

THE NUMBERS



CONTENTS

FIVE YEAR FINANCIAL SUMMARY	1	FINANCIAL STATEMENTS	38
CORPORATE GOVERNANCE	2	DIRECTORS' DECLARATION	109
DIRECTORS' REPORT	12	INDEPENDENT AUDITOR'S REPORT	110
REMUNERATION REPORT	19	SHAREHOLDER INFORMATION	112
LEAD AUDITOR'S INDEPENDENCE DECLARATION	37	CORPORATE DIRECTORY	116

KEY DATES

Full year results and dividend announcement	23 August 2012
Notice of meeting mailing to shareholders commences	4 September 2012
Final dividend for ordinary shares	
■ Record date	5 September 2012
■ Payment date	3 October 2012
Annual general meeting	23 October 2012
Payment date for IAGPC dividend	1 November 2012
Half year end	31 December 2012
Half year results announcement	21 February 2013*
Interim dividend for ordinary shares	
■ Record date	6 March 2013*
■ Payment date	3 April 2013*
Payment date for IAGPC dividend	1 May 2012
2013 financial year end	30 June 2013
Full year results announcement	22 August 2013*

* Please note: Dates are subject to change. Any changes will be published via a notice to the ASX.

ABOUT THIS REPORT

The Insurance Australia Group (IAG) 2012 annual report includes IAG's full statutory accounts, along with the directors', remuneration and corporate governance reports for the financial year 2012. Please read this report together with the 2012 annual review, which provides a summary of IAG's operational performance, including the Chairman's and CEO's reviews. If you do not receive a copy of the annual review, you can access an interactive version online from the home page of our website at www.iag.com.au. To have a copy of the annual report mailed to you, contact IAG's Share Registry using the contact details on page 116. In addition, detailed information about IAG's business sustainability performance is available in our 2012 sustainability report, available from www.iag.com.au. All figures are in Australian dollars unless otherwise stated.

2012 ANNUAL GENERAL MEETING

IAG's 2012 annual general meeting will be held on Tuesday, 23 October 2012 at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, commencing at 10.00am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders, and available online at www.iag.com.au from Tuesday, 4 September 2012.

SUSTAINABLE PAPER CHOICE

Because we are committed to minimising our impact on the environment, this report is printed on Revive Laser recycled paper.

Revive Laser is certified carbon neutral by the Department of Climate Change and Energy Efficiency's National Carbon Offset Standard (NCOS), an Australian Government Initiative. Revive Laser is Australian made and Forest Stewardship Council (FSC) Recycled Certified and carries ISO 14001 Environmental Certification. Selection of Revive Laser paper leads to a donation being made to Landcare Australia.

FIVE YEAR FINANCIAL SUMMARY

	2012	2011	2010	2009	2008 ^(a)
	\$m	\$m	\$m	\$m	\$m
Gross written premium	8,992	8,050	7,782	7,842	7,793
Premium revenue	8,577	7,858	7,621	7,718	7,765
Outward reinsurance premium expense	(734)	(620)	(556)	(485)	(470)
Net premium revenue	7,843	7,238	7,065	7,233	7,295
Net claims expense	(5,791)	(5,089)	(5,072)	(5,370)	(5,155)
Underwriting expenses	(2,144)	(1,978)	(2,054)	(2,128)	(2,180)
Underwriting profit/(loss)	(92)	171	(61)	(265)	(40)
Net investment income on assets backing insurance liabilities	924	489	554	780	432
Insurance profit/(loss)	832	660	493	515	392
Net investment income from equity holders' funds ^(b)	89	213	96	(39)	24
Other income	253	264	256	403	487
Share of net profit/(loss) of associates	(12)	(8)	3	8	(3)
Finance costs	(97)	(86)	(88)	(87)	(101)
Corporate and administration expenses	(297)	(259)	(245)	(423)	(528)
Amortisation expense and impairment charges of acquired intangible assets and goodwill ^(c)	(325)	(170)	(113)	(65)	(407)
Profit/(loss) before income tax	443	614	402	312	(136)
Income tax expense	(178)	(276)	(212)	(65)	(90)
Net profit/(loss)	265	338	190	247	(226)
Net profit attributable to non-controlling interests	(58)	(88)	(99)	(66)	(35)
Net profit/(loss) attributable to equity holders of Insurance Australia Group Limited	207	250	91	181	(261)
Ordinary equity holders' equity (\$ million)	4,343	4,417	4,486	4,671	4,204
Total assets (\$ million)	25,132	23,029	20,442	19,360	19,380
PREMIUM GROWTH					
Gross written premium	11.7 %	3.4 %	(0.8)%	0.6 %	5.6 %
KEY RATIOS					
Loss ratio ^(d)	73.8 %	70.3 %	71.8 %	74.2 %	70.7 %
Expense ratio ^(e)	27.4 %	27.3 %	29.1 %	29.4 %	29.9 %
Combined ratio ^(f)	101.2 %	97.6 %	100.9 %	103.6 %	100.6 %
Insurance margin ^(g)	10.6 %	9.1 %	7.0 %	7.1 %	5.4 %
SHARE INFORMATION					
Dividends per ordinary share - fully franked (cents)	17.00	16.00	13.00	10.00	22.50
Basic earnings per ordinary share (cents)	10.01	12.08	4.39	9.32	(14.11)
Ordinary share price at 30 June (\$) (ASX: IAG)	3.48	3.40	3.41	3.51	3.47
Convertible preference share price at 30 June (\$) (ASX: IAGPC)	98.10	-	-	-	-
Reset preference share price at 30 June (\$) (ASX: IAGPA)	-	101.01	98.55	100.50	85.00
Reset exchangeable securities price at 30 June (\$) (ASX: IANG)	99.30	103.00	100.00	74.75	81.89
Issued ordinary shares (million shares)	2,079	2,079	2,079	2,071	1,878
Issued convertible preference shares (million shares)	4	-	-	-	-
Issued reset preference shares (million shares)	-	4	4	4	4
Market capitalisation (ordinary shares) at 30 June (\$ million)	7,235	7,069	7,089	7,269	6,517
Net tangible asset backing per ordinary share (\$)	1.20	1.23	1.16	1.16	0.93

(a) The financial information for the 2008 year has been reclassified to provide comparable figures for the segment reporting adopted in 2009. This includes reallocation of corporate expenses and reinsurance to the operating divisions.

(b) This included an unrealised gain/(loss) on embedded derivatives of (\$96 million) for 2010, \$27 million for 2009 and \$69 million for 2008.

(c) This included impairment charges for acquired identifiable intangible assets and goodwill of \$297 million for 2012, \$150 million for 2011, \$87 million for 2010, \$18 million for 2009 and \$342 million for 2008.

(d) The loss ratio refers to the net claims expense as a percentage of net earned premium.

(e) The expense ratio refers to the underwriting expenses as a percentage of net earned premium.

(f) The combined ratio refers to the sum of the loss ratio and expense ratio.

(g) Insurance margin is a ratio of insurance profit over net premium revenue.

CORPORATE GOVERNANCE

IGAG'S APPROACH TO CORPORATE GOVERNANCE

IGAG is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, IGAG promotes a culture that rewards performance, integrity, respect and a considered sense of urgency.

The regulatory environments in which IGAG conducts its businesses continue to have a major influence on IGAG's corporate governance practices. Sound regulatory regimes are required to assist with stability and sustainability of the general insurance sector in the countries in which IGAG operates or intends to operate.

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

IGAG has again actively participated in the debate to improve Australia's corporate governance regime, making submissions to Federal and State Government committees, reviews and inquiries and regulators in relation to new legislation and regulation affecting the general insurance industry, particularly flood and catastrophe insurance. As part of IGAG's commitment to open and transparent communication, all Australian public government submissions are available to view in the News Centre on the IGAG website at www.iag.com.au. IGAG has also participated in a number of reviews of the New Zealand regulatory and legislative framework.

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

The key corporate governance practices followed by IGAG and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place at IGAG. Copies of IGAG's board and board committee charters and key corporate governance policies are on IGAG's website at www.iag.com.au/about/governance.

Throughout the reporting period, IGAG has complied with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) as outlined below.

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 THE BOARD

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

The board is responsible for oversight of IGAG, including:

- driving the strategic direction of IGAG and approving group strategies;
- approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- setting IGAG's risk appetite;
- selecting appropriate candidates and recommending to IGAG shareholders the re-election, election or removal of directors;
- evaluating board processes and performance of the board as a whole, as well as contributions by individual directors;
- monitoring management's performance and the exercise of the board's delegated authority;
- evaluating regularly and, if necessary, replacing the chief executive officer (CEO);
- reviewing CEO, chief financial officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, and social and environmental responsibility) are adhered to at all times.

Find out more about the board's responsibilities in the board charter on the IGAG website at www.iag.com.au/about/governance.

1.2 APPOINTMENT TERMS

Formal appointment letters have been issued and signed by each non-executive director, including the chairman, to assist individual directors in understanding the role of the board and the corporate governance principles and practices adopted by the board. The letters formally document the basis of each director's appointment, including the standard terms of their appointments.

The appointment letters also provide for:

- the right of non-executive directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with discharging their duties efficiently;
- the measures used, and the processes to be applied, by the board to assess the individual performance of directors, details of which are set out in section 2.8 below; and
- the requirement that directors abide by the Code of Ethics and comply with the IAG Continuous Disclosure and Security Trading Policies.

1.3 THE CHIEF EXECUTIVE OFFICER (CEO)

The board has delegated responsibility for the overall management and profit performance of IAG, including all the day-to-day operations and administration of IAG, to the CEO, who is responsible for:

- the efficient and effective operation of IAG;
- fostering a culture that rewards performance, integrity, respect and a considered sense of urgency;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management and internal controls framework;
- ensuring the board is provided with accurate and clear information in a timely manner to promote effective decision making by the board; and
- ensuring all material matters affecting IAG are brought to the board's attention.

The CEO manages IAG in accordance with the policies, budget, corporate plan and strategies approved by the board, and has the power to manage IAG, subject to the limits set out in the Charter of CEO Delegated Authority Limits attached to the board charter at www.iag.com.au/about/governance.

1.4 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES

Financial and non financial goals are set for each group executive in conjunction with the CEO at the commencement of each financial year. The goals are stretch goals and are designed to encourage group executives to strive for exceptional performance while ensuring IAG's long term financial soundness. Measuring achievement against these goals is the basis for assessing an individual group executive's performance. The methods of assessment have been selected so that they can be objectively measured and verified. At the end of each financial year the CEO completes a formal review of each group executive's performance. These assessments are the basis for determining any short term incentive payments and for allocating long term incentives to group executives, which are reviewed by the Nomination, Remuneration & Sustainability Committee (NRSC) and approved by the board.

Financial and non financial goals and performance of the CEO are determined and assessed by the board using this approach.

Further detail on short and long term incentives of the CEO and group executives is set out in the remuneration report on pages 19 to 35.

Newly appointed group executives have access to an orientation program which includes meetings with other members of the executive team and select senior managers to apprise them of the detail of IAG's operations, financial position, strategies, and risk management framework.

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

2.1 STRUCTURE AND COMPOSITION

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

The board currently comprises seven independent non-executive directors, and one executive director, Michael Wilkins, the CEO of IAG. The board considers its size and composition annually. The board's policy is to ensure that the board comprises directors who collectively have the relevant experience, knowledge, diversity and skills required for the Company. This takes into account IAG's current size, market position, complexity and strategic focus. In reviewing its composition and requirements for director succession, the board is also mindful of the corporate governance practices and requirements for directors of general insurance companies.

The board has adopted a framework for effective director selection and board succession to ensure that the board's skills, competencies and knowledge match the strategic objectives of IAG. Some key tenets of the framework were:

- determining the skills, competencies, behaviours and experience required for an effective board and the nature and measurement of these competencies;
- the board should demonstrate diversity in age, personality, gender, work and life experience and comprise people that think differently and have different backgrounds; and
- the adoption of a systematic and strategic approach for board succession and a formal approach to director selection.

2.2 DIRECTOR INDEPENDENCE

The board has determined that the board must be comprised of a majority of independent non-executive directors and that the chairman must be an independent non-executive director. The non-executive directors are free of any business or relationship that could materially interfere with the independent exercise of their judgement. All current non-executive directors have confirmed their continued independence.

The board will determine whether each director is independent, using the principles outlined in its charter. Find out more about this at www.iag.com.au/about/governance.

2.3 THE CHAIRMAN

The chairman provides leadership to the board and IAG. The chairman presides at board and general meetings of the Company. The chairman is an independent non-executive director and is responsible for ensuring the board discharges its role, and works closely with the CEO in that regard.

2.4 COMMITTEE PROCESSES

All standing board committees are required to have at least three members and currently comprise only independent non-executive directors. Each committee meets at least four times each year.

The CEO, group executives and senior management are invited to meetings as required. All directors have access to committee papers and may attend any committee meeting.

The chairs of the committees give oral reports on outcomes at the board meeting immediately following each committee meeting and copies of all committee minutes are made available to the full board.

Each committee annually reviews fulfilment of its responsibilities under its respective charter. The performance of each committee is reviewed at the same time as the board conducts its own review of performance.

Copies of the committee charters are available at www.iag.com.au/about/governance.

2.5 APPOINTMENT OF DIRECTORS

The NRSC assesses the skills required to discharge competently the board's duties, having regard to the Company's performance, financial position and strategic direction, including the specific knowledge, skills and experience that the board determines as necessary for one or more of the directors to possess.

The NRSC annually makes recommendations to the board on candidates for appointment and re-election of directors, either when a vacancy arises or if it is considered that the board would benefit from the services of a new director. Particular attention is given to the mix of skills, experience, diversity and expertise of existing directors and how the candidate's competencies will complement and balance these qualities.

The Company's constitution requires one third of eligible directors to retire from office each year. Eligible directors who retire may offer themselves for re-election by shareholders at the annual general meeting. The board advises shareholders of whether it supports the re-election of each retiring director by including a statement in the notice of annual general meeting. Any director appointed during the year to fill a casual vacancy or as an addition to the existing directors must stand for election at the next annual general meeting.

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

2.6 TENURE

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

The board has a tenure policy which applies to non-executive directors to ensure the board comprises directors who collectively have the relevant experience and skills required, and assist in maintaining the independence of the board. The policy, among other things, provides that the standard tenure for a non-executive director would be up to 10 years, although the board has the discretion to invite directors to stand for an additional term which may take their total tenure beyond 10 years.

INDEPENDENT NON-EXECUTIVE DIRECTORS	TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)
Brian Schwartz (Chairman)	7 years and 7 months
Yasmin Allen	7 years and 9 months
Phillip Colebatch	5 years and 7 months
Hugh Fletcher	4 years and 11 months
Anna Hynes	4 years and 11 months
Philip Twyman	4 years and 1 month
Peter Bush	1 year and 6 months

The names of directors in office at the date of this report, their year of appointment, their designation as an independent non-executive or executive director and their experience, expertise and biographical details are set out at pages 12 to 14.

2.7 POTENTIAL CONFLICTS OF INTEREST

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

2.8 MEASURING THE PERFORMANCE OF DIRECTORS

Each director's performance is subject to evaluation by the chairman annually, by discussion between the chairman and the director. Individual directors also evaluate the chairman's performance annually.

The NRSC conducts an internal review of the board's performance with assistance from external experts, composition and size at least every three years. A formal review of board performance and succession was conducted in May 2012, with assistance and input from an independent board performance expert. The review process involves the completion of questionnaires by directors and group executives and interviews with the independent expert, the collation of results and discussion with individual directors and the board as a whole led by the chairman.

Measures of a director's performance will include:

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

2.9 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING

IAG encourages continuing professional education for each of its directors. All directors are expected to remain up to date in relation to issues affecting IAG, the general insurance industry, and their duties as directors. The right of non-executive directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with discharging their duties efficiently is noted in their letter of appointment. New directors have access to an orientation program to introduce the executive team and the detail of IAG's businesses. Orientation includes individual meetings with the CEO, group executives and senior management, as well as site visits.

Workshops are conducted, as required, to assist directors' education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to senior executives and the external auditor and are encouraged to meet with these executives to further their knowledge and understanding of the organisation.

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

2.10 BOARD OPERATIONS

The board meets formally at least seven times during the year. From time to time scheduled board meetings are held interstate and overseas as required. Directors are also involved in a number of additional board meetings for specific purposes. This year, among other activities, the board travelled to New Zealand and China to review local operations and meet with management and, in China, IAG's associate partner.

The board meets each March with IAG's executive team to review the Company's strategic plan and to set the Company's overall strategic direction.

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

Directors' attendance at board and committee meetings held during the year is shown at page 15 in the directors' report.

Directors set aside time in meetings from time to time, to meet without the CEO and/or management representatives present. The board usually also meets with the CEO (without other group executives present) at the commencement of each scheduled board meeting.

Senior management representatives frequently attend board meetings at the board's invitation. Directors receive agendas, board papers and minutes in soft copy in advance of meetings.

2.11 COMPANY SECRETARY

All directors have access to the Company Secretary and the appointment and removal of the Company Secretary is decided by the board.

The Company Secretary is responsible to the board for ensuring board procedures are complied with and also provides advice and counsel to the board in relation to the Company's constitution, corporate governance and other matters.

The qualifications and experience of IAG's company secretary are set out at page 15.

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

IAG takes ethical and responsible decision making very seriously. It expects its employees and directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:

- in accordance with all laws and regulations of the countries in which IAG operates; and
- consistent with IAG's ethical principles as set out in IAG's Code of Ethics and the IAG policies and standards that relate directly to their duties.

Find out more about The IAG Code of Ethics, The Way We Choose To Do Business, on the IAG website at www.iag.com.au/about/ethics.

3.1 IAG CODE OF ETHICS

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

The Code applies to all employees of entities where IAG has majority ownership or which are otherwise to be considered IAG subsidiaries and to all non-executive directors.

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

Copies of the Codes of Conduct for Australia and New Zealand are available at www.iag.com.au/about/governance.

3.2 DIVERSITY

IAG's growth strategy requires evolution of the thinking, behaviours and capabilities that have led to success in the past. Diversity of thought is an important component of IAG's success strategy and it is through this critical business lens that IAG intends to take diversity to the next level. Diverse thinking enables innovative approaches to achieve IAG's strategy, improve decision making and facilitate an effective workplace. This approach is supported by an ongoing focus on diversity demographics (age, ethnicity, gender, etc).

Diversity activity

In the financial year ended 30 June 2012, IAG took steps towards fulfilling its Diversity Ambition, including:

- increasing parental leave benefits to offer the most generous and accessible parental leave programme in the financial services industry including:
 - 14 weeks paid parental leave; and
 - an additional six week 'welcome back' lump-sum payment to all Australian-based employees who are primary carers and return to work after having a child. The aim is to help alleviate some of the pressures people face when returning to work from parental leave, and reduce attrition of people who take parental leave.
- putting measures in place to ensure our pay review system remains fair and consistent, regardless of gender or circumstance and committing to holding remuneration reviews with all our people who are on a period of extended leave;
- flexibility around how, when and where work is done, with:
 - tools and support to help managers and employees effectively implement flexibility;
 - a shared understanding of what flexibility means at IAG;
 - leave arrangements that help employees address both unexpected and ongoing personal and family needs, including personal leave, family sick leave, community leave, primary and secondary carer's parental leave, and childcare leave; and
 - options including career breaks, working from home, compressed working weeks, job sharing and flexi time, and a commitment to making these available at all levels of the organisation, including management.
- developing an approach to evaluate the board's skills and knowledge against the Group's strategic direction. The board has a process that considers the diversity, skills, background and experience of current directors and seeks to complement this with new appointments. Insurance, finance, legal, strategy, technology and consumer marketing skills are particularly relevant.

The IAG Diversity Working Group includes the CEO, chairman of the IAG Board and senior representatives from each of the key businesses. The NRSC actively monitors progress of the IAG Diversity Working Group.

Diversity targets

IAG has publicly committed to a target of improving the number of women in senior management positions to 33% by 2015. IAG is also considering measurable objectives for non-gender diversity factors.

A summary of women in the workforce is provided below:

DIVERSITY OBJECTIVES	ACTUAL 30 June 2012	ACTUAL 30 June 2011
Women in workforce	59 %	58 %
Board positions	25 %	25 %
Executive positions	25 %	25 %
Senior management positions	29 %	28 %

3.3 WHISTLEBLOWING

Employees are encouraged to raise any material matters of concern through IAG's management structure as part of IAG's objective of building a culture where people perform their duties in an ethical and appropriate manner. Open access is provided to the CEO and the chairs of the IAG Board and its standing board committees. IAG has established mechanisms for rapid escalation of important matters to relevant executives and/or board members.

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

3.4 SECURITY TRADING POLICY

The Security Trading Policy sets the framework for employee dealings in IAG securities, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that directors, group executives and other employees (collectively, designated persons) may only trade in IAG securities in the four week trading window beginning two trading days after IAG's half year and full year results announcements and the annual general meeting or any other period approved by the board, subject to these persons not being in possession of inside information as defined by the law.

In addition, IAG directors, group executives and certain designated executives may only trade in IAG securities in these periods after they have received prior consent from the NRSC and complied with any conditions on trading in IAG securities that the NRSC imposes, subject again to not being in possession of inside information as defined by the law.

Designated persons are also prohibited from trading in IAG securities during 'blackout periods' (the periods between 1 January and one day following the announcement of the half year results and 1 July and one day following the announcement of the full year results) except in exceptional circumstances and with the prior consent of the NRSC.

Each of the IAG directors is required to notify the Company of the existence of any margin loans or similar financial products to which they or their associates are a party in relation to any IAG securities where the percentage of each class of IAG securities held in aggregate by IAG directors reaches 1%.

Designated persons including IAG directors and group executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements (such as Executive Performance Rights and Deferred Award Rights) to IAG securities. IAG directors and group executives are also prohibited from entering into transactions or arrangements which operate to limit the economic risk of their vested security holdings which form part of their mandatory holdings of IAG securities. Further details in relation to IAG directors' and group executives' mandatory holdings can be found at pages 29 to 36 in the remuneration report.

As required under Listing Rule 12.9, this Security Trading Policy has been lodged with the ASX. Find out more about IAG's Security Trading Policy on the IAG website at www.iag.com.au/about/governance.

3.5 RESPONDING TO STAKEHOLDERS

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

IAG is committed to ensuring it has appropriate policies and agreed practices to guide its actions, including employee practices, conduct in the marketplace, environmental care, governance and ethical conduct, occupational health and safety, human rights and community involvement.

IAG reports annually on its social, economic and environmental performance against a series of indicators. The quantitative results of IAG's business sustainability performance are incorporated into the Company's annual review. The results of IAG's business sustainability performance are summarised in the Company's annual review, and full disclosure is shown in the 2012 Sustainability Report. This approach to the reporting of IAG's business sustainability performance demonstrates the ongoing commitment to ensuring business sustainability issues are considered as part of IAG's overall performance.

Ongoing stakeholder dialogue is a key element that drives IAG's business sustainability based initiatives and it is embedded not only within IAG's corporate strategy but also in its governance frameworks. IAG continues to undertake extensive stakeholder dialogue on key issues and activities in the business. IAG conducts research of stakeholder perceptions of IAG's business sustainability work and regularly tests the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues.

Sustainable outcomes and behaviours continue to be encouraged through several customer offerings. IAG's major operating brands of NRMA Insurance, SGIO and SGIC offer lower motor insurance premiums for highly fuel-efficient vehicles. Also, the CGU brand offers insurance policyholders assistance to ensure that they are insured sufficiently through their Right Cover service.

IAG will continue to investigate and implement practical customer offerings that make business sense and have concurrent social and environmental benefits.

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCC)

The four non-executive directors who are members of the ARMCC are currently Philip Twyman (Chair), Yasmin Allen, Peter Bush and Hugh Fletcher. All members of this committee have financial management experience as shown in their biographies on pages 13 to 14 of this report.

The main role of this committee is to assist the board in discharging its responsibilities in relation to ensuring:

- the integrity of IAG and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations, and other requirements in relation to external financial reporting;
- that directors and management are provided with high quality financial and non financial information that can be relied on by them to make informed judgements;
- that appropriate and effective systems of internal, accounting and financial controls are in place and maintained to safeguard IAG's financial and physical resources;
- that sound risk management and compliance frameworks are in place to identify, assess and manage risks within IAG's risk appetite determined by the board; and
- that the independence of the external auditor, the internal auditor, and the Group Actuary is safeguarded.

The ARMCC charter, which provides details of the committee's responsibilities, is available at www.iag.com.au/about/governance.

A framework is used by the ARMCC to assess total fees paid to the external auditor and which, among other things, sets out guiding principles for dealing with the external auditor firm for non audit services and the rotation of the external auditor.

The ARMCC is also empowered as the Audit, Risk Management & Compliance Committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate Audit, Risk Management & Compliance Committee. In addition, the ARMCC acts as the audit committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE

IAG's Continuous Disclosure Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside information.

The Continuous Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information. The IAG Continuous Disclosure Policy is available online at www.iag.com.au/about/governance.

Directors and management are encouraged to assist in the process of the board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act 2001 and the ASX Listing Rules in relation to continuous disclosure so as to keep markets fully informed.

IAG is committed to timely factual and balanced disclosure ensuring investors are informed of significant developments for IAG. Care is taken to ensure the announcements do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

All announcements are subject to a minimum of two sign off reviews at very senior levels within IAG before release to the ASX. The CEO or CFO jointly with the chairman or any other director must jointly approve announcements of particular significance where time does not permit a full board to be convened.

All IAG announcements to the ASX since 2000 are available on IAG's website, www.iag.com.au.

Policies have been established and designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance. In accordance with its Continuous Disclosure Policy, IAG is committed to ensuring all investors have access to information on IAG's financial performance. IAG posts on its website all investor and media material released to the ASX, including:

- annual and interim reports;
- investor and media releases and presentations of half year and full year results;
- investor and media releases and presentations to the annual general meeting;
- notices of general meetings and explanatory material;
- webcast of CEO and CFO presentations at half year and full year results announcements;
- the chairman's and CEO's addresses to the annual general meeting;
- investor and media releases and presentations regarding divestments and acquisitions;
- investor and media presentations given at investor strategy sessions and other one off events; and
- all other information released to the market.

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

IAG maintains a Shareholder Centre page on its website at www.iag.com.au/shareholder/ which provides shareholders with access to their holdings of IAG securities. This web page is actively promoted to shareholders.

Over 164,000 ordinary shareholders, representing approximately 20.7% of total shareholders at 2 August 2012, have registered their email address, an increase of approximately 3% in the last 12 months following targeted approaches to shareholders. Shareholders who use this service will be advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed via the internet.

IAG also has an email system to alert investors, beneficial owners, and other interested parties who may not be shareholders to receive important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

Media coverage of key events is also sought as a means of delivering information to shareholders, investors and the market. Formal communication with shareholders and investors is also conducted via the annual and interim reports, annual review and at the annual general meeting which is also webcast for viewing by interested parties including shareholders.

IAG is mindful of the need to adopt best practices in the drafting of notices for general meetings and other communications with shareholders to ensure that they are honest, accurate, informative and not misleading. All annual general meeting material can be found on IAG's website www.iag.com.au/shareholder/aggm/.

Online proxy and direct voting are available to IAG shareholders and authorised intermediaries such as custodians and help to facilitate lodgement by shareholders of their votes on resolutions put to general meetings of shareholders.

Shareholders are encouraged to attend general meetings and ask questions of the chairman and the board. For shareholders who are unable to attend the general meeting, a question form is included with their notice of meeting. Their questions are collated and during the course of the general meeting the chairman or CEO will respond where possible to the issues raised.

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

Shareholders and investors may raise any issues or concerns at any time by contacting the company by email. Questions or comments should be addressed to investor.relations@iag.com.au. Alternatively shareholders and investors can write to the chairman or company secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000, Australia.

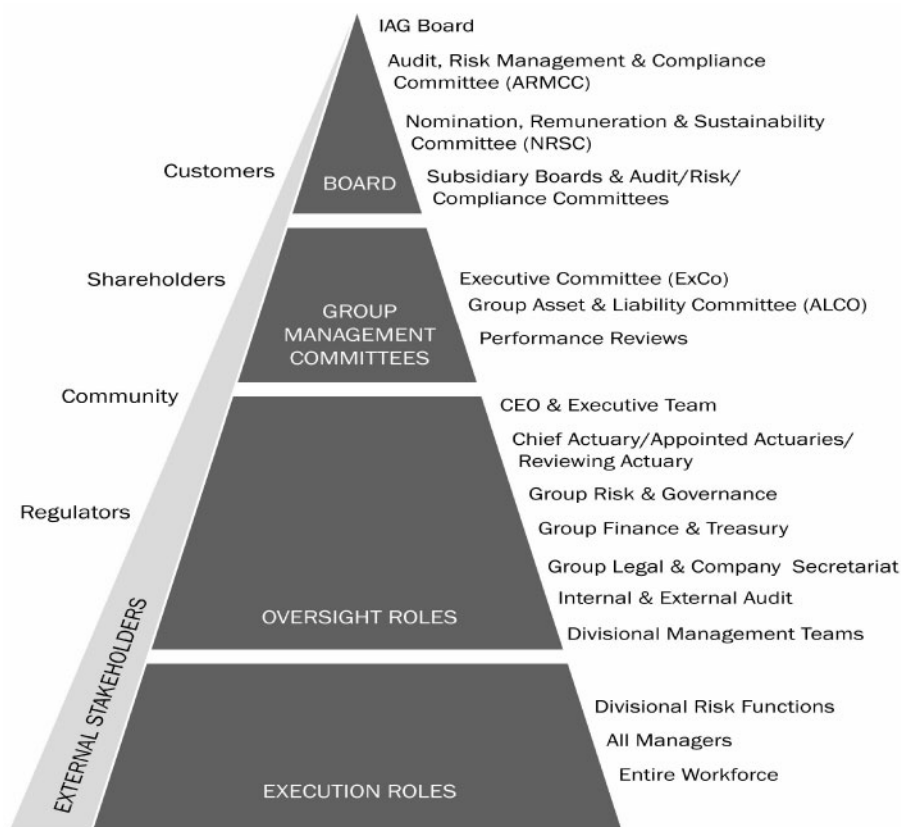
PRINCIPLE 7. RECOGNISE AND MANAGE RISK

Managing risk is central to the sustainability of IAG's business and delivery of value to shareholders. Risk is part of business and IAG's risk management framework is based on the interaction of the governance structure, internal policies, key management processes and culture.

7.1 OVERSIGHT STRUCTURE

The key underlying principles that influence IAG's approach to managing risk are documented in the Risk Management Strategy (RMS) and include:

- accepting risk management is not trying to avoid all risks, rather risks need to be identified, understood and assessed against the levels of risk IAG is willing to take and those risks are appropriately managed and monitored;
- to consider the reasonable expectations of all external stakeholders including customers, shareholders, the community and regulators in considering factors which bear upon IAG's continued good standing;
- to take into account IAG's legal and statutory obligations; and
- a proactive risk management culture at all staff levels within IAG, providing the foundation for appropriate and sustainable risk management as shown below.



The risk categories identified by the RMS process are as follows.

RISK CATEGORIES	NATURE OF RISK
Corporate and strategic risk	<p>This is defined as the risk of not achieving corporate or strategic goals due to:</p> <ol style="list-style-type: none"> 1. Poor business decisions regarding future business plans and strategies (including expanding through mergers and acquisitions, enhancing infrastructure, etc), and/or 2. Changes in the business environment or lack of responsiveness to changes in the business environment. <p>The first part of this definition can include:</p> <ul style="list-style-type: none"> ■ mergers/acquisitions/divestments/alliances (referred to as 'M&A activity') ■ strategic initiatives that require significant business and/or information technology change ■ not enough capital to fund strategy ■ corporate transactions such as share buybacks, capital raisings, etc ■ divisional strategic misalignment <p>The second part of this definition can include:</p> <ul style="list-style-type: none"> ■ competitor activities ■ customer or industry trends ■ lack of innovation ■ sovereign risk ■ group contagion risk
Insurance risk	<p>This is the risk that the Group is exposed to financial loss, which may impact the Group's ability to meet its liabilities as a result of:</p> <ul style="list-style-type: none"> ■ inadequate or inappropriate underwriting ■ inadequate or inappropriate product pricing ■ unforeseen, unknown or unintended liabilities that may eventuate ■ inadequate or inappropriate claims management including claims reserving ■ insurance fraud - excluding those that involve a distributor / intermediary or a staff member, which are classed as operational risk ■ concentration risk (i.e. by locality, segment factor, or distribution)
Reinsurance risk	<p>This is the risk of:</p> <ul style="list-style-type: none"> ■ insufficient or inappropriate reinsurance coverage arising as a result of: <ul style="list-style-type: none"> – inadequate or incomplete coverage – incorrect use or failure of models used to calculate amount of cover required – the cover provided by the reinsurance programme(s) does not align with original underwriting exposures – latent/ emerging exposures ■ inadequate underwriting and price of reinsurance exposures retained by IAG' reinsurance captives ■ inadequate or inappropriate reinsurance recovery management ■ reinsurance arrangements not legally binding ■ concentration risk
Liquidity risk	<p>This is the risk that the Group will not have available sufficient cash resources to meet its financial obligations as and when they fall due, without affecting either the daily operations or the financial condition of the Group.</p>
Market risk	<p>Is defined as the risk of uncertain asset value of policyholders' and/or shareholders' funds due to:</p> <ul style="list-style-type: none"> ■ adverse movements in market prices (equities, derivatives, interest rates, foreign exchange) ■ unknown consequences of concentration within the investment funds
Credit risk	<p>This is the risk of a counterparty failing to meet its obligations in accordance with the agreed terms and therefore the collectability of the asset or receivable will be impaired.</p>
Operational risk	<p>This risk is the risk of loss from inadequate or failed internal processes, people, systems, and/or from external events.</p>

The RMS is reviewed annually or as required to ensure it is materially correct by the ARMCC before being recommended for adoption by the IAG Board. Roles and responsibilities of the IAG Board and its standing committees the ARMCC and NRSC are set out elsewhere in this report.

7.2 IMPLEMENTATION AND REPORTING

The Executive Committee (EXCo) fulfils an advisory role to IAG's CEO and provides the operational oversight of IAG's risks, risk management framework and internal control system. EXCo comprises the CEO, Michael Wilkins (chair), and his group executive team.

All group executives are responsible for:

- overseeing implementation of board-approved policies;
- overseeing the ongoing implementation of, and compliance with, IAG's Reinsurance Management Statement (REMS), internal control system and monitoring IAG's risks;
- authorising capital allocation to major projects within financial delegation limits approved by the CEO/board;
- conducting periodic financial performance reviews of the business divisions;
- reviewing the performance in the areas of health, safety, environment and community;
- reviewing the effectiveness of governance practices established at the business division level;
- reviewing human resource performance and reward strategies; and
- promoting and reinforcing IAG's risk management culture.

In addition to these, the corporate office group executives are also responsible for:

- reviewing corporate strategies and the performance of IAG and its business divisions compared to budgets and corporate plans;
- formulating recommendations to the board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- conducting periodic financial performance reviews of IAG's businesses; and
- reviewing the effectiveness of governance practices established at the IAG level.

IAG's risk management and internal audit functions provide regular reports to the ARMCC on the operation of IAG's risk management framework, the status of key risks, details of significant audit findings, risk and compliance incidents, and risk framework changes.

Risk reporting

Reporting on risk management initiatives and issues is provided to:

- the group executives;
- the ARMCC; and
- regulators and industry groups, where relevant and appropriate.

The ARMCC also receives reports on the enterprise risk profile. In addition, business division group executives are required to attend and report to the ARMCC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

Independent reviews

Internal Audit conducts independent reviews of the business divisions' key risk areas, processes and projects. The head of this function reports to the Chief Strategy Officer and the ARMCC.

An independent party is also used to review and assess the adequacy and effectiveness of the IAG Risk Management Framework.

7.3 ASSURANCES

The board has received assurance from the CEO and CFO that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

8.1 NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE (NRSC)

The four members of the NRSC are currently Yasmin Allen (Chair), Brian Schwartz, Phillip Colebatch and Anna Hynes.

The purpose of this committee is to:

- provide advice and support to the board in fulfilling its responsibilities to shareholders to ensure that the board is comprised of persons who have the necessary range of skills, expertise and experience to enable it to discharge its responsibilities effectively;
- provide advice and support to the board in the performance, composition and size of the board;
- oversee composition of IAG's key subsidiary and associated company boards;
- provide assurance to the board relating to the effectiveness, integrity and compliance with IAG's remuneration policies and practices;
- assess the effectiveness of IAG's group remuneration policy and compliance with regulatory requirements on remuneration; and
- monitor the development, implementation and reporting of IAG's business sustainability strategy.

Find out more about the NRSC charter, which lists the committee's responsibilities, at www.iag.com.au/about/governance. The NRSC is also empowered as the remuneration committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate remuneration committee.

8.2 IAG GROUP REMUNERATION POLICY

Details of IAG's remuneration policies for its non-executive directors and senior executives, the relationship of these policies to IAG's performance are disclosed in the remuneration report on pages 19 to 35. The remuneration report highlights the balance between fixed pay, short term incentive, long term incentive, and a minimum shareholding requirement for senior executives of IAG.

DIRECTORS' REPORT

The directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2012 and the auditor's report thereon.

The following terminology is used throughout the financial report:

- IAG, Parent or Company - Insurance Australia Group Limited; and
- Group or Consolidated - the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

CHAIRMAN

BRIAN (BM) SCHWARTZ AM

FCA, FAICD, age 59 - Chairman and Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Brian Schwartz was appointed a director of IAG in January 2005 and became chairman in August 2010. He is a member and former chairman of the IAG Nomination, Remuneration & Sustainability Committee and is also chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd.

OTHER BUSINESS AND MARKET EXPERIENCE

Brian is a non-executive director of Brambles Limited, the deputy chairman of Westfield Group Limited and the deputy chairman of the board of Football Federation Australia Limited.

Brian was the chief executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously, he was with Ernst & Young Australia from 1979 to 2004 becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania area responsible for the firm's operations in Australia, New Zealand, Indonesia, the Philippines, Vietnam and Fiji.

Brian was appointed a Member of the Order of Australia in 2004 for his services to business and the community. He was previously a member of the Federal Government's Australian Multicultural Advisory Council and in 2001 he was named Leading CEO for the Advancement of Women by the Equal Opportunity for Women in the Workplace Agency.

Directorships of other listed companies held in past three years:

- Brambles Limited since 13 March 2009;
- Westfield Group, including Westfield Management Limited (which acts as the responsible entity of Carindale Property Trust), since 6 May 2009; and
- IAG Finance (New Zealand) Limited (a part of the Group), since 26 August 2010.

MANAGING DIRECTOR

MICHAEL (MJ) WILKINS

BCom, MBA, DLI, FCA, FAICD, age 55 - Managing Director and Chief Executive Officer

INSURANCE INDUSTRY EXPERIENCE

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

Michael has more than 25 years experience in the insurance and financial services sector and he is a member of the Australian Government's Financial Sector Advisory Council.

Michael was formerly the managing director of Promina Group Limited (from 1999 to 2007), and managing director of Tyndall Australia Limited (from 1994 to 1999). He is a former director and president of the Insurance Council of Australia and a former director of the Investment and Financial Services Association (now the Financial Services Council).

OTHER BUSINESS AND MARKET EXPERIENCE

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

Directorships of other listed companies held in past three years:

- IAG Finance (New Zealand) Limited (a part of the Group), since 28 May 2008.

OTHER DIRECTORS

YASMIN (YA) ALLEN

BCom, FAICD, age 48 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Cochlear Limited and chairman of its Audit Committee, chairman of Macquarie Specialised Asset Management, a National Director of the Australian Institute of Company Directors and a member of the Salvation Army advisory board. Previous non-executive director roles include Export Finance and Insurance Corporation and Film Australia.

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

Directorships of other listed companies held in past three years:

- Cochlear Limited since 2 August 2010.

PETER (PH) BUSH

BA, FAMI, age 60 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Peter Bush was appointed as a director of IAG in December 2010. He is a member of the IAG Audit, Risk Management & Compliance Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Peter has extensive experience in marketing, brands and consumer behaviour gained through a career spanning more than 30 years in the fast moving consumer goods and retail industries. He was McDonald's Australia Limited's managing director & CEO and President for the Pacific, Middle East and Africa (2005-2010) and chief operating officer (2002-2005).

In several of Peter's roles he was responsible for Asian operations and he has direct experience in developing business in Indonesia, Japan and China. He previously held senior roles with Arnott's Biscuits Limited, Pioneer International Limited (Ampol/Caltex), Samuel Taylor (Reckitt & Coleman plc) and Johnson & Johnson Australia, and was chief executive officer of AGB McNair and Schwarzkopf Australia & New Zealand.

Peter is chairman of Pacific Brands Limited and Nine Entertainment Holdings Pty Ltd, and previously served on the boards of McDonald's Australia Limited, Lion Nathan Limited, Miranda Wines Pty Limited (now McGuigan Wines) and Frucor Beverages Group Limited (now Danone).

Directorships of other listed companies held in past three years:

- Pacific Brands Limited since 3 August 2010.

PHILLIP (PM) COLEBATCH

BE (Hons), BSc, DBA, SM, age 67 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Phillip Colebatch was appointed as a director of IAG in January 2007. He is a member of the IAG Nomination, Remuneration & Sustainability Committee.

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

Phillip is a non-executive director of Lend Lease Corporation Limited and Man Group plc. He is also a member of the Boards of Trustees of the LGT Group Foundation and the Prince of Liechtenstein Foundation.

Directorships of other listed companies held in past three years:

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

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 64 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed as a director of IAG in September 2007 and as a director of IAG New Zealand Limited in July 2003. He is a member of the IAG Audit, Risk Management & Compliance Committee.

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

OTHER BUSINESS AND MARKET EXPERIENCE

Hugh is also non-executive director of Fletcher Building Limited, Rubicon Limited and Vector Limited and a trustee of The University of Auckland Foundation.

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

Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand and is a former member of the Asia Pacific Advisory Committee of the New York Stock Exchange and has been involved as an executive and non-executive director in many countries in Asia, including China, India, Singapore, Indonesia, Malaysia and Thailand.

Directorships of other listed companies held in past three years:

- Fletcher Building Limited since 31 January 2001;
- Rubicon Limited since 23 March 2001;
- Vector Limited since 25 May 2007; and
- IAG Finance (New Zealand) Limited (a part of the Group), since 31 August 2008.

ANNA (A) HYNES

BSc (Hons), MBA, age 53 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

Anna spent most of her executive career at American Express where she held a number of senior positions, most recently country head, New Zealand. Other roles at American Express included two years as Vice President - Indonesia, Malaysia and Pakistan, where she managed these three emerging markets and developed strategies to improve performance and growth in each market.

Anna was also an adjunct professor and member of the Executive Council at the University of Technology Business School, Sydney.

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

Directorships of other listed companies held in past three years:

- None.

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 68 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Philip Twyman was appointed as a director of IAG in July 2008. He is chairman of the IAG Audit, Risk Management & Compliance Committee.

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

While at Aviva plc and its predecessor groups between 1996 and 2004, Philip had executive responsibility for the Group's insurance operations in Asia, Australia, Europe and North America. Over the last 20 years he has also been responsible for starting and nurturing new insurance businesses in China, Indonesia and Hong Kong. Overall, Philip has had over 20 years of both board and executive level general insurance experience.

Philip is on the advisory board of Swiss Re (Australia). He was formerly an independent non-executive director of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd between April 2007 and July 2008.

OTHER BUSINESS AND MARKET EXPERIENCE

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

Directorships of other listed companies held in past three years:

- Perpetual Limited since November 2004.

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

CHRIS (CJ) BERTUCH

BEc, **LL**B, **LL**M

Chris Bertuch was appointed company secretary on 11 May 2011. Prior to joining IAG, he held the position of Group General Counsel & Company Secretary at CSR Limited. Chris joined CSR as a corporate lawyer in 1993 and prior to that was a partner in the law firm Gadens Lawyers in Sydney. He brings to IAG more than 25 years experience in corporate, commercial and trade practices law and dispute resolution. Chris has also completed the Advanced Management Program at Harvard Business School.

MEETINGS OF DIRECTORS

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

DIRECTOR	BOARD OF DIRECTORS		IAG NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		IAG AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG SUB COMMITTEE	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
Total number of meetings held		8		4		5		2
BM Schwartz	8	8	4	4	-	-	2	2
YA Allen	8	8	4	4	5	5	-	-
PH Bush	8	6	-	-	5	5	-	-
PM Colebatch	8	6	4	2	-	-	-	-
HA Fletcher	8	8	-	-	5	5	1	1
A Hynes	8	8	4	4	-	-	-	-
PJ Twyman	8	8	-	-	5	5	-	-
MJ Wilkins	8	8	-	-	-	-	2	2

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The Group's profit after tax for the financial year was \$265 million (2011-\$338 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the equity holders of the Company was \$207 million (2011-\$250 million). The profit after tax included a \$297 million impairment charge in respect of intangible assets and goodwill related to the United Kingdom business. This reflects the continuation of challenging economic and industry conditions in this market.

For the financial year to 30 June 2012, the Group has announced:

- gross written premium (GWP) growth of 11.7%, to nearly \$9.0 billion; and
- an insurance margin of 10.6%.

The GWP growth reflected strong growth in Australia and New Zealand, sourced from rate increases as well as volume growth and acquisitions, including AMI Insurance Limited (AMI) in New Zealand which was completed in April 2012.

The improved insurance result reflected the strength of the underlying business performance and was achieved despite:

- significantly higher reinsurance costs;
- natural peril claim costs above allowances; and
- unfavourable investment market trends, including an adverse impact from credit spreads.

A. AUSTRALIA DIRECT

- The Group's largest business reported GWP growth of 10.5%, reflecting the combination of rate increases, to recover increased reinsurance costs and natural peril allowances coupled with volume growth.
- Australia Direct produced a strong headline margin of 14.3% (2011-19.5%). The lower reported margin reflects a materially higher net natural peril claims experience, higher reinsurance costs, lower reserve releases and an adverse credit spread impact.

B. AUSTRALIA INTERMEDIATED (CGU)

- Reported GWP increased by 12.0% to \$2,759 million. This was driven by a blend of acquired business, notably the general insurance business of HBF and rate increases.
- The reported insurance margin of 10.8% (2011-6.5%) has benefited from considerably better net natural peril claims experience, partially offset by lower reserve releases and an adverse credit spread impact.

C. NEW ZEALAND

- New Zealand reported strong GWP growth of over 26%, driven by significant rate increases to recover substantially higher reinsurance costs. GWP also includes an initial three-month contribution from AMI, acquired in April 2012.
- New Zealand produced an insurance margin of 10.4% (2011-0.4%). This is a material improvement over the earthquake-impacted result for the prior year, and includes the continued earn through of rate increases and a strong underlying claims performance.

D. UNITED KINGDOM

- Reported GWP for the financial year declined by 9% in Australian dollar terms (4% in local currency) as remedial actions led to volume loss, partially offset by rate increases.
- The division reported a reduced insurance loss of \$13 million (2011- \$181 million insurance loss). The significant improvement reflects benefits from the extensive program of remedial actions. A strategic review of the business has been announced, with an outcome expected before 31 December 2012.

E. ASIA

- The Asia division reported an overall loss of \$62 million predominantly owing to Thailand's worst flooding in many decades. The underlying performance of established businesses in Thailand and Malaysia was strong.
- The Group made considerable progress in expanding its Asian footprint in the 2012 financial year, and is on track to reach its goal of Asia representing 10% of Group GWP by 2016, on a proportional basis.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2012 were \$25,132 million compared to \$23,029 million at 30 June 2011. The increase was mainly attributable to an:

- increase in cash and investments of \$1,520 million due to capital gains, proceeds from the New Zealand subordinated bond issue and positive cash flows in Australia; and
- increase in premium related assets due to growth in gross written premiums. These included an increase in premium receivables of \$421 million.

The total liabilities of the Group as at 30 June 2012 were \$20,608 million compared to \$18,449 million at 30 June 2011. The increase was mainly attributable to an:

- increase in gross outstanding claims of \$820 million primarily attributable to lower discount rates;
- increased premium related liabilities due to growth in gross written premiums. These include a \$587 million increase in unearned premium and a \$120 million increase in related trade payables; and
- increase in interest bearing liabilities of \$282 million mainly following the New Zealand subordinated bond issue.

The decrease in IAG's equity from \$4,580 million at 30 June 2011 to \$4,524 million at 30 June 2012 largely reflects:

- net comprehensive income attributable to equity holders of \$170 million (after the \$297 million United Kingdom writedown); and offset by
- 2011 final dividend and 2012 interim dividend payments totalling \$250 million.

B. CASH FROM OPERATIONS

The net cash inflow from operating activities for the financial year ended 30 June 2012 was \$1,514 million compared to \$620 million for the prior period. The increase is mainly attributable to an:

- increase in gross written premium receipts of \$672 million in the Australian and New Zealand businesses;
- increase in reinsurance and other recoveries of \$632 million; and offset by
- increase in claims payments of \$533 million.

C. CAPITAL MANAGEMENT

The Group's capital position, as reflected in the minimum capital requirement (MCR) multiple, was 1.74 times as at 30 June 2012. Details of capital management are set out in note 35.

Further information on the Group's result and review of operations can be found in the 30 June 2012 Investor Report. This is available in the results and reports area of IAG's website, www.iag.com.au.

LIKELY DEVELOPMENTS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult. Nonetheless, the Group is confident of delivering further improvement in operating performance in 2013. Its guidance for the year ending 30 June 2013 is:

- GWP growth of 9%-11%; and
- an insurance margin in the range of 11%-13%.

This assumes:

- net losses from natural perils in line with budgeted allowances of \$640 million;
- net prior period reserve releases equivalent to 1-2% of net earned premium; and
- no material change in foreign exchange rates or investment markets.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in note 10.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Group has recently announced:

- A proposal by the Group's 49% owned Malaysian associate, AmG Insurance Berhad (AmG), to acquire Kurnia Insurans (Malaysia) Berhad. The transaction is expected to complete in the first half of financial year 2013.
- A strategic review of the UK business. The Group anticipates announcing an outcome before the end of the first half of financial year 2013.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year is set out in note 39. This includes:

- the IAG Board determined to pay a final dividend.

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

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

- NB Hawkins who has been Chief Financial Officer of the Group since 29 August 2008 (left KPMG in October 2001).

NON AUDIT SERVICES

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

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

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

The level of fees for total non audit services amount to approximately \$1.3 million of total audit fees (refer to note 37 to the financial statements for further details on costs incurred on individual non audit assignments).

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

The lead auditor's independence declaration is set out on page 37 and forms part of the directors' report for the year ended 30 June 2012.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

- a director of the Company; or
- a secretary of the Company or of a subsidiary of the Company; or
- a person making or participating in making decisions that affect the whole or a substantial part of the business or Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

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

In addition, the Company has granted deeds of indemnity to certain current and former directors and secretaries and members of senior management of the Company and its subsidiaries and associated companies. Under these deeds, the Company:

- indemnifies, to the maximum extent permitted by law, the former or current directors or secretaries or members of senior management against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or any of its subsidiaries or associated companies, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud; and
- is also required to maintain and pay the premiums on a contract of insurance covering the current or former directors or members of senior management against liabilities incurred in respect of the relevant office except as precluded by law. The insurance must be maintained until the seventh anniversary after the date when the relevant person ceases to hold office. Disclosure of the insurance premiums and the nature of liabilities covered by such insurance are prohibited by the relevant contract of insurance.

ENVIRONMENTAL REGULATION

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

The Australian government has released its Clean Energy Future – the Australian Government's Climate Change Plan which includes the introduction of a carbon price mechanism. IAG will not be directly captured by this carbon price mechanism however, there may be indirect impacts to the business through purchase of electricity and other goods procured from companies that will be directly captured.

REMUNERATION REPORT

LETTER FROM THE NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE CHAIR

IAG is pleased to present its remuneration report for the year ended 30 June 2012.

The format and content of the remuneration report are reviewed each year with a view to presenting information consistently, concisely and in a form that complies with the Corporations Act 2001. In line with stakeholder feedback, this year the Group has continued to provide voluntary disclosure of actual remuneration received by the Group's Managing Director and Chief Executive Officer (Group CEO) and the executive team. Actual remuneration is provided in addition to the statutory reporting of remuneration to increase transparency of what an executive actually received during the year.

IAG has delivered an improved performance for the year ended 30 June 2012 meeting both gross written premium (GWP) growth and insurance margin guidance. In line with this performance, the short term incentives (STI) awarded to the Group CEO and the executive team are, on average, higher than last year. Each executive's STI outcome is closely linked to the financial performance of the Group, as well as to the execution of his or her division's strategic goals. More details on STI outcomes for the year ended 30 June 2012 are provided on page 24.

In addition the Group CEO and the executive team were rewarded under IAG's long term incentive (LTI). IAG's performance against its peer group, all entities within the S&P/ASX100 Index, resulted in the total shareholders' return (TSR) performance hurdle being met for executive performance rights (EPR) granted in the year ended 30 June 2009. This resulted in 66% of the rights linked to the TSR hurdle vesting. The portion of EPR granted in the same period subject to the return on equity (ROE) hurdle did not result in any vesting as ROE did not meet the required performance level. The EPR granted under the ROE portion will lapse.

The remuneration structure for IAG's Group CEO and the executive team has not changed over the last year and is summarised below.

REMUNERATION COMPONENT*		STRATEGIC PURPOSE	
FIXED REMUNERATION	Cash	<ul style="list-style-type: none"> Base salary and superannuation 	<ul style="list-style-type: none"> Attract and retain high quality people
AT RISK REMUNERATION	Cash STI	<ul style="list-style-type: none"> 2/3 of STI outcome paid as cash in October 	<ul style="list-style-type: none"> Align reward to shareholder interests
	Deferred STI	<ul style="list-style-type: none"> 1/3 of STI outcome is deferred over a period of two years, subject to ongoing employment conditions Provided as grant of rights in the form of deferred award rights (DAR) The actual value of shares will depend on the future share price IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure an appropriate reward outcome 	<ul style="list-style-type: none"> Strike a balance between short and long term results and reward for exceptional performance Retain high quality people
	LTI	<ul style="list-style-type: none"> Provided as grant of rights in the form of EPR 3-5 year period Subject to performance hurdles of relative total shareholder return and return on equity being achieved IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure an appropriate reward outcome 	<ul style="list-style-type: none"> Align reward to shareholder interests Align remuneration with longer term financial performance Retain high quality people

* A detailed glossary of terms is provided at the end of the remuneration report.

The IAG Board is confident that IAG's remuneration policies are in line with governance requirements and continue to support the Group's financial and strategic goals and to attract the right people, which ultimately benefit shareholders, customers, employees and the community. On behalf of the IAG Board, I invite you to read the full report and thank you for your continued interest.



Yasmin Allen

Nomination, Remuneration & Sustainability Committee Chair

GUIDE TO THE REMUNERATION REPORT

CATEGORY	SUMMARY	PAGE
UNAUDITED		
A. 2012 snapshot	I. Actual remuneration earned by executives	20
AUDITED		
B. Executive remuneration structure and governance	I. Governance	22
	a. Role of Nomination, Remuneration & Sustainability Committee	22
	b. Involvement of remuneration consultants	22
	II. Executive remuneration structure	22
	a. Fixed remuneration	23
	b. At risk remuneration	23
	III. Managing risk	29
	IV. Historical analysis of shareholder return on LTI	29
C. Executive remuneration in detail	I. Total remuneration of executives of the Group	30
	II. Service agreements	31
D. Non-executive director remuneration	I. Structure and policy	32
	II. Total remuneration details	33
	III. Tracking of mandatory shareholding requirements	34
E. Other benefits		34
F. Glossary of terms		35

A. 2012 SNAPSHOT

I. Actual remuneration earned by executives

The actual remuneration presented below provides the remuneration that all current executives received during the financial years ended 30 June 2011 and 2012. This voluntary disclosure includes fixed pay, other benefits and leave accruals, cash STI paid as well as any deferred STI or LTI that have vested in the relevant financial years. For remuneration details provided in accordance with Accounting Standards refer to Category C in this report.

NAME	POSITION	FINANCIAL YEAR	FIXED PAY ^(a)	OTHER BENEFITS AND LEAVE ACCRUALS ^(b)		CASH STI	DEFERRED STI VESTED	LTI VESTED	TOTAL ACTUAL REMUNERATION RECEIVED ^(c)
				A	B				F
Table note			\$000	\$000	\$000	\$000	\$000	\$000	\$000
EXECUTIVES									
MJ Wilkins	Managing Director and Chief Executive Officer	2012	1,992	230	1,567	388	746	4,923	
		2011	1,915	119	1,104	327	295	3,760	
JP Breheny	Chief Executive Officer, Asia	2012	877	310	587	185	296	2,255	
		2011	845	18	429	174	116	1,582	
A Cornish	Chief Executive Officer, Australia Direct	2012	990	75	600	154	249	2,068	
		2011	936	42	610	132	-	1,720	
IR Foy	Chief Executive Officer, UK	2012	698	371	287	105	200	1,661	
		2011	666	575	292	63	14	1,610	
P Harmer	Chief Executive Officer, CGU, commenced on 8 November 2010	2012	932	62	504	-	-	1,498	
		2011	591	23	275	-	-	889	
NB Hawkins	Chief Financial Officer	2012	956	93	568	160	305	2,082	
		2011	910	52	460	151	113	1,686	
JS Johnson	Chief Executive Officer, New Zealand	2012	863	124	505	172	296	1,960	
		2011	808	23	337	180	117	1,465	
LC Murphy	Chief Strategy Officer	2012	862	58	512	139	251	1,822	
		2011	801	36	404	110	41	1,392	

a. FOOTNOTES

- (a) Fixed pay (base salary and superannuation) included an average pay increase of 4.1% effective September 2011.
- (b) Changes in other benefits and leave accruals from the prior year were mainly due to:
- annual and long service leave accruals increased for all executives (except for Mr Foy who is not entitled to carry forward accrued leave based on the UK legislation); and
 - for those executives located overseas, other benefits in the year ended 30 June 2012 including:
 - Mr Breheny, relocation costs and accommodation of \$252,000 relating to his relocation to Singapore;
 - Mr Foy, retention payments of \$335,000 (£218,000) and other recurring allowances and benefits of \$36,000; and
 - Ms Johnson, accommodation allowances and other benefits of \$45,000.
- (c) For those executives who ceased as a KMP during the year ended 30 June 2011, K Armstrong (former acting Chief Executive Officer, New Zealand), N Utley (former Managing Director, UK) and DG West (former Chief Executive Officer, CGU), their total 2011 remuneration was \$100,000, \$1,641,000 and \$806,000, respectively.

b. TABLE NOTE

Detailed definitions of the terminology used in this remuneration report are provided in Category F – Glossary of terms.

- A, B Total of columns A and B in the actual remuneration table above equals to the total of columns noted (1), (3), (4) and (5) in the statutory remuneration table in Category C.
- C Represents 2/3 of the STI for the financial year from 1 July to 30 June. It is the same as the cash STI in column (2) in the statutory remuneration table in Category C.
- D Deferred STI that vested in the relevant financial year. Details are provided in the table on page 25 in Category B. The weighted average share price used to value the deferred STI at vesting date is \$3.37 (2011-\$3.40). Column (6) in the statutory remuneration table in Category C represents the accounting value for all grants.
- E LTI that vested in the relevant financial year. Details are provided in the table of LTI on page 28 in Category B. The weighted average share price at vesting date is \$3.01 (2011-\$3.68). Column (7) in the statutory remuneration table in Category C represents the accounting value for all grants.

The table below illustrates the potential fixed and at risk remuneration the Group CEO and the executive team (on average) can earn under the current remuneration framework compared to what they actually received during the year. This demonstrates alignment between at risk remuneration and the financial performance of the Group. The Group CEO and the executive team will only receive high reward outcomes if performance hurdles are met. Calculations are based on remuneration for current executives at 30 June 2011 and 2012 who were employed for the full financial year. Actual at risk remuneration is calculated according to the actual remuneration table above and expressed as a percentage of the total potential remuneration.

Remuneration component	What it contains	GROUP CEO REMUNERATION			EXECUTIVE TEAM REMUNERATION		
		Potential ^(a)		Actual	Potential ^(a)		Actual ^(b)
			2012	2011		2012	2011
Fixed pay ^{(c)(d)}	Base salary and superannuation	25.0 %	25.0 %	25.0 %	29.0 %	29.0 %	29.0 %
At risk pay	STI - cash	25.0 %	19.5 %	14.3 %	23.2 %	16.6 %	14.4 %
	STI - deferred	12.5 %	4.8 %	4.2 %	11.6 %	4.3 %	4.6 %
	LTI	37.5 %	9.3 %	3.8 %	36.2 %	7.4 %	2.3 %
Total		100.0 %	58.6 %	47.3 %	100.0 %	57.3 %	50.3 %

(a) Potential fixed and at risk remuneration is based on current remuneration at 30 June.

(b) Executive data for 2011 excludes P Harmer who commenced on 8 November 2010.

(c) Fixed pay includes base salary and superannuation.

(d) Fixed pay excludes other values such as long service leave accruals, relocation and accommodation, retention payments and other recurring allowances and benefits.

The actual remuneration information provided in this snapshot section is voluntary and is not in accordance with current Accounting Standards requirements. The actual remuneration values in the table on the previous page are based on information disclosed in the audited sections of the remuneration report.

REMUNERATION REPORT - AUDITED

B. EXECUTIVE REMUNERATION STRUCTURE AND GOVERNANCE

This report meets the remuneration reporting requirements of the Corporations Act 2001 and Accounting Standard AASB 124 Related Party Disclosures. The term remuneration used in this report has the same meaning as compensation as prescribed in AASB 124.

I. Governance

The responsibility of the IAG Board is to ensure that the remuneration framework is aligned to the short and long term interests of IAG and its shareholders. The Nomination, Remuneration & Sustainability Committee (NRSC) makes recommendations to the IAG Board regarding group remuneration policy including executive remuneration. The IAG Board independently considers these recommendations before making decisions that affect the remuneration of the executives.

a. ROLE OF NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

The NRSC is the IAG Board committee which oversees IAG's remuneration practices and makes decisions about executive remuneration.

The NRSC endeavours to ensure that remuneration policies balance IAG's performance objectives and remain in step with community and shareholder expectations. While stability in the remuneration structure is important, where modifications can be made to better align stakeholder interests and drive performance, the NRSC actively considers these and makes recommendations to the IAG Board.

The Group CEO, corporate office executives and human resources executives regularly attend NRSC meetings and assist the committee in its deliberations. However, none is present when their own remuneration is discussed. The business CEOs and respective heads of human resources present to the NRSC to provide it with updates on the human resources strategy and initiatives in their divisions. This provides an open channel of communication between the operating divisions and the NRSC.

The chair of the NRSC and the IAG Board meet regularly to provide updates on remuneration related issues and to gain approval.

A copy of the NRSC's charter is available at www.iag.com.au/about/governance.

b. INVOLVEMENT OF REMUNERATION CONSULTANTS

The NRSC directly engages and considers market remuneration data from leading remuneration consultants as required. The data provided by remuneration consultants is used as a guide and all remuneration decisions for the Group CEO and the executive team are made by the IAG Board.

II. Executive remuneration structure

IAG's executive remuneration structure is designed to align total remuneration with company and individual performance. It recognises that executives have a significant influence on achieving and exceeding the Group's financial results and therefore encourages sustained exceptional performance.

Total remuneration outcomes for target performance are positioned at the middle of the market. The appropriate market is determined considering organisation size, industry and geographical location. A high total remuneration outcome is considered by the IAG Board in cases of superior performance aligned with long term financial performance.

Guiding principles

IAG's remuneration practices have been designed to achieve the following objectives:

- motivate employees to achieve superior and sustainable performance and discourage underperformance;
- align remuneration with the interest of IAG's shareholders by actively focusing on short to long term goals;
- remain market competitive to attract and retain high quality people;
- be clearly communicated and valued; and
- encourage constructive behaviours and prudent risk taking that support long term financial soundness.

Key initiatives in executive remuneration

In response to regulatory changes and shareholder feedback, the NRSC undertook the following initiatives during the year ended 30 June 2012:

- actively monitored compliance against Australian Prudential Regulation Authority (APRA) standards covering the governance of remuneration;
- an audit review of the STI framework and outcomes was completed. The result of the review was positive and also found the framework to be aligned to APRA's requirements. Where areas of improvement were identified, management action has been taken to further strengthen the framework; and
- in August 2010, the NRSC approved changes to the terms of the DAR and EPR Plans to provide the NRSC with the discretion to adjust remuneration outcomes in certain circumstances. An annual process for evaluating whether to adjust unvested DAR and EPR has been completed. No adjustment of DAR and EPR is required for the period under review.

Remuneration components

The remuneration components for the executive team are explained below.

a. FIXED REMUNERATION

Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Base salary includes amounts paid in cash plus the portion of the company's superannuation contribution that is paid as cash instead of paying into the superannuation funds and salary sacrifice items such as cars (including the 30% tax rebate on car expenses) and parking. Executives can determine the mix of base salary to be paid in cash, salary sacrifice items and superannuation in line with legislative requirements.

Fixed remuneration is set towards the middle of the market of comparable roles in companies of a similar size to that of IAG, and is reviewed each year based on independent remuneration data. For Australian based executives, market positioning is determined by reference to a number of peer groups, including the largest 50 companies in the S&P/ASX 100 Index and companies that are of similar size to that of IAG. Relevant local market peer groups are used for executives located overseas.

Fixed remuneration for the year ended 30 June 2012

The average performance based fixed remuneration increase for the executive team in respect of the year ended 30 June 2012 was 4.1%. In August 2012, the IAG Board approved an average 2.0% increase in fixed remuneration for the executive team effective September 2012.

b. AT RISK REMUNERATION

Whilst the IAG Board recognises that executive remuneration is guided by regulation, market forces and benchmarks, it strongly believes that the fundamental driver for executive remuneration should be long term financial performance that generates value for IAG shareholders. This objective is mainly achieved through the at risk remuneration components consisting of STI and LTI, without encouraging excessive risk taking. To ensure that executives remain focused on long term outcomes the following apply:

- no more than 50% of the STI is based on financial outcomes;
- 1/3 of the STI is deferred over a period of two years;
- the vesting of the LTI does not occur before three years; and
- the IAG Board retains the discretion to adjust any unpaid or unvested performance pay (such as cash STI, deferred STI and LTI) downwards if it decides it is prudent to do so.

This combination ensures that the at risk remuneration reflects the overall performance of the Group.

i. Short term incentive

Short term incentive (STI) refers to the at risk remuneration designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures.

Financial performance accounts for not more than 50% of the STI outcome to ensure compliance with IAG's governance standards. The remaining 50% or more of the incentive depends on the achievement of non financial objectives to secure the long term operation of IAG and its divisions.

For the Group CEO and the executive team, 2/3 of STI is paid as cash, with the remaining 1/3 of STI deferred in the form of DAR over a period of two years.

The amount of STI paid to the executive team is recommended by the NRSC in consultation with the Group CEO based on their balanced scorecard performance, and approved by the IAG Board.

The following table details the weighting of different performance measures for the total STI of the Group CEO and the executive team.

ROLE	FINANCIAL MEASURES		NON FINANCIAL MEASURES
	Group financial targets	Division or business financial targets	
Group CEO	50 %	- %	50 %
Business CEOs	10 %	40 %	50 %
Corporate office executives	40 %	10 %	50 %

The table below provides some examples of financial and non financial measures used in the balanced scorecards.

MEASURES	EXAMPLES OF TARGETS
FINANCIAL	
Group financial	ROE, secure position
Division or business financial	Return on risk based capital, gross written premium
NON FINANCIAL	
Group non financial	Efficiency and effectiveness of processes, creation of a high performing organisation, alignment of customer experience with value proposition, effective governance frameworks
Division or business non financial	Efficiency and effectiveness of processes, insurer of choice for customers, attraction and retention of people with the right values and capabilities, effective governance frameworks

STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2012

Actual STI payments made to the Group CEO and the executive team for the year ended 30 June 2012 reflect the degree of achievement against the balanced scorecard measures. The table below provides the details for the STI for the Group CEO and the executive team.

IAG has delivered an improved performance for the year ended 30 June 2012, delivering on both GWP growth and insurance margin guidance. In line with improved performance, the STI awarded to the Group CEO and the executive team are, on average, higher than last year. An individual executive's STI outcome is linked strongly to the financial performance of the Group as well as to the execution of his or her division's strategic goals during the year.

In addition to reflecting the overall improvement in the Group's performance, the STI for individual members of the executive team reflects their success in delivering results against their divisional strategies.

	MAXIMUM STI OPPORTUNITY		ACTUAL STI OUTCOME		CASH STI OUTCOME	DEFERRED STI OUTCOME
	(% of fixed pay)	(% of maximum)	(% of fixed pay)	(2/3 OF OUTCOME)	(1/3 OF OUTCOME)	
MJ Wilkins	150	78	117	78	39	
JP Breheny	120	83	100	67	33	
A Cornish	120	75	90	60	30	
IR Foy	120	51	61	41	20	
P Harmer	120	67	80	53	27	
NB Hawkins	120	74	89	59	30	
JS Johnson	120	73	88	59	29	
LC Murphy	120	74	89	59	30	

CASH PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2012

2/3 of the STI is paid as cash in October 2012. The dollar values are contained in remuneration details in Category C.

DEFERRED PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2012

1/3 of the STI outcome is paid in the form of DAR and known as deferred STI. As DAR will not be allocated until October 2012, the value of this portion is not included in the 2012 remuneration report. This value will be included in the disclosure for the year ending 30 June 2013.

DEFERRED STI

Deferred STI is issued in the form of rights over IAG ordinary shares held by a trustee. These rights are referred to as DAR. They are issued to the Group CEO and the executive team during the financial year for nil consideration, to the value of their deferred STI amount. The Group CEO and the executive team who participate in this plan become eligible to receive one IAG ordinary share per DAR by paying the exercise price of \$1 per tranche of DAR exercised, subject to continuing employment with the Group for a period as determined by the IAG Board. When an executive ceases employment in special circumstances, such as redundancy, any unvested rights will vest on cessation of employment, with board discretion.

Details of the DAR granted, vested and exercised during the financial year are set out below. The DAR granted during the year reflects the deferred portion of the STI outcome for the year ended 30 June 2011. Note 29 to the financial statements sets out further details of the DAR Plan.

	GRANT DATE ^(a)	VALUE PER DAR AT GRANT DATE \$	DAR GRANTED DURING THE YEAR Number	DAR VESTED DURING THE YEAR Number	DAR EXERCISED DURING THE YEAR Number	TOTAL VALUE OF DAR GRANTED DURING THE YEAR ^(b) \$000	TOTAL VALUE OF DAR EXERCISED DURING THE YEAR ^(c) \$000
2012							
MJ Wilkins	21/10/2011	2.88	162,400	114,960	114,960	467	364
JP Breheny	21/10/2011	2.88	63,100	54,710	53,950	181	171
A Cornish	21/10/2011	2.88	89,700	45,550	70,004	258	222
IR Foy ^(d)	21/10/2011	2.88	43,000	31,210	31,210	124	99
P Harmer	21/10/2011	2.88	40,500	-	-	116	-
NB Hawkins	21/10/2011	2.88	67,700	47,400	47,400	195	150
JS Johnson	21/10/2011	2.88	49,600	50,920	50,920	143	161
LC Murphy	21/10/2011	2.88	59,400	41,290	41,290	171	131
			<u>575,400</u>	<u>386,040</u>	<u>409,734</u>	<u>1,655</u>	<u>1,298</u>

(a) All DAR granted on 21 October 2011 have a first exercisable date of 1 September 2012 and an expiry date of 21 October 2018.

(b) The value of DAR granted in the year is the fair value of the DAR at grant date using the Black Scholes valuation model. The total value of the DAR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years ended 30 June 2012 to 30 June 2014).

(c) DAR that vested on 1 July 2011 or before were exercised in the financial year. The value of DAR exercised is based on the weighted average share price which was \$3.17 for the year ended 30 June 2012.

(d) In addition to 43,000 DAR granted as deferred STI shown in the table above, 44,300 DAR were granted to Mr Foy in relation to the UK retention programs. Apart from the vesting dates, all the terms and conditions and vesting scale of DAR granted in relation to the UK retention programs are the same as those for DAR granted as deferred STI.

ii. Long term incentive

Long term incentive (LTI) is awarded as a grant of rights over IAG ordinary shares in the form of EPR. These are exercisable for shares between three and five years after the date of grant if performance hurdles are achieved.

The current EPR series' performance hurdles are ROE and TSR. 50% of each allocation is subject to the ROE hurdle and 50% is subject to the TSR hurdle:

- ROE is measured relative to IAG's weighted average cost of capital (WACC). This hurdle has been chosen as it provides evidence of company growth in profitability and is linked to shareholder return. For share rights granted in the year ended 30 June 2012, the ROE hurdle is cash ROE (normalised ROE for grants prior to the year ended 30 June 2009) to align with the reporting of IAG's financial performance to the external market.
- The TSR hurdle has been chosen as it provides a direct link between executive reward and shareholder return. For share rights allocated after 30 June 2009, TSR is measured against that of other companies in the top 50 industrials within the S&P/ASX 100 Index.

LTI grants are determined annually by the IAG Board and are aligned to the Group's strategic financial targets. These are based on an assessment of market benchmarks, performance, leadership capability and strategic input.

Under the terms of the LTI, if an executive ceases employment with IAG voluntarily before the performance conditions are tested, then the unvested LTI will generally lapse. In cases where the executive acts fraudulently, dishonestly or is, in the IAG Board's opinion, in breach of his or her obligations to the Company, the unvested LTI will lapse.

Details of the terms of allocations made to the Group CEO and the executive team under the LTI Plan are in the table below with the exception of EPR Plan 2007/2008 and 2008/2009 – series 1 and 2 – ROE information. These allocations have been excluded as their test dates have passed, performance hurdles were not met and 0% of rights vested.

LTI PLAN	EPR PLAN 2007/2008 - SERIES 1	EPR PLAN 2008/2009 - SERIES 2	EPR PLAN 2009/2010 - SERIES 3	
	TSR	TSR	TSR	Cash ROE
Grant date	29/10/2007 29/11/2007 13/03/2008	18/09/2008 27/02/2009	25/09/2009 24/11/2009	25/09/2009 24/11/2009
Base date	30/09/2007	30/09/2008	30/09/2009	n/a
Performance period definition	3-5 years from grant date	3-5 years from grant date	3-5 years from grant date	1/07/2009- 30/07/2012
IAG share price at base date (\$)	5.31	4.10	3.78	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	3rd, 4th and 5th anniversary of the base date	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ended 30 June 2012
First test day	30/09/2010	30/09/2011	30/09/2012	30/06/2012
Last test day	30/09/2012	30/09/2013	30/09/2014	30/06/2012
Performance hurdle achievement	64% vested	66% vested	n/a	0% vested
Last exercise date (continuing employees only)	29/10/2017 29/11/2017 13/03/2018	18/09/2018 27/02/2019	25/09/2016 24/11/2016	25/09/2016 24/11/2016
Vesting scale	<ul style="list-style-type: none"> ■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile 	<ul style="list-style-type: none"> ■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile 	<ul style="list-style-type: none"> ■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile 	<ul style="list-style-type: none"> ■ Minimum vesting at 1.5 x WACC ■ Maximum vesting at 1.8x WACC
Vesting date	30/9/2010	30/09/2011	n/a	n/a
Peer group	All entities within S&P/ASX 100 Index	All entities within S&P/ASX 100 Index	Top 50 industrials within S&P/ASX 100 Index	Cash ROE

LTI PLAN	EPR PLAN 2010/2011 - SERIES 4		EPR PLAN 2011/2012 - SERIES 5	
	TSR	Cash ROE	TSR	Cash ROE
Grant date	06/10/2010 03/03/2011	06/10/2010 03/03/2011	21/10/2011	21/10/2011
Base date	30/09/2010	n/a	30/09/2011	n/a
Performance period definition	3-5 years from grant date	1/7/2010-30/07/2013	3-5 years from grant date	1/07/2011-30/07/2014
IAG share price at base date (\$)	3.64	n/a	3.08	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ending 30 June 2013	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ending 30 June 2014
First test day	30/09/2013	30/06/2013	30/09/2014	30/06/2014
Last test day	30/09/2015	30/06/2013	30/09/2016	30/06/2014
Performance hurdle achievement	n/a	n/a	n/a	n/a
Last exercise date (continuing employees only)	06/10/2017 03/03/2018	06/09/2017 03/03/2018	21/10/2018	21/10/2018
Vesting scale	<ul style="list-style-type: none"> ■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile 	<ul style="list-style-type: none"> ■ Minimum vesting at 1.2 x WACC ■ Maximum vesting at 1.6 x WACC 	<ul style="list-style-type: none"> ■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile 	<ul style="list-style-type: none"> ■ Minimum vesting at 1.2 x WACC ■ Maximum vesting at 1.6 x WACC
Vesting date	n/a	n/a	n/a	n/a
Peer group	Top 50 industrials within S&P/ASX 100 Index	Cash ROE	Top 50 industrials within S&P/ASX 100 Index	Cash ROE

LTI granted during the year ended 30 June 2012

The LTI granted during the year will have no value unless the performance hurdles outlined above are achieved. These hurdles require superior financial performance over at least a three year period. Details of the LTI granted during the year are set out below.

For EPR Plan 2008/2009 – series 2, the performance results were:

- TSR met the performance hurdle on 30 September 2011 and 66% of those rights vested; and
- ROE performance hurdle was not met on 30 June 2011 and these rights have been forfeited and will lapse.

No EPR lapsed during the financial year.

Note 29 to the financial statements sets out further details of the EPR Plan.

GRANT DATE ^(a)	EPR GRANTED	EPR GRANTED	EPR VESTED	EPR	EPR-ROE	TOTAL VALUE	TOTAL VALUE	EPR-ROE
	DURING THE	DURING THE	DURING THE	EXERCISED	HURDLE	OF EPR	OF EPR	HURDLE
	YEAR ^(b)	YEAR ^(c)	YEAR	DURING THE	FORFEITED	GRANTED	EXERCISED	FORFEITED ^(f)
	Number	Number	Number	YEAR	Number	DURING THE	DURING THE	FORFEITED ^(f)
						YEAR ^(d)	YEAR ^(e)	
						\$000	\$000	\$000
2012								
MJ Wilkins 21/10/2011	442,750	442,750	247,500	247,500	(375,000)	2,014	784	(1,265)
JP Breheny 21/10/2011	162,500	162,500	98,175	-	(148,750)	739	-	(502)
A Cornish 21/10/2011	183,850	183,850	82,500	82,500	(125,000)	836	261	(422)
IR Foy 21/10/2011	135,400	135,400	66,330	66,330	(100,500)	616	210	(339)
P Harmer 21/10/2011	172,800	172,800	-	-	-	786	-	-
NB Hawkins 21/10/2011	176,500	176,500	101,145	101,145	(153,250)	803	320	(517)
JS Johnson 21/10/2011	156,450	156,450	98,175	-	(148,750)	712	-	(502)
LC Murphy 21/10/2011	159,050	159,050	83,325	-	(126,250)	724	-	(426)
	<u>1,589,300</u>	<u>1,589,300</u>	<u>777,150</u>	<u>497,475</u>	<u>(1,177,500)</u>	7,230	1,575	(3,973)

(a) All EPR granted 21 October 2011 have an expiry date of 21 October 2018.

(b) EPR granted during the year subject to TSR performance hurdle. Rights granted 21 October 2011 have a grant date value of \$1.86. All rights granted during the year are first exercisable 30 September 2014.

(c) EPR granted during the year subject to ROE performance hurdle. Rights granted 21 October 2011 have a grant date value of \$2.69. All rights granted during the year are first exercisable 30 June 2014.

(d) The value of EPR granted in the year is the fair value of the EPR at grant date using Monte Carlo simulation (for TSR performance hurdle) and Black Scholes (for ROE performance hurdle) valuation models. The total value of the EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years ended 30 June 2012 to 30 June 2016).

(e) EPR that vested on 30 September 2011 or before were exercised in the financial year. The value of EPR exercised is based on the weighted average share price which was \$3.17 for the year ended 30 June 2012.

(f) During the year ended 30 June 2012, the value of EPR forfeited is based on the weighted average share price which was \$3.37 as at 30 June 2011, the test date.

LTI GRANTED PRIOR TO 2008 - PERFORMANCE AWARD RIGHTS PLAN

Prior to the introduction of the EPR Plan, LTI was granted in the form of performance award rights. No allocations have been made under the Performance Awards Rights Plan since the year ended 30 June 2007 and no further allocations are planned.

On 30 June 2011, the Performance Awards Rights Plan 2006/2007 – series 5 (the last series granted) reached the last performance hurdle test. The performance hurdle was not met and all issued rights lapsed on 29 August 2011. The terms of allocation are therefore no longer relevant to the users of this report and have been excluded.

On 29 August 2011, only four executives held performance awards rights and they were:

- JP Breheny, 47,000 rights lapsed with a value of \$159,000;
- IR Foy, 11,500 rights lapsed with a value of \$39,000;
- NB Hawkins, 47,000 rights lapsed with a value of \$159,000; and
- JS Johnson, 47,000 rights lapsed with a value of \$159,000.

The value of lapsed rights was based on the weighted average share price of \$3.37 as at 30 June 2011 (the last testing date).

III. Managing risk

a. RESTRICTIONS ON DEALING IN IAG SECURITIES

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

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

A copy of IAG's Security Trading Policy is available at www.iag.com.au/about/governance/codes.

b. MANDATORY SHAREHOLDING REQUIREMENTS

All executives are required to hold a proportion of their remuneration as IAG ordinary shares. The Group CEO is required to accumulate and hold IAG ordinary shares with a value of two times base salary and other executives one times base salary. The Group CEO and the executive team have four financial years to meet their required holdings, which then becomes a rolling requirement assessed annually at the end of each financial year.

i. Tracking against mandatory shareholding requirements for the year ended 30 June 2012

The number of IAG ordinary shares held by the Group CEO and the executive team at 30 June 2012, including tracking against the mandatory shareholding requirements, is set out below.

NAME	IAG	ACHIEVEMENT OF MANDATORY SHAREHOLDING REQUIREMENT ^(b)	EFFECTIVE DATE OF MANDATORY SHAREHOLDING REQUIREMENT
	SHAREHOLDING ^(a) Number of shares		
MJ Wilkins	1,038,826	Met requirement	30/06/2012
JP Breheny	383,285	Met requirement	01/09/2010
A Cornish	191,208	n/a	30/06/2013
IR Foy	110,058	n/a	30/06/2013
P Harmer	-	n/a	30/06/2015
NB Hawkins	374,100	Met requirement	01/09/2010
JS Johnson	359,353	Met requirement	01/09/2010
LC Murphy	193,988	Met requirement	30/06/2012

(a) Includes executive's directly held shares and DAR vested and unexercised as at 30 June 2012. Includes entities controlled, jointly controlled or significantly influenced by the executive. Excludes shares held by the executives' domestic partner and dependants.

(b) The above table is a voluntary disclosure. The achievement of mandatory shareholding requirements is calculated using the base salary of executives (two times base salary of the Group CEO) and the IAG share price (\$3.48) as at 30 June 2012. Base salary is the amount received by the executives four years prior to the measurement day (for example, base salary at 30 June 2008 for the measurement day of 30 June 2012). The mandatory shareholding requirement is then re-assessed each year as a rolling four year requirement.

As at 30 June 2012, Mr Cornish, Mr Foy and Mr Harmer's first measurement date of mandatory shareholding requirement is not reached yet, therefore, the status of achievement is noted as not applicable.

IV. Historical analysis of shareholder return on LTI

The following table outlines the returns IAG delivered to its shareholders for the last six financial years in relation to the closing share price, dividend paid, earnings per share (basic) and LTI hurdles.

	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
Closing share price (\$)	5.70	3.47	3.51	3.41	3.40	3.48
Dividend paid (cents)	29.50	22.50	10.00	13.00	16.00	17.00
Basic earnings per share (cents)	32.79	(14.11)	9.32	4.39	12.08	10.01
Cash ROE (%) ^(a)	n/a	2.7	4.9	8.3	11.1	13.3
Normalised ROE (%) ^(a)	12.9	n/a	n/a	n/a	n/a	n/a
ROE to WACC outcome for EPR Plan ^(b)	n/a	n/a	n/a	0.83	0.82	1.12
TSR (%) ^(c)	11.2	(36.1)	1.3	(0.5)	3.0	5.3

(a) Normalised ROE ceased to be a performance measure from 30 June 2008. The Group's communication to internal and external stakeholders is based on the cash ROE.

(b) The first ROE performance hurdle test date of the EPR Plan was 30 June 2010, therefore information was not relevant for years ended 30 June 2009 and prior.

(c) This represented the TSR performance measured for the 12 months from 1 July to 30 June. This is only an indication of IAG's performance for the relevant financial year.

C. EXECUTIVE REMUNERATION IN DETAIL

I. Total remuneration of executives of the Group

The table below provides remuneration details for the Group CEO and the executive team. For an executive who was newly appointed to the executive team during either financial year, the remuneration information provided in the table below relates to the period from the date of their appointment as key management personnel (KMP) to the year ended 30 June.

Table note	(1)	(2)	(3)	(4)	(5)	(6)	(7)	TOTAL ^(a)	AT RISK REMUNERATION PORTION PAID			
	SHORT TERM EMPLOYMENT BENEFITS	POST EMPLOYMENT BENEFITS	OTHER EMPLOYMENT BENEFITS	LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)					
	Base salary	Short term incentive	Other	Superannuation	Retirement benefits	Long service leave accruals	Value of deferred short term incentive	Value of rights granted				
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%		
EXECUTIVES (INCLUDING EXECUTIVE DIRECTOR)												
MJ Wilkins, Managing Director and Chief Executive Officer												
2012	2,146	1,567	-	38	-	38	-	3,789	481	2,193	6,463	66
2011	1,996	1,104	-	38	-	-	-	3,138	467	2,136	5,741	65
JP Breheny, Chief Executive Officer, Asia												
2012	854	587	252	50	-	31	-	1,774	191	808	2,773	57
2011	812	429	-	50	-	1	-	1,292	197	824	2,313	63
A Cornish, Chief Executive Officer, Australia Direct												
2012	1,032	600	-	16	-	17	-	1,665	232	898	2,795	62
2011	962	610	-	15	-	1	-	1,588	200	732	2,520	61
IR Foy, Chief Executive Officer, UK^(b)												
2012	593	287	371	105	-	-	-	1,356	127	641	2,124	50
2011	567	292	575	99	-	-	-	1,533	100	538	2,171	43
P Harmer, Chief Executive Officer, CGU, KMP since 8 November 2010												
2012	939	504	-	50	-	5	-	1,498	40	391	1,929	48
2011	597	275	-	16	-	1	-	889	-	88	977	37
NB Hawkins, Chief Financial Officer												
2012	960	568	-	25	-	64	-	1,617	182	848	2,647	60
2011	915	460	-	25	-	22	-	1,422	174	851	2,447	61
JS Johnson, Chief Executive Officer, New Zealand^(b)												
2012	877	505	45	-	-	65	-	1,492	164	802	2,458	60
2011	735	337	55	7	-	34	-	1,168	187	825	2,180	62
LC Murphy, Chief Strategy Officer^(b)												
2012	878	512	-	25	-	17	-	1,432	155	731	2,318	60
2011	811	404	-	25	-	1	-	1,241	151	677	2,069	60

a. FOOTNOTES TO THE REMUNERATION OF EXECUTIVES

- (a) During the year ended 30 June 2011, K Armstrong (former acting Chief Executive Office, New Zealand), N Utley (former Managing Director, UK) and DG West (former Chief Executive Office, CGU) were executives who ceased as KMP, their total 2011 remuneration was \$100,000, (\$62,000) and (\$283,000), respectively.
- (b) During the year ended 30 June 2011, there were a number of role changes. IR Foy, former Chief Executive Officer, New Zealand became Chief Executive Officer, UK from 1 September 2010, succeeding N Utley. JS Johnson, former Chief Executive Officer, The Buzz became the Chief Executive Officer, New Zealand, from 1 November 2010, succeeding IR Foy. LC Murphy, the former Group Executive, Corporate Office also became Chief Executive Officer, The Buzz from 1 November 2010 succeeding JS Johnson. In July 2011, LC Murphy changed title to Chief Strategy Officer and The Buzz business passed to the Australia Direct operation.

b. TABLE NOTE

- (1) Base salary includes amounts paid in cash plus the portion of the company's superannuation contribution that is paid as cash instead of paying into the superannuation funds and salary sacrifice items such as cars (including the 30% tax rebate on car expenses), parking and annual leave accruals, as determined in accordance with AASB 119 Employee Benefits.
- (2) Short term incentive represents the amount to be settled in cash in relation to the financial year from 1 July to 30 June.
- (3) Other short term employment benefits for the various KMP are provided below:
 2012:
- JB Breheny, relocation costs and accommodation due to his relocation to Singapore;
 - IR Foy, retention payments of \$335,000 (£218,000) and other recurring allowances and benefits of \$36,000; and
 - JS Johnson, accommodation allowances and other benefits.
- 2011:
- IR Foy, relocation costs and accommodation allowances for taking up a new role in a different country. This amount included the loss on sale of a NZ residence, plus associated transaction costs, of \$291,000 (NZ\$380,000) incurred in order to speed up the relocation;
 - JS Johnson, relocation costs and accommodation allowances for taking up a new role in a different country;
 - K Armstrong, life insurance provided as per the NZ employment arrangement; and
 - N Utley, medical insurance and car allowances provided in the UK employment arrangement. In the prior year, Mr Utley was paid a retention incentive (\$789,000) to ensure that he remained with the business when IAG exited the UK mass market operation.
- (4) Superannuation represents the employer's contributions. Refer to note 29 superannuation plans details.
- (5) Long service leave accruals as determined in accordance with AASB 119.
- (6) The deferred STI is granted as DAR and is valued using the Black Scholes valuation model. An allocated portion of unvested DAR for the deferred STI for the years ended before 30 June 2011 is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2012 will be granted in the next financial year and therefore no value was included in the current financial year's total remuneration.
- (7) This value represents the allocated portion of unvested EPR as included in the table above. For the year ended 30 June 2012, this also includes an allocation portion of unvested DAR which were granted to Mr Foy on 21 October 2011 in relation to the UK retention programs, as approved by the IAG Board.

To determine the EPR values the Monte Carlo simulation (for TSR performance hurdle) and Black Scholes (for ROE performance hurdle) valuation models have been applied. The valuation takes into account the exercise price of the EPR, life of the EPR, current price of IAG ordinary shares, expected volatility of the IAG share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non transferability, and turnover which is assumed to be zero for an individual's remuneration calculation. DAR are valued using the Black Scholes valuation model.

II. SERVICE AGREEMENTS

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

NAME	NOTICE PERIOD FROM THE COMPANY	NOTICE PERIOD FROM THE EMPLOYEE	TERMINATION PROVISIONS
MJ Wilkins	12 months	6 months	12 months fixed pay and short term incentive that would have accrued for 12 months had termination not occurred. An additional 6 months of fixed pay is payable if IAG invokes a restraint clause.
JP Breheny	12 months	3 months	12 months base salary
A Cornish	12 months	3 months	12 months fixed pay
IR Foy	12 months	6 months	12 months fixed pay
P Harmer	12 months	6 months	12 months base salary
NB Hawkins	12 months	3 months	12 months base salary
JS Johnson	12 months	3 months	12 months base salary
LC Murphy	12 months	3 months	12 months base salary

Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave for the Group CEO and the executive team.

Executives are employed by Insurance Australia Group Services Pty Limited, except for:

- IR Foy who is employed by Equity Insurance Management Limited; and
- JS Johnson who is employed by IAG New Zealand Limited.

a. RETRENCHMENT

In the event of retrenchment, the executives listed above (except for IR Foy and JS Johnson) are entitled to the greater of:

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

For executives based in Australia, the minimum benefit under the retrenchment policy is 11 weeks of base salary and the maximum benefit that can be received is 87 weeks of base salary. The maximum benefit is payable to employees with service of 25 years or more.

For IR Foy and JS Johnson, the retrenchment payment is in accordance with the termination provisions specified in the table above.

b. TERMINATION OF EMPLOYMENT WITHOUT NOTICE AND WITHOUT PAYMENT IN LIEU OF NOTICE

The employment of the executives may be terminated without notice and without payment in lieu of notice in some circumstances. Generally, this could occur where the executive:

- is charged with a criminal offence that is capable of bringing the organisation into disrepute;
- is declared bankrupt;
- breaches a provision of their service agreement;
- is guilty of serious and wilful misconduct; or
- unreasonably fails to comply with any material and lawful direction given by the relevant company.

c. TERMINATION OF EMPLOYMENT WITH NOTICE OR PAYMENT IN LIEU OF NOTICE

The employment of the executives may be terminated at any time by the relevant company with notice or payment in lieu of notice. The amount of notice the relevant company must provide or the payment in lieu of notice is specified above.

D. NON-EXECUTIVE DIRECTOR REMUNERATION

I. Structure and policy

a. REMUNERATION POLICY

The principles that underpin IAG's approach to remuneration for non-executive directors are that remuneration should:

- be sufficiently competitive to attract and retain a high calibre of non-executive director; and
- create alignment between the interests of non-executive directors and shareholders.

b. SIGNIFICANT CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION

On 23 August 2011, the IAG Board approved the following adjustments to directors' fees effective from 1 July 2011:

- a 3.5% increase in the IAG Board fees; and
- a 2.0% increase in the Audit, Risk Management & Compliance Committee and NRSC fees.

On 16 August 2012, the IAG Board approved a 2.0% increase in the IAG Board fees effective from 1 July 2012. Post the fee increase, the aggregate non-executive directors' fees remained below the shareholder approved limit.

c. REMUNERATION STRUCTURE

Non-executive director remuneration consists of three components:

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

The aggregate limit of remuneration remained unchanged at \$2,750,000 per annum. This limit was approved by shareholders at the 2007 annual general meeting. The aggregate annual remuneration includes employer superannuation contributions paid by IAG on behalf of non-executive directors.

i. IAG Board and committee fees

BOARD/COMMITTEE	ROLE	ANNUAL FEE	
		2012	2011
IAG Board	Chairman	\$484,500	\$468,000
	Non-executive director	\$161,500	\$156,000
IAG Audit, Risk Management & Compliance Committee	Chairman	\$55,100	\$54,000
	Member	\$27,550	\$27,000
IAG Nomination, Remuneration & Sustainability Committee	Chairman	\$35,700	\$35,000
	Member	\$17,850	\$17,500

ii. Superannuation

IAG pays a 9% superannuation contribution on directors' fees. The directors can elect to have the superannuation contribution paid partially as cash and partially into a superannuation fund as nominated, or fully paid into a superannuation fund. Directors' fees and superannuation contributions are paid monthly.

IAG has a Non-executive Directors' Expenses policy. Under this policy, IAG reimburses expenses reasonably incurred by the non-executive directors in discharging their duties.

iii. Non-executive directors' service on subsidiary boards

A summary of non-executive directors' service on subsidiary boards and the fees payable is set out in the following table.

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
BM Schwartz	Insurance Manufacturers of Australia Pty Limited	Chairman	\$208,000
A Hynes ^(a)	Mutual Community General Insurance Proprietary Limited	Director	\$16,250
HA Fletcher ^(b)	IAG New Zealand Limited	Chairman	\$81,872

(a) A Hynes retired as a director of this company on 18 May 2012.

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

iv. Performance

Directors' performance is subject to evaluation by the chairman annually by discussion between the chairman and the individual director. Performance measures for directors considered by the chairman and IAG Board include:

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

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

Further, a formal review of performance, composition and size of the IAG Board is conducted every three years with a report on the assessment brought to the IAG Board. During the year ended 30 June 2012 an external consultant was engaged by the NRSC to conduct an independent formal review of the IAG Board. The external consultant provided a written report and presented their findings and recommendations to the IAG Board at its August 2012 meeting. The report and feedback was positive and the IAG Board agreed follow up action on recommendations.

II. Total remuneration details

The table below provides remuneration details of the non-executive directors (including those non-executive directors who retired during the financial year) on the IAG Board.

For those directors who commenced during the financial year, the remuneration information provided in the table below relates to the period from the date of their appointment to the year ended 30 June.

	SHORT TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL ^(b)
	IAG Board fees received as cash ^(a)	Other boards and committee fees	Superannuation	Retirement benefits				
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
BM Schwartz								
2012	523	208	24	-	-	-	-	755
2011	453	203	24	-	-	-	-	680
YA Allen								
2012	166	63	16	-	-	-	-	245
2011	161	68	15	-	-	-	-	244
PH Bush, director since 7 December 2010								
2012	162	28	17	-	-	-	-	207
2011	89	15	9	-	-	-	-	113
PM Colebatch								
2012	162	18	16	-	-	-	-	196
2011	156	18	16	-	-	-	-	190
HA Fletcher								
2012	162	109	17	-	-	-	-	288
2011	156	107	16	-	-	-	-	279
A Hynes								
2012	162	34	18	-	-	-	-	214
2011	156	32	17	-	-	-	-	205
PJ Twyman								
2012	165	55	16	-	-	-	-	236
2011	159	50	15	-	-	-	-	224

(a) This balance included the portion of the company's superannuation contribution that the directors elected to receive as cash instead of paying into their nominated superannuation fund.

(b) JA Strong retired on 26 August 2011. Mr Strong's total remuneration was \$407,000 for the year ended 30 June 2011.

III. Tracking of mandatory shareholding requirements

On 17 August 2009, IAG adopted a mandatory shareholding policy that requires non-executive directors to attain a shareholding with a value equal to their IAG Board fee. The non-executive directors have three years from the date of their appointment to the IAG Board to meet their required holdings, which then becomes a rolling requirement assessed annually at the end of each financial year.

For those directors appointed prior to 30 June 2010, the effective date to meet the mandatory shareholding requirements is 30 June 2013.

E. OTHER BENEFITS

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

F. GLOSSARY OF TERMS

TERM	DEFINITION
Nomination, Remuneration & Sustainability Committee/NRSC	The Nomination, Remuneration & Sustainability Committee is an IAG Board committee which oversees IAG's remuneration practices.
Key management personnel	The IAG key management personnel (KMP) comprises the Group CEO and the executive team responsible for managing the Group, and the IAG Board of directors (including the Group CEO).
Group CEO	Refers to the Group's Managing Director and Chief Executive Officer.
Executive team	Refers to the senior executives who report directly to the Group CEO.
Executives	Refers to the Group CEO and the executive team.
Actual remuneration	Refers to the dollar value of the remuneration actually received by the executive team member in the financial year ended 30 June. It is a sum of fixed remuneration plus cash portion of short term incentive (STI) plus value of deferred award rights (DAR) vested during the year plus value of long term incentive (LTI) in the form of executive performance rights (EPR) vested during the year.
At risk remuneration	Refers to the components of remuneration that are at risk and dependent on a combination of the financial performance of the Group and the executive's financial and non financial measures. This typically comprises short term incentive (cash and deferred) and long term incentive.
Fixed remuneration	Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Individuals can determine the mix of base salary and superannuation they receive in line with legislative requirements.
Short term incentive	<p>Short term incentive (STI) refers to the part of the at risk remuneration that is designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures.</p> <p>For the Group CEO and the executive team, 2/3 of STI is paid as cash for the same financial year, and the remaining 1/3 of STI is deferred for a period up to two years.</p>
Cash STI	Refers to the 2/3 portion of STI for the year ended 30 June 2012 that is paid in the form of cash in October 2012 after the end of year assessment and STI approval by the IAG Board.
Deferred STI/DAR	Refers to the 1/3 portion of STI that is deferred over a period of two years. This portion of STI is awarded in the form of deferred award rights (DAR). At the date of vesting, the holder of DAR is eligible to receive one IAG ordinary share per DAR, by paying the exercise price of \$1 per tranche of DAR exercised.
Long term incentive/EPR	Long term incentive (LTI) is a grant of rights over IAG ordinary shares in the form of executive performance rights (EPR) that are exercisable for shares between three and five years after the date of grant if performance hurdles are achieved.
Cash ROE	Refers to cash return on equity (ROE) based on cash earnings on average total shareholders' equity during the financial year. Cash earnings is defined as net profit after tax attributable to IAG shareholders plus amortisation of acquired identifiable intangibles and adjusted for unusual items.
Normalised ROE	This is based on the normalised earnings on average total shareholders' equity during the financial year. Normalised earnings is defined as net profit after tax attributable to IAG shareholders adjusted by actual shareholders' return with the earnings that would have been generated using the daily average 10 year bond rate plus 4% (adjusted with tax impact) and amortisation.
Total shareholder return	Total shareholder return (TSR) is a concept used to measure performance of different companies over a period of time. It combines share price appreciation and dividends paid to show total return to shareholders. IAG uses relative TSR as one of the measures for its LTI. This reflects the performance of the IAG share price relative to that of its peer group (as defined by the LTI performance hurdle).

RELEVANT INTEREST OF EACH DIRECTOR AND THEIR RELATED PARTIES IN LISTED SECURITIES OF THE IAG GROUP IN ACCORDANCE WITH THE CORPORATIONS ACT 2001

A. HOLDINGS OF ORDINARY SHARES

	FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	Shares held directly ^(a)	Shares held indirectly ^(b)
BM Schwartz	2,059	97,375
YA Allen	1,666	37,345
PH Bush	-	-
PM Colebatch	-	46,692
HA Fletcher	35,190	37,812
A Hynes	-	40,242
PJ Twyman	-	57,780
MJ Wilkins	304,960	799,166

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

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

B. HOLDING OF CONVERTIBLE PREFERENCE SHARES

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

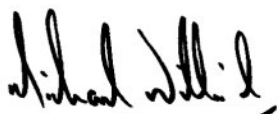
C. HOLDING OF RESET EXCHANGEABLE SECURITIES

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

ROUNDING OF AMOUNTS

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

Signed at Sydney this 23rd day of August 2012 in accordance with a resolution of the directors.



Michael Wilkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

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



KPMG



Dr Andries B Terblanché

Partner

Sydney
23 August 2012

FINANCIAL STATEMENTS

CONTENT	PAGE
Statement of comprehensive income	39
Balance sheet	40
Statement of changes in equity	41
Cash flow statement	42
NOTES TO THE FINANCIAL STATEMENTS	
1 Summary of significant accounting policies	43
2 Critical accounting estimates and judgements	52
3 Insurance risk management	52
4 Financial risk management	56
5 Analysis of income	61
6 Analysis of expenses	62
7 Income tax	63
8 Segment reporting	64
9 Earnings per share	66
10 Dividends	66
11 Claims	68
12 Reinsurance and other recoveries on outstanding claims	73
13 Deferred insurance assets	74
14 Unearned premium liability	74
15 Investments	75
16 Receivables	76
17 Property and equipment	77
18 Intangible assets	78
19 Goodwill	79
20 Trade and other payables	80
21 Restructuring provision	81
22 Interest bearing liabilities	81
23 Notes to the statement of changes in equity	83
24 Notes to the cash flow statement	84
25 Acquisitions and disposals of businesses	85
26 Details of subsidiaries	86
27 Investment in joint ventures and associates	89
28 Employee benefits	90
29 Share based remuneration	91
30 Superannuation	95
31 Commitments	99
32 Contingencies	99
33 Related party disclosures	100
34 Derivatives	104
35 Capital management	105
36 Net tangible assets	107
37 Remuneration of auditors	107
38 Parent entity disclosures	108
39 Events subsequent to reporting date	108

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED	
		2012	2011
		\$m	\$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	2011
		cents	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		<u>25,132</u>	<u>23,029</u>
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		<u>20,608</u>	<u>18,449</u>
Net assets		<u>4,524</u>	<u>4,580</u>
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		<u>4,524</u>	<u>4,580</u>

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	<u>5,353</u>	<u>(55)</u>	<u>(94)</u>	<u>26</u>	<u>(887)</u>	<u>181</u>	<u>4,524</u>
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	<u>5,353</u>	<u>(57)</u>	<u>(109)</u>	<u>25</u>	<u>(795)</u>	<u>163</u>	<u>4,580</u>

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	2011
		\$m	\$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	<u>1,514</u>	<u>620</u>
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		<u>(769)</u>	<u>38</u>
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		<u>(17)</u>	<u>(337)</u>
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		<u>1,332</u>	<u>1,053</u>
Cash and cash equivalents at the end of the financial year	24	<u>2,066</u>	<u>1,332</u>

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
	<u>100</u>	<u>100</u>

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
	<u>100</u>	<u>100</u>

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
	<u>8</u>	<u>46</u>

	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
	<u>51</u>	<u>63</u>

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
	\$m	<30 days \$m	30-120 days \$m	>120 days \$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	<u>2,037</u>	<u>218</u>	<u>224</u>	<u>23</u>	<u>2,502</u>
Reinsurance recoveries on paid claims	36	17	11	2	66
Net balance	<u>36</u>	<u>17</u>	<u>11</u>	<u>2</u>	<u>66</u>

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	<u>100</u>	<u>100</u>

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

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

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	<u>11,084</u>	<u>11,634</u>
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	<u>11,084</u>	<u>11,634</u>
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
	<u>125</u>	<u>97</u>
II. Impairment charges		
Goodwill	163	90
Acquired intangible assets	134	60
	<u>297</u>	<u>150</u>
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
	<u>1,294</u>	<u>1,078</u>
IV. Transfers to provisions charged to profit or loss		
Restructuring provision	23	6
	<u>23</u>	<u>6</u>
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	-
	<u>97</u>	<u>86</u>
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	2011
	\$m	\$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)	<u>178</u>	<u>276</u>
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)
	<u>(58)</u>	<u>(77)</u>
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	<u>443</u>	<u>614</u>
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	<u>178</u>	<u>276</u>
Income tax expense/(credit) attributable to profit/(loss) for the year after impact of tax consolidation	<u>178</u>	<u>276</u>
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
	<u>475</u>	<u>385</u>
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	36	14
Other	1	1
	<u>37</u>	<u>15</u>
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES		
	<u>(139)</u>	<u>(89)</u>
	<u>373</u>	<u>311</u>
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	<u>512</u>	<u>400</u>
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
	<u>106</u>	<u>63</u>
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	42	38
	<u>148</u>	<u>101</u>
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS		
	<u>(139)</u>	<u>(89)</u>
	<u>9</u>	<u>12</u>
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	<u>148</u>	<u>101</u>

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

NOTE 9. EARNINGS PER SHARE

	CONSOLIDATED	
	2012	2011
	cents	cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share ^(a)	<u>10.01</u>	<u>12.08</u>
Diluted earnings per ordinary share	<u>9.96</u>	<u>12.01</u>

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

	CONSOLIDATED	
	2012	2011
	Number of shares in millions	Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Ordinary shares on issue	2,079	2,079
Treasury shares held in trust	<u>(12)</u>	<u>(12)</u>
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	<u>12</u>	<u>12</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>2,079</u>	<u>2,079</u>

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	<u>146</u>	5 October 2011	30%	100%
		<u>250</u>			
2011					
2011 interim dividend	9.0	187	11 April 2011	30%	100%
2010 final dividend	4.5	<u>94</u>	6 October 2010	30%	100%
		<u>281</u>			

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	2011
	\$m	\$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	<u>1</u>	<u>1</u>
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	<u>(107)</u>	<u>(62)</u>
Franking credits available for subsequent financial periods based on a tax rate of 30%	<u>483</u>	<u>471</u>

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

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	CONSOLIDATED	
	2012	2011
	\$m	\$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

	CONSOLIDATED					
	2012			2011		
	Gross \$m	Reinsurance and other recoveries \$m	Net \$m	Gross \$m	Reinsurance and other recoveries \$m	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.

	CONSOLIDATED											
	Accident year											
	2002 and prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	\$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 INTERMEDIATE D 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	Movement in assumption	CONSOLIDATED				
		Australia direct insurance \$m	Australia intermediated insurance \$m	New Zealand insurance \$m	United Kingdom insurance \$m	Asia insurance \$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 \$m	2011 \$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	<u>3,928</u>	<u>4,010</u>

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	<u>753</u>	<u>683</u>

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	<u>493</u>	<u>371</u>

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	<u>4,942</u>	<u>4,355</u>

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).

	United Kingdom insurance \$m	2011 Consolidated \$m
Unearned premium liability	260	
Deferred acquisition costs	(59)	
Related reinsurance asset	(9)	
	<u>192</u>	
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	<u>15</u>	<u>148</u>
	<u>210</u>	<u>3,215</u>
Net surplus/(deficiency)	<u>(18)</u>	
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 *	<u>(58)</u>	
	<u>(58)</u>	

* 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 \$m	2011 \$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	<u>755</u>	<u>706</u>
	<u>11,683</u>	<u>10,534</u>
II. Equity investments		
a. DIRECT EQUITIES		
Listed	596	647
Unlisted	176	167
b. EQUITY TRUSTS (INCLUDING PROPERTY TRUSTS)		
Listed	32	27
Unlisted	<u>326</u>	<u>413</u>
	<u>1,130</u>	<u>1,254</u>
III. Other investments		
Other trusts	<u>127</u>	<u>100</u>
	<u>127</u>	<u>100</u>
IV. Derivatives		
Equity risk derivatives	<u>13</u>	<u>5</u>
	<u>13</u>	<u>5</u>
	<u>12,953</u>	<u>11,893</u>

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.

	LEVEL 1	LEVEL 2	LEVEL 3	CONSOLIDATED 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
	<u>6,604</u>	<u>6,178</u>	<u>171</u>	<u>12,953</u>
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
	<u>5,518</u>	<u>6,052</u>	<u>323</u>	<u>11,893</u>

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	<u>2,502</u>	<u>2,081</u>
II. Trade and other receivables		
Reinsurance recoveries on paid claims	66	155
Other trade debtors	127	199
Provision for impairment	(5)	(5)
	<u>122</u>	<u>194</u>
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	<u>449</u>	<u>560</u>
	<u>2,951</u>	<u>2,641</u>

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

	Land and buildings	Motor vehicles	Other equipment	CONSOLIDATED
	\$m	\$m	\$m	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

	CONSOLIDATED						
	Software development expenditure	Lloyd's syndicate capacity	Distribution channels	Customer relationships	Brands	Other contractual arrangements	Total
	\$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	<u>122</u>	<u>-</u>	<u>19</u>	<u>41</u>	<u>28</u>	<u>15</u>	<u>225</u>
2012							
B. RECONCILIATION OF MOVEMENTS							
Balance at the beginning of the financial year	<u>54</u>	<u>74</u>	<u>47</u>	<u>24</u>	<u>26</u>	<u>-</u>	<u>225</u>
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	<u>122</u>	<u>-</u>	<u>19</u>	<u>41</u>	<u>28</u>	<u>15</u>	<u>225</u>
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	<u>54</u>	<u>74</u>	<u>47</u>	<u>24</u>	<u>26</u>	<u>-</u>	<u>225</u>
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)
	<u>1,625</u>	<u>1,644</u>
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	<u>1,625</u>	<u>1,644</u>

C. ALLOCATION TO CASH GENERATING UNITS

	CONSOLIDATED	
	2012	2011
	\$m	\$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
	<u>1,625</u>	<u>1,644</u>

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	2011
	\$m	\$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
	<u>727</u>	<u>478</u>
II. Other payables		
Other creditors and accruals	383	329
Investment creditors	10	8
Interest payable on interest bearing liabilities	15	11
	<u>1,135</u>	<u>826</u>

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
	<u>20</u>	<u>10</u>
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	<u>20</u>	<u>10</u>

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

	Section	CONSOLIDATED	
		2012	2011
		\$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)
		<u>1,659</u>	<u>1,377</u>

* 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 \$m	Fair value \$m	Carrying value \$m	Fair value \$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)	
	<u>1,659</u>		<u>1,377</u>	

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

	2012		2011	
	Number of shares in millions	Number of shares in millions	CONSOLIDATED 2012 \$m	CONSOLIDATED 2011 \$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	<u>2,079</u>	<u>2,079</u>	<u>5,353</u>	<u>5,353</u>

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	<u>1,097</u>	<u>823</u>
Cash and cash equivalents	<u>2,066</u>	<u>1,332</u>

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	<u>433</u>	<u>98</u>
Net cash flows from operating activities	<u>1,514</u>	<u>620</u>

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.

	CONSOLIDATED AMI
	\$m
Details of the financial impact of the acquisition is as follows:	
2012	
Purchase price	
Cash paid	<u>296</u>
Total purchase consideration	<u>296</u>
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	<u>60</u>
Brands	28
Customer relationships	33
Software development expenditure	14
Other intangible assets	27
Goodwill	<u>134</u>
	<u>236</u>

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	<u>(185)</u>
Net outflow of cash	<u>111</u>
Contribution from the acquired businesses (from date of acquisition)	
Income	<u>72</u>
Profit/(loss) before income tax	<u>6</u>

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. ACQUISITION 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. ACQUISITION 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 Alessi 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	CONTRIBUTION 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	<u>384</u>	<u>284</u>

* 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)	<u>1</u>	<u>(24)</u>	<u>3</u>	<u>17</u>

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
	<u>358</u>	<u>275</u>

* 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	-
		<u>6,964,676</u>	<u>3,635,800</u>	<u>(2,995,919)</u>	<u>(267,225)</u>	<u>7,337,332</u>	<u>2,285,552</u>

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

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	-
		<u>7,295,323</u>	<u>3,062,000</u>	<u>(2,967,667)</u>	<u>(424,980)</u>	<u>6,964,676</u>	<u>2,141,056</u>

* 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.

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	-
			<u>14,738,086</u>	<u>5,137,500</u>	<u>(1,033,976)</u>	<u>(1,474,228)</u>	<u>17,367,382</u>	<u>495,814</u>
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	-
			<u>12,298,920</u>	<u>5,244,300</u>	<u>(634,454)</u>	<u>(2,170,680)</u>	<u>14,738,086</u>	<u>128,448</u>

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	2011
	\$m	\$m	\$m	\$m	\$m
Fair value of plan assets	141	149	105	103	252
Present value of defined benefit obligation (net discount rate)	(252)	(194)	(113)	(108)	(302)
Net defined benefit asset/(liability)	(111)	(45)	(8)	(5)	(50)
Net asset/(liability) recognised on the balance sheet	(111)	(45)	(8)	(5)	(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

	2012	2011	2010	IAG PLAN		2012	2011	2010	UK PLANS	
				2009	2008				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
	<u>63</u>	<u>70</u>
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
	<u>710</u>	<u>777</u>

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
	<u>25,648</u>	<u>22,515</u>

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 Number	DAR GRANTED DURING THE YEAR Number	DAR EXERCISED DURING THE YEAR Number	DAR LAPSED DURING THE YEAR Number	DAR ON ISSUE 30 JUNE ^(a) Number	DAR VESTED AND EXERCISABLE 30 JUNE 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	<u>832,144</u>	<u>619,700</u>	<u>(409,734)</u>	<u>-</u>	<u>1,042,110</u>	<u>121,440</u>
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	<u>694,194</u>	<u>431,900</u>	<u>(293,950)</u>	<u>-</u>	<u>832,144</u>	<u>145,134</u>
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	<u>219,300</u>	<u>70,600</u>	<u>(125,840)</u>	<u>(164,060)</u>	<u>-</u>	<u>-</u>

(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 Number	EPR GRANTED DURING THE YEAR Number	EPR EXERCISED DURING THE YEAR Number	EPR LAPSED DURING THE YEAR Number	EPR ON ISSUE 30 JUNE Number	EPR VESTED AND EXERCISABLE 30 JUNE 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	<u>8,250,000</u>	<u>3,178,600</u>	<u>(497,475)</u>	<u>-</u>	<u>10,931,125</u>	<u>343,035</u>
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	<u>5,374,000</u>	<u>3,001,600</u>	<u>(125,600)</u>	<u>-</u>	<u>8,250,000</u>	<u>63,360</u>
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	<u>1,705,200</u>	<u>348,300</u>	<u>(77,920)</u>	<u>(1,975,580)</u>	<u>-</u>	<u>-</u>

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

	PAR ON ISSUE 1 JULY Number	PAR GRANTED DURING THE YEAR Number	PAR EXERCISED DURING THE YEAR Number	PAR LAPSED DURING THE YEAR Number	PAR ON ISSUE 30 JUNE Number	PAR VESTED AND EXERCISABLE 30 JUNE 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	<u>152,500</u>	<u>-</u>	<u>-</u>	<u>(152,500)</u>	<u>-</u>	<u>-</u>
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	<u>239,210</u>	<u>-</u>	<u>-</u>	<u>(86,710)</u>	<u>152,500</u>	<u>-</u>
Executives who ceased as key management personnel						
N Utley	44,500	-	-	(44,500)	-	-
Total	<u>44,500</u>	<u>-</u>	<u>-</u>	<u>(44,500)</u>	<u>-</u>	<u>-</u>

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 Number	SHARES RECEIVED ON EXERCISE OF EPR Number	SHARES RECEIVED ON EXERCISE OF DAR Number	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES ^(a) Number	TOTAL SHARES HELD AT 30 JUNE ^(b) Number	SHARES HELD NOMINALLY AT 30 JUNE ^(c) 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		
	Within 1 year	Maturity profile		Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
		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		
	Within 1 year	Maturity profile		Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
		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.

	Target	CONSOLIDATED	
	%	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	<u>1.20</u>	<u>1.23</u>

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	<u>405</u>	<u>438</u>
	<u>8,697</u>	<u>8,205</u>
II. Advisory services		
In relation to other assurance, taxation and due diligence services	<u>904</u>	<u>1,206</u>
B. OTHER AUDITORS		
I. Assurance services		
Audit of the financial statements prepared for subsidiaries	<u>57</u>	<u>24</u>
II. Advisory services		
	<u>-</u>	<u>7</u>
Total remuneration of auditors	<u>9,658</u>	<u>9,442</u>

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.

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

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.

DIRECTORS' DECLARATION

In the opinion of the directors of Insurance Australia Group Limited:

- the financial statements and notes 1 to 39, including all the remuneration disclosures that are contained in the remuneration report of the directors' report, are in accordance with the Corporations Act 2001 including:
 - giving a true and fair view of the financial position of the Company and Consolidated entity as at 30 June 2012 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - complying with Australian Accounting Standards (including Australian Interpretations) and the Corporations Regulations 2001; and
 - the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A; and
- the remuneration report of the directors' report complies with Australian Accounting Standard AASB 124 Related Party Disclosures; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declaration required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2012.

Signed at Sydney this 23rd day of August 2012 in accordance with a resolution of the directors.



Michael Wilkins
Director

INDEPENDENT AUDITOR'S REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Insurance Australia Group Limited (Company), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 39 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1.A, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of their performance.

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

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

AUDITOR'S OPINION

In our opinion:

- the financial report of the Group is in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the Group's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
 - complying with Australian Accounting Standards and the Corporations Regulations 2001.
- the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in category B to E of the Directors' Report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration disclosures that are contained in the sections of the Directors' Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2012 that are described as audited comply with Section 300A of the Corporations Act 2001.

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, appearing to read 'A. Terblanché'.

Dr Andries B Terblanché
Partner

Sydney
23 August 2012

SHAREHOLDER INFORMATION

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

ASX CODES

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

- IAG (ordinary shares); and
- IAGPC (convertible preference shares).

Insurance Australia Group Limited's wholly owned subsidiary IAG Finance (New Zealand) Limited issued reset exchangeable securities (RES) in January 2005 and they are listed on the ASX under IANG.

ANNUAL REPORT

Amendments to the Corporations Act 2001 have changed the obligations of companies regarding the provision of annual reports to shareholders. The default option for receiving annual reports has changed from a printed copy to an electronic copy via IAG's website at www.iag.com.au.

ANNUAL GENERAL MEETING

The 2012 annual general meeting (AGM) of Insurance Australia Group Limited will be held on Tuesday, 23 October 2012 commencing at 10am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, Australia. The AGM will be webcast live on the internet at www.iag.com.au and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2012 AGM at www.iag.com.au. The information required to log on and use online voting is shown on your voting form.

SHAREHOLDER QUESTIONS

If you would like to submit a written question to the Company or the Company's auditor please use the form supplied and return it with your completed Voting Form in the pre addressed envelope provided or by fax to +61 (0)3 9473 2555. Please note your questions for the auditor must be received by 5pm on 16 October 2012.

You may also submit a question, after completing your voting instructions online at www.iag.com.au. Members will also be given a reasonable opportunity to ask questions of the Company and the auditor at the AGM.

During the course of the AGM IAG intends to answer as many of the frequently asked questions as practicable.

DIVIDEND PAYMENT METHODS

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

IAG-ORDINARY SHAREHOLDERS

- Paid directly into a New Zealand bank account or to an Australian bank, credit union, building society or nominated account; or
- Eligible ordinary shareholders can choose to participate in IAG's Dividend Reinvestment Plan (DRP), if available, providing the option to increase your shareholding without incurring brokerage or GST.

IAGPC-CONVERTIBLE PREFERENCE SHAREHOLDERS

- Paid directly into an Australian bank, credit union, building society or nominated account.

MANAGE YOUR HOLDING

Using your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of your registered address you can view your holding online through IAG's share registry, Computershare, by following the easy prompts on their website at www.investorcentre.com where you will be able to:

- view your holding balance;
- review your dividend payment history;
- access shareholder forms; and
- retrieve holding statements, including recent dividend payment advices.

The share registry investor centre site will also allow you to update or add details to your shareholding. If you wish to amend or update any of the current details you will be asked to register by choosing a User ID and Password which you can easily remember for additional security purposes.

You will also be asked to enter answers to three personal questions for verification purposes should you forget your password in the future.

If you have previously used the Investor Centre site you will be asked to key in your password only.

Once you have completed these steps you are then able to update your details and submit your changes to the share register including:

- change or amend your address if you are registered with an SRN;
- nominate or amend your direct credit payment instructions;
- set up or amend your DRP instructions;
- sign up for electronic shareholder communications, including the annual report via email; and
- add/change TFN/ABN details.

A confirmation/receipt number will be shown on screen for your online transaction which should be recorded should you have a question in the future.

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

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

EMAIL ALERT SERVICE

You can now register to receive an alert message directly to your email address advising of new media releases, financial announcements or presentations. You simply need to visit IAG's website at www.iag.com.au, click on the email alert button and register your email address.

EMAIL ENQUIRIES

If you have a question, you can email your enquiry directly to IAG's share registry at iag@computershare.com.au. If your question relates to an IAG company matter and the answer is not on IAG's website, you can email your question to investor.relations@iag.com.au.

ORDINARY SHARES INFORMATION

IMPORTANT DATES*	2012
IAG year end	30 June
Full year results and dividend announced	23 August
Annual report and notice of meeting mailout commences	4 September
Record date for final dividend	5 September
Final dividend paid	3 October
Written questions for the auditor close (5pm)	16 October
Proxy return closes (10am)	21 October
Annual general meeting (10am)	23 October
IAG half year end	31 December

* Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 2 AUGUST 2012	NUMBER OF SHARES	% OF ISSUED CAPITAL
JP Morgan Nominees Australia Limited	317,609,352	15.28
HSBC Custody Nominees (Australia) Limited	261,993,031	12.60
National Nominees Limited	232,190,662	11.17
Cogent Nominees Pty Limited	66,280,783	3.19
Citicorp Nominees Pty Limited	60,744,491	2.92
RBC Dexia Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	58,838,046	2.83
JP Morgan Nominees Australia Limited <Cash Income A/C>	45,545,384	2.19
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	26,722,807	1.29
AMP Life Limited	21,206,421	1.02
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	13,204,505	0.64
Queensland Investment Corporation	10,449,527	0.50
HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH SUPER CORP A/C>	9,614,368	0.46
NRMA Treasury Limited	9,000,000	0.43
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/C>	8,307,410	0.40
UBS Nominees Pty Limited	7,855,705	0.38
UBS Nominees Pty Limited	7,790,000	0.37
Cogent Nominees Pty Limited <SMP Accounts>	7,753,329	0.37
IAG Share Plan Nominee Pty Limited <IAG PAP Unallocated A/C>	6,313,229	0.30
Argo Investments Limited	6,303,333	0.30
RBC Dexia Investor Services Australia Nominees Pty Limited	6,235,437	0.30
Total for top 20	1,183,957,820	56.94

RANGE OF SHAREHOLDERS AS AT 2 August 2012	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	515,874	266,158,078	12.80
1,001-5,000	283,157	454,962,146	21.88
5,001-10,000	6,544	43,683,175	2.10
10,001-100,000	2,553	52,279,288	2.51
100,001 and over	151	1,261,951,334	60.71
Total	808,279	2,079,034,021	100.00

Shareholders with less than a marketable parcel of 134 shares as at 2 August 2012

22,489 **829,255**

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
DIVIDEND DETAILS					
Ordinary	Interim	Fully franked	5.0 cents	\$3.3231	4 April 2012
Ordinary	Final	Fully franked	12.0 cents	*	3 October 2012

* The DRP issue price for the final dividend is scheduled to be announced on 21 September 2012.

SUBSTANTIAL HOLDINGS AS AT 2 AUGUST 2012

The only shareholder with a substantial shareholding as at 2 August 2012 is Perpetual Limited which held shares representing 7.10% of the ordinary shares on issue (by notice dated 25 May 2012).

IAGPC CONVERTIBLE PREFERENCE SHARES INFORMATION

IMPORTANT DATES*	2012
Record date for dividend	24 October
Dividend paid	1 November

* Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 2 AUGUST 2012	NUMBER OF SHARES	% OF ISSUED CAPITAL
JP Morgan Nominees Australia Limited	614,582	16.29
UBS Wealth Management Australia Nominees Limited Pty Ltd	295,124	7.82
National Nominees Limited	284,762	7.55
Australian Masters Yield Fund No 3 Limited	79,750	2.11
Navigator Australia Ltd <MLC Investment SETT A/C>	69,117	1.83
UBS Nominees Pty Ltd	65,000	1.72
UCA Cash Management Fund Limited	63,302	1.68
HSBC Custody Nominees (Australia) Limited	62,501	1.66
Citicorp Nominees Pty Limited <DPSL>	58,461	1.55
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	40,000	1.06
Invia Custodian Pty Limited <The ANZSOG Foundation A/C>	40,000	1.06
Citicorp Nominees Pty Limited	38,100	1.01
Wenthor Pty Ltd <The John Thorsen Family A/C>	33,000	0.87
MF Custodians Lid	32,881	0.87
Eastcote Pty Ltd	30,000	0.79
Nulis Nominees (Australia) Limited <Navigator Mast Plan SETT A/C>	27,073	0.72
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	26,850	0.71
JAS F Cooper & Son Pty Ltd	25,000	0.66
Mrs Frances Claire Fox <Thomas J Beresford Will A/C>	20,000	0.53
Australian Executor Trustees Limited <No 1 Account>	18,600	0.49
Total for top 20	1,924,103	50.98

RANGE OF SHAREHOLDERS AS AT 2 AUGUST 2012	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	2,737	948,559	25.14
1,001-5,000	272	632,395	16.76
5,001-10,000	25	190,252	5.04
10,001-100,000	23	808,054	21.41
100,001 and over	3	1,194,468	31.65
Total	3,060	3,773,728	100.00

Shareholders with less than a marketable parcel of 6 shares as at 2 August 2012

nil

nil

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
DIVIDEND DETAILS				
Preference	Final	Fully franked	\$2.8201	1 November 2012

CORPORATE DIRECTORY

SHARE REGISTRY

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED

GPO Box 4709
Melbourne VIC 3001
Australia

Hand deliveries to

Level 4
60 Carrington Street
Sydney NSW 2000

Telephone

(within Australia) 1300 360 688
(outside Australia) +61 (0)3 9415 4210

Fax

(general) +61 (0)3 9473 2470

Email

iag@computershare.com.au

REGISTERED OFFICE

INSURANCE AUSTRALIA GROUP LIMITED

Level 26
388 George Street
Sydney NSW 2000
Australia

Telephone

+61 (0)2 9292 9222

Fax

+61 (0)2 9292 8072

Website

www.iag.com.au



Australia

New Zealand

United Kingdom

Asia

100% owned unless indicated

¹ RACV is via a distribution relationship and underwriting joint venture with RACV Limited.

² IAG holds 98.6% voting rights in Safety Insurance, based in Thailand.

³ IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad (AmG), which trades under the AmAssurance brand.

⁴ IAG owns 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.

⁵ IAG owns 20% of Bohai Property Insurance Company Ltd, based in China.

⁶ IAG owns 30% of AAA Assurance Corporation, based in Vietnam.