Insurance Australia Group Limited

Prospectus for an Offer of Unsecured Subordinated Bonds

Joint Lead Arrangers

ANZ National Bank Limited

UBS New Zealand Limited

Joint Lead Managers

ANZ National Bank Limited

UBS New Zealand Limited

Bank of New Zealand

Craigs Investment Partners Limited

Forsyth Barr Limited

4 November 2011 (as amended on 15 November 2011)

Important information

Prospectus

This document is a Prospectus for the purpose of the Securities Act 1978 and the Securities Regulations 2009 (New Zealand). This Prospectus is dated 4 November 2011 and has been amended in accordance with a Memorandum of Amendments to a Registered Prospectus dated 15 November 2011.

Offer of the Bonds

This Prospectus relates to an offer of the Bonds. The Bonds are unsecured, subordinated, fixed rate debt securities offered by Insurance Australia Group Limited (**IAG**). IAG is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom (the **Group**). A summary of the Offer of the Bonds is set out on page 5.

All of the Bonds may be reserved for subscription by clients of the Joint Lead Managers or Co-Managers, institutional investors and other approved financial intermediaries. The aggregate number of Bonds so reserved will be determined by the Joint Lead Arrangers and IAG on or before the Opening Date. The Joint Lead Arrangers and IAG will determine the arrangements for Bonds not subject to Firm Allocations (if any) following the bookbuild and will announce those arrangements on or prior to the Opening Date.

Other important information

The financial statements of the Group for the year ended 30 June 2011 are included in the Prospectus from page 64 and are available from the Registrar or any of the Joint Lead Managers, or Joint Lead Arrangers, whose contact details are listed in the *Directory* at the back of this Prospectus free of charge. Investors should note that other important information about the Bonds and the Offer is contained in the Investment Statement and the Bond Trust Deed. Copies of these documents may be obtained free of charge from the Registrar or any of the Joint Lead Managers, whose contact details are listed in the *Directory* at the back of this Prospectus. The Bond Trust Deed is registered with the Companies Office of the Ministry of Economic Development and is available for public inspection free of charge at www.business.govt.nz/companies.

Selling restrictions

The Offer is only available to the public and institutions in New Zealand and to investors in other jurisdictions where the Bonds may be lawfully offered. No action has been or will be taken by IAG which would permit an offer of the Bonds to the public, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). The Bonds may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold, distributed or delivered. No Bondholder, or any other person, may purchase, offer, sell, distribute or deliver the Bonds, or have in its possession, publish, deliver or distribute to any person, any offering material or any documents in connection with the Bonds, in any jurisdiction other than in compliance with all applicable laws and regulations.

Without limiting the above:

- the Bonds have not been registered under the US Securities Act of 1933 (**US Securities Act**) or the securities laws of any state of the United States and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any US person (as defined in Regulation S under US Securities Act), except pursuant to an effective registration statement or in accordance with an available exemption from the registration requirements of the US Securities Act; and

- no prospectus or other disclosure document (as defined in the Australian Corporations Act 2001 (**Corporations Act**)) in relation to the Bonds has been or will be lodged with the Australian Securities and Investments Commission (**ASIC**) and offers of the Bonds for issue or sale in Australia are restricted to offers over A$500,000. Accordingly, no person appointed in connection with the distribution of the Bonds and no Bondholder shall:

- make or invite an offer of the Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); or
- distribute or publish any draft, preliminary or definitive information memorandum, offering circular, prospectus, investment statement or any other offering material or advertisement relating to any Bonds in Australia,

unless:

- the aggregate consideration payable by each offeree is at least A$500,000 (or its equivalent in an alternate currency) (disregarding moneys lent by the offeror or its associates); and
- such action complies with all applicable laws, regulations and directives in Australia and does not require any document to be lodged with ASIC.

By purchasing the Bonds, each Bondholder is deemed to have indemnified IAG, the Joint Lead Managers, the Joint Lead Arrangers and the Trustee for any loss suffered by any of them by reason of any breach of the above selling restrictions.

Credit rating and distribution restrictions in Australia

Any credit rating in respect of any Bonds or IAG is for distribution in Australia only to persons who are not a "retail client" within the meaning of section 761G of the Corporations Act and who are also sophisticated investors, professional investors or other investors in respect of whom disclosure is not required under Part 6D.2 of the Corporations Act and, in all cases, in such circumstances as may be permitted by applicable law in any jurisdiction in which an investor may be located. Anyone in Australia who is not such a person is not entitled to receive this Prospectus and anyone who receives this Prospectus must not distribute it to any person who is not entitled to receive it.

Non-reliance

Neither this Prospectus nor the Investment Statement constitutes a recommendation by IAG, the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee, or any of their respective directors, officers, employees or agents to subscribe for, or purchase, any of the Bonds. None of the Joint Lead Managers, the Co-Managers, the Joint Lead Arrangers, the Trustee or any of their respective directors, officers, employees or agents accepts any liability whatsoever for any loss arising from this Prospectus, the Investment Statement or their contents or otherwise arising in connection with the offer of the Bonds.

The Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers and the Trustee have not independently verified the information contained in this Prospectus. In accepting delivery of this Prospectus, the recipient acknowledges that none of the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee or their respective officers, employees, agents or advisers gives any warranty or representation of accuracy or reliability and they take no responsibility for it. They shall not have any liability for any errors or omissions (including for negligence) in this Prospectus, and each recipient waives all claims in that regard.

None of the Joint Lead Managers, the Joint Lead Arrangers, the Co-Managers, the Trustee or any of their respective directors, officers, employees or agents, guarantees the payment of interest or principal or any other amounts due under the Bonds or the amount of returns which investors may receive as Bondholders.

Registration

A copy of this Prospectus signed by the directors of IAG as issuer of the Bonds and having endorsed thereon or attached thereto the documents required by section 41 of the Securities Act 1978 to be so endorsed or attached (including the Bond Trust Deed and Material Contracts referred to on page 41), signing authorities for directors of IAG, the Trustee's Statement and the Auditor's Report, have been delivered to the Registrar of Financial Service Providers for registration under section 42 of the Securities Act 1978.

Definitions

Capitalised terms used in this Prospectus have defined meanings which appear in the *Glossary* from page 54. All references to the Conditions are to the terms and conditions of the Bonds, which are contained in the Bond Trust

Deed and are summarised under *Summary of terms and conditions of the Bonds* from page 26. All references to time are to New Zealand time.

All references in this Prospectus to NZ$, NZD and cents are to New Zealand currency, any reference to A$ and AUD is to Australian currency and any reference to £ is to United Kingdom currency, unless otherwise stated. Additionally, any reference in this Prospectus to credit ratings is to be construed in accordance with Standard & Poor's ratings criteria.

Important note concerning references to IAG and the Group

The Bonds are issued by IAG, a company incorporated in Australia which is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom.

References in this Prospectus to IAG are to the holding company on a standalone basis and references to the Group are to IAG and its subsidiaries on a consolidated basis.

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Prospectus describes the activities and the financial performance and position of the Group because:

- the subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly, the subsidiaries generate the revenues that are distributed to IAG in order for IAG to meet its liabilities, including in respect of the Bonds; and
- substantially all the assets of IAG represent shares in, or other claims on, the subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group members, after satisfaction of their liabilities (including to policyholders).

This is an important document and should be read in its entirety.

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Summary of terms of Offer

The Offer

This Prospectus is for an offer by IAG of unsecured, subordinated, fixed rate debt securities. The Bonds are not guaranteed by any other member of the Group or by any other person. A description of IAG and the Group is set out under *Corporate profile* on page 10**.**

The issue amount of the Bonds is up to NZ$150 million, with the ability to accept up to an additional NZ$175 million in oversubscriptions. Oversubscriptions, if accepted, will be allocated at the discretion of the Joint Lead Arrangers and IAG.

IAG has a credit rating of 'A+' from Standard & Poor's, with a stable outlook, re-affirmed in August 2011. As subordinated obligations of IAG, the Bonds have been assigned a credit rating of 'A-' by Standard & Poor's. A credit rating is not a recommendation to invest in Bonds and may be subject to revision, suspension or withdrawal at any time.

In accordance with Standard & Poor's rating methodology at the time of the Bonds issue, the Bonds qualify as equity for credit rating purposes. However, the Bonds will cease to qualify as equity beyond 15 December 2016 in accordance with Standard & Poor's current rating methodology on account of having less than 20 years to maturity.

The Bonds will mature on 15 December 2036 (**Maturity Date**) unless redeemed earlier in accordance with the Bond Trust Deed. IAG may redeem the Bonds in whole or in part on any Interest Payment Date after 15 December 2016 (being the **First Call Date**) – see further under *Early Redemption at the option of IAG* on page 31.

The Bonds will be issued under, and be subject to, the provisions of the Bond Trust Deed. The Conditions are summarised from page 28.

Interest

IAG will pay interest on each Bond at the Interest Rate. The Interest Rate until the First Call Date will be set on the Rate Set Date at the greater of the:

- Benchmark Rate on the Rate Set Date plus the Margin; and
- Minimum Interest Rate.

The Initial Interest Rate applies from the Issue Date to the first Rate Reset Date, which is 15 December 2016. Unless the Bonds are redeemed earlier, the Interest Rate will be reset at five yearly intervals thereafter on each Rate Reset Date, to be equal to the sum of the Benchmark Rate at that time, plus the Margin.

Interest is scheduled to be paid quarterly in arrears in four equal payments on 15 March, 15 June, 15 September and 15 December of each year (each an **Interest Payment Date**), commencing on 15 March 2012.

Early Bird Interest will be paid as outlined under *Early Bird Interest* on page 6.

IAG must defer paying any interest if prior to the occurrence of a Winding Up Default, IAG would not be Solvent immediately before and after the interest payment.

IAG must pay any Deferred Interest if Regulatory Intervention is no longer continuing or an interest or other payment is made in respect of junior or parity securities, in addition to other events specified in the Conditions.

Interest may be deferred in certain situations. The deferral of an interest payment when scheduled will result in restrictions being imposed on IAG while any Deferred Interest is outstanding.

Any Deferred Interest is cumulative and will accrue interest at the Interest Rate until it is paid.

Early Bird Interest

IAG will pay interest to each Bondholder on subscriptions at the Initial Interest Rate from (and including) the date on which subscription moneys are banked to the Offer trust account to (but excluding) the Issue Date (after deducting any applicable withholding tax or Approved Issuer Levy).

If IAG refuses an application or accepts an application in part, no Early Bird Interest will be paid on the application money returned to the applicant. Early Bird Interest will be paid not later than five Business Days after the Issue Date.

Who may apply

All of the Bonds may be reserved for subscription by clients of the Joint Lead Managers or Co-Managers, institutional investors and other approved financial intermediaries. The aggregate number of Bonds so reserved will be determined by the Joint Lead Arrangers and IAG on or before the Opening Date. The Joint Lead Arrangers and IAG will determine the arrangements for Bonds not subject to Firm Allocations (if any) following the bookbuild and will announce those arrangements on or prior to the Opening Date.

Applications for Bonds

Applications must be made on the Application Form contained in the Investment Statement, and in accordance with the instructions contained in the Investment Statement. This Prospectus does not constitute an offer of the Bonds in any jurisdiction other than New Zealand, unless the Bonds may be lawfully offered in that jurisdiction.

Investors who have not received a broker firm application wishing to subscribe for the Bonds should use the Application Form at the back of the Investment Statement. Applications may also be submitted to the Joint Lead Managers, the Co-Managers, any NZX primary market participant, the Organising Participant or any other channel approved by NZX in time to enable the application to be forwarded to the Registrar and be received by the time noted below. Applications for the Bonds and accompanying payment must be received by the Registrar by 12:00 noon on the Closing Date (being 12 December 2011). The minimum investment amount per application is NZ$5,000, with multiples of NZ$1,000 thereafter. IAG may accept all or part of any application, or refuse any application, in its absolute discretion, with the exception of a valid application received in satisfaction of a Firm Allocation.

Redemption by IAG

If not previously redeemed, the Bonds must be repaid on the Maturity Date.

Subject to obtaining the prior written approval of APRA and any other regulatory and legal requirements being met, IAG has the right to redeem all or part of the Bonds on a Call Date. The First Call Date is 15 December 2016, and each Interest Payment Date thereafter is also a Call Date.

If the Bonds are redeemed by IAG on a Rate Reset Date, they are to be repaid at their Principal Amount plus any accrued interest unpaid.

If the Bonds are redeemed on any other Interest Payment Date following the First Call Date which is not a Rate Reset Date, Bondholders will receive the greater of the:

- Principal Amount, plus any accrued interest unpaid; and
- Market Price.

Regulatory or Tax Event

IAG may redeem all of the Bonds at any time following the occurrence of a Tax Event or, at any time prior to the First Call Date, following a Regulatory Event, subject to obtaining the prior written approval of APRA and any other regulatory and legal requirements being met.

If the Bonds are redeemed as a result of a Tax Event, they are to be redeemed at their Principal Amount, plus any accrued interest unpaid.

If the Bonds are redeemed as a result of a Regulatory Event, they are to be redeemed at the greater of the:

- Principal Amount, plus any accrued interest unpaid; and
- Market Price.

Redemption by Bondholders

If not previously redeemed, the Principal Amount will be repaid by IAG to the Bondholders on the Maturity Date. IAG is not obliged to repay the Bonds prior to the Maturity Date unless redeemed earlier in accordance with the Bond Trust Deed. Bondholders have no right to require redemption of any of their Bonds except in certain circumstances following a Winding Up.

NZDX listing

An application has been made to NZX Limited (which is a registered exchange) for permission to list the Bonds on NZDX (being a registered market under the Securities Markets Act 1988 operated by NZX) and all relevant requirements of NZX that can be complied with on or before the date of distribution of this Prospectus have been duly complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this Prospectus.

IAG intends that quotation of the Bonds on NZDX will commence on 16 December 2011.

Chairman's letter

4 November 2011

Dear Investor

On behalf of the directors, it is my pleasure to invite you to apply for Bonds issued by Insurance Australia Group Limited (**IAG**).

IAG intends to issue up to NZ$150 million of Bonds with the ability to accept up to a further NZ$175 million in oversubscriptions (**Offer**).

The benefits to Bondholders of the offer include:

- fixed quarterly interest payments as outlined in this Prospectus;
- the opportunity to invest in Bonds issued by the ASX-listed parent of a leading general insurance group in Australia and New Zealand with a growing presence in Asia and a specialist underwriter in the United Kingdom (**Group**);
- listing and quotation on NZDX; and
- a credit rating of 'A-' assigned to the Bonds by Standard & Poor's.

In New Zealand, the Group's businesses, which include State and NZI, have a deep heritage dating back 150 years. These businesses are some of the country's leading providers of general insurance, distributing products both directly to customers and indirectly through insurance brokers and agents. The Bonds continue the Group's long, distinguished and proud association with New Zealand and represent IAG's first New Zealand public security offering.

The Offer forms part of IAG's prudent funding and capital management strategy which targets a diverse capital structure in terms of the amount, duration and quality of capital.

IAG's approach to capital management has enabled the Group to retain an above-benchmark capital position, despite the claim costs incurred by the Group associated with the recent concentration of natural perils. These events include the Christchurch earthquakes and weather related events in Australia. IAG manages the impact of such events through comprehensive high quality reinsurance cover and diversification of risk.

IAG has a right to redeem the Bonds on 15 December 2016 and quarterly thereafter until their legal maturity on 15 December 2036. IAG may also redeem the Bonds in certain other circumstances prior to maturity.

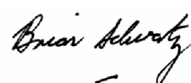
I encourage you to read this Prospectus and the Investment Statement carefully before deciding whether to invest in the Bonds.

The key dates of the Offer are summarised on page 9. We encourage you to lodge your application as soon as possible as interest will be payable on subscriptions from the day your application moneys are banked.

On behalf of the directors, I look forward to welcoming you as an investor in the Bonds.

Yours faithfully

Brian Schwartz



Chairman

Important dates

Minimum Interest Rate and Margin announcement date	14 November 2011
Opening Date	16 November 2011
Closing Date*	12 December 2011
Interest Rate announcement date (Rate Set Date)	13 December 2011
Issue Date	15 December 2011
Expected date of initial quotation on NZDX	16 December 2011
Early Bird Interest paid	Not later than five Business Days after the Issue Date
First coupon Interest Payment Date	15 March 2012
Interest Payment Dates	15 June, 15 September, 15 December and 15 March of each year
First Call Date and first Rate Reset Date	15 December 2016. At this date, IAG may redeem the Bonds in accordance with the Conditions (subject to regulatory approval)
Maturity Date	15 December 2036

The above dates are indicative only and subject to change by IAG at any time prior to the actual Issue Date. IAG has the right to extend or otherwise vary the Opening Date and the Closing Date. This may have a consequential effect on other dates listed above. Any change to the Closing Date will be advised by NZX announcement.

* Applications must be received by the Registrar no later than 12:00 noon on the Closing Date.

Corporate profile

About IAG

IAG is an ASX listed company incorporated in Australia. IAG is the ultimate parent company of a group of insurance companies primarily operating in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom. IAG is authorised as a non-operating holding company of general insurance companies under the Insurance Act 1973 of Australia and is subject to prudential supervision by APRA.

The financial position of IAG as at 30 June 2011 on a stand-alone and non-consolidated basis is outlined in *Summary financial information* on page 18.

Important note concerning references to IAG and the Group

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Prospectus describes the activities and the financial performance and position of the Group because:

- IAG's subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly generate the profits that are distributed to IAG in order for IAG to meet its liabilities, including in respect of the Bonds; and
- substantially all the assets of IAG represent shares in, or other claims on the Group subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group members, after satisfaction of their liabilities (including to policyholders).

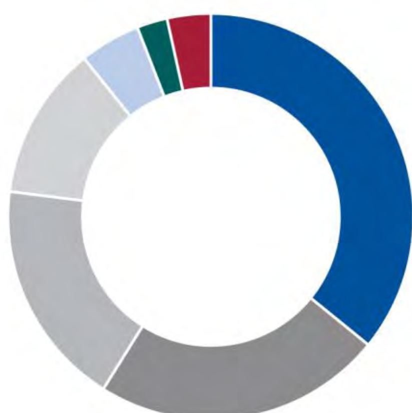
About the Group

The Group is a leading general insurance group in Australia and New Zealand, with a growing presence in Asia and a specialist underwriter in the United Kingdom. Approximately 90% of the Group's Gross Written Premium (**GWP**) is derived from its businesses in Australia and New Zealand.

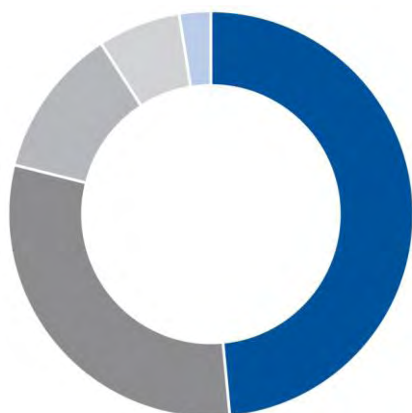
The Group offers personal and commercial insurance products under some of the most trusted brands in its markets including NRMA Insurance, SGIO, SGIC, CGU, and Swann Insurance in Australia; and State and NZI in New Zealand. The Group currently employs approximately 13,000 people worldwide and is headquartered in Sydney, Australia.

For the financial year ended 30 June 2011, the Group's reported GWP was A$8,050 million and net profit after tax was A$250 million (FY10 A$91 million).

More information in relation to the Group's performance can be found in this Prospectus under the *Summary financial information* on page 18 and at www.iag.com.au/results.



Group's portfolio of products
% of Gross Written Premium for the year ended 30 June 2011



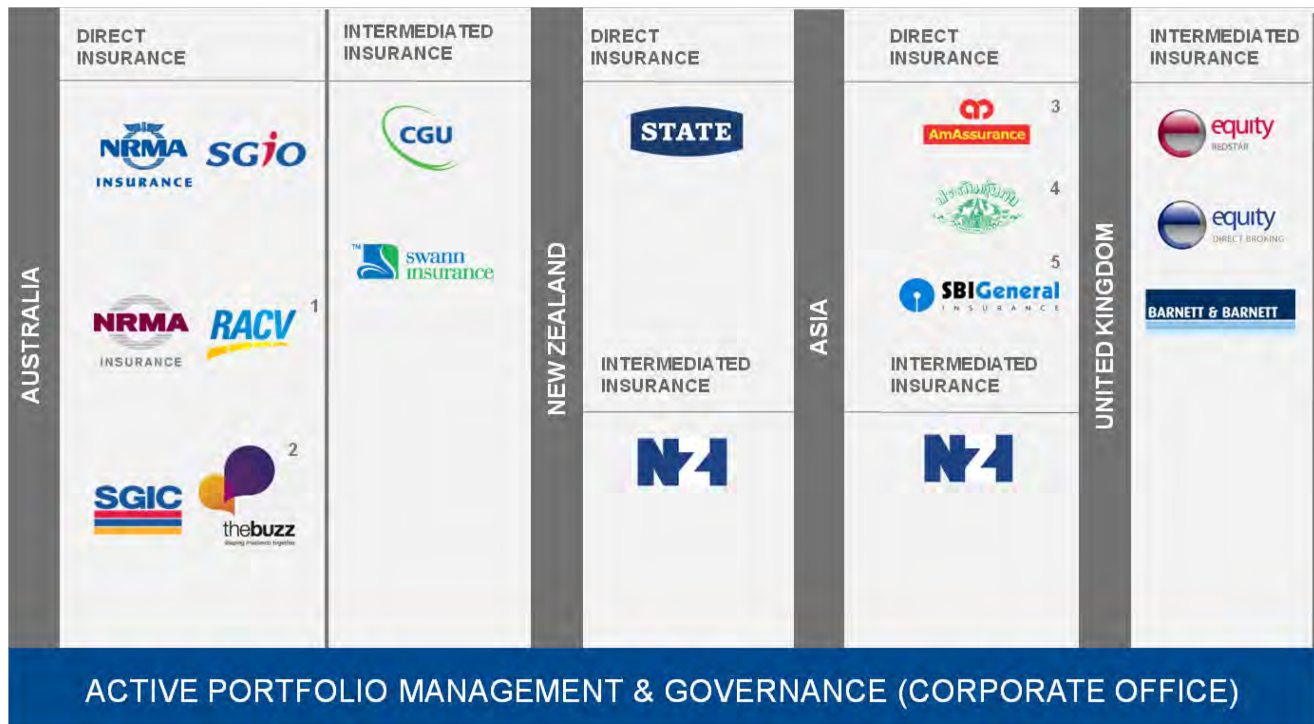
Group's geographical presence
% of Gross Written Premium for the year ended 30 June 2011

*Short-tail vs Long-tail insurance

Short-tail insurance refers to the classes of insurance with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs whilst long-tail insurance refers to the classes of insurance with an average period generally more than 12 months between the time when premiums are earned and final settlement of claims occurs. Approximately 80% of the Group's GWP is short-tail in nature.

IAG is a holding company with a portfolio of end-to-end businesses aligned around customers, brands and markets.

The Group's major brands



1. *RACV is via a distribution relationship and underwriting joint venture with RACV Limited.*
2. *RACV has a 30% interest in The Buzz.*
3. *49% ownership of the general insurance arm of AmBank Group, AmG Insurance Berhad, trading under the AmAssurance brand.*
4. *98% voting rights in Safety Insurance, based in Thailand.*
5. *26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India.*

Business segments

The Group in Australia

The Group operates leading general insurance brands in Australia including: NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance.

Australia Direct Insurance

Australia Direct is IAG's largest business, concentrating on direct personal lines insurance products, including compulsory third party, motor and home and contents insurance, as well as business insurance packages targeted at sole operators and smaller businesses. Australia Direct also offers lifestyle and leisure insurance products including vintage and classic car, boat, caravan and travel.

Australia Direct underwrites approximately 8 million policies around Australia, with its call centres answering about 4 million calls per year and finalising over 500,000 claims annually.

The business operates with single pricing and claims platforms, but with State-based brands selling personal insurance products through a network of 29 company owned branches and over 200 agencies, call centres, the internet and representatives.

Insurance products in New South Wales, the Australian Capital Territory, Queensland and Tasmania are sold primarily under the NRMA Insurance brand, which has sold insurance since 1925. The SGIO brand operates in Western Australia and SGIC in South Australia.

In Victoria, the business distributes direct home, motor and other insurance products via a distribution relationship and underwriting joint venture with RACV.

A nationwide online brand, The Buzz, was launched in May 2009, initially focusing on car insurance and extended to home products in June 2010.

Australia Intermediated Insurance

CGU is one of Australia's largest intermediary-based insurers, with a history dating back to 1851. IAG acquired CGU in 2003.

CGU sells intermediated commercial and personal insurance products through a nationwide network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU has a branch network of over 75 offices and a network of over 1,000 brokers and authorised representatives plus over 100 financial institutions and affinity group partners.

CGU is also a leading provider of workers' compensation services in Australia, operating in most States and Territories. In New South Wales and Victoria, it collects premiums and manages claims on behalf of those State governments. In Western Australia, Tasmania, the Australian Capital Territory and the Northern Territory, CGU underwrites policies and manages claims.

Swann Insurance sells a range of niche insurance products including consumer credit and motor vehicle related products. IAG acquired Swann Insurance in 2003.

Swann Insurance provides protection to over 750,000 Australians through its specialist personal insurance products covering motorcycles, cars, bicycles, loan repayments, bill obligations and life insurance.

The Group in New Zealand

The Group is the largest general insurer in New Zealand, with more than 2,000 staff servicing a network of nationwide call centres, sales centres and branches.

The Group's New Zealand business is the country's leading provider of general insurance, directly to consumers under the State brand and indirectly through insurance brokers and agents, under the NZI brand.

New Zealand Direct Insurance (State)

State has been providing New Zealanders with an extensive range of personal and business insurance services for over 105 years, offering its customers car, home, contents, business asset and liability cover and travel insurance policies. IAG acquired State in 2001. State also assists its customers to secure life insurance and funeral cover plans.

As a leading insurer, State is committed to providing customers with easy and convenient ways to buy insurance and make claims. State introduced New Zealand's first online service for the purchase of motor vehicle policies in 2003, and more recently introduced further innovations with online claims services.

Today, in excess of half a million New Zealand households and businesses have access to State's range of insurance products and receive claims support from more than 830 employees, an easy to navigate website, a number of high tech call centres and 28 local branches.

As an insurer with a long and proud history, State plays a key role in helping people rebuild their homes, repair their vehicles, replace lost items, restore their businesses and occasionally help out whole communities in times of crises.

New Zealand Intermediated Insurance (NZI)

NZI is the leading commercial insurer in New Zealand and one of New Zealand's longest established brands, with a heritage dating back to 1859. IAG acquired NZI in 2003.

NZI offers an extensive selection of flexible, comprehensive insurance services for businesses throughout New Zealand, including cover for commercial premises, vehicles, equipment, marine services, professional risks, travel and rural. NZI also provides a range of home, contents and car policies for personal customers who choose the services of a broker for their insurance needs.

NZI leads the market with a range of developments in online integration with broker businesses and placement facilities.

Today NZI enjoys close working partnerships with the majority of New Zealand's independent network of more than 2,200 general insurance brokers and provides customised service solutions for many leading local and international broker houses.

IAG New Zealand (Business Partners)

As a leading insurer, IAG in New Zealand also underwrites vehicle, home and contents insurance for two of New Zealand's leading financial institutions, ASB Bank and Bank of New Zealand. In addition, IAG operates a number of specialist insurance brands which provide travel insurance, classic, performance car and motorbike cover and warranty products.

The Group in the United Kingdom

In the UK, the Group has a specialist motor underwriting operation, Equity Red Star (**ERS**). ERS commenced operations in 1946, and is the largest motor syndicate at Lloyd's, providing insurance to business and personal lines customers. IAG acquired ERS in 2007. The UK business also includes Equity Direct Broking affinity business and specialist commercial broker Barnett & Barnett.

The Group in Asia

The Group has interests in four Asian insurance businesses:

- controlling economic interests in NZI and Safety Insurance in Thailand;
- 49% share of AmG Insurance Berhad, a general insurance joint venture in Malaysia with AMMB Holdings Berhad; and
- 26% interest in SBI General Insurance Company, a general insurance joint venture in India which commenced trading in 2010.

In China, the Group has also announced the acquisition of a 20% interest in Bohai Property Insurance Pty Ltd, a Tianjin-based general insurer. Regulatory approval for the transaction is expected in early 2012.

Strategy

The Group's strategy is to manage a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

Strategic priorities

Building on the solid platform created since 2008, in June 2011 the Group reset its strategic priorities to:

- accelerate growth in Australia and New Zealand by stepping up initiatives to drive profitable organic growth, while remaining open to acquisition opportunities;
- restore profitability in the UK; and
- boost its Asian footprint so the Asia division delivers 10% of the Group's GWP by 2016 on a proportional basis.

Asia remains a priority region for the Group and is considered important to medium to long-term growth. Accordingly, the Group is now focused on delivering on the significant potential attached to its existing Asian operations and accelerating its expansion plans beyond the countries in which it has an existing presence.

Financial targets

The Group's priorities are supported by two long-term financial targets:

- **Return on equity (ROE) greater than 1.5 times the weighted average cost of capital**
  The Group targets a cash ROE of at least 1.5 times weighted average cost of capital. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation of intangibles and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%.

- **Top quartile total shareholder return**
  The Group aims to achieve top quartile total shareholder returns benchmarked against the S&P/ASX Top 50 Industrials.

The aim is to achieve these targets through the cycle, given the nature and volatility of insurance.

Reinsurance

Reinsurance is insurance for insurers, and under this arrangement one party (the reinsurer) agrees to indemnify another (the cedant i.e. the insurer) against all or part of the liability they have taken on under an insurance policy or policies.

Reinsurance is used by the Group to limit exposure to large single claims and accumulation of claims that arise from the same event or an accumulation of similar events. The primary risks the Group manages using reinsurance are exposures to natural catastrophes such as cyclone or earthquake. Insurance risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of risks underwritten. The key elements of the Group's reinsurance management framework are described in the Group Reinsurance Management Strategy which is reviewed and approved annually by the Board and submitted to APRA.

The Group must purchase catastrophe reinsurance to cover at least the minimum required by APRA (which is currently to cover a 1-in-250 year event). The Group usually retains the risk for the first level of claims for any particular event. The limit of catastrophe cover purchased by the Group as at 26 October 2011 was A$4.1 billion with an event retention of approximately A$200 million. A substantial proportion of this limit is available to cover losses that may occur in New Zealand. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group.

A detailed description of the current reinsurance arrangements is provided in the *Summary financial information* section on page 18.

A description of the risks relating to the Group's reinsurance arrangements can be found in *Reinsurance* on page 38.

Credit ratings

Standard & Poor's currently considers the Group to have a 'very strong' insurer financial strength and issuer rating of 'AA-' for its key wholly-owned insurance companies. IAG, as the holding company for the Group and the issuer of the Bonds, currently has a credit rating of 'A+' from Standard & Poor's (re-affirmed in August 2011). As subordinated obligations of IAG, the Bonds have been assigned a credit rating of 'A-' from Standard & Poor's.

Ratings definitions used by Standard & Poor's are as follows:

- an **issue credit rating** is a forward-looking opinion about the credit worthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program;
- an **issuer credit rating** is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation; and

- a **rating outlook** assesses the potential direction of a long-term counterparty credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A rating outlook is not necessarily a precursor of a rating change or future creditwatch action.

A credit rating is a statement of opinion, not a statement of fact or recommendation to buy, hold or sell securities (including the Bonds). Ratings are subject to revision or withdrawal at any time.

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BBB-	An obligation rated 'BBB-' is considered the lowest investment grade rating by market participants.
BB	An obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
'+' or '-'	Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Source: www.standardandpoors.com

Regulation

As a provider of general insurance products, the Group is subject to ongoing oversight by regulators in the markets in which it operates.

There are currently a number of regulatory reviews underway which could impact the Group:

Australia

APRA is currently reviewing its capital standards for both life insurers and general insurers. The aims of the review include improving the risk sensitivity of the capital standards and achieving better alignment across APRA regulated industries. A revision to the insurance prudential framework has the potential to affect the form and amount of capital the Group is required to hold. For more information on the potential impact of these revisions on the Bonds please refer to *Regulatory classification and prudential supervision* on page 37.

New Zealand

The Insurance (Prudential Supervision) Act 2010 was passed into law on 7 September 2010. This Act establishes a licensing regime for persons carrying on an insurance business in New Zealand, with the supervisory functions performed by the Reserve Bank of New Zealand. The new regulatory regime is similar to that already in place in Australia and is expected to have limited impact on the Group's New Zealand business as existing governance frameworks are consistent with the new regulatory requirements.

United Kingdom

Solvency II, the updated set of European Union regulatory requirements for insurers, is scheduled to come into effect at the start of 2013. It has been reported that the UK implementation will be between 2013 and 2014. It is likely that Solvency II will increase the solvency capital requirements and the management costs for many insurers, putting more pressure on their returns on capital and premium rates.

Summary financial information

Important note concerning references to IAG and the Group

The Bonds are issued by IAG, a company incorporated in Australia which is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom.

References in this Prospectus to IAG are to the holding company on a standalone basis and references to the Group are to IAG and its subsidiaries on a consolidated basis.

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Prospectus describes the activities and the financial performance and position of the Group because:

- the subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly, the subsidiaries generate the revenues that are distributed to IAG in order for IAG to meet its liabilities, including in respect of the Bonds; and
- substantially all the assets of IAG represent shares in, or other claims on, the subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group members, after satisfaction of their liabilities (including to policyholders).

Summary financial information for Insurance Australia Group Limited (unconsolidated/standalone)

The following table contains information derived from IAG's audited annual financial results for the previous five financial years. The annual financial results have been prepared in accordance with the Corporations Act and Australian Accounting Standards (**AASBs**), adopted by the Australian Accounting Standards Board in the relevant year. International Financial Reporting Standards (**IFRS**) forms the basis of the AASBs. The presentation currency of the summary financial information is Australian dollars and the amounts have been rounded to the nearest million dollars, unless otherwise stated.

	Year end 30 Jun 2011 **A$m**	Year end 30 Jun 2010 **A$m**	Year end 30 Jun 2009 **A$m**	Year end 30 Jun 2008 **A$m**	Year end 30 Jun 2007 **A$m**
FINANCIAL PERFORMANCE Profit/(loss) for the year	377	221	302	764	353
Total comprehensive income and (expense) for the year net of tax	377	221	302	n/a[1]	n/a[1]
BALANCE SHEET					
Receivables from related bodies corporate	n/a[2]	81	51	120	155
Trade and other receivables	n/a[2]	1	96	69	-
Investments	n/a[2]	-	1	1	-
Loans to related bodies corporate	n/a[2]	912	884	671	667
Current tax assets	n/a[2]	-	49	-	-
Deferred tax assets	n/a[2]	71	30	7	6
Investment in controlled entities	n/a[2]	6,035	5,785	5,785	5,578
Total Assets	**7,658**	**7,100**	**6,896**	**6,653**	**6,406**
Accounts payable	n/a[2]	7	8	16	20
Payables to related bodies corporate	n/a[2]	62	91	48	109
Current tax liabilities	n/a[2]	-	-	42	28

Borrowings from related bodies corporate	n/a[2]	327	-	173	211
Interest bearing liabilities	n/a[2]	600	640	860	1,130
Total Liabilities	**1,457**	**996**	**739**	**1,139**	**1,498**
Net Assets	**6,201**	**6,104**	**6,157**	**5,514**	**4,908**
Share Capital	5,353	5,353	5,326	4,740	4,361

1. Other comprehensive income is disclosed under *AASB101 Presentation of Financial Statements* since June 2010
2. In the year-ended 30 June 2011, these items were not disclosed in IAG's audited annual financial statements in accordance with Australian accounting standards

The following items for the financial year ended 2011, which in accordance with Australian accounting standards were not disclosed in IAG's audited annual financial statements, have been derived from trial balances used in the preparation of those financial statements: IAG's investment in controlled entities was A$7,213 million, receivables from related bodies corporate were A$214 million, loans to related bodies corporate were A$230 million, borrowings from related bodies corporate were A$701 million and total interest bearing liabilities for IAG were A$562 million.

Summary financial information for Insurance Australia Group Limited and its subsidiaries

The following table contains information extracted from the Group's audited annual financial results for the previous five financial years. The annual financial results have been prepared in accordance with the Corporations Act and Australian Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board in the relevant year. International Financial Reporting Standards (IFRS) forms the basis of the AASBs. The presentation currency of the summary financial information is Australian dollars and the amounts have been rounded to the nearest million dollars, unless otherwise stated.

	Year end 30 Jun 2011 A$m	Year end 30 Jun 2010 A$m	Year end 30 Jun 2009 A$m	Year end 30 Jun 2008 A$m	Year end 30 Jun 2007 A$m
FINANCIAL PERFORMANCE					
Gross written premium	8,050	7,782	7,842	7,793	7,381
Gross earned premium	7,858	7,621	7,718	7,765	7,207
Reinsurance expense	(620)	(556)	(485)	(470)	(464)
Net premium revenue	7,238	7,065	7,233	7,295	6,743
Net claims expense	(5,089)	(5,072)	(5,370)	(5,155)	(4,474)
Underwriting expenses	(1,978)	(2,054)	(2,128)	(2,124)	(1,862)
Underwriting profit/(loss)	171	(61)	(265)	16	407
Net investment income on assets backing insurance liabilities	489	554	780	432	360
Insurance profit	660	493	515	448	767
Net investment income from equity holders' funds	213	96	(39)	24	301
Other income	256	259	411	484	468
Finance costs	(86)	(88)	(87)	(101)	(119)
Other operating expenses	(429)	(358)	(488)	(935)	(509)
Profit/(loss) before income tax	614	402	312	(136)	908
Income tax expense	(276)	(212)	(65)	(90)	(279)
Net profit/(loss)	338	190	247	(226)	629
Other comprehensive income/(expense), net of tax	(43)	(4)	(61)	n/a[1]	n/a[1]
Total comprehensive income/(expense), net of tax	295	186	186	n/a[1]	n/a[1]
Net profit for the year attributable to:					
Non-controlling interests	88	99	66	35	77
Insurance Australia Group Limited	250	91	181	(261)	552
Total comprehensive income/(expense) for the year attributable to:					
Non-controlling interests	88	99	63	n/a[1]	n/a[1]
Insurance Australia Group Limited	207	87	123	n/a[1]	n/a[1]
BALANCE SHEET					
Total assets	22,923	20,446	19,315	19,380	21,637
Total liabilities	18,343	15,790	14,479	15,029	16,805
Total equity	4,580	4,656	4,836	4,351	4,832
Net operating cash flow	620	1,115	414	5	401
Net investing cash flow	38	(849)	(352)	1,089	(124)
Net financing cash flow	(337)	(479)	(20)	(970)	173
Share issued under institutional placement, net of costs	-	-	444	-	737
Dividend paid to shareholders	281	301	245	537	492
Basic earnings per share (cents)	12.08	4.39	9.32	(14.29)	32.79
MCR multiple	1.58	1.92	1.79	1.62	1.67

1. Other comprehensive income is disclosed under *AASB101 Presentation of Financial Statements* since June 2010

The below key ratio/metrics are not audited, however are derived from the audited financial statements.

	Year end	Year end	Year end	Year end	Year end

	30 Jun 2011	30 Jun 2010	30 Jun 2009	30 Jun 2008	30 Jun 2007
OTHER KEY RATIO/METRICS					
Loss ratio	70.3 %	71.8 %	74.2 %	70.7%	66.4 %
Expense ratio	27.3 %	29.1 %	29.4 %	29.1%	27.6 %
Combined ratio	97.6 %	100.9 %	103.6 %	99.8%	94.0 %
Insurance margin	9.1 %	7.0 %	7.1 %	6.1%	11.4 %
Cash ROE (average equity) (% pa)	11.1%	8 .3%	4 .9%	2.7%	14.9%

Overview

The Group announced an insurance profit of A$660 million for the 12 months to 30 June 2011 (FY10: A$493 million), representing an insurance margin of 9.1% (FY10: 7.0%). Net profit after tax increased to A$250 million (FY10: A$91 million). Gross written premium was A$8,050 million (FY10: A$7,782 million), representing underlying growth of 4.8% after adjusting for foreign exchange movements.

The result reflects the sound underlying performance in the Group's Australian and New Zealand businesses, indicating strong underwriting discipline and expense management.

The insurance profit includes the following influences on reported performance:

- net natural peril claim costs of A$610 million (FY10: A$463 million), which exceeded allowances of A$435 million by A$175 million and reduced the reported margin by 2.4%. Notable peril events during the year included the heavy rain and storms in Brisbane and Toowoomba (January 2011), Tropical Cyclone Yasi (February 2011), and three successive major earthquakes in Christchurch, New Zealand (September 2010, February 2011 and June 2011);

- incremental reinsurance expenses stemming from that severe natural peril activity of A$83 million, comprising reinstatement and accelerated amortisation costs;

- higher than expected reserve releases of A$328 million (FY10: A$228 million), reflecting favourable experience in long-tail classes; and

- a slower than anticipated recovery in the UK, following higher than expected bodily injury claim inflation. Remediation actions contributed to a significantly reduced loss in the second half.

Investment income on shareholders' funds improved to A$213 million (FY10: A$96 million), largely due to the absence of a A$96 million charge from reversal of the exchange right valuation in respect of the reset exchangeable securities.

Gross Written Premium (or GWP)

GWP measures the total premiums relating to insurance policies underwritten by the Group during a specified time period.

GWP for the Group was A$8,050 million, up 3.4% from A$7,782 million in FY10. Reported growth was affected by the strength of the Australian dollar on translation of premium generated offshore, notably in the UK and Asia.

After allowing for the impact of foreign exchange movements, underlying GWP growth in FY11 was 4.8%, with growth of 6.3% recorded in the second half of FY11.

Comparing FY11 GWP with FY10:

- the Australia Direct Insurance business grew by 6.5% to A$3,891 million, evenly driven by rate increases and volume growth, with particularly strong growth recorded in home and compulsory third party insurance;

- the Australia Intermediated Insurance business grew by 8.8% to A$2,463 million, derived from a mixture of rate increases, new business and acquisitions. This is the first increase in reported GWP in several years, following significant focus on the quality of its insurance portfolio;

- the New Zealand business reported flat GWP of A$956 million; however, in local currency terms an increase of 3.4% was recorded. This was largely driven by rate increases in the NZI intermediated segment, which took effect primarily in the second half of the financial year;

- the UK business reported a reduction in GWP of over 23%, to A$546 million, although in local currency terms the decline was a more modest 14%, as remedial actions led to lower volumes which were partially offset by rate increases. GWP in the second half was similar to that for the first half; and

- in Asia, the Group participated in a regional GWP pool of in excess of A$420 million. The Group's share of that pool in FY11 was nearly A$300 million or 3.7% of the Group's GWP on a proportional basis.

Insurance margin

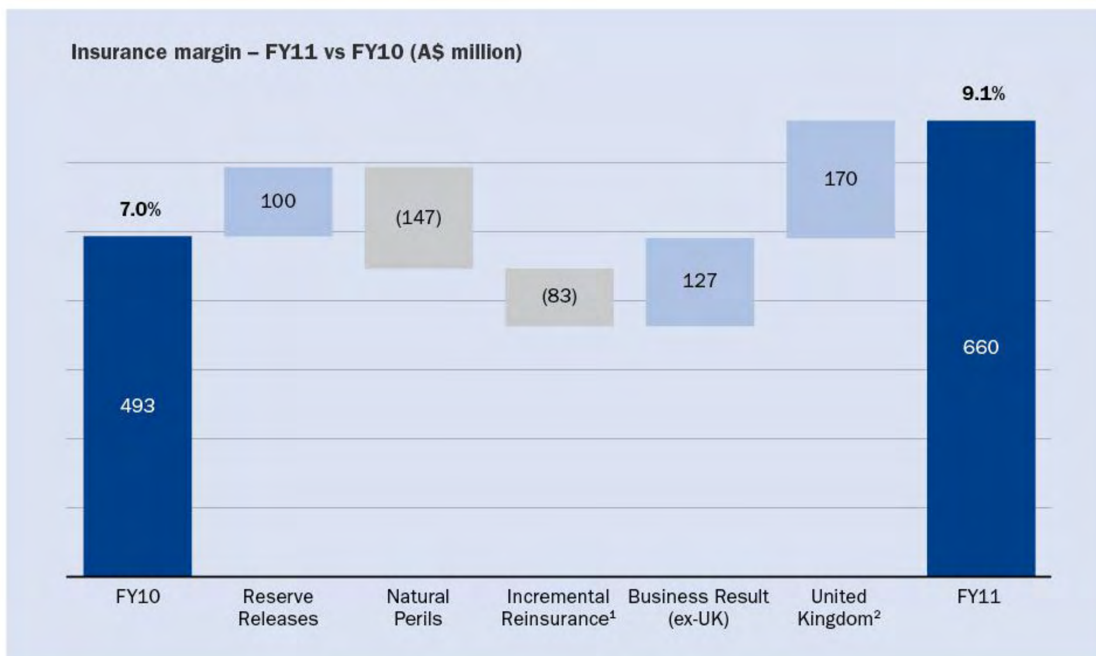
Insurance margin is measured as the ratio of insurance profit to net earned premium (GWP less unearned premium and reinsurance expense).

The Group's insurance margin for FY11 was 9.1% (FY10: 7.0%), although the result contained two contrasting halves. A first half margin of 12.7% declined to 5.4% in the natural peril-impacted second half, with higher than expected reserve releases a partially offsetting factor. The year-on-year insurance profit comparison contains the following notable elements:

- increasing net natural peril claim costs of A$147 million, along with associated incremental reinsurance costs (post-event reinstatement and accelerated amortisation costs) of A$83 million;

- higher than expected net prior period reserve releases of A$328 million (FY10: A$228 million), reflecting favourable claims experience relative to initial assumptions in long-tail classes; and

- a considerably reduced loss from the UK, where bodily injury claim inflation has remained an issue, but the Group's remedial actions have begun to contribute to an improved performance.



Notes:

1. Incremental reinsurance costs in FY11 include reinstatement costs and accelerated amortisation.
2. United Kingdom insurance margin movement excludes yield and natural peril movements, as well as reserve strengthening in FY11 (A$20m) and FY10 (A$25m, excluding one-off charge in 2H10).

Return on equity (ROE)

In FY11, IAG reported a cash ROE of 11.1%, compared to 8.3% in FY10.

Capital

The Group currently has a target coverage of its regulatory Minimum Capital Requirement (**MCR**) of 1.45 to 1.50 times as a long-term benchmark. As at 30 June 2011, the Group's regulatory capital stood at a multiple of 1.58 times MCR, which is above the Group's benchmark.

Capital mix

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangible assets, which is consistent with regulatory and rating agency models. IAG currently targets a longer term capital mix of:

- ordinary equity (net of goodwill and intangible assets) 60-70%; and
- debt and hybrid securities 30-40%.

At 30 June 2011, the Group's capital mix was near the mid-point of the targeted range, with debt and hybrid securities representing 33.7% of total tangible capitalisation.

The following table provides an overview of the Group's capital mix over the last two financial years:

CAPITAL MIX

	1H10 A$m	2H10 A$m	1H11 A$m	2H11 A$m
Shareholder equity	5,040	4,656	4,658	4,580
Intangibles and goodwill	(2,195)	(2,083)	(1,853)	(1,869)
Tangible shareholder equity	**2,845**	**2,573**	**2,805**	**2,711**
Interest bearing liabilities	1,586	1,450	1,380	1,377
Total tangible capitalisation	**4,431**	**4,023**	**4,185**	**4,088**
Debt to total tangible capitalisation	35.8%	36.0%	33.0%	33.7%

Investments

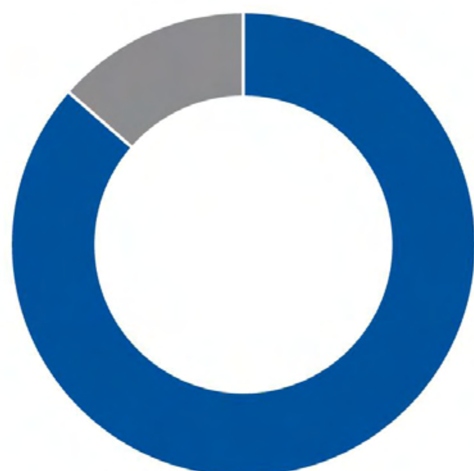
The Group's investments totalled A$11.9 billion as at 30 June 2011, excluding investments held in joint ventures and associates. This compares to A$11.8 billion at 31 December 2010 and A$11.7 billion at 30 June 2010.

As at 30 June 2011, the Group's overall investment allocation remained conservatively positioned with around 87% of total investments in fixed interest and cash. Technical reserves remained almost entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was nearly 59%.

It is the Group's current strategy to move towards a target allocation of 50% to growth assets in shareholders' funds, and in doing so to utilise alternative assets with growth asset return characteristics resulting in lower overall portfolio volatility than listed equities.

INVESTMENT ASSETS

	1H10 A$bn	2H10 A$bn	1H11 A$bn	2H11 A$bn
Technical reserves	7.9	8.4	8.1	8.3
Shareholders' funds	3.6	3.3	3.7	3.6
Total investment assets	**11.5**	**11.7**	**11.8**	**11.9**
Other funds managed on behalf of third parties	0.5	0.5	0.5	0.5



Group Asset Allocation
30 June 2011

Fixed Interest and Cash
Growth

Sensitivity analysis

As at 30 June 2011, the sensitivity of the Group's net profit before tax to investment market movements was as set out in the table below. These values are included on a gross basis and are not adjusted for potential offsets available from the revaluation of outstanding claims liabilities.

SENSITIVITY OF NET PROFIT BEFORE TAX – AS AT 30 JUNE 2011

	Change in assumption	
	+1%	-1%
	A$m	A$m
Equity market values:		
Australian equities	7	(7)
International equities	5	(5)
Interest rates:		
Assets backing technical provisions	(226)	242
Assets backing shareholders' funds	(32)	34
Total investment returns	(258)	276

Note: Includes indirect sensitivities relating to alternative asset classes.

The fixed interest investment portfolio operates under strict credit criteria. As at June 2011, 94% of the portfolio was invested in credit quality rated 'AA' or better.

Reinsurance

IAG's reinsurance programme is an important part of the Group's overall approach to capital management. A general description of reinsurance and the risks associated with reinsurance is enclosed in the *Corporate profile* on page 15 and *Reinsurance* on page 38.

The Group's current philosophy is to limit its main catastrophe retention (i.e. the exposure the Group has to an event or series of events) to a maximum of 4% of Net Earned Premium. Its current retentions are below this level.

The Group determines its reinsurance requirements on a modified whole-of-portfolio basis (the portfolio being the sum of all correlated risk). The cover purchased reflects a 1-in-250 year return period.

The last 18 months have proved a challenging time for natural peril losses. Australia and New Zealand have experienced an unprecedented number of both severe and frequent losses to which insurers and, in turn, reinsurers have responded. Despite this, reinsurance capacity has been resilient and remains available. A key challenge over the next period will be the price of this capacity, with reinsurance rates expected to rise.

The Group renewed its catastrophe programme at 1 January 2011 when IAG placed its entire programme on a similar basis to that for 2010, incurring moderate rate increases in the region of 10%, after allowing for aggregate growth. With continued loss activity in 2011, further reinsurance rate increases are expected at the Group's next renewal on 1 January 2012.

In the face of severe natural peril activity across FY11, the Group's catastrophe reinsurance cover has provided considerable protection during the year and performed in line with expectations.

Operating on a calendar year basis, the Group's catastrophe reinsurance protection at renewal on 1 January 2011 comprised:

- the main catastrophe programme, operating on an excess of loss basis for all territories and providing cover up to A$4.1 billion, with the Group retaining the first A$250 million of each loss;
- a three-year arrangement to reduce the Maximum Event Retention (**MER**) of the Group below A$250 million, to A$150 million in Australia and A$115 million for New Zealand, as well as specific covers reducing the UK to A$53 million;
- second and third event covers, together with a number of other strategic purchases, which reduced the MER for a second event to A$125 million for Australia, A$96 million for New Zealand and A$50 million for the UK, and for a third event to A$50 million across the Group; and
- a property catastrophe aggregate cover of A$150 million excess of A$150 million, providing protection for accumulated losses arising from events larger than A$15 million, across IAG's operations, capped at a maximum of A$50 million per event.

The scale of natural peril events in the opening half of calendar 2011 has been such that much of the Group's lower layer protection has been utilised, while the Christchurch earthquake in February prompted the Group to purchase reinstatement cover in the main programme. As at 26 October 2011, the status of the Group's reinsurance cover for the period to 31 December 2011 can be summarised as:

- main programme protection for a further two events up to A$4.1 billion, following purchased reinstatements; and
- an MER of approximately A$200 million for any next event.

The counterparty credit profile for the current key reinsurances of the Group is:

- 83% of cover placed with 'A+' or better-rated entities for the property catastrophe programme; and
- 100% of cover placed with 'A+' or better-rated entities for the casualty programme.

Recent natural perils

The year ended 30 June 2011 was characterised by a large number of natural peril events.

While the first half of the financial year included events such as the first earthquake in Christchurch (September 2010) and a number of severe storms in both Australia and New Zealand, the Group had the benefit of significant reinsurance protection during the period, notably via the aggregate cover.

The opening months of 2011 saw a sequence of major peril events, most notably the severe storms in Queensland, Tropical Cyclone Yasi in northern Queensland and the second, more severe earthquake in Christchurch. The half concluded with a third earthquake in Christchurch. While materially reduced by reinsurance protection, the net claims cost from natural peril events in the second half significantly exceeded allowances for the period.

The Group has increased its natural peril allowances in recent years in the face of increased peril activity. Allowances for FY12 are A$580 million, a 33% increase over allowances held at the beginning of FY11.

Guardian Trust

4 November 2011

To: The Directors

Insurance Australia Group Limited
Level 26
388 George Street
Sydney NSW 2000
Australia

Clause 14(3) of Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer by Insurance Australia Group Limited ("IAG") of the bonds (the "Bonds") set out in the prospectus dated 4 November 2011 (the "Prospectus") complies with any relevant provisions of the:

(a) Master Trust Deed between IAG and The New Zealand Guardian Trust Company Limited (the "Trustee") dated 4 November 2011; and

(b) Supplemental Trust Deed No. 1 between IAG and the Trustee dated 4 November 2011,

(together the "Trust Documents").

The relevant provisions of the Trust Documents are those which:

(a) entitle IAG to constitute and issue under the Trust Documents the Bonds offered under the Prospectus; and

(b) impose any restrictions on the right of IAG to offer the Bonds,

and are described in the "Summary of terms and conditions of the Bonds" section of the Prospectus.

The Auditors, KPMG, have reported on certain of the financial information set out in the Prospectus and the Trustee's statement does not refer to that information, or to any material contained in the Prospectus which does not relate to the Trust Documents.

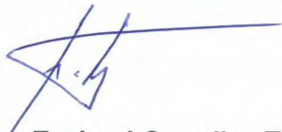
The Trustee confirms that the offer of the Bonds set out in the Prospectus complies with any relevant provisions of the Trust Documents. We have given the above confirmation on the basis:

(a) set out above; and

(b) that the Trustee relies on the information supplied to it by IAG pursuant to the Trust Documents, and does not carry out an independent check of the statements or the figures supplied to it in that information.

The Trustee does not guarantee the repayment of the Bonds offered, the payment of interest thereon or any other aspect of the Bonds or obligations of IAG.

Signed for and on behalf of the Trustee



The New Zealand Guardian Trust Company Limited

Summary of terms and conditions of the Bonds

This is a summary of the Conditions of the Bonds set out in the Bond Trust Deed.

The Bond Trust Deed is registered with the Companies Office of the Ministry of Economic Development and is available for public inspection free of charge at www.business.govt.nz/companies. The Conditions are for the benefit of and binding on each of the Bondholders and a person claiming through them. The rights and obligations of IAG, the Bondholders and any other relevant persons are determined solely by reference to the Conditions and not this summary.

1. Form and denomination

The Bonds are in registered book entry form and entitlement to Bonds is determined solely by reference to the Register. The Bonds have a face value of NZ$1.00 per Bond with a minimum subscription of NZ$5,000 and multiples of NZ$1,000 thereafter.

2. Ranking and subordination

The Bonds are direct, subordinated and unsecured obligations of IAG and rank:

- *ahead of*:
    - the claims of any holder of a preference share issued by IAG on exchange of the RES or the claims of any holder of any RES against IAG under the RES Terms and the RES Trust Deed in respect of the RES if IAG fails to issue a preference share when required to do so in accordance with the RES Terms;
    - any claims on IAG in respect of the A$350 million perpetual reset preference shares issued according to a prospectus dated 6 May 2002; and
    - all shareholders and all other creditors whose claims against IAG rank, or are expressed to rank, after the claims of the Bondholders in connection with the Bonds;
- *equally* amongst themselves; and
- *equally with* all other creditors whose claims against IAG rank or are expressed to rank equally with the Bondholders' claims for amounts owing by IAG in connection with the Bonds, including the claims of holders of the £250 million fixed/floating rate subordinated notes of IAG due 2026 in respect of those notes; and
- *behind*:
    - all obligations to Senior Creditors or obligations mandatorily preferred by law; and
    - all other creditors whose claims against IAG rank or are expressed to rank ahead of the Bondholders' claims for amounts owing by IAG in connection with the Bonds.

The rights and claims of the Bondholders against IAG in respect of payments under the Bonds are subordinated to the claims of the Senior Creditors. Accordingly, if no Winding Up has occurred:

- the obligations of IAG to make payments of principal and interest and all other amounts due in respect of the Bonds are conditional upon IAG being Solvent at the time of payment by IAG; and
- no payment of principal, interest or other amounts due under the Bonds may be made except to the extent that IAG may make such payment and still be Solvent immediately thereafter.

Any amount not paid as a result of this subordination accumulates, remains a debt owing to the Bondholder by IAG until it is paid and is payable on the first date on which the relevant deferral of interest condition would not apply (whether or not such date is otherwise a payment date).

If a Winding Up has occurred:

- a Bondholder's entitlement in the Winding Up to the principal, interest and other amounts due in respect of the Bonds is subordinated and postponed and subject in right of payment to payment in full of the claims of the Senior Creditors; and
- a Bondholder may only prove in the Winding Up for such amounts as a debt which is subject to prior payment in full of the Senior Creditors, and until the Senior Creditors have been paid in full, the Bondholder must not claim in the Winding Up in competition with the Senior Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Creditors would have been entitled to receive.

There is no restriction on IAG issuing additional debt that ranks ahead of the Bonds.

3. Interest

The Bonds bear interest from and including the Issue Date at the Initial Interest Rate announced for the Bonds on NZX. Interest is payable on the Bonds quarterly in arrears on each Interest Payment Date (being 15 March, 15 June, 15 September and 15 December of each year, commencing on 15 March 2012).

The Initial Interest Rate applies from the Issue Date to the first Rate Reset Date, which is 15 December 2016. At that time, the Interest Rate will be reset on the basis of the issue Margin announced on NZX and the Benchmark Rate. If the Bonds have not been redeemed, the Interest Rate will be reset in this manner on each five yearly Rate Reset Date until maturity.

The Interest Amount payable on each Bond in respect of each Interest Payment Date shall be equal to the Interest Rate per annum on the Principal Amount divided by four. Where it is necessary to compute an amount of interest in respect of any Bond for a period not ending on an Interest Payment Date, such interest shall be calculated on the basis of the actual number of days elapsed and a year of 365 days and rounded to the nearest NZ$0.01 (NZ$0.005 being rounded upwards).

Interest accrues on a daily basis and, unless deferred or suspended as described below, is payable in arrears on each Interest Payment Date.

4. Interest on subscriptions

IAG will pay to each original subscriber for the Bonds (and notwithstanding any transfer of any Bond that may have occurred) interest on the subscription moneys for such Bonds at the Initial Interest Rate (determined in accordance with Condition 4.1(b)) for the period from the date the subscription moneys for such Bonds were credited to IAG's account up to (and excluding) the Issue Date. Early Bird Interest will be paid not later than five Business Days after the Issue Date.

5. Optional deferral of interest

IAG may, on any Optional Interest Payment Date (as defined below), defer the payment of interest on the Bonds which would otherwise be payable on such date. An Optional Interest Payment Date occurs if:

- APRA or another prudential regulatory body requests IAG, the Group or a Regulated Subsidiary to restore or improve its margin of solvency or capital adequacy levels and no interest payments have been made on equally or lower ranking subordinated debt and no dividends have been paid to shareholders since the date of that Regulatory Intervention (as defined on page 30); or

- no interest payments have been made on equally or lower ranking subordinated debt during the financial year in which such Interest Payment Date falls and no dividends or other distributions have been paid to shareholders during the 12 months prior to that Interest Payment Date.

IAG must notify the Bondholders as soon as practicable (and in any event within 10 Business Days after any Optional Interest Payment Date in respect of which payment is deferred) of any Optional Interest Payment Date on which IAG elects to defer the payment of interest (**Deferred Interest Payment**). Any Deferred Interest Payment does not constitute a default for any purpose by IAG and does not give any Bondholder the right to accelerate repayment of the Bonds.

6. Arrears of interest - optional and compulsory payments

Any Deferred Interest Payment, together with any other interest in respect of the Bonds not paid on any other Interest Payment Date, so long as the same remains unpaid, constitutes Arrears of Interest. Any Arrears of Interest may be paid in whole or in part at any time upon the expiry of not less than 14 days' notice to the Bondholders. All Arrears of Interest (together with all corresponding Additional Interest Amounts) will automatically become immediately due and payable in whole upon the earliest of the following dates:

- the date on which any interest payment or payment in respect of interest on any Junior Securities or Parity Securities (each as defined below) is made (excluding any such payment on any Junior Securities or Parity Securities the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant payment) or on which a dividend or other distribution on any class of IAG's share capital is paid or becomes payable;

- the date on which IAG notifies the Trustee that no Regulatory Intervention (as defined below) that has occurred is or will be continuing on such date, unless IAG is otherwise entitled to defer at such time under the Conditions;

- the date on which IAG commences and does not abandon a public offer to redeem, purchase or acquire any Junior Securities or Parity Securities;

- the date on which a Winding Up Default occurs; or

- the date fixed for any redemption of Bonds or the date fixed for any purchase of Bonds by or on behalf of IAG.

Payment of interest is also subject to the subordination provisions summarised above on page 26.

Junior Securities means any class of IAG's share capital together with any other securities of any other member of the Group ranking or expressed to rank junior to the Bonds either issued directly by IAG or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by IAG which ranks or is expressed to rank junior to the Bonds.

Parity Securities means any securities of IAG together with any other securities of any other member of the Group ranking or expressed to rank pari passu (i.e. equally) with the Bonds, either issued directly by IAG or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by IAG which ranks or is expressed to rank pari passu with the Bonds.

Regulated Subsidiary means any entity engaged in the insurance business and regulated as such by a Relevant Supervisory Authority, in which IAG directly or indirectly holds 20% or more of the voting rights or share capital.

Regulatory Intervention means:

(a) with respect to IAG, a request from APRA or any Relevant Supervisory Authority to restore or improve any applicable minimum or notional margin of solvency or capital adequacy levels of IAG;

(b) a request to a Regulated Subsidiary by its Relevant Supervisory Authority to restore either its applicable minimum or notional margin of solvency or capital adequacy levels or a notification to APRA by a Relevant Supervisory Authority that such Relevant Supervisory Authority has made such request to the Regulated Subsidiary; or

(c) if:

    (i) prior to any date on which a payment in respect of interest in respect of the Bonds is due; or

(ii) on any date on which a payment in respect of interest in respect of the Bonds is due,

IAG or a Regulated Subsidiary has failed (or in the case of (ii) is reasonably likely to so fail immediately after such payment) to meet its applicable minimum or notional margin of solvency or capital adequacy levels as at the later of (1) the date of the most recent audited accounts of IAG or, as the case may be, a Regulated Subsidiary or, (2) the date such levels were most recently tested for regulatory purposes, or (3) any date selected by the board of directors (or other management body) of IAG or, as the case may be a Regulated Subsidiary, falling on or prior to the date such payment is, or otherwise would be, due.

A Regulatory Intervention is deemed to be continuing until such date as, in the case of (a) or (b), the relevant margins of solvency or capital adequacy levels have been restored or improved to the satisfaction of the Relevant Supervisory Authority or the request is otherwise withdrawn or addressed to the satisfaction of the Relevant Supervisory Authority or, in the case of (c), the first date on which IAG or a Regulated Subsidiary, as applicable, meets its applicable minimum or notional margin of solvency or, as the case may be, capital adequacy levels, as determined and so certified to the Trustee by two directors of IAG.

Relevant Supervisory Authority means any regulator having jurisdiction over IAG or the Group, on a consolidated basis, or any Regulated Subsidiary from time to time.

Subsidiary means a subsidiary as defined in section 46 of the Corporations Act.

7. Additional Interest Amounts

Interest will accrue on each amount of Arrears of Interest at the relevant Interest Rate, and such amount of interest (**Additional Interest Amount**) will become due and payable by applying the Interest Rate to the amount of the Arrears of Interest. All Additional Interest Amounts accrue and are payable on the same basis as interest on a Bond, subject to deferral on the same basis as interest.

All Additional Interest Amounts accrued up to any Interest Payment Date and not paid on such Interest Payment Date will be added, for the purpose only of calculating the Additional Interest Amounts accruing thereafter, to the amount of Arrears of Interest remaining unpaid on such Interest Payment Date.

8. Redemption on Maturity Date

Unless previously redeemed or purchased and cancelled, IAG will redeem the Bonds at their Principal Amount on the Maturity Date, together with any accrued but unpaid interest on the Bonds on that date, including any Deferred Interest Amount and Additional Interest Amounts that are payable (without double counting).

Any redemption or purchase of a Bond by IAG prior to the Maturity Date is subject to the prior written consent of APRA.

9. Early redemption at the option of IAG

IAG may (subject to having obtained the prior written consent of APRA and having given notice to the Bondholders) redeem all (but not some only) of the Bonds on:

- each Rate Reset Date at their Principal Amount plus any accrued interest unpaid; or
- following the first Rate Reset Date, any Interest Payment Date that is not a Rate Reset Date, at the greater of the Principal Amount plus accrued interest unpaid and Market Price.

10. Early redemption for taxation reasons

If at any time:

- IAG would be required to pay any additional amounts as a result of deductions for certain Australian taxes (**Additional Amounts**) (refer to *Taxation* on page 46); or

- the interest payable in respect of the Bonds is not or may not be allowed as a deduction to IAG for Australian income tax purposes as a result of a change of law or regulations, or a determination to that effect is made by IAG or the Australian Taxation Office,

IAG may (subject to having obtained the prior written consent of APRA and having given notice to the Bondholders), redeem all of the Bonds, or all of the Bonds in respect of which IAG would be obliged to pay Additional Amounts, on any Interest Payment Date for their Principal Amount, plus any accrued interest unpaid.

Prior to giving notice of any such redemption, IAG must deliver to the Trustee a certificate signed by one of its authorised representatives stating that it is entitled to redeem the relevant Bonds and an Additional Amount cannot be avoided by IAG taking reasonable measures available to it, and an opinion of independent legal or tax advisers of recognised standing in Australia to the effect that IAG would be required to pay an Additional Amount on the next Interest Payment Date or, as applicable, the interest payments on the Bonds may not be allowed as a deduction for Australian income tax purposes.

11. Early redemption for regulatory reasons

If, at any time prior to the First Call Date, a change of applicable laws or regulations has the effect that, or a determination is made by APRA to the effect that, the Bonds do not qualify as Tier 2 Capital (or its equivalent concept) of the Group (on a consolidated basis) under the standards or guidelines published by APRA (a **Regulatory Event**) as applied to the Group in an amount equal to 100% of the Principal Amount of the Bonds for the time being outstanding, IAG may (subject to having obtained the prior written consent of APRA and having given notice to the Bondholders), redeem all (but not some only) of the Bonds at the greater of:

- Principal Amount, plus accrued interest unpaid; and
- Market Price.

Prior to giving notice of any such redemption, IAG must deliver to the Trustee a certificate stating that it is entitled to redeem the Bonds under this Condition.

12. Repurchase of Bonds

IAG or any of its Related Bodies Corporate (as defined in the Corporations Act) may (subject to having obtained the prior written consent of APRA in the case of IAG or any of its Subsidiaries) at any time purchase some or all of the Bonds on the open market, by private contract or otherwise and at any price. Bonds purchased by or for the account of IAG or any of its Related Bodies Corporate may be held, cancelled or re-sold at the option of the purchaser.

13. Payments in respect of Bonds

Payments on the Bonds will be made to the person whose name appears in the Register as the Bondholder on the Record Date in respect of the relevant payment. If more than one person is so named in the Register, payment will be made to the first person so named.

A Bondholder may, by written notice to the Registrar, request the Registrar to make payments in respect of any Bond held by it to a specified bank account and at any time cancel or amend any notice so given (provided that such notice will only have effect in respect of any payment if received by the Registrar on or before the Record Date for that payment). In the absence of any such notice, payments in respect of each Bond are to be made by posting a cheque to the address of the relevant Bondholder appearing in the Register. Any notice given under this Condition will be taken to be automatically cancelled upon transfer of a Bond.

All payments are subject to deduction for applicable taxes (refer to *Taxation* on page 46). No commissions or expenses shall be charged to the Bondholders in respect of such payments.

The obligation of IAG prior to the occurrence of a Winding Up Default to make payments when due is conditional upon IAG being Solvent immediately before and after the payment.

Any payment made to a Bondholder which is returned unclaimed and any amount due to a Bondholder whose address and bank account details are unknown, will (unless the Registrar has in the meantime received notice of a

change of address to be entered in the Register) be retained by the Registrar to be held by it for the Bondholder concerned without any liability to invest or pay interest on that amount. Any money not claimed within a period of six months from the original date of payment must be returned to IAG, and the Bondholder will be entitled to payment after providing evidence of that Bondholder's entitlement. If the amount concerned remains unclaimed six years after the original date of payment, IAG will become beneficially entitled to that amount.

14. Events of Default

It is an Event of Default, whether or not it is within the control of IAG, if:

- IAG does not pay any principal, Early Redemption Amount or Early Redemption Amount (Make-whole) due in respect of the Bonds within seven days of its due date;

- IAG does not pay any interest or other amount due in respect of the Bonds within 30 days of its due date (other than any interest on the Bonds that is deferred in accordance with the Conditions); or

- a Winding Up occurs other than:

    - where the order is successfully appealed or stayed within 30 days; or

    - for the purposes of a consolidation, amalgamation, merger or reconstruction (the terms of which have been approved by the shareholders of IAG or by a court of competent jurisdiction) under which the continuing or resulting corporation effectively assumes the entire obligations of IAG under the Bonds.

Bondholders should note that if IAG does not satisfy the solvency Condition to payment or if IAG has elected to defer payment of interest (in either case under the relevant Conditions described above), IAG is not obliged to make such payment and, accordingly, an Event of Default as a result of non-payment cannot occur. Any amount not paid for these reasons remains a debt owing to the Bondholder by IAG until it is paid.

If an Event of Default occurs and is continuing, a Bondholder may:

- initiate proceedings to recover any amount then due and payable but unpaid on the Bond (subject to IAG being able to make the payment and remain Solvent);

- initiate proceedings to obtain an order for specific performance of any other obligation under the Bond;

- initiate proceedings for the Winding Up; or

- if the Event of Default is a Winding Up Default, by notice to IAG and the Trustee declare that the Bond must be redeemed immediately for its Early Redemption Amount.

The Bondholders may not exercise any remedies against IAG as a consequence of an Event of Default other than as specified above.

15. Meetings of Bondholders

The Bond Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of the Conditions or any of the provisions of the Bond Trust Deed. Such a meeting may be convened by IAG at any time and shall be convened if required by Bondholders holding not less than 10% of the aggregate Principal Amount.

Any Extraordinary Resolution duly passed is binding on Bondholders (whether or not they were present or represented at the meeting at which such resolution was passed).

16. Modifications

IAG and the Trustee may agree, with the prior approval of APRA, but without the consent of the Bondholders, to any modification of any of the Conditions or any of the provisions of the Bond Trust Deed.

17. Notices

Notices to the Bondholders shall be made to them by way of a duly published NZX announcement. Alternatively, notices may be published in a daily newspaper having general circulation in New Zealand (which is expected to be *The New Zealand Herald*).

Risk factors

This section describes some of the potential risks associated with an investment in the Bonds.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. There is no assurance that the importance of different risks will not change or other risks emerge.

Before applying for the Bonds, you should consider whether the Bonds are a suitable investment for you. There are risks associated with an investment in the Bonds, many of which are outside the control of IAG and its directors. These risks include those in this section and other matters referred to in this Prospectus.

Risks associated with investing in the Bonds

Set out below are examples of the risks associated with an investment in the Bonds.

The principal risks for Bondholders are that they may:

- be unable to recover all or any part of the Principal Amount of the Bonds; or
- not receive all, or any, interest payment on the Bonds (including as a result of a deferral of interest payments) and therefore may not receive the returns described in this Prospectus.

These circumstances could arise if IAG becomes insolvent for any reason, or is placed in receivership, administration, liquidation or any other similar process. As the Bonds are subordinated obligations of IAG, in a liquidation of IAG the claims of Bondholders in respect of the Bonds would rank behind the claims of Senior Creditors, as described more fully under *Ranking and subordination* on page 28.

Bondholders will not be liable to pay money to any person solely as a result of the insolvency of IAG.

Market price and liquidity
Although IAG intends to list the Bonds on NZDX, there is no guarantee that a liquid market will develop for the Bonds. The market price of the Bonds is likely to fluctuate and, if Bondholders wish to sell or otherwise transfer the Bonds before they are redeemed, the price at which they are able to be sold may be less than the price paid for them. Bondholders who wish to sell the Bonds may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists on NZDX for the Bonds.

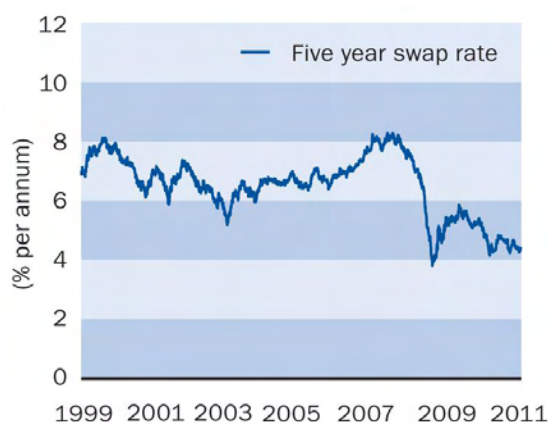
The market price of the Bonds may fluctuate due to various factors, including investor perceptions, Australian, New Zealand and worldwide economic conditions, movements in interest rates, movements in foreign exchange rates, movements in the market price of ordinary shares or senior or subordinated debt issued by IAG, and other factors that may affect the financial performance, position or creditworthiness of IAG.

There is no guarantee that the Bonds will remain continuously quoted on NZDX. However, a delisting of the Bonds initiated by IAG would require Bondholder consent.

Fixed interest rate
The Interest Rate on the Bonds will be fixed for a five year period until the first Rate Reset Date. Thereafter, the Interest Rate will be fixed for further five year periods on the basis of the five year swap rate prevailing on the relevant Rate Reset Date, plus the Margin, until the Bonds are redeemed. There is a risk that if market interest rates increase during a reset period, the Interest Rate will become less attractive compared with rates of return available on other comparable securities in the market until the next Rate Reset Date.

HISTORICAL MOVEMENT IN FIVE YEAR SWAP RATE

The following graph demonstrates the historical variance in the New Zealand five year swap rate.



Deferral of interest payments
Interest on the Bonds is not permitted to be paid if prior to the occurrence of a Winding Up Default, IAG would not be Solvent immediately before and after the payment. In addition, IAG has the option to defer interest payments in certain circumstances (refer to the *Summary of terms and conditions of the Bonds* on page 28). If Interest is not paid in such circumstances, it will accrue until paid.

Bondholders' rights are subordinated in a Winding Up of IAG
In the event of a liquidation of IAG, the claims of Bondholders against IAG in respect of the Bonds will be subordinated in right of payment to claims of all Senior Creditors, all other creditors whose claims rank or are expressed to rank ahead of the Bondholders' claims for amounts owing by IAG in respect of Bonds and all obligations mandatorily preferred by law.

Bondholders will be entitled to claim the applicable redemption amount for each outstanding Bond and any interest due and payable but unpaid at the commencement of the Winding Up. The claim for this amount ranks ahead of IAG's shares and obligations which by their terms or at law rank behind the Bonds, and equally with other bonds and any other obligations of IAG which by their terms rank equally with the Bonds, but behind all Senior Creditors, all obligations which by their terms rank or are expressed to rank ahead of the Bonds and all obligations mandatorily preferred by law.

If there is a shortfall of funds on a Winding Up to pay amounts owing on the Bonds, there is a risk that Bondholders will not receive the full payment of amounts to which they would otherwise be entitled.

Structural subordination
IAG is a holding company which owns or holds interests in a group of insurance companies in Australia, New Zealand, Asia and the United Kingdom. In the event a subsidiary was wound up, the claims of IAG, would be limited to the net assets (if any) of that subsidiary after all liabilities, including to policyholders, have been discharged or provided for. The Bonds are not guaranteed by any of IAG's subsidiary companies. As such, Bondholders will have no claim on any Group member other than IAG.

In addition, IAG is reliant on the continued transfer of dividends or other funding from its subsidiaries to service its debt obligations, including the Bonds. The ability of IAG's subsidiaries to pay dividends or to otherwise make funds available to IAG may in certain circumstances be subject to regulatory, contractual or legal restrictions.

Early redemption
In certain circumstances, IAG has the right to redeem (subject to prior written approval of APRA), the Bonds held by Bondholders, including:

- all or some of the Bonds, on the First Call Date (being 15 December 2016) or any subsequent Interest Payment Date; or

- all of the Bonds, on the occurrence of a Tax Event (e.g. IAG is required to make gross-up payments or interest on the Bonds cease to be tax deductible) or a Regulatory Event (e.g. the Bonds do not fully qualify as Tier 2 Capital of the Group).

The timing or occurrence of any such redemption may not accord with the preference of Bondholders and may also be disadvantageous in light of market conditions or individual circumstances.

If you acquired the Bonds in the secondary market (including on NZDX), it is possible that the amount you receive on redemption could be lower than the price paid for the Bonds.

Bondholders have no right to require redemption
Bondholders have no right to compel IAG to redeem the Bonds prior to maturity except in certain circumstances following a Winding Up Default. In particular, IAG is not obliged to redeem the Bonds on the First Call Date or any other Interest Payment Date.

Prior to the Maturity Date or an early redemption, the Bonds can only be realised by a sale on market or a private sale by a Bondholder. There is a risk that the sale price on market or under private sale will be less than the price paid for the Bonds. Brokerage may be payable if the Bonds are sold through a NZX Firm.

Future issuance
The Conditions do not restrict IAG or any other member of the Group from issuing additional debt securities that rank equally with or ahead of the Bonds.

Acquisitions, disposals and other transactions affecting IAG's capital structure
The Conditions do not restrict IAG or any other member of the Group from entering into any future transaction, including the acquisition and disposal of assets, entering into any borrowing, guarantee or indemnity or issuing further equity, hybrid or debt securities. Any such transactions may impact over time, either positively or negatively, on a Bondholder's position in the event of a Winding Up of IAG and on IAG's ability to pay interest on, and repay the Principal Amount of the Bonds. Bondholder approval is not required for IAG or any other member of the Group to enter into these types of transactions.

An investment in the Bonds carries no right to participate in any future issuance of securities (whether equity, hybrid, debt or otherwise) by IAG or any other member of the Group. No prediction can be made as to the effect, if any, such future issues of securities by IAG or any other member of the Group may have on the market price or liquidity of the Bonds.

Credit ratings
There is a risk that credit ratings of IAG or the Bonds could change adversely in the future as a result of changes in IAG's or the Group's operating performance or capital structure or other factors affecting the perceived creditworthiness of IAG. Any downgrade of credit ratings could affect the market price of the Bonds.

Regulatory classification and prudential supervision
APRA has provided confirmation that the Bonds will, once issued, qualify for Tier 2 Capital treatment for the Group under prudential standards at the date of this Prospectus. However, if APRA subsequently determines that the Bonds do not qualify fully for Tier 2 Capital treatment, IAG may decide that a Regulatory Event has occurred. This would allow, at any time prior to the First Call Date, redemption of all (but not some only) of the Bonds on issue at the option of IAG (subject to prior written approval from APRA) for the greater of the Principal Amount, plus any accrued interest unpaid, and the Market Price.

The Basel Committee for Banking Supervision has proposed to reform global banking and capital standards through the release of a regime known as Basel III. There is uncertainty around the timing and content of the Basel III reforms as they will apply to Australian insurers. APRA has indicated that it intends to modify its existing prudential standards to closer align with the Basel III proposals. The uncertainty regarding APRA's implementation of the Basel III proposals increases the risk of a regulatory change which could result in a Regulatory Event.

It is possible that the implementation of the Basel III proposals by APRA may negatively impact the level and nature of regulatory capital held by IAG and the Group, particularly the capital efficiency of its subordinated debt (including the Bonds).

The Bonds will form part of the regulatory capital base of the Group. Therefore, APRA's approval is required to redeem the Bonds prior to the Maturity Date. There can be no assurance that APRA will give its approval for redemption of the Bonds if requested by IAG on the First Call Date or any subsequent Interest Payment Date.

Risks associated with IAG, the Group and the general insurance industry

Set out below are risks associated with IAG, the Group and the general insurance industry broadly that could impact on the value of the Bonds.

Catastrophes
General insurers are subject to the risk of large-scale claims arising out of catastrophes, which may have a significant impact on their earnings and financial condition. Catastrophes may include cyclones, earthquakes, tsunamis, wind, hail, floods, fire, volcanic eruptions and explosions, which are inherently unpredictable with regard to incidence and severity.

Reinsurance
The Group enters into a significant number of reinsurance contracts to limit its risk exposure to any one claim, class of business or occurrence of specific events and/or series of events. There can be no assurance that the Group's current reinsurance coverage is adequate, that it matches the underlying risks assumed, that reinsurance will be available at adequate rates or levels in the future or that increases in reinsurance costs will be recovered through premium rates. Recent catastrophes both in Australia and New Zealand as well as globally are expected to lead to increases in reinsurance rates, and changes in terms and availability.

The limit of catastrophe cover purchased by the Group as at 26 October 2011 was A$4.1 billion with an event retention of approximately A$200 million. If the extent of insurance loss exceeds the upper limit of cover, the amount in excess of the limit, together with the event retention, would need to be met by the Group.

The use of reinsurance introduces credit risk. The Group is exposed to risk if its reinsurers default on their obligation to pay claims. In addition, the Group may take a considerable period to collect on reinsurance receivables, and reinsurers may dispute its claims, even if valid. Despite reinsurance, the Group is primarily liable to policyholders, and so a failure by a reinsurer to make payment for any reason could adversely affect the Group's financial performance and position.

A detailed description of the Group's reinsurance arrangements can be found in the *Corporate profile* on page 10 and in the *Summary financial information* on page 18.

Competition
The Group's position as a leading general insurer in Australia and New Zealand is an important factor in it being able to achieve strong and scalable insurance margins. Further industry consolidation could result in competitors improving their scale, increasing pressure on the Group's ability to maintain its insurance margins.

There is significant competition within the general insurance industry in Australia, New Zealand, the United Kingdom and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Group. This pressure could adversely affect the Group's underwriting results, market share and financial performance and position.

Market position
The Group's business is concentrated in Australia, New Zealand and the United Kingdom, which respectively accounted for 79%, 12% and 7% of reported GWP for the year ended 30 June 2011. This means the Group's performance is largely dependent on the insurance sector performance in these countries. As outlined under *Corporate profile* on page 14, the Group aspires to grow in Australia, New Zealand and Asia. The results of such a strategy are inherently uncertain and carry risks that the predicted profitability will not materialise.

Global market and economic environment
The financial performance of the Group is significantly affected by changes in investment markets and economic conditions both globally and in Australia, New Zealand, the United Kingdom and Asia, being the primary places in which the Group conducts business. These changes may influence the performance of those businesses or the value of the Group's investment portfolio. Such changes may also influence the operating margins of the Group and its businesses and the demand for the Group's financial products and services.

Investment performance
Investment performance can significantly affect the Group's financial performance and position. The Group's investment portfolios are exposed in various degrees to financial markets and volatility in financial markets could lead to poor investment performance.

IAG invests in a range of different funds and markets and accordingly is exposed to risk and volatility in those markets generally and in the securities and other assets in which it invests. Those risks include, but are not limited to:

- credit risks from counterparty or issuer default;
- market risks that the value of an investment portfolio will decrease, including as a result of fluctuations in share prices, interest rates, exchange rates or commodity prices;
- liquidity risk, including that assets cannot be sold without a significant impairment in value; and
- hedging risk.

Such risks can be heightened during periods of high volatility and market disruption, such as occurred during the global financial crisis.

The sensitivity of the Group's net profit before tax to investment market volatility is illustrated in the *Sensitivity analysis* table on page 24.

Uncertainty of future liabilities
The Group maintains liabilities for future policy benefits and unpaid claims in its general insurance business. The calculation of policy liabilities depends on estimates of expected future revenue and expenses. These estimates are based on actuarial and statistical projections made on the basis of the facts and circumstances known at a given time, estimates of likely future trends and assumptions about future investment returns, expenses and inflation rates. Although the Group maintains assets in excess of policy liabilities based on best estimate assumptions, actual results and conditions may be different from those assumed, due to deterioration in persistency or claims, natural disasters or worsening general economic conditions.

As a result of the inherent uncertainties in assessing policy liabilities, there can be no certainty that the ultimate costs will not materially exceed those supported by the amounts of the Group's estimated liabilities. Any differences may result in a material adverse impact on the financial performance and position and level of capital of the Group.

Adverse foreign exchange rate movements
Foreign exchange risk is the risk of the Group sustaining loss through adverse movements in exchange rates. Such losses can impact the Group's financial position and performance and the level of capital supporting the Group's businesses. From an operational perspective, the Group faces exposure to foreign exchange risks through direct foreign income and expenses, the settlement of foreign currency denominated assets and liabilities and the translation of the net investment and earnings of certain subsidiaries. Foreign exchange losses can also impact the Group's investment portfolio, which in turn can affect the Group's reputation, asset values, financial performance and position. The Group has in place a policy to specifically manage its foreign exchange risk.

Changes in government policy, regulation or legislation
The general insurance industry is subject to extensive legislation, regulation and supervision by federal and state regulatory organisations, including the Australian Prudential Regulation Authority and the Reserve Bank of New Zealand. Insurance-specific regulation and supervision are primarily directed to the benefit of policyholders and not to holders of debt instruments issued by the Group, including the Bonds. A number of government and agency enquiries arising from recent natural perils and weather related events are currently underway in Australia and New Zealand. Whilst the Group has made submissions to such enquiries, the outcomes and specific consequences of the outcomes on the Group are currently unknown. Any future legislation and regulatory change may affect the general insurance and financial services industry and may adversely affect the Group's financial performance and position.

Mergers and acquisitions
The Group regularly examines a range of corporate opportunities, including mergers and acquisitions. Any of these opportunities which are pursued could, for a variety of reasons, have a material impact on the financial performance and position of the Group.

Any acquisitions may require assimilation of new operations and new personnel and may cause dilution of the Group's management resources. Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for the Group to realise the financial benefits of the transaction, if any. During the period immediately following this type of transaction, the Group's operating results may be adversely affected.

As a potential target in any future merger or acquisition activity, the issues identified above may also be relevant to the Group. The Group's failure to adequately manage the risks associated with any mergers or acquisitions could have a material adverse effect on its financial performance or position.

Change of control
The Bonds are issued by IAG, which, as an ASX listed company, may be affected by merger and acquisition activity, including the possibility of being taken over by, or merged with, another company or group of companies. There is no right in the Conditions for the Bonds to be redeemed on, or any other consequences of, any such change of control. Investors will not be compensated for any reduction in the market value of the Bonds that may result from a change of control of IAG.

Litigation and regulatory proceedings
IAG and the Group, like all companies in the insurance or finance sectors, are exposed to the risk of litigation and/or regulatory proceedings brought by or on behalf of policyholders, reinsurers, government agencies or other potential claimants. While there are no material legal proceedings that are current or known to be threatened against the Group, there can be no assurance that significant litigation will not arise in the future and that the outcome of legal proceedings from time to time will not have a material adverse effect on the Group's business, financial performance or position.

In addition, the Group, in the ordinary course of business, is regularly involved in legal proceedings relating to policies underwritten by entities within the Group or arising from its operations generally.

Operational factors
Whilst the Group has management and operational risk practices, its profitability will continue to be subject to a variety of strategic and business decisions (including acquisitions/divestments) and operational risks such as: fraud and other dishonest activities; management practices; workplace safety; project and change management; compliance; business continuity and crisis management; information and systems integrity; and outsourcing.

Statutory information

The information in this section includes information required by Schedule 2 of the Securities Regulations 2009.

MAIN TERMS OF OFFER

Issuer

Insurance Australia Group Limited is the issuer of the Bonds. IAG's address is:

Group General Counsel and Company Secretary
Insurance Australia Group Limited
Level 26
388 George Street
Sydney NSW 2000
Australia

IAG has appointed its subsidiary, IAG Finance (New Zealand) Limited at the office of its New Zealand branch, as its agent for service of process in New Zealand in respect of the Bonds. The Branch Manager address of IAG Finance (New Zealand) Limited is:

Branch Manager
IAG Finance (New Zealand) Limited
NZI Centre
1 Fanshawe St
Auckland 1010
New Zealand

Description of securities

The Bonds are unsecured, subordinated fixed rate debt obligations of IAG, which are further described under *Summary of terms of Offer* from page 5. The Bonds are not guaranteed by any other member of the Group or by any other person.

Maximum principal amount of securities

IAG is offering Bonds of up to NZ$150 million with an ability to accept up to an additional NZ$175 million in oversubscriptions. Oversubscriptions, if accepted, will be allocated at the discretion of the Joint Lead Arrangers and IAG.

Price at which the Bonds are offered

The Bonds are offered at par (a subscription price of NZ$1.00 per NZ$1.00 in Principal Amount of Bonds).

DETAILS OF INCORPORATION OF ISSUER

IAG was incorporated in New South Wales, Australia on 30 November 1999 as NRMA Insurance Group Limited and changed its name in 2002 to Insurance Australia Group Limited. Its registered number is ACN 090 739 923. The public files in respect of IAG can be viewed on the ASIC website at www.search.asic.gov.au.

IAG was registered on the New Zealand "Overseas Issuers" Register maintained by the Companies Office of the Ministry of Economic Development, on 10 September 2009. Its registered number is 2323067. In addition, IAG was registered on the New Zealand Securities Act "Participatory Security" register maintained by the Companies Office of the Ministry of Economic Development, on 7 November 2011. Its registered number is 2554776. The public files in respect of IAG can be viewed on the Companies Office of the Ministry of Economic Development website at www.business.govt.nz/companies.

GUARANTORS

None.

DIRECTORATE AND ADVISERS

The directors of IAG are:

Brian Schwartz, Sydney, Australia
Michael Wilkins (managing director and chief executive officer), Sydney, Australia
Yasmin Allen, Sydney, Australia
Peter Bush, Sydney, Australia
Phillip Colebatch, Somerset, United Kingdom
Hugh Fletcher, Auckland, New Zealand
Anna Hynes, Sydney, Australia
Philip Twyman, Sydney, Australia

They can be contacted at the address of IAG or of IAG Finance (New Zealand) Limited, each of which is set out on page 41 under *Issuer*.

Other than Michael Wilkins, as managing director and chief executive officer of IAG, no director of IAG is also an employee of IAG or any member of the Group.

No director of IAG has been adjudged bankrupt, convicted of a crime involving dishonesty, prohibited from acting as a director of a company or placed in statutory management during the five years preceding the date of this Prospectus.

The company secretary of IAG is Chris Bertuch.

The names of the Joint Lead Arrangers, the Auditor, the Registrar and the legal and tax advisors who have been involved in the preparation of this Prospectus are set out in the *Directory* at the back of this Prospectus.

The Offer for the Bonds is not underwritten.

The trustee for the Bonds is The New Zealand Guardian Trust Company Limited. The Trustee's address is set out in the *Directory* at the back of this Prospectus.

RESTRICTIONS ON DIRECTORS' POWERS

There are no restrictions on the powers of the directors of IAG under the constitution of IAG.

IAG is a listed issuer on the ASX and it is intended that the Bonds will be listed on NZDX. Listing Rules of each such Exchange contain a number of provisions that could have the effect, in certain circumstances, of imposing modifications, exceptions or limitations on the powers of the Board of IAG. These provisions apply to any company listed on the ASX or NZDX.

DESCRIPTION OF ACTIVITIES OF THE BORROWING GROUP

As at the date of this Prospectus, there are no guarantors of the Bonds, so the borrowing group comprises IAG only.

IAG is an ASX listed company with a portfolio of investments in general insurance businesses with leading and established brands across its home markets of Australia and New Zealand, a growing presence in Asia, and other specialist underwriting operations.

IAG's businesses have a deep heritage dating back 150 years. Since then the Group has expanded, now having interests in businesses in Australia, New Zealand, the United Kingdom and Asia.

IAG's strategy is to manage a portfolio of high performing, customer-focused diverse operations that provide general insurance in a manner that delivers superior experiences for stakeholders and creates value for shareholders.

No assets of IAG are charged as security for the Bonds.

SUMMARY OF FINANCIAL STATEMENTS

The summary financial statements of IAG for the last 5 financial years is set out in the *Summary financial information* section on page 18 of this Prospectus.

ACQUISITION OF BUSINESS OR SUBSIDIARY

IAG has not acquired a business or subsidiary or body corporate in the 2 years preceding the date of registration of the Prospectus and the consideration paid or payable, or proposed to be paid, for the acquisition is not more than one-fifth of the amount of the total tangible assets shown in the statement of financial position as at 30 June 2011.

MATERIAL CONTRACTS

The only material contracts (not being contracts entered into in the ordinary course of business) entered into by IAG at any time in the two years preceding the date of registration of this Prospectus are:

- a Master Trust Deed dated on or about 4 November 2011 between IAG and the Trustee, constituting the Bonds.
- a Supplemental Deed dated on or about 4 November 2011 between IAG and the Trustee in relation to the Bonds (including the Conditions).

PENDING PROCEEDINGS

There are no legal proceedings or arbitrations that are pending as at the date of registration of this Prospectus that may have a material adverse effect on IAG which have not been disclosed in this Prospectus.

ISSUE EXPENSES

The estimated amount of expenses of the Offer, including accounting and audit fees, legal fees, listing fees, registry expenses, advertising, printing and distribution of this Offer and the Joint Lead Arrangers' fees is NZ$5 million.

RANKING OF SECURITIES

The Bonds are subordinated and unsecured obligations of IAG and rank:

- *ahead* of:
  - the claims of any holder of a preference share issued by IAG on exchange of the RES or the claims of any holder of any RES against IAG under the RES Terms and the RES Trust Deed in respect of the RES if IAG fails to issue a preference share when required to do so in accordance with the RES Terms;
  - any claims on IAG in respect of the A$350 million perpetual reset preference shares issued according to a prospectus dated 6 May 2002; and
  - all shareholders and all other creditors whose claims against IAG rank, or are expressed to rank, after the claims of the Bondholders in connection with the Bonds;
- *equally* amongst themselves; and
- *equally* with all other creditors whose claims against IAG rank or are expressed to rank equally with the Bondholders' claims for amounts owing by IAG in connection with the Bonds, including the claims of holders of the £250 million fixed/floating rate subordinated notes of IAG due 2026 in respect of those notes; and

- *behind*:
  - all obligations to Senior Creditors or obligations mandatorily preferred by law; and
  - all other creditors whose claims against IAG rank or are expressed to rank ahead of the Bondholders' claims for amounts owing by IAG in connection with the Bonds.

At the date of this Prospectus, unsubordinated debt for borrowed money of IAG was nil (other than borrowings from related bodies corporate).

The aggregate amount (as at 30 June 2011) of any securities that are secured by a mortgage or charge over any of the assets of IAG and that rank in point of security ahead of the Bonds was nil.

The aggregate amount (as at 30 June 2011) of any securities that are secured by a mortgage or charge over any of the assets of IAG and that rank equally with the Bonds was nil.

PROVISIONS OF BOND TRUST DEED

The Bond Trust Deed constituting and setting out the terms and conditions of the Bonds was entered into between IAG and the Trustee on or about 4 November 2011.

The Bond Trust Deed does not create any security over the assets of IAG and it does not restrict the creation of new mortgages or charges.

Subject to the Listing Rules and (where it is refinancing or incurring new finance debt ranking equally with or in priority to the Bonds), IAG is not restricted by the Bond Trust Deed from creating and issuing further notes, ordinary shares or other securities, or incurring indebtedness or obligations ranking equally with, in priority to or subordinate to the Bonds.

There is no limitation in the Bond Trust Deed on the liabilities that IAG may incur as a proportion of its assets.

In addition to the obligations placed on the Trustee by clause 1 of the 15th schedule to the Securities Regulations 2009, the Trustee's obligations to monitor the interests of Bondholders may be summarised as being to act on behalf of the Bondholder's in the circumstances provided for in the Bond Trust Deed.

The statement required to be made by the Trustee under paragraph 14(3) of the Second Schedule to the Securities Regulations 2009 is set out on page 27.

A summary of the Bond Trust Deed (including the duties of the Trustee) is set out under *Summary of the terms and conditions of the Bonds* on pages 28 to 34.

OTHER TERMS OF OFFER AND SECURITIES

All terms of the Offer, and all the terms of the Bonds, are set out in this Prospectus, except those implied by law or set out in a document that:

- has been registered with a public official;
- is available for public inspection; and
- is referred to in this Prospectus.

FINANCIAL STATEMENTS

Audited consolidated financial statements for the Group for the year ended 30 June 2011 required to be included in this Prospectus by the Second Schedule of the Securities Regulations 2009 are set out in *Appendix A* to this Prospectus. These are also available for public inspection free of charge on request from IAG Finance (New Zealand) Limited at the address set out under *Issuer* on page 41.

PLACES OF INSPECTION OF DOCUMENTS

During the currency of this Prospectus, a copy of the constitution of IAG and the material contracts referred to under *Material Contracts* on page 43 may be inspected without fee at the registered office of the Registrar at the address specified in the *Directory* at the back of this Prospectus during normal business hours of 9.00am to 5.00pm on a working day (as defined in the Companies Act 1993).

The public file in respect of IAG can be viewed at any time, free of charge, on the ASIC website at www.search.asic.gov.au and on the Companies Office of the Ministry of Economic Development website at www.business.govt.nz/companies.

OTHER MATERIAL MATTERS

There are no other material matters relating to the Offer of the Bonds (other than matters disclosed elsewhere in this Prospectus and contracts entered into in the ordinary course of business of IAG).

DIRECTORS' STATEMENT

The directors of IAG, after due enquiry by them in relation to the period between 30 June 2011 and the date of registration of this Prospectus, are of the opinion that no circumstances have arisen that materially adversely affect the trading or profitability of IAG or the value of its assets or the ability of IAG to pay its liabilities due within the next 12 months.

AUDITORS' REPORT

A copy of the Auditors' Report required by clause 22 of the Second Schedule to the Securities Regulations 2009 is set out on pages 52 and 54 of this Prospectus.

KPMG has given and has not withdrawn its consent to be named in this Prospectus as auditors of IAG and to the issue of this Prospectus with its audit report included in the form and context with which it is included. KPMG takes no responsibility for nor has it authorised nor licensed the issue of any part of this Prospectus, except for those areas covered by the Auditors' Report.

Taxation

1. Introduction

The returns on the Bonds will be affected by taxes. If a law requires IAG (which for the purposes of this section of this Prospectus includes the Registrar acting on IAG's behalf) or the Trustee to deduct an amount in respect of taxes from a payment to a Bondholder, or to pay an amount of any levy in respect of such a payment, then IAG or the Trustee will deduct the amount for the taxes and pay it to the relevant authority.

Neither IAG nor the Trustee is obliged to gross up, indemnify or otherwise compensate or pay any additional amounts to the Bondholder as a consequence of or otherwise in connection with such deductions. Each Bondholder indemnifies IAG in respect of any payment which IAG becomes liable to make for or on account of tax payable by that Bondholder in relation to any Bond. IAG may deduct any indemnity payment from future amounts payable to that Bondholder.

2. New Zealand Taxation

2.1 Scope of advice

The information set out in this section provides a summary of the New Zealand income tax consequences to Bondholders with respect to their investment in the Bonds. The information is believed by IAG to be correct as at the date of this Prospectus.

The information contained in this section is of a general nature only and does not constitute taxation advice to any particular investor. It does not attempt to address all of the taxation consequences that may be relevant to Bondholders. Taxation laws are subject to change, and such changes may materially affect a Bondholder's tax position with respect to their investment in the Bonds. Bondholders should seek qualified independent taxation advice for their own particular circumstances.

The information contained in this section is based on the New Zealand income tax laws and published Inland Revenue policy and practice as at the date of this Prospectus.

All Bondholders (including those resident outside New Zealand) must give written notice to the Registrar (or, where applicable, to the custodian/nominee registered as the Bondholder in respect of the Bonds on behalf of the beneficial owner) of their country of residence for taxation purposes and, if not New Zealand tax resident, whether the Bondholder is engaged in business in New Zealand through a fixed establishment in New Zealand. This requirement for written notice is satisfied for initial Bondholders where the relevant parts of the Application Form are completed by applicants.

2.2 Definitions

In this section:

- Bondholders who are resident in New Zealand for taxation purposes are referred to as "**Resident Bondholders**".
- Bondholders who are not resident in New Zealand for taxation purposes but who are engaged in business in New Zealand through a fixed establishment in New Zealand are referred to as "**NZ Branch Bondholders**".
- Resident Bondholders and NZ Branch Bondholders are collectively referred to as "**NZ Bondholders"**.
- Bondholders who are neither resident in New Zealand for taxation purposes nor engaged in business in New Zealand through a fixed establishment in New Zealand are referred to as "**Non-resident Bondholders"**.

2.3 Resident withholding tax

Resident withholding tax (**RWT**) will be deducted from the gross amount of interest paid or credited to Resident Bondholders and NZ Branch Bondholders in accordance with the provisions of the Tax Act (NZ).

RWT will not be deducted if a Bondholder provides the Registrar/IAG with a copy of a current RWT exemption certificate.

NZ Bondholders should notify the Registrar/IAG of any changes to their elected RWT rates as a result of changes to their particular circumstances.

Individuals

As at the date of this Prospectus, individual Resident Bondholders who are subject to RWT and have provided their IRD number to the Registrar/IAG will be able to elect one of the following RWT rates:

- 33%;
- 30%;
- 17.5%; or
- 10.5%.

The 10.5% rate can only be elected if a Resident Bondholder has a reasonable expectation at the time of making the election that his or her income for the income year will be NZ$14,000 or less.

For individual Resident Bondholders who have not provided their IRD number to the Registrar/IAG, the applicable rate of RWT at the date of this Prospectus is 33%.

Depending on an individual Resident Bondholder’s level of annual income, electing a RWT rate lower than the individual Resident Bondholder’s personal marginal tax rate may result in a requirement to file an income tax return (or the provision of an income statement by Inland Revenue) to account for the tax shortfall. Conversely, if an individual Resident Bondholder elects a RWT rate higher than the individual Resident Bondholder’s personal marginal tax rate, a tax return may need to be filed in order to obtain the relevant tax refund. Investors are urged to seek their own tax advice in this respect.

Trustees and Māori authorities

As at the date of this Prospectus, Resident Bondholders and NZ Branch Bondholders that are trustees or Māori authorities who are subject to RWT and have provided their IRD number to the Registrar/IAG will be able to elect one of the following RWT rates:

- 33%;
- 30%; or
- 17.5%.

For trustee or Māori authority Bondholders who have not provided their IRD number to the Registrar / Issuer, the applicable rate of RWT at the date of this Prospectus is 33%.

Special rules apply regarding the RWT rates that can be elected by certain Bondholders who are trustees of a testamentary trust and Bondholders that are non-trust Māori authorities.

Companies

As at the date of this Prospectus, a Resident Bondholder or NZ Branch Bondholder that is a company (other than a Māori authority or a trustee) that has provided its tax file number to the Registrar/IAG will have RWT deducted at the rate of 28%. However, a corporate Bondholder can, by notice in writing to the Registrar/IAG, elect to have a higher rate of RWT deducted if it so wishes.

For corporate Bondholders who have not provided their IRD number to the Registrar/IAG, RWT will be deducted at the rate of 33%.

2.4 Approved issuer levy and non-resident withholding tax

IAG may register as an "approved issuer" and register the Bonds and the application monies as "registered securities" with Inland Revenue for the purposes of the Approved Issuer Levy (**AIL**) regime. In these circumstances, unless otherwise agreed, IAG will, via the Registrar, deduct and pay AIL (currently 2% of amounts treated as interest) from payments made or credited to Non-resident Bondholders.

As at the date of this Prospectus, the New Zealand Government has introduced legislation in the Taxation (International Investment and Remedial Matters) Bill to reduce the AIL rate to 0% on listed or other types of widely held bonds issued to non-residents. However, as at the date of this Prospectus, the Government has yet to pass the legislation into law to give effect to this change. If enacted in its current form, it is expected that the Bonds should satisfy the requirements to apply a 0% AIL rate. If this is the case, then the Registrar/IAG will apply the 0% rate of AIL, where it is lawfully able, from payments made or credited to Non-resident Bondholders.

Non-resident Bondholders may request, by written notice to the Registrar/IAG, that AIL not be deducted from interest paid or credited in respect of their Bonds, and that non-resident withholding tax (**NRWT**) be deducted at 15% or such rate as specified in a double tax agreement that applies to that Non-resident Bondholder.

If a Non-resident Bondholder derives interest under the Bonds jointly with one or more NZ Bondholders then NRWT must be deducted from the interest paid or credited to the Non-resident Bondholder at the applicable NRWT rate. In such cases, the Non-resident Bondholder may be entitled to claim a refund of NRWT to the extent that NRWT was deducted at a rate higher than that set out in any applicable double tax agreement.

2.5 New Zealand financial arrangement rules

Resident Bondholders and NZ Branch Bondholders who acquire the Bonds for the purpose of the business which they carry on through their New Zealand fixed establishment will be entering into a financial arrangement which is subject to the "financial arrangement rules" in the Tax Act (NZ). Interest paid to these Bondholders under the Bonds will be income that is taxable at the Bondholder's relevant tax rate (with a credit for any RWT deducted).

The timing of that income will be governed by the financial arrangement rules. The financial arrangement rules require that income or expenditure arising in relation to the Bonds be spread over the life of the Bonds using an applicable method under those rules.

Bondholders who are "cash basis persons" for the purpose of the financial arrangements rules will be entitled to recognise income on a receipt basis.

Bondholders who are not cash basis persons will be required to spread the income or expenditure using the spreading methods prescribed in the financial arrangements rules. Methods available may depend on the particular circumstances of the Bondholder.

The financial arrangement rules may cause Bondholders to derive income or incur expenditure on the transfer of the Bonds held by them. For example, if a gain is made on the transfer of the Bonds by Bondholders to whom the financial arrangement rules apply, the "base price adjustment" performed under the financial arrangements rules will bring the gain to account for New Zealand tax purposes and will require that gain to be included in the Bondholder's income. Where a Bondholder incurs a loss on the transfer of the Bonds, that loss may be deductible to the Bondholder.

The financial arrangements rules may also apply to certain Non-resident Bondholders who are trustees of a trust which has a New Zealand tax resident settlor.

Although the financial arrangements rules do not apply to NZ Branch Bondholders who do not acquire the Bonds for the purpose of the business which they carry on through a New Zealand fixed establishment and also do not apply to Non-resident Bondholders (except in limited circumstances as noted above), those categories of Bondholders may potentially be subject to New Zealand tax on any gains derived from a sale of the Bonds.

Bondholders should ascertain whether New Zealand's provisional tax rules apply to their individual situations.

2.6 Double tax agreements

As referred to above, if a Non-resident Bondholder requests that AIL is not deducted from interest paid or credited in respect of their Bonds, and that NRWT be deducted the rate will be 15% unless a double tax agreement applies and specifies a lower rate.

As at the date of this Prospectus, New Zealand has double tax agreements in force with the following jurisdictions:

- Australia
- Austria
- Belgium
- Canada
- Chile
- China
- Czech Republic
- Denmark
- Fiji
- Finland
- France
- Germany
- India
- Indonesia
- Ireland
- Italy
- Japan
- South Korea
- Malaysia
- Mexico
- Netherlands
- Norway
- Philippines
- Poland
- Russian Federation
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Taiwan
- Thailand
- Turkey
- United Arab Emirates
- United Kingdom
- United States

Non-resident Bondholders should seek independent taxation advice to determine whether any of the above double tax agreements apply to their circumstances.

3. Australian Taxation

3.1 Introduction

The information set out in this section provides a summary of the Australian income tax consequences to Bondholders with respect to their investment in the Bonds. The information is believed by IAG to be correct as at the date of this Prospectus.

The information provided in this section is of a general nature only and does not constitute taxation advice to any particular investor. It does not attempt to address all of the taxation consequences that may be relevant to Bondholders. Taxation laws are subject to change, and such changes may materially affect a Bondholder's tax position with respect to their investment in the Bonds. Bondholders should seek qualified independent taxation advice for their own particular circumstances.

The information contained in this section is based on the Australian income tax laws as at the date of this Prospectus.

In this section it is assumed that:

- (the Bonds will be issued only to those persons who are regarded as residents of New Zealand for both Australian and New Zealand income tax purposes and do not acquire the Bonds in connection with a permanent establishment in Australia;

- those persons will be the beneficial owner of the Bonds;

- the Bonds will not be issued in connection with a permanent establishment of IAG in New Zealand; and

- the Bonds will be accepted for listing upon NZDX.

3.2 Australian Interest Withholding Tax

IAG is an Australian resident for Australian income tax purposes. Interest paid by IAG to a non-resident of Australia will, in the absence of an available exemption, be subject to interest withholding tax.

In this case, the Bonds will be issued in a manner which will comply with the exemption from interest withholding tax in section 128F of the Income Tax Assessment Act 1936 (Commonwealth of Australia) (or any successor Act) (**1936 Tax Act**). In particular, the Bonds will be debentures for the purposes of that section and will be issued in such a way as to satisfy the "public offer test" by being accepted for listing upon NZDX. Listing of the Bonds will be sought by IAG pursuant to an agreement with the Joint Lead Managers. Consequently, subject to the discussion immediately below no Australian interest withholding tax should be imposed in respect of any payment of interest, or an amount deemed to be interest, upon the Bonds.

The "public offer test" is not satisfied if, at the time of issue, and the exemption is not available if at the time of payment, IAG knows, or had reasonable grounds to suspect, that the Bonds, or an interest in the Bonds was being, or would be acquired, directly or indirectly, by an associate of IAG that was non-resident of Australia acting other than in the capacity of a dealer, manager or underwriter in relation to the placement of the Bonds or a clearing house, custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporations Act.

As payments of interest upon the Bonds are exempt from interest withholding tax under section 128F of the 1936 Tax Act, the investors will not be subject to any withholding tax imposed by the rules relating to the failure to quote to IAG either a Tax File Number or an Australian Business Number.

3.3 Gains or Losses on the disposal of Bonds

Gains made by New Zealand residents upon any disposal of the Bonds should not be subject to Australian income tax. Such gains should be regarded as having a source outside of Australia and accordingly should not be included in assessable income under any provision of either the 1936 Tax Act or the Income Tax Assessment Act 1997 (Commonwealth of Australia) or any successor Act (**1997 Tax Act**). Furthermore, such a gain should be excluded from Australian taxation by the terms of the New Zealand/Australia double tax convention.

As the Bonds do not constitute "taxable Australian property" for the purposes of Division 855 of the 1997 Tax Act no Australian capital gains tax should be imposed in respect of any gain made upon the disposal of the Bonds.

3.4 Bonds are a debt interest

The Bonds should be a debt interest for the purposes of Division 974 of the 1997 Tax Act as the terms of the Bonds disclose "effectively non-contingent obligations" upon IAG to pay to their holders amounts of both principal and interest. The terms by which the Bonds are subordinated to other creditors of IAG should not effect that conclusion. Consequently, the Bonds are eligible for exemption from interest withholding tax under section 128F of the 1936 Tax Act and should not be considered as giving rise to frankable distributions.

3.5 Other matters

Subdivision 12-FB of the Taxation Administration Act 1953 (Commonwealth of Australia) (or any successor Act) (**1953 Tax Act**) imposes withholding obligations in respect of certain payments, to be prescribed by regulation, that are made to non-residents of Australia.

The 1953 Tax Act expressly provides that the regulations will not apply to interest and other payments which are already subject to the current interest withholding tax rules or specifically exempt from those rules. Further, regulations may only be made if the responsible minister is satisfied payments are of a kind that could reasonably relate to assessable income of foreign residents. It is not expected that the regulations will apply to repayments of principal under the Bonds; as such amounts are not generally income or gains.

The issue, receipt, disposal or redemption of the Bonds will not be subject to any GST imposed in Australia as the issue of the Bonds is either GST-free (as a supply made outside of Australia) or is input taxed as a financial supply.

No stamp duty should be payable in Australia on the issue, receipt, disposal or redemption of the Bonds.

The Directors
Insurance Australia Group Limited
388 George Street
Sydney NSW 2000

4 November 2011

Auditors' report for inclusion in a Prospectus

As auditors of Insurance Australia Group Limited (the "Company") and its controlled entities (the "consolidated group") we have prepared this report in accordance with the requirements of Securities Act 1978 and pursuant to clause 22 of Schedule 2 of the Securities Regulations 2009 for inclusion in the Prospectus dated 4 November 2011 and for no other purpose.

Directors' responsibilities

The Directors of the Insurance Australia Group Limited are responsible for the preparation and presentation of:

- the financial statements which give a true and fair view of the financial position of the Company as at 30 June 2011 and their financial performance and cash flows for the year ended on that date, as required by clause 17 of Schedule 2 of the Securities Regulations 2009;
- the historical summary of financial statements of the Company for the financial years ended 30 June 2007, 30 June 2008, 30 June 2009, 30 June 2010 and 30 June 2011, as required by clause 8 of Schedule 2 of the Securities Regulations 2009; and
- the details and amounts in respect of the ranking of securities of the Company as at 30 June 2011, as required by clause 13(1) and 13(2) of Schedule 2 of the Securities Regulations 2009.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements as at 30 June 2011 presented by the Directors and report our opinion in accordance with clause 22(1) of Schedule 2 of the Securities Regulations 2009.

In addition we are responsible for reporting in accordance with clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, on the following matters which have been prepared and presented by the Directors:

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

- the amounts included in the historical summary of financial statements for the financial years ended 30 June 2007, 30 June 2008, 30 June 2009, 30 June 2010 and 30 June 2011; and
- the amounts included in the ranking of securities as at 30 June 2011.

This report has been prepared for inclusion in the Prospectus dated 4 November 2011 for the purpose of meeting the requirements of clause 22 of Schedule 2 to the Securities Regulations 2009. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the financial statements, the historical summary of financial statements and the prospective financial information for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in this report.

Our firm has provided other services to the Company and the consolidated group in relation to assurance (including audit services and tax advice). Partners and employees of our firm also deal with the Company and the consolidated group on normal terms within the ordinary course of trading activities of the business of the Company and the consolidated group. There are, however, certain restrictions on the business dealings which the partners or employees of our firm can have with the Company and the consolidated group. These matters have not impaired our independence as auditors of the Company and the consolidated group. The firm has no other relationship with or interest in the Company and the consolidated group.

Basis of opinion on the historical summary of financial statements

We have undertaken procedures to obtain reasonable assurance that the amounts set out in the historical summary of financial statements on page 18 pursuant to clause 8 of Schedule 2 of the Securities Regulations 2009 have been correctly taken from the audited financial statements of the Company for the financial years ended 30 June 2007, 30 June 2008, 30 June 2009, 30 June 2010 and 30 June 2011.

Basis of opinion on the ranking of securities

We have undertaken procedures to obtain reasonable assurance that the amounts set out in the ranking of securities on page 41 pursuant to clause 13 of Schedule 2 of the Securities Regulations 2009 have been correctly taken from the audited financial statements of the Company as at 30 June 2011.

Unqualified opinion on historical summary of financial statements

In our opinion the amounts set out in the historical summary of financial statements on page 18 of this Prospectus, as required by clause 8 of Schedule 2 of the Securities Regulations 2009, have been correctly taken from the audited financial statements of the Company for the financial years ended 30 June 2007, 30 June 2008, 30 June 2009, 30 June 2010 and 30 June 2011.

4 November 2011

Unqualified opinion on the ranking of securities

In our opinion the amounts set out in the ranking of securities on page 41 pursuant to clause 13 of Schedule 2 of the Securities Regulations 2009 have been correctly taken from the audited financial statements of the Company as at 30 June 2011.

Responsibility for updating

We have no responsibility to update our opinion on any of the matters above for events and circumstances occurring after the date of this report.

Auditors' consent

In terms of Regulations 18(1)(c)(ii) of the Securities Regulations 2009 we hereby give our consent to the inclusion in the above mentioned Prospectus of this report in the form in which it is included. We also confirm that we have not, before delivery of this Prospectus for registration, withdrawn our consent to the issue thereof.

Yours faithfully

KPMG

KPMG
Melbourne

Index for the Securities Regulations 2009

For the purposes of Regulation 16 of the Securities Regulations 2009, the matters required to be stated or contained in or distributed with this Prospectus by virtue of Schedule 2 of the Securities Regulations 2009 are:

Clause	Matter	Page
1	Main terms of offer	41
2	Name and address of the offeror	N/A
3	Details of incorporation of issuer	41
4	Guarantors	N/A
5	Names, addresses and other information	42
6	Restrictions on directors' powers	42
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Signatures

Signed by the directors of IAG or by their authorised agent duly authorised in writing

Brian Schwartz

Michael Wilkins

Yasmin Allen

Peter Bush

Phillip Colebatch

Hugh Fletcher

Anna Hynes

Philip Twyman

Glossary

In this Prospectus, unless the context otherwise requires:

1936 Tax Act means the Income Tax Assessment Act 1936 (Commonwealth of Australia) or any successor Act.

1953 Tax Act means the Taxation Administration Act 1953 (Commonwealth of Australia) or any successor Act.

1997 Tax Act means the Income Tax Assessment Act 1997 (Commonwealth of Australia) or any successor Act.

A$ or AUD means Australian dollars.

Additional Amounts has the meaning given to that term in the Conditions as summarised under *Early redemption for taxation reasons* on page 31.

Additional Interest Amounts has the meaning given to that term in the Conditions as summarised under *Additional Interest Amounts* on page 31.

Application Form means the application form attached to the Investment Statement.

Approved Issuer Levy means, in relation to any payment of interest, the levy of 2% of such interest amount that is payable in accordance with New Zealand tax law to enable the payment of that interest to be made to any non-resident for tax purposes with a deduction for New Zealand non-resident withholding tax at the rate of 0%.

APRA means the Australian Prudential Regulation Authority as constituted under the Australian Prudential Regulation Authority Act 1998 of Australia. APRA is the primary prudential regulator of IAG.

Arrears of Interest has the meaning given to that term in the Conditions as summarised under *Arrears of interest – optional and compulsory payments* on page 30.

ASX means ASX Limited.

Benchmark Rate is the five year swap rate used to set the Initial Interest Rate and to reset the Interest Rate at five yearly intervals. It is defined in the Conditions to mean (in summary) the rate per annum (expressed on a percentage yield basis rounded to the nearest two decimal places), which is determined by IAG by reference to the mid market swap rate for a five year term, being the average of the bid and offer rates as displayed on Reuters page ICAPAUKIWISWAP (or any successor page) at or about 3pm on the Rate Set Date or Rate Reset Date (as applicable) (adjusted as necessary to a quarterly rate).

Bond Moneys means, in relation to a Bond at any time, the Principal Amount, interest and other moneys payable on, or in relation to, that Bond to the relevant Bondholder.

Bond Trust Deed means the master trust deed as supplemented by the supplemental deed, each entered into by IAG and the Trustee on 4 November 2011, pursuant to which the Bonds are constituted, and includes the terms and conditions appended to the supplemental deed. The Bond Trust Deed and the Conditions are summarised under *Summary of terms and conditions of the Bonds* from page 28.

Bondholder means a person whose name is recorded in the Register as the holder of a Bond.

Bonds mean the unsecured, subordinated, fixed rate bonds offered by IAG under this Prospectus.

Business Day means a day, other than a Saturday or a Sunday, on which registered banks are open for general business in Auckland and Wellington and NZDX is open for trading.

Call Date means each date on which the Bonds may be redeemed by IAG, being the First Call Date of 15 December 2016 and each Interest Payment Date thereafter.

Closing Date means the end of the offer period for the Bonds, being 12 December 2011 or such other date that IAG may determine.

Co-Managers means Macquarie Securities (NZ) Limited and Westpac Banking Corporation, New Zealand Branch.

Conditions means the terms and conditions of the Bonds as set out in the Bond Trust Deed.

Corporations Act means the Corporations Act 2001 (Commonwealth of Australia).

Deferred Interest Amount means any Interest Amount the payment of which has been deferred by IAG in accordance with the Conditions as summarised under *Optional deferral of interest* on page 29, and constituting Arrears of Interest and which remains unpaid.

Deferred Interest Payment means any deferral of interest on the Bonds in accordance with the Conditions and **Deferred Interest** means any interest so deferred.

Early Bird Interest means interest paid at the Interest Rate on application money held on trust by the Registrar from the date on which subscription money is banked to the Offer trust account to (but excluding) the Issue Date (after deducting any applicable withholding taxes) where an application is successful. Early Bird Interest will be paid not later than five Business Days after the Issue Date.

Early Redemption Amount means, in relation to a Bond to be redeemed prior to its Maturity Date, the Principal Amount of the Bond together with any accrued but unpaid interest on the Bond to the date on which the Bond is to be redeemed, including any Deferred Interest Amount and Additional Interest Amounts payable in accordance with the Conditions (without double counting).

Early Redemption Amount (Make-whole) means, in relation to a Bond to be redeemed prior to its Maturity Date, the higher of the Early Redemption Amount and the amount calculated by IAG as being the Market Price of that Bond.

Extraordinary Resolution means a resolution passed at a meeting of Bondholders duly convened and held in accordance with the rules and procedures for meetings of Bondholders set out in Schedule 1 to the Bond Trust Deed at which at least 75% of the persons voting at the meeting voted in favour of the resolution or, if a poll is duly demanded, then at least 75% of the votes cast on such a poll based on the total Principal Amount of the Bonds held, voted in favour of the resolution.

Event of Default has the meaning given to that term in the Bond Trust Deed, as summarised on page 33.

Firm Allocation means an application for Bonds made by a Joint Lead Manager, Co-Manager or other approved financial intermediary under a Firm Allocation letter accepted by or on behalf of IAG.

First Call Date means the first date on which the Bonds may be redeemed by IAG, being 15 December 2016.

Gross Written Premium or **GWP** means the total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.

Group means the statutory consolidated group comprising IAG and its subsidiaries. The Group and its activities are described under *Corporate profile* on page 10.

IAG means Insurance Australia Group Limited, the issuer of the Bonds.

Interest Amount means the amount of interest payable on the Bonds, and for the avoidance of doubt, includes any Deferred Interest Amount and any Additional Interest Amounts.

Interest Payment Date means 15 March, 15 June, 15 September, 15 December of each year until redemption of the Bonds, commencing on 15 March 2012 (other than for Early Bird Interest, which is to be paid not more than five Business Days after the Issue Date).

Interest Rate means up until the First Call Date, the Initial Interest Rate and thereafter, if the Bonds are not redeemed, the aggregate of the Benchmark Rate and the Margin at the Rate Reset Date.

Initial Interest Rate means the rate of interest per annum payable on the face value of the Bonds as set by IAG in consultation with the Joint Lead Arrangers; and being the greater of the Minimum Interest Rate; and the Margin plus the Benchmark Rate on the Rate Set Date and announced prior to the Issue Date.

Investment Statement means the investment statement for the Bonds dated 4 November 2011.

Issue Date means 15 December 2011 or such other date as IAG may determine and announce.

Issue Price means NZ$1.00 per Bond.

Joint Lead Arrangers means ANZ National Bank Limited and UBS New Zealand Limited.

Joint Lead Managers means ANZ National Bank Limited, Bank of New Zealand, Craigs Investment Partners Limited, Forsyth Barr Limited and UBS New Zealand Limited.

Long-tail means classes of insurance with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.

Margin means the margin, expressed as a percentage per annum, determined by IAG in consultation with the Joint Lead Arrangers for the offering of the Bonds, and announced on or before the Opening Date.

Market Price means:

- the price (rounded to the nearest full cent) as calculated by reference to the average of the daily volume weighted average market yield of the Bonds sold on NZDX during the 10 Business Days prior to the twentieth Business Day before the relevant early redemption date, excluding any "crossing" transacted outside the open session or any "special crossing" transacted at any time outside New Zealand; or

- if the Bonds have not traded on NZDX for at least half of such 10 Business Day period, the current market price of that Bond determined by an independent adviser with reference to bids from four reference banks,

(for the avoidance of doubt) taking into account any accrued but unpaid interest on the Bond to the date on which the Bond is to be redeemed, including any Deferred Interest Amount and Additional Interest Amounts that is payable (without double counting).

Maturity Date means the date of repayment of the Bonds, being 15 December 2036 unless the Bonds are redeemed earlier in accordance with the Bond Trust Deed.

Memorandum of Amendments means a memorandum of amendments to a registered prospectus dated 15 November 2011.

Minimum Capital Requirement or **MCR** means the capital required by IAG's primary prudential regulator, APRA, to be maintained in order to enable the Group's insurance obligations to be met under a wide range of circumstances. MCR is calculated on a risk-based assessment for measurement of assets and liabilities under the prudential principles for insurance companies.

Minimum Interest Rate means the interest rate announced by IAG on or before the Opening Date.

NZ$ or **NZD** means New Zealand dollars.

NZClear System means the securities clearing and settlement facility operated by the Reserve Bank of New Zealand and known as the NZClear System (previously called Austraclear New Zealand).

NZDX means the registered market under the Securities Markets Act 1988 operated by NZX, on which the Bonds are to be listed and quoted.

NZX means NZX Limited (which is a registered exchange).

NZX Firm means a firm that has been accredited as a market participant of NZX.

Offer means the offer by IAG of the Bonds under the Investment Statement and this Prospectus.

Opening Date means the first date of the offer period for the Bonds, being 16 November 2011 or such other date as IAG may determine.

Organising Participant means UBS New Zealand Limited.

Principal Amount means, in relation to a Bond, the amount (other than interest) payable on redemption or repayment of that Bond, being the amount recorded as such in the Register in respect of that Bond.

Prospectus means this registered prospectus for the Bonds dated 4 November 2011, as amended by the Memorandum of Amendments.

Rate Reset Date means 15 December 2016 and each fifth anniversary of that date, provided that if any such date is not a Business Day it shall be postponed to the next Business Day.

Rate Set Date means 13 December 2011 or such other date, being a Business Day, as IAG may select.

Record Date means, in relation to a payment due on a Bond, the tenth calendar day before the relevant Interest Payment Date or Maturity Date.

Register means the register of the Bonds maintained by the Registrar.

Registrar means Computershare Investor Services Limited, which is appointed as the registrar and paying agent of the Bonds.

Regulatory Event means a change of applicable laws or regulations that has the effect that, or a determination is made by APRA to the effect that, the Bonds do not qualify as Tier 2 Capital (or its equivalent concept) of the Group (on a consolidated basis) under the standards or guidelines published by APRA.

RES means the A$550 million perpetual reset exchangeable securities issued by IAG Finance (New Zealand) Limited in accordance with the RES Trust Deed dated 15 December 2009.

RES Terms means the terms and conditions of the RES under the RES Trust Deed.

RES Trust Deed means the trust deed dated 15 December 2009 in respect of the RES.

Senior Creditors means all unsecured and unsubordinated creditors of IAG. More specifically, it is defined in the Conditions to include all creditors of IAG whose claims would be entitled to be admitted in the Winding Up, other than:

- the Bondholders of the Bonds, and holders of the £250 million fixed/floating rate subordinated notes of IAG due 2026;

- creditors whose claims rank or are expressed to rank pari passu (i.e. equally) with the claims of the Bondholders in connection with the Bonds (which includes all creditors, present or future, to whom IAG is indebted) where the terms of such indebtedness:

    - provide that such indebtedness will become due and payable on a specified or determinable date or at the end of a specified or determinable period, and that in the event of a liquidation or irrevocable Winding Up of IAG, the claims of those creditors against IAG will be, or are expressed to be, subordinated in right of payment to the claims of all non-subordinated creditors of IAG; and

    - do not provide that in the event of a liquidation or irrevocable Winding Up of IAG, the claims of those creditors against IAG will rank, or are expressed to rank, ahead of the claims of any other subordinated creditors of IAG to whom IAG is indebted on terms which conform to the foregoing description; and

- creditors whose claims against IAG rank, or are expressed to rank, after the claims of the Bondholders in connection with the Bonds (which includes all creditors, present and future, to whom IAG is indebted where the terms of such indebtedness provide that such indebtedness is undated or perpetual or otherwise of no fixed or determinable maturity, and that in the event of a liquidation or irrevocable Winding Up of IAG the claims of those creditors against IAG will be, or are expressed to be, subordinated in right of payment to the claims of all non-subordinated creditors of IAG and any or all of the creditors of IAG referred to in the second bullet point above).

Short-tail means classes of insurance with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.

Solvency II means the European community's prudential standards for insurance companies.

Solvent means, in relation to IAG, that:

- IAG is able to pay its debts as they fall due; and
- the non-consolidated gross assets of IAG exceed its non-consolidated gross liabilities.

Tax Act (NZ) means the Income Tax Act 2007 (New Zealand) or any successor Act.

Tax Event means at any time:

- IAG would be required to pay any Additional Amounts as a result of deductions for certain Australian taxes; or
- the interest payable in respect of the Bonds is not or may not be allowed as a deduction to IAG for Australian income tax purposes as a result of a change of law or regulations, or a determination to that effect is made by IAG or the Australian Taxation Office.

Trustee means The New Zealand Guardian Trust Company Limited.

Winding Up means:

- an order is made by a state or federal court in the Commonwealth of Australia for the winding up of IAG; or
- an effective resolution is passed by shareholders or members of IAG for the winding up of IAG.

Winding Up Default means an Event of Default as a result of Winding Up (refer to *Events of Default* on page 33).

Directory

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New Zealand

Freephone: 0800 742 737

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New Zealand

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Auckland 1140
New Zealand

AUSTRALIAN LEGAL ADVISER TO IAG

Mallesons Stephen Jaques
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1 Farrer Place
NSW 2000
Australia

Appendix A – financial statements of the Group

Important note concerning references to IAG and the Group

The Bonds are issued by IAG, a company incorporated in Australia which is the ultimate parent company of a group of insurance companies operating primarily in Australia and New Zealand and also with insurance company investments in Asia and the United Kingdom.

References in this Prospectus to IAG are to the holding company on a standalone basis and references to the Group are to IAG and its subsidiaries on a consolidated basis.

The Bonds are not guaranteed by any of IAG's subsidiary companies. This Prospectus describes the activities and the financial performance and position of the Group because:

- the subsidiaries conduct substantially all of the insurance and other business of the Group and accordingly, the subsidiaries generate the revenues that are distributed to IAG in order for IAG to meet its liabilities, including in respect of the Bonds; and
- substantially all the assets of IAG represent shares in, or other claims on, the subsidiaries. As a result, the financial position of IAG is a function of the consolidated net asset position of all of the Group members, after satisfaction of their liabilities (including to policyholders).

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	CONSOLIDATED	
		2011	2010
		$m	$m
Premium revenue	5	7,858	7,621
Outwards reinsurance premium expense	6	(620)	(556)
Net premium revenue (i)		7,238	7,065
Claims expense	6	(8,493)	(5,898)
Reinsurance and other recoveries revenue	5	3,404	826
Net claims expense (ii)	11	(5,089)	(5,072)
Acquisition costs	6	(1,009)	(1,054)
Other underwriting expenses	6	(721)	(761)
Fire services levies	6	(248)	(239)
Underwriting expenses (iii)		(1,978)	(2,054)
Underwriting profit/(loss) (i) + (ii) + (iii)		171	(61)
Investment income on assets backing insurance liabilities	5	508	574
Investment expenses on assets backing insurance liabilities	6	(19)	(20)
Insurance profit/(loss)		660	493
Investment income on equity holders' funds	5	222	200
Fee and other income	5	264	160
Share of net profit/(loss) of associates	5	(8)	3
Finance costs	6	(86)	(88)
Fee based, corporate and other expenses	6	(434)	(359)
Net income attributable to non-controlling interests in unitholders' funds	6	(4)	(7)
Profit/(loss) before income tax		614	402
Income tax (expense)/credit	7	(276)	(212)
Profit/(loss) for the year		338	190
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Actuarial gains and (losses) on defined benefit arrangements		7	(3)
Net movement in foreign currency translation reserve		(4)	28
Net movement in hedging reserve		-	1
Income tax (expense)/credit on other comprehensive income and (expense)		(46)	(30)
Other comprehensive income and (expense), net of tax		(43)	(4)
Total comprehensive income and (expense) for the year, net of tax		295	186
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the Parent		250	91
Non-controlling interests		88	99
Profit/(loss) for the year		338	190
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the Parent		207	87
Non-controlling interests		88	99
Total comprehensive income and (expense) for the year, net of tax		295	186

	NOTE	CONSOLIDATED	
		2011	2010
		cents	cents
EARNINGS PER SHARE			
Basic earnings per ordinary share	9	12.08	4.39
Diluted earnings per ordinary share	9	12.01	4.36

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

BALANCE SHEET

AS AT 30 JUNE 2011

	NOTE	CONSOLIDATED	
		2011	2010
		$m	$m
ASSETS			
Cash held for operational purposes	23	509	416
Investments	15	11,893	11,734
Premium receivable	16	2,081	2,046
Inventories		1	1
Trade and other receivables	16	560	663
Defined benefit superannuation asset		1	-
Current tax assets		-	5
Reinsurance and other recoveries on outstanding claims	12	3,904	1,488
Prepayments		30	36
Deferred levies and charges		142	137
Deferred outwards reinsurance expense		371	258
Deferred acquisition costs	13	683	688
Deferred tax assets	7	311	302
Property and equipment	17	284	302
Investment in joint ventures and associates	26	284	283
Intangible assets	18	225	301
Goodwill	19	1,644	1,782
Total assets		22,923	20,442
LIABILITIES			
Trade and other payables	20	826	1,037
Reinsurance premium payable		204	239
Restructuring provision		10	22
Current tax liabilities		280	84
Unearned premium liability	14	4,355	4,207
Non-controlling interests in unitholders' funds		184	122
Lease provision		37	39
Employee benefits provision	27	275	298
Deferred tax liabilities	7	12	35
Outstanding claims liability	11	10,783	8,253
Interest bearing liabilities	21	1,377	1,450
Total liabilities		18,343	15,786
Net assets		4,580	4,656
EQUITY			
Share capital		5,353	5,353
Treasury shares held in trust		(57)	(58)
Reserves		(84)	(34)
Retained earnings		(795)	(775)
Parent interest		4,417	4,486
Non-controlling interests		163	170
Total equity		4,580	4,656

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 2011

CONSOLIDATED	SHARE CA	TREASURY SHA	FOREIGN CURRE	SHARE BASEI	HEDGING F	RETAINED EA	NON-CONTROLL	TOTAL EQUI
	$m	$m	$m	$m	$m	$m	$m	$m
2011								
Balance at the beginning of the financial year	5,353	(58)	(61)	27	-	(775)	170	4,656
Profit/(loss) for the year	-	-	-	-	-	250	88	338
Other comprehensive income and (expense)	-	-	(48)	-	-	5	-	(43)
Total comprehensive income/(expense) for the year	-	-	(48)	-	-	255	88	295
Transactions with owners in their capacity as owners								
Shares acquired and held in trust	-	(14)	-	-	-	-	-	(14)
Share based payment expense recognised	-	-	-	18	-	-	-	18
Share based remuneration vested	-	15	-	(13)	-	(2)	-	-
Share based remuneration lapsed	-	-	-	(7)	-	7	-	-
Non-controlling interests in acquisitions during the year	-	-	-	-	-	-	2	2
Dividends determined and paid	-	-	-	-	-	(281)	(97)	(378)
Dividends received on treasury shares held in trust	-	-	-	-	-	1	-	1
Balance at the end of the financial year	5,353	(57)	(109)	25	-	(795)	163	4,580
2010								
Balance at the beginning of the financial year	5,326	(55)	(58)	48	(1)	(589)	165	4,836
Profit/(loss) for the year	-	-	-	-	-	91	99	190
Other comprehensive income and (expense)	-	-	(3)	-	1	(2)	-	(4)
Total comprehensive income/(expense) for the year	-	-	(3)	-	1	89	99	186
Transactions with owners in their capacity as owners								
Shares issued under Dividend Reinvestment Plan	27	-	-	-	-	-	-	27
Shares acquired and held in trust	-	(23)	-	-	-	-	-	(23)
Share based payment expense recognised	-	-	-	25	-	-	-	25
Share based remuneration vested	-	20	-	(26)	-	6	-	-
Share based remuneration lapsed	-	-	-	(20)	-	20	-	-
Non-controlling interests in acquisitions during the year	-	-	-	-	-	-	(9)	(9)
Dividends determined and paid	-	-	-	-	-	(301)	(85)	(386)
Balance at the end of the financial year	5,353	(58)	(61)	27	-	(775)	170	4,656

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 2011

	NOTE	CONSOLIDATED	
		2011	2010
		$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		8,020	7,845
Reinsurance and other recoveries received		1,056	801
Claims costs paid		(5,991)	(5,514)
Outwards reinsurance premium expense paid		(768)	(495)
Dividends received		40	22
Interest and trust distributions received		601	534
Finance costs paid		(84)	(87)
Income taxes refunded		6	88
Income taxes paid		(150)	(138)
Other operating receipts		980	1,025
Other operating payments		(3,090)	(2,966)
Net cash flows from operating activities	23	620	1,115
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on acquisition of subsidiaries and associates		(37)	(142)
Proceeds from disposal of investments and property and equipment		9,123	13,791
Outlays for investments and property and equipment		(9,048)	(14,498)
Net cash flows from investing activities		38	(849)
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for purchase of treasury shares		(14)	(23)
Proceeds from issue of trust units		133	163
Outlays for redemption of trust units		(75)	(126)
Proceeds from borrowings		-	272
Repayment of borrowings		(4)	(406)
Dividends paid to IAG equity holders*		(281)	(301)
Dividends paid to non-controlling interests		(97)	(85)
Proceeds from issue of shares*		-	27
Dividends received on treasury shares		1	-
Net cash flows from financing activities		(337)	(479)
Net movement in cash held		321	(213)
Effects of exchange rate changes on balances of cash held in foreign currencies		(42)	(16)
Cash and cash equivalents at the beginning of the financial year		1,053	1,282
Cash and cash equivalents at the end of the financial year	23	1,332	1,053

* Includes dividends settled with shares under the Dividend Reinvestment Plan for the 2009 final dividend paid 2 October 2009 (refer to the dividend note).

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 2011 and consolidated financial statements for the Company and its subsidiaries (Group or Consolidated entity).

This general purpose financial report was authorised by the board of directors for issue on 25 August 2011.

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 2009-12 will be operative in the financial year commencing 1 July 2011.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2013	A
AASB 2009-11	Amendments to Australian Accounting Standards - Accounting Standards arising from AASB 9	1 January 2013	C
AASB 2009-12	Amendments to Australian Accounting Standards	1 January 2011	B
AASB 2010-4	Amendments to Australian Accounting Standards arising from the annual improvements project	1 January 2011	B
AASB 2010-5	Amendments to Australian Accounting Standards	1 January 2011	A
AASB 2010-6	Amendments to Australian Accounting Standards - Disclosures on transfers of financial assets	1 July 2011	B
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	C
AASB 2010-8	Amendments to Australian Accounting Standards - Deferred Tax: Recovery of underlying assets	1 January 2012	A
AASB 2010-9	Amendments to Australian Accounting Standards - Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011	A
AASB 2010-10	Amendments to Australian Accounting Standards - Removal of fixed dates for first-time adopters	1 January 2013	A
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman convergence project	1 July 2011	A
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman convergence project - Reduced disclosure requirements	1 July 2013	B
AASB 124 (2009)	Related party disclosures	1 January 2011	B
AASB 1054	Australian additional disclosures	1 July 2011	B

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. Adopting some of these standards and interpretations resulted in changes in accounting policies. However, none of these changes have a material financial impact on 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:

Reinsurance and other recoveries on outstanding claims now includes the net goods and services tax (GST) receivable on outstanding claims and recoveries. This change reflects the reconsideration that GST is similar to other types of claim recoveries. The following balance sheet items are reclassified as at 30 June 2010:

- an increase in reinsurance and other recoveries receivable on outstanding claims by net GST receivable of $417 million;
- a reduction in trade and other receivables for GST receivable on outstanding claims liability of $421 million;
- a reduction in trade and other payables for GST payable on reinsurance and other recoveries of $4 million; and
- there is no impact to the profit/(loss) for the period.

IV. Changes in Parent entity disclosures

For the financial year ended 30 June 2011, the Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to prepare parent entity financial statements. Parent entity financial statements have been replaced by specific parent entity disclosures (refer to note 37).

V. 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 principles. 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 (generally referred to as the equity method). The investor’s share of the profit or loss of the investee is included in the profit or loss of the Consolidated entity and disclosed as a separate line in the 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 on the result 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.

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

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

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

NATURE OF TAX FUNDING ARRANGEMENTS AND TAX SHARING ARRANGEMENTS

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

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

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

III. Goods and services tax

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

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

N. INVESTMENTS

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

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value

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

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

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

O. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and 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 hedge the Group's assets and liabilities.

Derivatives are initially recognised at trade date at fair value excluding transaction costs. The fair value is determined by reference to current market quotes (current bid price for derivatives presented as assets and the current ask price for derivatives presents as liabilities) or generally accepted valuation principles.

Transaction costs for purchases of derivatives are expensed as incurred.

For the derivatives that do not qualify for hedging 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 I.

I. Hedge accounting

Where derivatives are designated for hedge accounting, they are classified as:

- hedge of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or
- hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting may be applied to derivatives designated as hedging instruments provided certain criteria are met. Certain transactions have been designated as either a cash flow hedge or a net investment hedge.

To qualify for hedge accounting, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) in the range of 80% to 125% must also be demonstrated on an ongoing basis. At the inception of a hedging relationship, the relationship between the hedging instruments and hedged items is documented, as well as the risk management objective and strategy for undertaking the hedge. When it is determined that a derivative for which hedge accounting has been designated is not (or ceases to be) highly effective, hedge accounting is discontinued prospectively from the date of ineffectiveness.

a. CASH FLOW HEDGE

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

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

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

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

b. 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.

II. Embedded derivatives

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

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

R. TRADE AND OTHER RECEIVABLES

Trade and other 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 uncollectable 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 (for land and buildings held as at 30 June 2004, the fair value at that date has been used as the deemed cost). The cost of equipment that is located on certain leased premises is increased by the present value of the estimated future cost for dismantling and removing the items when the relevant alterations are made to the premises with a corresponding recognition of a lease provision (refer to section Y of the summary of significant accounting policies note). All items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment charges. Items other than land are depreciated using the straight line method at rates based on the expected useful lives of the assets taking into account estimated residual values. Depreciation rates and residual values are reviewed annually and any changes are accounted for prospectively.

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

The net gain or loss on disposal of items 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 on disposal including transaction costs and other expenses associated with the disposal.

T. BUSINESS COMBINATIONS

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

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

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

Where 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.

Where a business combination is achieved in stages (commonly referred to as a step acquisition), the acquirer shall remeasure its previously held non-controlling interests in the acquiree at its acquisition date fair value, any profit or loss on the change in fair value is recognised in the statement of comprehensive income. Goodwill is only recognised on the additional controlling interest in the same way as other business combinations where control is gained at acquisition. Before qualifying as a business combination, a transaction may qualify as an investment in an associate (refer to section 1.C of the summary of significant accounting policies note).

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

U. INTANGIBLE ASSETS

I. Acquired intangible assets

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

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

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

Goodwill balances are denominated in the currency of the acquired entity and are translated to Australian dollars on a consistent basis with the other assets and liabilities held by the acquired entity.

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

W. TRADE AND OTHER PAYABLES

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

X. RESTRUCTURING PROVISION

A restructuring provision is recognised for the expected costs associated with restructuring where there is a detailed formal plan for restructure and a valid expectation has been raised in those 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 AG of the summary of significant accounting policies note).

IV. Superannuation

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

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

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	
	2011	2010	2011	2010
New Zealand dollar	0.77201	0.81361	0.76660	0.79651
British pound	1.49961	1.76643	1.60983	1.79332
Thai baht	0.03031	0.03624	0.03307	0.03419
United States dollar	0.93210	1.17488	1.01252	1.13327

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.

  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 24;
  - income tax and related assets and liabilities, refer to note 7;
  - share based remuneration, refer to note 28; and
  - defined benefit superannuation arrangements, refer to note 29.

The accounting judgements made during the reporting period that did not involve estimations are considered to have had no significant impact on the amounts recognised in the financial report (2010–none), including determination of the existence of control when entities are not wholly owned, the selection of valuation models for complex financial instruments (such as the recognition of the identifiable intangible assets acquired in a business combination) and the probability of recovering carry forward tax losses.

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 uncertainty 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 includes 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 all 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 with certain allowances made for 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 and 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 with certain allowances made for 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 and accumulation of claims that arise from the same or similar events.

Risks underwritten are also reinsured in order to stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. Each subsidiary that is an insurer has its own reinsurance program and determines its own risk 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 Malaysia. This operation acts as the reinsurer for the Group by being the main buyer of the Group's outwards reinsurance program. The reinsurance operation is intended 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 1:250 year event on a single site basis but is authorised to elect to purchase covers up to 1:250 year event on a whole of portfolio basis. Dynamic financial analysis modelling is used to determine the optimal level 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;
- 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;
- 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 maintained at $4.1 billion. Should a loss event occur that is greater than $4.1 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.

At 30 June 2011, the Group MER for a first event arising from a catastrophe event was $175 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	
	2011	2010
	%	%
Australia	79	77
New Zealand	12	12
United Kingdom	7	9
Asia	2	2
	100	100

The consolidated gross written premium increased by 3.4% to $8,050 million.

	2011 %	2010 %
Motor	35	37
Home	23	23
Short-tail commercial	18	17
CTP (motor liability)	12	12
Liability	5	5
Other short-tail	4	4
Workers' compensation	3	2
	100	100

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

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

D. OPERATIONAL RISK

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, wherein people and systems fail to perform as required. 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 minimise exposure to such risks.

The RMS includes consideration of operational risk. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Group has an internal audit function which monitors 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 develop in a number of those jurisdictions but 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 (2010-full conformance).

The Group participates in three Lloyd's syndicates being Equity Red Star Motor Syndicate 218 (64% share of capacity), Alba Group Syndicate 4455 (100%-in run off), and Syndicate 1208 (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 the Consolidated entity's controls over the due diligence and subsequent integration process of significant acquisitions. The Consolidated entity mitigates this risk as much as possible by performing due diligence appropriate to its risk appetite for each target entity and by using an assembled team of relevant subject matter experts from both corporate office and business divisions to manage the integration process.

NOTE 4. FINANCIAL RISK MANAGEMENT

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

- having an Asset and Liability Committee comprised of 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 addresses the controls surrounding 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 fair values 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 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 being primarily Australian dollars, United States dollars and British pounds. 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 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;
- translation of the financial performance of foreign operations - these financial impacts are directly recognised in profit; 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 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 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 so assume no action by management in response to movements in the factor. Additionally, the financial position may vary at the time that any actual market movement occurs.

The impact on the measurement of various financial instruments held at reporting date of an instantaneous 10% depreciation of the Australian dollar at reporting date compared with selected currencies, on 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	
	2011	2010
	$m Impact to profit	$m Impact to profit
Equity holders' funds including related derivatives		
United States dollar	34	24
British pound	3	2
Other currencies where considered significant	9	8
	46	34

	CONSOLIDATED	
	2011	2010
	$m Impact directly to equity	$m Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	17	8
British pound	32	46
Other currencies where considered significant	14	12
	63	66

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 create exposure to fair value interest rate risk which is a market risk. Financial assets and liabilities with floating interest rates create exposure to cash flow interest rate risk.

Interest rate risk arises primarily from investments in 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	
		2011	2010
		$m	$m
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	(258)	(252)
	-1%	276	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 significant 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	
		2011	2010
		$m	$m
Investments – equity and trust securities, and related equity derivatives	+10%	114	109
	-10%	(114)	(109)

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

B. CREDIT RISK

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 credit quality management roles, principles and processes are detailed in the Group Credit Risk Policy document 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.

The Group Treasury function 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 predominantly weighted towards counterparties of high quality investment grade. All new, changed and continuing credit risk exposures must be approved in accordance with the Group's approval authority framework.

Concentrations of credit risk exist if 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 amounts of the receivables on the balance sheet.

An ageing analysis for certain receivables balances is provided here. The other trade debtors provision of $5 million (2010-$5 million) represents specific provisions in an Australian subsidiary that relate to balances overdue more than one year. The other receivables balances not included below have either no overdue amounts or an immaterial portion of overdue amounts. The amounts are aged according to their original due date. Receivables for which repayment terms have been renegotiated represent an immaterial portion of the balances.

	NOT OVERDUE			OVERDUE	TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
Premium receivable	1,696	213	179	25	2,113
Provision for impairment - specific	(2)	(1)	(3)	(18)	(24)
Provision for impairment - collective	(4)	(1)	(1)	(2)	(8)
Net balance	1,690	211	175	5	2,081
Reinsurance recoveries on paid claims	83	21	35	16	155
Net balance	83	21	35	16	155

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 $37 million (2010-$41 million). The net movement in the aggregated provision for the current period was $4 million (2010-$9 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 BBB+ rated reinsurers is limited to 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 83% of the limit for the 2011 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	
	2011	2010
	%	%
AAA	1	1

AA	36	43
A	61	51
BBB and below	2	5
Total	100	100

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

Of these, approximately $121 million (2010-$88 million) is secured directly by deposits held in trust which reduces the credit risk.

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 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.

AAA	43	50
AA	51	45
A	4	2
BBB and below	2	3
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. The liquidity management roles, principles and processes are detailed in the Group Liquidity Risk Management Policy document which is approved by the IAG Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity and requires each business division to adopt a liquidity risk management framework.

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.

A significant 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	
	2011	2010	2011	2010
	$m	$m	$m	$m
Floating interest rate (at call)	-	-	785	605
Within 1 year or less	2,479	2,497	1,331	2,094

Within 1 to 2 years	1,108	1,161	2,546	1,537
Within 2 to 3 years	999	881	2,392	2,887
Within 3 to 4 years	693	634	1,372	773
Within 4 to 5 years	401	414	655	1,375
Over 5 years	1,199	1,178	1,453	1,302
Total	6,879	6,765	10,534	10,573

b. INTEREST BEARING LIABILITIES

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

	CARRYING VALUE	MATURITY DATES OF CONTRACTUAL UNDISCOUNTED CASH FLOWS					
		Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Perpetual	Total
	$m	$m	$m	$m	$m	$m	$m
2011							
Tier 1 regulatory capital[a]	900	-	-	-	-	900	900
Tier 2 regulatory capital[a]	436	-	-	-	463	-	463
Contractual undiscounted interest payments[b]		78	77	231	-	-	386
Total contractual undiscounted payments		78	77	231	463	900	1,749
2010							
Tier 1 regulatory capital[a]	900	-	-	-	-	900	900
Tier 2 regulatory capital[a]	541	-	-	-	541	-	541
Contractual undiscounted interest payments[b]		81	81	243	-	-	405
Total contractual undiscounted payments		81	81	243	541	900	1,846

(a) These liabilities have call or reset dates upon which certain terms, including the interest or distribution rate, can be changed. 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	
	2011	2010
	$m	$m
A. GENERAL INSURANCE REVENUE		
Gross written premium	8,050	7,782
Movement in unearned premium liability	(192)	(161)
Premium revenue	7,858	7,621
Reinsurance and other recoveries revenue	3,404	826
Total general insurance revenue	11,262	8,447
B. INVESTMENT INCOME		
Dividend revenue	39	24
Interest revenue	595	538
Trust revenue	19	8
Total investment revenue	653	570
Net changes in fair values of investments		
Realised net gains and (losses)	168	227
Unrealised net gains and (losses)	(91)	(23)
Total investment income	730	774
Represented by		
Investment income on assets backing insurance liabilities	508	574
Investment income on equity holders' funds	222	200
	730	774
C. FEE AND OTHER INCOME		
Fee based revenue	167	147
Brokerage and commission	37	33
Other income	60	76
Unrealised gains/(losses) on embedded derivatives	-	(96)
Total fee and other income	264	160
D. SHARE OF NET PROFIT/(LOSS) OF ASSOCIATES	(8)	3
Total income	12,248	9,384

NOTE 6. ANALYSIS OF EXPENSES

	CONSOLIDATED	
	2011	2010
	$m	$m
A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME		
Outwards reinsurance premium expense	620	556
Claims expense	8,493	5,898
Acquisition costs	1,009	1,054
Other underwriting expenses	721	761
Fire services levies	248	239
Investment expenses on assets backing insurance liabilities	19	20
Finance costs	86	88
Net income attributable to non-controlling interests in unitholders' funds	4	7
Fee based, corporate and other expenses	434	359
Total expenses	11,634	8,982
B. ANALYSIS OF EXPENSES BY FUNCTION		
General insurance business expenses	11,110	8,528
Fee based business expenses	198	172
Investment and other expenses	16	19
Corporate and administration expenses	310	263
Total expenses	11,634	8,982
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	20	26
Capitalised software development expenditure	20	24
Property and equipment	57	51
	97	101
II. Impairment charges		
Goodwill	90	50
Acquired intangible assets	60	37
	150	87
III. Employee benefits		
Defined contribution superannuation plans	81	79
Defined benefit superannuation plans	12	14
Share based remuneration	18	25
Salaries and other employee benefits expense	967	945
	1,078	1,063
IV. Transfers to provisions charged to profit or loss		
Restructuring provision	6	16
	6	16
V. Finance costs		
Reset preference shares distributions paid/payable	20	20
Subordinated term notes interest paid/payable	26	43
Reset exchangeable securities interest paid/payable	36	17
Other debts of operational nature, interest paid/payable	2	2
Amortisation of capitalised transaction costs	2	6
	86	88
VI. Other		
Operating lease payments	143	154
Software research and development costs	61	59
Net foreign exchange (gains)/losses	33	(20)

Liability adequacy test deficiency	58	16
Insurance protection tax levied by the NSW State Government	19	20

NOTE 7. INCOME TAX

	CONSOLIDATED	
	2011	2010
	$m	$m
A. INCOME TAX EXPENSE		
Current tax	338	149
Deferred tax	(77)	68
(Over)/under provided in prior year	15	(5)
Income tax expense/(credit)	276	212
Deferred income tax expense/(credit) included in income tax comprises		
(Increase)/decrease in deferred tax assets	(62)	70
Increase/(decrease) in deferred tax liabilities	(15)	(2)
	(77)	68
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	614	402
Income tax calculated at 30% (2010 - 30%)	184	121
Amounts which are not deductible/(taxable) in calculating taxable income		
Rebateable dividends	(8)	(4)
Capital profits/(losses) not subject to income tax	-	(5)
Deferred tax asset on tax loss (United Kingdom) not recognised in current year	50	109
Deferred tax asset written off in current year	-	54
Foreign exchange gains not subject to income tax	-	(119)
Amortisation and impairment charge on acquired intangible assets and goodwill	51	34
Interest on reset preference shares	6	6
Realised (gains) and losses on embedded derivatives	-	29
Other	(22)	(8)
Income tax expense/(credit) applicable to current year	261	217
Adjustment relating to prior year	15	(5)
Income tax expense/(credit) attributable to profit/(loss) for the year before impact of tax consolidation	276	212
Income tax expense/(credit) attributable to profit/(loss) for the year after impact of tax consolidation	276	212

C. TAX CONSOLIDATION

The Company, being the head entity, formed a tax-consolidated group comprising the Company and all of its Australian wholly owned subsidiaries and the accounting treatment is applied in accordance with the relevant accounting standards.

	2011	2010
D. DEFERRED TAX ASSETS		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	44	43
Employee benefits	63	65
Insurance provisions	119	122
Investments	13	12
Provisions	7	10
Tax losses	139	71
Other	-	10
	385	333
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	14	14
Other	1	-
	400	347
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	(89)	(45)
	311	302

	CONSOLIDATED	
	2011	2010
	$m	$m
II. Reconciliation of movements		
Balance at the beginning of the financial year	347	426
Credited/(charged) to profit or loss	62	(70)
Credited/(charged) to equity	1	(8)
Transfers	(1)	-
Adjustments relating to prior year	(9)	9
Foreign exchange differences	-	(10)
Balance at the end of the financial year prior to set-off	400	347

III. Tax losses

The Consolidated entity has not recognised $217 million of United Kingdom tax losses (2010-$201 million).

E. DEFERRED TAX LIABILITIES

	2011 $m	2010 $m
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	35	45
Other	28	24
	63	69
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	38	11
	101	80
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	(89)	(45)
	12	35
II. Reconciliation of movements		
Balance at the beginning of the financial year	80	83
Charged/(credited) to profit or loss	(15)	(2)
Charged/(credited) to equity	27	(6)
Foreign exchange differences	(3)	(3)
Transfers	(1)	-
Adjustments relating to prior year	13	8
Balance at the end of the financial year prior to set-off	101	80

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 the 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 Ltd and the internet brand, The Buzz.

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 using the State brand, 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 and India. The businesses offer personal and commercial insurance products through local brands.

F. CORPORATE AND OTHER

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

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

CONSOLIDATED	AUSTRALIA DIRECT INSURANCE $m	AUSTRALIA INTER-MEDIATED INSURANCE $m	NEW ZEALAND INSURANCE $m	UNITED KINGDOM INSURANCE $m	ASIA INSURANCE $m	CORPORATE AND OTHER $m	TOTAL $m
2011							
External revenue	4,528	3,112	3,308	817	233	250	12,248
Total revenue	4,528	3,112	3,308	817	233	250	12,248
Underwriting profit/(loss)	421	(42)	(11)	(192)	(5)	-	171
Investment income net of investment fees - technical reserves	281	182	14	11	1	-	489
Insurance profit/(loss)	702	140	3	(181)	(4)	-	660
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	213	213
Share of net profit/(loss) of associates	-	1	-	-	(3)	(6)	(8)
Finance costs	-	-	-	-	-	(86)	(86)
Other net operating result	-	3	1	2	-	(171)	(165)
Profit/(loss) before income tax	702	144	4	(179)	(7)	(50)	614
Income tax expense							(276)
Profit/(loss) for the year							338
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	-	144	144
Depreciation expense	31	4	5	3	2	12	57
Amortisation and impairment charges on acquired intangibles and goodwill	10	8	2	170	-	-	190
Total depreciation and amortisation expense	41	12	7	173	2	12	247
Other non cash expenses	26	3	8	2	-	4	43
2010							
External revenue	4,458	2,814	998	795	199	120	9,384
Total revenue	4,458	2,814	998	795	199	120	9,384
Underwriting profit/(loss)	259	(78)	115	(361)	(3)	7	(61)
Investment income net of investment fees - technical reserves	310	217	16	6	5	-	554
Insurance profit/(loss)	569	139	131	(355)	2	7	493
Investment income net of investment fees - equity holders' funds	-	-	-	-	-	96	96
Share of net profit/(loss) of associates	-	-	-	-	3	-	3
Finance costs	-	-	-	-	-	(88)	(88)
Other net operating result	-	9	1	(3)	-	(109)	(102)
Profit/(loss) before income tax	569	148	132	(358)	5	(94)	402
Income tax expense							(212)
Profit/(loss) for the year							190
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	-	116	116
Depreciation expense	30	4	6	3	2	6	51
Amortisation and impairment charges on acquired intangibles and goodwill	7	6	9	115	-	-	137
Total depreciation and amortisation expense	37	10	15	118	2	6	188
Other non cash expenses	38	14	7	5	-	10	74

NOTE 9. EARNINGS PER SHARE

	CONSOLIDATED	
	2011	2010
	cents	cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share*	12.08	4.39
Diluted earnings per ordinary share	12.01	4.36

* 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 12.01 cents (2010-4.36 cents).

	CONSOLIDATED	
	2011	2010
	$m	$m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the year	338	190
Profit attributable to non-controlling interests	(88)	(99)
Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	250	91

	CONSOLIDATED	
	2011	2010
	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	2,077
Treasury shares held in trust	(12)	(12)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,067	2,065
Weighted average number of dilutive potential ordinary shares relating to		
Unvested share based remuneration rights supported by treasury shares held in trust	12	12
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	2,079	2,077

The following matter is relevant to the determination of the weighted average number of ordinary shares:

- the reset preference shares, the reset exchangeable securities and the GBP subordinated exchangeable term notes are not included as dilutive potential ordinary shares even though they may convert into ordinary shares because the contingent conversion conditions were not met at the reporting date.

NOTE 10. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
2011					
2011 interim dividend	9.0	187	11 April 2011	30%	100%
2010 final dividend	4.5	94	6 October 2010	30%	100%
		281			
2010					
2010 interim dividend	8.5	177	12 April 2010	30%	100%
2009 final dividend	6.0	124	2 October 2009	30%	100%
		301			

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 AD 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 $1 million (2010-$Nil) 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 2011 interim dividend payable on 11 April 2011 was settled with the on market purchase of 13 million shares priced at $3.3817 per share (based on a daily volume weighted average price for 10 trading days from 14 March 2011 to 25 March 2011 inclusive, with no discount applied).

The DRP for the 2010 final dividend payable on 6 October 2010 was settled with the issuance of 5.2 million fully paid ordinary shares priced at $3.7093 per share (based on the average market price for the five trading days from 13 September 2010 to 17 September 2010 inclusive, with no discount applied) to existing shareholders with dividend entitlements.

A copy of the terms and conditions for the DRP is 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
2011 final dividend	7.0	146	5 October 2011	30%	100%

On 25 August 2011 the IAG Board determined the final dividend will be payable to shareholders as at 5pm on 5 October 2011.

The Company's DRP will not operate for the final dividend.

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 2002	YEAR ENDED 30 JUNE 2003	YEAR ENDED 30 JUNE 2004	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006	YEAR ENDED 30 JUNE 2007	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2011
Interim dividend	4.5	4.5	8.0	12.0	13.5	13.5	13.5	4.0	8.5	9.0
Final dividend	6.0	7.0	14.0	14.5	16.0	16.0	9.0	6.0	4.5	7.0
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 Australian Prudential Regulation Authority (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 reset 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.

	CONSOLIDATED	
	2011	2010
	$m	$m
Franking account balance at reporting date at 30%	381	415
Franking credits to arise from payment of income tax payable	151	43
Franking credits to arise from receipt of dividends receivable	1	1
Franking credits available for future reporting periods	533	459
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	(62)	(40)
Franking credits available for subsequent financial periods based on a tax rate of 30%	471	419

G. DIVIDEND FRANKING AMOUNT

After payment of the final dividend the franking balance of the Company has $408 million franking credits available for subsequent financial periods and is capable of fully franking a further $952 million 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 reset preference shares and the interest payments in relation to the reset exchangeable securities for the financial year were fully franked at 30% (2010-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
			2011			2010
	Current year	Prior years	Total	Current year	Prior years	Total
	$m	$m	$m	$m	$m	$m
Gross claims - undiscounted	9,272	(618)	8,654	6,380	(424)	5,956
Discount	(362)	201	(161)	(209)	151	(58)
Gross claims - discounted	8,910	(417)	8,493	6,171	(273)	5,898
Reinsurance and other recoveries - undiscounted	(3,482)	-	(3,482)	(954)	155	(799)
Discount	151	(73)	78	19	(46)	(27)
Reinsurance and other recoveries - discounted	(3,331)	(73)	(3,404)	(935)	109	(826)
Net claims expense	5,579	(490)	5,089	5,236	(164)	5,072

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

		CONSOLIDATED
	2011	2010
	$m	$m
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	10,061	7,886
Claims handling costs	410	366
Risk margin	1,942	1,589
	12,413	9,841
Discount to present value	(1,630)	(1,588)
Gross outstanding claims liability - discounted	10,783	8,253

The outstanding claims liability includes $6,810 million (2010-$5,073 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
			2011			2010
	Gross	Reinsurance and other recoveries	Net	Gross	Reinsurance and other recoveries	Net
	$m	$m	$m	$m	$m	$m
Balance at the beginning of the financial year	8,253	(1,488)	6,765	7,816	(1,411)	6,405
Movement in the prior year central estimate	(227)	(41)	(268)	(27)	(79)	(106)
Current year claims incurred	8,806	(3,691)	5,115	5,709	(812)	4,897
Claims paid/recoveries received	(6,244)	1,354	(4,890)	(5,362)	684	(4,678)
Movement in discounting	208	(40)	168	274	(49)	225
Movement in risk margin	98	(23)	75	(82)	154	72
Net foreign currency movements	(111)	25	(86)	(75)	25	(50)
Balance at the end of the financial year	10,783	(3,904)	6,879	8,253	(1,488)	6,765

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	
	2001 and prior	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
NET ULTIMATE CLAIMS PAYMENTS												
Development												
At end of accident year		3,199	3,336	3,475	3,585	3,934	4,545	4,490	4,517	4,476	4,795	
One year later		3,126	3,159	3,309	3,539	3,862	4,510	4,447	4,544	4,450		
Two years later		3,065	3,084	3,336	3,507	3,793	4,475	4,437	4,480			
Three years later		3,031	3,053	3,320	3,463	3,796	4,480	4,417				
Four years later		3,010	2,999	3,304	3,428	3,782	4,410					
Five years later		2,981	3,006	3,293	3,377	3,757						
Six years later		2,981	3,000	3,265	3,351							
Seven years later		2,961	2,987	3,260								
Eight years later		2,962	2,985									
Nine years later		2,952										
Current estimate of net ultimate claims payments		2,952	2,985	3,260	3,351	3,757	4,410	4,417	4,480	4,450	4,795	
Cumulative payments made to date		(2,913)	(2,926)	(3,155)	(3,231)	(3,500)	(4,033)	(3,913)	(3,698)	(3,300)	(2,638)	
Net undiscounted outstanding claims payments	607	39	60	105	120	257	377	504	782	1,150	2,157	6,158
Discount to present value	(188)	(7)	(11)	(20)	(19)	(38)	(45)	(62)	(88)	(131)	(185)	(794)
Net discounted outstanding claims payments	419	32	49	85	101	219	332	442	694	1,019	1,972	5,364

Reconciliation	
Claims handling costs	342
Risk margin	1,173
Net outstanding claims liability	6,879

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	
	2011	2010
	%	%
The percentage risk margin applied to the net outstanding claims liability	20.6	19.4
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.

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. Notable drivers of this uncertainty relate to the process for reinstatement of coverage offered by the New Zealand Earthquake Commission in the event of multiple earthquakes, 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.

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%.

VI. Actuarial assumptions

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

ASSUMPTION					CONSOLIDATED
	Australia direct insurance	Australia intermediated insurance	New Zealand insurance	United Kingdom insurance	Asia insurance
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%
2010					
Discounted average term to settlement	2.6 years	4.2 years	0.6 years	1.7 years	0.5 years
Inflation rate	2.8%-4.0%	2.8%-4.5%	2.8%	3.5%	0.0%-3.5%
Superimposed inflation rate	0.0%-4.0%	0.0%-8.0%	0.0%	0.0%-6.5%	0.0%
Discount rate	4.3%-6.1%	4.4%-5.9%	2.7%-4.8%	0.0%-4.2%	0.0%
Claims handling costs ratio	4.2%	5.5%	4.0%	2.8%	2.9%

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.

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.

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.

b. SENSITIVITY ANALYSIS OF CHANGES

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

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

ASSUMPTION						CONSOLIDATED
	Movement in assumption	Australia direct insurance	Australia intermediated insurance	New Zealand insurance	United Kingdom insurance	Asia insurance
		$m	$m	$m	$m	$m
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)
2010						
Discounted average term to settlement	+10%	(42)	(52)	-	(1)	-
	-10%	43	55	-	1	-
Inflation rate	+1%	90	109	1	8	-
	-1%	(87)	(98)	(1)	(8)	-
Discount rate	+1%	(84)	(96)	(1)	(8)	-
	-1%	90	108	1	8	-
Claims handling costs ratio	+1%	44	32	2	7	1
	-1%	(44)	(32)	(2)	(7)	(1)

NOTE 12. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	CONSOLIDATED	
	2011	2010
	$m	$m
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance recoveries receivable on outstanding claims - undiscounted	4,444	1,785
Discount to present value	(540)	(297)
Expected reinsurance and other recoveries on outstanding claims - discounted	3,904	1,488

The carrying value of reinsurance recoveries and other recoveries includes $2,411 million (2010-$915 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 ACQUISITION COSTS

	CONSOLIDATED	
	2011	2010
	$m	$m
RECONCILIATION OF MOVEMENTS		
Deferred acquisition costs at the beginning of the financial year	688	733
Acquisition costs deferred	1,022	1,022
Amortisation charged to profit	(951)	(1,038)
Write down for liability adequacy test	(58)	(16)
Addition through business acquisition	2	-
Net foreign exchange movements	(20)	(13)
Deferred acquisition costs at the end of the financial year	683	688

The carrying value of deferred acquisition costs includes $48 million (2010-$57 million) which is expected to be amortised more than 12 months from reporting date.

NOTE 14. UNEARNED PREMIUM LIABILITY

A. RECONCILIATION OF MOVEMENTS

Unearned premium liability at the beginning of the financial year	4,207	4,072
Deferral of premiums on contracts written	4,277	4,103
Earning of premiums written in previous financial years	(4,085)	(3,942)
Addition through business acquisition	49	-
Net foreign exchange movements	(93)	(26)
Unearned premium liability at the end of the financial year	4,355	4,207

The carrying value of unearned premium liability includes $112 million (2010-$122 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 each portfolio of contracts except for the United Kingdom insurance portfolio, for which additional information is provided in the table below (2010 - surplus for each portfolio of contracts except for United Kingdom insurance portfolio).

	2011		2010	
	United Kingdom insurance	Consolidated	United Kingdom insurance	Consolidated
	$m	$m	$m	$m
Unearned premium liability	260		367	
Deferred acquisition costs	(59)		(97)	
Related reinsurance asset	(9)		(9)	
	192		261	
Central estimate of present value of expected future cash flows from future claims	196	3,878	279	3,154
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	(1)	(811)	(11)	(341)
Risk margin	15	148	9	116
	210	3,215	277	2,929
Net surplus/(deficiency)	(18)		(16)	
Risk margin percentage	6.9%	4.8%	3.3%	4.1%
Probability of adequacy	68.0%	63.7%	64.0%	65.0%
Net deficiency recognised in the statement of comprehensive income				
Write down of deferred acquisition costs *	(58)		(16)	
	(58)		(16)	

* 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 financial year. At 31 December 2010, a $40 million impairment charge was recognised. A further $18 million impairment charge has been 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 that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability.

NOTE 15. INVESTMENTS

	CONSOLIDATED	
	2011	2010
	$m	$m
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held for investment	823	637
Government and semi-government bonds	3,363	4,503
Corporate bonds and notes	4,679	4,004
Subordinated debt	927	890
Fixed interest trusts	36	52
Other	706	487
	10,534	10,573
II. Equity investments		
a. DIRECT EQUITIES		
Listed	647	626
Unlisted	167	138
b. EQUITY TRUSTS (INCLUDING PROPERTY TRUSTS)		
Listed	27	36
Unlisted	413	339
	1,254	1,139
III. Other investments		
Other trusts	100	7
	100	7
IV. Derivatives		
Interest rate risk derivatives	-	9
Equity risk derivatives	5	4
Foreign exchange risk derivatives	-	2
	5	15
	11,893	11,734

The investments balance includes Funds at Lloyd's of $75 million at the current reporting date (2010-$389 million) which are subject to certain restrictions.

Since 30 June 2009, the Group's strategy has been to gradually increase the growth assets weighting in the equity holders' funds. The change in strategy reflected that market conditions have sufficiently improved to justify an increased exposure to growth assets.

The Group intends to move towards a 50% target for growth assets within the equity holders' funds. As at 30 June 2011, the growth assets held are 41% (2010-37%) of total equity holders' funds.

B. DETERMINATION OF FAIR VALUE

There has been no change during the current reporting period in the processes used for the determination of the fair value for investments.

There is an insignificant portion of investments (3%) for which a valuation methodology is used to determine the fair value. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

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.

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 in its entirety.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$m	$m	$m	$m
2011				
Interest bearing investments	4,829	5,704	1	10,534
Equity investments	678	348	228	1,254
Other investments	6	-	94	100
Derivatives	5	-	-	5
	5,518	6,052	323	11,893
2010				
Interest bearing investments	5,987	4,585	1	10,573
Equity investments	662	335	142	1,139
Other investments	5	-	2	7
Derivatives	14	1	-	15
	6,668	4,921	145	11,734

NOTE 16. RECEIVABLES

	CONSOLIDATED	
	2011	2010
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Premium receivable	2,113	2,084
Provision for impairment	(32)	(38)
Premium receivable	2,081	2,046
II. Trade and other receivables		
Reinsurance recoveries on paid claims	155	205
Other trade debtors	199	208
Provision for impairment	(5)	(5)
	194	203
Investment income receivable	131	118
Investment transactions not yet settled at reporting date	18	50
Corporate treasury derivatives receivable	7	-
Other debtors	55	87
Trade and other receivables	560	663
	2,641	2,709

The Consolidated entity had a receivable at reporting date of $150 million (2010-$180 million) included in other trade debtors. The receivable is part of the adverse development cover (ADC) purchased following the United Kingdom claim reserve strengthening. 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 2009 and prior. The balance is predominantly secured by a letter of credit. It is anticipated the deposit will be recovered through settlement of the ADC.

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

NOTE 17. PROPERTY AND EQUIPMENT

				CONSOLIDATED
	Land and buildings	Motor vehicles	Other equipment	Total
	$m	$m	$m	$m
2011				
A. COMPOSITION				
At 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
2011				
B. RECONCILIATION OF MOVEMENTS				
Balance at the beginning of the financial year	161	37	104	302
Additions	12	22	39	73
Disposals	-	(10)	(20)	(30)
Depreciation	(15)	(10)	(32)	(57)
Net foreign exchange movements	(2)	-	(2)	(4)
Balance at the end of the financial year	156	39	89	284
2010				
C. COMPOSITION OF COMPARATIVES				
Cost	198	66	361	625
Accumulated depreciation	(37)	(29)	(258)	(324)
Net foreign exchange movements	-	-	1	1
Balance at the end of the financial year	161	37	104	302
D. DEPRECIATION RATES	1.5%-5%	12.5%-33%	6.67%-40%	

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
2011							
A. COMPOSITION							
Cost	297	138	284	109	92	5	925
Accumulated amortisation	(219)	-	(79)	(37)	(19)	(3)	(357)
Accumulated impairment	(7)	(11)	(84)	(25)	(9)	(1)	(137)
Net foreign exchange movements	(17)	(53)	(74)	(23)	(38)	(1)	(206)
Balance at the end of the financial year	54	74	47	24	26	-	225
2011							
B. RECONCILIATION OF MOVEMENTS							
Balance at the beginning of the financial year	39	87	112	29	34	-	301
Additions acquired and developed	29	-	15	1	-	-	45
Addition through business acquisition	9	-	-	4	-	-	13
Amortisation	(20)	-	(9)	(8)	(3)	-	(40)
Impairment charge	-	-	(60)	-	-	-	(60)
Net foreign exchange movements	(3)	(13)	(11)	(2)	(5)	-	(34)
Balance at the end of the financial year	54	74	47	24	26	-	225
2010							
C. COMPOSITION OF COMPARATIVES							
Cost	259	138	269	104	92	5	867
Accumulated amortisation	(199)	-	(70)	(29)	(16)	(3)	(317)
Accumulated impairment	(7)	(11)	(24)	(25)	(9)	(1)	(77)
Net foreign exchange movements	(14)	(40)	(63)	(21)	(33)	(1)	(172)
Balance at the end of the financial year	39	87	112	29	34	-	301
D. AMORTISATION RATES	33.33%	n/a	8%-14%	10%-17%	5%-20%	20%-33%	

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, 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 is 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 is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the United Kingdom cash generating unit. The basis of the determination of recoverable amount is a return (profit) to be generated on the expected premiums to be written by the syndicate. The growth and

profitability assumptions are based on the adjusted management forecast for the next five years with long term growth and insurance margin assumptions of 3.5% and 8.2% respectively. A 1% reduction in the terminal growth rate would reduce the value by approximately $16 million and a 1% reduction in the terminal insurance margin would reduce the value by approximately $39 million.

b. BRANDS

This represents the revenue generating value of acquired brands.

c. CUSTOMER RELATIONSHIPS

This is in effect the capitalisation of future profits relating to the insurance contracts in place at acquisition and the expected renewals of those contracts. It represents the amount paid to the vendor for the value of the customer relationships developed prior to acquisition. A fall in renewal rates may lead to a reduction in the useful life of the asset and a commensurate acceleration of the amortisation.

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.

III. Other intangible assets

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

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 2011

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

a. EQUITY INSURANCE DISTRIBUTION CHANNEL—EXTERNAL

An impairment charge of $60 million (2010-$19 million) was recognised in the United Kingdom insurance segment due to the cessation of broker relationships and lower forecast profitability.

II. Impairment testing results for 2010

During the year ended 30 June 2010, the following acquired intangible assets were impaired.

a. LLOYD'S SYNDICATE CAPACITY

Impairment charge of $11 million due to the anticipated adverse impact of anticipated price increases on gross written premium (GWP) volume and poor short to medium term profitability.

b. EQUITY INSURANCE BRAND

Impairment charge of $7 million due to the adverse impact of the anticipated price increases on GWP volume.

c. EQUITY INSURANCE DISTRIBUTION CHANNEL—AFFINITY RELATIONSHIPS

Impairment charge of $19 million due to the anticipated adverse impact of the exiting of certain broker relationships on GWP volume and poor short to medium term profitability.

NOTE 19. GOODWILL

	CONSOLIDATED	
	2011	2010
	$m	$m
A. COMPOSITION		
Goodwill	2,167	2,154
Accumulated impairment charges	(258)	(168)
Net foreign exchange movements	(265)	(204)
	1,644	1,782
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	1,782	1,880
Additional amounts arising from business combinations	13	5
Impairment charge	(90)	(50)
Net foreign exchange movements	(61)	(53)
Balance at the end of the financial year	1,644	1,782
C. ALLOCATION TO CASH GENERATING UNITS		
Australia direct insurance operations	582	582
Australia intermediated insurance operations	580	574
New Zealand insurance operations	274	288
Asia insurance operations	45	54
United Kingdom insurance operations	163	284
	1,644	1,782

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, less net assets required, for each of the key business units within a 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 business plans. 10 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 IAG Group's impairment assessment as at 30 June 2011 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 11.5% to 14.5% (equivalent to 10.2% and 11.2% on a post tax basis).

The gross discount rate used to value the United Kingdom cash generating unit as at 30 June 2011 was 11.5% (10.7% net of tax). This compares with 11.8% (10.7% net of tax) used for the previous assessment as at 31 December 2010.

II. Sensitivity - United Kingdom

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

- an increase/decrease of 1% in the discount rate used would have decreased/increased the value of the United Kingdom cash generating unit by approximately $48 million/$56 million. This would not lead to an impairment charge at 30 June 2011;
- an increase/decrease of 3% in the year on year premium growth over the valuation period would have increased/decreased the value United Kingdom cash generating unit by approximately $34 million/$36 million. This would not lead to an impairment charge at 30 June 2011;
- an increase/decrease of 1% in the terminal growth rate used would have increased/decreased the value United Kingdom cash generating unit by approximately $33 million/$31 million. This would not lead to an impairment charge at 30 June 2011; and
- an increase/decrease of 1% in the terminal insurance margin used would have increased/decreased the value United Kingdom cash generating unit by approximately $25 million/$31 million. This would not lead to an impairment charge at 30 June 2011.

III. Impairment testing results for current period

The United Kingdom business continued to perform poorly and produced a worse than expected insurance loss of $121 million as at 31 December 2010. This outcome reflected the ongoing market issue of bodily injury claim inflation, at a level more severe than previously anticipated, which resulted in a goodwill impairment of $90 million in the United Kingdom cash generating unit during the current financial year (2010-$50 million).

NOTE 20. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011	2010
	$m	$m
A. COMPOSITION		
I. Trade creditors		
Commissions payable	118	107
Stamp duty payable	83	74
GST payable on premium receivable	86	81
Other	191	391
	478	653
II. Other payables		
Other creditors and accruals	329	322
Investment creditors	8	51
Interest payable on interest bearing liabilities	11	11
	826	1,037

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. INTEREST BEARING LIABILITIES

	Section	CONSOLIDATED 2011 $m	2010 $m
A. COMPOSITION			
I. Capital nature			
a. TIER 1 REGULATORY CAPITAL*			
Reset preference shares	B. I	350	350
Reset exchangeable securities	B. II	550	550
b. TIER 2 REGULATORY CAPITAL			
GBP subordinated term notes	B. III	151	183
NZD subordinated term notes	B. IV	77	81
GBP subordinated exchangeable term notes	B. V	235	277
II. Operational nature			
Other interest bearing liabilities		16	14
Less: capitalised transaction costs		(2)	(5)
		1,377	1,450

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

B. SIGNIFICANT TERMS AND CONDITIONS

I. Reset preference shares

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

Key terms and conditions:

- Non-cumulative fixed distribution of 5.63% per annum payable semi annually, the payments are expected to be fully franked.
- 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 RPS may be exchanged by IAG or the holder on a reset date, or upon certain events. The next reset date for RPS is 15 June 2012. On exchange, IAG may convert RPS into ordinary shares, arrange a third party to acquire RPS for their face value or redeem RPS for their face value (subject to APRA approval).
- The RPS rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

II. 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.

III. 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.

IV. 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.

V. 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 2.5% per annum payable semi annually to October 2011. Following the amendments, the margin will reduce from 2.5% to 1.875% from October 2011.
- The notes mature on 20 April 2035 with the holder having the option to exchange into ordinary shares of IAG from December 2012 (October 2011 prior to the amendments), 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 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.

		2011		2010
	Carrying value	Fair value	Carrying value	Fair value
	$m	$m	$m	$m
I. Capital nature				
a. TIER 1 REGULATORY CAPITAL				
Reset preference shares	350	352	350	345
Reset exchangeable securities	550	564	550	550
b. TIER 2 REGULATORY CAPITAL				
GBP subordinated term notes	151	124	183	154
NZD subordinated term notes	77	81	81	83
GBP subordinated exchangeable term notes	235	235	277	277
II. Operational nature				
Various instruments	16	16	14	14
Total	1,379		1,455	
Less: capitalised transaction costs	(2)		(5)	
	1,377		1,450	

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

NOTE 22. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	2011	2010	2011	2010
	Number of shares in millions	Number of shares in millions	$m	$m
A. SHARE CAPITAL				
Ordinary shares				
Balance at the beginning of the financial year	2,079	2,071	5,353	5,326
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS				
Shares issued under Dividend Reinvestment Plan	-	8	-	27
Balance at the end of the financial year	2,079	2,079	5,353	5,353

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

I. 2011
There were no significant issues of ordinary shares during the year.

II. 2010
The Company issued $27 million of ordinary shares to Dividend Reinvestment Plan participants to fund the 2009 final dividend payment.

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.

III. Hedging reserve
The hedging reserve is used to record gains or losses on derivatives that form part of hedging relationships which have been designated as cash flow hedges, as described in section Q of the summary of significant accounting policies note.

NOTE 23. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED	
	2011	2010
	$m	$m
A. COMPOSITION		
Cash held for operational purposes	509	416
Cash and short term money held for investment	823	637
Cash and cash equivalents	1,332	1,053

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. There are no cash balances held that are not available for use in normal operations. The carrying amount of the cash and cash equivalents presented on the balance sheet is the same as that used for the purposes of the cash flow statement 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	
	2011	2010
	$m	$m
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	338	190
I. Non cash items		
Depreciation of property and equipment	57	51
Amortisation and impairment of intangible assets and goodwill	190	137
Net realised (gains) and losses on disposal of investments	(168)	(227)
Net unrealised (gains) and losses on revaluation of investments	91	23
Provision for doubtful debts and impairment	2	5
Retained earnings adjustment for actuarial gains and (losses) on defined benefit superannuation plans	5	(2)
Retained earnings adjustment for share based remuneration	18	25
Unrealised (gains) and losses on embedded derivatives	-	96
Realised gain on buyback of GBP subordinated term notes	1	(1)
Other	9	(11)
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	(2,332)	(202)
Prepayments and deferred levies and charges	(107)	116
Deferred tax assets	(7)	80
Current tax assets	5	80
Defined benefit superannuation asset	(1)	-
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	(235)	166
Provisions	(34)	(36)
Current tax liabilities	193	57
Deferred tax liabilities	(24)	(4)
Outstanding claims liability	2,521	437
Unearned premium liability	98	135

Net cash flows from operating activities	620	1,115

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

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

NOTE 24. ACQUISITIONS AND DISPOSALS OF BUSINESSES

A. ACQUISITION OF SUBSIDIARIES

I. During the financial year ended 30 June 2011

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

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

b. ACQUISTION OF HBF HOLDINGS PTY LTD

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

II. For the financial year ended 30 June 2010

a. ACQUISITION OF REGIONAL BROKING BUSINESS IN THE UNITED KINGDOM

The Group increased its stake in United Kingdom regional broking business from 25% to 52.6% for consideration of $1 million. Insurance Dialogue Ltd is controlled by the United Kingdom segment and formed part of its segment result.

B. OTHER ACQUISITIONS

I. During 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.

II. For the financial year ended 30 June 2010

a. INDIAN GENERAL INSURANCE VENTURE

On 19 November 2009, the Consolidated entity paid 5.4 billion Indian rupees (equivalent to $126 million) to acquire a 26% strategic stake in SBI General Insurance Company Limited (SBI General), an Indian based general insurance company, which commenced underwriting insurance contracts in March 2010. The net assets of SBI General as at 30 June 2010 were approximately 6.5 billion Indian rupees (equivalent to $165 million).

b. NTI BUSINESS

In August 2009, CGU Insurance Limited reached an agreement with Suncorp's intermediated business, Vero, regarding the ongoing structure of the 50:50 NTI joint venture (NTI JV). The agreement allows the joint venture to continue, with the parties agreeing to the transfer of Suncorp's heavy motor vehicle book to the NTI JV from an agreed date at an agreed price which is confidential and which IAG has assessed as immaterial to the Group. A customer relationship identifiable intangible asset was recognised in the 2010 financial year.

C. DISPOSAL OF SUBSIDIARIES

I. During the financial year ended 30 June 2011

There were no disposals of subsidiaries by the Consolidated entity.

II. During the financial year ended 30 June 2010

There were no disposals of subsidiaries by the Consolidated entity.

NOTE 25. DETAILS OF SUBSIDIARIES

The following entities constitute the Consolidated entity.

	TABLE NOTE	COUNTRY OF INCORPORATION /FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2011	2010
			%	%
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	A	Australia	-	-
CGU Insurance Limited		Australia	-	-
Swann Insurance (Aust) Pty Ltd		Australia	-	-
Mutual Community General Insurance Proprietary Limited		Australia	51.00	51.00
IAG Re Australia Limited		Australia	-	-
Sitrof Australia Limited		Australia	-	-
CGU-VACC Insurance Limited		Australia	-	-
CGU Workers Compensation (NSW) Limited		Australia	-	-
CGU Workers Compensation (VIC) Limited		Australia	-	-
HBF Holdings Pty Ltd	B	Australia	-	-
HBF Insurance Pty Ltd	B	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	25.00
II. New Zealand operations				
IAG (NZ) Holdings Limited	C	New Zealand	-	-
IAG New Zealand Limited	C,D	New Zealand	-	-
New Zealand Insurance Limited	C	New Zealand	-	
State Insurance Limited	C	New Zealand	-	-
Direct Insurance Services Limited	C	New Zealand	-	-
Belves Investments Limited	C	New Zealand		
Anthony Runacres and Associates Limited	C	New Zealand	-	-
DriveRight Limited	C	New Zealand	-	-
IAG (NZ) Share Plan Nominee Limited	C	New Zealand	-	-
The IAG New Zealand Limited Employee Share Plan	C	New Zealand	-	-
The IAG Performance Awards Rights Plan for Executives in New Zealand	C	New Zealand	-	-
NZI Staff Superannuation Fund Nominees Limited	C	New Zealand	-	-

	TABLE NOTE	COUNTRY OF INCORPORATION /FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2011	2010
			%	%
III. United Kingdom operations				
IAG UK Holdings Limited	C	United Kingdom	-	
Equity Insurance Group Limited	C	United Kingdom	-	
Equity Insurance Holdings Ltd	C	United Kingdom	-	
Equity Red Star Limited	C	United Kingdom	-	
Equity Syndicate Management Limited	C	United Kingdom	-	
Equity Red Star Services Limited	C	United Kingdom	-	
Equity Insurance Management Limited	C	United Kingdom	-	
Equity Red Star Holdings Limited	C	United Kingdom	-	
Equity Insurance Properties Limited	C	United Kingdom	-	
Wedring Limited		United Kingdom	-	
Cox Commercial 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	-	
CDCM (No 2) Limited	C	United Kingdom	-	
Equity Red Star Limited (formerly CDCM Limited)	C	United Kingdom	-	
Equity Red Star (accident & health) Limited	C	United Kingdom	-	
IAG Finance (UK) LLP	C	Gibraltar	-	
Can Do Finance Limited		United Kingdom	-	
Equity Claims Limited	C	United Kingdom	-	
Cox Managing Agency Limited		United Kingdom	-	
Direct Insurance Services Limited	C	United Kingdom	-	
HML Marketing Limited		United Kingdom	-	
EIG (Investments) Limited		United Kingdom	-	
EIG (Finance) Limited		United Kingdom	-	-
Equity Direct Broking Limited	C	United Kingdom	-	
EIG (Acquisitions) Ltd		United Kingdom	-	
Barnett & Barnett Holdings Limited	C	United Kingdom	-	
Barnett & Barnett Ltd	C	United Kingdom	-	
Barnett & Barnett Financial Services Ltd	C	United Kingdom	-	
Alba Group Pte Ltd	C	Singapore	-	
Alba Pte Ltd	C	Singapore	-	
Alba Underwriting Ltd	C	United Kingdom	-	
Diagonal Underwriting Agency Limited	C	United Kingdom	-	
AU No 2 Limited	C	United Kingdom	-	
Insurance Dialogue Ltd	C	United Kingdom	51.10	51.10
E Red Limited	C	United Kingdom	-	
NBJ Group Limited	C	United Kingdom	75.00	-
NBJ United Kingdom Limited	C	United Kingdom	75.00	-
IV. Other international operations				
IAG Re Labuan (L) Berhad	C	Malaysia	-	
IAG (Asia) General Pte Ltd	C	Singapore	-	-
IAG Re Singapore Pte Ltd	C	Singapore	-	
NHCT Limited	C,E	Thailand	49.10	49.10
IAG Insurance (Thailand) Ltd	C,E	Thailand	-	
Safety Insurance Public Company Limited	C,E	Thailand	98.47	98.47
Beijing Continental Automobile Association Limited	C	China	-	-

	TABLE NOTE	COUNTRY OF INCORPORATION /FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2011	2010
			%	%
V. Investment operations				
IAG Asset Management Limited		Australia	-	-
IAG Asset Management Cash Management Trust	A	Australia	83.03	87.43
IAG Asset Management Private Equity Trust	A	Australia	83.20	83.20
IAG Asset Management Sustainable Equity Trust	A	Australia	50.00	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	-	-
NRMA Information Services 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. SUBSIDIARIES THAT DEREGISTERED DURING THE YEAR ENDED 30 JUNE 2011				
NRMA Insurance Funding 2003 Limited	A	Australia	-	
CGU Premium Funding Pty Ltd	A	Australia	-	
ACN 111 769 843 Pty Limited (formerly IAG Portfolio Limited)	A	Australia	-	
ACN 096 139 918 Pty Ltd (formerly NRMA Foundation Limited)	A	Australia	-	
IAG India (Mauritius)	A	Mauritius	-	
Sitrof Mutual Limited	A	Australia	-	
ACN 064 960 514 Pty Limited (formerly IAG Nominees Pty Limited)	A	Australia	-	
ACN 007 078 140 Pty Limited (formerly Pacific Indemnity Underwriting Pty Limited)	A	Australia	-	
IAG Investment Management Services (Shanghai) Company Limited	A	China	-	
D. ENTITIES PUT INTO LIQUIDATION DURING THE YEAR ENDED 30 JUNE 2011				
Fentmere Pty Limited		Australia	-	
151 Insurance Limited (formerly New Zealand Insurance Limited)		New Zealand	-	

Table note

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

B Audited by accounting firms not affiliated with KPMG.

C Audited by overseas KPMG firms.

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

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

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

NOTE 26. 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	
					2011	2011	2011	2010
					$m	$m	%	%
I. Joint venture								
NTI Limited	A,C,D	30 June	Australia	Managing co-insurance arrangement	7	-	50.00	50.00
II. Associates								
AmG Insurance Berhad[(a)]	C	31 March	Malaysia	Insurance underwriting	122	3	49.00	49.00
SBI General Insurance Company Limited[(b)]	C	31 March	India	Insurance underwriting	110	(6)	26.00	26.00
First Rescue and Emergency (NZ) Limited	A,C	31 March	New Zealand	Roadside assistance	-	-	50.00	50.00
Loyalty New Zealand Limited	A,C	31 March	New Zealand	Loyalty program	-	-	25.00	25.00
Sureplan New Zealand Limited	A,C	31 March	New Zealand	Fleet risk management	-	-	30.00	30.00
AR Hub Pty Ltd	A,B	30 June	Australia	Software development	-	-	-	33.33
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	2	-	35.00	35.00
First Rescue Limited (UK)	A,C	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[(c)]	C	30 June	Australia	Insurance underwriting	43	(5)	50.00	-
					284	(8)		

(a) The contribution of AmG Insurance Berhad to the net profit of the Group represents the share of associates' net profit of $11 million offset by the regional support and development costs of $8 million.

(b) The contribution of SBI General represents an underlying loss of $4 million and an overlay of regional support and development costs of $2 million.

(c) The contribution of AHI includes a $6 million amortisation cost. In the segment note, this amount is shown in the Corporate and other segment.

Table note

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

B Small proprietary companies that are not required to prepare, and have not prepared, audited financial statements.

C Audited by accounting firms not affiliated with KPMG.

D 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 is listed on a stock exchange. Those entities that are equity accounted and that do not have a 30 June financial year end are equity accounted for using financial information for the reporting period to 30 June which includes, at least in part, unaudited management results.

	CONSOLIDATED	
	2011	2010
	$m	$m
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	283	122
Investment in associate acquired	47	126
Additional investment in existing associate	1	10
Disposal of investment in existing associate	(3)	-
Share of associates' net profit/(loss)*	2	10
Net foreign exchange movements	(46)	15
Balance at the end of the financial year	284	283

* The share of associates' net profit/(loss) for the current reporting period was $2 million. The contribution of associates to the net profit of the Group shown in section A includes regional support and development costs.

C. SUMMARISED FINANCIAL INFORMATION OF ASSOCIATE

These disclosures relates to the investment in AmG Insurance Berhad, SBI General and AHI as all other investments in joint ventures and associates are not significant. The figures provided in the table for AmG Insurance Berhad and SBI General are for the financial year ended 31 March 2011 while the figures provided in relation to AHI are based on the management accounts as at 31 May 2011. These figures represent the financial position and performance of the entities as a whole and not just IAG's share.

	2011	2010
Assets	624	340
Liabilities	326	237
Revenue	266	219
Profit	20	16

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 27. EMPLOYEE BENEFITS

A. EMPLOYEE BENEFITS PROVISION

Annual leave	72	74
Long service leave	61	62
Cash based incentive arrangements	82	88
Defined benefit superannuation plans	51	64
Other employee benefits*	9	10
	275	298

* There is one defined benefit pension arrangement in Australia with a discounted liability of $7 million as at the current reporting date (2010-$7 million) involving 70 participants (2010-71) and one defined benefit pension arrangement in New Zealand with a discounted liability of $2 million as at the current reporting date (2010 -$3 million) involving 41 participants (2010 –45). These liabilities are met from general assets rather than assets being set aside in trust.

The employee benefits provision includes $94 million (2010 -$113 million) which is expected to be settled after more than 12 months from reporting date.

B. EMPLOYEE NUMBERS

The Consolidated entity had 13,008 employees on a full time equivalent basis as at 30 June 2011 (2010-12,481).

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 28. SHARE BASED REMUNERATION

The provision of share based remuneration creates a link between shareholder value creation and rewarding employees. Share based remuneration encourages employee share ownership, links employee reward to the performance of the 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 so are subsidiaries of the Consolidated entity. The trustee for each trust is a subsidiary of the Consolidated entity. The trusts are administered by an external company.

The number of shares purchased to cover each allocation of shares or 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 12,439,032 shares as at 30 June 2011 (2010-13,033,476 shares) representing 0.60% (2010 - 0.63%) 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 where they are in a position to be aware, or are aware, of price sensitive information.

Share based remuneration is provided through a range of different plans each of which 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. NON-EXECUTIVE DIRECTORS' SHARE PLAN

The Non-executive Directors' Share Plan continued in operation during the current reporting period ended 30 June 2011 however no allocations were made in the year ended 30 June 2011 (2010-$Nil). Until 2009, non-executive directors were required to receive at least 20%, but not in excess of 90%, of their annual IAG Board fee (at the time shares are allocated) in IAG ordinary shares, rather than in cash. Annual share allocations were generally made effective from 1 December each year. The shares vest on a pro rata daily basis with limited forfeiture conditions and the participant is entitled to dividends and other shareholder rights during the vesting period. The on market share price at grant date is used as the fair value of the equity instruments. The shares were purchased on market and held in trust subject to a restriction period, for tax purposes, of between one and 10 years.

The IAG Board has decided that there will be no further offers under the Non-executive Directors' Share Plan.

B. SENIOR MANAGEMENT AND EXECUTIVE SHARE PLANS

The senior management and executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the Executive Performance Rights Plan and the Deferred Award Rights Plan which are detailed below. The IAG Nomination, Remuneration & Sustainability Committee approves the participation of each individual in the plans. Certain 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 Executive Performance Rights Plan.

I. Deferred Award Rights Plan

The Deferred Award Rights Plan (DAR Plan) continued in operation during the current reporting period having been implemented in November 2006. The structure and operation of the plan are the same for employees in each region. The rights are granted for nil consideration, are non transferable, and can be settled only with existing IAG ordinary shares. Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price for all rights is a nominal value of $1 per tranche of rights exercised. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG ordinary shares are bought on market and held in trust to satisfy future exercise of the rights.

The rights vest after a period (current maximum is two years, with a 3 year maximum for rights granted before 1 July 2010) as determined by the board subject to the participants continuing in relevant employment for the full period. When a participant ceases employment in special circumstances such as redundancy, rights may vest on cessation of employment. If there is a change of control of IAG, the board has discretion to determine if and when rights should vest.

If the vesting condition is not met then the rights lapse. The rights also lapse where the holder chooses to 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
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
11/02/2008	$2.810	26,345	-	-	-	26,345	26,345
18/09/2008	$3.668	2,576,750	-	(1,007,390)	(76,980)	1,492,380	838,860
27/02/2009*	$3.263	24,454	-	-	-	24,454	24,454
27/02/2009*	$3.155	40,000	-	(20,000)	-	20,000	-
27/02/2009*	$3.397	10,000	-	-	-	10,000	10,000
27/02/2009*	$3.311	15,000	-	-	-	15,000	12,000
25/09/2009	$3.600	2,989,100	-	(1,168,100)	(189,500)	1,631,500	418,650
24/11/2009	$3.770	158,200	-	(79,100)	-	79,100	-
25/03/2010	$3.780	22,000	-	-	-	22,000	11,000
06/10/2010	$3.532	-	2,972,900	(86,800)	(151,800)	2,734,300	-
03/03/2011*	$3.467	-	49,100	-	-	49,100	-
03/03/2011*	$3.492	-	40,000	-	-	40,000	-
		7,295,323	3,062,000	(2,967,667)	(424,980)	6,964,676	2,141,056

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

GRANT DATE	FAIR VALUE AT GRANT DATE	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	On issue	Exercisable
2010							
19/12/2006	$5.354	1,047,042	-	(612,537)	(18,935)	415,570	415,570
13/03/2007	$5.156	153,374	-	(99,750)	(9,000)	44,624	44,624
27/09/2007	$4.820	1,920,100	-	(918,280)	(28,540)	973,280	502,680
11/02/2008	$2.810	26,345	-	-	-	26,345	-
18/09/2008	$3.668	4,546,700	-	(1,869,850)	(100,100)	2,576,750	692,900
27/02/2009*	$3.263	48,908	-	(24,454)	-	24,454	-
27/02/2009*	$3.155	40,000	-	-	-	40,000	-
27/02/2009*	$3.397	10,000	-	-	-	10,000	10,000
27/02/2009*	$3.311	15,000	-	-	-	15,000	7,500
25/09/2009	$3.600	-	3,270,400	(221,800)	(59,500)	2,989,100	-
24/11/2009	$3.770	-	158,200	-	-	158,200	-
25/03/2010	$3.780	-	22,000	-	-	22,000	-
		7,807,469	3,450,600	(3,746,671)	(216,075)	7,295,323	1,673,274

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

In addition to the grant of rights shown above, an additional 2,141,470 rights were issued from 8 January 2007 as part of the consideration for the acquisition of Equity Insurance Group. These rights vested and became exercisable in January 2010. The weighted average share price for rights exercised for the year ended 30 June 2010 was $3.76.

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

			SIGNIFICANT FACTORS AND ASSUMPTIONS
2011			
Grant date		06/10/2010	03/03/2011
Share price on grant date ($)		$3.71	$3.60
Exercise price ($)		$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)		5.28%	5.33%
Expected dividend yield (%)		3.44%	3.68%
Expected life of rights (years)		2 years	2 years
2010			
Grant date	25/09/2009	24/11/2009	25/03/2010
Share price on grant date ($)	$3.74	$3.90	$3.91
Exercise price ($)	$1 per tranche exercised	$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)	5.08%	5.20%	5.42%
Expected dividend yield (%)	2.64%	2.53%	3.64%
Expected life of rights (years)	2 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) continued in operation during the current reporting period having been implemented in October 2007. The structure and operation of the plan are the same for employees in each region. The rights are granted for nil consideration, are non transferable, and can be settled only with IAG ordinary shares. 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. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG ordinary shares are bought on market and held in trust to satisfy future exercise of the rights.

Rights allocations are divided equally into two portions (TSR allocation and ROE allocation) and each portion has two vesting conditions. The first vesting condition for both portions is not market related and requires the participant to continue in relevant employment. Rights may be retained when a participant ceases employment in special circumstances such as redundancy.

Under the TSR allocation, the second vesting condition is a market related performance hurdle based on a comparison of IAG's total shareholder return (TSR, the measure of return on an investment in IAG ordinary shares) with 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.

For the performance hurdle, a tiered vesting scale is applied, such that all rights in the TSR allocation vest if IAG's relative TSR is at the 75th percentile of the peer group, scaling down so that 50% of rights in the TSR allocation vest if IAG's TSR performance is at the 50th percentile of the peer group. No rights vest if IAG's TSR performance is below the 50th percentile of the peer group. Testing for the satisfaction of the performance hurdle occurs on the third, fourth and fifth anniversary of the base date. If this vesting condition is not met, the TSR allocation will lapse. The rights also lapse where the holder chooses to forgo the rights and all rights expire 10 years from grant date (for rights granted prior to 1 July 2009) or seven years from the grant date (for rights granted after 1 July 2009) where they have not previously lapsed or been exercised.

Under the ROE allocation, the second vesting condition is based on IAG's ROE which is a performance hurdle that is not market related. The ROE hurdle compares IAG's return on equity (ROE) performance with IAG's weighted average cost of capital (WACC) (WACC of IAG is determined by the IAG Board).

ROE is measured for each half year and compared to WACC for that half year period. The average of the six half year measurements over three financial years indicates whether any rights vest. For any of the ROE portion of the rights to vest and be exercisable for shares:

- normalised ROE for series 1 rights must reach at least 1.3 times WACC;
- cash ROE for series 2 and 3 rights must reach at least 1.5 times WACC; and
- cash ROE for series 4 must reach at least 1.2 times WACC.

LEVEL OF NORMALISED ROE PERFORMANCE Rights granted before 30 June 2008	LEVEL OF CASH ROE PERFORMANCE Rights granted between 1 July 2008 and 30 June 2010	VESTING SCALE
>1.6 x WACC	>1.8 x WACC	100% vests
=1.5 x WACC	=1.7 x WACC	80% vests
=1.4 x WACC	=1.6 x WACC	50% vests
=1.3 x WACC	=1.5 x WACC	20% vests
<1.3 x WACC	<1.5 x WACC	0% vests

LEVEL OF CASH ROE PERFORMANCE	VESTING SCALE
Rights granted after 30 June 2010	
>1.6 x WACC	100% vests
=1.5 x WACC	80% vests
=1.4 x WACC	60% vests
=1.3 x WACC	40% vests
=1.2 x WACC	20% vests
<1.2 x WACC	0% vests

A sliding scale operates between the points represented in the table above. If ROE is less than 1.3 times WACC for rights granted before 30 June 2008 or less than 1.5 times WACC for rights granted after 30 June 2008, no rights in the ROE allocation will vest. If this vesting condition is not met, the ROE allocation will lapse. The rights also lapse where the holder chooses to 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.

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

The following information relates to the 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 DURINGTHE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	NUMBER OF RIGHTS AT 30 JUNE	
							On issue	Exercisable
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	$2.050	$2.460	171,400	-	-	-	171,400	-
06/10/2010	$2.420	$3.380	-	4,713,700	-	(369,500)	4,344,200	-
03/03/2011	$2.270	$3.300	-	530,600	-	-	530,600	-
			12,298,920	5,244,300	(634,454)	(2,170,680)	14,738,086	128,448
2010								
29/10/2007	$2.870	$4.310	1,968,800	-	-	(75,750)	1,893,050	-
29/11/2007	$2.350	$3.680	250,000	-	-	-	250,000	-
13/03/2008	$1.630	$2.710	152,400	-	-	-	152,400	-
27/05/2008	$2.120	$3.220	65,370	-	-	-	65,370	-
18/09/2008	$2.530	$3.410	4,842,900	-	-	(51,500)	4,791,400	-
27/02/2009	$2.570	$3.150	250,000	-	-	-	250,000	-
25/09/2009	$2.480	$3.480	-	3,968,500	-	(33,800)	3,934,700	-
24/11/2009	$2.590	$3.650	-	790,600	-	-	790,600	-
25/03/2010	$2.050	$2.460	-	171,400	-	-	171,400	-
			7,529,470	4,930,500	-	(161,050)	12,298,920	-

The fair value of the rights is calculated as at the grant date using the Monte Carlo simulation methodology. 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	
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
2010			
Grant date	25/09/2009	24/11/2009	25/03/2010
Share price on grant date ($)	$3.74	$3.90	$3.91
Risk free interest rate (%)	5.08%	5.20%	5.42%
Expected dividend yield (%)	2.64%	2.53%	3.64%
Expected life of rights (years)*	3 or 4 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. The last performance hurdle testing date for the rights is expected to be 29 August 2011. The structure and operation of the plan are the same for employees in each region. The rights were granted for nil consideration, are non transferable, and can be settled only with existing IAG ordinary shares. Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price for all rights is a nominal value of $1 per tranche of rights exercised. Holders do not receive dividends and do not have voting rights until the rights are exercised. IAG ordinary shares are bought on market and held in trust to satisfy future exercise of the rights.

The rights may vest between three and five years (the performance period) from a base date (calculation date for each tranche) subject to the satisfaction of two vesting conditions. The first vesting condition is not market related and requires the participant to continue in relevant employment. The second vesting condition is a market related performance hurdle based on a comparison of IAG's total shareholder return (TSR, the measure of return on an investment in IAG ordinary shares) with the TSR of a peer group of companies in the S&P/ASX 100 Index. The peer group includes insurers and non insurers because the Group competes for capital with a range of large listed companies across many industries. For the performance hurdle, a tiered vesting scale is applied, such that all rights vest if IAG's relative TSR is at the 75th percentile of the peer group, scaling down so that 50% of rights vest if IAG's TSR performance is at the 50th percentile of the peer group. No rights vest if IAG's TSR performance is below the 50th percentile of the peer group. Testing for the satisfaction of the performance hurdle occurs quarterly during the performance period. If either of the vesting conditions is not met then the rights lapse. The rights also lapse where the holder chooses to forgo the rights, and all rights expire 10 years from grant date where they have not previously lapsed or been exercised.

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

The following information relates to the rights issued under the PAR 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
2011							
24/12/2002	$1.870	49,996	-	-	-	49,996	49,996
19/09/2005	$3.187	979,760	-	(60,815)	(794,880)	124,065	124,065
30/11/2005	$2.596	15,180	-	-	(15,180)	-	-
22/03/2006	$3.145	91,800	-	-	(86,940)	4,860	4,860
19/12/2006	$4.013	2,458,200	-	-	(1,315,825)	1,142,375	-
13/03/2007	$3.660	270,000	-	-	(187,000)	83,000	-
		3,864,936	-	(60,815)	(2,399,825)	1,404,296	178,921
2010							
24/12/2002	$1.870	49,996	-	-	-	49,996	49,996
17/09/2004	$2.715	2,697,000	-	-	(2,697,000)	-	-
30/11/2004	$2.718	251,000	-	-	(251,000)	-	-
30/03/2005	$3.269	34,000	-	-	(34,000)	-	-
19/09/2005	$3.187	2,319,530	-	(278,170)	(1,061,600)	979,760	184,880
30/11/2005	$2.596	40,530	-	(8,100)	(17,250)	15,180	-
22/03/2006	$3.145	91,800	-	-	-	91,800	4,860
19/12/2006	$4.013	2,571,821	-	-	(113,621)	2,458,200	-
13/03/2007	$3.660	282,000	-	-	(12,000)	270,000	-
		8,337,677	-	(286,270)	(4,186,471)	3,864,936	239,736

All rights granted on 19/09/2005, 30/11/2005 and 22/03/2006 which were not vested and exercisable as at 30 June 2010 lapsed due to performance hurdles not being met.

The fair value of the rights is calculated as at the grant date using the Monte Carlo simulation methodology. 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.

C. EMPLOYEE SHARE PLANS

Offers were made under the employee share plans during the year ended 30 June 2011 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 29. SUPERANNUATION

Contributions are made to a number of superannuation plans in various countries. The majority of employees are defined contribution members with fewer than 4.8% (2010-5.3%) of employees participating on a defined benefit basis. Entry to defined benefit superannuation plans is closed and so all new employees are provided with defined contribution arrangements. The plans provide benefits for members or their dependants in the form of lump sum or pension payments generally upon retiring from relevant employment.

The superannuation expense for the year is included in the claims expense, other underwriting expenses, and fee based, corporate and other expenses lines in the statement of comprehensive income.

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 (2010-$Nil).

B. DEFINED BENEFIT SUPERANNUATION ARRANGEMENTS

Employees who are entitled to defined benefit superannuation arrangements are members of one of six superannuation plans each of which are funded plans. The defined benefit sections of those plans are closed to new members and so membership is reducing over time. Contributions to the plans are made in accordance with the governing rules of each plan and the contribution recommendations of an independent actuary. In contrast to defined contribution superannuation arrangements, the future cost of the defined benefit superannuation plans is not known with certainty in advance. The benefit 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 584 members as at reporting date (2010-632). The Consolidated entity has contributed to the IAG Plan during the year in accordance with the recommendations of the actuary and has contributed $9 million for defined benefit members (2010-$9 million). There were no employer contributions payable at the end of the year (2010-$Nil). The governing rules of the IAG Plan allow any surplus to be used to meet the contributions that would otherwise have been payable for both the defined benefit and defined contribution members of the IAG Plan.

The employer contribution rate for Australia defined benefit members remained at 16% with an additional quarterly payment of $1 million to restore the financial position of the IAG Plan. The rate will increase to 17.5% from 1 July 2011 whilst the quarterly payments will reduce to $475,000 from 31 March 2012.

There are two subsidiaries in the Consolidated entity, being Insurance Australia Group Services Pty Limited and Insurance Manufacturers of Australia Pty Limited, with employees that are defined benefit members of the IAG Plan. While separate records are maintained for the liabilities relating to each member, there is effectively a sharing of the risks associated with the assets of the IAG Plan.

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 519 defined benefit members as at reporting date (2010-543). The Consolidated entity contributed $6 million to the UK Plans for defined benefit members during the year (2010-$7 million).

None of the UK Plans is individually significant to the financial report and so the information disclosed below is provided for the UK Plans in aggregate.

III. Financial information

a. REPORTING DATE BALANCES

	IAG PLAN		UK PLANS		TOTAL	
	2011	2010	2011	2010	2011	2010
	$m	$m	$m	$m	$m	$m
Fair value of plan assets	149	151	103	108	252	259
Present value of defined benefit obligation (net discount rate)	(194)	(199)	(108)	(124)	(302)	(323)
Net defined benefit asset/(liability)	(45)	(48)	(5)	(16)	(50)	(64)
Net asset/(liability) recognised on the	(45)	(48)	(5)	(16)	(50)	(64)

balance sheet

Where a plan incorporates both defined benefit and defined contribution arrangements, the amounts disclosed in this note represent only the defined benefit portion of the plan. Actuarial valuations are performed at each reporting date by an independent specialist. The financial information disclosed has been prepared in accordance with AASB 119 Employee Benefits except where otherwise noted.

Those plans with a net financial position that is an asset are presented within the defined benefit superannuation asset on the balance sheet while those plans with a net financial position that is a liability are presented within the employee benefits provision.

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

		IAG PLAN		UK PLANS
	2011	2010	2011	2010
	$m	$m	$m	$m
Contributions expensed	9	9	6	7
Reporting date valuation adjustment to profit	(4)	(2)	(5)	(5)
	5	7	1	2
Reporting date valuation adjustment to retained earnings	1	-	(6)	(9)
Total amount recognised for financial year in closing retained earnings	6	7	(5)	(7)
Reporting date valuation adjustments represent				
Current service cost	6	6	-	-
Past service cost	1	1	-	-
Interest cost (net of tax)	9	10	6	7
Expected return on plan assets	11	(10)	(5)	(5)
Actuarial (gains) and losses	1	-	(6)	(9)
Total net amount recognised from reporting date valuation	28	7	(5)	(7)

c. RECONCILIATION OF MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

Defined benefit obligation at the beginning of the financial year	199	194	124	138
Current service cost	6	6	-	-
Past service cost	1	1	-	-
Interest cost	9	10	6	7
Contributions by plan participants	2	2	-	-
Actuarial (gains) and losses	(2)	9	1	2
Benefits paid	(21)	(23)	(4)	(4)
Net exchange difference on translation of foreign operations	-	-	(19)	(19)
Defined benefit obligation at the end of the financial year	194	199	108	124

d. RECONCILIATION OF MOVEMENTS IN THE FAIR VALUE OF ASSETS

Fair value of plan assets at the beginning of the financial year	151	143	108	103
Expected return on plan assets	11	10	6	6
Actuarial gains and (losses)	(3)	10	4	11
Contributions by employers	9	9	6	7
Contributions by plan participants	2	2	-	-
Benefits paid	(21)	(23)	(4)	(4)
Net exchange difference on translation of foreign operations	-	-	(17)	(15)
Fair value of plan assets at the end of the financial year	149	151	103	108

e. PLAN ASSETS

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

		IAG PLAN		UK PLANS
	2011	2010	2011	2010
	%	%	%	%
Australian shares	38.0	37.0	-	-
Overseas shares	20.0	21.0	42.0	39.0
Listed property trusts	10.0	10.0	-	-

Fixed interest	25.0	27.0	41.0	52.0
Cash	5.0	3.0	13.0	4.0
Other	2.0	2.0	4.0	5.0

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. These estimated returns for each asset class have been used to calculate the expected rate of return on the assets supporting the defined benefits based on the plans' target asset allocation and allowing for correlations of the investment returns between asset classes. The actual return on the IAG Plan assets for the current reporting period was a gain of 7.9% (2010-gain of 11.1%). The actual return on the UK Plans assets for the current reporting period was a gain of 9.6% (2010-gain of 16.3%).

f. ACTUARIAL ASSUMPTIONS

Assumptions used in the determination of the financial position of the plans are reviewed annually and determined in conjunction with the independent actuaries to the plans. The principal actuarial assumptions used in determining the financial position of the plans include:

		IAG PLAN		UK PLANS
	2011	2010	2011	2010
	%	%	%	%
Discount rate (gross)*	5.2	5.1	5.05	5.7
Expected rate of return on plan assets supporting pension liabilities	8.3	8.3	5.10	5.6
Expected rate of return on other plan assets	7.0	7.0	5.10	5.6
Expected future salary increases	4.0	4.0	5.10	5.0
Future pension increases - adult/child	2.5/0.0	2.5/0.0	3.6/0.0	3.5/0.0

* 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 superannuation arrangements are by nature long term. The majority of the assumptions reflect this and are not changed to reflect short term variations in factors. The discount rate 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 $24 million increase in the present value of the defined benefit obligation of the IAG Plan and result in a net financial deficit of $69 million.

h. HISTORICAL INFORMATION

					IAG PLAN					UK PLANS
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Present value of defined benefit obligation	(194)	(199)	(194)	(176)	(165)	(108)	(124)	(138)	(124)	(162)
Fair value of plan assets	149	151	143	179	215	103	108	103	117	141
Surplus/(deficit) in the plan	(45)	(48)	(51)	3	50	(5)	(16)	(35)	(7)	(21)
Experience adjustments arising on plan liabilities gain/(loss)	-	-	(7)	(4)	6	-	(1)	(11)	(9)	2
Experience adjustments arising on plan assets gain/(loss)	(3)	10	(37)	(41)	16	10	3	(19)	6	-

The experience adjustments are based on the actuarial gain or loss after removing the impact of any change in assumptions.

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	
	2011	2010
	$m	$m
Net market value of plan assets	149	151
Present value of accrued benefits	(159)	(158)
Defined benefit surplus/(deficit)	(10)	(7)
Vested benefits	152	154

	IAG PLAN	
	2011	2010
	%	%
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.

Assumptions used in the determination of the financial position of the IAG Plan are reviewed annually and determined in conjunction with the independent actuary to the IAG Plan. Changes in financial and/or demographic assumptions, or changes in the relevant regulatory environment, could significantly impact the financial position of the IAG Plan. The financial position of the plan is calculated at a specific point in time, however the superannuation arrangements are by nature long term. Short term variations between long term actuarial assumptions and actual experience will cause the net funding status of the IAG Plan to change without impacting on the long term viability of the plan.

The contribution recommendation uses a different actuarial methodology and a different discount rate assumption to that used in determining the financial position for measurement on the balance sheet of the employer sponsor. In determining the contribution recommendation, the actuarial valuation method focuses on the funding of benefits for current members, irrespective of whether they stem from past or future membership, whereas, for financial reporting purposes, the present value of expected future benefit payments does not include benefits that have not yet accrued. The difference in methodologies used for determining the employer contributions and the measurement of the asset/liability recognised on the balance sheet means that a liability may be recognised even where the employer has met all of the superannuation contribution obligations.

NOTE 30. COMMITMENTS

	CONSOLIDATED	
	2011	2010
	$m	$m
A. CAPITAL COMMITMENTS		
I. Software development		
Due within 1 year	3	7
Due within 1 to 2 years	3	7
Due within 2 to 5 years	7	14
Due after 5 years	2	-
	15	28
B. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	102	101
Due within 1 to 2 years	93	98
Due within 2 to 5 years	259	247
Due after 5 years	284	335
II. Plant and equipment		
Due within 1 year	16	18
Due within 1 to 2 years	12	15
Due within 2 to 5 years	11	5
	777	819

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.

	2011	2010
C. SOFTWARE LICENCE AND RENTAL COMMITMENTS		
Due within 1 year	19	30
Due within 1 to 2 years	7	17
Due within 2 to 5 years	8	1
Due after 5 years	3	-
	37	48
D. OTHER COMMITMENTS		
Due within 1 year	7	11
Due within 1 to 2 years	4	-
Due within 2 to 5 years	5	-
Due after 5 years	2	-
	18	11

NOTE 31. 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 $495 million (2010-$461 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 32. RELATED PARTY DISCLOSURES

A. CONTROLLING ENTITIES

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

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, 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.

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 key management personnel 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 key management personnel is set out below.

	CONSOLIDATED	
	2011	2010
	$000	$000
Short term employee benefits	14,758	14,033
Post employment benefits	746	491
Other long term benefits	45	44
Termination benefits	942	-
Share based payments	6,024	7,747
	22,515	22,315

The compensation disclosed in the table above represents the key management personnel'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 key management personnel. 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 key management personnel, did not receive share based payments in the form of DAR, EPR and PAR.

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

	DAR ON ISSUE 1 JULY	DAR GRANTED DURING THE YEAR	DAR EXERCISED DURING THE YEAR	DAR LAPSED DURING THE YEAR	DAR ON ISSUE 30 JUNE*	DAR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2011						
MJ Wilkins	186,700	112,200	(96,200)	-	202,700	-
JP Breheny	158,100	58,100	-	-	216,200	120,680
A Cornish	52,954	74,000	(14,250)	-	112,704	24,454
IR Foy	32,740	42,600	(18,650)	-	56,690	-
P Harmer	-	-	-	-	-	-
NB Hawkins	76,530	51,900	(44,420)	-	84,010	-
JS Johnson	125,670	50,400	(88,190)	-	87,880	-
LC Murphy	61,500	42,700	(32,240)	-	71,960	-
Total	694,194	431,900	(293,950)	-	832,144	145,134
Executives who ceased as key management personnel						
N Utley	126,100	-	(71,050)	(55,050)	-	-
DG West	93,200	70,600	(54,790)	(109,010)	-	-
Total	219,300	70,600	(125,840)	(164,060)	-	-
2010						
MJ Wilkins	57,000	158,200	(28,500)	-	186,700	-
JP Breheny	99,300	58,800	-	-	158,100	69,670
A Cornish	48,908	28,500	(24,454)	-	52,954	-
IR Foy	33,675	20,900	(21,835)	-	32,740	-
NB Hawkins	86,500	53,300	(63,270)	-	76,530	-
JS Johnson	104,200	58,800	(37,330)	-	125,670	35,250
LC Murphy	29,800	46,600	(14,900)	-	61,500	-
N Utley	137,125	76,100	(87,125)	-	126,100	-
DG West	27,300	65,900	-	-	93,200	13,650
Total	623,808	567,100	(277,414)	-	913,494	118,570

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

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

	EPR ON ISSUE 1 JULY	EPR GRANTED DURING THE YEAR	EPR EXERCISED DURING THE YEAR	EPR LAPSED DURING THE YEAR	EPR ON ISSUE 30 JUNE	EPR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number

2011						
MJ Wilkins	1,790,600	849,000	(80,000)	-	2,559,600	-
JP Breheny	689,900	311,600	-	-	1,001,500	31,520
A Cornish	561,700	348,300	-	-	910,000	-
IR Foy	398,800	263,000	(3,680)	-	658,120	-
P Harmer	-	285,600	-	-	285,600	-
NB Hawkins	705,300	330,000	(30,720)	-	1,004,580	-
JS Johnson	690,900	311,600	-	-	1,002,500	31,840
LC Murphy	536,800	302,500	(11,200)	-	828,100	-
Total	5,374,000	3,001,600	(125,600)	-	8,250,000	63,360
Executives who ceased as key management personnel						
N Utley	942,200	-	(45,920)	(896,280)	-	-
DG West	763,000	348,300	(32,000)	(1,079,300)	-	-
Total	1,705,200	348,300	(77,920)	(1,975,580)	-	-
2010						
MJ Wilkins	1,000,000	790,600	-	-	1,790,600	-
JP Breheny	396,000	293,900	-	-	689,900	-
A Cornish	250,000	311,700	-	-	561,700	-
IR Foy	212,500	186,300	-	-	398,800	-
NB Hawkins	402,500	302,800	-	-	705,300	-
JS Johnson	397,000	293,900	-	-	690,900	-
LC Murphy	287,500	249,300	-	-	536,800	-
N Utley	562,000	380,200	-	-	942,200	-
DG West	433,500	329,500	-	-	763,000	-
Total	3,941,000	3,138,200	-	-	7,079,200	-

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

	PAR ON ISSUE 1 JULY	PAR GRANTED DURING THE YEAR	PAR EXERCISED DURING THE YEAR	PAR LAPSED DURING THE YEAR	PAR ON ISSUE 30 JUNE	PAR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2011						
JP Breheny	93,000	-	-	(46,000)	47,000	-
IR Foy	20,930	-	-	(9,430)	11,500	-
NB Hawkins	67,930	-	-	(20,930)	47,000	-

JS Johnson	57,350	-	-	(10,350)	47,000	-
Total	239,210	-	-	(86,710)	152,500	-
Executives who ceased as key management personnel						
N Utley	44,500	-	-	(44,500)	-	-
Total	44,500	-	-	(44,500)	-	-

2010

JP Breheny	93,000	-	-	-	93,000	-
IR Foy	36,930	-	-	(16,000)	20,930	-
NB Hawkins	107,930	-	-	(40,000)	67,930	-
JS Johnson	87,350	-	-	(30,000)	57,350	-
N Utley	44,500	-	-	-	44,500	-
Total	369,710	-	-	(86,000)	283,710	-

d. MOVEMENTS IN TOTAL NUMBER OF ORDINARY SHARES HELD

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

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF EPR	SHARES RECEIVED ON EXERCISE OF DAR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[(a)]	TOTAL SHARES HELD AT 30 JUNE[(d)]	SHARES HELD NOMINALLY AT 30 JUNE[(b)]
	Number	Number	Number	Number	Number	Number
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 are disclosed up to the date of their cessation of employment.

There were no shares received on exercise of PAR by the key management personnel as no PAR vested during the year.

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF EPR	SHARES RECEIVED ON EXERCISE OF DAR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[(a)]	TOTAL SHARES HELD AT 30 JUNE[(d)]	SHARES HELD NOMINALLY AT 30 JUNE[(b)]
2010						
JA Strong	409,250	-	-	305	409,555	395,009
YA Allen	29,011	-	-	-	29,011	27,345
PM Colebatch	46,692	-	-	-	46,692	46,692
HA Fletcher	70,803	-	-	887	71,690	36,500
A Hynes	27,242	-	-	13,000	40,242	40,242
BM Schwartz	41,311	-	-	30,684	71,995	57,780
PJ Twyman	46,446	-	-	11,334	57,780	70,042
MJ Wilkins	101,666	-	28,500	-	130,166	101,666
JP Breheny	78,200	-	-	-	78,200	-
A Cornish	-	-	24,454	-	24,454	44,250
IR Foy	18,353	-	21,835	55	40,243	55
NB Hawkins	87,145	-	63,270	21,271	171,686	21,271
JS Johnson	52,898	-	37,330	-	90,228	2,750
LC Murphy	-	-	14,900	-	14,900	-
N Utley[(c)]	120,602	-	1,339,799	(51,852)	1,408,549	50,000
DG West	-	-	-	-	-	-

(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) 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.

(c) Of the 1,339,799 DAR exercised by N Utley, 1,252,674 DAR were issued as part of the consideration for his sale of Equity Insurance Group's shares and are not included as part of his share based remuneration.

(d) 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.

e. MOVEMENTS IN TOTAL NUMBER OF RESET PREFERENCE SHARES HELD

No key management personnel had any interest in reset preference shares at any time during the financial year (2010-nil).

f. MOVEMENTS IN TOTAL NUMBER OF RESET EXCHANGEABLE SECURITIES HELD

No key management personnel had any interest in reset exchangeable securities of IAG Finance (New Zealand) Limited nominally at the beginning and the end of the financial year (2010-nil).

III. Other related party transactions with key management personnel

a. TRANSACTION WITH N UTLEY

Under the terms of the agreement for the sale of HISL (SPA), IAG International Pty Limited (IAGI) agreed to indemnify Hastings 888 in respect of any potential tax related claims. Hastings 888 made a number of claims under this indemnity, which were settled by IAGI following execution of a deed of settlement and variation on 28 April 2010 by payment of a full and final settlement. No payments were made in the year ended 30 June 2011 (2010-£924,200).

b. TRANSACTION WITH I FOY

During the year ended 30 June 2011, I Foy was appointed as Chief Executive Officer, United Kingdom (UK) (formerly CEO, NZ) and relocated from New Zealand to UK. In order to speed up the relocation processes, IAG agreed to acquire Mr Foy's NZ residence at the midpoint of the independent external valuations obtained by the Group. The NZ residence was subsequently sold by the Group at a loss. The loss on sale of the NZ residence, plus the associated transaction costs of $291,000 (NZ$380,000) are included as part of the remuneration received by Mr Foy and disclosed as other short term benefits in the remuneration report.

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 33. DERIVATIVES

Derivatives are used across the Consolidated entity to manage various risks. Derivatives are used solely to manage risk exposures and are not used for trading or speculation.

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 to between 50% and 100% of the value on an after tax basis through the use of 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 the statement of comprehensive income.

II. Reporting date positions

The notional contract amounts associated with derivative financial instruments which form arrangements for which hedge accounting is applied, together with a maturity profile for the current reporting period and reporting date fair value, are provided below.

									CONSOLIDATED
						2011			2010
			Maturity profile	Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	1 to 5 years	Over 5 years						
	$m	$m	$m	$m	$m	$m	$m	$m	$m
a. NET INVESTMENT HEDGES									
Forward foreign exchange contracts	732	-	-	732	11	(4)	618	2	(14)

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

While a variety of derivatives are used to hedge specific risks on various financial instruments, these derivatives are not designated as part of a hedge for which hedge accounting is applied. These derivatives are measured at fair value with movements in fair value being recognised in the statement of comprehensive income.

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 contract amounts associated with derivative financial instruments for which hedge accounting is not applied, together with a maturity profile for the current reporting period and reporting date fair value, are provided below.

									CONSOLIDATED
						2011			2010
			Maturity profile	Notional contract amount	Fair value asset	Fair value liability	Notional contract amount	Fair value asset	Fair value liability
	Within 1 year	1 to 5 years	Over 5 years						
	$m	$m	$m	$m	$m	$m	$m	$m	$m
a. PRESENTED IN INVESTMENTS (INVESTMENT RELATED DERIVATIVES)									
Futures	1,077	-	-	1,077	-	-	401	11	(2)
Share price index futures	53	-	-	53	-	-	56	-	-
Options	-	5	-	5	5	-	4	4	-
Forward foreign exchange contracts	328	-	-	328	1	(1)	182	3	(1)
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)									
Forward foreign exchange contracts	-	-	-	-	-	-	48	-	-
Interest rate swaps	100	-	-	100	-	-	202	-	-

C. FAIR VALUE INFORMATION

The notional contract amounts associated with derivative financial instruments are not recorded as assets or liabilities on the

balance sheet as they do not represent the fair value of these transactions.

Further to the discussion of the fair value measurement of derivatives in the summary of significant accounting policies note 1.Q, the following techniques are used to determine the fair value of various derivative instruments:

I. Interest rate swap contracts

The fair value of the interest rate swap contracts is the estimated amount that the Group would receive or pay to terminate the swap at balance date taking into account current interest rates.

II. Forward foreign exchange contracts

The fair value of the forward foreign exchange contract is calculated by reference to current forward exchange contracts for contracts with similar maturity profile as at reporting date.

III. Determination of fair value

The table below separates the total derivatives balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. Details on the levels of the fair value hierarchy are disclosed in the investments note.

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 in its entirety.

	CONSOLIDATED	
	2011	2010
	$m	$m
Level 1	5	14
Level 2	-	1
	5	15

NOTE 34. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the crucial and equally important objective of providing an appropriate level of capital to protect policyholders' and lenders' interests and satisfy regulators. Capital expenditure and business plans also provide support in the face of adverse outcomes from insurance and other activities and investment performance.

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 Australian Prudential Regulation Authority (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 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 (2010-1.45 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.

II. Economic capital

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

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

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

B. CAPITAL COMPOSITION

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

			CONSOLIDATED
	Target	2011	2010
	%	%	%

Ordinary equity less goodwill and intangible assets	60-70	66	64
Interest bearing liabilities - hybrid securities and debt	30-40	34	36
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	
	2011	2010
	$m	$m
I. Statutory capital		
a. TIER 1 CAPITAL		
i. Fundamental Tier 1 capital		
Ordinary shares	5,353	5,353
Reserves	(84)	(34)
Non-controlling interests	163	170
Retained earnings	(795)	(775)
Excess technical provisions (net of tax)[(a)]	381	522
ii. Innovative residual Tier 1 capital		
Hybrid equities	451	475
iii. Deductions from Tier 1 capital[(b)]		
Treasury shares held in trust[(c)]	(32)	(31)
Goodwill	(1,644)	(1,782)
Intangible assets	(225)	(301)
Net deferred tax assets	(299)	(267)
Other	(262)	(163)
Total Tier 1 capital	3,007	3,167
b. TIER 2 CAPITAL		
Ineligible Tier 1 capital	449	425
Subordinated term notes	461	536
Other	16	12
Total statutory capital	3,933	4,140
II. Minimum capital requirement		
Insurance risk	1,410	1,344
Investment risk	911	790
Investment concentration risk[(d)]	-	-
Catastrophe concentration risk	175	20
Total minimum capital requirement	2,496	2,154
III. Minimum capital requirement multiple	1.58	1.92

.(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.

IV. Factors impacting the minimum capital requirement multiple

The Group's estimated minimum capital requirement (MCR) multiple at 30 June 2011 was 1.58. This compares to 1.92 at 30 June 2010. The decrease was primarily due to the impact of recent natural catastrophes, in particular the following:

- A lower capital base as a result of a decrease in excess technical provisions on premium liabilities primarily due to higher reinsurance costs not yet reflected in pricing;
- Increase in the minimum capital requirement as a result of:

- Higher insurance liabilities and reinsurance recoverables on the balance sheet increasing insurance risk charges and credit risk charges respectively; and
- A higher catastrophe concentration risk charge reflecting the estimated reinstatement costs in the event the catastrophe program is eroded by further significant events in the next reporting period.

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 4 August 2011.

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 35. NET TANGIBLE ASSETS

	CONSOLIDATED	
	2011	2010
	$	$
Net tangible assets per ordinary share	1.23	1.16

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 36. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2011	2010
	$000	$000
A. KPMG AUSTRALIA		
I. Assurance services		
Audit of the financial statements prepared for the Parent and subsidiaries	4,716	4,903
Audit of statutory returns in accordance with regulatory requirements	836	811
Other assurance services	376	595
	5,928	6,309
II. Advisory services		
Taxation services	828	839
Due diligence	369	200
	1,197	1,039
B. OVERSEAS RELATED PRACTICES OF KPMG AUSTRALIA		
I. Assurance services		
Audit of the financial statements prepared for subsidiaries	2,095	2,936
Audit of statutory returns in accordance with regulatory requirements	120	145
Other assurance services	62	57
	2,277	3,138
II. Advisory services	9	122
C. OTHER AUDITORS		
I. Assurance services		
Audit of the financial statements prepared for subsidiaries	24	3
II. Advisory services	7	10
Total remuneration of auditors	9,442	10,621

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

NOTE 37. PARENT ENTITY DISCLOSURES

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

	PARENT	
	2011	2010
	$m	$m
A. FINANCIAL RESULTS		
Profit/(loss) for the year	377	221
Total comprehensive income and (expense) for the year net of tax	377	221
B. FINANCIAL POSITION		
Current assets	214	82
Total assets	7,658	7,100
Current liabilities	194	69
Total liabilities	1,457	996
C. SHAREHOLDERS' EQUITY		
Share capital	5,353	5,353
Retained earnings	848	751
Total shareholders' equity	6,201	6,104

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 38. 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 2011.

A. FINAL DIVIDEND

On 25 August 2011, the IAG Board determined to pay a final dividend of 7.0 cents per share, 100% franked. The dividend will be paid on 5 October 2011. The board has resolved to determine that the Dividend Reinvestment Plan will not operate for the final dividend.

B. BOHAI PROPERTY INSURANCE PTY LTD

On 15 August 2011, IAG announced it had agreed to acquire a 20% strategic interest in Bohai Property Insurance Pty Ltd (Bohai Insurance), for a sum of approximately $100 million.

Bohai Insurance was established in 2005, has a predominantly motor insurance focus and current annualised GWP in excess of $200 million. Bohai Insurance is headquartered in Tianjin and has a strong emphasis on the surrounding pan-Bohai region which accounts for around 30% of China's GDP and an equivalent portion of China's annual GWP pool, which currently stands at approximately $60 billion.

Under the terms of the agreement, IAG will have board and senior management representation within Bohai Insurance. The investment is expected to be completed by early calendar year 2012 and is subject to conditions precedent including regulatory approval.

C. GBP SUBORDINATED TERM NOTES

In July 2011 the Group announced amended terms for its £157 million subordinated exchangeable loan note issue, with effect from October 2011. Following the amendments, the date at which the notes may be redeemed or exchanged into IAG ordinary shares has been extended to December 2012. Refer to the interest bearing liabilities note for further details.

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Phillip Colebatch, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 2 November 2011

Phillip Colebatch
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Michael Wilkins, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 25.10 2011

Michael Wilkins
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Philip Twyman, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 26 Oct 2011

Philip Twyman
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Brian Schwartz, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 26 · 10 2011

Brian Schwartz
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

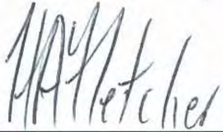
AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Hugh Fletcher, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 26/10/ 2011



Hugh Fletcher
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

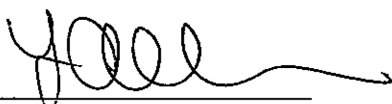
AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Yasmin Allen, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 26th Oct 2011



Yasmin Allen
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

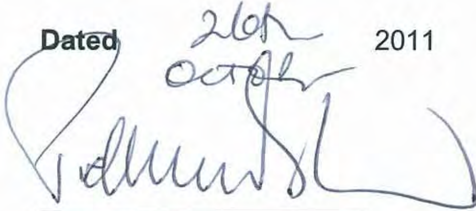
AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Peter Bush, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 26th October 2011



Peter Bush
Director of Insurance Australia Group Limited

Authority for Agent to Sign Prospectus

THE SECURITIES ACT 1978

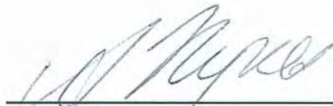
AUTHORITY FOR AGENT TO SIGN PROSPECTUS IN RELATION TO THE PROSPECTUS FOR AN OFFER OF UNSECURED SUBORDINATED BONDS
Pursuant to Section 41(b)

I, Anna Hynes, being a director of Insurance Australia Group Limited hereby authorise each of Nicholas Barrie Hawkins and Christopher John Bertuch, separately, to sign on my behalf as my agent:

(a) a prospectus to be dated in November 2011 ("**Prospectus**") relating to an offer of unsecured subordinated bonds by Insurance Australia Group Limited; and

(b) any memorandum of amendments to the Prospectus.

Dated 26/10/2011



Anna Hynes
Director of Insurance Australia Group Limited