment fees - technical reserves	**524**	**375**	**10**	**10**	**5**	**-**	**924**
Insurance profit/(loss)	**544**	**258**	**103**	**(13)**	**(59)**	**(1)**	**832**
Investment income net of investment fees - equity holders' funds	**-**	**-**	**-**	**-**	**-**	**89**	**89**
Share of net profit/(loss) of associates	**-**	**(2)**	**-**	**1**	**(3)**	**(8)**	**(12)**
Finance costs	**-**	**-**	**-**	**-**	**-**	**(97)**	**(97)**
Other net operating result	**-**	**13**	**2**	**(3)**	**-**	**(381)**	**(369)**
Profit/(loss) before income tax	**544**	**269**	**105**	**(15)**	**(62)**	**(398)**	**443**
Income tax expense							**(178)**
Profit/(loss) for the year							**265**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**-**	**406**	**406**
Depreciation expense	**30**	**9**	**6**	**2**	**1**	**10**	**58**
Amortisation and impairment charges on acquired intangibles and goodwill	**8**	**9**	**15**	**332**	**-**	**-**	**364**
Total depreciation and amortisation expense	**38**	**18**	**21**	**334**	**1**	**10**	**422**
Other non cash expenses	**30**	**11**	**4**	**-**	**-**	**7**	**52**
2011							
External revenue	4,528	3,112	3,308	817	233	250	12,248
Total revenue	4,528	3,112	3,308	817	233	250	12,248
Underwriting profit/(loss)	421	(42)	(11)	(192)	(5)	-	171
Investment income net of investment fees - technical reserves	281	182	14	11	1	-	489
Insurance profit/(loss)	702	140	3	(181)	(4)	-	660
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	213	213
Share of net profit/(loss) of associates	-	1	-	-	(3)	(6)	(8)
Finance costs	-	-	-	-	-	(86)	(86)
Other net operating result	-	3	1	2	-	(171)	(165)
Profit/(loss) before income tax	702	144	4	(179)	(7)	(50)	614
Income tax expense							(276)
Profit/(loss) for the year							338
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	-	144	144
Depreciation expense	31	4	5	3	2	12	57
Amortisation and impairment charges on acquired intangibles and goodwill	10	8	2	170	-	-	190
Total depreciation and amortisation expense	41	12	7	173	2	12	247
Other non cash expenses	26	3	8	2	-	4	43

NOTE 9. EARNINGS PER SHARE

	CONSOLIDATED 2012 cents	2011 cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share[(a)]	**10.01**	12.08
Diluted earnings per ordinary share	**9.96**	12.01

(a) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 Earnings per Share. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the current reporting period would be reduced to 9.96 cents (2011-12.01 cents).

	CONSOLIDATED 2012 $m	2011 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the year	**265**	338
Profit attributable to non-controlling interests	**(58)**	(88)
Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	**207**	250

	CONSOLIDATED 2012 Number of shares in millions	2011 Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Ordinary shares on issue	**2,079**	2,079
Treasury shares held in trust	**(12)**	(12)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,067**	2,067
Weighted average number of dilutive potential ordinary shares relating to		
Unvested share based remuneration rights supported by treasury shares held in trust	**12**	12
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**2,079**	2,079

At 30 June 2012, the convertible preference shares are excluded from the diluted earnings per share calculation as they are assessed as anti-dilutive at reporting date.

NOTE 10. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
2012					
2012 interim dividend	**5.0**	**104**	**4 April 2012**	**30%**	**100%**
2011 final dividend	**7.0**	**146**	**5 October 2011**	**30%**	**100%**
		250			
2011					
2011 interim dividend	9.0	187	11 April 2011	30%	100%
2010 final dividend	4.5	94	6 October 2010	30%	100%
		281			

It is standard practice that the IAG Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy (refer to section AC of the summary of significant accounting policies note) a dividend is not accrued for until it is determined to pay and so the dividends for a period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

The dividends recognised in the current reporting period include $2 million (2011-$1 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

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

The DRP for the 2012 interim dividend payable on 4 April 2012 was settled with the on market purchase of 7.1 million shares priced at $3.3231 per share (based on a daily volume weighted average price for five trading days from 9 March 2012 to 15 March 2012 inclusive, with no discount applied).

The Company's DRP did not operate for the 2011 final dividend paid on 5 October 2011.

A copy of the terms and conditions for the DRP are available at www.iag.com.au/shareholder.

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

In addition to the above dividends, the IAG Board determined to pay the following dividend after the reporting date but before finalisation of this financial report and it has not been recognised in this financial report.

	CENTS PER SHARE	TOTAL AMOUNT $m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2012 final dividend	**12.0**	**249**	**3 October 2012**	**30%**	**100%**

On 23 August 2012 the IAG Board determined the final dividend will be payable to shareholders on 3 October 2012.

The Company's DRP will operate by issuing ordinary shares to participants by acquiring shares on-market with an issue price per share of the average market price as defined in the DRP terms with no discount applied. The last election notice for participation in the DRP in relation to this final dividend is 5 September 2012.

D. HISTORICAL SUMMARY

The table below provides a historical summary of dividend payments (cents per share) aggregating dividends based on the financial period for which they were declared and not the financial period in which they were recognised and paid.

	YEAR ENDED 30 JUNE 2003	YEAR ENDED 30 JUNE 2004	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006	YEAR ENDED 30 JUNE 2007	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2011	**YEAR ENDED 30 JUNE 2012**
Interim dividend	4.5	8.0	12.0	13.5	13.5	13.5	4.0	8.5	9.0	**5.0**
Final dividend	7.0	14.0	14.5	16.0	16.0	9.0	6.0	4.5	7.0	**12.0**
Special dividend	-	-	-	12.5	-	-	-	-	-	**-**

E. DIVIDEND POLICY

The Group's dividend policy is intended to pay dividends equivalent to 50%-70% of reported cash earnings on a full year basis. Cash earnings are defined as:

- net profit after tax attributable to IAG shareholders;
- plus amortisation and impairment of acquired identifiable intangible assets; and
- excluding any unusual items.

F. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

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

- the payment of dividends is subject to provisions of the Corporations Act 2001 and IAG's constitution;
- the payment of dividends generally being limited to profits subject to ongoing solvency obligations noting that under the APRA Level 2 insurance group supervision requirements, IAG is required to obtain approval from APRA before payment of dividends on ordinary shares that exceeds the Group's after tax earnings as defined by APRA; and
- no dividends can be paid and no returns of capital can be made on ordinary shares, if distributions are not paid on the convertible preference shares or reset exchangeable securities or GBP subordinated exchangeable term notes, unless certain actions are taken by IAG. For further details refer to the interest bearing liabilities note.

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

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

G. DIVIDEND FRANKING AMOUNT

	CONSOLIDATED 2012 $m	2011 $m
Franking account balance at reporting date at 30%	**440**	381
Franking credits to arise from payment of income tax payable	**149**	151
Franking credits to arise from receipt of dividends receivable	**1**	1
Franking credits available for future reporting periods	**590**	533
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	**(107)**	(62)
Franking credits available for subsequent financial periods based on a tax rate of 30%	**483**	471

After payment of the final dividend the franking balance of the Company has $405 million franking credits available for subsequent financial periods and is capable of fully franking a further $946 million of distributions.

The balance of the franking account arises from:

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

In accordance with the tax consolidation legislation, the consolidated amounts include franking credits that would be available to the Parent if distributable profits of non-wholly owned subsidiaries were paid as dividends.

All of the distributions paid in relation to the convertible preference shares and reset preference shares, and the interest payments in relation to the reset exchangeable securities, for the financial year were fully franked at 30% (2011-fully franked at 30%).

NOTE 11. CLAIMS

A. NET CLAIMS EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

						CONSOLIDATED
			2012			2011
	Current year $m	Prior years $m	Total $m	Current year $m	Prior years $m	Total $m
Gross claims - undiscounted	**6,952**	**79**	**7,031**	9,315	(552)	8,763
Discount	**(181)**	**605**	**424**	(363)	199	(164)
Gross claims - discounted	**6,771**	**684**	**7,455**	8,952	(353)	8,599
Reinsurance and other recoveries - undiscounted	**(1,006)**	**(515)**	**(1,521)**	(3,525)	(66)	(3,591)
Discount	**19**	**(162)**	**(143)**	152	(71)	81
Reinsurance and other recoveries - discounted	**(987)**	**(677)**	**(1,664)**	(3,373)	(137)	(3,510)
Net claims expense	**5,784**	**7**	**5,791**	5,579	(490)	5,089

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	CONSOLIDATED 2012 $m	2011 $m
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**10,393**	10,097
Claims handling costs	**407**	410
Risk margin	**2,282**	2,016
	13,082	12,523
Discount to present value	**(1,373)**	(1,634)
Gross outstanding claims liability - discounted	**11,709**	10,889

The outstanding claims liability includes $7,287 million (2011-$6,869 million) which is expected to be settled after more than 12 months from reporting date.

II. Reconciliation of movements in discounted outstanding claims liability

	2012 Gross $m	2012 Reinsurance and other recoveries $m	2012 Net $m	2011 Gross $m	2011 Reinsurance and other recoveries $m	2011 Net $m
Balance at the beginning of the financial year	**10,889**	**(4,010)**	**6,879**	8,253	(1,488)	6,765
Movement in the prior year central estimate	**310**	**(544)**	**(234)**	(214)	(54)	(268)
Current year claims incurred	**6,406**	**(1,127)**	**5,279**	8,829	(3,714)	5,115
Claims paid/recoveries received	**(6,945)**	**2,059**	**(4,886)**	(6,244)	1,354	(4,890)
Movement in discounting	**739**	**(209)**	**530**	208	(40)	168
Movement in risk margin	**234**	**(43)**	**191**	168	(93)	75
Disposed through sale of businesses	**(11)**	**-**	**(11)**	-	-	-
Additional through business acquisition	**34**	**(10)**	**24**	-	-	-
Net foreign currency movements	**53**	**(44)**	**9**	(111)	25	(86)
Balance at the end of the financial year	**11,709**	**(3,928)**	**7,781**	10,889	(4,010)	6,879

III. Maturity analysis

Refer to section C of the financial risk management note for details of the maturity profile of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date.

IV. Development table

The following table shows the development of the net undiscounted ultimate claims for the ten most recent accident years and also reconciliation to the net discounted outstanding claims liability.

	2002 and prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**	Total
												CONSOLIDATED Accident year
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	**$m**	$m
NET ULTIMATE CLAIMS PAYMENTS												
Development												
At end of accident year		**3,341**	**3,481**	**3,591**	**3,945**	**4,567**	**4,507**	**4,533**	**4,493**	**4,819**	**5,047**	
One year later		**3,164**	**3,315**	**3,544**	**3,872**	**4,532**	**4,464**	**4,562**	**4,468**	**4,880**		
Two years later		**3,089**	**3,342**	**3,513**	**3,798**	**4,496**	**4,455**	**4,498**	**4,367**			
Three years later		**3,058**	**3,325**	**3,468**	**3,806**	**4,502**	**4,434**	**4,490**				
Four years later		**3,004**	**3,309**	**3,434**	**3,793**	**4,432**	**4,413**					
Five years later		**3,011**	**3,298**	**3,382**	**3,768**	**4,358**						
Six years later		**3,005**	**3,271**	**3,357**	**3,748**							
Seven years later		**2,992**	**3,266**	**3,349**								
Eight years later		**2,990**	**3,254**									
Nine years later		**2,985**										
Current estimate of net ultimate claims payments		**2,985**	**3,254**	**3,349**	**3,748**	**4,358**	**4,413**	**4,490**	**4,367**	**4,880**	**5,047**	
Cumulative payments made to date		**(2,944)**	**(3,175)**	**(3,260)**	**(3,549)**	**(4,160)**	**(4,067)**	**(3,892)**	**(3,575)**	**(3,531)**	**(2,723)**	
Net undiscounted outstanding claims payments	**607**	**41**	**79**	**89**	**199**	**198**	**346**	**598**	**792**	**1,349**	**2,324**	**6,622**
Discount to present value	**(119)**	**(5)**	**(12)**	**(11)**	**(23)**	**(17)**	**(30)**	**(48)**	**(67)**	**(97)**	**(131)**	**(560)**
Net discounted outstanding claims payments	**488**	**36**	**67**	**78**	**176**	**181**	**316**	**550**	**725**	**1,252**	**2,193**	**6,062**
Reconciliation												
Claims handling costs												**370**
Risk margin												**1,349**
Net outstanding claims liability												**7,781**

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

The development table shown above relates to both short-tail and long-tail claims.

Where an entity or business that includes an outstanding claims liability has been acquired the claims expenses for the acquired businesses are included in the claims development table from and including the year of acquisition.

The gross outstanding claims liability includes international operations. For ease of comparison within the claims development table, all payments not denominated in Australian dollars have been converted to Australian dollars using the exchange rates as at the reporting date. Therefore the claims development table disclosed each period cannot be reconciled directly to the equivalent tables presented in previous periods.

V. Central estimate and risk margin

a. REPORTING DATE VALUES

	CONSOLIDATED **2012**	2011
	%	%
The percentage risk margin applied to the net outstanding claims liability	**21.0**	20.6
The probability of adequacy of the risk margin	**90**	90

b. PROCESS

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

- a central estimate of the future cash flows;
- discounting for the effect of the time value of money; and
- a risk margin for uncertainty.

i. Future cash flows

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

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

Different actuarial valuation models are used for different claims types and lines of business. The selection of the appropriate actuarial model takes into account the characteristics of a claim type and class of business and the extent of the development of each past accident period.

ii. Discounting

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

iii. Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of sufficiency. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims runoff process, and risks external to IAG, for example the impact of future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate. The volatility measure for each class is derived after consideration of statistical modelling and benchmarking to industry analysis. Certain product classes may be subject to the emergence of new types of latent claims and such uncertainties are considered when setting the volatility, and hence the risk margin appropriate for those classes.

The measure of the volatility is referred to as the coefficients of variation (CoV). The CoV is defined as the standard deviation of the distribution of future cash flows divided by the mean.

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

The risk margin required to provide a given probability of adequacy for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification.

The measure of the parameter used to derive the diversification benefit is referred to as correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. The correlations are adopted with regard to industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The determination of the overall risk margin takes into account the volatility of each class of business and the correlations between the lines of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 90% (2011-90%).

VI. Actuarial assumptions

The following ranges of key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at the reporting date, within the operating segments.

ASSUMPTION					CONSOLIDATED
	AUSTRALIA DIRECT INSURANCE	AUSTRALIA INTERMEDIATED INSURANCE	NEW ZEALAND INSURANCE	UNITED KINGDOM INSURANCE	ASIA INSURANCE
2012					
Discounted average term to settlement	**3.2 years**	**5.2 years**	**0.6 years**	**2.0 years**	**0.4 years**
Inflation rate	**3.0%-4.0%**	**2.8%-4.8%**	**2.6%**	**4.0%-5.0%**	**0.0%-4.0%**
Superimposed inflation rate	**0.0%-5.0%**	**0.0%-8.0%**	**0.0%**	**0.0%-10.0%**	**0.0%**
Discount rate	**2.4%-4.1%**	**2.4%-4.8%**	**2.4%-2.5%**	**0.1%-4.5%**	**0.0%**
Claims handling costs ratio	**4.5%**	**6.0%**	**4.2%**	**1.8%**	**2.1%**
2011					
Discounted average term to settlement	2.7 years	4.6 years	2.2 years	1.8 years	0.5 years
Inflation rate	3.3%-4.0%	2.8%-4.8%	2.9%	4.0%-5.0%	0.0%-3.5%
Superimposed inflation rate	0.0%-4.0%	0.0%-8.0%	0.0%	0.0%-10.0%	0.0%
Discount rate	4.5%-6.5%	4.8%-5.7%	2.7%-3.8%	0.6%-4.4%	0.0%
Claims handling costs ratio	4.6%	5.3%	4.1%	2.2%	3.1%

a. PROCESS USED TO DETERMINE ASSUMPTIONS

i. Discounted average term to settlement

The discounted average term to settlement relates to the expected payment pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historic settlement patterns. The discounted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

ii. Inflation rate

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators.

iii. Superimposed inflation rate

Superimposed inflation occurs due to non-economic effects such as the cost of court settlements increasing at a faster rate than the economic inflation rate utilised. An allowance for superimposed inflation is made for each underlying model, where appropriate, after considering the historical levels of superimposed inflation present in the portfolio, projected future superimposed inflation and industry superimposed inflation trends.

iv. Discount rate

The discount rate is derived from market yields on government securities.

v. Claims handling costs ratio

The future claims handling costs ratio is generally calculated with reference to the historical experience of claims handling costs as a percentage of past payments.

VII. The effect of changes in assumptions

a. GENERAL IMPACT OF CHANGES

i. Discounted average term to settlement

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

ii. Inflation and superimposed inflation rates

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of either economic or superimposed inflation will have a corresponding decrease or increase on profit and loss.

iii. Discount rate

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have a corresponding increase or decrease on profit and loss.

iv. Claims handling costs ratio

An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the ratio assumption will have a corresponding decrease or increase on profit and loss.

b. SENSITIVITY ANALYSIS OF CHANGES

The impact on the profit or loss before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and is net of reinsurance recoveries.

The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate.

ASSUMPTION						CONSOLIDATED
	Movement in assumption	Australia direct insurance	Australia intermediated insurance	New Zealand insurance	United Kingdom insurance	Asia insurance
		$m	$m	$m	$m	$m
2012						
Discounted average term to settlement	**+10%**	**(41)**	**(64)**	**(1)**	**(1)**	**-**
	-10%	**41**	**63**	**1**	**1**	**-**
Inflation rate	**+1%**	**128**	**138**	**5**	**8**	**-**
	-1%	**(121)**	**(122)**	**(5)**	**(8)**	**-**
Discount rate	**+1%**	**(121)**	**(121)**	**(5)**	**(8)**	**-**
	-1%	**131**	**140**	**5**	**5**	**-**
Claims handling costs ratio	**+1%**	**49**	**35**	**4**	**8**	**1**
	-1%	**(49)**	**(35)**	**(4)**	**(8)**	**(1)**
2011						
Discounted average term to settlement	+10%	(67)	(81)	(11)	(2)	-
	-10%	64	83	10	2	-
Inflation rate	+1%	92	113	10	9	-
	-1%	(88)	(101)	(10)	(9)	-
Discount rate	+1%	(86)	(98)	(18)	(8)	-
	-1%	92	112	19	8	-
Claims handling costs ratio	+1%	42	34	3	8	1
	-1%	(42)	(34)	(3)	(8)	(1)

NOTE 12. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	CONSOLIDATED	
	2012	2011
	$m	$m
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable on outstanding claims - undiscounted	**4,265**	4,554
Discount to present value	**(337)**	(544)
Expected reinsurance and other recoveries receivable on outstanding claims - discounted	**3,928**	4,010

The carrying value of reinsurance recoveries and other recoveries includes $2,009 million (2011-$2,470 million) which is expected to be settled more than 12 months from the reporting date.

B. ACTUARIAL ASSUMPTIONS

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability (refer to section VI of the claims note).

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses (for example those relating to catastrophe events) are analysed on a case by case basis for reinsurance purposes.

C. THE EFFECT OF CHANGES IN ASSUMPTIONS

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

NOTE 13. DEFERRED INSURANCE ASSETS

	CONSOLIDATED	
	2012	2011
	$m	$m
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**683**	688
Acquisition costs deferred during the year	**1,197**	1,022
Amortisation charged to profit for the year	**(1,130)**	(951)
Write down for liability adequacy test	**-**	(58)
Addition through business acquisition	**-**	2
Net foreign exchange movements	**3**	(20)
Deferred acquisition costs at the end of the financial year	**753**	683

The carrying value of deferred acquisition costs includes $65 million (2011-$48 million) which is expected to be amortised more than 12 months from reporting date.

B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	**371**	258
Reinsurance expenses deferred	**850**	743
Amortisation charged to profit	**(734)**	(620)
Addition through business acquisition	**5**	-
Net foreign exchange movements	**1**	(10)
Deferred outwards reinsurance expense at the end of financial year	**493**	371

The carrying value of deferred outwards reinsurance expense includes $12 million (2011-$12 million) which is expected to be amortised more than 12 months from reporting date.

NOTE 14. UNEARNED PREMIUM LIABILITY

	CONSOLIDATED	
	2012	2011
	$m	$m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**4,355**	4,207
Deferral of premiums on contracts written	**4,658**	4,277
Earning of premiums written in previous financial years	**(4,243)**	(4,085)
Addition through business acquisition	**154**	49
Net foreign exchange movements	**18**	(93)
Unearned premium liability at the end of the financial year	**4,942**	4,355

The carrying value of unearned premium liability includes $151 million (2011-$112 million) which is expected to be earned more than 12 months from reporting date.

B. LIABILITY ADEQUACY TEST

The liability adequacy test has been conducted using the central estimate of the premium liabilities calculated for reporting to APRA (refer to the capital management note), adjusted as appropriate, together with an appropriate margin for uncertainty for each portfolio of contracts, being Australia direct insurance, Australia intermediated insurance, New Zealand insurance, United Kingdom insurance and Asia insurance. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The liability adequacy test at reporting date resulted in a surplus for the Group (2011 - surplus for each portfolio or contract except for the United Kingdom insurance portfolio for which additional information is provided in the table below).

		2011
	United Kingdom insurance	Consolidated
	$m	$m
Unearned premium liability	260	
Deferred acquisition costs	(59)	
Related reinsurance asset	(9)	
	192	
Central estimate of present value of expected future cash flows from future claims	196	3,878
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(1)	(811)
Risk margin	15	148
	210	3,215
Net surplus/(deficiency)	(18)	
Risk margin percentage	6.9%	4.8%
Probability of adequacy	68.0%	63.7%
Net deficiency recognised in the statement of comprehensive income		
Write down of deferred acquisition costs *	(58)	
	(58)	

* The write down of deferred acquisition costs of $58 million represents the total impairment charge recognised in the underwriting results of the United Kingdom insurance segment for the 2011 financial year. At 31 December 2010, a $40 million impairment charge was recognised. A further $18 million impairment charge was recognised as a result of a shortfall in the United Kingdom insurance segment liability adequacy test as at 30 June 2011.

The risk margin used in testing individual portfolios is determined based on an assessment of the recent historical experience in relation to the volatility of the insurance margin for each portfolio of contracts together with an allocation of group diversification. Hence the risk margin applied for the purposes of the liability adequacy test has been determined using a different methodology to that used for the determination of the risk margin for the outstanding claims liability. The probability of adequacy represented by the liability adequacy test also differs from the probability of adequacy represented by the outstanding claims liability. The reason for these differences is; the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability.

NOTE 15. INVESTMENTS

	CONSOLIDATED	
	2012	2011
	$m	$m
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held for investment	**1,097**	823
Government and semi-government bonds	**3,841**	3,363
Corporate bonds and notes	**5,162**	4,679
Subordinated debt	**787**	927
Fixed interest trusts	**41**	36
Other	**755**	706
	11,683	10,534
II. Equity investments		
a. DIRECT EQUITIES		
Listed	**596**	647
Unlisted	**176**	167
b. EQUITY TRUSTS (INCLUDING PROPERTY TRUSTS)		
Listed	**32**	27
Unlisted	**326**	413
	1,130	1,254
III. Other investments		
Other trusts	**127**	100
	127	100
IV. Derivatives		
Equity risk derivatives	**13**	5
	13	5
	12,953	11,893

The investments balance includes Funds at Lloyd's of $208 million at the current reporting date (2011-$75 million) which are subject to certain restrictions.

B. DETERMINATION OF FAIR VALUE

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

I. Level 1 quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs

Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement.

				CONSOLIDATED
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$m	$m	$m	$m
2012				
Interest bearing investments	**5,966**	**5,717**	**-**	**11,683**
Equity investments	**627**	**332**	**171**	**1,130**
Other investments	**7**	**120**	**-**	**127**
Derivatives	**4**	**9**	**-**	**13**
	6,604	**6,178**	**171**	**12,953**
2011				
Interest bearing investments	4,829	5,704	1	10,534
Equity investments	678	348	228	1,254
Other investments	6	-	94	100
Derivatives	5	-	-	5
	5,518	6,052	323	11,893

NOTE 16. RECEIVABLES

	CONSOLIDATED	
	2012	2011
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Premium receivable	**2,537**	2,113
Provision for impairment	**(35)**	(32)
Premium receivable	**2,502**	2,081
II. Trade and other receivables		
Reinsurance recoveries on paid claims	**66**	155
Other trade debtors	**127**	199
Provision for impairment	**(5)**	(5)
	122	194
Investment income receivable	**124**	131
Investment transactions not yet settled at reporting date	**59**	18
Corporate treasury derivatives receivable	**15**	7
Other debtors	**63**	55
Trade and other receivables	**449**	560
	2,951	2,641

The Consolidated entity had a receivable at reporting date of $84 million (2011-$150 million) included in other trade debtors. The receivable is part of the adverse development cover (ADC) purchased following the United Kingdom claim reserve strengthening in 2010. This reinsurance provides the Group with significant protection against any further adverse development of the United Kingdom motor portfolio for the underwriting years ended 31 December 2010 and prior. The balance is predominantly secured by a letter of credit. It is anticipated the deposit will be recovered through settlement of the ADC.

The receivables are non interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted, except the ADC receivable, because the effect of the time value of money is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets because of the short term nature of the assets.

NOTE 17. PROPERTY AND EQUIPMENT

				CONSOLIDATED
	Land and buildings	Motor vehicles	Other equipment	Total
	$m	$m	$m	$m
2012				
A. COMPOSITION				
At cost	**216**	**69**	**367**	**652**
Accumulated depreciation	**(67)**	**(30)**	**(278)**	**(375)**
Net foreign exchange movements	**(2)**	**-**	**(1)**	**(3)**
Balance at the end of the financial year	**147**	**39**	**88**	**274**
2012				
B. RECONCILIATION OF MOVEMENTS				
Balance at the beginning of the financial year	**156**	**39**	**89**	**284**
Additions	**9**	**17**	**32**	**58**
Disposals	**(3)**	**(8)**	**(6)**	**(17)**
Additions through business combination	**-**	**2**	**4**	**6**
Depreciation	**(15)**	**(11)**	**(32)**	**(58)**
Net foreign exchange movements	**-**	**-**	**1**	**1**
Balance at the end of the financial year	**147**	**39**	**88**	**274**
2011				
C. COMPOSITION OF COMPARATIVES				
Cost	210	67	361	638
Accumulated depreciation	(52)	(28)	(270)	(350)
Net foreign exchange movements	(2)	-	(2)	(4)
Balance at the end of the financial year	156	39	89	284
D. DEPRECIATION RATES	1.5%-5%	12.5%-33%	6.67%-50%	

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

NOTE 18. INTANGIBLE ASSETS

	Software development expenditure	Lloyd's syndicate capacity	Distribution channels	Customer relationships	Brands	Other contractual arrangements	Total
	CONSOLIDATED						
	$m	$m	$m	$m	$m	$m	$m
2012							
A. COMPOSITION							
Cost	**403**	**138**	**290**	**138**	**120**	**32**	**1,121**
Accumulated amortisation	**(258)**	**-**	**(86)**	**(44)**	**(21)**	**(15)**	**(424)**
Accumulated impairment	**(7)**	**(87)**	**(113)**	**(30)**	**(33)**	**(1)**	**(271)**
Net foreign exchange movements	**(16)**	**(51)**	**(72)**	**(23)**	**(38)**	**(1)**	**(201)**
Balance at the end of the financial year	**122**	**-**	**19**	**41**	**28**	**15**	**225**
2012							
B. RECONCILIATION OF MOVEMENTS							
Balance at the beginning of the financial year	**54**	**74**	**47**	**24**	**26**	**-**	**225**
Additions acquired and developed	**95**	**-**	**6**	**-**	**-**	**-**	**101**
Addition through business acquisition	**14**	**-**	**-**	**33**	**28**	**27**	**102**
Disposal through sale of business	**(3)**	**-**	**-**	**(4)**	**-**	**-**	**(7)**
Amortisation	**(39)**	**-**	**(7)**	**(7)**	**(2)**	**(12)**	**(67)**
Impairment	**-**	**(76)**	**(29)**	**(5)**	**(24)**	**-**	**(134)**
Net foreign exchange movements	**1**	**2**	**2**	**-**	**-**	**-**	**5**
Balance at the end of the financial year	**122**	**-**	**19**	**41**	**28**	**15**	**225**
2011							
C. COMPOSITION OF COMPARATIVES							
Cost	297	138	284	109	92	5	925
Accumulated amortisation	(219)	-	(79)	(37)	(19)	(3)	(357)
Accumulated impairment	(7)	(11)	(84)	(25)	(9)	(1)	(137)
Net foreign exchange movements	(17)	(53)	(74)	(23)	(38)	(1)	(206)
Balance at the end of the financial year	54	74	47	24	26	-	225
D. AMORTISATION RATES	33.33%	n/a	10%	12.5%-35%	n/a	100%	

E. EXPLANATORY NOTES FOR INTANGIBLE ASSETS

I. Software development expenditure

The software development expenditure asset comprises both internally generated assets and acquired assets.

II. Acquired intangible assets

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

a. LLOYD'S SYNDICATE CAPACITY

The Lloyd's syndicate capacity was allocated to the United Kingdom cash generating unit. The syndicate capacity was acquired as part of the acquisition of Equity Insurance Group in 2007 which at acquisition date held 64.02% of the capacity of Syndicate 218. The syndicate capacity was categorised as an indefinite life asset on the basis that there was no foreseeable limit to the period over which the asset is expected to generate net cash flows for the United Kingdom cash generating unit.

b. BRANDS

This represents the revenue generating value of the acquired brand and is determined using the relief from royalty method. The AMI brand is recognised as having an indefinite useful life as there is no foreseeable limit to the period over which the brand is expected to generate net cash flows. This asset is not subject to amortisation but is subject to impairment testing annually or more frequently when indicators of impairment are identified. The original useful life of the Equity brand was 15 years with 9.5 years remaining at the balance date.

c. CUSTOMER RELATIONSHIPS

This represents the present value of future profits expected to arise from existing customer relationships (developed prior to acquisition). The assumptions for the useful life and attrition rates for the existing customer base is determined based on historical information of the business.

d. DISTRIBUTION CHANNELS

The value of the distribution channels is in the future revenue expected to be generated as a result of the existing relationships with the broker networks and affinity accounts.

e. OTHER CONTRACTUAL ARRANGEMENTS

This represents the value of in-force customer contracts. The basis of determination is expected profit emerging from in-force business as it is earned.

F. IMPAIRMENT TESTING

For each category an impairment trigger review was conducted and where necessary the recoverable amount of particular assets determined.

I. Impairment testing results for 2012

On 17 May 2012, the Group announced a strategic review of the IAG United Kingdom business. Accordingly, the key assumptions underpinning the United Kingdom intangible asset valuations were reassessed.

During the financial year the following United Kingdom business intangible assets were fully impaired:

- Lloyd's syndicate capacity - $76 million impairment (2011-nil)
- Equity insurance brands - $24 million impairment (2011-nil)
- Equity broker distribution channels - $29 million (2011-$60 million)
- Customer relationships - $5 million (2011-nil)

II. Impairment testing results for 2011

During the year ended 30 June 2011, the following acquired intangible asset was impaired.

a. EQUITY BROKER DISTRIBUTION CHANNELS

An impairment charge of $60 million was recognised in the United Kingdom insurance segment due to the cessation of broker relationships and lower forecast profitability.

NOTE 19. GOODWILL

	CONSOLIDATED	
	2012	2011
	$m	$m
A. COMPOSITION		
Goodwill	**2,302**	2,167
Accumulated impairment charges	**(421)**	(258)
Net foreign exchange movements	**(256)**	(265)
	1,625	1,644
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**1,644**	1,782
Additional amounts arising from business combinations	**139**	13
Disposed through sale of businesses	**(4)**	-
Impairment charge	**(163)**	(90)
Net foreign exchange movements	**9**	(61)
Balance at the end of the financial year	**1,625**	1,644

C. ALLOCATION TO CASH GENERATING UNITS

	CONSOLIDATED 2012 $m	2011 $m
Australia direct insurance operations	**582**	582
Australia intermediated insurance operations	**584**	580
New Zealand insurance operations	**413**	274
Asia insurance operations	**46**	45
United Kingdom insurance operations	**-**	163
	1,625	1,644

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

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

D. IMPAIRMENT ASSESSMENT

The impairment testing of goodwill involves the use of accounting estimates and assumptions. The recoverable amount of each cash generating unit is determined on the basis of value in use calculations. The value in use is calculated using a discounted cash flow methodology covering a five or 10 year period with an appropriate terminal value at the end of year five or 10 for each cash generating unit. The carrying value of identified intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

I. Assumptions used

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

a. CASH FLOW FORECASTS

Cash flow forecasts are based on five year valuation forecasts for growth and profitability. Ten year periods are only used in emerging markets, to enable appropriate phasing to terminal values.

b. TERMINAL VALUE

Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five or 10, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country. The terminal growth rate assumptions used in the Group's impairment assessment as at 30 June 2012 range from 3.0% to 5.0%.

c. DISCOUNT RATE

Discount rates reflect a beta and equity risk premium appropriate to the Group, with risk adjustments for individual segments and countries where applicable. Discount rates used are pre tax and range from 13.2% to 14.6% (equivalent to 10.2% and 11.2% on a post tax basis).

II. Impairment testing results for current period

On 17 May 2012, the Group announced a strategic review of the IAG United Kingdom business. Accordingly, the key assumptions underpinning goodwill asset valuations were reassessed. During the financial year the $163 million United Kingdom goodwill was fully impaired (2011-$90 million).

NOTE 20. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2012 $m	2011 $m
A. COMPOSITION		
I. Trade creditors		
Commissions payable	**155**	118
Stamp duty payable	**94**	83
GST payable on premium receivable	**113**	86
Other	**365**	191
	727	478
II. Other payables		
Other creditors and accruals	**383**	329
Investment creditors	**10**	8
Interest payable on interest bearing liabilities	**15**	11
	1,135	826

The Consolidated entity had a payable at reporting date of $191 million (2011- nil) included in other trade creditors. The payable is part of reinsurance collateral arrangements with various reinsurers to secure the group reinsurance recoveries. It is anticipated that the payable will reduce through the settlement of the reinsurance recoveries.

Trade and other payables are unsecured, non interest bearing and are normally settled within 30 days. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short term nature of the liabilities.

NOTE 21. RESTRUCTURING PROVISION

	CONSOLIDATED	
	2012	2011
	$m	$m
A. COMPOSITION		
Restructuring provision	**20**	10
	20	10
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**10**	21
Additions	**23**	6
Settled	**(11)**	(16)
Remeasurement of provisions	**(2)**	(1)
Balance at the end of the financial year	**20**	10

All of the provision outstanding at the reporting date is expected to be settled within 12 months (2011–all). The balance has not been discounted.

NOTE 22. INTEREST BEARING LIABILITIES

		CONSOLIDATED	
		2012	2011
	Section	**$m**	$m
A. COMPOSITION			
I. Capital nature			
a. TIER 1 REGULATORY CAPITAL*			
Convertible preference shares	B. I	**377**	-
Reset preference shares	B. II	**-**	350
Reset exchangeable securities	B. III	**550**	550
b. TIER 2 REGULATORY CAPITAL			
GBP subordinated term notes	B. IV	**155**	151
NZD subordinated term notes	B. V	**78**	77
GBP subordinated exchangeable term notes	B. VI	**241**	235
NZD subordinated bonds	B. VII	**254**	-
II. Operational nature			
Other interest bearing liabilities		**22**	16
Less: capitalised transaction costs		**(18)**	(2)
		1,659	1,377

* These instruments are eligible for recognition as Tier 1 capital. A portion may be reclassified as Tier 2 capital to the extent the amount on issue is in excess of APRA's Tier 1 limits.

B. SIGNIFICANT TERMS AND CONDITIONS

I. Convertible preference shares

The convertible preference shares (CPS) have a face value of $377 million and were issued by the Company.

Key terms and conditions:

- Non-cumulative floating rate distribution payable semi annually, the payments are expected to be fully franked.
- Distribution rate equals the sum of six month bank bill rate plus CPS margin of 4.00% per annum multiplied by (1 – tax rate).
- Payments of distributions can only be made subject to meeting certain conditions. If no distribution is made, no dividends can be paid and no returns of capital can be made on ordinary shares until the next CPS dividend payment date.
- The CPS are scheduled for conversion on 1 May 2019 provided the mandatory conversion conditions are satisfied.
- IAG may exchange or redeem CPS on the exchange date, or upon occurrence of certain events, subject to APRA approval. The first optional exchange date is 1 May 2017.
- The CPS must be converted into ordinary shares upon request by APRA on occurrence of a non-viability trigger event.
- A non-viability trigger event occurs where APRA determines that CPS must be converted because without conversion or a public sector injection of capital or equivalent support IAG would become, in APRA's opinion, non-viable.
- The CPS rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

II. Reset preference shares

The reset preference shares (RPS) had a face value of $350 million and were issued by the Company.

In accordance with the RPS terms of issue, the issuer exercised its option to buy back all outstanding RPS on issue for $100 per share on the reset date 15 June 2012 . The registered holders were paid a fully franked final dividend of $2.8227. The last trading day for RPS was 23 May 2012.

III. Reset exchangeable securities

The reset exchangeable securities (RES) have a face value of $550 million and were issued at par by IAG Finance (New Zealand) Limited, a wholly owned subsidiary of the Company.

Key terms and conditions:

- Non-cumulative floating rate distribution payable quarterly, and expected to be fully franked.
- Distribution rate equals the sum of the three month bank bill rate plus RES margin of 4.00% per annum multiplied by (1 – tax rate).
- Payments of distributions can only be made subject to meeting certain conditions. If no distribution is made, no dividends can be paid and no returns of capital can be made on ordinary shares unless IAG takes certain actions.
- The RES may be exchanged by IAG or the holder on a reset date, or upon certain events. The next reset date for the RES is 16 December 2019. On exchange, IAG may convert RES into ordinary shares, arrange a third party to acquire RES for their face value or redeem RES for their face value (subject to APRA approval).
- The RES convert into ordinary shares which would rank equally in all respects with all other ordinary shares.
- The RES rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

IV. GBP subordinated term notes

The GBP subordinated term notes were issued with a face value of £250 million (equivalent to $625 million at date of issue) by the Company. A total of £150 million of the notes have been bought back since 2009.

Key terms and conditions:

- Fixed interest rate of 5.625% per annum payable annually.
- The notes mature on 21 December 2026 (non callable for the first 10 years). If the notes are not redeemed by 21 December 2016, all notes become floating rate notes with an interest rate of the three month GBP LIBOR plus 1.62%.
- The notes rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

V. NZD subordinated term notes

The NZD subordinated term notes have a face value of NZ$100 million, and were issued at par by Insurance Australia Funding 2007 Limited, a wholly owned subsidiary of the Company.

Key terms and conditions:

- Fixed interest rate of 9.105% per annum payable semi annually.
- The notes mature on 21 November 2017 with the issuer having the option to redeem at par from 21 November 2012 onwards subject to approval from APRA.
- If the notes are not redeemed in November 2012, all notes become floating notes with an interest rate of the three months New Zealand bank bill swap rate plus a margin of 1.50% per annum.
- The notes rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

VI. GBP subordinated exchangeable term notes

The GBP subordinated exchangeable term notes were issued at par with a face value of £157 million (equivalent to $260 million at date of issue) and were issued by Insurance Australia Limited, a wholly owned subsidiary of the Company.

Key terms and conditions including the amendments announced on 4 July 2011:

- Floating interest rate of six month GBP LIBOR plus margin of 1.875% per annum payable semi annually.
- The notes mature on 20 April 2035 with the holder having the option to exchange into ordinary shares of IAG from December 2012 and at each subsequent interest payment date or upon certain events, subject to the right of the issuer to redeem or require the transfer of the notes to IAG or a third party for their face value (subject to APRA approval).
- The notes may also be redeemed by the issuer upon certain events subject to APRA's approval.
- The notes rank in priority to ordinary shares of the issuer for the payment of dividends and in the event of a winding up.

VII. NZD subordinated bonds

The NZD subordinated bonds were issued with a face value of NZ$325 million (equivalent to $246 million at date of issue) by the Company.

Key terms and conditions:

- Fixed Interest rate of 7.5% per annum payable quarterly.
- The bonds mature on 15 December 2036 with the issuer having the option to redeem at par from 15 December 2016 and at subsequent interest payment dates subject to approval from APRA.
- If the bonds are not redeemed by 15 December 2016, the interest rate will equal the sum of the 5 year New Zealand swap rate on 15 December 2016 and each 5th anniversary thereafter plus a margin of 3.78% per annum.
- The bonds may also be redeemed by the issuer upon certain events subject to APRA's approval.
- The bonds rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

C. FAIR VALUE INFORMATION

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

	2012		2011	
	Carrying value	**Fair value**	Carrying value	Fair value
	$m	**$m**	$m	$m
I. Capital nature				
a. TIER 1 REGULATORY CAPITAL				
Convertible preference shares	**377**	**367**	-	-
Reset preference shares	**-**	**-**	350	352
Reset exchangeable securities	**550**	**545**	550	564
b. TIER 2 REGULATORY CAPITAL				
GBP subordinated term notes	**155**	**121**	151	124
NZD subordinated term notes	**78**	**79**	77	81
GBP subordinated exchangeable term notes	**241**	**241**	235	235
NZD subordinated bonds	**254**	**266**	-	-
II. Operational nature				
Various instruments	**22**	**22**	16	16
Total	**1,677**		1,379	
Less: capitalised transaction costs	**(18)**		(2)	
	1,659		1,377	

The fair value is calculated using either the quoted market prices or a valuation technique based on market available data for similar instruments.

NOTE 23. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	2012	2011	**2012**	2011
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
Ordinary shares				
Balance at the beginning of the financial year	**2,079**	2,079	**5,353**	5,353
Balance at the end of the financial year	**2,079**	2,079	**5,353**	5,353

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

I. 2012

There were no issues of ordinary shares during the year.

II. 2011

There were no significant issues of ordinary shares during the year ended 30 June 2011.

B. TREASURY SHARES HELD IN TRUST

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

C. NATURE AND PURPOSE OF RESERVES

I. Foreign currency translation reserve

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

II. Share based remuneration reserve

The share based remuneration reserve is used to recognise the fair value at grant date of equity settled share based remuneration provided to employees over the vesting period, as described in section Z of the summary of significant accounting policies note.

NOTE 24. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED	
	2012	2011
	$m	$m
A. COMPOSITION		
Cash held for operational purposes	**969**	509
Cash and short term money held for investment	**1,097**	823
Cash and cash equivalents	**2,066**	1,332

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held for investment readily convertible to cash within two working days, net of any bank overdraft. 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 as there are no bank overdrafts used which are repayable upon demand.

B. SIGNIFICANT RISKS

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

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

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

	CONSOLIDATED	
	2012	2011
	$m	$m
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	**265**	338
I. Non cash items		
Depreciation of property and equipment	**58**	57
Amortisation and impairment of intangible assets and goodwill	**364**	190
Net realised (gains) and losses on disposal of investments	**(283)**	(168)
Net unrealised (gains) and losses on revaluation of investments	**(122)**	91
Provision for doubtful debts and impairment	**-**	2
Net retained earnings adjustment for actuarial gains and (losses) on defined benefit superannuation plans	**(52)**	5
Retained earnings adjustment for share based remuneration	**18**	18
Realised gain on buyback of GBP subordinated term notes	**-**	1
Other	**37**	9
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	**(291)**	(2,438)
Prepayments and deferred levies and charges	**(223)**	(107)
Deferred tax assets	**(74)**	(7)
Current tax assets	**-**	5
Defined benefit superannuation asset	**1**	(1)
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	**376**	(235)
Provisions	**92**	(34)
Current tax liabilities	**(23)**	193
Deferred tax liabilities	**(3)**	(24)
Outstanding claims liability	**941**	2,627
Unearned premium liability	**433**	98
Net cash flows from operating activities	**1,514**	620

D. SIGNIFICANT NON-CASH TRANSACTIONS RELATING TO FINANCING AND INVESTING TRANSACTIONS

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

NOTE 25. ACQUISITIONS AND DISPOSALS OF BUSINESSES

A. ACQUISITION OF SUBSIDIARIES

I. For the financial year ended 30 June 2012

a. ACQUISITION OF AMI INSURANCE

On 16 December 2011, the Consolidated entity entered into an arrangement to purchase AMI Insurance Limited (AMI) for NZ$380 million (equivalent to $296 million). The acquisition was completed on 5 April 2012 and excludes all liabilities relating to the recent earthquakes which affected the Canterbury, New Zealand, region.

Details of the financial impact of the acquisition is as follows:	CONSOLIDATED AMI $m
2012	
Purchase price	
Cash paid	**296**
Total purchase consideration	**296**
Fair value of identifiable assets and liabilities acquired and goodwill recognised by acquiree	
Cash and cash equivalents	**185**
Receivables	**86**
Property and equipment	**6**
Payables	**(20)**
Unearned premium liability	**(154)**
Outstanding claims liability	**(34)**
Other	**(9)**
Net identifiable assets acquired during the financial year	**60**
Brands	**28**
Customer relationships	**33**
Software development expenditure	**14**
Other intangible assets	**27**
Goodwill	**134**
	236

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

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

Cash consideration paid	**296**
Cash balance acquired	**(185)**
Net outflow of cash	**111**
Contribution from the acquired businesses (from date of acquisition)	
Income	**72**
Profit/(loss) before income tax	**6**

Due to a lack of suitable information, it is impractical to present a 30 June 2012 Group profit/(loss), inclusive of a 12 month AMI contribution.

II. For the financial year ended 30 June 2011

a. ACQUISTION OF NATIONAL ADVISER SERVICES PTY LTD (NAS INSURANCE BROKERS)

The Group increased its stake in National Adviser Services Pty Ltd from 25% to 76.36% for consideration of $7.4 million. This company is controlled by the Australia intermediated insurance segment and formed part of its segment result.

b. ACQUISTION OF HBF HOLDINGS PTY LTD

On 30 June 2011, the Group paid $20.1 million to acquire 100% ownership of HBF Holdings Pty Ltd and HBF Insurance Pty Ltd (together referred to as HBF). HBF is a personal lines insurance entity distributing to the members of an Australian health fund.

B. OTHER ACQUISITIONS

I. For the financial year ended 30 June 2012

a. BOHAI PROPERTY INSURANCE COMPANY LIMITED

On 12 April 2012, the Group completed the acquisition of a 20% stake in Bohai Property Insurance Company Ltd (Bohai Insurance) for a consideration of RMB687.5 million (equivalent to $96 million). Bohai Insurance is a Chinese general insurance company, predominantly focusing on motor insurance with annualised gross written premium in excess of $200 million.

b. AAA ASSURANCE CORPORATION (AAA)

On 18 May 2012, the Group completed the acquisition of a 30% stake in Vietnam-based AAA Assurance Corporation (AAA Assurance) for a consideration less than $20 million. AAA Assurance Corporation has a strong focus on motor insurance.

c. MUTUAL COMMUNITY GENERAL INSURANCE PROPRIETY LIMITED (MCGI)

In April 2012, the Group increased its stake in MCGI from 51% to 100% for a consideration of $6 million.

d. NBJ UNITED KINGDOM LIMITED (NBJ)

In January 2012, the Group increased its stake in NBJ from 75% to 100% for a consideration of $3 million.

II. For the financial year ended 30 June 2011

a. ACCIDENT & HEALTH INTERNATIONAL UNDERWRITING PTY LIMITED

On 1 July 2010, the Group entered into an arrangement to acquire 50% of the ownership of Accident & Health International Underwriting Pty Limited (AHI). AHI is an underwriting agency in Australia that has been in operation since 1998 and currently underwrites personal accident, medical expenses and travel insurance.

C. DISPOSAL OF SUBSIDIARIES

I. For the financial year ended 30 June 2012

a. BEIJING CONTINENTAL AUTOMOBILE ASSOCIATION LIMITED

In January 2012, the Group disposed of its wholly owned subsidiary in China, Beijing Continental Automobile Association Limited (CAA) for a consideration of $1 million. A loss of $4 million was recognised in the Fee based, corporate and other expenses line in the statement of comprehensive income.

b. INSURANCE DIALOGUE LTD

In May 2012, the Group disposed of its wholly owned subsidiary in the United Kingdom, Insurance Dialogue Limited for a consideration of $6 million. The net assets disposed of were $2 million. A profit of $4 million was recognised in the statement of comprehensive income.

II. During the financial year ended 30 June 2011

There were no disposals of subsidiaries by the Consolidated entity.

NOTE 26. DETAILS OF SUBSIDIARIES

The following entities constitute the Consolidated entity.

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2012	2011
			%	%
A. ULTIMATE PARENT				
Insurance Australia Group Limited		Australia		
B. SUBSIDIARIES				
I. Australian general insurance operations				
Insurance Australia Limited		Australia		
NRMA Personal Lines Holdings Pty Limited		Australia		
Insurance Manufacturers of Australia Pty Limited		Australia	**70.00**	70.00
World Class Accident Repairs (Cheltenham North) Pty Limited	A	Australia	**70.00**	70.00
CGU Insurance Australia Limited		Australia		
CGU Insurance Limited		Australia		
Swann Insurance (Aust) Pty Ltd		Australia		
Mutual Community General Insurance Proprietary Limited		Australia		51.00
IAG Re Australia Limited		Australia		
Sitrof Australia Limited		Australia		
CGU-VACC Insurance Limited		Australia		
CGU Workers Compensation (NSW) Limited		Australia		
CGU Workers Compensation (VIC) Limited		Australia		
HBF Insurance Pty Ltd		Australia		
Strata Unit Underwriting Agency Pty Limited		Australia		
CGU Workers Compensation (SA) Limited		Australia		
The Buzz Insurance Pty Limited	A	Australia		
The Buzz Australia Pty Limited	A	Australia		
National Adviser Services Pty Ltd	A	Australia		76.36

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2012	2011
			%	%
II. New Zealand operations				
IAG (NZ) Holdings Limited	B	New Zealand		
IAG New Zealand Limited	B,C	New Zealand		
New Zealand Insurance Limited	B	New Zealand		
State Insurance Limited	B	New Zealand		
Direct Insurance Services Limited	B	New Zealand		
Belves Investments Limited	B	New Zealand		
Runacres and Associates Limited (formerly Anthony Runacres and Associates Limited)	B	New Zealand		
DriveRight Limited	B	New Zealand		
IAG (NZ) Share Plan Nominee Limited	B	New Zealand		
The IAG New Zealand Limited Employee Share Plan	B	New Zealand		
The IAG Performance Awards Rights Plan for Executives in New Zealand	B	New Zealand		
NZI Staff Superannuation Fund Nominees Limited	B	New Zealand		
AMI Insurance Limited	B	New Zealand		-
III. United Kingdom operations				
IAG UK Holdings Limited	B	United Kingdom		
Equity Insurance Group Limited	B	United Kingdom		
Equity Insurance Holdings Ltd	B	United Kingdom		
Equity Syndicate Management Limited	B	United Kingdom		
Equity Red Star Services Limited	B	United Kingdom		
CDCM Limited		United Kingdom		-
Equity Insurance Management Limited	B	United Kingdom		
Equity Red Star Holdings Limited	B	United Kingdom		
Equity Insurance Properties Limited	B	United Kingdom		
Cox Commercial Limited		United Kingdom		
CDCM (No 2) Limited	B	United Kingdom		
Equity Red Star Limited (formerly CDCM Limited)	B	United Kingdom		
Equity Red Star (accident & health) Limited	B	United Kingdom		
IAG Finance (UK) LLP	B	Gibraltar		
Equity Claims Limited	B	United Kingdom		
Direct Insurance Services Limited	B	United Kingdom		
HML Marketing Limited		United Kingdom		
Equity Direct Broking Limited	B	United Kingdom		
Barnett & Barnett Holdings Limited	B	United Kingdom		
Barnett & Barnett Ltd	B	United Kingdom		
Barnett & Barnett Financial Services Ltd	B	United Kingdom		
Alba Group Pte Ltd	B	Singapore		
Alba Pte Ltd	B	Singapore		
Alba Underwriting Ltd	B	United Kingdom		
Diagonal Underwriting Agency Limited	B	United Kingdom		
AU No 2 Limited	B	United Kingdom		
NBJ Group Limited	B	United Kingdom		75.00
NBJ United Kingdom Limited	B	United Kingdom		75.00
Independent Commercial Broking Group Limited	B	United Kingdom		-
IV. Other international operations				
IAG Re Labuan (L) Berhad	B	Malaysia		
IAG (Asia) General Pte Ltd	B	Singapore		
IAG Re Singapore Pte Ltd	B	Singapore		
NHCT Limited	B,D	Thailand	**49.10**	49.10
IAG Insurance (Thailand) Ltd	B,D	Thailand		
Safety Insurance Public Company Limited	B,D	Thailand	**98.62**	98.47

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2012	2011
			%	%
V. Investment operations				
IAG Asset Management Limited		Australia		
IAG Asset Management Cash Management Trust	A	Australia	**84.49**	83.03
IAG Asset Management Private Equity Trust	A	Australia	**83.20**	83.20
IAG Asset Management Sustainable Investment Trust	A	Australia	**50.01**	50.00
Fixed Interest Technical Provisions Fund	A	Australia		
Fixed Interest Shareholders Fund	A	Australia		
K2 Advisors Alpha Strategies Fund	A	Australia		
BT Australian Long Short Fund Portfolio 2	A	Australia		
VI. Corporate operations				
IAG International Pty Limited		Australia		
IAG Finance (New Zealand) Limited		Australia		
Insurance Australia Group Services Pty Limited		Australia		
IAG & NRMA Superannuation Pty Limited	A	Australia		
IAG Share Plan Nominee Pty Limited	A	Australia		
The IAG Share and Performance Award Rights Plan Trust		Australia		
The IAG Deferred Award Rights Plan		Australia		
The IAG Executive Performance Rights Plan		Australia		
Insurance Australia Funding 2007 Limited		Australia		
Empire Equity Australia Pty Limited		Australia		
IAG Funding Partnership	A	Australia		
C. ENTITIES THAT COMMENCED DEREGISTRATION DURING THE YEAR ENDED 30 JUNE 2012				
HBF Holdings Pty Ltd		Australia		
D. ENTITIES PUT INTO LIQUIDATION DURING THE YEAR ENDED 30 JUNE 2012				
Wedring Limited		United Kingdom	-	
Equity Group 2005 Limited		United Kingdom	-	
ERSH Limited		United Kingdom	-	
Brokersure.co.uk Limited		United Kingdom	-	
Anthony Kidd Agencies Limited		United Kingdom	-	
Can Do Finance Limited		United Kingdom	-	
Cox Managing Agency Limited		United Kingdom	-	
EIG (Investments) Limited		United Kingdom	-	
EIG (Finance) Limited		United Kingdom	-	
EIG (Acquisitions) Ltd		United Kingdom	-	
E. SUBSIDIARIES THAT DEREGISTERED DURING THE YEAR ENDED 30 JUNE 2012				
NRMA Information Services Pty Limited		Australia	-	
F. ENTITIES DISPOSED OF DURING THE YEAR ENDED 30 JUNE 2012				
E Red Limited	B	United Kingdom	-	
Insurance Dialogue Ltd	B	United Kingdom	-	51.10
Beijing Continental Automobile Association Limited	B	China	-	

Table note

A Small proprietary companies, trusts or funds that are not required to prepare, and have not prepared, audited financial statements.

B Audited by overseas KPMG firms.

C All subsidiaries have only ordinary shares on issue except this entity also has perpetual preference shares on issue.

D The following special conditions exist with respect to the Group's Thailand subsidiaries:

- IAG International Pty Limited owns 49% of the share capital of NHCT Limited and has a majority voting right and the right to appoint the board of directors of NHCT Limited. Therefore, NHCT Limited is considered a subsidiary of IAG International Pty Limited. The remaining 51% is held by Allessi Capital Co., Ltd, a company registered in Thailand; and
- IAG International Pty Limited owns 25% directly in IAG Insurance (Thailand) Ltd and is able to govern the financial and operating policies of the company through a further 75% interest held indirectly through its holding in NHCT Limited.

NOTE 27. INVESTMENT IN JOINT VENTURES AND ASSOCIATES

A. INTERESTS IN JOINT VENTURES AND ASSOCIATES

	TABLE NOTE	REPORTING DATE	COUNTRY OF INCORPORATION/ FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE	CONTRI-BUTION TO PROFIT/ (LOSS)	OWNERSHIP INTEREST	
					2012	**2012**	**2012**	2011
					$m	**$m**	%	%
I. Joint venture								
NTI Limited	A,B,C	30 June	Australia	Managing co-insurance arrangement	**7**	**-**	**50.00**	50.00
II. Associates								
AmG Insurance Berhad[(a)]	B	31 March	Malaysia	Insurance underwriting	**135**	**8**	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)[(b)(e)]	B	31 March	India	Insurance underwriting	**87**	**(10)**	**26.00**	26.00
First Rescue and Emergency (NZ) Limited	A,B	31 March	New Zealand	Roadside assistance	**-**	**-**	**50.00**	50.00
Loyalty New Zealand Limited	A,B	31 March	New Zealand	Loyalty program	**-**	**-**	**25.00**	25.00
Sureplan New Zealand Limited	A,B	31 March	New Zealand	Fleet risk management	**-**	**-**	**30.00**	30.00
AAA Assurance Corporation	B	31 December	Vietnam	Insurance underwriting	**18**	**-**	**30.00**	-
Arista Insurance Limited	A	31 December	United Kingdom	Wholesale broker	**-**	**-**	**29.35**	29.35
InsuranceWide.com Services Limited	A	31 December	United Kingdom	Online aggregator	**3**	**1**	**35.25**	35.00
First Rescue Limited (UK)	A,B	31 March	United Kingdom	Insurance services	**-**	**-**	**50.00**	50.00
Photosecure (NZ) Limited	A	30 June	New Zealand	Photographic security management	**-**	**-**	**50.00**	50.00
Accident & Health International Underwriting Pty Limited (AHI)[(c)(e)]	B	30 June	Australia	Insurance underwriting	**34**	**(9)**	**50.00**	50.00
Bohai Property Insurance Company Ltd (Bohai Insurance)[(d)]	B	31 December	China	Insurance underwriting	**100**	**(2)**	**20.00**	-
					384	**(12)**		

(a) The contribution of AmG Insurance Berhad to the net profit of the Group represents the share of associates' net profit of $13 million offset by regional support and development costs of $5 million.

(b) The contribution of SBI General represents an underlying loss of $5 million, amortisation of $1 million and an overlay of regional support and development costs of $4 million.

(c) The contribution of AHI includes a $7 million amortisation cost.

(d) The contribution of Bohai represents an overlay of regional support and development costs of $2 million.

(e) In the segment note, the amortisation expense is shown in the Corporate and other segment.

Table note

A Investment is measured at cost in the Consolidated entity due to materiality.

B Audited by accounting firms not affiliated with KPMG.

C The following special conditions exist with respect to the NTI Limited joint venture:

- CGU Insurance Limited, a subsidiary of the Consolidated entity, has a 50% interest in NTI Limited, the principal activity of which is to facilitate a co-insurance arrangement of commercial motor vehicle business. The Consolidated entity's portion of the results of the co-insurance arrangement is recorded directly in its accounting records.

None of the associates are listed on a stock exchange. Those entities that are equity accounted and do not have a 30 June financial year end are equity accounted for using financial information for the reporting period to 30 June which includes, at least in part, unaudited management results.

	CONSOLIDATED	
	2012	2011
	$m	$m
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**284**	283
Investment in associate acquired	**115**	47
Additional investment in existing associate	**-**	1
Disposal of investment in existing associate	**-**	(3)
Share of associates' net profit/(loss)*	**(1)**	2
Net foreign exchange movements	**(14)**	(46)
Balance at the end of the financial year	**384**	284

* The share of associates' net profit/(loss) for the current reporting period was a loss of $1 million. The contribution of associates to the net profit/(loss) of the Group shown in section A includes regional support and development costs.

C. SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

These disclosures relate to the investment in Asia (AmG Insurance Berhad, SBI General and Bohai Insurance) and Australia (AHI) as all other investments in joint ventures and associates are not significant.

The figures for AmG Insurance Berhad and SBI General are for the financial year ended 31 March 2012 and Bohai Insurance for the year ended 31 December 2011. AHI disclosure is based on the management accounts as at 31 May 2012. These figures represent the financial position and performance of the entities as a whole and not just IAG's share.

		2012		2011
	Australia	**Asia**	Australia	Asia
	$m	**$m**	$m	$m
Assets	**14**	**989**	17	607
Liabilities	**10**	**665**	11	315
Revenue	**9**	**516**	10	256
Profit/(loss)	**1**	**(24)**	3	17

D. COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital or other commitments or contingent liabilities arising from the joint venture or any of the associates that are significant to the Consolidated entity.

NOTE 28. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2012	2011
	$m	$m
A. EMPLOYEE BENEFITS PROVISION		
Annual leave	**79**	72
Long service leave	**71**	61
Cash based incentive arrangements	**73**	82
Defined benefit superannuation plans	**125**	51
Other employee benefits*	**10**	9
	358	275

* There is one defined benefit pension arrangement in Australia with a discounted liability of $8 million as at the current reporting date (2011-$7 million) involving 63 participants (2011-70) and one defined benefit pension arrangement in New Zealand with a discounted liability of $2 million as at the current reporting date (2011-$2 million) involving 40 participants (2011–41). These liabilities are met from general assets rather than assets being set aside in trust.

The employee benefits provision includes $178 million (2011-$94 million) which is expected to be settled after more than 12 months from reporting date.

B. EMPLOYEE NUMBERS

The Consolidated entity had 13,650 employees on a full time equivalent basis as at 30 June 2012 (2011-13,008).

C. CASH BASED INCENTIVE ARRANGEMENTS

I. Short term incentive plan

The short term incentive plan continued in operation during the current reporting period. Eligible employees have the capacity to earn a proportion of their base pay as a cash incentive annually. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 10%, 15% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

II. Insurance Manufacturers of Australia Pty Limited long term incentive scheme

A long term incentive is available to senior employees of Insurance Manufacturers of Australia Pty Limited (IMA). This is a cash based incentive arrangement involving hurdles relating to compound growth in the IMA underwriting result over a three year period.

NOTE 29. SHARE BASED REMUNERATION

The provision of share based remuneration creates a link between shareholder value creation and rewarding employees. Share based remuneration encourages employee share ownership, links employee reward to the performance of the Group and assists with retention of key personnel. This type of remuneration encourages employees to focus on creating shareholder value over the longer term.

The obligations under share based payment arrangements are covered by the on market purchase of IAG ordinary shares which are held in trust. The shares are purchased on or near grant date at the prevailing market price. The arrangements are managed using in-house trusts, one for Australia and one for New Zealand, which are controlled for accounting purposes and are subsidiaries of the Consolidated entity. The trustee for each trust is a subsidiary of the Consolidated entity. The trusts are administered by an external company.

The number of shares purchased to cover each allocation of rights is determined by the trustee based on independent actuarial advice. The trusts allow for excess shares purchased in relation to one plan to be used to meet obligations of the other plans at the trustee's discretion. The trusts held 13,219,481 shares as at 30 June 2012 (2011-12,439,032 shares) representing 0.64% (2011 - 0.60%) of the issued share capital. This includes shares that are not controlled for accounting purposes and so not recognised as treasury shares.

Trading in IAG ordinary shares that are awarded under the share based remuneration arrangements is covered by the same restrictions that apply to all forms of share ownership by employees. These restrictions limit an employee trading in IAG ordinary shares when they are in a position to be aware, or are aware, of price sensitive information.

Share based remuneration is provided through a range of different plans each of which has different purposes and different rules. The share based remuneration expense amounts are included in the claims expense, other underwriting expenses, and fee based, corporate and other expenses lines in the statement of comprehensive income.

A. SENIOR MANAGEMENT AND EXECUTIVE SHARE PLANS

The senior management and executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the Deferred Award Rights Plan and the Executive Performance Rights Plan which are detailed below. The IAG Nomination, Remuneration & Sustainability Committee approves the participation of each individual in the plans. Certain other share plan arrangements remain in place but were closed to new offers in the prior reporting periods. Within each of these plans, there remain outstanding rights to be settled with the most significant being the Performance Award Rights Plan.

I. Deferred Award Rights Plan

The Deferred Awards Rights Plan (DAR Plan) is the deferred portion of the short term incentive issued as rights over IAG ordinary shares.

Key terms and conditions:

- The rights are granted for nil consideration, are non transferable, and can be settled only with existing IAG ordinary shares. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- The vesting condition is not market related and requires the participant to continue in relevant employment.
- Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price of all vested rights is a nominal value of $1 per tranche of rights exercised.
- The rights vest after a period (current maximum is two years, with a three year maximum for rights granted before 1 July 2010) as determined by the IAG Board subject to the participants continuing in relevant employment for the full period. If there is a change of control of IAG, the IAG Board has discretion to determine if and when rights should vest.
- If the vesting condition is not met then the rights lapse. The rights also lapse where the holder chooses to forgo the rights, and all rights expire 10 years (for rights granted prior to 1 July 2009) or seven years (for rights granted after 1 July 2009) from grant date where they have not previously lapsed or been exercised.

The following information relates to the rights issued under the DAR Plan.

GRANT DATE	FAIR VALUE AT GRANT DATE	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	NUMBER OF RIGHTS AT 30 JUNE	
						On issue	Exercisable
2012							
19/12/2006	**$5.354**	**242,798**	**-**	**(126,558)**	**-**	**116,240**	**116,240**
13/03/2007	**$5.156**	**32,249**	**-**	**(6,937)**	**(3,375)**	**21,937**	**21,937**
27/09/2007	**$4.820**	**545,450**	**-**	**(179,900)**	**(6,000)**	**359,550**	**359,550**
27/05/2008	**$2.810**	**26,345**	**-**	**-**	**-**	**26,345**	**26,345**
18/09/2008	**$3.668**	**1,492,380**	**-**	**(713,760)**	**(5,000)**	**773,620**	**773,620**
27/02/2009*	**$3.263**	**24,454**	**-**	**(24,454)**	**-**	**-**	**-**
27/02/2009*	**$3.155**	**20,000**	**-**	**(10,000)**	**-**	**10,000**	**-**
27/02/2009*	**$3.397**	**10,000**	**-**	**-**	**-**	**10,000**	**10,000**
27/02/2009*	**$3.311**	**15,000**	**-**	**-**	**-**	**15,000**	**15,000**
25/09/2009	**$3.600**	**1,631,500**	**-**	**(685,710)**	**(46,740)**	**899,050**	**482,950**
24/11/2009	**$3.770**	**79,100**	**-**	**(47,460)**	**-**	**31,640**	**-**
25/03/2010	**$3.780**	**22,000**	**-**	**(2,240)**	**(560)**	**19,200**	**15,360**
06/10/2010	**$3.532**	**2,734,300**	**-**	**(1,065,050)**	**(67,450)**	**1,601,800**	**387,050**
03/03/2011*	**$3.467**	**49,100**	**-**	**(19,750)**	**-**	**29,350**	**4,800**
03/03/2011*	**$3.492**	**40,000**	**-**	**(20,000)**	**-**	**20,000**	**-**
21/10/2011	**$2.880**	**-**	**3,565,000**	**(94,100)**	**(138,100)**	**3,332,800**	**72,700**
17/02/2012	**$2.740**	**-**	**70,800**	**-**	**-**	**70,800**	**-**
		6,964,676	**3,635,800**	**(2,995,919)**	**(267,225)**	**7,337,332**	**2,285,552**

* Rights issued on the same grant date may have different fair values to reflect different vesting periods.

GRANT DATE	FAIR VALUE AT GRANT DATE	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	On issue	Exercisable
2011							
19/12/2006	$5.354	415,570	-	(172,772)	-	242,798	239,048
13/03/2007	$5.156	44,624	-	(10,875)	(1,500)	32,249	32,249
27/09/2007	$4.820	973,280	-	(422,630)	(5,200)	545,450	528,450
27/05/2008	$2.810	26,345	-	-	-	26,345	26,345
18/09/2008	$3.668	2,576,750	-	(1,007,390)	(76,980)	1,492,380	838,860
27/02/2009*	$3.263	24,454	-	-	-	24,454	24,454
27/02/2009*	$3.155	40,000	-	(20,000)	-	20,000	-
27/02/2009*	$3.397	10,000	-	-	-	10,000	10,000
27/02/2009*	$3.311	15,000	-	-	-	15,000	12,000
25/09/2009	$3.600	2,989,100	-	(1,168,100)	(189,500)	1,631,500	418,650
24/11/2009	$3.770	158,200	-	(79,100)	-	79,100	-
25/03/2010	$3.780	22,000	-	-	-	22,000	11,000
06/10/2010	$3.532	-	2,972,900	(86,800)	(151,800)	2,734,300	-
03/03/2011*	$3.467	-	49,100	-	-	49,100	-
03/03/2011*	$3.492	-	40,000	-	-	40,000	-
		7,295,323	3,062,000	(2,967,667)	(424,980)	6,964,676	2,141,056

* Rights issued on the same grant date may have different fair values to reflect different vesting periods.

The weighted average share price for rights exercised for the year ended 30 June 2012 was $3.17.

The fair value of the rights is calculated as at the grant date using a Black Scholes valuation.

SIGNIFICANT FACTORS AND ASSUMPTIONS		
2012		
Grant date	**21/10/2011**	**17/02/2012**
Share price on grant date ($)	**$3.08**	**$2.86**
Exercise price ($)	**$1 per tranche exercised**	**$1 per tranche exercised**
Risk free interest rate (%)	**4.36%**	**4.26%**
Expected dividend yield (%)	**5.06%**	**4.11%**
Expected life of rights (years)	**2 years**	**2 years**
2011		
Grant date	06/10/2010	03/03/2011
Share price on grant date ($)	$3.71	$3.60
Exercise price ($)	$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)	5.28%	5.33%
Expected dividend yield (%)	3.44%	3.68%
Expected life of rights (years)	2 years	2 years

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

II. Executive Performance Rights Plan

The Executive Performance Rights Plan (EPR Plan) is the Group's long term incentive plan issued as rights over IAG ordinary shares.

Key terms and conditions:

- The rights are granted for nil consideration, are non transferable, and can be settled only with IAG ordinary shares. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- Where the rights vest (the holder becomes entitled to exercise the right), the EPR Plan entitles participating employees to acquire one IAG ordinary share for each right. There is no exercise price.
- Each allocation is split equally into two portions and is subject to different performance hurdles. The first vesting condition is not market related and requires the participant to continue relevant employment. The second set of vesting conditions are as follows:
  - 50% is subject to a return on equity hurdle (ROE allocation)
  - 50% is subject to a total shareholder return hurdle (TSR allocation)

If a participant ceases employment with IAG before the performance conditions are tested, their unvested rights will generally lapse.

- Under the TSR allocation, IAG's TSR is assessed against the TSR of a peer group of entities. For allocations made prior to 30 June 2009, the peer group consists of entities in the S&P/ASX 100 Index and for allocations made after 30 June 2009, the peer group consists of entities in the top 50 industrials within the S&P/ASX 100 Index. The performance hurdle is set with a tiered vesting scale:
  - Maximum vesting of 100% if IAG's relative TSR is equal or larger than the 75th percentile of the peer group;
  - Minimum vesting of 0% if IAG's TSR is below the 50th percentile of the peer group.

- The ROE hurdle compares IAG's performance with IAG's weighted average cost of capital (WACC), where the IAG Board determine the WACC. The tiered vesting scale is:
  - Maximum vesting of 100% if ROE is larger than 1.6 x WACC (1.8 x WACC for rights granted between 1 July 2008 to 30 June 2010);
  - Minimum vesting at 0% if ROE is below 1.2 x WACC (1.5 x WACC for rights granted between 1 July 2008 to 30 June 2010, 1.3 x WACC for rights granted before 30 June 2008).

- If there is a change of control of IAG, the IAG Board has discretion to determine if and when rights should vest.

The following information relates to the rights issued under the EPR Plan.

GRANT DATE	FAIR VALUE AT GRANT DATE (TSR)	FAIR VALUE AT GRANT DATE (ROE)	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	NUMBER OF RIGHTS AT 30 JUNE	
							On issue	Exercisable
2012								
29/10/2007	**$2.870**	**$4.310**	**1,160,674**	**-**	**(37,280)**	**(656,154)**	**467,240**	**84,640**
29/11/2007	**$2.350**	**$3.680**	**170,000**	**-**	**-**	**-**	**170,000**	**-**
13/03/2008	**$1.630**	**$2.710**	**48,560**	**-**	**(9,024)**	**(19,176)**	**20,360**	**3,904**
27/05/2008	**$2.120**	**$3.220**	**47,652**	**-**	**(3,200)**	**(37,652)**	**6,800**	**-**
18/09/2008	**$2.530**	**$3.410**	**4,029,400**	**-**	**(901,972)**	**(124,846)**	**3,002,582**	**407,270**
27/02/2009	**$2.570**	**$3.150**	**250,000**	**-**	**(82,500)**	**-**	**167,500**	**-**
25/09/2009	**$2.480**	**$3.480**	**3,195,000**	**-**	**-**	**(182,800)**	**3,012,200**	**-**
24/11/2009	**$2.590**	**$3.650**	**790,600**	**-**	**-**	**-**	**790,600**	**-**
25/03/2010	**$2.460**	**$3.600**	**171,400**	**-**	**-**	**-**	**171,400**	**-**
06/10/2010	**$2.420**	**$3.380**	**4,344,200**	**-**	**-**	**(251,000)**	**4,093,200**	**-**
03/03/2011	**$2.270**	**$3.300**	**530,600**	**-**	**-**	**-**	**530,600**	**-**
21/10/2011	**$1.860**	**$2.690**	**-**	**5,085,000**	**-**	**(202,600)**	**4,882,400**	**-**
17/02/2012	**$1.630**	**$2.600**	**-**	**52,500**	**-**	**-**	**52,500**	**-**
			14,738,086	**5,137,500**	**(1,033,976)**	**(1,474,228)**	**17,367,382**	**495,814**
2011								
29/10/2007	$2.870	$4.310	1,893,050	-	(500,896)	(231,480)	1,160,674	112,320
29/11/2007	$2.350	$3.680	250,000	-	(80,000)	-	170,000	-
13/03/2008	$1.630	$2.710	152,400	-	(35,840)	(68,000)	48,560	12,928
27/05/2008	$2.120	$3.220	65,370	-	(17,718)	-	47,652	3,200
18/09/2008	$2.530	$3.410	4,791,400	-	-	(762,000)	4,029,400	-
27/02/2009	$2.570	$3.150	250,000	-	-	-	250,000	-
25/09/2009	$2.480	$3.480	3,934,700	-	-	(739,700)	3,195,000	-
24/11/2009	$2.590	$3.650	790,600	-	-	-	790,600	-
25/03/2010	$2.460	$3.600	171,400	-	-	-	171,400	-
06/10/2010	$2.420	$3.380	-	4,713,700	-	(369,500)	4,344,200	-
03/03/2011	$2.270	$3.300	-	530,600	-	-	530,600	-
			12,298,920	5,244,300	(634,454)	(2,170,680)	14,738,086	128,448

The weighted average share price for rights exercised for the year ended 30 June 2012 was $3.17.

The fair value of the rights is calculated as at the grant date using Black Scholes (for ROE performance hurdle) and Monte Carlo simulation (for TSR performance hurdle) models. The valuations take into account the probability of achieving the market related performance hurdle.

Some of the assumptions, including expected share price volatility, are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

	SIGNIFICANT FACTORS AND ASSUMPTIONS	
2012		
Grant date	**21/10/2011**	**17/02/2012**
Share price on grant date ($)	**$3.08**	**$2.86**
Risk free interest rate (%)	**4.36%**	**4.26%**
Expected dividend yield (%)	**5.06%**	**4.11%**
Expected life of rights (years)*	**3 or 4 years**	**3 or 4 years**
2011		
Grant date	06/10/2010	03/03/2011
Share price on grant date ($)	$3.71	$3.60
Risk free interest rate (%)	5.28%	5.33%
Expected dividend yield (%)	3.44%	3.68%
Expected life of rights (years)*	3 or 4 years	3 or 4 years

* The expected life for the ROE rights is three years and four years for TSR rights.

III. Performance Award Rights Plan

The Performance Award Rights Plan (PAR Plan) closed to new offers during the year ended 30 June 2007.

On 30 June 2011, the PAR Plan 2006/2007- series 5 reached the last performance hurdle test. The performance hurdle was not met throughout the testing period and 1,404,296 rights on issue as at 30 June 2011 lapsed on 29 August 2011 and there are no rights on issue as at 30 June 2012.

As at 30 June 2012, there are 112,068 rights on issue, vested and exercisable (2011-178,921 rights). The financial impact of the closed PAR Plan is $Nil.

B. EMPLOYEE SHARE PLANS

Offers were made under the employee share plans during the year ended 30 June 2012 in Australia, New Zealand and the United Kingdom which gave employees the opportunity to own a stake in IAG and share in the Group's future success.

Under the plans, shares are purchased under salary sacrifice arrangements, allowing employees to acquire shares in a tax effective manner, and IAG contributes towards 10% of the cost of the share purchase. IAG ordinary shares taken up through the plans do not incur any brokerage. The salary sacrifice arrangements and structure of the plans differ between jurisdictions to comply with local legislation and utilise tax concessions.

NOTE 30. SUPERANNUATION

Contributions are made to a number of superannuation plans in various countries. Entry to all defined benefit superannuation plans is closed to new members. New employees are provided with defined contribution arrangements. The defined benefit contribution plans provide benefits for members or their dependants in the form of lump sum or pension payments generally upon retiring from relevant employment.

A. DEFINED CONTRIBUTION SUPERANNUATION ARRANGEMENTS

Contributions to the plans are made in accordance with the governing rules of each plan together with relevant legislative requirements in each geographical region. The contributions are generally based on a percentage of employees' salaries.

The Consolidated entity is not exposed to risks or rewards of the defined contribution arrangements and has no obligations beyond the payment of contributions. There were no employer contributions payable at the end of the year for defined contribution members (2011-$Nil).

B. DEFINED BENEFIT SUPERANNUATION ARRANGEMENTS

There are seven defined benefit superannuation plans in the Group. Contributions to the plans are made in accordance with the governing rules of each plan and the contribution recommendations of an independent actuary. In contrast to defined contribution superannuation arrangements, the future cost of the defined benefit superannuation plans is not known with certainty in advance. The benefits for defined benefit members are generally based on length of service and/or final average salary and/or age together with the member's own contributions (if any). The net financial positions of the plans are recognised on the balance sheet.

I. Australia

All Australian employees with defined benefit superannuation arrangements are members of the IAG & NRMA Superannuation Plan (IAG Plan). There were 549 members as at reporting date (2011-584). The Consolidated entity has contributed $8 million to the members during the period (2011-$9 million). There were no employer contributions payable at the end of the year (2011-$Nil).

The employer contribution rate for Australian defined benefit members was 17.5% with an additional quarterly payment of $1 million (1 July 2011 - 31 December 2011) and $475,000 (1 January 2012 – 30 June 2012) to restore the financial position of the IAG Plan. The quarterly payments will increase to $1 million from 1 July 2012.

II. United Kingdom

The United Kingdom operation contributes to five defined benefit superannuation arrangements (UK Plans) being The Christopherson's Final Salary Scheme, The Red Star Insurance Association Limited 1978 Retirement and Death Benefit Scheme, The Anthony Kidd Agencies Scheme and schemes within the Lloyd's Superannuation Fund (a multi-employer scheme) being the Cox Services Limited Staff Pension Scheme and the HML Marketing Limited Staff Pension Scheme. The UK Plans had 511 defined benefit members as at reporting date (2011-519). The Consolidated entity contributed $0.5 million to the UK Plans for defined benefit members during the year (2011-$6 million).

III. New Zealand

The New Zealand operation contributes to one defined benefit superannuation arrangement being AMI Superannuation Scheme as a result of the AMI acquisition during the financial year. The Plan had 216 defined benefit members and a $6 million net deficit as at reporting date. The fair value of the Plan assets was $23 million and the present value of the defined benefit obligation was $27 million at reporting date.

IV. Financial information of defined benefit arrangement

a. REPORTING DATE BALANCES

	IAG PLAN		UK PLANS		TOTAL	
	2012	2011	**2012**	2011	**2012**	2011
	$m	$m	**$m**	$m	**$m**	$m
Fair value of plan assets	**141**	149	**105**	103	**246**	252
Present value of defined benefit obligation (net discount rate)	**(252)**	(194)	**(113)**	(108)	**(365)**	(302)
Net defined benefit asset/(liability)	**(111)**	(45)	**(8)**	(5)	**(119)**	(50)
Net asset/(liability) recognised on the balance sheet	**(111)**	(45)	**(8)**	(5)	**(119)**	(50)

b. RECOGNITION OF MOVEMENTS IN NET ASSET/(LIABILITY)

	IAG PLAN		UK PLANS	
	2012	2011	**2012**	2011
	$m	$m	**$m**	$m
Contributions expensed	**8**	9	**-**	6
Reporting date valuation adjustment to profit	**(3)**	(4)	**-**	(5)
	5	5	**-**	1
Reporting date valuation adjustment to retained earnings	**69**	1	**3**	(6)
Total amount recognised for financial year in closing retained earnings	**74**	6	**3**	(5)
Reporting date valuation adjustments represent				
Current service cost	**6**	6	**-**	-
Past service cost	**1**	1	**-**	-
Interest cost (net of tax)	**9**	9	**6**	6
Expected return on plan assets	**(11)**	(11)	**(6)**	(5)
Actuarial (gains) and losses	**69**	1	**3**	(6)
Total net amount recognised from reporting date valuation	**74**	6	**3**	(5)
c. RECONCILIATION OF MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION				
Defined benefit obligation at the beginning of the financial year	**194**	199	**108**	124
Current service cost	**6**	6	**-**	-
Past service cost	**1**	1	**-**	-
Interest cost	**9**	9	**5**	6
Contributions by plan participants	**2**	2	**-**	-
Actuarial (gains) and losses	**63**	(2)	**1**	1
Benefits paid	**(23)**	(21)	**(4)**	(4)
Net exchange difference on translation of foreign operations	**-**	-	**3**	(19)
Defined benefit obligation at the end of the financial year	**252**	194	**113**	108
d. RECONCILIATION OF MOVEMENTS IN THE FAIR VALUE OF ASSETS				
Fair value of plan assets at the beginning of the financial year	**149**	151	**103**	108
Expected return on plan assets	**11**	11	**6**	6
Actuarial gains and (losses)	**(6)**	(3)	**(3)**	4
Contributions by employers	**8**	9	**1**	6
Contributions by plan participants	**2**	2	**-**	-
Benefits paid	**(23)**	(21)	**(4)**	(4)
Net exchange difference on translation of foreign operations	**-**	-	**2**	(17)
Fair value of plan assets at the end of the financial year	**141**	149	**105**	103

e. PLAN ASSETS

The percentage invested in each asset class at reporting date is shown in the table below.

		IAG PLAN		UK PLANS
	2012	2011	**2012**	2011
	%	%	**%**	%
Australian shares	**30.0**	38.0	**-**	-
Overseas shares	**26.0**	20.0	**40.0**	42.0
Listed property trusts	**11.0**	10.0	**-**	-
Fixed interest	**24.0**	25.0	**44.0**	41.0
Cash	**4.0**	5.0	**14.0**	13.0
Other	**5.0**	2.0	**2.0**	4.0

The direct Australian equity mandates of the IAG Plan do not include any shares issued by the Consolidated entity. The IAG Plan does invest in Australian equity investments in unit trusts or other pooled vehicles which may contain shares issued by the Consolidated entity. The assets of the UK Plans are managed by independent trustee boards.

To determine the expected rate of return on assets, the actuary has considered the expected future investment returns for each major asset class net of investment tax and investment fees. The actual return on the IAG Plan assets for the current reporting period was a loss of 0.01% (2011 - gain of 7.9%). The actual return on the UK Plans' assets for the current reporting period was a gain of 5.4% (2011-gain of 9.6%).

f. ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used in determining the financial position of the plans include:

		IAG PLAN		UK PLANS
	2012	2011	**2012**	2011
	%	%	**%**	%
Discount rate (gross)*	**3.0**	5.2	**5.1**	5.1
Expected rate of return on plan assets supporting pension liabilities	**8.3**	8.3	**4.1**	5.1
Expected rate of return on other plan assets	**7.0**	7.0	**4.1**	5.1
Expected future salary increases	**4.0**	4.0	**5.1**	5.1
Future pension increases - adult/child	**2.5/0.0**	2.5/0.0	**3.6/0.0**	3.6/0.0

* The discount rate for the IAG Plan has been determined by reference to the market yields on 10 year government bonds in Australia. The UK Plans discount rate has been determined by reference to the market yields on AA rated corporate bonds in the United Kingdom.

g. SENSITIVITY OF MEASUREMENT TO ACTUARIAL ASSUMPTIONS

The discount rate applied for the IAG Plan reflects the market yields on government bonds and so is subject to change if those yields change. A 1% reduction in the discount rate would result in a $38 million increase in the present value of the defined benefit obligation of the IAG Plan and result in a net financial deficit of $150 million. A 1% increase in the discount rate would result in an equivalent magnitude, but opposite in direction impact.

h. HISTORICAL INFORMATION

	IAG PLAN					UK PLANS				
	2012	2011	2010	2009	2008	**2012**	2011	2010	2009	2008
	$m	$m	$m	$m	$m	**$m**	$m	$m	$m	$m
Present value of defined benefit obligation	**(252)**	(194)	(199)	(194)	(176)	**(113)**	(108)	(124)	(138)	(124)
Fair value of plan assets	**141**	149	151	143	179	**105**	103	108	103	117
Surplus/(deficit) in the plan	**(111)**	(45)	(48)	(51)	3	**(8)**	(5)	(16)	(35)	(7)
Experience adjustments arising on plan liabilities gain/(loss)	**(4)**	-	-	(7)	(4)	**(1)**	-	(1)	(11)	(9)
Experience adjustments arising on plan assets gain/(loss)	**(6)**	(3)	10	(37)	(41)	**-**	10	3	(19)	6

i. FUNDING OBLIGATIONS FOR THE IAG & NRMA SUPERANNUATION PLAN IN AUSTRALIA

The financial information disclosed below has been determined in accordance with AAS 25 Financial Reporting by Superannuation Plans, using the Attained Age Actuarial Funding method.

	IAG PLAN	
	2012	2011
	$m	$m
Net market value of plan assets	**141**	149
Present value of accrued benefits	**(158)**	(159)
Defined benefit surplus/(deficit)	**(17)**	(10)
Vested benefits	**151**	152

	IAG PLAN	
	2012	2011
	%	%
The principal actuarial assumptions used in determining the financial position of the IAG Plan in accordance with AAS 25 and the funding recommendation include:		
Expected investment returns – pension assets/other assets (gross)	**7.5**	7.5
Expected future salary increases	**4.0**	4.0
Future pension increases – adult/child	**2.5/0.0**	2.5/0.0

The accrued benefits are determined on the basis of the present value of expected future payments that arise from membership up to the measurement date. The accrued benefits are determined by reference to expected future salary levels and are discounted by using a market based, risk adjusted discount rate. Vested benefits are the benefits which would be payable to members if they all voluntarily resigned as at the reporting date.

The contribution recommendation uses a different actuarial methodology and a different discount rate assumption to that used in determining the financial position for measurement on the balance sheet of the employer sponsor.

NOTE 31. COMMITMENTS

	CONSOLIDATED	
	2012	2011
	$m	$m
A. CAPITAL AND OTHER COMMITMENTS		
I. Capital commitments		
Software development	**29**	15
II. Other commitments		
Software licence and rental	**20**	37
Other	**14**	18
	63	70
B. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	**108**	102
Due within 1 to 2 years	**102**	93
Due within 2 to 5 years	**283**	259
Due after 5 years	**194**	284
II. Plant and equipment		
Due within 1 year	**11**	16
Due within 1 to 2 years	**7**	12
Due within 2 to 5 years	**5**	11
	710	777

Certain property, motor vehicles and computer equipment are leased under non cancellable operating leases. Most leases are subject to annual reviews with increases subject to a set percentage or based on either movements in consumer price indices or operating criteria. Where appropriate, a right of renewal has been incorporated into the lease agreements at which time all terms and conditions may be renegotiated. There are no options to purchase the relevant assets on expiry of the lease.

NOTE 32. CONTINGENCIES

The IAG Group is exposed to a range of contingencies. Some are specific to instruments or transactions, others relate more to risk faced in the normal course of business.

A. CONTINGENT LIABILITIES

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

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

- litigation arising out of insurance policies; and
- undertakings for maintenance of net worth and liquidity support to subsidiaries in the Consolidated entity. It is normal practice to provide wholly owned subsidiaries with support and assistance as may be appropriate with a view to enabling them to meet their obligations and to maintain their good standing. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation.

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

B. FIDUCIARY ACTIVITIES

The Consolidated entity's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in the Consolidated entity's balance sheet had a fair value as at the current reporting date of $488 million (2011-$495 million). This does not include the investment by third parties in the IAG Asset Management Wholesale Trusts presented as non-controlling interests in unitholders' funds on the balance sheet. The Consolidated entity is exposed to operational risk relating to managing these funds on behalf of third parties.

NOTE 33. RELATED PARTY DISCLOSURES

A. CONTROLLING ENTITIES

The ultimate parent entity in the Consolidated entity is Insurance Australia Group Limited which is incorporated in Australia.

The Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries (information in relation to ownership interests is provided in the subsidiaries note).

The Group currently operates under a devolved model but there are shared services through the use of dedicated units (such as head office finance providing accounting and processing services to operational entities) and entities (such as dedicated entities that provide employee services, technology development services, and reinsurance services) which provide services across the Group. All such intragroup transactions are charged to the relevant entities on normal commercial terms and conditions, and on a direct and actual cost recovery basis or time allocation basis. Certain entities are economically dependent on other entities in the Group. There are also loans between entities in the Group. All transactions that have occurred among the subsidiaries with the Group have been eliminated for consolidation purposes.

B. KEY MANAGEMENT PERSONNEL

I. Details of compensation

Key management personnel (KMP) 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 KMP in accordance with AASB 124 Related Party Disclosures. However, the non-executive directors do not consider that they are part of 'management'.

The aggregate compensation of the KMP is set out below.

	CONSOLIDATED	
	2012	2011
	$000	$000
Short term employee benefits	**16,094**	14,758
Post employment benefits	**433**	746
Other long term benefits	**237**	45
Termination benefits	**-**	942
Share based payments	**8,884**	6,024
	25,648	22,515

The compensation disclosed in the table above represents the KMP's estimated compensation received from the Group in relation to their involvement in the activities with the Consolidated entity.

II. Interest in securities

The tables below disclose the movements in total number of deferred award rights (DAR), executive performance rights (EPR) and performance award rights (PAR) on issue held by each of the KMP. The DAR, EPR and PAR were granted as share based remuneration in accordance with the share based payment remuneration policy. The non-executive directors, who are KMP, did not receive share based payments in the form of DAR, EPR and PAR.

a. MOVEMENTS IN TOTAL NUMBER OF DEFERRED AWARD RIGHTS ON ISSUE

	DAR ON ISSUE 1 JULY	DAR GRANTED DURING THE YEAR	DAR EXERCISED DURING THE YEAR	DAR LAPSED DURING THE YEAR	DAR ON ISSUE 30 JUNE[(a)]	DAR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2012						
MJ Wilkins	**202,700**	**162,400**	**(114,960)**	**-**	**250,140**	**-**
JP Breheny	**216,200**	**63,100**	**(53,950)**	**-**	**225,350**	**121,440**
A Cornish	**112,704**	**89,700**	**(70,004)**	**-**	**132,400**	**-**
IR Foy[(b)]	**56,690**	**87,300**	**(31,210)**	**-**	**112,780**	**-**
P Harmer	**-**	**40,500**	**-**	**-**	**40,500**	**-**
NB Hawkins	**84,010**	**67,700**	**(47,400)**	**-**	**104,310**	**-**
JS Johnson	**87,880**	**49,600**	**(50,920)**	**-**	**86,560**	**-**
LC Murphy	**71,960**	**59,400**	**(41,290)**	**-**	**90,070**	**-**
Total	**832,144**	**619,700**	**(409,734)**	**-**	**1,042,110**	**121,440**
2011						
MJ Wilkins	186,700	112,200	(96,200)	-	202,700	-
JP Breheny	158,100	58,100	-	-	216,200	120,680
A Cornish	52,954	74,000	(14,250)	-	112,704	24,454
IR Foy	32,740	42,600	(18,650)	-	56,690	-
P Harmer	-	-	-	-	-	-
NB Hawkins	76,530	51,900	(44,420)	-	84,010	-
JS Johnson	125,670	50,400	(88,190)	-	87,880	-
LC Murphy	61,500	42,700	(32,240)	-	71,960	-
Total	694,194	431,900	(293,950)	-	832,144	145,134
Executives who ceased as key management personnel						
N Utley	126,100	-	(71,050)	(55,050)	-	-
DG West	93,200	70,600	(54,790)	(109,010)	-	-
Total	219,300	70,600	(125,840)	(164,060)	-	-

(a) On 1 July after each financial year end, some DAR on issue were vested due to the employment condition being met. Some KMP exercised the newly vested DAR and received one IAG ordinary share for each DAR exercised. However, these IAG ordinary shares received are restricted in accordance with IAG's Security Trading Policy.

(b) DAR disclosed in the table above represents the remuneration policy whereby deferred short term incentive (deferred STI) are received by KMP in the form of DAR. During the financial year ended 30 June 2012, a total of 87,300 DAR were granted to IR Foy. This amount includes 43,000 DAR granted as deferred STI and 44,300 DAR were granted in relation to the UK retention program (further details are provided in the Remuneration report). Apart from the vesting dates, all terms and conditions and vesting scale of DAR granted in relation to the UK retention program are the same as those granted as deferred STI.

b. MOVEMENTS IN TOTAL NUMBER OF EXECUTIVE PERFORMANCE RIGHTS ON ISSUE

	EPR ON ISSUE 1 JULY	EPR GRANTED DURING THE YEAR	EPR EXERCISED DURING THE YEAR	EPR LAPSED DURING THE YEAR	EPR ON ISSUE 30 JUNE	EPR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2012						
MJ Wilkins	**2,559,600**	**885,500**	**(247,500)**	**-**	**3,197,600**	**-**
JP Breheny	**1,001,500**	**325,000**	**-**	**-**	**1,326,500**	**129,695**
A Cornish	**910,000**	**367,700**	**(82,500)**	**-**	**1,195,200**	**-**
IR Foy	**658,120**	**270,800**	**(66,330)**	**-**	**862,590**	**-**
P Harmer	**285,600**	**345,600**	**-**	**-**	**631,200**	**-**
NB Hawkins	**1,004,580**	**353,000**	**(101,145)**	**-**	**1,256,435**	**-**
JS Johnson	**1,002,500**	**312,900**	**-**	**-**	**1,315,400**	**130,015**
LC Murphy	**828,100**	**318,100**	**-**	**-**	**1,146,200**	**83,325**
Total	**8,250,000**	**3,178,600**	**(497,475)**	**-**	**10,931,125**	**343,035**
2011						
MJ Wilkins	1,790,600	849,000	(80,000)	-	2,559,600	-
JP Breheny	689,900	311,600	-	-	1,001,500	31,520
A Cornish	561,700	348,300	-	-	910,000	-
IR Foy	398,800	263,000	(3,680)	-	658,120	-
P Harmer	-	285,600	-	-	285,600	-
NB Hawkins	705,300	330,000	(30,720)	-	1,004,580	-
JS Johnson	690,900	311,600	-	-	1,002,500	31,840
LC Murphy	536,800	302,500	(11,200)	-	828,100	-
Total	5,374,000	3,001,600	(125,600)	-	8,250,000	63,360
Executives who ceased as key management personnel						
N Utley	942,200	-	(45,920)	(896,280)	-	-
DG West	763,000	348,300	(32,000)	(1,079,300)	-	-
Total	1,705,200	348,300	(77,920)	(1,975,580)	-	-

c. MOVEMENTS IN TOTAL NUMBER OF PERFORMANCE AWARD RIGHTS ON ISSUE

	PAR ON ISSUE 1 JULY	PAR GRANTED DURING THE YEAR	PAR EXERCISED DURING THE YEAR	PAR LAPSED DURING THE YEAR	PAR ON ISSUE 30 JUNE	PAR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2012						
JP Breheny	**47,000**	**-**	**-**	**(47,000)**	**-**	**-**
IR Foy	**11,500**	**-**	**-**	**(11,500)**	**-**	**-**
NB Hawkins	**47,000**	**-**	**-**	**(47,000)**	**-**	**-**
JS Johnson	**47,000**	**-**	**-**	**(47,000)**	**-**	**-**
Total	**152,500**	**-**	**-**	**(152,500)**	**-**	**-**
2011						
JP Breheny	93,000	-	-	(46,000)	47,000	-
IR Foy	20,930	-	-	(9,430)	11,500	-
NB Hawkins	67,930	-	-	(20,930)	47,000	-
JS Johnson	57,350	-	-	(10,350)	47,000	-
Total	239,210	-	-	(86,710)	152,500	-
Executives who ceased as key management personnel						
N Utley	44,500	-	-	(44,500)	-	-
Total	44,500	-	-	(44,500)	-	-

d. MOVEMENTS IN TOTAL NUMBER OF ORDINARY SHARES HELD

The relevant interests of each key management personnel and their related parties in ordinary shares of IAG are disclosed in the tables below.

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF EPR	SHARES RECEIVED ON EXERCISE OF DAR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[(a)]	TOTAL SHARES HELD AT 30 JUNE[(b)]	SHARES HELD NOMINALLY AT 30 JUNE[(c)]
	Number	Number	Number	Number	Number	Number
2012						
BM Schwartz	**98,738**	**-**	**-**	**696**	**99,434**	**97,375**
YA Allen	**39,011**	**-**	**-**	**-**	**39,011**	**37,345**
PH Bush	**-**	**-**	**-**	**-**	**-**	**-**
PM Colebatch	**46,692**	**-**	**-**	**-**	**46,692**	**46,692**
HA Fletcher	**72,627**	**-**	**-**	**375**	**73,002**	**37,812**
A Hynes	**40,242**	**-**	**-**	**-**	**40,242**	**40,242**
PJ Twyman	**57,780**	**-**	**-**	**-**	**57,780**	**57,780**
MJ Wilkins	**306,366**	**247,500**	**114,960**	**370,000**	**1,038,826**	**799,166**
JP Breheny	**78,200**	**-**	**53,950**	**-**	**132,150**	**131,950**
A Cornish	**38,704**	**82,500**	**70,004**	**-**	**191,208**	**-**
IR Foy	**12,518**	**66,330**	**31,210**	**-**	**110,058**	**3,680**
P Harmer	**-**	**-**	**-**	**-**	**-**	**-**
NB Hawkins	**246,826**	**101,145**	**47,400**	**-**	**395,371**	**21,271**
JS Johnson	**178,418**	**-**	**50,920**	**-**	**229,338**	**2,500**
LC Murphy	**67,356**	**-**	**41,290**	**1,951**	**110,597**	**589**
2011						
BM Schwartz	71,995	-	-	26,743	98,738	96,709
YA Allen	29,011	-	-	10,000	39,011	37,345
PH Bush	-	-	-	-	-	-
PM Colebatch	46,692	-	-	-	46,692	46,692
HA Fletcher	71,690	-	-	937	72,627	37,437
A Hynes	40,242	-	-	-	40,242	40,242
PJ Twyman	57,780	-	-	-	57,780	57,780
MJ Wilkins	130,166	80,000	96,200	-	306,366	181,666
JP Breheny	78,200	-	-	-	78,200	78,200
A Cornish	24,454	-	14,250	-	38,704	-
IR Foy	40,243	3,680	18,650	(50,055)	12,518	3,680
P Harmer	-	-	-	-	-	-
NB Hawkins	171,686	30,720	44,420	-	246,826	21,271
JS Johnson	90,228	-	88,190	-	178,418	2,750
LC Murphy	14,900	11,200	32,240	9,016	67,356	277
Directors and executives who ceased as key management personnel						
JA Strong	409,555	-	-	-	*	*
N Utley	1,408,549	-	71,050	-	*	*
DG West	-	32,000	54,790	-	*	*

* These non-executive directors or executives ceased as KMP during the financial year. Information on shares held is disclosed up to the date of their cessation of employment.

(a) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year. It includes opening balances of shares, if any, held by KMP who commenced during the year.

(b) On 1 July after each financial year end, some DAR on issue vested and became exercisable by the KMP. Some KMP exercised those newly vested DAR post 30 June.

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

e. MOVEMENTS IN TOTAL NUMBER OF CONVERTIBLE PREFERENCE SHARES AND RESET PREFERENCE SHARES HELD

No key management personnel had any interest directly or nominally in convertible preference shares or reset preference shares at any time during the financial year (2011-nil).

f. MOVEMENTS IN TOTAL NUMBER OF RESET EXCHANGEABLE SECURITIES HELD

No key management personnel had any interest directly or nominally in reset exchangeable securities of IAG Finance (New Zealand) Limited at any time during the financial year (2011-nil).

C. OTHER RELATED PARTIES
Contributions are made to various superannuation plans, both defined contribution and defined benefit plans. Information regarding transactions with the plans is provided in the superannuation note.

NOTE 34. DERIVATIVES

A. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS APPLIED

I. Net investment hedges
Residual foreign currency exposures arising at Consolidated entity level on translation of net investments in foreign operations are hedged using forward exchange contracts, cross currency swaps, and the designation of certain foreign currency borrowings as hedging instruments.

Each of the hedging relationships has been broadly effective throughout the current period or since inception with the small amount of ineffectiveness recognised in profit or loss.

II. Reporting date positions
The notional amount and fair value of derivative financial instruments, together with a maturity profile, are provided below.

									CONSOLIDATED
						2012			2011
	Maturity profile			**Notional contract amount**	**Fair value asset**	**Fair value liability**	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	**1 to 5 years**	**Over 5 years**						
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m
a. NET INVESTMENT HEDGES									
Forward foreign exchange contracts	**1,077**	**-**	**-**	**1,077**	**15**	**-**	732	11	(4)

B. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS NOT APPLIED (DERIVATIVES HELD FOR ECONOMIC HEDGING PURPOSES ONLY)

In addition to the derivatives described above, certain contracts entered into include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments.

I. Reporting date positions
The notional amount and fair value of derivative financial instruments, together with a maturity profile, are provided below.

									CONSOLIDATED
						2012			2011
	Maturity profile			**Notional contract amount**	**Fair value asset**	**Fair value liability**	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	**1 to 5 years**	**Over 5 years**						
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m
a. PRESENTED IN INVESTMENTS (INVESTMENT RELATED DERIVATIVES)									
Futures	**3,362**	**-**	**-**	**3,362**	**-**	**(1)**	1,077	-	-
Share price index futures	**118**	**-**	**-**	**118**	**-**	**-**	53	-	-
Options	**-**	**5**	**-**	**5**	**5**	**-**	5	5	-
Forward foreign exchange contracts	**394**	**-**	**-**	**394**	**12**	**(3)**	328	1	(1)
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)									
Forward foreign exchange contracts	**403**	**-**	**-**	**403**	**1**	**(1)**	-	-	-
Interest rate swaps	**570**	**-**	**-**	**570**	**-**	**-**	100	-	-

NOTE 35. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the crucial and equally important objective of providing an appropriate level of capital to protect policyholders' and lenders' interests and satisfy regulators.

The Group actively considers its risk appetite through the holistic implementation of strategies around identified key risk levers of underwriting, reinsurance, capital, asset allocation and risk management. The target level of capitalisation for the Group is assessed by consideration of factors including:

- the probability of ruin over the next one to three years;
- the probability of falling below the APRA minimum capital requirement (MCR) over the next one to three years;
- other stakeholder perspectives on capitalisation, including rating agency capital models and associated ratings; and
- domestic and international levels of capitalisation.

The amount of capital required that fulfils these risk appetite factors varies according to the business underwritten, extent of reinsurance and asset allocation and is estimated using dynamic financial analysis modelling. For ease of communication, internally and externally, the Group has translated the outcome into a multiple of MCR by applying the APRA prescribed methodology for a Level 2 Insurance Group. On this basis, the Group has established a target capital of 1.45 to 1.50 times MCR.

Internal policies are in place to ensure significant deviations from this benchmark will result in the IAG Board considering how any shortfall should be made good or any surplus utilised.

I. Regulatory capital

All insurers within the Group that carry on insurance business in Australia are registered with APRA and are subject to prudential standards that set out the basis for calculating the MCR which is a minimum level of capital that the regulator deems must be held to meet policyholder obligations. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business and so the MCR utilises a risk based approach to capital adequacy. IAG uses the standardised framework for calculating the MCR detailed in the relevant prudential standard and referred to as the prescribed method which is determined to be the sum of the capital charges for insurance, investment, investment concentration and catastrophe concentration risk. It is the Group policy to ensure that each of the licensed insurers maintains an adequate capital position from an entity perspective.

It is the Group policy to hold regulatory capital levels in excess of the MCR as required by APRA. The current target capital multiple for the Group is 1.45 to 1.50 times (2011-1.45 to 1.50 times) the MCR. The policy also requires management to not take any action that would further reduce the capital multiple if an identified MCR is reached, currently set as 1.30 times MCR for the Group. APRA also imposes some restrictions on the composition of capital eligible to meet the MCR.

Capital calculations for regulatory purposes are based on the premium liabilities model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model assesses future claims payments arising from future events insured under existing policies. This differs to the measurement of the outstanding claims liability on the balance sheet which considers claims relating to events that occur only up to and including the reporting date.

The Group has considered the implications of the proposed new regulatory environment applicable from 1 January 2013. The Group has determined to maintain a consistent risk appetite between the existing and new LAGIC regulatory regime. To achieve this under LAGIC IAG will set the target capital ranges from 1 January 2013 as:

- a total capital position equivalent to 1.4-1.6 times the Prescribed Capital Amount (PCA), which replaces the current MCR measure; and
- Common Equity Tier 1 capital of 0.9-1.1 times the PCA, compared to a proposed regulatory requirement of 0.6 times.

These target levels would be subject to review in light of any material changes between the draft and final issued standards.

II. Economic capital

In conjunction with the considerations set out above, which are important to the functioning of the business, consideration is given to the operational capital needs of the business. Targeting a capital multiple above the minimum regulatory requirement aims to ensure the ongoing strength and security of the Group whilst suitably protecting policyholders and lenders.

An important influence on the capital levels is the payment of dividends. The Consolidated entity aims to maintain cash earnings payouts within a ratio range approved by the IAG Board (refer to the dividends note).

The capital objectives are achieved through dynamic management of the balance sheet and capital mix, the use of a risk based capital adequacy framework for capital needs that relies on explicit quantification of uncertainty or risk, and the use of modelling techniques such as dynamic financial analysis which provide valuable input to the capital management process and provide the capacity to quantify and understand this risk/return trade off. The influence on capital needs of product mix, the reinsurance program, catastrophe exposure, investment strategy, profit margins and capital structure are all assessed through the dynamic financial analysis modelling.

B. CAPITAL COMPOSITION

The Group's capital comprises ordinary equity and interest bearing liabilities. The balance sheet capital mix at reporting date was as shown in the table below.

		CONSOLIDATED	
	Target	**2012**	2011
	%	**%**	%
Ordinary equity less goodwill and intangible assets	**60-70**	**62**	66
Interest bearing liabilities - hybrid securities and debt	**30-40**	**38**	34
Total capitalisation		**100**	100

C. REGULATORY CAPITAL COMPLIANCE

The Company and the insurers within the Consolidated entity have at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject. The MCR calculation for the Consolidated entity provided below is based on applying the APRA Level 2 Insurance Group requirements.

	CONSOLIDATED	
	2012	2011
	$m	$m
I. Statutory capital		
a. TIER 1 CAPITAL		
i. Fundamental Tier 1 capital		
Ordinary shares	**5,353**	5,353
Reserves	**(68)**	(84)
Non-controlling interests	**181**	163
Retained earnings	**(887)**	(795)
Excess technical provisions (net of tax)[a]	**665**	381
ii. Residual Tier 1 capital[e]		
Hybrid equities	**917**	451
iii. Deductions from Tier 1 capital[b]		
Treasury shares held in trust[c]	**(29)**	(32)
Goodwill	**(1,625)**	(1,644)
Intangible assets	**(225)**	(225)
Net deferred tax assets	**(364)**	(299)
Other	**(250)**	(262)
Total Tier 1 capital	**3,668**	3,007
b. TIER 2 CAPITAL		
Ineligible Tier 1 capital	**10**	449
Subordinated term notes	**710**	461
Other	**14**	16
Total statutory capital	**4,402**	3,933
II. Minimum capital requirement		
Insurance risk	**1,495**	1,410
Investment risk	**886**	911
Investment concentration risk[d]	**-**	-
Catastrophe concentration risk	**150**	175
Total minimum capital requirement	**2,531**	2,496
III. Minimum capital requirement multiple	**1.74**	1.58

.(a) The excess technical provisions represent the difference between the insurance liabilities incorporating a risk margin (refer to section B.IV of the claims note) on the balance sheet based on the deferral and matching model and the insurance liabilities incorporating a risk margin equivalent to a probability of adequacy of 75% used for regulatory reporting purposes based on the premium liabilities model.

(b) Certain assets that are considered acceptable from an accounting perspective are, from a supervisory perspective, considered to be generally not available or of reduced value should an insurer encounter difficulties. Holdings of such assets are therefore required to be deducted from the regulatory capital base.

(c) The portion of the treasury shares held in trust that does not meet eligibility criteria under APRA prudential standards.

(d) The investment concentration risk charge is zero reflecting that the holding of particular assets, including reinsurance recoveries, and exposure to a particular counterparty, are sufficiently diversified for the purposes of the regulatory capital calculations.

(e) APRA currently has a limit of 15% for Innovative Tier 1 securities and a limit of 25% for all Residual Tier 1 securities (i.e. the aggregate of Innovative and Non-innovative Residual Tier 1 securities). As a consequence of replacing the Innovative reset preference shares (RPS) with the Non-innovative convertible preference shares (CPS) the full amount of CPS is included in Residual Tier 1 Capital.

IV. Factors impacting the minimum capital requirement multiple

The Group's estimated minimum capital requirement multiple (MCR multiple) at 30 June 2012 was 1.74. This compares to 1.58 at 30 June 2011. The movement reflects the combined effect of the following:

- Higher capital base as a result of:
  - an increase in hybrid equities due to issue of New Zealand subordinated bonds and CPS offset by the redemption of RPS; and
  - an increase in excess technical provisions primarily due to premium strength by repricing key parts of the business portfolio to recover higher reinsurance and natural peril costs.
- The minimum capital requirement increased marginally as a result of:
  - an increase in the insurance risk charge driven by a combination of GWP growth and the downwards movement in the yield curve;
  - a decrease in the investment risk charge, primarily due to the decreased reinsurance recovery balance as well as the capital benefit arising from collateral arrangements; and
  - a decrease in the catastrophe concentration risk charge following the placement of the 2012 reinsurance program.

The Group retained a capital position in excess of its long term benchmark, which is an MCR multiple of 1.45-1.50 times.

D. CREDIT RATING

Key wholly owned insurers within the Group had the following ratings published by Standard & Poor's (S&P) as at the current reporting date. S&P reaffirmed these ratings on 16 February 2012.

ENTITY	ISSUER CREDIT RATING	FINANCIAL STRENGTH RATING
Parent		
Insurance Australia Group Limited	**A+/Stable**	**n/a**
Licensed insurers		
Insurance Australia Limited	**AA-/Stable**	**AA-/Stable**
IAG New Zealand Limited	**AA-/Stable**	**AA-/Stable**
CGU Insurance Limited	**AA-/Stable**	**AA-/Stable**
Swann Insurance (Aust) Pty Ltd	**AA-/Stable**	**AA-/Stable**
IAG Re Labuan (L) Berhad	**n/a**	**A+/Stable**
IAG Re Australia Limited	**AA-/Stable**	**AA-/Stable**
IAG Re Singapore Pte Ltd	**AA-/Stable**	**AA-/Stable**

NOTE 36. NET TANGIBLE ASSETS

	CONSOLIDATED	
	2012	2011
	$	$
Net tangible assets per ordinary share	**1.20**	1.23

Net tangible assets per ordinary share has been determined using the net assets on the balance sheet adjusted for non-controlling interests, intangible assets and goodwill.

NOTE 37. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2012	2011
	$000	$000
A. KPMG		
I. Assurance services		
Audit of the financial statements prepared for the Parent and subsidiaries	**7,431**	6,811
Audit of statutory returns in accordance with regulatory requirements	**861**	956
Other assurance services	**405**	438
	8,697	8,205
II. Advisory services		
In relation to other assurance, taxation and due diligence services	**904**	1,206
B. OTHER AUDITORS		
I. Assurance services		
Audit of the financial statements prepared for subsidiaries	**57**	24
II. Advisory services	**-**	7
Total remuneration of auditors	**9,658**	9,442

NOTE 38. PARENT ENTITY DISCLOSURES

The ultimate parent entity in the Consolidated entity is IAG which is incorporated in Australia. The following information of the Parent entity, IAG, is disclosed as required by the current regulatory requirements in Australia.

	PARENT	
	2012	2011
	$m	$m
A. FINANCIAL RESULTS		
Profit/(loss) for the year	**451**	377
Total comprehensive income and (expense) for the year net of tax	**449**	377
B. FINANCIAL POSITION		
Current assets	**160**	214
Total assets	**8,254**	7,658
Current liabilities	**200**	194
Total liabilities	**1,853**	1,457
C. SHAREHOLDERS' EQUITY		
Share capital	**5,353**	5,353
Reserves	**(1)**	-
Retained earnings	**1,049**	848
Total shareholders' equity	**6,401**	6,201

Current liabilities exceeded current assets by $40 million as at 30 June 2012, primarily due to a net intercompany payable by the Parent entity to its controlled entities. Due to the operation of a significant loan facility between the Parent and its controlled entities the Parent entity has the ability to pay its debts as and when they become due and payable. Total assets of the Parent entity exceeded total liabilities by $6,401 million.

In July 2012, subsequent to reporting date, an internal restructure of the Group was completed, resulting in all of the Group's insurance businesses being directly held by the parent entity, IAG.

D. CONTINGENT LIABILITIES

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

There are no known material exposures to the Parent or events that would require it to satisfy the guarantees or take action under a support agreement.

E. COMMITMENTS

The Parent has no material commitments.

NOTE 39. 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 current reporting period ended 30 June 2012.

A. FINAL DIVIDEND

On 23 August 2012, the IAG Board determined to pay a final dividend of 12 cents per share, 100% franked. The dividend will be paid on 3 October 2012. The dividend reinvestment plan will operate by acquiring shares on-market to participants with no discount applied.