THE YEAR IN NUMBERS

ANNUAL REPORT 2011

Insurance Australia Group Limited ABN 60 090 739 923

Insurance Australia Group

CONTENTS

KEY DATES FOR 2011 AND 2012*

Financial year end	30 June 2011
Full year results and dividend announced	25 August 2011
Notice of meeting mailed to shareholders	6 September 2011
Final dividend for ordinary shares	
– Record date	7 September 2011
– Payment date	5 October 2011
Annual general meeting	26 October 2011
Half year end	31 December 2011
Half year results and dividend announced	23 February 2012*
Interim dividend for ordinary shares	
– Record date	14 March 2012*
– Payment date	16 April 2012*

* Please note: dates are subject to change. Any changes will be published via a notice on the Australian Securities Exchange (ASX).

ABOUT THIS REPORT

The Insurance Australia Group (IAG) 2011 annual report includes IAG's full statutory accounts, along with the directors', remuneration and corporate governance reports for the financial year 2011. Please read this report together with the 2011 annual review, which provides a summary of IAG's operational performance, including the Chairman's and CEO's reviews. If you do not receive a copy of the annual review, you can access an interactive version online at www.iag.com.au/results. You can request a copy to be mailed to you by contacting IAG's Share Registry. In addition, detailed information about IAG's business sustainability performance is available online at www.iag.com.au/sustainable. All figures are in Australian dollars unless otherwise stated.

OUR ANNUAL GENERAL MEETING

IAG's 2011 AGM will be held on Wednesday, 26 October 2011, at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, commencing at 10.00am. Details of the meeting, including information about how to vote, will be included in our notice of meeting, which will be mailed to shareholders and available online at www.iag.com.au from Tuesday, 6 September 2011.

RESPONSIBLE PAPER CHOICE

We are committed to minimising our impact on the environment. This report is printed on Tudor RP. Tudor RP is Certified Carbon Neutral by the Department of Climate Change & Energy Efficiency's National Carbon Offset Standard (NCOS), an Australian Government Initiative. Tudor RP is Australian made and Forest Stewardship Council (FSC) Recycled Certified and carries ISO 14001 Environmental Certification. Selection of Tudor RP paper leads to a donation being made to Landcare Australia.

MORE INFORMATION IS ONLINE

To view the 2011 annual report, 2011 annual review, financial results and other important information about IAG, and to manage your shareholding online, please visit our website at www.iag.com.au. You can also register on the website to receive email alerts when IAG makes important announcements.

FIVE YEAR FINANCIAL SUMMARY

	2011 $m	2010 $m	2009 $m	2008[a] $m	2007 $m
Gross written premium	**8,050**	7,782	7,842	7,793	7,381
Premium revenue	**7,858**	7,621	7,718	7,765	7,207
Outward reinsurance premium expense	**(620)**	(556)	(485)	(470)	(464)
Net premium revenue	**7,238**	7,065	7,233	7,295	6,743
Net claims expense	**(5,089)**	(5,072)	(5,370)	(5,155)	(4,474)
Underwriting expenses	**(1,978)**	(2,054)	(2,128)	(2,180)	(1,862)
Underwriting profit/(loss)	**171**	(61)	(265)	(40)	407
Net investment income on assets backing insurance liabilities	**489**	554	780	432	360
Insurance profit/(loss)	**660**	493	515	392	767
Net investment income from equity holders' funds[b]	**213**	96	(39)	24	301
Other income	**264**	256	403	487	463
Share of net profit/(loss) of associates	**(8)**	3	8	(3)	5
Finance costs	**(86)**	(88)	(87)	(101)	(119)
Corporate and administration expenses	**(259)**	(245)	(423)	(528)	(454)
Amortisation expense and impairment charges of acquired intangible assets and goodwill[c]	**(170)**	(113)	(65)	(407)	(55)
Profit/(loss) before income tax	**614**	402	312	(136)	908
Income tax expense	**(276)**	(212)	(65)	(90)	(279)
Net profit/(loss)	**338**	190	247	(226)	629
Net profit attributable to non-controlling interests	**(88)**	(99)	(66)	(35)	(77)
Net profit/(loss) attributable to equity holders of Insurance Australia Group Limited	**250**	91	181	(261)	552
Ordinary equity holders' equity ($ million)	**4,417**	4,486	4,671	4,204	4,660
Total assets ($ million)	**22,923**	20,442	19,360	19,380	21,637
PREMIUM GROWTH					
Gross written premium	**3.4 %**	(0.8)%	0.6 %	5.6%	14.7 %
KEY RATIOS					
Loss ratio	**70.3 %**	71.8 %	74.2 %	70.7%	66.4 %
Expense ratio	**27.3 %**	29.1 %	29.4 %	29.9%	27.6 %
Combined ratio	**97.6 %**	100.9 %	103.6 %	100.6%	94.0 %
Insurance margin[d]	**9.1 %**	7.0 %	7.1 %	5.4%	11.4 %
SHARE INFORMATION					
Dividends per ordinary share - fully franked (cents)	**16.00**	13.00	10.00	22.50	29.50
Basic earnings per ordinary share (cents)	**12.08**	4.39	9.32	(14.11)	32.79
Ordinary share price at 30 June ($) (ASX: IAG)	**3.40**	3.41	3.51	3.47	5.70
Reset preference share price at 30 June ($) (ASX: IAGPA)	**101.01**	98.55	100.50	85.00	99.80
Reset exchangeable securities price at 30 June ($) (ASX: IANG)	**103.00**	100.00	74.75	81.89	100.09
Issued ordinary shares (million shares)	**2,079**	2,079	2,071	1,878	1,794
Issued reset preference shares (million shares)	**4**	4	4	4	6
Market capitalisation (ordinary shares) at 30 June ($ million)	**7,069**	7,089	7,269	6,517	10,226
Net tangible asset backing per ordinary share ($)	**1.23**	1.16	1.16	0.93	0.90

(a) The financial information for the 2008 year has been reclassified to provide comparable figures for the segment reporting adopted in 2009. This includes reallocation of corporate expenses and reinsurance to the operating divisions. All financial information prior to 2008 was prepared under IAG's previous classification.
(b) This included an unrealised gain/(loss) on embedded derivatives of ($96 million) for 2010, $27 million for 2009 and $69 million for 2008.
(c) This included impairment charges for acquired identifiable intangible assets and goodwill of $150 million for 2011, $87 million for 2010, $18 million for 2009 and $342 million for 2008.
(d) Insurance margin is a ratio of insurance profit over net premium revenue.

CORPORATE GOVERNANCE

IAG'S APPROACH TO CORPORATE GOVERNANCE

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

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

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

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

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

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

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

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

ROLES AND RESPONSIBILITIES

1.1 THE BOARD

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

The board is responsible for oversight of IAG, including:

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

More details on the board's responsibilities are set out in the board charter which can be found at www.iag.com.au/about/governance.

1.2 APPOINTMENT TERMS

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

The appointment letters also provide for:

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

1.3 THE CHIEF EXECUTIVE OFFICER (CEO)

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

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

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

1.4 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES

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

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

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

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

PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

2.1 STRUCTURE AND COMPOSITION

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

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

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

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

2.2 DIRECTOR INDEPENDENCE

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

The board will determine whether each director is independent, using the principles outlined in its charter which can be viewed at www.iag.com.au/about/governance.

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS	TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)
Brian Schwartz (Chairman)	6 years and 7 months
Yasmin Allen	6 years and 9 months
Phillip Colebatch	4 years and 7 months
Hugh Fletcher	3 years and 11 months
Anna Hynes	3 years and 11 months
Philip Twyman	3 years and 1 month
Peter Bush	6 months

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

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

2.8 MEASURING THE PERFORMANCE OF DIRECTORS
Each director's performance is subject to evaluation by the chairman annually, by discussion between the chairman and the director. Individual directors also evaluate the chairman's performance annually.

The NRSC conducts an internal review of the board's performance with assistance from external experts, composition and size at least every three years. A formal review of board performance and succession was conducted in July and August 2011, with assistance and input from an independent board performance expert. The review process involves the completion of questionnaires by directors and group executives, the collation of results and discussion with individual directors and the board as a whole led by the chairman.

Measures of a director's performance will include:

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

2.9 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING

IAG encourages continuing professional education for each of its directors. All directors are expected to remain up to date in relation to issues affecting IAG, the general insurance industry, and their duties as directors.

New directors have access to an orientation program to introduce the executive team and the detail of IAG's businesses. Orientation includes individual meetings with the CEO, group executives and senior management, as well as site visits.

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

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

2.10 BOARD OPERATIONS

The board meets formally at least seven times during the year. From time to time scheduled board meetings are held interstate and overseas as required. Directors are also involved in a number of additional board meetings for specific purposes. This year, among other activities, the board travelled to India and Malaysia to review local operations and meet with management and our joint venture partners in those countries.

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

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

The board and its committees have unfettered access to group executives, senior management and advisers.

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

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

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

2.11 COMPANY SECRETARY

All directors have access to the company secretary and the appointment and removal of the company secretary is decided by the board.

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

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

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

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

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

The IAG Code of Ethics, *The Way We Choose To Do Business*, is available at IAG's website www.iag.com.au/about/ethics.

3.1 IAG CODE OF ETHICS

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

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

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

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

3.2 DIVERSITY

IAG is committed to creating a workforce and culture, where IAG respects and values the different experiences of people, and harnesses the opportunity and business benefits that diverse ideas and perspectives bring to the organisation and stakeholders.

In the IAG Annual Review 2010, IAG announced that promoting diversity, encompassing aspects such as gender, age, ethnicity, ability and thought was a priority. The program of Group-wide initiatives is “co-owned” by each IAG division.

IAG believes to drive the future success of the company and reach its ambition to be the world’s most respected group of general insurance companies, it needs to attract and retain the best people.

Diversity is fundamental to this, because talent does not confine itself to one gender or group of people. Attracting and retaining disciplined business leaders who are passionate about customers and who have a broad range of skills, experiences and frames of references will drive innovation within the organisation and, in turn, contribute to an improved customer outcome and financial performance.

At IAG, the focus is on improving gender, age and ethnic diversity. IAG is also determined to focus on reducing unconscious bias – that is, favouring people 'like us' – and create an inclusive environment where differences are respected and valued. Doing this will benefit IAG's people, customers and business.

Diversity activity

Making IAG successful requires a wide range of people, with a broad range of skills, from a variety of backgrounds.

To help attract and retain these people, IAG is implementing a variety of workplace options to suit different employee needs, including:

- 12 weeks paid parental leave;
- programs aimed at mature age people; and
- flexibility around how, when and where work is done, with:
  - tools and support to help managers and employees effectively implement flexibility;
  - a shared understanding of what flexibility means at IAG;
  - leave arrangements that help employees address both unexpected and ongoing personal and family needs, including personal leave, family sick leave, community leave, primary and secondary carer’s parental leave, and childcare leave;
  - options including career breaks, working from home, compressed working weeks, job-sharing and flexi-time, and a commitment to making these available at all levels of the organisation, including management.

IAG continued to use its Advanced Leadership Program to develop leadership capability. Since the program was launched in November 2009, it has been completed by 24 people across the Group, including 11 women.

In the financial year ended 30 June 2011, IAG took steps towards fulfilling its Diversity Ambition, including:

- formation of the IAG Diversity Working Group, chaired by the CEO, comprising the chairman of the IAG Board and senior representatives from each of the key businesses. Each meeting of the NRSC reviews the progress of the IAG Diversity Working Group; and
- conducting a Diversity and Inclusion Census across IAG's 12,700 employees based in Australia, New Zealand, United Kingdom, Singapore, Thailand and India. The census provided extensive data which will enable IAG to focus diversity activity on the areas of greatest importance to IAG's people.

IAG has also developed an approach to evaluate the board’s skills and knowledge against the Group’s strategic direction. The board has a process that considers the diversity, skills, background and experience of current directors and seeks to complement this with new appointments. Insurance, finance, legal, strategy, technology and consumer marketing skills are particularly relevant.

Diversity targets

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

IAG’s diversity objectives, targets and performance are shown below.

DIVERSITY OBJECTIVES	**ACTUAL 30 June 2011**	ACTUAL 30 June 2010
Women in workforce	**58** %	59 %
Board positions	**25** %	25 %
Executive positions	**25** %	22 %
Senior management positions	**28** %	27 %

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

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

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

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

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

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

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

IAG's Security Trading Policy is available at www.iag.com.au/about/governance, and, as required under Listing Rule 12.9, was provided to the ASX in January 2011.

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

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

IAG reports annually on its social, economic and environmental performance against a series of indicators. The quantitative results of IAG's business sustainability performance are incorporated into the company's annual review. These quantitative results, together with qualitative information and discussion of material issues of interest to stakeholders can also be found at the IAG website, www.iag.com.au. This approach to the reporting of IAG's business sustainability performance demonstrates the ongoing commitment to ensuring business sustainability issues are considered as part of IAG's overall performance.

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

Sustainable outcomes and behaviours continue to be encouraged through several customer offerings. IAG's major operating brands of NRMA Insurance, SGIO and SGIC offer lower motor insurance premiums for highly fuel-efficient vehicles, plus offer opportunities for customers to offset the carbon emissions from their vehicles via the Climate Help website (available at www.climatehelp.com.au). Also, the CGU brand offers business insurance policyholders assistance to ensure that their businesses are insured sufficiently through their Right Cover service.

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

PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCC)

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

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

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

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

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

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

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

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

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

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

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

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

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

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

Over 159,000 ordinary shareholders, representing approximately 19.1% of total shareholders at 2 August 2011, have registered their email address, an increase of approximately 6% in the last 12 months following targeted approaches to shareholders. Shareholders who use this service will be advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed via the internet.

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

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

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

Online proxy and direct voting are available to IAG shareholders and authorised intermediaries such as custodians and help to facilitate ease and timeliness of lodgement by shareholders of their votes on resolutions put to general meetings of shareholders. Shareholders are encouraged to attend general meetings and ask questions of the chairman and the board.

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

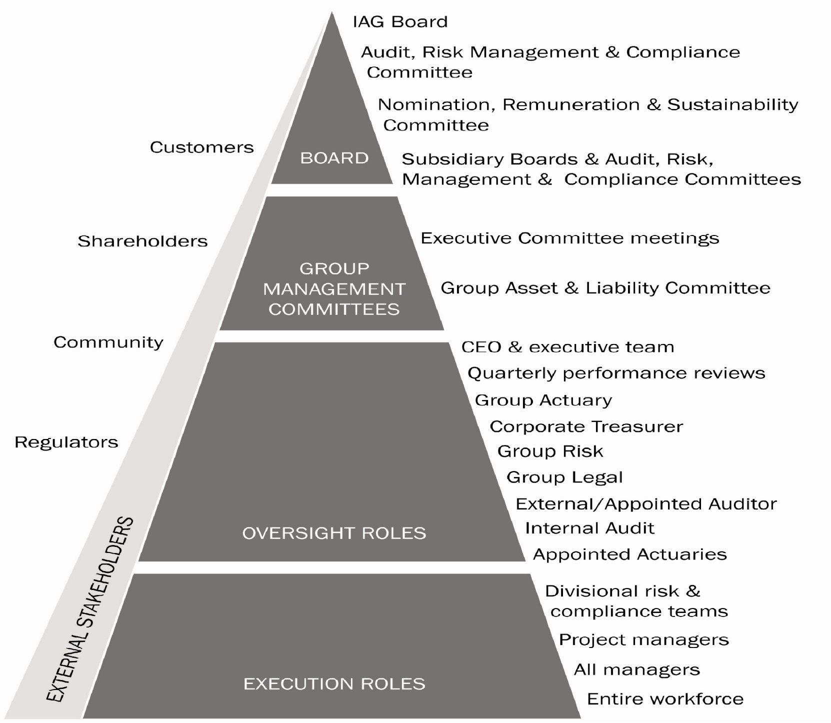
Shareholders and investors may raise any issues or concerns at any time by contacting the company, by email. Questions or comments should be addressed to investor.relations@iag.com.au. Alternatively shareholders and investors can write to the chairman or company secretary at Insurance Australia Group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

PRINCIPLE 7. RECOGNISE AND MANAGE RISK

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

Some of the key underlying principles that influence IAG's approach to risk management are:

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



7.1 OVERSIGHT STRUCTURE

Roles and responsibilities of the IAG Board and its standing committees, the ARMCC and NRSC are set out elsewhere in this report.

The Executive Committee (EXCo) fulfils an advisory role to IAG's CEO and provides the operational oversight of IAG's risks and risk management framework. EXCo comprises the CEO, Michael Wilkins (chair), and his group executive team. All group executives are responsible for:

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

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

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

7.2 INTERNAL POLICIES

The RMS is IAG's overarching risk management policy. The RMS:

- is a primary input to, and evolves with, IAG's corporate strategy;
- describes the risk management framework within IAG including risk governance processes, risk categories (as outlined in the table below), IAG's risk appetite, key accountabilities, the key risk management processes and other group level risk management related policies;
- is a statement of minimum requirements for managing the full spectrum of risks associated with pursuing IAG's corporate intent; and
- is reviewed annually by the ARMCC before being recommended for adoption by the IAG Board.

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

RISK CATEGORIES	NATURE OF RISK
Corporate and strategic risk	This is the risk of not achieving strategic goals due to events such as: ▪ competitor activities; ▪ mergers/acquisitions/divestments/alliances; ▪ corporate transactions; ▪ strategic projects; and ▪ group or contagion risk.
Insurance risk	This is the risk that the Group is exposed to financial loss, which may impact the Group's ability to meet its liabilities as a result of: ▪ inadequate or inappropriate underwriting; and/or ▪ inadequate or inappropriate product pricing; and/or ▪ unforseen, unknown or unintended liabilities that may eventuate; and/or ▪ inadequate or inappropriate claims management including claims reserving; and/or ▪ concentration risk (i.e. by locality, segment factor, or distribution).
Reinsurance risk	This is the risk of insufficient or inappropriate reinsurance coverage.
Liquidity risk	This is the risk of failing to meet financial obligations as and when they fall due, without incurring significant unexpected costs.
Market risk	This is the risk of uncertain asset value due to adverse market fluctuations and/or unknown consequences of concentration within the investments funds backing both policyholders' and shareholders' funds.
Credit risk	This is the risk of a counterparty which fails to meet its obligations in accordance with the agreed terms and therefore the collectability of the asset or receivable will be impaired. Credit risk also reflects uncertain asset values due to adverse movements in the credit quality of an asset.
Operational risk	This risk is the risk of underperformance from inadequate or failed processes, people, systems, and/or from external events that impact the operation of the business.

7.3 KEY RISK MANAGEMENT PROCESSES
The board and management employ the following key processes to meet, as well as monitor, the requirements of IAG's RMS.

Management assurance framework
This is a set of processes (for example, a set of self assessment questions posed at least every six months to, and answered by, management) relating to the provision of assurance on the effectiveness of risk management processes and internal controls. These processes support the CEO, CFO and board declarations on risk management, internal control and external financial reporting.

Underpinning this CEO/CFO assurance are assurances received from business division group executives and other executive management attesting to the effectiveness of business division risk management and internal control processes and assurance as to substantial compliance with IAG's RMS.

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

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

Risk reporting
Reporting on risk management initiatives and issues is provided to:
- the EXCo, with input from each business division;
- the ARMCC; and
- regulators and industry groups, where relevant and appropriate.

In addition, the ARMCC receives regular reports monitoring the status of IAG's risk exposures and enterprise risk profile, which show trends of each of IAG's material risks and their estimated monetary impact on IAG. In addition, business division group executives are required to attend and report to the ARMCC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

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

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

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY
8.1 NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE (NRSC)
The four members of the NRSC are currently Yasmin Allen (Chair), Brian Schwartz, Phillip Colebatch and Anna Hynes.

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

The NRSC charter, which lists the committee's responsibilities, can be found at www.iag.com.au/about/governance.

The NRSC is also empowered as the remuneration committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate remuneration committee.

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

DIRECTORS' REPORT

The directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

The following terminology is used throughout the financial report:

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

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

CHAIRMAN

BRIAN (BM) SCHWARTZ AM

FCA, FAICD, age 58 - Chairman and Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS EXPERIENCE

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

Brian was the chief executive of Investec Bank (Australia) Ltd from 2005 to 2009. Previously, he was with Ernst & Young Australia from 1979 to 2004 becoming its chief executive in 1998. He was a member of Ernst & Young's global board and managing partner of the Oceania region.

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

Directorships of other listed companies held in past three years:

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

MANAGING DIRECTOR

MICHAEL (MJ) WILKINS

BCom, MBA, DLi, FCA, age 54 - Managing Director and Chief Executive Officer

INSURANCE INDUSTRY EXPERIENCE

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

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

Michael was formerly the managing director of Promina Group Limited (from August 1999 to March 2007), managing director of Tyndall Australia Limited (from 1994 to 1999) and a director of the Investment and Financial Services Association.

OTHER BUSINESS EXPERIENCE

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

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

Directorships of other listed companies held in past three years:

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

OTHER DIRECTORS

YASMIN (YA) ALLEN

BCom, FAICD, age 47 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS EXPERIENCE

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

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

Directorships of other listed companies held in past three years:

- Cochlear Limited since 2 August 2010.

PETER (PH) BUSH

BA, FAMI, age 59 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS EXPERIENCE

Peter has extensive experience in marketing, brands and consumer behaviour gained through a career spanning more than 30 years in the fast moving consumer goods and retail industries. He was McDonald’s Australia Limited’s managing director & CEO and President for Pacific, Middle East and Africa (2005-2010) and chief operating officer (2002-2005). Previously he held senior roles with Arnott’s Biscuits Limited, Pioneer International Limited (Ampol/Caltex), Samuel Taylor (Reckitt & Coleman plc), and Johnson & Johnson Australia, and was chief executive officer of AGB McNair and Schwarzkopf Australia & New Zealand.

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

Directorships of other listed companies held in past three years:

- Pacific Brands Limited since 3 August 2010.

PHILLIP (PM) COLEBATCH

BE (Hons), BSc, DBA, SM, age 66 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

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

OTHER BUSINESS EXPERIENCE

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

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

Directorships of other listed companies held in past three years:

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

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 63 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

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

OTHER BUSINESS EXPERIENCE

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

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

Directorships of other listed companies held in past three years:

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

ANNA (A) HYNES

BSc (Hons), MBA, age 52 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS EXPERIENCE

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

Anna spent most of her executive career at American Express where she held a number of senior positions, most recently country head, New Zealand.

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

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

Directorships of other listed companies held in past three years:

- None.

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 67 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

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

Overall, Philip has had over 20 years of both board and executive level general insurance experience.

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

OTHER BUSINESS EXPERIENCE

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

Directorships of other listed companies held in past three years:

- Perpetual Limited since November 2004.

DIRECTOR WHO RETIRED DURING THE FINANCIAL YEAR

The following director retired during the financial year:

- James Strong retired on 26 August 2010.

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

CHRIS (CJ) BERTUCH

BEc, LLB, LLM

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

MEETINGS OF DIRECTORS

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

DIRECTOR	BOARD OF DIRECTORS		IAG NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE		IAG AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE		IAG SUB COMMITTEE	
Total number of meetings held	10		5		7		3	
	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member	Eligible to attend as a member	Attended as a member
BM Schwartz	**10**	**10**	**5**	**5**	**-**	**-**	**3**	**3**
YA Allen(d)	**10**	**8**	**5**	**5**	**7**	**6**	**1**	**1**
PH Bush(a)	**6**	**6**	**-**	**-**	**3**	**3**	**-**	**-**
PM Colebatch(d)	**10**	**9**	**5**	**4**	**-**	**-**	**-**	**-**
HA Fletcher	**10**	**10**	**-**	**-**	**7**	**7**	**-**	**-**
A Hynes(b)	**10**	**9**	**3**	**3**	**2**	**2**	**-**	**-**
PJ Twyman	**10**	**10**	**-**	**-**	**7**	**7**	**1**	**1**
MJ Wilkins	**10**	**10**	**-**	**-**	**-**	**-**	**3**	**3**
JA Strong(c)	**2**	**2**	**2**	**1**	**-**	**-**	**1**	**1**

(a) PH Bush was appointed to board and ARMCC as a director in December 2010.

(b) A Hynes was appointed to NRSC and ceased from ARMCC in August 2010.

(c) JA Strong retired in August 2010.

(d) Of these, YA Allen missed 1 unscheduled telephone board meeting and 1 unscheduled telephone ARMCC meeting, and PM Colebatch missed 1 unscheduled telephone board meeting.

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The Group's profit after tax for the financial year was $338 million (2010-$190 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the equity holders of the Company was $250 million (2010-$91 million). As reported in the first half, profit after tax includes a $150 million impairment charge in respect of intangible assets and goodwill held in respect of the United Kingdom business.

The insurance margin of 9.1% was below the expectations held at the outset of the year but represents an improvement relative to the 7.0% margin reported in relation to the prior year. This is a solid performance in a year characterised by a much higher than anticipated impact from natural perils. Key highlights include:

- Underlying gross written premium (GWP) growth of 4.8%. This is towards the top end of IAG's guidance range of 3-5%. Strong growth in both the Australian divisions more than offset the decline in the UK business related to the ongoing remediation program;
- Continued strong performance within the Australasian businesses, which reported a combined insurance margin of 12.9% (2010-13.2%);
- Steady improvement in the cash return on equity (ROE) to 11.1% (2010-8.3%);
- Proven effectiveness of the Group's reinsurance program both in respect of capital preservation and earnings protection.

Areas that fell below expectations were:

- Continued disappointing, albeit improved, performance in the UK;
- Natural peril losses totalling $610 million, which far exceeded the Group's allowance of $435 million. Related additional reinsurance expenses totalled $83 million.

The IAG Board has determined to pay a final dividend of 7.0 cents per ordinary share (fully franked) (2010-4.5 cents per ordinary share). This brings the fully franked dividend for the full year to 16.0 cents (2010-13.0 cents per ordinary share).

A. AUSTRALIA DIRECT

- The Group's largest business grew GWP by 6.5%. This comprised both moderate rate increases and volume growth.
- Australia Direct produced a very strong headline margin of 19.5% (2010-16.9%). A continued robust underlying performance was supplemented by a combination of increased reserve releases and favourable net natural peril claim costs relative to allowances.

B. AUSTRALIA INTERMEDIATED (CGU)

- Reported GWP increased by 8.8%, to $2,463 million. This is the first improvement in reported GWP in several years reflecting a combination of increased rates, organic volume growth and acquisitions. The inorganic component principally relates to the contribution made following the Group's acquisition of a stake in Accident & Health International.
- CGU produced an insurance profit of $140 million (2010-$139 million) at an insurance margin of 6.5% (2010-6.6%). The increased impact from natural perils, and related reinsurance expenses, more than offset the positive effect of higher reserve releases.

C. NEW ZEALAND

- The continued strong underlying performance of the New Zealand business has been obscured by the unprecedented impact of the multiple earthquakes that hit the Christchurch region during the financial year.
- The NZ divisional profit before income tax of $4 million (2010-$132 million) include a $105 million increase in net claims cost from natural perils, exacerbated by additional associated reinsurance expenses totalling approximately $50 million.

D. UNITED KINGDOM

- Despite a significantly improved result, notably in the second half, the overall performance of the United Kingdom (UK) division for the year has been disappointing. This primarily reflects the rate of continued bodily injury claims inflation exceeding expectations.
- The $60 million insurance loss for the second half compares to a loss of $121 million for the first half. The result for the second half includes a $36 million cost for an additional adverse development cover acquired in respect of the motor portfolio for the 2010 calendar year. The improved second half performance reflects benefits from the program of remedial action.

E. ASIA

- The Group's established businesses in the Asia region continued to produce a solid level of performance despite lower investment income and a significant increase in natural peril costs in Thailand.
- The Division continues to largely self-fund the support and development costs related to its expanding footprint in this high growth region. A notable development during the second half was the expanded launch of SBI General Insurance Company Limited (SBI General), a 26% owned business with State Bank of India.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2011 were $22,923 million compared to $20,442 million at 30 June 2010. The movement is mainly attributable to:

- a significant increase in the reinsurance and other recoveries receivable of $2,416 million primarily reflects the Christchurch earthquakes;
- an increase in investment assets of $159 million funded by positive cash flow from operating activities; offset by
- a decrease in goodwill and intangible assets of $150 million arising from the UK impairment.

The total liabilities of the Group as at 30 June 2011 were $18,343 million compared to $15,786 million at 30 June 2010. The movement predominantly reflects an increase in the gross outstanding liabilities of $2,530 million attributable to the Christchurch earthquakes.

The decrease in IAG equity from $4,656 million at 30 June 2010 to $4,580 million at 30 June 2011 largely reflects:

- 2010 dividend payment of $281 million, partially offset by
- net comprehensive income attributable to equity holders of $207 million.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities decreased by $495 million to $620 million (2010-$1,115 million). The reduction was mainly due to an increase in cash outflow for claims and reinsurance premium expense. Increases in premium and reinsurance recovery receipts also occurred, but due to timing differences, only partially offset increased outflow.

C. CAPITAL MANAGEMENT

The Group's capital position, as reflected in the minimum capital requirement (MCR) multiple, was 1.58 times as at 30 June 2011 (2010-1.92). 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 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.

The Group's probability of adequacy for the outstanding claims provision remains at least 90% as at 30 June 2011, with risk margins increasing slightly to 20.6% of the net discounted central estimate.

At 30 June 2011, IAG's key wholly owned operating insurance subsidiaries held 'very strong' 'AA' ratings from Standard & Poor's (S&P). At the Group level, IAG retains an 'A+' rating. S&P reaffirmed these ratings on 4 August 2011.

The Group's debt to total tangible capitalisation at 30 June 2011 stood at approximately 34%, which is around the middle of the Group's targeted range of 30%-40%.

Further information on the Group's result and review of operations can be found in the 30 June 2011 Investor Report on IAG's website, www.iag.com.au.

LIKELY DEVELOPMENTS

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus profit predictions are difficult. Nonetheless, the Group is confident of delivering further improvement in operating performance in 2012. Its guidance for the year ending 30 June 2012 is:

- GWP growth of 6%-9%; and
- an insurance margin in the range of 10%-12%.

This assumes:

- net natural peril claims cost in line with related allowances of $580 million;
- lower net prior period reserve releases, equivalent to a maximum of 2% of net earned premium (NEP); and
- no material movement in foreign exchange or investment markets.

DIVIDENDS

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

P Bush was appointed as a non-executive director to the IAG Board on 7 December 2010.

There were changes in the executive team during the financial year:

- as part of executive team changes announced on 27 July 2010, IR Foy, JS Johnson and LC Murphy were appointed to the Chief Executive Officer, UK, Chief Executive Officer, New Zealand and Chief Executive Officer, The Buzz roles respectively;
- N Utley, former Chief Executive Officer, UK left the Group; and
- PH Harmer was appointed as Chief Executive Officer, CGU on 8 November 2010 to replace DG West who resigned.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year is set out in note 38. This includes:

- the IAG Board determination to pay a final dividend;
- 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; and
- 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 liability note for further details.

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDITORS

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

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

NON AUDIT SERVICES

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

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

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

The level of fees for total non audit services amount to approximately 21.2% of total audit fees (refer to note 36 to the financial statements for further details on costs incurred on individual non audit assignments).

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

The lead auditor's independence declaration is set out on page 37 and forms part of the directors' report for the year ended 30 June 2011.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

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

ENVIRONMENTAL REGULATION

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

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

REMUNERATION REPORT

LETTER FROM THE NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE CHAIR

IAG is pleased to present its remuneration report for the financial year ended 30 June 2011.

With recent developments in corporate governance and based on shareholder feedback on the 2010 remuneration report, this report has been further simplified from last year to clearly communicate the remuneration approach adopted by IAG. The remuneration structure for IAG's executive team is summarised below.

REMUNERATION COMPONENT*			STRATEGIC PURPOSE
FIXED REMUNERATION	Cash	■ Base salary and superannuation	■ Attract and retain high quality people
AT RISK REMUNERATION	Cash Short term incentive (STI)	■ 2/3 of STI outcome paid as cash in September	■ Align reward to shareholder interest ■ Strike a balance between short and long term results and reward for exceptional performance ■ Retain high quality people
	Deferred Short term incentive (STI)	■ 1/3 of STI outcome is deferred over a period of two years, subject to ongoing employment conditions ■ Provided as grant of rights in the form of deferred award rights (DAR) ■ The actual value of shares will depend on the future share price ■ IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure that an inappropriate reward outcome does not occur	
	Long term incentive (LTI)	■ Provided as grant of rights in the form of executive performance rights (EPR) ■ 3-5 year period ■ Subject to performance hurdles, relative total shareholder return (TSR) and return on equity (ROE), being achieved ■ IAG Board has discretion to adjust downwards to protect the financial soundness of the Group or to ensure that an inappropriate reward outcome does not occur	■ Align reward to shareholder interest ■ Align remuneration with longer term financial performance ■ Retain high quality people

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

The IAG 2011 remuneration report is designed to provide a comprehensive and clear disclosure of Group remuneration structures. In addition to the disclosure required under the Corporations Act 2001, the Group has voluntarily provided additional information relating to the actual remuneration received by the Chief Executive Officer and the executive team for the year ended 30 June 2011. Actual remuneration provides the remuneration that an executive has actually received in hand during the year. This will help avoid confusion and clarify the link between at risk remuneration (i.e. short term and long term incentives) and the financial performance of the Group.

In the past year, the Nomination, Remuneration & Sustainability Committee (NRSC), a standing committee of the IAG Board, initiated a market competitive and governance review of the Group's executive remuneration strategy using an external consultant PricewaterhouseCoopers (PwC). This review was completed in May 2011.

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

Yasmin Allen
Nomination, Remuneration & Sustainability Committee Chair

This remuneration report is structured into the categories explained below:

A. 2011 SNAPSHOT

I. Actual remuneration earned by the executive team

The actual remuneration presented below provides the remuneration that an executive has received in hand during the year. This demonstrates alignment between at risk remuneration (i.e. STI and LTI) and the financial performance of the Group. This voluntary disclosure includes fixed remuneration, cash STI paid as well as any deferred STI or LTI that have vested in the year ended 30 June 2011. Remuneration details provided in accordance with accounting standards is included in Category C.

NAME	POSITION	TOTAL FIXED REMUNERATION	TERMINATION PAYMENT	CASH STI	DEFERRED STI VESTED IN 2011	LTI VESTED IN 2011	TOTAL ACTUAL REMUNERATION RECEIVED IN 2011
Table note		A	B	C	D	E	F
		$000	$000	$000	$000	$000	$000
EXECUTIVES							
MJ Wilkins	Managing Director and Chief Executive Officer	2,034	-	1,104	327	295	3,760
JP Breheny	Chief Executive Officer, Asia	863	-	429	174	116	1,582
A Cornish	Chief Executive Officer, Australia Direct	978	-	610	132	-	1,720
IR Foy	Chief Executive Officer, UK	1,241[(a)]	-	292	63	14	1,610
P Harmer	Chief Executive Officer, CGU	614	-	275	-	-	889
NB Hawkins	Chief Financial Officer	962	-	460	151	113	1,686
JS Johnson	Chief Executive Officer, New Zealand	831[(b)]	-	337	180	117	1,465
LC Murphy	Chief Strategy Officer	837	-	404	110	41	1,392
EXECUTIVES WHO LEFT DURING THE FINANCIAL YEAR							
K Armstrong	Former acting Chief Executive Office, New Zealand	85	-	15	-	-	100
N Utley	Former Chief Executive Officer, UK	288	942	-	242	169	1,641
DG West	Former Chief Executive Officer, CGU	548	-	-	140	118	806

a. FOOTNOTES

(a) Total fixed remuneration received by IR Foy included an amount of $575,000 relocation and accommodation allowances for his new role in a different country. This balance included the loss on sale of the NZ residence, plus the associated transaction costs, of $291,000 (NZ$380,000) of Mr Foy's NZ residence.

(b) Total fixed remuneration received by JS Johnson included an amount of $55,000 relocation and accommodation allowances for her new role in a different country.

b. TABLE NOTE

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

A Total fixed remuneration includes the following components as disclosed in the remuneration table prepared in accordance with accounting standards requirements in Category C:

- base salary in column (1);
- other short term employment benefits (including relocation and accommodation allowances) in column (3);
- superannuation in column (4); and
- long service leave accruals in column (5).

B This is the termination payment for N Utley. The amount is calculated and paid based on the terms of Mr Utley's service agreement, ie the 12 months base salary, plus payment for the value of benefits (excluding STI) that would have accrued for 12 months had termination not occurred. This is the same as the termination payment column in the remuneration report in Category C.

C This represents the 2/3 portion of STI for the period from 1 July 2010 to 30 June 2011. It is the same as the cash STI in column (2) in the remuneration table in Category C.

D This represents the value of deferred STI that vested in 2011 and details are provided in the table on page 24 in Category B. The weighted average share price used to value the deferred STI at vesting date is $3.40. Column (6) in the remuneration table in Category C represents the accounting value for all grants.

E This represents the value of the LTI that vested in 2011 and details are provided in the table of LTI on page 27 in Category B. The weighted average share price at vesting date is $3.68. Column (7) in the remuneration table in Category C represents the accounting value for all grants.

F The total actual remuneration is the total value of column A to E.

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

			GROUP CEO		EXECUTIVES
Remuneration component	What it contains	Potential remuneration[(a)]	Actual remuneration	Potential remuneration[(a)]	Actual remuneration[(b)]
Fixed remuneration[(c)]	Base salary and superannuation	25.0 %	25.0 %	29.0 %	29.0 %
At risk	Short term incentive - cash	25.0 %	14.3 %	23.2 %	14.4 %
	Short term incentive - deferred	12.5 %	4.2 %	11.6 %	4.6 %
	Long term incentive	37.5 %	3.8 %	36.2 %	2.3 %
Total		100.0 %	47.3 %	100.0 %	50.3 %

(a) Potential fixed and at risk remuneration is based on current remuneration at 30 June 2011.

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

(c) Fixed remuneration includes base salary and superannuation. It excludes other values such as long service leave accruals and relocation and accommodation allowances.

B. EXECUTIVE REMUNERATION AT IAG - AUDITED

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

I. Governance

The responsibility of the IAG Board is to ensure that the remuneration frameworks are aligned to the short and long term interests of IAG and its shareholders. The NRSC makes recommendations to the IAG Board regarding group remuneration policy including executive remuneration. The IAG Board independently considers these recommendations prior to making the decisions that affect the remuneration of the executives.

a. ROLE OF NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE

The NRSC is the IAG Board committee which oversees IAG's remuneration practices. This committee actively engages in decisions relating to executive remuneration.

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

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

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

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

b. INVOLVEMENT OF REMUNERATION CONSULTANTS

The NRSC directly engages and considers advice from leading remuneration consultants including PwC and Ernst & Young (E&Y) where appropriate to ensure market competitiveness and appropriate governance. The advice from the various remuneration consultants is used as a guide and all remuneration decisions for the Group CEO and executive team are made by the IAG Board.

II. Executive remuneration

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

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

Guiding principles

At IAG, reward is more than pay and includes elements such as career development and a stimulating work environment. The total remuneration practices have been designed to achieve five key objectives, that:

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

Key initiatives in executive remuneration

In response to regulatory changes and shareholder feedback, the NRSC undertook the following initiatives during the year ended 30 June 2011:

- actively monitored the compliance against the Australian Prudential Regulation Authority (APRA) standards covering the governance of remuneration to ensure appropriateness of the Group's remuneration policy;
- met with APRA to discuss good governance and IAG's approach to remuneration;
- made recommendations to the IAG Board for the remuneration of the Group CEO and the executive team;
- introduced voluntary disclosure of actual remuneration for the executive team to clarify the linkage between performance and reward in this report;
- updated deferred STI and LTI terms to provide the IAG Board with discretion to adjust rewards downwards to protect the financial soundness of the Group or in circumstances where the IAG Board determines an adjustment is necessary to ensure that an inappropriate reward outcome does not occur; and
- engaged remuneration consultants from PwC to review the executive remuneration strategy in line with market practice and governance requirements.

Remuneration components

The remuneration components for the executive team are explained below.

a. FIXED REMUNERATION
Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Executives can determine the mix of base salary and superannuation in line with legislative requirements. Fixed remuneration is set towards the middle of the market of comparable roles in companies of a similar size to IAG, and is reviewed each year based on advice from external consultants. For Australian based executives, market positioning is determined by reference to a number of peer groups, including the largest 50 companies in the S&P/ASX 100 Index and financial services companies that are of similar size to IAG. Relevant local market peer groups are used for executives located overseas.

Fixed remuneration for the year ended 30 June 2011

The average performance based fixed remuneration increase for the executive team in respect of the financial year 30 June 2011 was 4.6% (this excludes increases for role changes).

b. AT RISK REMUNERATION

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

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

This combination, ensures that the at risk components of remuneration are reflective of the overall performance of the Group.

i. Short term incentive
STI refers to the at risk component of remuneration that is designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures. Financial performance accounts for not more than 50% of the STI outcome to ensure compliance with governance standards. The remaining 50% of the incentive is dependent on the achievement of non financial objectives to secure the long term operation of IAG and its divisions. For the Group CEO and the executive team, 2/3 of STI is paid as cash, and the remaining 1/3 of STI is deferred in the form of DAR over a period of two years.

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

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

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

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

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

STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2011

Actual STI payments made to the executive team for the year ended 30 June 2011 reflect the degree of achievement against the balanced scorecard measures. The table below provides the details for the STI for the Group CEO and the executive team.

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (TWO THIRDS OF OUTCOME)	DEFERRED STI OUTCOME (ONE THIRD OF OUTCOME)
	(% of fixed pay)	(% of maximum)	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
MJ Wilkins	150	57.2	85.8	57.2	28.6
JP Breheny	120	63.1	75.7	50.5	25.2
A Cornish	120	80.2	96.2	64.2	32.0
IR Foy	120	51.5	61.8	41.2	20.6
P Harmer	120	59.4	71.3	47.5	23.8
NB Hawkins	120	61.2	73.4	49.0	24.4
JS Johnson	120	51.5	61.8	41.2	20.6
LC Murphy	120	61.2	73.4	49.0	24.4

CASH PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2011

2/3 of the STI is paid as cash in September 2011. The dollar values are contained in remuneration details in Category C.

DEFERRED PORTION OF STI OUTCOME FOR THE YEAR ENDED 30 JUNE 2011

1/3 of the STI outcome is paid in the form of deferred STI. As this will not be allocated until September 2011, the value of this portion is not included in the 2011 remuneration report. This value will be included in the disclosure for the year ending 30 June 2012.

DEFERRED STI

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

Details of the DAR granted, vested and exercised during the financial year are detailed below. The DAR granted during the year reflects the deferred portion of the STI outcome for the year ended 30 June 2010.

Note 28 to the financial statements sets out further details of the DAR Plan.

	GRANT DATE[a]	VALUE PER DAR AT GRANT DATE	DAR GRANTED DURING THE YEAR	DAR VESTED DURING THE YEAR	DAR EXERCISED DURING THE YEAR	DAR LAPSED DURING THE YEAR	TOTAL VALUE OF DAR GRANTED DURING THE YEAR[b]	TOTAL VALUE OF DAR EXERCISED DURING THE YEAR[c]	TOTAL VALUE OF DAR LAPSED DURING THE YEAR[d]
		$	Number	Number	Number	Number	$000	$000	$000
2011									
MJ Wilkins	06/10/2010	3.53	112,200	96,200	96,200	-	**396**	**344**	**-**
JP Breheny	06/10/2010	3.53	58,100	51,010	-	-	**205**	**-**	**-**
A Cornish	06/10/2010	3.53	74,000	38,704	14,250	-	**261**	**51**	**-**
IR Foy	06/10/2010	3.53	42,600	18,650	18,650	-	**150**	**67**	**-**
P Harmer	No DAR granted	-	-	-	-	-	**-**	**-**	**-**
NB Hawkins	06/10/2010	3.53	51,900	44,420	44,420	-	**183**	**159**	**-**
JS Johnson	06/10/2010	3.53	50,400	52,940	88,190	-	**178**	**316**	**-**
LC Murphy	06/10/2010	3.53	42,700	32,240	32,240	-	**151**	**115**	**-**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL									
N Utley	No DAR granted	-	-	71,050	71,050	(55,050)	**-**	**254**	**(197)**
DG West	06/10/2010	3.53	70,600	41,140	54,790	(109,010)	**249**	**196**	**(390)**
			502,500	446,354	419,790	(164,060)	**1,773**	**1,502**	**(587)**

(a) All DAR granted on 6 October 2010 have a first exercisable date of 1 July 2011 and a last expiry date of 6 October 2017.

(b) The value of DAR granted in the year is the fair value of the DAR at grant date using Black Scholes valuation model. The total value of the DAR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2011 to 30 June 2013).

(c) DAR vested on or before 1 July 2010 that were exercised in the financial year. The value of DAR exercised is based on the weighted average share price which was $3.58 for the year ended 30 June 2011.

(d) The value of DAR lapsed is based on the weighted average share price which was $3.58 for the year ended 30 June 2011.

ii. Long term incentive

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

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

- ROE is measured relative to IAG's weighted average cost of capital. This hurdle has been chosen as it provides evidence of company growth in profitability and is linked to shareholder return. For share rights granted in the year ended 30 June 2011, the ROE hurdle is cash ROE (normalised ROE for grants prior to the year ended 30 June 2009) to align with the reporting of IAG's financial performance to the external market.
- The TSR hurdle has been chosen as it provides a direct link between executive reward and shareholder return. For those share rights allocated after 30 June 2009, TSR is measured against that of other companies in the top 50 industrials within the S&P/ASX 100 Index.

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

The amount of LTI granted each year is determined by the IAG Board.

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

Details of the terms of allocations made to the Group CEO and the executive team under the LTI Plan are in the table below.

LTI PLAN	EPR PLAN 2007/2008 - SERIES 1		EPR PLAN 2008/2009 - SERIES 2	
	TSR	Normalised ROE	TSR	Cash ROE
Grant date	29/10/2007 29/11/2007 13/03/2008	29/10/2007 29/11/2007 13/03/2008	18/09/2008 27/02/2009	18/09/2008 27/02/2009
Base date	30/09/2007	n/a	30/09/2008	n/a
Performance period definition	3-5 years from grant date	1 July 2007 - 30 June 2010	3-5 years from grant date	1 July 2008 - 30 June 2011
IAG share price at base date ($)	5.31	n/a	4.10	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ended 30 June 2010	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ended 30 June 2011
First test day	30/09/2010	30/06/2010	30/09/2011	30/06/2011
Last test day	30/09/2012	30/06/2010	30/09/2013	30/06/2011
Performance hurdle achievement	64% vested	Not met, 0% vested	n/a	n/a
Last exercise date (continuing employees only)	29/10/2017 29/11/2017 13/03/2018	29/10/2017 29/11/2017 13/03/2018	18/09/2018 27/02/2019	18/09/2018 27/02/2019
Vesting scale	■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile	■ Minimum vesting at 1.3 x WACC ■ Maximum vesting at 1.6 x WACC	■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile	■ Minimum vesting at 1.5 x WACC ■ Maximum vesting at 1.8x WACC
Vesting date	30/9/2010	none	n/a	n/a
Peer group	All entities within S&P/ASX 100 Index	Normalised ROE	All entities within S&P/ASX 100 Index	Cash ROE

LTI PLAN	EPR PLAN 2009/2010 - SERIES 3		EPR PLAN 2010/2011 - SERIES 4	
	TSR	Cash ROE	TSR	Cash ROE
Grant date	25/09/2009 24/11/2009	25/09/2009 24/11/2009	06/10/2010 03/03/2011	06/10/2010 03/03/2011
Base date	30/09/2009	n/a	30/09/2010	n/a
Performance period definition	3-5 years from grant date	1 July 2009 - 30 July 2012	3-5 years from grant date	1 July 2010 - 30 July 2013
IAG share price at base date ($)	3.78	n/a	3.64	n/a
Performance hurdle test schedule	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ending 30 June 2012	3rd, 4th and 5th anniversary of the base date	One test following IAG Board approval of financial results for period ending 30 June 2013
First test day	30/09/2012	30/06/2012	30/09/2013	30/06/2013
Last test day	30/09/2014	30/06/2012	30/09/2015	30/06/2013
Performance hurdle achievement	n/a	n/a	n/a	n/a
Last exercise date (continuing employees only)	25/09/2016 24/11/2016	25/09/2016 24/11/2016	06/10/2017 03/03/2018	06/09/2017 03/03/2018
Vesting scale	■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile	■ Minimum vesting at 1.5 x WACC ■ Maximum vesting at 1.8x WACC	■ Minimum vesting at 0% if TSR < 50th percentile ■ Maximum vesting at 100% if TSR >= 75th percentile	■ Minimum vesting at 1.2 x WACC ■ Maximum vesting at 1.6 x WACC
Vesting date	n/a	n/a	n/a	n/a
Peer group	Top 50 industrials within S&P/ASX 100 Index	Cash ROE	Top 50 industrials within S&P/ASX 100 Index	Cash ROE

LTI granted year ended 30 June 2011

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

EPR series 1 - TSR met the performance hurdle on 30 September 2010 and 64% of those rights vested. Note 28 to the financial statements sets out further details of the EPR Plan.

	GRANT DATE[a]	EPR GRANTED DURING THE YEAR[b]	EPR GRANTED DURING THE YEAR[c]	EPR VESTED DURING THE YEAR	EPR EXERCISED DURING THE YEAR	EPR LAPSED DURING THE YEAR	TOTAL VALUE OF EPR GRANTED DURING THE YEAR[d]	TOTAL VALUE OF EPR EXERCISED DURING THE YEAR	TOTAL VALUE OF EPR LAPSED DURING THE YEAR[e]
		Number	Number	Number	Number	Number	$000	$000	$000
2011									
MJ Wilkins	06/10/2010	424,500	424,500	80,000	80,000	-	**2,462**	**286**	**-**
JP Breheny	06/10/2010	155,800	155,800	31,520	-	-	**904**	**-**	**-**
A Cornish	06/10/2010	174,150	174,150	-	-	-	**1,010**	**-**	**-**
IR Foy	06/10/2010	131,500	131,500	3,680	3,680	-	**763**	**13**	**-**
P Harmer	03/03/2011	142,800	142,800	-	-	-	**795**	**-**	**-**
NB Hawkins	06/10/2010	165,000	165,000	30,720	30,720	-	**957**	**110**	**-**
JS Johnson	06/10/2010	155,800	155,800	31,840	-	-	**904**	**-**	**-**
LC Murphy	06/10/2010	151,250	151,250	11,200	11,200	-	**877**	**40**	**-**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL									
N Utley	No EPR granted	-	-	45,920	45,920	(896,280)	**-**	**164**	**(3,209)**
DG West	06/10/2010	174,150	174,150	32,000	32,000	(1,079,300)	**1,010**	**115**	**(3,864)**
		1,674,950	1,674,950	266,880	203,520	(1,975,580)	**9,682**	**728**	**(7,073)**

(a) All EPR granted 6 October 2010 and 3 March 2011 have a last expiry date of 6 October 2017 and 3 March 2018 respectively.

(b) EPR granted during the year subject to total shareholder return performance hurdle. Rights granted 6 October 2010 and 3 March 2011 have a grant date value of $2.42 and $2.27 respectively. All rights granted during the year are first exercisable 30 September 2013.

(c) EPR granted during the year subject to a return on equity performance hurdle. Rights granted on 6 October 2010 and 3 March 2011 and have a grant date value of $3.38 and $3.30 respectively. All rights granted during the year are first exercisable 30 June 2013.

(d) The value of EPR granted in the year is the fair value of the EPR at grant date using Black Scholes (for ROE performance hurdle) and Monte Carlo simulation (for TSR performance hurdle) models. The total value of the EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2011 to 30 June 2015).

(e) The value of EPR lapsed is based on the weighted average share price which was $3.58 for the year ended 30 June 2011.

LTI GRANTED PRIOR TO 2008 - PERFORMANCE AWARD RIGHTS PLAN

Prior to the introduction of the EPR Plan, LTI was granted in the form of performance award rights (PAR). No allocations have been made under the PAR Plan since 2007 and no further allocations are planned.

PAR are rights over IAG shares held by a trustee. The rights are granted at no cost to the executive team and may be exercised for a nominal price if a performance hurdle related to IAG's TSR is met.

Details of the terms of allocations made to the executive team under the PAR Plan, including those allocations that at the date of this report are partially exercisable or not exercisable, are summarised below.

LTI PLAN	PAR PLAN 2005/2006 - SERIES 4	PAR PLAN 2006/2007 - SERIES 5
Grant date	19/09/2005 30/11/2005 22/03/2006	19/12/2006 13/03/2007
Performance period definition[a]	3-5 years from base date	3-5 years from base date
IAG share price at base date ($)	5.87	5.29
Performance hurdle test schedule	Quarterly - last trading day of each calendar quarter in the performance period	Quarterly - last trading day of each calendar quarter in the performance period
First test day	30/09/2008	30/09/2009
Last test day	30/06/2010	30/06/2011
Performance hurdle achievement	Partially achieved, 54% of PAR are exercisable, the remaining 46% lapsed on 23 August 2010	Not met, 0% vested, 100% will lapse on 29 August 2011
Last exercise date (continuing employees only)	19/09/2015 30/11/2015 22/03/2016	19/12/2016 13/03/2017

(a) The performance period will be shortened if the employee ceases employment with the Group due to redundancy or in other special circumstances.

(b) The base date is the second trading day after the date on which IAG's financial results for the 12 month period ended on the 30 June that immediately precedes the grant date are announced to the Australian Securities Exchange.

On 30 June 2010, the PAR Plan 2005/2006 - series 4 reached the last performance hurdle test. During the previous performance hurdle tests, 54% of the rights vested in the financial year ended 30 June 2009. The remaining 46% of the rights issued lapsed on 23 August 2010.

On 30 June 2011, the PAR Plan 2006/2007 - series 5 reached the last performance hurdle test. The performance hurdle was not met throughout the testing period and 100% of the rights issued will lapse on 29 August 2011.

Note 28 to the financial statements sets out further details of the PAR Plan.

	PAR LAPSED	TOTAL VALUE OF PAR LAPSED DURING THE YEAR[a]
	Number	$000
2011		
MJ Wilkins	-	**-**
JP Breheny	(46,000)	**(156)**
A Cornish	-	**-**
IR Foy	(9,430)	**(32)**
P Harmer	-	**-**
NB Hawkins	(20,930)	**(71)**
JS Johnson	(10,350)	**(35)**
LC Murphy	-	**-**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL		
N Utley	(44,500)	**(159)**
DG West	-	**-**
	(131,210)	**(453)**

(a) All rights lapsed during the financial year in relation to PAR Plan 2005/2006 - series 4 which did not meet the performance hurdles. The value of PAR lapsed is based on the weighted average share price which was $3.40 for 5 days before 30 June 2010 (the last performance test date).
For Mr Utley, his PAR Plan 2006/2007 - series 5 rights lapsed on the date of his cessation of employment. The value of PAR lapsed for Mr Utley is based on the weighted average share price which was $3.58 for the year ended 30 June 2011.

There were no PAR vested and exercised during the financial year.

III. Managing risk

a. RESTRICTIONS ON DEALING IN IAG SECURITIES

In addition to legal requirements that prevent any person from dealing in IAG securities when in possession of undisclosed price sensitive information, the IAG Board implemented a restriction policy in 2010 that prohibits directors, the executive team members and other designated senior managers from:

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

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

b. MANDATORY SHAREHOLDING REQUIREMENT

All executives are required to hold a proportion of their remuneration as IAG ordinary shares. The Group CEO is required to have a holding of IAG ordinary shares with a value of two times his base salary, within four years of appointment. Other executives are required to accumulate and maintain IAG ordinary shares with a value that is equal to their base salary within four years of their appointment to the executive team.

i. Tracking against mandatory shareholding requirements for the year ended 30 June 2011

The number of IAG ordinary shares held by executive team at 30 June 2011, including tracking against the mandatory shareholding requirement, is set out below.

NAME	IAG SHAREHOLDING[a]	ACHIEVEMENT OF MANDATORY SHAREHOLDING REQUIREMENT[b]	EFFECTIVE DATE OF MANDATORY SHAREHOLDING REQUIREMENT[c]
	Number of shares	%	
MJ Wilkins	306,366	30%	26/05/2012
JP Breheny	230,400	Met requirement	01/09/2010
A Cornish	63,158	26%	02/02/2013
IR Foy	12,518	7%	05/08/2012
P Harmer	-	-%	08/11/2014
NB Hawkins	255,555	92 %[d]	01/09/2010
JS Johnson	210,258	98 %[d]	01/09/2010
LC Murphy	67,356	31%	03/12/2011

(a) Includes executive's directly held shares and DAR vested and unexercised as at 30 June 2011. It includes entities controlled, jointly controlled or significantly influenced by the executive. Excluded are shares held by the executives' domestic partner and dependants.

(b) The above table is a voluntary disclosure. The achievement of mandatory shareholding requirement is calculated using the base salary of executives (two times base salary of the Group CEO) and the IAG share price ($3.40) as at 30 June 2011.

(c) JP Breheny, NB Hawkins and JS Johnson were appointed to the executive team prior to the introduction of the mandatory shareholding requirement. These executives are required to accumulate and hold IAG ordinary shares with a value that is equal to their base salary within three years from 1 September 2007.

(d) NB Hawkins and JS Johnson met the mandatory shareholding requirement at the effective date (1 September 2010). On 1 July 2011, some of the DAR granted to them in the prior periods vested and were exercised. When these additional IAG ordinary shares are included, they meet the mandatory shareholding requirement as at 25 August 2011.

IV. Return to shareholders

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

	YEAR ENDED 30 JUNE 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**
Closing share price ($)	5.35	5.70	3.47	3.51	3.41	**3.40**
Dividend paid (cents)	42.00	29.50	22.50	10.00	13.00	**16.00**
Basic earnings per share (cents)	47.66	32.79	(14.11)	9.32	4.39	**12.08**
Cash ROE (%)[a]	n/a	n/a	2.7	4.9	8.3	**11.1**
Normalised ROE (%)[a]	16.0	12.9	n/a	n/a	n/a	**n/a**
TSR (%)[b]	(5.3)	11.2	(36.1)	1.3	(0.5)	**3.0**

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

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

C. EXECUTIVE REMUNERATION IN DETAIL

I. Total remuneration of executives of the Group

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

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOY-MENT BENEFITS	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)		TOTAL
Table note	(1)	(2)	(3)	(4)		(5)			(6)	(7)	
	Base salary	Short term incentive	Other	Super-annuation	Retire-ment benefits	Long service leave accruals			Value of deferred short term incentive	Value of rights/ shares granted	
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
EXECUTIVES (INCLUDING EXECUTIVE DIRECTOR)											
MJ Wilkins, Managing Director and Chief Executive Officer											
2011	**1,996**	**1,104**	**-**	**38**	**-**	**-**	**-**	**3,138**	**467**	**2,136**	**5,741**
2010	1,868	765	-	38	-	12	-	2,683	282	1,330	4,295
JP Breheny, Chief Executive Officer, Asia											
2011	**812**	**429**	**-**	**50**	**-**	**1**	**-**	**1,292**	**197**	**824**	**2,313**
2010	802	396	-	50	-	7	-	1,255	182	702	2,139
A Cornish, Chief Executive Officer, Australia Direct											
2011	**962**	**610**	**-**	**15**	**-**	**1**	**-**	**1,588**	**200**	**732**	**2,520**
2010	860	504	-	23	-	3	-	1,390	119	423	1,932
IR Foy, Chief Executive Officer, UK[(b)]											
2011	**567**	**292**	**575**	**99**	**-**	**-**	**-**	**1,533**	**100**	**538**	**2,171**
2010	464	290	-	73	-	-	-	827	70	339	1,236
P Harmer, Chief Executive Officer, CGU, KMP since 8 November 2010[(a)]											
2011	**597**	**275**	**-**	**16**	**-**	**1**	**-**	**889**	**-**	**88**	**977**
NB Hawkins, Chief Financial Officer											
2011	**915**	**460**	**-**	**25**	**-**	**22**	**-**	**1,422**	**174**	**851**	**2,447**
2010	863	354	-	25	-	4	-	1,246	151	664	2,061
JS Johnson, Chief Executive Officer, New Zealand[(b)]											
2011	**735**	**337**	**55**	**7**	**-**	**34**	**-**	**1,168**	**187**	**825**	**2,180**
2010	774	343	-	22	-	7	-	1,146	188	650	1,984
LC Murphy, Chief Strategy Officer[(b)]											
2011	**811**	**404**	**-**	**25**	**-**	**1**	**-**	**1,241**	**151**	**677**	**2,069**
2010	688	291	-	25	-	5	-	1,009	119	430	1,558
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL											
K Armstrong, former acting Chief Executive Officer, New Zealand, KMP only for the period from 1 September 2010 to 31 October 2010[(c)]											
2011	**76**	**15**	**1**	**8**	**-**	**-**	**-**	**100**	**-**	**-**	**100**
N Utley, former Managing Director, UK, KMP until 31 October 2010[(b)]											
2011	**247**	**-**	**9**	**32**	**-**	**-**	**942**	**1,230**	**50**	**(1,342)**	**(62)**
2010	854	-	789	107	-	-	-	1,750	282	863	2,895
DG West, former Chief Executive Officer, CGU, KMP until 31 January 2011[(b)]											
2011	**548**	**-**	**-**	**15**	**-**	**(15)**	**-**	**548**	**25**	**(856)**	**(283)**
2010	898	481	-	25	-	6	-	1,410	140	584	2,134

a. FOOTNOTES TO THE REMUNERATION OF EXECUTIVES

(a) For an executive who was newly appointed to the executive team during either financial year, the remuneration information provided in the table above relates to the period from the date of their appointment as KMP to 30 June. The balances are calculated based on the proportion of the year that they were KMP.

(b) During the year, there were a number of changes in role of the executives. IR Foy, former Chief Executive Officer, New Zealand became Chief Executive Officer, UK from 1 September 2010, succeeding N Utley. JS Johnson, former Chief Executive Officer, The Buzz became the Chief Executive Officer, New Zealand, from 1 November 2010, succeeding IR Foy. LC Murphy, the former Group Executive, Corporate Office became Chief Executive Officer, The Buzz from 1 November 2010 succeeding JS Johnson. In July 2011, LC Murphy changed title to Chief Strategy Officer and The Buzz business passed to the Australia Direct operation.
N Utley and DG West ceased to be KMP during the year ended 30 June 2011. The remuneration details in the table above for the executives, who ceased as KMP during a financial year, relate only to the period that they were KMP.

(c) K Armstrong was appointed as acting Chief Executive Officer, New Zealand for the period only from 1 September 2010 to 31 October 2010 pending the arrival of JS Johnson transitioning from her previous executive role. Given the short period of time when Mr Armstrong acted as a KMP, only his remuneration for the period between 1 September 2010 to 31 October 2010 is disclosed. All the other detailed information that is provided for other longer serving KMP such as grants of DAR and EPR is not included.

b. TABLE NOTE

P Harmer (commenced on 8 November 2010) joined the executive team during the year ended 30 June 2011.

(1) Base salary includes amounts paid in cash and salary sacrifice items such as superannuation, cars (including the 30% tax rebate on car expenses), parking and annual leave accruals, as determined in accordance with AASB 119 Employee Benefits. Prior year's base salary was restated to include the 30% tax rebate on car expenses for certain KMP who have salary sacrifice arrangements on car. Total amount restated was $90,000.

(2) Short term incentive represents the amount to be settled in cash in relation to the current performance period.

(3) Other short term employment benefits for the various KMP represents:
- IR Foy, the relocation costs and accommodation allowances for taking up a new role in a different country. This balance included the loss on sale of the NZ residence, plus the associated transaction costs, of $291,000 (NZ$380,000) of Mr Foy's NZ residence in order to speed up the relocation;
- JS Johnson, the relocation costs and accommodation allowances for taking up a new role in a different country;
- K Armstrong, the life insurance provided in the NZ employment arrangement; and
- N Utley, the medical insurance and car allowances provided in the UK employment arrangement. In prior year, Mr Utley was paid a retention incentive ($789,000) to ensure that he remained with the business when IAG exited UK mass market operation.

(4) Superannuation represents the employer's contributions. Refer to note 29 for details of how the superannuation plans operate.

(5) Long service leave accruals as determined in accordance with AASB 119 Employee Benefits.

(6) The deferred 2009 and 2010 STI is granted as DAR and an allocated portion of unvested DAR is included in the total remuneration disclosure above. DAR are valued using a Black Scholes valuation model. The deferred 2011 STI will be granted in the next financial year and therefore no value was included in the table above.

(7) An allocated portion of unvested EPR, DAR and PAR (an allocation from the prior year's grants) is included in the total remuneration disclosure above.

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

II. Total remuneration mix

Total remuneration for executives is comprised of at risk and not at risk remuneration. Fixed pay is not at risk, while short term incentive and share based remuneration provided through the DAR, EPR and PAR Plans are at risk. The use of share based remuneration creates a direct link between return to shareholders and executive remuneration. To strengthen alignment between the interests of the Group CEO and the executive team and those of shareholders, a significant portion of executive remuneration is delivered in the form of rights over IAG ordinary shares.

EXECUTIVES	NOT AT RISK				AT RISK
	Fixed remuneration and other	Cash STI	Deferred STI	LTI	Total at risk
	%	%	%	%	%
MJ Wilkins	35	19	8	38	65
JP Breheny	37	19	9	35	63
A Cornish	39	24	8	29	61
IR Foy	57	13	5	25	43
P Harmer	63	28	-	9	37
NB Hawkins	39	19	7	35	61
JS Johnson	38	15	9	38	62
LC Murphy	40	20	7	33	60

III. SERVICE AGREEMENTS

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

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

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

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

a. RETRENCHMENT

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

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

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

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

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

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

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

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

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

D. NON-EXECUTIVE DIRECTORS REMUNERATION

I. Structure and policy

a. REMUNERATION POLICY

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

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

b. SIGNIFICANT CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION

On 24 August 2010, the IAG Board approved the following adjustments to the director fee based on the report from PwC and the recommendation from the management committee in relation to the fees payable to the directors:

- a 4.0% increase in the IAG Board fees to maintain market competitiveness;
- a 7.7% increase in the NRSC fee to maintain market competitiveness and recognise the increased responsibilities for NRSC given the current focus on remuneration governance; and
- no change to the IAG ARMCC fee.

The fee adjustments were effective from 1 July 2010. The last board and committee fee increase took place in July 2007.

c. REMUNERATION STRUCTURE

Non-executive director remuneration consists of three components, which are:

- Board fees (payable as cash and IAG ordinary shares prior to 1 December 2009);
- superannuation; and
- subsidiary board and committee fees.

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

i. IAG Board and committee fees

BOARD/COMMITTEE	ROLE	ANNUAL FEE
IAG Board	Chairman	$468,000
	Non-executive director	$156,000
IAG Audit, Risk Management & Compliance Committee	Chairman	$54,000
	Member	$27,000
IAG Nomination, Remuneration & Sustainability Committee	Chairman	$35,000
	Member	$17,500

ii. Superannuation

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

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

iii. Non-executive directors' service on subsidiary boards

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

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
BM Schwartz[(a)]	Insurance Manufacturers of Australia Pty Limited	Chairman	$208,000
A Hynes[(b)]	Mutual Community General Insurance Proprietary Limited	Director	$16,250
HA Fletcher[(c)]	IAG New Zealand Limited	Chairman	$80,490

(a) The annual fee for BM Schwartz is inclusive of committee fees. Mr Schwartz took up the chairman role on 26 August 2010 replacing Mr JA Strong.

(b) A Hynes was appointed as a director of this company on 30 September 2010 whilst YA Allen resigned on 30 September 2010.

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

iv. PERFORMANCE

Directors' performance is subject to evaluation by the chairman annually by discussion between the chairman and the individual director. In these discussions, the individual directors also evaluate the chairman's performance. Performance measures for directors considered by the chairman and IAG Board include:

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

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

II. Total remuneration details

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

For those directors commenced during the financial year, the remuneration information provided in the table below relates to the period from the date of their appointment to the year ended 30 June 2011.

	SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS		OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT	TOTAL
	IAG Board fees received as cash*	Other boards and committee fees	Superannuation	Retirement benefits			IAG Board fees received as IAG shares	
	$000	$000	$000	$000	$000	$000	$000	$000
BM Schwartz								
2011	**453**	**203**	**24**	**-**	**-**	**-**	**-**	**680**
2010	137	71	14	-	-	-	19	241
YA Allen								
2011	**161**	**68**	**15**	**-**	**-**	**-**	**-**	**244**
2010	144	87	14	-	-	-	13	258
PH Bush (director since 7 December 2010)								
2011	**89**	**15**	**9**	**-**	**-**	**-**	**-**	**113**
PM Colebatch								
2011	**156**	**18**	**16**	**-**	**-**	**-**	**-**	**190**
2010	119	50	15	-	-	-	31	215
HA Fletcher								
2011	**156**	**107**	**16**	**-**	**-**	**-**	**-**	**279**
2010	107	111	16	-	-	-	43	277
A Hynes								
2011	**156**	**32**	**17**	**-**	**-**	**-**	**-**	**205**
2010	138	27	16	-	-	-	13	194
PJ Twyman								
2011	**159**	**50**	**15**	**-**	**-**	**-**	**-**	**224**
2010	136	27	14	-	-	-	16	193
RETIRED DIRECTOR								
JA Strong (retired on 26 August 2010)								
2011	**73**	**30**	**9**	**295**	**-**	**-**	**-**	**407**
2010	400	195	14	-	-	-	94	703

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

a. RETIREMENT BENEFITS

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

A retirement benefit of $295,000 was paid to JA Strong following his retirement from the IAG Board on 26 August 2010.

E. OTHER BENEFITS

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

F. GLOSSARY OF TERMS

TERM	DEFINITION
Nomination, Remuneration & Sustainability Committee	The Nomination, Remuneration & Sustainability Committee (NRSC) is an IAG Board committee which oversees IAG's remuneration practices.
Key management personnel	The IAG key management personnel (KMP) comprises the Group CEO and the executive team responsible for managing the Group, and the IAG Board of directors (including the Group CEO).
Group CEO	Refers to the Group's Managing Director and Chief Executive Officer.
Executive team	Refers to the senior executives who report directly to the Group CEO.
Executives	Refers to the Group CEO and the executive team.
Actual remuneration	Refers to the dollar value of the remuneration actually received in the hand of the executive team in the financial year ended 30 June 2011. It is a sum of fixed remuneration plus cash portion of short term incentive (STI) plus value of deferred award rights (DAR) vested in 2011 plus value of long term incentive (LTI) in the form of executive performance rights (EPR) vested in 2011.
At risk remuneration	Refers to the components of remuneration that are at risk and dependent on a combination of the financial performance of the Group and the executive's financial and non financial measures. This typically comprises short term incentive (cash and deferred) and long term incentive.
Fixed remuneration	Fixed remuneration is defined as base salary (including annual leave) plus superannuation. Individuals can determine the mix of base salary and superannuation in line with legislative requirements.
Short term incentive	Short term incentive (STI) refers to the part of the at risk component of remuneration that is designed to motivate and reward for performance typically in that financial year. The performance for the achievement of STI is measured using a balanced scorecard based on goals set against financial and non financial measures. For the Group CEO and the executive team, 2/3 of STI is paid as cash for the same financial year, and the remaining 1/3 of STI is deferred over a period of two years.
Cash STI	Refers to the 2/3 portion of STI for the financial year ended 30 June 2011 that is paid in the form of cash in September 2011 after the end of year assessment and STI approval by the IAG Board.
Deferred STI	Refers to the 1/3 portion of STI that is deferred over a period of two years. This portion of STI is awarded in the form of deferred award rights (DAR). At the date of vesting, the holder of DAR is eligible to receive one IAG ordinary share per DAR, by paying the exercise price of $1 per tranche of DAR exercised.
Long term incentive	Long term incentive (LTI) is a grant of rights over IAG ordinary shares in the form of executive performance rights (EPR) that are exercisable for shares between three and five years after the date of grant if performance hurdles are achieved.
Cash ROE	Refers to cash return on equity (ROE) based on cash earnings on average total shareholders' equity during the financial year. Cash earnings is defined as net profit after tax attributable to IAG shareholders plus amortisation of acquired identifiable intangibles and adjusted for unusual items.
Normalised ROE	This is based on the normalised earnings on average total shareholders' equity during the financial year. Normalised earnings is defined as net profit after tax attributable to IAG shareholders adjusted by actual shareholders' return with the earnings that would have been generated using the daily average 10 year bond rate plus 4% (adjusted with tax impact) and amortisation.
Total shareholder return (TSR)	TSR is a concept used to measure performance of different companies over a period of time. It combines share price appreciation and dividends paid to show total return to shareholders. IAG uses relative TSR as one of the measures for its LTI. This reflects the performance of the IAG share price relative to that of its peer group (as defined by the LTI performance hurdle).

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

A. HOLDINGS OF ORDINARY SHARES

	FOR SECTION 205G OF THE CORPORATIONS ACT 2001	
	Shares held directly[(a)]	Shares held indirectly [(b)]
BM Schwartz	**2,029**	**96,709**
YA Allen	**1,666**	**37,345**
PH Bush	**-**	**-**
PM Colebatch	**-**	**46,692**
HA Fletcher	**35,190**	**37,437**
A Hynes	**-**	**40,242**
PJ Twyman	**-**	**57,780**
MJ Wilkins	**239,660**	**181,666**

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

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

B. HOLDING OF RESET PREFERENCE SHARES

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

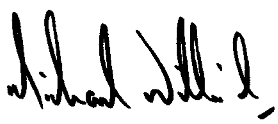
C. HOLDING OF RESET EXCHANGEABLE SECURITIES

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

ROUNDING OF AMOUNTS

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

Signed at Sydney this 25th day of August 2011 in accordance with a resolution of the directors.



Michael Wilkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

KPMG

KPMG

Brian Greig
Partner

Sydney
25 August 2011

FINANCIAL STATEMENTS

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 $m	2010 $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 CAPITAL $m	TREASURY SHARES HELD IN TRUST $m	FOREIGN CURRENCY TRANSLATION RESERVE $m	SHARE BASED REMUN-ERATION RESERVE $m	HEDGING RESERVE $m	RETAINED EARNINGS $m	NON-CONTROLLING INTERESTS $m	TOTAL EQUITY $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.

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	$m
	Impact to profit	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	$m
	Impact directly to equity	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 $m	2010 $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:

	2011	2010
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.

D. DEFERRED TAX ASSETS

I. Composition

	2011	2010
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

	CONSOLIDATED	
	2011	2010
	$m	$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 cents	2010 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 $m	2010 $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 Number of shares in millions	2010 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.

G. DIVIDEND FRANKING AMOUNT

	CONSOLIDATED 2011 $m	2010 $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

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.

	2001 and prior	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**	Total
												CONSOLIDATED Accident year
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	**$m**	$m
NET ULTIMATE CLAIMS PAYMENTS												
Development												
At end of accident year		**3,199**	**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 $m	2010 $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 Carrying value	2011 Fair value	2010 Carrying value	2010 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	CONTRI-BUTION 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.

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	LEVEL OF CASH ROE PERFORMANCE	VESTING SCALE
Rights granted before 30 June 2008	Rights granted between 1 July 2008 and 30 June 2010	
>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 balance sheet	**(45)**	(48)	**(5)**	(16)	**(50)**	(64)

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.

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. The 2010 compensation has been restated to include the non executive director remuneration and the 30% tax rebate on car expenses.

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 Number	EPR GRANTED DURING THE YEAR Number	EPR EXERCISED DURING THE YEAR Number	EPR LAPSED DURING THE YEAR Number	EPR ON ISSUE 30 JUNE Number	EPR VESTED AND EXERCISABLE 30 JUNE Number
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 Number	PAR GRANTED DURING THE YEAR Number	PAR EXERCISED DURING THE YEAR Number	PAR LAPSED DURING THE YEAR Number	PAR ON ISSUE 30 JUNE Number	PAR VESTED AND EXERCISABLE 30 JUNE Number
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.

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 38, including all the remuneration disclosures that are contained in the remuneration report of the directors' report, are in accordance with the Corporations Act 2001 including:
  - giving a true and fair view of the financial position of the Company and Consolidated entity as at 30 June 2011 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - complying with Australian Accounting Standards (including Australian Interpretations) and the Corporations Regulations 2001; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A; and
- the remuneration report of the directors' report complies with Australian Accounting Standard AASB 124 Related Party Disclosures; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declaration required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2011.

Signed at Sydney this 25th day of August 2011 in accordance with a resolution of the directors.

Michael Wilkins
Director

INDEPENDENT AUDITOR'S REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Insurance Australia Group Limited (the Company), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 38 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

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

AUDITOR'S REPONSIBILITY

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

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

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

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

INDEPENDENCE

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

AUDITOR'S OPINION

In our opinion:

- the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - giving a true and fair view of the Group's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
  - complying with Australian Accounting Standards and the Corporations Regulations 2001.
- the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in category B to E of the Directors' Report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration disclosures that are contained in the sections of the Directors' Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2011 that are described as audited comply with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Brian Greig
Partner

Sydney
25 August 2011

SHAREHOLDER INFORMATION

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

ASX CODES

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

- IAG (ordinary shares); and
- IAGPA (reset preference shares).

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

ANNUAL REPORT

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

ANNUAL GENERAL MEETING

The 2011 annual general meeting (AGM) of Insurance Australia Group Limited will be held on Wednesday, 26 October 2011 commencing at 10am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, Australia. The AGM will be webcast live on the internet at www.iag.com.au and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2011 AGM at www.iag.com.au. The information required to log on and use online voting is shown on your voting form.

SHAREHOLDER QUESTIONS

If you would like to submit a written question to the company or the company's auditor please use the form supplied and return it with your completed Voting Form in the pre addressed envelope provided or by fax to +61 (0)3 9473 2555. Please ensure your questions are received by 5pm on 19 October 2011.

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

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

DIVIDEND PAYMENT METHODS

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

IAG-ORDINARY SHAREHOLDERS

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

IAGPA-RESET PREFERENCE SHAREHOLDERS

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

MANAGE YOUR HOLDING

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

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

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

You will also be asked to enter answers to 3 personal questions for verification purposes should you forget your password in the future.

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

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

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

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

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

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

EMAIL ALERT SERVICE

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

EMAIL ENQUIRIES

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

ORDINARY SHARES INFORMATION

IMPORTANT DATES*	2011
IAG year end	30 June
Full year results and divided announced	25 August
Annual report and notice of meeting mailout commences	6 September
Record date for final dividend	7 September
Final dividend paid	5 October
Written questions for the auditor close (5pm)	19 October
Proxy return closes (10am)	24 October
Annual general meeting (10am)	26 October
IAG half year end	31 December

* Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 2 AUGUST 2011	NUMBER OF SHARES	% OF ISSUED CAPITAL
JP Morgan Nominees Australia Limited	**310,095,939**	**14.92**
National Nominees Limited	**287,822,733**	**13.84**
HSBC Custody Nominees (Australia) Limited	**287,743,702**	**13.84**
Citicorp Nominees Pty Limited	**73,238,939**	**3.52**
Cognet Nominees Pty Limited	**53,024,628**	**2.55**
RBC Dexia Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	**32,636,194**	**1.57**
Queensland Investment Corporation	**21,461,719**	**1.03**
JP Morgan Nominees Australia Limited <Cash Income A/C>	**14,720,451**	**0.71**
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	**13,746,445**	**0.66**
AMP Life Limited	**11,851,492**	**0.57**
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	**10,387,969**	**0.50**
Australian Reward Investment Alliance	**9,058,093**	**0.44**
Tasman Asset Management Ltd <Tyndall Australian Share Wholesale Portfolio A/C>	**8,302,332**	**0.40**
RBC Dexia Investor Services Australian Nominees Pty Limited	**6,811,207**	**0.33**
IAG Share Plan Nominee Pty Limited <IAG PAP Unallocated A/C>	**6,379,002**	**0.31**
Argo Investments Limited	**6,303,333**	**0.30**
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/C>	**4,373,053**	**0.21**
Citicorp Nominees Pty Limited <CFSIL CWLTH AUST SHS 4 A/C>	**4,316,172**	**0.21**
IAG Share Plan Nominee Pty Limited <IAG DAP Unallocated Account>	**3,720,725**	**0.18**
UBS Nominees Pty Ltd	**3,675,135**	**0.18**
Total for top 20	**1,169,669,263**	**56.27**

RANGE OF SHAREHOLDERS AS AT 2 August 2011	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**526,970**	**272,963,569**	**13.13**
1,001-5,000	**291,576**	**467,486,191**	**22.49**
5,001-10,000	**6,784**	**45,349,805**	**2.18**
10,001-100,000	**2,729**	**56,283,880**	**2.71**
100,001 and over	**146**	**1,236,950,576**	**59.49**
Total	**828,205**	**2,079,034,021**	**100.00**
Shareholders with less than a marketable parcel of 153 shares as at 2 August 2011	**22,733**	**969,240**	

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
DIVIDEND DETAILS					
Ordinary	Interim	Fully franked	9.0 cents	$3.3817	11 April 2011
Ordinary	Final	Fully franked	7.0 cents	n/a*	5 October 2011

* The Company's Dividend Reinvestment Plan will not operate for the final dividend.

SUBSTANTIAL HOLDINGS AS AT 2 AUGUST 2011

The only shareholder with a substantial shareholding as at 2 August 2011 is National Australia Bank Limited which held shares representing 5.10% of the ordinary shares on issue (by notice dated 18 July 2011).

IAGPA RESET PREFERENCE SHARES INFORMATION

IMPORTANT DATES*	2011
Record date for interim dividend	30 November
Interim dividend paid	15 December

* Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 2 AUGUST 2011	NUMBER OF SHARES	% OF ISSUED CAPITAL
JP Morgan Nominees Australia Limited	**460,678**	**13.16**
HSBC Custody Nominees (Australia) Limited	**199,180**	**5.69**
UBS Nominees Pty Ltd	**157,126**	**4.49**
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	**87,007**	**2.49**
Citicorp Nominees Pty Limited	**80,887**	**2.31**
UCA Cash Management Fund Limited	**80,820**	**2.31**
M F Custodians Ltd	**73,418**	**2.10**
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	**52,303**	**1.49**
National Nominees Limited	**49,529**	**1.42**
UBS Wealth Management Australia Nominees Pty Ltd	**46,093**	**1.32**
RBC Dexia Investor Services Australia Nominees Pty Limited <GSENIP A/C>	**33,400**	**0.95**
Argo Investments Limited	**30,800**	**0.88**
Buttonwood Nominees Pty Ltd	**28,325**	**0.81**
G James Australia Pty Ltd	**25,000**	**0.71**
Dimbulu Pty Ltd	**20,000**	**0.57**
Mount Pritchard & District Community Club Ltd	**16,000**	**0.46**
The Wyatt Benevolent Institution Inc	**15,017**	**0.43**
Edsgear Pty Limited	**14,477**	**0.41**
ANZ Trustees Limited <Diversified Income CF1 A/C>	**12,209**	**0.35**
Cognet Nominees Pty Limited	**11,386**	**0.33**
Total for top 20	**1,493,655**	**42.68**

RANGE OF SHAREHOLDERS AS AT 2 AUGUST 2011	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**3,962**	**1,196,218**	**34.18**
1,001-5,000	**289**	**629,552**	**17.99**
5,001-10,000	**21**	**160,245**	**4.58**
10,001-100,000	**19**	**697,001**	**19.91**
100,001 and over	**3**	**816,984**	**23.34**
Total	**4,294**	**3,500,000**	**100.00**
Shareholders with less than a marketable parcel of 5 shares as at 2 August 2011	**4**	**15**	

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
DIVIDEND DETAILS				
Preference	Interim	Fully franked	$2.8227	15 December 2010
Preference	Final	Fully franked	$2.8073	15 June 2011

CORPORATE DIRECTORY

SHARE REGISTRY

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED
GPO Box 4709
Melbourne VIC 3001
Australia

Hand deliveries to
Level 4
60 Carrington Street
Sydney NSW 2000

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

Fax
(general) +61 (0)3 9473 2470

Email
iag@computershare.com.au

REGISTERED OFFICE

INSURANCE AUSTRALIA GROUP LIMITED
Level 26
388 George Street
Sydney NSW 2000
Australia

Telephone
+61 (0)2 9292 9222

Fax
+61 (0)2 9292 8072

Website
www.iag.com.au

Australia

New Zealand

United Kingdom

Asia

100% owned unless indicated. [1] RACV is via a distribution relationship and underwriting joint venture with RACV Limited. [2] RACV has a 30% interest in The Buzz. [3] IAG holds 98% voting rights in Safety Insurance, based in Thailand. [4] IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad, which trades under the AmAssurance brand. [5] IAG has 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.