Insurance Australia Group
Annual Report 2013

THE NUMBERS

INSURANCE AUSTRALIA GROUP LIMITED
ABN 60 090 739 923

CONTENTS

KEY DATES

2013 financial year end	30 June 2013
Full year results and dividend announcement	22 August 2013
Notice of meeting mailed to shareholders	5 September 2013
Final dividend for ordinary shares	
Record date	11 September 2013
Payment date	9 October 2013
Annual General Meeting	30 October 2013
Half year end	31 December 2013
Half year results and dividend announcement	20 February 2014*
Interim dividend for ordinary shares	
Record date	5 March 2014*
Payment date	2 April 2014*
2014 financial year end	30 June 2014
Full year results and dividend announcement	21 August 2014*

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

ABOUT THIS REPORT

The 2013 annual report of Insurance Australia Group Limited (IAG, or the Group) includes IAG's full statutory accounts, along with the directors', remuneration and corporate governance reports for the financial year 2013.

Please read this report together with the 2013 annual review, which provides a summary of IAG's operational performance, including the Chairman's and CEO's reviews. If you do not receive a copy of the annual review, you can access an interactive version online from the home page of our website at www.iag.com.au.

This year's annual review includes information about the sustainability performance of the business. Detailed information about IAG's business sustainability performance is available from www.iag.com.au.

To have a copy of the annual report mailed to you, contact IAG's Share Registry using the contact details on page 124.

All figures are in Australian dollars unless otherwise stated.

2013 ANNUAL GENERAL MEETING

IAG's 2013 annual general meeting will be held on Wednesday, 30 October 2013, at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000, commencing at 10.00am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders, and available on line at www.iag.com.au, from Thursday, 5 September 2013.

RECYCLED PAPER CHOICE

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FIVE YEAR FINANCIAL SUMMARY

	2013	2012[a]	2011[a]	2010[a]	2009[a]
	$m	$m	$m	$m	$m
Gross written premium	**9,498**	8,495	8,050	7,782	7,842
Premium revenue	**9,135**	8,046	7,858	7,621	7,718
Outward reinsurance premium expense	**(817)**	(700)	(620)	(556)	(485)
Net premium revenue	**8,318**	7,346	7,238	7,065	7,233
Net claims expense	**(4,982)**	(5,421)	(5,089)	(5,072)	(5,370)
Underwriting expenses	**(2,178)**	(1,994)	(1,978)	(2,054)	(2,128)
Underwriting profit/(loss)	**1,158**	(69)	171	(61)	(265)
Net investment income on assets backing insurance liabilities	**270**	914	489	554	780
Insurance profit/(loss)	**1,428**	845	660	493	515
Net investment income from equity holders' funds[b]	**347**	89	213	96	(39)
Other income	**175**	164	264	256	403
Share of net profit/(loss) of associates	**(29)**	(13)	(8)	3	8
Finance costs	**(95)**	(97)	(86)	(88)	(87)
Corporate and administration expenses	**(208)**	(205)	(259)	(245)	(423)
Amortisation expense and impairment charges of acquired intangible assets and goodwill[c]	**(25)**	(20)	(170)	(113)	(65)
Profit/(loss) before income tax	**1,593**	763	614	402	312
Income tax expense	**(424)**	(177)	(276)	(212)	(65)
Profit/(loss) after tax from continuing operations	**1,169**	586	338	190	247
Profit/(loss) after tax from discontinued operation	**(287)**	(321)	-	-	-
Net profit attributable to non-controlling interests	**(106)**	(58)	(88)	(99)	(66)
Net profit/(loss) attributable to equity holders of Insurance Australia Group Limited	**776**	207	250	91	181
Ordinary equity holders' equity ($ million)	**4,786**	4,343	4,417	4,486	4,671
Total assets ($ million)	**24,859**	25,132	23,029	20,442	19,360
PREMIUM GROWTH					
Gross written premium	**11.8 %**	n/a	3.4 %	(0.8)%	0.6 %
KEY RATIOS					
Loss ratio[d]	**59.9 %**	73.8 %	70.3 %	71.8 %	74.2 %
Expense ratio[e]	**26.2 %**	27.1 %	27.3 %	29.1 %	29.4 %
Combined ratio[f]	**86.1 %**	100.9 %	97.6 %	100.9 %	103.6 %
Insurance margin[g]	**17.2 %**	11.5 %	9.1 %	7.0 %	7.1 %
SHARE INFORMATION					
Dividends per ordinary share - fully franked (cents)	**36.00**	17.00	16.00	13.00	10.00
Basic earnings per ordinary share (cents)	**37.57**	10.01	12.08	4.39	9.32
Diluted earnings per ordinary share (cents)	**36.44**	9.96	12.01	4.36	9.26
Ordinary share price at 30 June ($) (ASX: IAG)	**5.44**	3.48	3.40	3.41	3.51
Convertible preference share price at 30 June ($) (ASX: IAGPC)	**101.88**	98.10	-	-	-
Reset exchangeable securities price at 30 June ($) (ASX: IANG)	**102.80**	99.30	103.00	100.00	74.75
Issued ordinary shares (million)	**2,079**	2,079	2,079	2,079	2,071
Issued convertible preference shares (million)	**4**	4	-	-	-
Market capitalisation (ordinary shares) at 30 June ($ million)	**11,310**	7,235	7,069	7,089	7,269
Net tangible asset backing per ordinary share ($)	**1.38**	1.20	1.23	1.16	1.16

(a) The financial information for 2012 has been re-presented to reflect the changed treatment of the United Kingdom business as a discontinued operation. Financial information for 2011, 2010 and 2009 is not re-presented.
(b) This included an unrealised gain/(loss) on embedded derivatives of ($96 million) for 2010 and $27 million for 2009.
(c) This included impairment charges for acquired identifiable intangible assets and goodwill of $150 million for 2011, $87 million for 2010 and $18 million for 2009.
(d) The loss ratio refers to the net claims expense as a percentage of net premium revenue.
(e) The expense ratio refers to the underwriting expenses as a percentage of net premium revenue.
(f) The combined ratio refers to the sum of the loss ratio and expense ratio.
(g) Insurance margin is a ratio of insurance profit over net premium revenue.

CORPORATE GOVERNANCE

INSURANCE AUSTRALIA GROUP (IAG) 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 environments in which IAG conducts its businesses continue 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.

IAG actively participates 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 contributed to changes to the New Zealand regulatory and legislative framework.

IAG representatives also 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. Consistent with this and IAG's purpose, IAG became a founding signatory to the UN's Principles for Sustainable Insurance (PSI) in June 2012, and in February 2013, IAG's Chief Strategy Officer, Leona Murphy, was appointed Co-Chair of the UN PSI Board.

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 at IAG. Copies of IAG's Board and Board committee charters and key corporate governance policies are 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.

PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 THE BOARD

The Board has responsibility to protect the interests of policyholders and 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.

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

1.2 APPOINTMENT TERMS

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

The appointment letters also provide for:

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

1.3 THE CHIEF EXECUTIVE OFFICER (CEO)

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

- the efficient and effective operation of IAG;
- fostering a culture of 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, strategies approved by the Board, and has the power to manage IAG, subject to the limits set out in the Charter of CEO Delegated Authority Limits attached to the Board charter at www.iag.com.au/about/governance.

1.4 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES

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

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

Further detail on short and long term incentives of the CEO and Group executives is set out in the remuneration report.

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

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

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

2.2 DIRECTOR INDEPENDENCE

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

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

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

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

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

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

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

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

2.5 APPOINTMENT OF DIRECTORS
The Board 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 Board assesses candidates for appointment and re-election as directors, either when a vacancy arises or if it is considered that the Board would benefit from the services of a new director. Particular attention is given to the mix of skills, experience, diversity and expertise of existing directors and how the candidate's competencies will complement and balance these qualities.

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

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

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

The Board has a tenure policy which applies to non-executive directors to ensure the Board comprises directors who collectively have the relevant experience and skills required, and assist in maintaining the independence of the Board. The policy, among other things, provides a standard tenure for a non-executive director of 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)	8 years and 7 months
Yasmin Allen	8 years and 9 months
Hugh Fletcher	5 years and 11 months
Philip Twyman	5 years and 1 month
Peter Bush	2 years and 6 months
Alison Deans	7 months
Raymond Lim	7 months
Nora Scheinkestel	2 months

The names of directors in office at the date of this report, their year of appointment, their designation as an independent non-executive or executive director and their experience, expertise and biographical details are set out on pages 13 to 16.

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 director's interests may conflict.

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

Measures of a director's performance include:

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

2.9 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING

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

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 offered and encouraged to undertake training to ensure they can 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 Melbourne to meet the executive and senior management of the Company's CGU business.

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

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

Directors' attendance at Board and committee meetings held during the year is shown on page 16 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 and without the CEO at the end of each scheduled Board meeting.

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

2.11 COMPANY SECRETARY

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

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

The qualifications and experience of IAG's Company Secretary are set out on page 16.

PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

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

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

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

3.1 IAG CODE OF ETHICS

The IAG Code of Ethics has been developed to provide all Group officers, employees, and contractors 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 officer, employee, and contractor 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 Group officers, employees, and contractors 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 Code of Ethics and Codes of Conduct for Australia and New Zealand are available at www.iag.com.au/about/governance.

3.2 DIVERSITY

Diversity is a key part of IAG's strategy. IAG's diversity ambition is:
To respect and value the different experiences of IAG's people, and harness the opportunity and business benefits that diverse ideas and perspectives bring to IAG and stakeholders.

Diverse thinking is key to creating a culture of inclusion and ultimately increasing innovation, IAG's ability to service its customers and improve business performance. This approach is supported by an ongoing focus on diversity demographics such as age, ethnicity and, gender.

Diversity activity

During the financial year, IAG took steps towards fulfilling its diversity ambition, including:

- providing parental leave benefits to offer one of the most generous and accessible parental leave programs in the financial services industry including 14 weeks paid parental leave and an additional six week 'welcome back' lump sum payment to all Australian based employees who are primary carers and return to work after having a child;
- introduction of the IAG family support program that provides support for people caring for children or the elderly;
- conducting a series of Inspiring Women Lunches providing an opportunity for all employees to network;
- flexibility around how, when and where work is done with leave arrangements that help employees address personal and family needs;
- increasing the awareness and commitment of IAG leaders to creating a diverse and inclusive workplace; and
- evaluating the Board's skills and knowledge against the Group's strategic direction including considering the diversity, skills, background and experience of current and new directors.

The IAG Diversity and Inclusion Working Group includes senior representatives from each of the key businesses. The PARC actively monitors progress of the IAG Diversity and Inclusion Working Group.

Diversity targets

IAG has publicly committed to a target of increasing the number of women in senior management positions to 33% by 2015.

A summary of women in the workforce is provided below:

DIVERSITY OBJECTIVES	**ACTUAL 2013**	ACTUAL 2012
Women in workforce	**60 %**	59 %
Board positions	**25 %**	25 %
Executive positions	**29 %**	25 %
Senior management positions	**29 %**	29 %

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 and address 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 ASX 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 specified senior managers (Specified Persons) may only trade in IAG securities in these periods after they have received prior consent from the PARC and complied with any conditions on trading that the PARC imposes, subject again to not being in possession of inside information as defined by the law.

IAG monitors the percentage of each class of IAG securities held in aggregate by the directors. Where the directors holding, in the aggregate, of any class of IAG security reaches 1% the chair of the PARC will be notified immediately. Following such a notification, to the chair of the PARC, all directors will be required to disclose any secured loans to which they or an associate are a party to in relation to IAG securities and the key terms of each loan.

The PARC will determine, from time to time, whether an announcement is required under ASX Listing Rule 3.1 in relation to any loans notified to the PARC in accordance with the above.

Specified Persons 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. Specified Persons 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' holdings can be found at page 31 in the remuneration report.

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

3.5 ENGAGING WITH AND 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 takes into account and 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, workplace health and safety and community involvement.

IAG reports annually on its social, economic and environmental performance against a series of indicators. The results of IAG's broader non-financial performance are summarised in the Company's Annual Review. This approach to the reporting of IAG's financial and non-financial performance demonstrates the ongoing commitment to ensuring social, economic and environmental issues are considered together as part of IAG's overall performance.

Ongoing stakeholder dialogue is a key element to driving sustainable outcomes for IAG and our stakeholders and is embedded not only within IAG's corporate strategy but also in governance frameworks. IAG continues to undertake extensive stakeholder dialogue on key issues and activities in the business and regularly tests the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues.

During the financial year, IAG established a long term Group wide strategic program called Risk Matters. The program brings together IAG corporate and community partners, government and academic experts and IAG employees to discuss how the Group drives shared value and sustainable outcomes for IAG's customers, the communities that IAG operates in, and the Group's business, through the proactive management of risk. IAG's goals are to create an improved understanding and consideration of risk at all levels of decision making, safer and more resilient communities (driving sustainable community outcomes) and improved affordability and accessibility of insurance.

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, Alison Deans and Hugh Fletcher. All members of this committee have financial management experience as shown in their biographies on pages 14 to 15 of this report.

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

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

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

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

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

PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

All announcements are subject to a minimum of two sign off reviews at 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 July 2000 are available on IAG's website, www.iag.com.au.

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

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

PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS

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

Approximately 20.8% of total shareholders at 1 August 2013, have registered their email address. 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 for investors, beneficial owners, and other interested parties who may not be shareholders to receive important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

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

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

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

Shareholders are encouraged to attend general meetings and ask questions of the chairman and the Board. Shareholders who are unable to attend the general meeting, are encouraged to ask questions either online or when returning their notice of meeting. Their questions are collated and during the course of the general meeting the chairman or CEO will respond where possible to the issues raised.

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

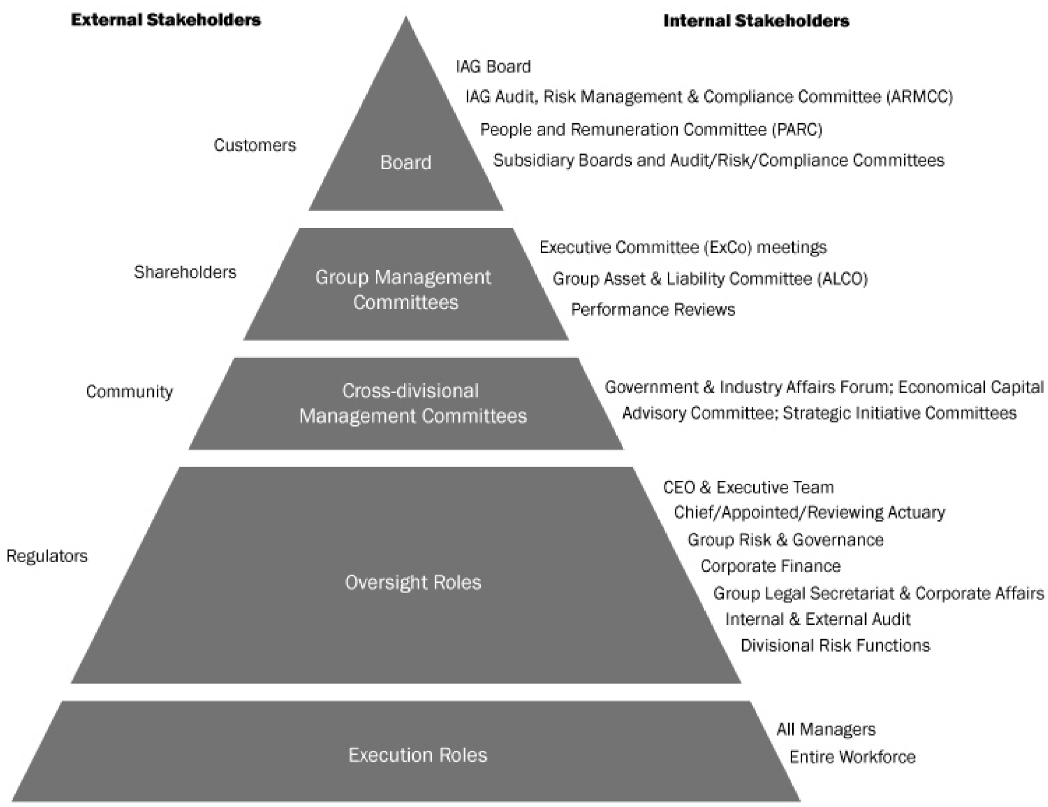
PRINCIPLE 7. RECOGNISE AND MANAGE RISK

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

7.1 OVERSIGHT STRUCTURE

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

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



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

RISK CATEGORIES	DEFINITION OF RISK
Strategic risk	Strategic risk may arise from the following sub-categories: 1. Strategic Objectives: Flawed strategy or the failure to meet strategic initiatives due to capital constraints, divisional strategic misalignment, technology and other resource inhibitors. 2. Poor Business Decisions: Failure to complete an appropriately detailed due diligence of the reasonably available information before making business decisions, or failing to take the reasonably available information into account. 3. Business Environment Changes: Changes in the business environment or lack of responsiveness to changes in the business environment. 4. Group Contagion Risk: The potential impact of risk events, of any nature, arising in or from membership of the IAG corporate Group.
Insurance risk	Insurance risk may arise from the following sub-categories: 1. Product Pricing: Inadequate or inappropriate product pricing. 2. Product Design: Product defects due to inadequate product design, variation, delivery or maintenance. 3. Reserving: Inadequate or inappropriate reserving including unforeseen, unknown or unintended liabilities that may eventuate. 4. Claims Management: Inadequate or inappropriate claims management including overpayment, failure to collect recoveries, fraudulent misrepresentation or staff operating outside of their authority. 5. Underwriting: Inadequate or inappropriate underwriting. For example, failure to comply with the underwriting process, including staff operating outside of their authority. 6. Insurance Concentration Risk: Adverse concentration exposure. For example, location catastrophe exposure, underwriting segment factor, industry or distribution channel.
Reinsurance risk	Reinsurance risk may arise from the following sub-categories: 1. Coverage: Insufficient or inappropriate reinsurance coverage arising as a result of: ■ incorrect use of models used to calculate amount of cover required; ■ the cover provided by the reinsurance program(s) does not align with original underwriting exposures; and ■ latent/emerging exposures. 2. Underwriting / Pricing: Inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives. 3. Claims Management: Inadequate or inappropriate reinsurance recovery management. 4. Contract Terms: Reinsurance arrangements not legally binding or poor management of reinsurance recoveries. 5. Reinsurance Concentration Risk: Over-exposure to insurance risks based on factors such as geographical location, types of cover, industry types, etc or a high reliance on a number or reinsurers. The credit counterparty concentration risk to reinsurers is covered under 'Financial Risk – Credit Risk'.
Financial risk	Financial risk may arise from the following sub-categories: 1. Liquidity Management: Insufficient cash resources to meet financial obligations as and when they fall due (without affecting either the daily operations or the financial condition of the Group). 2. Market Risk - Asset Concentration: Risk of over-exposure to a particular asset class outside of the Strategic Asset Allocation or the limits in the individual Investment Management Agreements. 3. Market Risk - Foreign Exchange: Adverse exchange rate movements in unhedged foreign exchange exposures. 4. Market Risk - Asset Prices: The risk that an asset's value will negatively change due to a change in the absolute level of its market price. 5. Market Risk - Interest Rates: The risk that an investment's value will negatively change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. 6. Market Risk - Derivative Exposures: Movements in underlying physical positions not being matched by (opposite) movements in the value of the derivative positions. 7. Credit Risk: The risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. These counterparties include investments, reinsurers and premium debtors. 8. Capital Management: Failure to maintain adequate regulatory capital to meet the Australian Prudential Regulatory capital requirements or the Group's internal capital target.

Operational risk	Operational risk may arise from the following sub-categories: 1. Fraud: Any act or omission, by any person, made with dishonest or potentially illegal intent, to obtain a benefit or advantage, for one's self or any other person. 2. Management, Staff Practices & Safety: ■ risks related to workforce planning; ■ behavioural risks; and ■ the risk of illness, injury, psychological harm or physical security to persons at IAG sites or whilst engaging in work activities. 3. Supply & Distribution Chain: A service provider, outsourcer, internal distribution channels disruption, non-performance or non-adherence to service level agreements that causes an impact on IAG's business operations or its ability to manage risk effectively. 4. Project & Change Management: Failure to deliver the expected benefit of an initiative, or inadequate implementation of a project initiative. 5. Process Management: Human or system failure to deliver intended objectives. 6. Business Continuity Management: Any event that disrupts IAG's business operations and/or performance. 7. Compliance: Failure to identify, interpret or comply with regulatory or legislative requirements. 8. System Integrity / Security & Information Management: Inadequate system design or capabilities to maintain business functionality, information security or information management.

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

7.2 IMPLEMENTATION AND REPORTING

The Executive Committee (EXCo) fulfils an advisory role to IAG's CEO and provides the operational oversight of IAG's risks, risk management framework and internal control system. EXCo comprises the CEO and the 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 RMS, Reinsurance Management Statement (REMS), business insurance licenses, internal control system and monitoring IAG's risks;
- authorising capital allocation to major projects within financial delegation limits approved by the CEO/Board;
- conducting periodic financial performance reviews of the business divisions;
- reviewing the performance in the areas of health, safety, environment and community;
- reviewing the effectiveness of governance practices established at the business division level;
- reviewing human resource performance and reward strategies; and
- promoting and reinforcing IAG's risk management culture.

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

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

IAG's risk and governance 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. The Board has delegated its risk management function to the ARMCC. The Board receives information on matters of particular significance and regular updates from the Chair of the ARMCC. Divisional risk and compliance functions also report regularly to divisional management and/or divisional committees.

Risk reporting

Reporting on risk management initiatives and issues is provided to:

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

The ARMCC reviews IAG's Enterprise Risk Profile. In addition, business division Group executives are required to attend and report to the ARMCC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

Independent reviews

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

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

7.3 ASSURANCES

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

PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

8.1 PEOPLE AND REMUNERATION COMMITTEE (PARC)

The four members of the PARC are currently Yasmin Allen (Chair), Brian Schwartz, Peter Bush, and Raymond Lim.

The purpose of this committee is to:

- monitor the development and implementation of Group and divisional people and culture strategies;
- monitor the development and implementation of IAG's workplace, health and safety framework and strategies;
- review succession plans for executives that report to the CEO and other senior executives;
- provide assurance to the Board relating to the effectiveness, integrity and compliance with IAG's remuneration policies and practices;
- assess whether the Group Remuneration Policy is effective and complies with regulatory requirements on remuneration including those specified in the Corporations Act and APRA's prudential standards;
- monitor the appropriateness and relevance of the Group Reward Strategy and approach to deliver the strategic goals of IAG; and
- oversee Board composition of designated IAG subsidiary and associated companies.

Find out more about the PARC charter, which lists the committee's responsibilities, at www.iag.com.au/about/governance. The PARC 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, including details of the remuneration paid and the relationship to IAG's performance are disclosed in the remuneration report on pages 26 to 42. The remuneration report also highlights the balance between fixed pay, short term incentive, long term incentive, and a minimum shareholding requirement for senior executives of IAG.

DIRECTORS' REPORT

The directors present their report together with the financial report of Insurance Australia Group Limited and the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2013 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 60 - Chairman and Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

Directorships of other listed companies held in past three years:

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

MANAGING DIRECTOR

MICHAEL (MJ) WILKINS

BCom, MBA, DLI, FCA, FAICD, age 56 - Managing Director and Chief Executive Officer

INSURANCE INDUSTRY EXPERIENCE

Michael was appointed managing director and chief executive officer of IAG in May 2008.

He has more than 30 years experience in the insurance and financial services sector and is a member of the Australian Government's Financial Sector Advisory Council.

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

Directorships of other listed companies held in past three years:

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

OTHER DIRECTORS

YASMIN (YA) ALLEN

BCom, FAICD, age 49 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

Yasmin has extensive experience in investment banking as an equities analyst and in senior management. She is currently a director of Cochlear Limited and chairman of its Audit Committee, chairman of Macquarie Specialised Asset Management, a national director of the Australian Institute of Company Directors, a director of the National Portrait Gallery and a member of the Salvation Army advisory board. Previous non-executive director roles include with 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 61 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Peter was appointed as a director of IAG in December 2010. He is a member of the IAG People and Remuneration Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

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

In several of his roles Peter was responsible for Asian operations and he has direct experience in developing business in Indonesia, Japan and China. 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 chairman of Pacific Brands Limited and previously served on the boards of McDonald's Australia Limited, Lion Nathan Limited, Miranda Wines Pty Limited (now McGuigan Wines), Frucor Beverages Group Limited (now Danone) and Nine Entertainment Holdings Pty Ltd.

Directorships of other listed companies held in past three years:

- Pacific Brands Limited, since 3 August 2010.

ALISON (AC) DEANS

BA, MBA, GAICD, age 45 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Alison was appointed as a director of IAG in February 2013. She is a member of the IAG Audit, Risk Management & Compliance Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Alison is the CEO of Netus, a technology-based investment company focused on building consumer web businesses in Australia and acquired by Fairfax in December 2012. She has over 20 years' experience in general management and strategy consulting roles focused on e-business and media/entertainment in Australia.

Alison has held chief executive roles at ebay Australia and New Zealand, ecorp and Hoyts Cinemas.

Alison is a recipient of the Centenary Medal for services to the business community.

Directorships of other listed companies held in past 3 years:

- None.

HUGH (HA) FLETCHER

BSc/BCom, MCom (Hons), MBA, age 65 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

Directorships of other listed companies held in past three years:

- Rubicon Limited, since 23 March 2001;
- Vector Limited, since 25 May 2007;
- IAG Finance (New Zealand) Limited (a part of the Group), since 31 August 2008; and
- Fletcher Building Limited (2001-2012).

RAYMOND (SKR) LIM

BEcon, BA, LLM, age 54 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Raymond was appointed as a director of IAG in February 2013. He is a member of the IAG People and Remuneration Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Raymond is chairman of APS Asset Management and senior advisor to the Swire Group. He also serves on several boards including the Government of Singapore Investment Corporation, Hong Leong Finance and Raffles Medical Group.

Raymond is a member of the Singapore Parliament (since 2001), and held various ministerial appointments in the Singapore Government including Foreign Affairs, Trade & Industry, Entrepreneurship, Finance and Transport from 2001 to 2011.

Prior to entering parliament in 2001, Raymond held various senior positions in the financial industry including as a managing director of Temasek Holdings, chief executive officer of DBS Vickers Securities and chief economist of ABN AMRO Asia Securities.

He is a Rhodes Scholar and has degrees in economics and law from the universities of Adelaide, Oxford and Cambridge.

Directorships of other listed companies held in past three years:

- Dart Energy Limited, (2012-2013).

PHILIP (PJ) TWYMAN

BSc, MBA, FAICD, age 69 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

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

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

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

Philip is on the board of Swiss Re (Australia). He was formerly an independent non-executive director of Perpetual Limited from 2004 to 2012, Medibank Private Limited from 2007 to 2012 and Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Limited from April 2007 to July 2008.

OTHER BUSINESS AND MARKET EXPERIENCE

Philip is also on the board of Tokio Marine Management (Australasia) Pty Ltd.

Directorships of other listed companies held in past three years:

- Perpetual Limited, (2004 – 2012).

DR NORA (NL) SCHEINKESTEL

LLB (Hons), Ph.D, FAICD, age 53 - Independent non-executive director

INSURANCE INDUSTRY EXPERIENCE

Nora was appointed as a director of IAG in July 2013. The Board proposes to appoint Nora to the IAG Audit, Risk Management & Compliance Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Nora is an experienced company director having served on listed, private and public company boards in sectors including financial services, utilities, telecommunications and mining.

Nora has extensive experience in corporate transactions including equity and debt raising, corporate restructuring and mergers and acquisitions, as well as an executive background in the development and financing of major projects in Australasia and South East Asia. She currently consults in areas such as corporate governance, strategy and finance.

Nora is an associate professor at the Melbourne Business School at Melbourne University, a member of the Takeovers Panel and a fellow of the Australian Institute of Company Directors. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

Directorships of other listed companies held in past three years:

- Telstra Corporation Limited, since 12 August 2010;
- Orica Limited, since 1 August 2006;
- Pacific Brands Limited (2009-2013); and
- AMP Limited (2003-2013).

DIRECTORS WHO RETIRED DURING THE FINANCIAL YEAR

- Phillip Colebatch was appointed in January 2007 and retired on 31 August 2012.
- Anna Hynes was appointed in September 2007 and retired on 1 February 2013.

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		PEOPLE AND REMUNERATION COMMITTEE*		AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE		BOARD SUB COMMITTEE	
Total number of meetings held		9		4		5		2
	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
Brian Schwartz	**9**	**9**	**4**	**4**	**-**	**-**	**2**	**2**
Yasmin Allen	**9**	**9**	**4**	**4**	**5**	**5**	**-**	**-**
Peter Bush	**9**	**8**	**2**	**2**	**3**	**3**	**-**	**-**
Phillip Colebatch, retired 31 August 2012	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**-**
Alison Deans, appointed 1 February 2013	**5**	**5**	**-**	**-**	**2**	**2**	**-**	**-**
Hugh Fletcher	**9**	**8**	**-**	**-**	**5**	**5**	**2**	**2**
Anna Hynes, retired 1 February 2013	**4**	**4**	**2**	**2**	**-**	**-**	**-**	**-**
Raymond Lim, appointed 1 February 2013	**5**	**5**	**2**	**2**	**-**	**-**	**-**	**-**
Philip Twyman	**9**	**9**	**-**	**-**	**5**	**5**	**-**	**-**
Michael Wilkins	**9**	**9**	**-**	**-**	**-**	**-**	**2**	**2**

* Formerly IAG Nomination, Remuneration & Sustainability Committee.

PRINCIPAL ACTIVITIES

The principal continuing activities of the Group are the underwriting of general insurance and related corporate services and investing activities. The Group reports its results under the following business division headings:

- Australia Direct insurance – comprises insurance products distributed through a network of branches, franchises and country service centres throughout Australia as well as call centres and online facilities using predominantly the NRMA Insurance, SGIO and SGIC brands as well as via a distribution relationship and underwriting joint venture with RACV Limited;
- Australia Intermediated insurance - comprises insurance products primarily sold under the CGU and Swann Insurance brands through insurance brokers, authorised representatives and distribution partners;
- New Zealand insurance - comprises the general insurance business underwritten through subsidiaries in New Zealand. Insurance products are predominantly sold directly to customers under the State and AMI brands, and through intermediaries such as brokers and agents using the NZI brand. Personal and commercial products are also distributed by corporate partners, such as large financial institutions, using third party brands;
- Asia insurance - comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand and the share of the operating result from the investment in associates in Malaysia, Vietnam, India and China. The businesses offer personal and commercial insurance products through local brands; and
- Corporate and Other - 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.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

Throughout this report the United Kingdom (UK) business has been treated as a discontinued operation for disclosure purposes. Comparative figures have been re-presented accordingly.

IAG has performed strongly across the 2013 financial year. The Group's profit after tax for the financial year was $882 million (2012-$265 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the equity holders of the Company was $776 million (2012-$207 million), which was an increase of over 270%.

For the financial year to 30 June 2013, the Group has announced:

- gross written premium (GWP) growth of 11.8%, to $9.5 billion;
- a higher reported insurance margin of 17.2%;
- an improved underlying margin of 12.5%; and
- significantly higher investment income on equity holders' funds of $371 million (2012-$101 million).

The increase in GWP reflects strong growth in Australia, New Zealand and Asia, sourced from rate increases, some improvement in volumes and a full year's contribution from the AMI acquisition in New Zealand. Excluding AMI, GWP grew by 8.7%.

The reported insurance margin of 17.2% (2012-11.5%) includes a near $300 million improvement in underwriting result across the Group and was assisted by the following:

- net natural peril claim costs of $464 million, which were more than $150 million below the related allowance and nearly $200 million lower than the equivalent cost in the financial year ended 30 June 2012;
- prior period reserve releases of $212 million, equivalent to 2.5% of net earned premium (NEP) and in excess of the 1-2% expectation held at the beginning of the year; and
- a favourable $110 million impact from the narrowing of credit spreads during the year, in contrast to the negative $70 million effect incurred in the financial year ended 30 June 2012.

The Group has delivered an improved underlying insurance margin of 12.5% (2012-12.0%). IAG defines its underlying margin as the reported insurance margin adjusted for:

- net natural peril claim costs less the related allowance for the period;
- reserve releases in excess of 1% of NEP; and
- credit spread movements.

	2013		2012	
INSURANCE MARGIN	**$m**	**%**	$m	%
Reported insurance margin*	**1,428**	**17.2**	845	11.5
Net natural peril claim costs less allowance	**(156)**	**(1.9)**	85	1.2
Reserve releases in excess of 1% of NEP	**(129)**	**(1.5)**	(122)	(1.7)
Credit spread movements	**(110)**	**(1.3)**	70	1.0
Underlying insurance margin	**1,033**	**12.5**	878	12.0

* Reported insurance margin is the insurance profit/(loss) as a percentage of net earned premium as disclosed in the Statement of Comprehensive Income.

Investment income on equity holders' funds was a profit of $371 million, compared to a profit of $101 million in the prior financial year. This significantly improved outcome reflects much stronger equity markets, with the broader Australian index (S&P ASX200 Accumulation) delivering a positive return of 22.8% over the year to 30 June 2013, compared to a negative return of 6.7% over the year to 30 June 2012.

A. AUSTRALIA DIRECT

I. Premiums

Australia Direct's GWP increased by 6.6% to $4,584 million (2012-$4,299 million), representing 48% (51%-2012) of the Group's GWP. GWP growth was achieved across most product classes and in all states. Rate increases were implemented across the year to recover higher reinsurance and natural peril costs, and to reflect lower investment yields impacting the long tail book. While rate accounted for most of the year's GWP growth, this continued to be supplemented by volume gains, notably in motor and particularly in states outside NSW.

II. Reinsurance expense

The reinsurance expense of $281 million in the financial year ended 30 June 2013 was approximately 7% higher than the financial year ended 30 June 2012 ($262 million). This reflects the combined effect of:

- higher catastrophe cover costs;
- overall business growth; and
- the absence of amortised reinstatement costs incurred during the first half of the financial year ended 30 June 2012.

III. Claims

Australia Direct has reported a significantly lower loss ratio of 66.2% than that during the financial year ended 2012 (79.7%). This largely reflects:

- a notably lower net natural peril claim cost experience, following particularly benign activity in the first half of the financial year; and
- a favourable movement in the discount rate adjustment. This reflects a steepening of the yield curve compared to 30 June 2012.

IV. Expenses

Australia Direct's total expenses in the year ended 30 June 2013 amounted to $797 million (2012-$752 million). This equates to an improved expense ratio of 19.2% (2012-19.7%), reflecting strong growth in NEP of 9.3% and tight expense control across the business. Of the 6% increase in expenditure compared to the financial year ended 30 June 2012, roughly half was attributable to higher levies, in large part driven by increased home rates. The balance reflected underlying business growth.

V. Insurance profit

Australia Direct has reported an insurance profit for the financial year ended 30 June 2013 of $822 million, compared to $544 million in the financial year ended 30 June 2012. This equates to a higher insurance margin of 19.7% (2012-14.3%).

The higher reported margin reflects the combination of:

- strong NEP growth of 9.3%;
- a $167 million reduction in net natural peril claim costs against the prior financial year;
- slightly lower reserve releases; and
- a favourable credit spread impact of $71 million, compared to an adverse impact of $42 million in the prior year.

B. AUSTRALIA INTERMEDIATED (CGU)

I. Premiums

CGU's reported GWP of $3,028 million was an increase of 9.7% compared to the financial year ended 30 June 2012, while representing 32% (2012-32%) of the Group's GWP. This continues the strong top line growth evident across most areas of the business in recent years. Growth in the current financial year was primarily from a combination of:

- strong rate increases (up to double digit in some cases, but below the prior financial year levels) across most property classes, to recover the substantial increase in reinsurance and natural peril costs experienced in recent years;
- volume growth, most notably across some commercial line portfolios (particularly residential strata), workers' compensation and some niche portfolios;
- improved retention rates in those portfolios subject to extensive remediation action in recent periods, such as Countrypak and brokered home insurance. Retention on these remediated portfolios has steadily improved over the course of the financial year ended 30 June 2013, to more normal levels; and
- rollout of flood cover on home, contents and landlords policies, which was completed in February 2013, with retention rates for these portfolios in line with expectations and beginning to return to long term average rates.

II. Reinsurance expense

Reinsurance costs of $245 million in the financial year ended 30 June 2013 were identical to those in the prior financial year. This reflected a combination of:

- higher catastrophe cover costs;
- business mix changes, including growth in corporate property offset by reduced home and landlord volumes, following the introduction of flood cover and lower customer retention levels; and
- the absence of amortised reinstatement costs incurred during the first half of the financial year ended 30 June 2012.

III. Claims

CGU's reported loss ratio of 49.8% for the financial year ended 30 June 2013 was significantly lower than the 68.0% recorded in the prior financial year. This reflected the combination of:

- slightly higher net natural peril claim costs;
- significantly higher reserve releases;
- further improvement in underlying claims performance;
- strong NEP growth of 10.6%; and
- a favourable movement in the discount rate adjustment which reflected a steepening of the yield curve compared to 30 June 2012.

IV. Expenses

Reported expenses, comprising commission and underwriting costs, totalled $928 million in the financial year ended 30 June 2013, compared to $881 million in the financial year ended 30 June 2012. Despite the increase, the expense ratio improved to 35.1% (2012-36.9%), reflecting cost savings realised and strong growth in NEP (+10.6%).

Movements within total expenses included:

- an 11.1% increase in commission expense, to $410 million, reflecting increased business volumes;
- the realisation of cost initiatives, including those stemming from the OneCGU new operating model; and
- higher operating costs associated with sales volume growth and inflation.

V. Insurance profit

CGU reported an insurance profit of $470 million, a substantial increase on the prior financial year (2012-$258 million). This equates to an insurance margin of 17.8% (2012-10.8%). The significantly stronger reported margin is explained by the net effect of:

- considerably higher reserve releases;
- a slightly higher net natural peril claim cost impact of $203 million (2012-$175 million); and
- a favourable credit spread movement of $67 million, relative to the financial year ended 30 June 2012.

VI. Fee based business

In the financial year ended 30 June 2013, in its role as agent in respect of the NSW and Victorian workers' compensation schemes CGU generated net income from fee based operations of $19 million, compared to $13 million in the prior year.

C. NEW ZEALAND

I. Premiums

New Zealand's GWP for the financial year ended 30 June 2013 of $1,575 million increased by over 30% compared to the prior financial year (2012-$1,210 million), with all distribution channels reporting growth. New Zealand represented 17% (2012-14%) of the Group's GWP. The increase reflects:

- a full year's contribution from AMI (2012-3 months);
- rate increases to recover increased reinsurance costs, notably in the domestic home portfolio across all channels; and
- a favourable foreign exchange movement effect.

II. Reinsurance expense

The reinsurance expense of $237 million was nearly 60% higher than the financial year ended 30 June 2012 ($149 million). The increase reflects the combination of:

- increased catastrophe cover costs as a result of the Canterbury earthquakes and regulatory requirements;
- a full 12 months of expense from the standalone AMI program (2012-3 months); and
- the absence of reinstatement costs amortised in the prior financial year.

III. Claims

The current financial year net claims expense of $774 million (2012-$601 million) translates to a slightly improved loss ratio of 60.1% (2012-60.6%). The outcome contained:

- higher net natural peril costs of $56 million (2012-$49 million);
- net reserve strengthening of $35 million, reflecting the $40 million strengthening identified in the first half of the financial year in respect of the Canterbury earthquake events;
- inclusion of a full year of claims activity from AMI; and
- a positive $40 million foreign exchange effect associated with reinsurance recoveries in respect of the earthquakes in the financial year ended 30 June 2011, held by the offshore captive in Singapore. A corresponding adverse effect is included in investment income on technical reserves, resulting in no impact to the insurance margin.

IV. Expenses

Total reported expenses of $371 million in the financial year ended 30 June 2013 resulted in an improved expense ratio of 28.8% (2012-30.0%). Movements within total expenses included:

- a commission expense increase of 19.3% compared to the prior financial year, to $142 million, broadly reflecting gross earned premium growth in the intermediated channel; and
- underwriting expenses of $229 million which were approximately 29% higher than the prior financial year, explained by the net effect of:
  - the full year inclusion of AMI;
  - NZ$13 million of expenditure associated with the preparation for changes in domestic home policies;
  - increased regulatory cost pressures; and
  - a net benefit of $9 million from the introduction of deferred acquisition cost (DAC) accounting in respect of AMI, skewed to the front half of the financial year.

V. Insurance profit

The New Zealand business produced an insurance profit of $115 million in the financial year ended 30 June 2013, an increase on the prior financial year profit of $103 million. This equated to a reported insurance margin of 8.9% (2012-10.4%). The reduction in reported margin is explained by a net reserve strengthening of $35 million, largely in respect of the June 2011 earthquake event, more than offsetting operational improvement and a full year's contribution from AMI.

D. ASIA

I. Divisional result

IAG has a presence in five of its six targeted markets in Asia: Thailand, Malaysia, India, China and Vietnam. In the financial year ended 30 June 2013 Thailand was consolidated within the Group, whilst the other Asian entities were accounted for on an equity basis within the consolidated Group.

In the financial year ended 30 June 2013, the Asia division experienced:

- strong GWP growth compared to the prior financial year, reflecting a full year of the investments in China and Vietnam, the inclusion of Kurnia in Malaysia, which was consolidated by AmGeneral Holdings Berhad (AmG) from October 2012, rapid expansion in India and a strong post-flood recovery in Thailand; and
- an improved divisional profit of $20 million, driven by the strong underlying performance of established businesses (Thailand and Malaysia).

II. Thailand

- IAG holds a controlling interest in Safety Insurance, predominantly a motor insurer (approximately 80% of GWP). The business operates under a single licence and uses two brands; Safety (personal lines) and NZI (commercial lines).
- The Thai business reported GWP growth of nearly 35% in the financial year ended 30 June 2013. The key drivers leading the rebound were:
  - Safety's superior customer service experience during the flood crisis in the previous financial year, which resulted in increased customer numbers;
  - a return to full output by local car production plants;
  - the government's tax incentive scheme for first-time vehicle owners to boost domestic consumption; and
  - heightened risk awareness by consumers leading to increased demand for high quality, well-capitalised insurers.
- The Thai business has continued to perform well at an underlying level, reporting a slightly lower insurance margin.

III. Malaysia

- IAG owns a 49% interest in AmG, the largest motor insurer in Malaysia following the acquisition of Kurnia in September 2012.
- AmG has continued to perform strongly, with the overall result boosted by the inclusion of Kurnia from October 2012 onwards.
- For the financial year ended 30 June 2013, AmG reported GWP of $460 million (IAG's 49% share being approximately $225 million) which represented an increase of around 130% compared to the financial year ended 30 June 2012 ($200 million), with growth primarily derived from the initial nine-month contribution from Kurnia.
- AmG's current financial year insurance margin declined to 13.3% (2012-18.1%), owing to the higher expense ratio associated with Kurnia integration costs.
- IAG's share of AmG's earnings contribution increased by over 115%, to approximately $13 million (2012-$6 million), with a large proportion of the improvement reflecting the first time inclusion of Kurnia.

IV. India

- IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India (SBI).
- In the financial year ended 30 June 2013, SBI General generated GWP equivalent to $164 million (IAG's 26% share being approximately $43 million), an increase of over 140% against the financial year ended 30 June 2012 ($68 million). A significant portion of this growth was derived from home insurance business and the personal accident product launched in May 2012, both of which are written through the bancassurance channel.
- IAG's share of SBI General's losses in the current financial year was $5 million. This was similar to the prior financial year but better than expectations.

V. China

- IAG owns a 20% interest in Bohai Property Insurance Company Ltd (Bohai Insurance), a predominantly motor insurer headquartered in Tianjin. It has a strong emphasis on the surrounding pan-Bohai region.
- IAG has been recognising its 20% share of Bohai Insurance's results since 1 May 2012. In the financial year ended 30 June 2013, Bohai Insurance reported GWP equivalent to $243 million (IAG's 20% share being approximately $49 million), with a strong focus on more profitable lines of business and selective geographical areas.
- IAG's share of Bohai Insurance's net loss after tax was $1 million in the current financial year, which was better than expectations. The main driver was the improved loss ratio of 63.2%, from the tightening of risk selection and cost savings from the right-sizing of operations.

VI. Vietnam

- IAG commenced recognition of its 30% share of AAA Assurance Corporation's results from 1 July 2012.
- In the current financial year, AAA Assurance reported GWP equivalent to $24 million (IAG's 30% share being approximately $7 million).
- IAG's share of AAA Assurance's loss after tax was $3 million.
- Since year end, IAG has increased its holding in AAA Insurance to 60.9%.

VII. Regional support and development costs

- As IAG broadens its operational footprint in Asia, the division incurs regional support and development costs. These costs cover a wide range of activities, including the divisional level management, on-the-ground capability transfer teams and the cost of developing opportunities in new and existing markets.
- The regional support and development costs are self-funded within the division and, for reporting purposes, are allocated between the consolidated business (Thailand) and shares of associates.
- Total regional support and development costs for the financial year ended 30 June 2013 increased to $25 million, allocated $6 million to Thailand and $19 million to associates, (2012-$21 million, allocated $10 million Thailand and $11 million to associates) owing to greater capability support rendered in respect of the investments in India, China and Vietnam, along with the pursuit of opportunities in Indonesia.

E. CORPORATE AND OTHER

Revenue has increased from $107 million in the prior year to $360 million in the financial year ended 30 June 2013, due to significantly higher investment income on equity holders' funds net of finance and other costs, this has resulted in a profit before tax for continuing operations of $144 million for the current year.

Further details on the operating segments are set out in note 8.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2013 were $24,859 million compared to $25,132 million at 30 June 2012. The marginal decrease in assets of $273 million is represented by the net effect of:

- the disposal of assets associated with the discontinued UK operation;
- a decrease in reinsurance and other recoveries of $1,070 million mainly driven by the settlement of the New Zealand earthquake and Thai flood claims; largely offset by
- an increase of $663 million in investments, reflecting improved equity markets and the Group's strong operating performance, and partially funded by the decrease in operating cash of $575 million;
- an increase in premium receivable of $210 million attributable to gross written premium growth across Australia and New Zealand; and
- an increase in trade and other receivables and investment in joint ventures and associates of $270 million mainly due to the application of funds to increase the Group's investment in AmG in Malaysia following its purchase of Kurnia in September 2012.

The total liabilities of the Group as at 30 June 2013 were $19,871 million compared to $20,608 million at 30 June 2012. The decrease over the current financial year includes the following notable movements:

- the disposal of liabilities associated with the discontinued UK operation;
- a decrease in outstanding claims of $1,235 million as a result of the settlement of the New Zealand earthquake and Thai flood claims; partially offset by
- increased unearned premium liability of $203 million mainly attributable to gross written premium growth across Australia and New Zealand; and
- an increase in reinsurance premium payable of $187 million due to increased reinsurance costs during the current financial year and the inclusion of the AMI reinsurance program.

IAG shareholders' equity (excluding non-controlling interests) increased, from $4,343 million at 30 June 2012 to $4,786 million at 30 June 2013. This movement was mainly attributable to the net effect of:

- a strong operating earnings performance from continuing operations and improved equity markets in the current financial year, resulting in a net comprehensive income attributable to equity holders of $921 million (after the $206 million total comprehensive expense attributable to the UK discontinued operation), offset by
- the 2012 final dividend and 2013 interim dividend payments totalling $478 million.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the financial year ended 30 June 2013 were $1,790 million compared to $1,514 million for the prior financial year. The increase is mainly attributable to:

- increased gross written premium receipts of $851 million; offset by
- decreased other operating receipts of $357 million mainly attributable to the reduced level of reinsurance collateral receipts;
- decreased reinsurance and other recoveries of $195 million;
- an increase of $173 million in income taxes paid; and
- an increase in claims costs paid of $121 million.

C. INVESTMENTS

- The Group's investments totalled $13.6 billion as at 30 June 2013, excluding investments held in joint ventures and associates, with nearly 70% represented by the technical reserves portfolio. Total investments at 30 June 2012 were $13.0 billion.
- The $0.6 billion increase in investment assets since 30 June 2012 relates to equity holders' funds, and reflects the strong operating performance of the Group along with positive investment returns during the year.
- Technical reserves at 30 June 2013 were at a similar level to the preceding year end, with positive investment returns sufficient to offset the exclusion of investments in respect of the discontinued UK operation.
- As at 30 June 2013, the Group's overall investment allocation remained conservatively positioned, with 86% of total investments in fixed interest and cash (rated 'AA' or higher).
- Technical reserves were entirely invested in fixed interest and cash.
- The Group's allocation to growth assets was 46% of equity holders' funds at 30 June 2013 (2012-40%). Within the Group's allocation to growth assets, alternative investments accounted for 22% of equity holders' funds as at 30 June 2013 (2012-19%). These alternative investments typically display a lower volatility than equities, deliver a higher return than fixed income and increase overall investment diversification.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at $1,620 million at 30 June 2013, compared to $1,659 million at 30 June 2012. The net reduction largely reflects the repayment of the Group's NZ$100 million subordinated note issue in November 2012, following exercise of the Group's issuer call option. This was partially offset by foreign exchange translation effects on other non Australian dollar denominated issues.

During the financial year ended 30 June 2013, the Group also redeemed and re-issued its £157 million subordinated exchangeable term note instrument. Amended terms included an extension of the date at which the notes may be exchanged into IAG ordinary shares, from 14 December 2012 to 13 June 2014, and an increased coupon rate of LIBOR +3.20% (previously LIBOR +1.875%).

E. CAPITAL MIX

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the longer term:

- ordinary equity (net of goodwill and intangibles) 60-70%; and
- debt and hybrids 30-40%.

At 30 June 2013, the Group's capital mix was towards the middle of the targeted range, with debt and hybrids representing 34.5% of total tangible capitalisation.

F. CAPITAL MANAGEMENT

The Group remains strongly capitalised under Life and General Insurance Capital (LAGIC), and has set the following related targeted benchmarks:

- a total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of 1.0 times; and
- a Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

At 30 June 2013, the Group had regulatory capital of $4,262 million, a PCA multiple of 1.67, and its CET1 multiple was 1.09.

Further details on capital management are set out in note 36.

STRATEGY

A. STRATEGIC PRIORITIES

Following the divestment of the UK business, the Group's strategic priorities have been refined:

I. Accelerate profitable growth in Australia

IAG remains focused on leveraging its strong brands, customer bases and strategic capabilities in Australia. Combined GWP growth from the two Australian-based businesses was nearly 8% in the financial year ended 30 June 2013.

Australia Direct recorded GWP growth of 6.6% and a strong underlying margin in the financial year ended 30 June 2013. This outcome was achieved through the business' ongoing focus on customer insights and its pricing capability.

CGU reported GWP growth of 9.7% and achieved a significantly improved underlying margin in the financial year ended 30 June 2013, of double digit proportions, as benefits from enhanced underwriting disciplines and the implementation of a new operating model were realised.

II. Sustain leading position in New Zealand

In New Zealand, following the acquisition of AMI in the financial year ended 30 June 2012, the Group's focus is on securing and maintaining its market-leading position. In the financial year ended 30 June 2013, the business reported a strong underlying performance, with GWP growth of over 30% largely reflecting a first full year of AMI.

III. Realise the potential of Asian platform

The Group remains on track to reach its goal of Asia representing 10% of GWP by 2016, on a proportional basis. A significant step in the financial year ended 30 June 2013 was the acquisition of Kurnia, via IAG's highly profitable Malaysian joint venture, AmG, completed in late September 2012. Adjusted for a full year's contribution from Kurnia, Asia represented approximately 7% of the Group's GWP in the financial year ended 30 June 2013, on a proportional basis.

The Asian division produced a much-improved earnings contribution of $20 million in the financial year ended 30 June 2013, and the Group has committed increased capability to the region to ensure the potential of the broader Asian platform is realised over the medium to longer term.

IV. Customer focused delivery and execution
Customer focus has always been a key strategic pillar for the Group, and significant work has continued in the financial year ended 30 June 2013 on improving the customer experience. The Group has also taken a leadership role in protecting customers and making communities safer with its participation in the Australian Business Roundtable for Disaster Resilience and Safer Communities. A related White Paper, "Building our nation's resilience to natural disasters", was launched in June 2013.

V. Leverage cultural strengths
The Group's long term aspiration is for career and development to be the key differentiator between IAG and its peers. The Group is working actively to leverage its cultural strengths, organisational skills and expertise.

B. BUSINESS RISK AND RISK MANAGEMENT
Managing risk is central to the sustainability of IAG's business and delivery of value to shareholders. IAG's risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The risk management strategy (RMS) is reviewed annually or as required to ensure it is materially correct by the ARMCC before being recommended for adoption by the Board. IAG's risk and governance 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. Roles and responsibilities of the Board and its standing committees, the ARMCC and the PARC, are set out in the Corporate Governance section of the Annual Report.

The Group is exposed to multiple risks relating to the conduct of its general insurance business. The following risks noted below are not meant to represent an exhaustive list, but the risks faced by the Group that have been identified by the RMS process:
- strategic risk: the risk of not achieving corporate or strategic goals;
- insurance risk: the risk that the Group is exposed to financial loss, which may impact the Group's ability to meets its liabilities;
- reinsurance risk: the risk of insufficient reinsurance coverage and/or inadequate reinsurance recovery management;
- financial risks:
  - liquidity risk: the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Group;
  - market risk: the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments;
  - credit risk: the risk of loss from a counterparty failing to meet their financial obligations; and
  - capital management risk: the risk of failure to maintain adequate regulatory capital to meet the prudentially required capital levels or the Group's internal capital target.
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

A disciplined approach to risk management has been adopted and 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.

Detail of the Group's overall risk management framework, which is outlined in the RMS, is set out in the Corporate Governance section, and notes 3 and 4 of the Annual Report.

OUTLOOK
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.

The Group expects to report sound GWP growth of 5-7% in the financial year ending 30 June 2014. The lower rate of anticipated growth compared to 2013 reflects:
- reduced need for rate increases, particularly in property classes, to recover higher reinsurance and natural peril costs;
- the absence of an increment from the AMI business in New Zealand, which has now been owned for over a year;
- the cessation of GWP associated with the Victorian Fire Services Levy (FSL) from 1 July 2013 (2013-$104 million of GWP); and
- Australia Direct's decision to withdraw from the Queensland CTP market with effect from 1 January 2014 (2013-$56 million of GWP).

The Group anticipates reporting an insurance margin within the range of 12.5-14.5%. Underlying assumptions behind this guidance are:
- net losses from natural perils in line with allowance of $640 million;
- prior period reserve releases equivalent to 1-2% of NEP (2013-2.5%); and
- no material movement in foreign exchange rates or investment markets.

The outlook comprises the following divisional expectations:
- further GWP growth from Australia Direct, and a higher underlying margin;
- continued GWP growth from CGU and an improving underlying margin;
- ongoing GWP growth in New Zealand, with continuing strong underlying profitability; and
- further progress in Asia, building on the positive momentum evident in the financial year ended 30 June 2013.

DIVIDENDS

Details of dividends paid or determined to be paid by the Company and the dividend policy deployed by the Group are set out in note 10.

Cash earnings are used for the purposes of targeted ROE and dividend payout policy, and are defined as:

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

CASH EARNINGS	2013 $m	2012 $m
Net profit after tax	**776**	207
Intangible amortisation and impairment	**55**	333
	831	540
Unusual items:		
Corporate expenses	**54**	56
Tax effect on corporate expenses	**(16)**	(13)
Net loss after tax from discontinued operation	**287**	-
Cash earnings	**1,156**	583
Interim dividend	**229**	104
Final dividend	**519**	249
Dividend payable	**748**	353
Cash payout ratio	**64.7%**	60.5%

IAG's policy is to pay dividends equivalent to approximately 50–70% of reported cash earnings in any given financial year.

The Board has determined to pay a fully franked final dividend of 25.0 cents per ordinary share (2012-12.0 cps). The final dividend is payable on 9 October 2013 to shareholders registered as at 5pm on 11 September 2013.

The dividend reinvestment plan (DRP) will operate for the final dividend. The issue price per share for the final dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at www.iag.com.au/shareholder/reinvestment/index.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the Group completed the sale of the United Kingdom (UK) operation. A loss of $287 million was recognised In respect of the UK business during the financial year ending 30 June 2013, which has been classified as a discontinued operation. The disposal comprised:

- the Independent Commercial Broking business which was sold on 17 December 2012; and
- the Equity Red Star business which was sold on 19 April 2013.

EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the financial year is set out in note 40. This includes:

- the Board determined to pay a final dividend; and
- on 24 July 2013, the Group increased its stake in AAA Assurance Corporation from 30% to 60.9% for a consideration of less than $20 million. This company will be consolidated by the Group from this date.

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:

- Nicholas 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 amounts to approximately $1.7 million (refer to note 38 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 44 and forms part of the directors' report for the year ended 30 June 2013.

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 subsidiary 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 of the 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 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's Clean Energy Future 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 PEOPLE AND REMUNERATION COMMITTEE CHAIR

Dear Shareholder

IAG is pleased to present its remuneration report for the year ended 30 June 2013.

The Board is committed to ensuring the remuneration report is not only compliant with the Corporations Act 2001, but also presents executive remuneration in a consistent, concise and simple manner. To this end, while the overall format is consistent with prior years, we have made a further effort to improve the flow of information contained within the report.

IAG reported a strong performance for the year ended 30 June 2013. A clear focus on the Group's strategic priorities has delivered further improvement in the Group's underlying business performance. Gross written premium (GWP) increased by 11.8% and insurance margin by 570 basis points. In line with this performance, short term incentive outcomes have increased compared to last year. The link between company strategy and performance and short term incentive outcomes is driven through our Group Balanced Scorecard. In order to address shareholders' requests and provide greater visibility of performance measures we have included more detail of our Balanced Scorecard measures in section D of this report.

This year, the executives were rewarded under the long term incentive plan, with portions of the awards granted in 2008, 2009 and 2010 vesting based on IAG's total relative shareholder return result. The 50% portion of the awards granted in 2007, 2008 and 2009, subject to a return on equity hurdle, did not meet the required performance levels and did not vest. After three years of sustained focus on improving performance, the awards granted in 2010 are expected to achieve full vesting.

As in previous years, we have voluntarily disclosed the actual remuneration received by executives in addition to meeting statutory reporting obligations.

There have been no significant changes to the executive remuneration structure during the year, however, the terms and conditions of the long term incentive plan have been revised for grants from 1 July 2013 onwards. The change removes re-testing of the total shareholder return performance hurdle, which will be subject to a four year performance period moving forward. This change aligns with market practice and responds to shareholder concerns expressed last year.

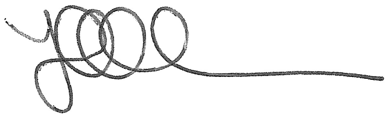
Fixed remuneration increases for executives remain modest, with an average 2% increase for the year ended 30 June 2013 paid from September 2012. The average increase for the executive team will once again be 2% for the year ahead, effective October 2013.

As part of our ongoing governance of reward and in-line with APRA regulations, IAG undertook an assessment process to determine if any clawback of unvested or unexercised equity grants was required. The Board was satisfied that no adjustment was necessary.

The 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. Shareholder support for the remuneration report in recent years has been strong and we believe that once again the remuneration report demonstrates that executive remuneration is aligned to the company's performance and shareholder interests.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest.

Yours sincerely



Yasmin Allen
People and Remuneration Committee Chair

CONTENTS

A. REMUNERATION EXPLAINED

I. Key terms and definitions (not audited)

The key terms and definitions used throughout this report are explained below:

TERM	DEFINITION
Actual remuneration	Dollar value of remuneration actually received by the executive team in the financial year. It is the sum of fixed remuneration plus cash portion of STI plus value of deferred award rights (DAR) vested during the year plus value of LTI in the form of executive performance rights (EPR) vested during the year.
At risk remuneration	The components of remuneration that are at risk because they depend on a combination of the financial performance of the Group and the executive's performance against individual financial and non-financial measures. At risk remuneration typically includes short term incentive (cash and deferred remuneration) and long term incentive.
Base salary	Cash component of fixed remuneration.
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 and impairment of acquired identifiable intangible assets and adjusted for unusual items. Used as one of the LTI measures.
Cash STI	The two-thirds portion of STI for the year ended 30 June 2013 that is paid in the form of cash in October 2013, following the end of year assessment and approval by the Board.
Corporate office executives	The Chief Financial Officer and Chief Strategy Officer.
Deferred STI/Deferred award rights (DAR)	The one-third portion of STI for the year ended 30 June 2013 that is deferred over a period of two years. Awarded in the form of 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.
Divisional executives	The executives with responsibility for managing a division.
Executives	The Group CEO and the executive team.
Executive team	The executives who report directly to the Group CEO.
Fixed remuneration	Base salary plus superannuation. Individuals can determine the mix of base salary and superannuation they receive in line with legislative requirements.
Group CEO	The Group's Managing Director and Chief Executive Officer.
Key management personnel (KMP)	The Group CEO and the executive team responsible for managing the Group, and the Board of directors (including the Group CEO).
Long term incentive (LTI)/Executive performance rights (EPR)	A grant of rights over IAG ordinary shares in the form of EPR that are exercisable for shares between three and five years after the grant date if performance hurdles are achieved.
People and Remuneration Committee (PARC)	The Board committee which oversees IAG's remuneration practices (formerly Nomination, Remuneration & Sustainability Committee).
Short term incentive (STI)	The part of annual at risk remuneration that is designed to motivate and reward for performance, typically in that financial year. STI results are determined by performance against a balanced scorecard, based on goals which reflect financial and non-financial measures. For the Group CEO and the executive team, one third of STI is deferred for a period of two years.
Total shareholder return (TSR)	Used to measure company performance 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 LTI measures. This reflects IAG's returns to shareholders relative to those of other companies in the peer group.
WACC	Weighted average cost of capital.

II. Key management personnel covered in this report (audited)

This report sets out the remuneration details for the KMP of IAG who are listed below:

NAME	POSITION	TERM AS KMP
Executives		
Michael Wilkins	Managing Director and Chief Executive Officer	Full year
Justin Breheny	Chief Executive Officer, Asia	Full year
Andy Cornish	Chief Executive Officer, Australia Direct	Full year
Peter Harmer	Chief Executive Officer, CGU	Full year
Nicholas Hawkins	Chief Financial Officer	Full year
Jacki Johnson	Chief Executive Officer, New Zealand	Full year
Leona Murphy	Chief Strategy Officer	Full year
Executives who ceased as key management personnel		
Ian Foy [(a)]	Former Chief Executive Officer, UK	Part year
Non-executive directors		
Brian Schwartz	Chairman, non-executive director	Full year
Yasmin Allen	Non-executive director	Full year
Peter Bush	Non-executive director	Full year
Alison Deans [(b)]	Non-executive director	Part year
Hugh Fletcher	Non-executive director	Full year
Raymond Lim [(c)]	Non-executive director	Part year
Philip Twyman	Non-executive director	Full year
Dr Nora Scheinkestel [(d)]	Non-executive director	n/a
Non-executive directors who ceased as key management personnel		
Phillip Colebatch [(e)]	Former non-executive director	Part year
Anna Hynes [(f)]	Former non-executive director	Part year

(a) Ian Foy ceased being a KMP on 19 April 2013 on completion of the sale of the UK business.
(b) Alison Deans was appointed to the Board on 1 February 2013.
(c) Raymond Lim was appointed to the Board on 1 February 2013.
(d) Dr Nora Scheinkestel commenced as a director on 1 July 2013 and therefore was not a designated key management personnel at any time during the reporting period.
(e) Phillip Colebatch retired and ceased being a KMP on 31 August 2012.
(f) Anna Hynes retired and ceased being a KMP on 1 February 2013.

B. 2013 SNAPSHOT (NOT AUDITED)

I. Actual remuneration earned by executives

The actual remuneration paid to executives during the current and previous financial years is set out below. Disclosure of actual remuneration is provided voluntarily for increased transparency. It includes fixed remuneration, other benefits and leave accruals, termination payments and cash STI paid, as well as any deferred STI or LTI that vested in the relevant financial year. For remuneration details provided in accordance with the Accounting Standards refer to Section E.

TABLE 1 - ACTUAL REMUNERATION RECEIVED IN 2013 AND 2012

NAME	FINANCIAL YEAR	FIXED PAY[(a)]	OTHER BENEFITS AND LEAVE ACCRUALS[(b)]	TERMINATION PAYMENTS	CASH STI	DEFERRED STI VESTED	LTI VESTED	TOTAL ACTUAL REMUNERATION EARNED
		$000	$000	$000	$000	$000	$000	$000
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
EXECUTIVES								
Michael Wilkins	**2013**	**2,039**	**229**	**-**	**1,679**	**558**	**1,593**	**6,098**
	2012	1,992	230	-	1,567	388	746	4,923
Justin Breheny	**2013**	**898**	**294**	**-**	**577**	**230**	**607**	**2,606**
	2012	877	310	-	587	185	296	2,255
Andy Cornish	**2013**	**1,016**	**73**	**-**	**632**	**280**	**557**	**2,558**
	2012	990	75	-	600	154	249	2,068
Peter Harmer	**2013**	**972**	**(1)**	**-**	**659**	**84**	**-**	**1,714**
	2012	932	62	-	504	-	-	1,498
Nicholas Hawkins	**2013**	**976**	**27**	**-**	**662**	**229**	**624**	**2,518**
	2012	956	93	-	568	160	305	2,082
Jacki Johnson	**2013**	**907**	**70**	**-**	**542**	**194**	**608**	**2,321**
	2012	863	124	-	505	172	296	1,960
Leona Murphy	**2013**	**879**	**7**	**-**	**575**	**198**	**496**	**2,155**
	2012	862	58	-	512	139	251	1,822
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Ian Foy	**2013**	**737**	**716**	**524**	**296**	**146**	**374**	**2,793**
	2012	698	371	-	287	105	200	1,661

(a) Fixed remuneration (base salary and superannuation) included an average pay increase of 2% effective September 2012.

(b) Changes in other benefits and leave accruals from the prior year were mainly due to:

- movement in annual and long service leave accruals; and
- for those executives located overseas, other benefits for the year ended 30 June 2013:
  - Justin Breheny, accommodation costs and other benefits of $266,337, accommodation, health insurance, tax compliance, airfares for home visits;
  - Jacki Johnson, accommodation allowances and other benefits of $45,794 (NZ$57,203); and
  - Ian Foy, retention payments of $581,772 (£380,833), $91,516 being the cash value on vesting of half of the 44,300 DAR awarded under a 2011 retention arrangement, annual leave accrual paid out on termination of $21,706 (£14,209) which is equivalent to 9.5 days, and other recurring allowances and benefits of $20,990 (£13,740).

Table note

(1) Represents base salary plus superannuation.

(2) Includes benefits such as a 30% tax rebate on car allowances and movements in annual leave and long service leave accruals during the relevant financial year.

(3) Termination payment of $524,168 (£343,125).

(4) Represents 2/3 of the STI for the relevant financial year, with the exception of Ian Foy who was paid his entire STI in cash. Details are provided in the table on page 35 in Section D.

(5) Deferred STI that vested in the relevant financial year. Details are provided in the table on page 35 in Section D. The 5-day weighted average share price used to value the deferred STI at vesting date is $3.40 for awards vested on 1 July 2012 and $4.13 for awards vested on 1 September 2012 (2012-$3.37 for all awards).

(6) LTI that vested in the relevant financial year. Details are provided in the table on page 37 in Section D. The 5-day weighted average share price at vesting date is $4.38 (2012-$3.01).

(7) Total remuneration received in the relevant financial year (i.e. sum of columns 1 to 6).

a. Termination payment for Ian Foy

Ian Foy, the former Chief Executive Officer of IAG's UK business, ceased being a KMP on 19 April 2013 upon completion of the sale of the UK business. Between 20 April and 19 July 2013, Ian remained employed by Equity Insurance Management Limited (the former subsidiary of IAG that was sold). On 19 July 2013 Ian's employment with Equity Insurance Management Limited was terminated.

As part of the arrangements for the sale of the UK business, IAG agreed to fund all of the entitlements due to Ian upon cessation of his employment with Equity Insurance Management Limited. In accordance with his contract, Ian received/will receive the following benefits in connection with his termination:

- nine months payment in lieu of notice being $524,168 (£343,125);
- unpaid statutory entitlements for annual leave accrual of $21,706 (£14,209); and
- a pro-rated STI (paid fully in cash with no amount received as DAR) of $296,233 (£193,910) based on his performance during the portion of the year he served as a KMP. This payment will be made in October 2013 in line with the ordinary payment schedule for executives.

These amounts are included in the statutory remuneration table on page 39 of this report.

The Board determined that Ian Foy would retain:

- 84,850 unvested DAR held as at termination date which will vest based on the terms and conditions of the DAR Plan on 1 September 2013 and 1 September 2014; and
- 829,096 unvested EPR held as at termination date which may vest subject to the relevant performance hurdles testing based on the terms and conditions of the EPR Plan between 30 September 2013 and 30 September 2016.

While the full accounting value of these unvested entitlements has been included in the statutory remuneration table on page 39 of this report in accordance with Accounting Standards, Ian Foy will only derive value from these entitlements to the extent that the applicable performance hurdles are met. In the case of the EPR Plan, this requires satisfaction of the performance hurdles described on page 36 of this report.

II. Remuneration mix

Table 2 below illustrates the potential fixed and at risk remuneration that the Group CEO and the executive team can earn under the current remuneration framework, and the actual pay mix received in 2012 and 2013:

TABLE 2 - REMUNERATION MIX

		GROUP CEO REMUNERATION			EXECUTIVE TEAM REMUNERATION		
Remuneration component	What it contains	Potential[(a)]		Actual	Potential[(a)]		Actual
			2013	2012		**2013**	2012
Fixed remuneration[(b)]	Base salary and superannuation	25.0 %	**25.0 %**	25.0 %	29.0 %	**29.0 %**	29.0 %
At risk remuneration	STI - cash	25.0 %	**20.6 %**	19.5 %	23.2 %	**18.6 %**	16.6 %
	STI - deferred	12.5 %	**6.8 %**	4.8 %	11.6 %	**6.2 %**	4.3 %
	LTI	37.5 %	**19.5 %**	9.3 %	36.2 %	**14.8 %**	7.4 %
Total		100.0 %	**71.9 %**	58.6 %	100.0 %	**68.6 %**	57.3 %

(a) Potential fixed and at risk remuneration is based on current remuneration at 30 June 2013.

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

REMUNERATION REPORT - AUDITED

C. EXECUTIVE REMUNERATION GOVERNANCE AND RISK MANAGEMENT

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

I. Governance

The Board is responsible for ensuring that the Group's remuneration framework is aligned to the short and long term interests of IAG and its shareholders. The PARC makes recommendations to the Board regarding Group remuneration policy including remuneration for the executives. The Board independently considers these recommendations before making executive remuneration decisions.

a. ROLE OF THE PARC

The PARC endeavours to ensure that remuneration policies balance IAG's performance objectives with performance, retention, attraction and shareholder expectations. While maintaining stability in the remuneration structure is important, the PARC actively considers modifications that can better align stakeholder interests and drive performance, and makes recommendations to the Board where appropriate.

The Group CEO, Chief Strategy Officer and Group General Manager, People & Culture attend PARC meetings to assist the committee in its deliberations. Divisional executives and their respective heads of human resources attend PARC meetings by invitation to provide updates on the human resources strategy and initiatives in their divisions. This process provides an open channel of communication between the divisions and the PARC.

The chair of the PARC regularly presents updates to the Board on remuneration related issues and seeks approval of initiatives and outcomes.

A copy of the PARC's charter is available on the IAG website www.iag.com.au.

The committee is comprised of independent non-executive directors. At the date of this report, its members were:

- Yasmin Allen (Chair)
- Brian Schwartz
- Peter Bush
- Raymond Lim

b. REMUNERATION GUIDING PRINCIPLES

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

- align remuneration with the interests of IAG's shareholders by actively focusing on short to long term goals;
- motivate employees to achieve superior and sustainable performance and discourage underperformance;
- 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.

c. USE OF REMUNERATION CONSULTANTS

The PARC directly engages remuneration consultants to provide market remuneration data that ultimately assists the Board in making remuneration decisions. The market remuneration data provided during the year ended 2013 did not include a remuneration recommendation as prescribed under the Corporations Act 2001.

II. Risk management

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 Board has a restriction policy that prohibits all directors, executive team members and other designated senior managers from:

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

A copy of IAG's Security Trading Policy is available on the IAG website.

III. Mandatory shareholding requirements

All executives are required to hold a proportion of their remuneration as IAG ordinary shares. The Group CEO is required to accumulate and hold IAG ordinary shares with a value of two times his base salary, and other executives one times base salary. Executives have four financial years from their date of appointment as an executive to meet their required holdings. Holdings are assessed annually at the end of each financial year.

PROGRESS AGAINST MANDATORY SHAREHOLDING REQUIREMENTS FOR THE YEAR ENDED 30 JUNE 2013

The number of IAG ordinary shares held by the Group CEO and the executive team at 30 June 2013, and their progress against the mandatory shareholding requirements, are set out below.

TABLE 3 - EXECUTIVES' SHAREHOLDINGS

NAME	IAG SHAREHOLDING[(a)]	ACHIEVEMENT OF MANDATORY SHAREHOLDING REQUIREMENT[(b)]	EFFECTIVE DATE OF MANDATORY SHAREHOLDING REQUIREMENT
Michael Wilkins	1,549,194	Met requirement	30/06/2013
Justin Breheny	582,798	Met requirement	30/06/2013
Andy Cornish	391,234	Met requirement	30/06/2013
Peter Harmer	20,250	n/a	30/06/2015
Nicholas Hawkins	396,644	Met requirement	30/06/2013
Jacki Johnson	549,880	Met requirement	30/06/2013
Leona Murphy	371,087	Met requirement	30/06/2013

(a) Includes executives' directly held shares and DAR vested and unexercised as at 30 June 2013. Includes entities controlled, jointly controlled or significantly influenced by the executive. Excludes shares held by the executives' domestic partner and dependants.

(b) The above table is a voluntary disclosure. The achievement of mandatory shareholding requirements is calculated using the base salary of executives (two times base salary for the Group CEO) and the IAG share price of $5.44 as at 30 June 2013.

Base salary is the amount received by the executives four years prior to the measurement day (for example, base salary at 30 June 2009 for the measurement day of 30 June 2013). The mandatory shareholding requirement is then re-assessed each year as a rolling four year requirement.

As at 30 June 2013, Peter Harmer's first measurement date of mandatory shareholding requirement has not yet been reached; therefore, the status of achievement is noted as n/a.

D. EXECUTIVE REMUNERATION STRUCTURE

IAG's executive remuneration structure is designed to align an individual's 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.

The target positioning for fixed remuneration is the median of the market. The appropriate market benchmark is determined considering organisation size, industry and geographic location. In cases of superior performance, the Board will consider top quartile total remuneration outcomes for an executive.

I. Remuneration mix

Total remuneration for the Group CEO and the executive team comprises a mix of fixed and at risk remuneration (STI and LTI). The mix is designed to pay executives competitively based on their performance, while providing strong governance to protect the financial soundness of the business and shareholders' interests.

II. Remuneration components

The remuneration components for the executives are explained below:

REMUNERATION COMPONENT			STRATEGIC PURPOSE
FIXED REMUNERATION	Cash	▪ Base salary and superannuation.	▪ Attract and retain high quality people.
AT RISK REMUNERATION	Cash STI	▪ 2/3 of STI outcome paid as cash in October following the end of year assessment and approval by the Board.	▪ Align reward to shareholder interests.
	Deferred 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 DAR. ▪ The actual value of shares will depend on the future share price. ▪ The Board has discretion to clawback to protect the financial soundness of the Group or to ensure an appropriate reward outcome.	▪ Strike a balance between short and long term results and reward for exceptional performance. ▪ Retain high quality people.
	LTI	▪ Provided as grant of rights in the form of EPR. ▪ 3-5 year performance period. ▪ Subject to performance hurdles of relative TSR and ROE being achieved. ▪ The Board has discretion to clawback to protect the financial soundness of the Group or to ensure an appropriate reward outcome.	▪ Align reward to shareholder interests. ▪ Align remuneration with longer term financial performance. ▪ Retain high quality people.

a. FIXED REMUNERATION

IAG defines fixed remuneration as base salary plus superannuation. Base salary includes amounts paid in cash plus the portion of the company's superannuation contribution that is paid as cash instead of being paid into superannuation funds and salary sacrifice items such as cars and parking. Executives can determine the mix of base salary to be paid in cash, salary sacrifice items and superannuation in line with legislative requirements.

Fixed remuneration is reviewed regularly using independent remuneration benchmarking data. For Australian based executives, positioning is determined by reference to a number of peer groups, including the largest 50 companies in the S&P/ASX 100 Index and companies that are of similar size to IAG. Relevant local market peer groups are used for overseas based executives.

Fixed remuneration for the year ended 30 June 2013

The average fixed remuneration increase for the executive team for the year ended 30 June 2013 was 2%. In August 2013, the Board approved an average 2% increase in annual fixed remuneration for the executive team effective October 2013.

b. AT RISK REMUNERATION

The Board strongly believes that the fundamental driver for executive remuneration should be long term financial performance that generates value for IAG shareholders. The Board further recognises that executive remuneration is guided by regulation and market forces, and it benchmarks IAG's executive remuneration to ensure IAG uses at risk remuneration components to achieve its remuneration and performance objectives.

To ensure that executives remain focused on long term outcomes, without encouraging excessive risk taking, the following conditions apply:

- no more than 50% of the STI is based on financial outcomes;
- one third of the STI is deferred over a period of two years;
- vesting of the LTI does not occur before three years and from 1 July 2013 there will be no re-testing opportunity for the TSR performance hurdle for all future grants of LTI; and
- the Board retains the discretion to adjust any unpaid or unvested performance related remuneration (such as cash STI, deferred STI and LTI) downwards if it decides it is appropriate to do so.

These conditions ensure that at risk remuneration is aligned with the overall performance of the Group.

i. Cash and deferred STI

Key details of the STI plan are shown below

<table>
<tr><td>Description</td><td>STI refers to the at risk remuneration designed to motivate and reward for performance in a set financial year.</td></tr>
<tr><td>Potential maximum STI amount</td><td>The Group CEO can earn up to 150% of his annual fixed remuneration and the executive team can earn up to 120% of their annual fixed remuneration.</td></tr>
<tr><td>Performance measures</td><td>Performance is measured against a balanced scorecard that uses goals set against financial and non-financial measures (the balanced scorecard is discussed in more detail in table 4).

Financial measures make up 50% of the balanced scorecard objectives, with the remainder based on non-financial measures.

The following table details the weighting of financial and non-financial performance measures for the STI for the Group CEO and the executive team.
<table>
<tr><td rowspan="2">ROLE</td><td colspan="2">FINANCIAL MEASURES</td><td rowspan="2">NON-FINANCIAL MEASURES</td></tr>
<tr><td>Group financial targets</td><td>Division or business financial targets</td></tr>
<tr><td>Group CEO</td><td>50 %</td><td>n/a</td><td>50 %</td></tr>
<tr><td>Divisional executives</td><td>10 %</td><td>40 %</td><td>50 %</td></tr>
<tr><td>Corporate office executives</td><td>40 %</td><td>10 %</td><td>50 %</td></tr>
</table></td></tr>
<tr><td>Testing of performance measures</td><td>The Group CEO's STI is recommended by the PARC based on his balanced scorecard performance, and approved by the Board.

The amount of STI paid to the executive team is recommended by the Group CEO to the PARC based on the executive team member's balanced scorecard performance, and recommended by the PARC for approval by the Board.</td></tr>
<tr><td>Rationale for choosing performance measures</td><td>Financial performance accounts for 50% of the STI outcome to ensure compliance with IAG's governance standards. 50% of the STI awarded is determined based on the achievement of non-financial objectives to secure the long term operation of IAG and its divisions.</td></tr>
<tr><td>Instrument</td><td>Two-thirds of STI is paid as cash, with the remaining one-third of STI deferred in the form of DAR over a period of two years.</td></tr>
<tr><td>Key terms of the deferred STI</td><td>Deferred STI is issued in the form of rights over IAG ordinary shares which are held by a trustee. These rights are referred to as DAR. They are issued to executives during the financial year at no cost, to the value of their deferred STI amount. Executives who participate in this plan become eligible to receive one IAG ordinary share per DAR by paying an exercise price of $1 per tranche of DAR exercised, subject to their continuing employment with the Group for a period determined by the Board. No dividend is paid or payable for any unvested or vested and unexercised DAR. Dividends are retained by the trustee and reinvested in the trust.</td></tr>
<tr><td>Forfeiture conditions</td><td>The Board retains the discretion to adjust the unvested portion of any awards. DAR will be forfeited if the executive resigns before the vesting date. When an executive ceases employment in special circumstances, such as redundancy, any unvested rights may be retained on cessation of employment, subject to Board discretion.</td></tr>
</table>

ii. Linking performance and STI

IAG uses a balanced scorecard approach, as noted above, across the organisation to set performance objectives which drive the execution of IAG's strategy. Senior executives and businesses have a strategy map, which defines its key strategic priorities and the balanced scorecard sets out the objectives that have to be achieved to meet these priorities. The balanced scorecard uses goals set against financial and non-financial measures. Financial measures make up 50% of the balanced scorecard, with the remainder made up of non-financial measures. Progress against objectives is measured, and allocated a score between 1 and 5, where 5 indicates the objective has been exceeded. This outcome informs the percentage of STI awarded.

The table below provides a summary of key balanced scorecard objectives and outcomes for IAG for the year ended 30 June 2013. The objectives are agreed with the Board at the beginning of each financial year and are designed to be stretching to deliver sustainable value for shareholders. The key measures summarised below inform the STI awarded to the Group CEO. A similar process applies for the executive team.

TABLE 4 - BALANCED SCORECARD OBJECTIVES AND PERFORMANCE REQUIREMENTS

CATEGORY	OBJECTIVE	OUTCOME
Financial	ROE	The Group targets a cash ROE of at least 1.5 times WACC through the cycle. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of intangible assets and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%. In the year ended 30 June 2013, the Group reported a cash ROE of 25.3%, compared to 13.3% in the prior year.
	Profitable growth	To grow profitably, IAG needs to expand its products, markets and customer base in order to create value for shareholders. During the year ended 30 June 2013, GWP increased by 11.8%.
	Capital & risk management	Balance sheet management to optimise the capital structure within the context of the Group's risk appetite is a key business objective and vital to the stability of the Group. The Group has maintained a strong capital position with the APRA prescribed capital amount multiple at 30 June 2013 of 1.67 (compared to a Group benchmark of 1.4-1.6), and a Common Equity Tier 1 multiple of 1.09 (compared to a Group benchmark of 0.9-1.1).
Non-financial	Customer & partner satisfaction	Customer and partner service is tracked across IAG's businesses by measuring advocacy and / or satisfaction. IAG undertakes a range of activities to improve those ratings based on feedback. In the year ended 30 June 2013, while business volumes grew, advocacy scores remained relatively stable or experienced a reduction.
	Strategy development & execution	In the year ended 30 June 2013, IAG remained committed to its strategic priorities, focused on driving value from, and maintaining, market leading positions in Australia and New Zealand, while recognising the opportunity for future value creation in the Asian region. The robustness of the strategy is reviewed annually to ensure that IAG's plans will deliver superior value for shareholders and customers. Following the divestment of the UK business, the Group's strategic priorities have been refined.
	Community risk & sustainability	IAG is focused on increasing the resilience and sustainability of our communities. Good progress on this was achieved during the year through the establishment of the Australian Business Roundtable for Disaster Resilience & Safer Communities and the launch of its high profile White Paper which made recommendations for a more sustainable and comprehensive approach to managing natural disasters through resilience measures and preventative actions.
	Culture & employee development	IAG is committed to building a culture where employees truly live the values of performance, integrity, respect and a considered sense of urgency. During the year, a consistent survey methodology was used across the Group for the first time to 'measure' culture. The outcome was positive, with the Group results outperforming the financial services sector. IAG has taken further steps to build an inclusive workplace where different perspectives are valued and biases are challenged. IAG is also making flexible working arrangements a priority because they can make a real difference to IAG's people, whatever their life stage. From a gender diversity perspective, 29% of all senior management roles were held by women and IAG continues to target 33% by 2015.

iii. STI outcomes for the year ended 30 June 2013

Cash and deferred STI payments made to the Group CEO and the executive team for the year ended 30 June 2013 were based on achievement against the balanced scorecard measures and are shown in table 5.

IAG delivered a significantly improved performance for the year ended 30 June 2013, delivering on both GWP growth and an increase in reported insurance margin. In line with improved performance, the STI awarded to the Group CEO and the executive team are, on average, higher than those for last year demonstrating that an individual executive's STI outcome is linked to the financial performance of the Group as well as to the execution of his or her division's strategic goals during the year.

TABLE 5 - ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2013

	MAXIMUM STI OPPORTUNITY		ACTUAL STI OUTCOME	CASH STI OUTCOME (2/3 OF OUTCOME)	DEFERRED STI OUTCOME (1/3 OF OUTCOME)
	(% of fixed pay)	(% of maximum)	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
Michael Wilkins	150 %	82 %	123 %	82 %	41 %
Justin Breheny	120 %	80 %	96 %	64 %	32 %
Andy Cornish	120 %	77 %	93 %	62 %	31 %
Peter Harmer	120 %	84 %	101 %	67 %	34 %
Nicholas Hawkins	120 %	84 %	101 %	68 %	34 %
Jacki Johnson	120 %	75 %	90 %	60 %	30 %
Leona Murphy	120 %	81 %	98 %	65 %	33 %

Table note

(1) The proportion of STI forfeited is derived by subtracting the actual % of maximum received from the maximum STI opportunity and was 19% on average for the year ended 30 June 2013.

Changes in each executive's holding of DAR during the financial year is set out below. The DAR granted during the year reflects the deferred portion of the STI outcome for the year ended 30 June 2012. Note 30 to the financial statements sets out further details of the DAR plan.

TABLE 6 - MOVEMENT IN POTENTIAL VALUE OF DAR FOR THE YEAR ENDED 30 JUNE 2013

		DAR ON ISSUE 1 JULY	DAR GRANTED DURING THE YEAR[a]	DAR EXERCISED DURING THE YEAR[b]	DAR LAPSED DURING THE YEAR	DAR ON ISSUE 30 JUNE	DAR VESTED DURING THE YEAR	DAR VESTED AND EXERCISABLE 30 JUNE
2013								
EXECUTIVES								
Michael Wilkins	Number	250,140	225,100	(146,500)	-	328,740	146,500	-
	$000		**966**	**709**	**-**			
Justin Breheny	Number	225,350	84,400	(72,300)	-	237,450	60,740	109,880
	$000		**362**	**350**	**-**			
Andy Cornish	Number	132,400	86,300	(72,750)	-	145,950	72,750	-
	$000		**370**	**352**	**-**			
Peter Harmer	Number	40,500	72,400	(20,250)	-	92,650	20,250	-
	$000		**311**	**98**	**-**			
Nicholas Hawkins	Number	104,310	81,700	(60,080)	-	125,930	60,080	-
	$000		**351**	**291**	**-**			
Jacki Johnson	Number	86,560	72,700	(51,680)	-	107,580	51,680	-
	$000		**312**	**250**	**-**			
Leona Murphy	Number	90,070	73,600	(51,830)	-	111,840	51,830	-
	$000		**316**	**251**	**-**			
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Ian Foy[c]	Number	68,480	41,200	(38,460)	-	71,220	38,460	-
	$000		**177**	**186**	**-**			

(a) All DAR that were granted on 26 October 2012, have a first exercisable date of 1 September 2013 and an expiry date of 26 October 2019. The value of DAR granted during the year is the fair value of the DAR at grant date calculated using the Black Scholes model, which was $4.29. The value of DAR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2013 to 30 June 2015).

(b) DAR that vested on 1 September 2012 or before and were exercised in the financial year. The value of DAR is based on the weighted average share price which was $4.84 for the year ended 30 June 2013.

(c) In the previous financial year ended 30 June 2012, 44,300 DAR were granted to Ian Foy in relation to the UK retention program, of which 22,150 were exercised during the current year. These rights are in addition to those on issue as at 1 July 2012. Apart from the vesting dates, all the terms and conditions and vesting scale of DAR granted in relation to the UK retention programs are the same as those for DAR granted as deferred STI.

c. LONG TERM INCENTIVE

Key details of the LTI plan are shown below:

Description	LTI grants are determined annually by the Board and are aligned to the Group's strategic financial targets. The grants are provided in the form of Executive Performance Rights (EPR) and are based on an assessment of market benchmarks and performance.
Potential maximum LTI	The maximum value of EPR granted to the Group CEO and executive team under the LTI plan is 150% and 125% of their annual fixed remuneration, respectively. The number of EPR granted is based on the IAG ordinary share price at the financial year end date before the grant date. The EPR granted during the year will not vest and have no value unless the performance hurdles are achieved No dividend is paid or payable for any unvested or vested and unexercised EPR.
Performance hurdles	The LTI 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 WACC. The ROE hurdle is cash ROE to align with the reporting of IAG's financial performance to the external market; and ■ TSR is measured against the top 50 industrials within the S&P/ASX 100 Index. An averaging calculation is used for TSR over a 90 day period for start and test day values in order to reduce the impact of share price volatility. For allocations made prior to 30 June 2009, TSR was measured against all entities within the S&P/ASX100 Index.
Reason for choosing performance hurdles	The hurdles require superior financial performance over at least a three year period. ROE provides evidence of company growth in profitability and is linked to shareholder return. TSR provides a direct link between executive reward and shareholder return.
Testing of performance hurdles	ROE The ROE portion of LTI is tested over a three year period measured from 1 July to 30 June. The vesting schedule is shown below: ■ no vesting below 1.2 x WACC; ■ minimum vesting at 1.2 x WACC (20% of ROE portion); and ■ maximum vesting at 1.6 x WACC (100% of ROE portion) with straight line vesting in between. TSR The TSR portion of LTI is tested three years after the base date (being 30 September 2012 for the September 2009 grant) and then any portion of the award that has not vested is tested again at four years and five years. There will be no re-testing for the TSR portion of awards granted after 1 July 2013, which will be subject to a four year performance period. The vesting schedule is shown below: ■ no vesting below 50th percentile ■ minimum vesting at 50th percentile (50% of TSR portion); and ■ maximum vesting at or above 75th percentile (100% of TSR portion) with straight line vesting in between.
Instrument	Rights over IAG ordinary shares in the form of EPR. These are exercisable for shares if performance hurdles are achieved. Rights granted after 1 July 2013 may be settled with an ordinary IAG share or with cash, as determined by the Board.
Forfeiture conditions	Under the terms of the LTI, if an executive ceases employment with IAG voluntarily before the performance hurdles are tested, then the unvested EPR will generally lapse. In cases where the executive acts fraudulently or dishonestly or is, in the Board's opinion, in breach of his or her obligations to the company, the unvested EPR will lapse.

i. LTI awarded during the year ended 30 June 2013

Details of LTI awards made to the executive team in the year ended 30 June 2013 are shown in Table 7 below:

TABLE 7 - LTI GRANTS AWARDED DURING THE YEAR

LTI PLAN	EPR PLAN 2012/2013 - SERIES 5*	
	TSR	Cash ROE
Grant date	26/10/2012	26/10/2012
Base date	30/09/2012	30/06/2012
First test day	30/09/2015	30/06/2015
Last test day	30/09/2017	n/a
Performance hurdle achievement	n/a	n/a
Last exercise date (continuing employees only)	26/10/2019	26/10/2019
Vesting date	n/a	n/a

* Terms and conditions for EPR Plan 2011/2012 and 2012/2013 are the same, therefore they are both known as series 5.

ii. Historical LTI awards

Details of the terms of historical LTI grants made to executives are shown in the table below:

TABLE 8 - LTI GRANTS AWARDED IN PREVIOUS FINANCIAL YEARS

LTI PLAN	EPR PLAN 2007/2008 - SERIES 1	EPR PLAN 2008/2009 - SERIES 2	EPR PLAN 2009/2010 - SERIES 3	EPR PLAN 2010/2011 - SERIES 4(a)		EPR PLAN 2011/2012 - SERIES 5(b)	
	TSR	TSR	TSR	TSR	CASH ROE	TSR	CASH ROE
Grant date	29/10/2007 29/11/2007 13/03/2008	18/09/2008 27/02/2009	25/09/2009 24/11/2009	06/10/2010 03/03/2011	06/10/2010 03/03/2011	21/10/2011	21/10/2011
Base date	30/09/2007	30/09/2008	30/09/2009	30/09/2010	n/a	30/09/2011	n/a
First test day	30/09/2010	30/09/2011	30/09/2012	30/09/2013	30/06/2013	30/09/2014	30/06/2014
Last test day	30/09/2012	30/09/2013	30/09/2014	30/09/2015	30/06/2013	30/09/2016	30/06/2014
Performance hurdle achievement	82% vested and remaining 18% lapsed on 30/09/2012	98% vested	56% vested	n/a	n/a	n/a	n/a
Last exercise date (continuing employees only)	29/10/2017 29/11/2017 13/03/2018	18/09/2018 27/02/2019	25/09/2016 24/11/2016	06/10/2017 03/03/2018	06/09/2017 03/03/2018	21/10/2018	21/10/2018
Vesting date	30/09/2010	30/09/2011	n/a	n/a	n/a	n/a	n/a

(a) The Cash ROE portion of EPR Plan 2010/2011 has been tested and is expected to vest in full. Vesting details will be included in the remuneration report for the year ending 30 June 2014.

(b) Terms and conditions for EPR Plan 2011/2012 and 2012/2013 are the same, therefore they are both referred to as series 5.

iii. Lapsed LTI awards

EPR Plan 2007/2008, 2008/2009 and 2009/2010 – series 1, 2 and 3 – ROE information has been excluded from table 8 above because their test dates have passed, performance hurdles were not met and 0% of rights vested. For EPR Plan 2007/2008 (series 1), all rights with ROE performance hurdles lapsed on 30 September 2012.

iv. LTI vested during the year ended 30 June 2013

Details of LTI vested during the year are set out below.

For EPR Plan 2007/2008 – series 1, the TSR performance hurdle final test was completed:

- TSR met a higher performance hurdle on 30 September 2012 and an additional 18% of those rights vested and the remaining 18% of the total rights lapsed on 30 September 2012; and
- ROE performance hurdle was not met on 30 June 2010 and 100% of the rights granted lapsed on 30 September 2012.

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

- TSR met a higher performance hurdle on 30 September 2012 and an additional 32% of those rights vested; and
- the ROE performance hurdle was not met on 30 June 2011 and these rights have been forfeited and will lapse on 30 September 2013.

For EPR Plan 2009/2010 – series 3, the performance results were:

- TSR met the performance hurdle on 30 September 2012 and 56% of those rights vested; and
- the ROE performance hurdle was not met on 30 June 2012 and these rights have been forfeited and will lapse on 30 September 2014.

Note 30 to the financial statements sets out further details of the EPR Plan.

TABLE 9 - MOVEMENT IN POTENTIAL VALUE OF EPR FOR THE YEAR ENDED 30 JUNE 2013

		EPR ON ISSUE 1 JULY	EPR GRANTED DURING THE YEAR[(a)]	EPR EXERCISED DURING THE YEAR[(b)]	EPR LAPSED DURING THE YEAR[(c)]	EPR ON ISSUE 30 JUNE	EPR VESTED DURING THE YEAR	EPR VESTED AND EXERCISABLE 30 JUNE	EPR FORFEITED AND WILL LAPSE IN FUTURE YEARS[(d)]
2013									
EXECUTIVES									
Michael Wilkins	Number	3,197,600	882,400	(363,868)	(147,500)	3,568,632	363,868	-	395,300
	$000		**3,146**	**1,760**	**646**				**1,912**
Justin Breheny	Number	1,326,500	323,900	-	(58,115)	1,592,285	138,757	268,452	146,950
	$000		**1,155**	**-**	**254**				**711**
Andy Cornish	Number	1,195,200	366,400	(127,276)	-	1,434,324	127,276	-	155,850
	$000		**1,306**	**616**	**-**				**754**
Peter Harmer	Number	631,200	352,100	-	-	983,300	-	-	-
	$000		**1,255**	**-**	**-**				**-**
Nicholas Hawkins	Number	1,256,435	352,100	(142,464)	(56,640)	1,409,431	142,464	-	151,400
	$000		**1,255**	**689**	**248**				**732**
Jacki Johnson	Number	1,315,400	317,100	(98,175)	(58,705)	1,475,620	138,847	170,687	146,950
	$000		**1,131**	**475**	**257**				**711**
Leona Murphy	Number	1,146,200	317,000	(196,679)	(20,650)	1,245,871	113,354	-	124,650
	$000		**1,130**	**951**	**90**				**603**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL									
Ian Foy	Number	862,590	252,300	(85,359)	(6,785)	1,022,746	85,359	-	93,150
	$000		**900**	**413**	**30**				**451**

(a) All EPR were granted on 26 October 2012 and have an expiry date of 26 October 2019. EPR granted during the year and subject to the TSR performance hurdle have a grant date value of $3.05, calculated using the Monte Carlo simulation. All rights granted during the year and subject to the TSR performance hurdle are first exercisable on 30 September 2015. EPR granted during the year and subject to the ROE performance hurdle have a grant date value of $4.09, calculated using the Black Scholes valuation model. All rights granted during the year and subject to the ROE performance hurdle are first exercisable on 30 June 2015. The total value of EPR granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years ended 30 June 2013 to 30 June 2017).

(b) EPR that vested on 30 September 2012 or before and were exercised in the financial year. The value of EPR exercised is based on the weighted average share price which was $4.84 for the year ended 30 June 2013.

(c) The value of EPR lapsed during the year ended 30 June 2013 is based on the 5-day weighted average share price which was $4.38 to 1 July 2012.

(d) During the year ended 30 June 2013, the value of EPR forfeited is based on the weighted average share price which was $4.84 for the year ended 30 June 2013.

The following table shows the returns IAG delivered to its shareholders for the last six financial years for a range of measures including TSR and ROE performance used to calculate LTI hurdles.

TABLE 10 - HISTORICAL ANALYSIS OF SHAREHOLDER RETURN ON LTI

	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2011	YEAR ENDED 30 JUNE 2012	**YEAR ENDED 30 JUNE 2013**
Closing share price ($)	3.47	3.51	3.41	3.40	3.48	**5.44**
Dividend paid (cents)	22.50	10.00	13.00	16.00	17.00	**36.00**
Basic earnings per share (cents)	(14.11)	9.32	4.39	12.08	10.01	**37.57**
Cash ROE (%)	2.7	4.9	8.3	11.1	13.3	**25.3**
ROE to WACC outcome for EPR Plan[(a)]	n/a	n/a	0.83	0.82	1.12	**1.83**
TSR (%)[(b)]	(36.1)	1.3	(0.5)	3.0	5.3	**59.2**

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

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

E. EXECUTIVE REMUNERATION IN DETAIL

I. Total remuneration for Group executives

The table below provides the statutory remuneration details for the Group CEO and the executive team required by the accounting standards.

TABLE 11 - STATUTORY REMUNERATION DETAILS

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)		TOTAL	AT RISK REMUNERATION PORTION PAID
	Base salary	Short term incentive	Leave accruals and other benefits	Superannuation	Long service leave accruals	Termination payments		Value of deferred short term incentive	Value of rights granted		
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
EXECUTIVES											
Michael Wilkins											
2013	**2,023**	**1,679**	**197**	**16**	**32**	**-**	**3,947**	**613**	**2,470**	**7,030**	**68**
2012	1,954	1,567	192	38	38	-	3,789	481	2,193	6,463	66
Justin Breheny											
2013	**873**	**577**	**273**	**25**	**21**	**-**	**1,769**	**241**	**875**	**2,885**	**59**
2012	827	587	279	50	31	-	1,774	191	808	2,773	57
Andy Cornish											
2013	**991**	**632**	**60**	**25**	**12**	**-**	**1,720**	**289**	**1,007**	**3,016**	**64**
2012	975	600	57	16	17	-	1,665	232	898	2,795	62
Peter Harmer											
2013	**947**	**659**	**(8)**	**25**	**7**	**-**	**1,630**	**163**	**726**	**2,519**	**61**
2012	882	504	57	50	5	-	1,498	40	391	1,929	48
Nicholas Hawkins											
2013	**951**	**662**	**12**	**25**	**15**	**-**	**1,665**	**240**	**934**	**2,839**	**65**
2012	931	568	29	25	64	-	1,617	182	848	2,647	60
Jacki Johnson											
2013	**907**	**542**	**41**	**-**	**29**	**-**	**1,519**	**201**	**862**	**2,582**	**62**
2012	863	505	59	-	65	-	1,492	164	802	2,458	60
Leona Murphy											
2013	**854**	**575**	**(7)**	**25**	**14**	**-**	**1,461**	**212**	**834**	**2,507**	**65**
2012	837	512	41	25	17	-	1,432	155	731	2,318	60
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL											
Ian Foy											
2013	**626**	**296**	**708**	**111**	**-**	**524**	**2,265**	**278**	**1,867**	**4,410**	**55**
2012	593	287	371	105	-	-	1,356	127	641	2,124	50

Table note

(1) Base salary includes amounts paid in cash plus the portion of the company's superannuation contribution that is paid as cash instead of being paid into superannuation and salary sacrifice items such as cars and parking, as determined in accordance with AASB 119 Employee Benefits. The prior year's base salary was restated to exclude annual leave accruals and the 30% tax rebate on car expenses resulting from the salary sacrifice arrangements on cars for certain KMP. The total amount restated was $416,000. The annual leave accruals and 30% tax rebate on car expenses are reclassified and captured in column (3) under Leave accruals and other benefits.

(2) STI represents the amount to be settled in cash in relation to the financial year from 1 July to 30 June.

(3) This column includes leave accruals, 30% tax rebate on car expenses for certain KMP who have salary sacrifice arrangements for car expenses and other short term employment benefits as agreed and provided under specific conditions. The prior year's comparative figure was restated to include annual leave accruals and 30% tax rebate on car expenses for certain KMP. Other benefits provided under specific conditions in 2013 and 2012 are shown below:
2013:
- Justin Breheny; accommodation costs and other benefits of $266,337 for accommodation, health insurance, tax compliance, and airfares for home visits;
- Andy Cornish; a one-off payment of $55,024 as compensation for changes to Living Away From Home Allowance legislation;
- Jacki Johnson; $45,794 (NZ$57,203) for accommodation allowances and other benefits; and
- Ian Foy; retention payments of $581,772 (£380,833), $83,295 being the value of 44,300 DAR granted in 2011 retention arrangement, accrued annual leave paid on termination of $21,706 (£14,209) and other recurring benefits of $20,990 (£13,740).

2012:

- Justin Breheny; relocation costs and accommodation of $252,000 due to his relocation to Singapore;
- Ian Foy; retention payments of $335,000 (£218,000) and other recurring allowances and benefits of $36,000; and
- Jacki Johnson; accommodation allowances and other benefits of $45,000.

(4) Superannuation represents the employer's contributions. Refer to note 31 to the financial statements for superannuation plan details.

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

(6) Termination benefits represent the amount paid following the completion of the sale of the UK business. Ian Foy ceased being a KMP on 19 April 2013, being the date of change of control of the UK business. His termination date was 19 July 2013. His remuneration relates to the period from 1 July 2012 to 19 July 2013.

(7) The sum of columns (1) to (6).

(8) The deferred STI is granted as DAR and is valued using the Black Scholes valuation model. An allocated portion of unvested DAR for the deferred STI for the years ended before 30 June 2012 is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2013 will be granted in the next financial year and therefore no value was included in the current financial year's total remuneration.

(9) This value represents the allocated portion of unvested EPR as included in the table above. To determine the EPR values the Monte Carlo simulation (for TSR performance hurdle) and Black Scholes (for ROE performance hurdle) valuation models have been applied. The valuation takes into account the exercise price of the EPR, life of the EPR, price of IAG ordinary shares as at 30 June, expected volatility of the IAG share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non transferability, and turnover which is assumed to be zero for an individual's remuneration calculation.

(10) The sum of columns (1) to (9).

(11) At risk remuneration received during the financial year as a percentage of total reward.

F. EXECUTIVE EMPLOYMENT AGREEMENTS

All employment agreements for the Group CEO and the executive team are for unlimited terms but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The employment agreements outline the components of remuneration paid to executives and require annual review of executives' remuneration, although the agreements do not require IAG to increase base salary, pay STI or offer an LTI in any given year.

TABLE 12 - EXECUTIVE EMPLOYMENT AGREEMENTS

NAME	NOTICE PERIOD FROM THE COMPANY	NOTICE PERIOD FROM THE EMPLOYEE	TERMINATION PROVISIONS
Michael Wilkins	12 months	6 months	12 months fixed remuneration and short term incentive that would have accrued for 12 months had termination not occurred. An additional 6 months of fixed remuneration is payable if IAG invokes a restraint clause.
Justin Breheny	12 months	3 months	12 months base salary
Andy Cornish	12 months	3 months	12 months fixed remuneration
Peter Harmer	12 months	6 months	12 months base salary
Nicholas Hawkins	12 months	3 months	12 months base salary
Jacki Johnson	12 months	3 months	12 months base salary
Leona Murphy	12 months	3 months	12 months base salary

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

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

- Jacki Johnson who is employed by IAG New Zealand Limited.

I. Retrenchment

In the event of retrenchment, the executives listed above (except for Jacki 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 Jacki Johnson, the retrenchment payment is in accordance with the termination provisions specified in the table above.

II. Termination of employment without notice and without payment in lieu of notice

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

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

III. Termination of employment with notice or payment in lieu of notice

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

G. NON-EXECUTIVE DIRECTOR REMUNERATION

I. 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 through the mandatory shareholding policy.

a. CHANGES TO NON-EXECUTIVE REMUNERATION DURING THE YEAR ENDED 30 JUNE 2013

On 16 August 2012, the Board approved a 2% increase in the Board fees effective from 1 July 2012. There was no change to committee fees.

II. Remuneration structure

Non-executive director remuneration has three components:

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

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

TABLE 13 - BOARD AND COMMITTEE FEES

			ANNUAL FEE
BOARD/COMMITTEE	ROLE	**2013**	2012
Board	Chairman	**$494,100**	$484,500
	Non-executive director	**$164,700**	$161,500
Audit, Risk Management & Compliance Committee	Chairman	**$55,100**	$55,100
	Member	**$27,550**	$27,550
People and Remuneration Committee	Chairman	**$35,700**	$35,700
	Member	**$17,850**	$17,850

III. Superannuation

IAG paid non-executive directors a 9% superannuation contribution in addition to the directors' fees outlined above. This is moving to 9.25% from 1 July 2013 in accordance with Superannuation Guarantee Contribution legislation. Directors can elect to have the superannuation contribution paid partially as cash and partially into a superannuation fund as nominated, or fully paid into a superannuation fund.

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

TABLE 14 - FEES FOR NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
Brian Schwartz	Insurance Manufacturers of Australia Pty Limited	Chairman	$219,500
Hugh Fletcher*	IAG New Zealand Limited	Chairman	$84,058

* This amount was paid to Hugh Fletcher in New Zealand dollars and has been converted to Australian dollars using the average exchange rate for the year.

IV. Performance

A formal external review of the performance, composition and size of the Board is conducted every three years. In the years this review is not conducted, performance is evaluated by the chairman. The evaluation is conducted by discussion between the chairman and the individual director. In reviewing directors' performance the chairman and Board consider:

- the director's contribution to Board teamwork;
- the director's 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 PARC is responsible for coordinating the Board's review of the chairman's performance.

V. Total remuneration details

The table below provides details of total remuneration for non-executive directors on the Board for the year ended 30 June 2013:

TABLE 15 - ACTUAL REMUNERATION EARNED BY NON-EXECUTIVE DIRECTORS

	SHORT TERM EMPLOYMENT 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				
	$000	$000	$000	$000	$000	$000	$000	$000
Brian Schwartz								
2013	**540**	**220**	**19**	**-**	**-**	**-**	**-**	**779**
2012	523	208	24	-	-	-	-	755
Yasmin Allen								
2013	**169**	**63**	**16**	**-**	**-**	**-**	**-**	**248**
2012	166	63	16	-	-	-	-	245
Peter Bush								
2013	**165**	**24**	**17**	**-**	**-**	**-**	**-**	**206**
2012	162	28	17	-	-	-	-	207
Alison Deans								
2013	**69**	**11**	**7**	**-**	**-**	**-**	**-**	**87**
2012	-	-	-	-	-	-	-	-
Hugh Fletcher								
2013	**165**	**112**	**17**	**-**	**-**	**-**	**-**	**294**
2012	162	109	17	-	-	-	-	288
Raymond Lim								
2013	**69**	**7**	**7**	**-**	**-**	**-**	**-**	**83**
2012	-	-	-	-	-	-	-	-
Philip Twyman								
2013	**168**	**55**	**16**	**-**	**-**	**-**	**-**	**239**
2012	165	55	16	-	-	-	-	236
NON-EXECUTIVE DIRECTORS WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Phillip Colebatch								
2013	**27**	**2**	**3**	**-**	**-**	**-**	**-**	**32**
2012	162	18	16	-	-	-	-	196
Anna Hynes								
2013	**96**	**10**	**10**	**-**	**-**	**-**	**-**	**116**
2012	162	34	18	-	-	-	-	214

* 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.

VI. Mandatory shareholding requirements

On 17 August 2009, IAG adopted a mandatory shareholding policy that requires non-executive directors to hold IAG ordinary shares with a value equal to their annual Board fee. The non-executive directors have three years from the date of their appointment to the Board to meet their required holdings. This is a requirement which is assessed annually at the close of each financial year.

For those directors appointed prior to 30 June 2010, the effective date to meet the mandatory shareholding requirement is 30 June 2013. The four directors who are required to have met the minimum mandatory shareholding requirement have done so. Please refer to the relevant interest table on page 43.

H. 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 to individual directors and executives and the terms of contract specifically prohibit the disclosure of the premium paid. Insurance products provided by the Group are available to all directors and executives on the same terms and conditions available to other employees.

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]
Brian Schwartz	**2,157**	**99,518**
Yasmin Allen	**1,666**	**37,345**
Peter Bush	**-**	**-**
Alison Deans	**-**	**15,000**
Hugh Fletcher	**35,190**	**39,018**
Raymond Lim	**-**	**-**
Dr Nora Scheinkestel	**-**	**-**
Philip Twyman	**-**	**57,780**
Michael Wilkins	**772,468**	**799,166**

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

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

B. HOLDING OF CONVERTIBLE PREFERENCE SHARES

Philip Twyman purchased 2,058 (2012-nil) convertible preference shares during the year. No other director and their related parties had any interest directly or nominally in convertible preference shares at the reporting date (2012-nil).

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 22nd day of August 2013 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 2013 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

Dr Andries B Terblanché
Partner

Sydney
22 August 2013

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	CONSOLIDATED	
		2013	2012*
		$m	$m
Premium revenue	5	**9,135**	8,046
Outwards reinsurance premium expense	6	**(817)**	(700)
Net premium revenue (i)		**8,318**	7,346
Claims expense	6	**(5,800)**	(6,979)
Reinsurance and other recoveries revenue	5	**818**	1,558
Net claims expense (ii)	11	**(4,982)**	(5,421)
Acquisition costs	6	**(1,203)**	(1,130)
Other underwriting expenses	6	**(644)**	(566)
Fire services levies	6	**(331)**	(298)
Underwriting expenses (iii)		**(2,178)**	(1,994)
Underwriting profit/(loss) (i) + (ii) + (iii)		**1,158**	(69)
Investment income on assets backing insurance liabilities	5	**290**	934
Investment expenses on assets backing insurance liabilities	6	**(20)**	(20)
Insurance profit/(loss)		**1,428**	845
Investment income on equity holders' funds	5	**371**	101
Fee and other income	5	**175**	164
Share of net profit/(loss) of associates	5	**(29)**	(13)
Finance costs	6	**(95)**	(97)
Fee based, corporate and other expenses	6	**(245)**	(228)
Net income attributable to non-controlling interests in unitholders' funds	6	**(12)**	(9)
Profit/(loss) before income tax from continuing operations		**1,593**	763
Income tax (expense)/credit	7	**(424)**	(177)
Profit/(loss) after tax from continuing operations		**1,169**	586
Profit/(loss) after tax from discontinued operation	26	**(287)**	(321)
Profit/(loss) for the year		**882**	265
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX			
Items that will not be reclassified to profit or loss:			
Actuarial gains and (losses) on defined benefit arrangements		**35**	(73)
Income tax on items that will not be reclassified to profit or loss		**(12)**	21
		23	(52)
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve		**82**	18
Income tax on items that may be reclassified to profit or loss		**40**	(3)
		122	15
Other comprehensive income and (expense), net of tax		**145**	(37)
Total comprehensive income and (expense) for the year, net of tax		**1,027**	228
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the Parent - continuing operations		**1,063**	528
Equity holders of the Parent - discontinued operation	26	**(287)**	(321)
Non-controlling interests		**106**	58
Profit/(loss) for the year		**882**	265
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the Parent - continuing operations		**1,127**	487
Equity holders of the Parent - discontinued operation		**(206)**	(317)
Non-controlling interests		**106**	58
Total comprehensive income and (expense) for the year, net of tax		**1,027**	228

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	CONSOLIDATED	
		2013	2012
		cents	cents*
EARNINGS PER SHARE - continuing and discontinued operations			
Basic earnings per ordinary share	9	**37.57**	10.01
Diluted earnings per ordinary share	9	**36.44**	9.96
EARNINGS PER SHARE - continuing operations			
Basic earnings per ordinary share	9	**51.46**	25.54
Diluted earnings per ordinary share	9	**49.60**	25.39

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

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

BALANCE SHEET
AS AT 30 JUNE 2013

	NOTE	CONSOLIDATED	
		2013	2012
		$m	$m
ASSETS			
Cash held for operational purposes	24	**394**	969
Investments	15	**13,616**	12,953
Premium receivable	16	**2,712**	2,502
Trade and other receivables	16	**526**	449
Assets discontinued operation	26	**96**	-
Reinsurance and other recoveries on outstanding claims	12	**2,858**	3,928
Deferred levies and charges		**151**	178
Deferred outwards reinsurance expense	13	**542**	493
Deferred acquisition costs	13	**795**	753
Deferred tax assets	7	**401**	373
Property and equipment	17	**257**	274
Investment in joint ventures and associates	28	**577**	384
Intangible assets	18	**245**	225
Goodwill	19	**1,666**	1,625
Other assets		**23**	26
Total assets		**24,859**	25,132
LIABILITIES			
Trade and other payables	20	**1,263**	1,135
Reinsurance premium payable		**451**	264
Restructuring provision	21	**6**	20
Current tax liabilities		**253**	257
Unearned premium liability	14	**5,145**	4,942
Non-controlling interests in unitholders' funds		**210**	216
Employee benefits provision	29	**305**	358
Liabilities discontinued operation	26	**106**	-
Deferred tax liabilities	7	**-**	9
Outstanding claims liability	11	**10,474**	11,709
Interest bearing liabilities	22	**1,620**	1,659
Other liabilities		**38**	39
Total liabilities		**19,871**	20,608
Net assets		**4,988**	4,524
EQUITY			
Share capital	23	**5,353**	5,353
Treasury shares held in trust	23	**(62)**	(55)
Reserves	23	**63**	(68)
Retained earnings		**(568)**	(887)
Parent interest		**4,786**	4,343
Non-controlling interests		**202**	181
Total equity		**4,988**	4,524

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 2013

CONSOLIDATED	SHARE CAPITAL	TREASURY SHARES HELD IN TRUST	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE BASED REMUN-ERATION RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	$m	$m	$m	$m	$m	$m	$m
2013							
Balance at the beginning of the financial year	**5,353**	**(55)**	**(94)**	**26**	**(887)**	**181**	**4,524**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**776**	**106**	**882**
Other comprehensive income and (expense)	**-**	**-**	**122**	**-**	**23**	**-**	**145**
Total comprehensive income/(expense) for the year	**-**	**-**	**122**	**-**	**799**	**106**	**1,027**
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	**-**	**(28)**	**-**	**-**	**-**	**-**	**(28)**
Share based payment expense recognised	**-**	**-**	**-**	**27**	**-**	**-**	**27**
Share based remuneration vested	**-**	**21**	**-**	**(18)**	**(3)**	**-**	**-**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(478)**	**(85)**	**(563)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Balance at the end of the financial year	**5,353**	**(62)**	**28**	**35**	**(568)**	**202**	**4,988**
2012							
Balance at the beginning of the financial year	5,353	(57)	(109)	25	(795)	163	4,580
Profit/(loss) for the year	-	-	-	-	207	58	265
Other comprehensive income and (expense)	-	-	15	-	(52)	-	(37)
Total comprehensive income/(expense) for the year	-	-	15	-	155	58	228
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	-	(14)	-	-	-	-	(14)
Share based payment expense recognised	-	-	-	18	-	-	18
Share based remuneration vested	-	16	-	(17)	1	-	-
Dividends determined and paid	-	-	-	-	(250)	(40)	(290)
Dividends received on treasury shares held in trust	-	-	-	-	2	-	2
Balance at the end of the financial year	5,353	(55)	(94)	26	(887)	181	4,524

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 2013

	NOTE	CONSOLIDATED 2013 $m	2012 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**9,543**	8,692
Reinsurance and other recoveries received		**1,493**	1,688
Claims costs paid		**(6,645)**	(6,524)
Outwards reinsurance premium expense paid		**(692)**	(796)
Dividends received		**33**	31
Interest and trust distributions received		**615**	616
Finance costs paid		**(88)**	(88)
Income taxes refunded		**3**	3
Income taxes paid		**(427)**	(253)
Other operating receipts		**882**	1,239
Other operating payments		**(2,927)**	(3,094)
Net cash flows from operating activities	24	**1,790**	1,514
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on acquisition of subsidiaries and associates		**(245)**	(236)
Net cash flows on disposal of subsidiaries		**43**	-
Proceeds from disposal of investments and property and equipment		**14,166**	9,090
Outlays for investments and property and equipment		**(15,445)**	(9,623)
Net cash flows from investing activities		**(1,481)**	(769)
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for purchase of treasury shares		**(28)**	(14)
Proceeds from issue of trust units		**169**	128
Outlays for redemption of trust units		**(188)**	(104)
Proceeds from borrowings		**-**	611
Repayment of borrowings		**(99)**	(350)
Dividends paid to IAG equity holders		**(478)**	(250)
Dividends paid to non-controlling interests		**(85)**	(40)
Dividends received on treasury shares		**1**	2
Net cash flows from financing activities		**(708)**	(17)
Net movement in cash held		**(399)**	728
Effects of exchange rate changes on balances of cash held in foreign currencies		**49**	6
Cash and cash equivalents at the beginning of the financial year		**2,066**	1,332
Cash and cash equivalents at the end of the financial year	24	**1,716**	2,066

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 2013 and consolidated financial statements for the Company and its subsidiaries (Group or Consolidated entity). The Group is a for-profit entity.

This general purpose financial report was authorised by the board of directors for issue on 22 August 2013.

A. STATEMENT OF COMPLIANCE

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards (AASBs) 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 AASBs. 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.

The comparative statements of comprehensive income and the accompanying notes have been re-presented for the United Kingdom operation as if the operation had been discontinued from the start of the comparative year.

I. Australian accounting standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting period.

None of these standards have been early adopted and applied in the current reporting period. These standards will be adopted in the year commencing 1 July after the operative date. For example, AASB 9 will be operative in the financial year commencing 1 July 2015.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2015	A
AASB 10	Consolidated Financial Statements	1 January 2013	A
AASB 11	Joint Arrangements	1 January 2013	A
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	B
AASB 13	Fair Value Measurement	1 January 2013	A
AASB 119	Employee Benefits (September 2011)	1 January 2013	A
AASB 127	Separate Financial Statements (2011)	1 January 2013	A
AASB 128	Investments in Associates and Joint Ventures (2011)	1 January 2013	A
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2015	C
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2015	C
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	B
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	A
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	A
AASB 2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)	1 January 2013	A
AASB 2012-2	Amendments to Australian Accounting Standards arising from AASB 7- Disclosures on offsetting Financial Assets and Financial Liabilities	1 January 2013	B
AASB 2012-3	Amendments to Australian Accounting Standards arising from AASB 132 - Offsetting Financial Assets and Financial Liabilities	1 January 2014	A
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	1 January 2013	A
AASB 2012-6	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	1 January 2015	A
AASB 2012-9	Amendments to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	1 January 2013	A
AASB 2012-10	Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments	1 January 2013	B
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	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. These included:

- AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets
- AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income

Adoption of the new and amended accounting standards primarily relates to disclosure presentation and has no 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.

IV. Rounding

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

C. PRINCIPLES OF CONSOLIDATION

I. Subsidiaries

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

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

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

II. Associates

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

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

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

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

III. Lloyd's syndicates

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

SIGNIFICANT ACCOUNTING POLICIES RELATED TO GENERAL INSURANCE CONTRACTS

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are 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 to regulatory bodies does not depend on the amounts collected from policyholders, as is the case with fire services levies in Australia, are expensed on the same basis as the recognition of premium revenue. The portion relating to unearned premium is treated as a prepayment and presented as deferred levies and charges on the balance sheet. A liability for levies and charges payable is recognised on business written to the reporting date. Other levies and charges that are simply collected on behalf of third parties are not recognised as income or expense in profit or loss.

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

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

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

M. TAXATION

I. Income tax

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

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

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

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

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

II. Tax consolidation

IAG and its Australian resident wholly owned subsidiaries adopted the tax consolidation legislation with effect from 1 July 2002 and are therefore taxed as a single entity from that date. IAG is the head entity within the tax-consolidated group.

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

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

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

III. Goods and services tax

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

Receivables and payables are stated inclusive of GST. Cash flows are included in the cash flow statement on a gross basis.

N. INVESTMENTS

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

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

For securities traded in an active market, fair value is determined by reference to published bid price quotations. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. In a limited number of instances, valuation techniques are based on non market observable inputs. The fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment schemes at the reporting date.

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

O. INVESTMENT IN SUBSIDIARIES

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

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

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

P. INVESTMENT IN JOINT VENTURES AND ASSOCIATES

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

Q. DISCONTINUED OPERATION

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group (i.e. a cash generating unit) and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

If an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation has been discontinued from the start of the comparative year.

R. CASH AND CASH EQUIVALENT

Cash and cash equivalents comprise cash on hand available on demand and deposits held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount. For the purpose of the cash flow statement, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of any bank overdraft.

S. DERIVATIVES

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

I. Derivatives without hedge accounting applied

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

Transaction costs for purchases of derivatives are expensed as incurred.

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

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

II. Hedge accounting

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

- Fair value hedge: hedge of a change in fair value of an asset or liability or an unrecognised firm commitment; or
- Cash flow hedge: hedge of the exposure to the variability of cash flow attributable to a particular risk associated with a recognised asset or liability, or an unrecognised firm commitment; or
- Net investment hedge: hedge of a net investment in a foreign operation.

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

a. FAIR VALUE HEDGE

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

b. CASH FLOW HEDGE

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

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

c. NET INVESTMENT HEDGE

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

III. Embedded derivatives

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

T. TRADE AND OTHER RECEIVABLES

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

U. PROPERTY AND EQUIPMENT

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

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

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

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

V. BUSINESS COMBINATIONS

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

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

Acquisition related costs are expensed as incurred.

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

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

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

W. 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.

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

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

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

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

Y. 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.

Z. 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.

AA. 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 U of the summary of significant accounting policies note).

AB. 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 risk free interest rates, best represented by 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 AH of the summary of significant accounting policies note).

IV. Superannuation

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

AC. 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.

AD. 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	
	2013	2012	**2013**	2012
New Zealand dollar	**0.84740**	0.78286	**0.80055**	0.77973
British pound	**1.66464**	1.53403	**1.52763**	1.53516
Thai baht	**0.03514**	0.03094	**0.03224**	0.03141
United States dollar	**1.09433**	0.97656	**0.97763**	0.96914
Malaysian ringgit	**0.34636**	0.30802	**0.31831**	0.31397

AE. 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.

AF. 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.

AG. 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.

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

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

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

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

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

  The estimation process of the gross cash flows for the 2011 financial year natural catastrophe events in New Zealand is conducted in a similar manner to that described above, but is subject to a high degree of uncertainty owing to the unique nature of the events including the allocation of costs between the events for policies affected by multiple events, the decision process surrounding the zoning of land for rebuilding and the estimated cost of the event relative to the size of the New Zealand economy.

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

- other:
  - intangible assets and goodwill impairment testing, refer to notes 18 and 19;
  - acquired intangible assets' initial measurement and determination of useful life, refer to note 18;
  - income tax and related assets and liabilities, refer to note 7;
  - share based remuneration, refer to note 30; and
  - defined benefit superannuation arrangements, refer to note 31.

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 as 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 approach is the effective governance and management of the risks that impact the amount, timing and certainty of cash flows arising from insurance contracts.

A. RISK MANAGEMENT FRAMEWORK

The Group has in place a dedicated Group Risk and Governance function responsible for the development and maintenance of IAG's risk management framework. Divisional Risk & Compliance teams deploy the risk management framework within their division. Application of the risk management framework provides reasonable assurance that the Group's material risks are being prudently and soundly managed. IAG acknowledges that all business activity entails risk. The Group mitigates this by focusing on the management of risk not the avoidance of risk. The risk management framework is outlined in a written Risk Management Strategy (RMS) which is in accordance with the prudential standards issued by the Australian Prudential Regulation Authority (APRA). The RMS:

- is a high level, strategic document that articulates the risk management framework;
- describes Board and management approved parameters (i.e. risk appetite) within which key decisions must be made; and
- may be a key input into how regulators understand and assess the approach to risk management.

Compliance with the RMS is incorporated into the twice yearly declarations provided by executives and senior management to the Board.

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

The risk management framework is regularly reviewed so it remains appropriate and effective. The Group has an internal audit function. Internal Audit reviews various aspects of the risk management framework application in the business divisions. Standard & Poor's (S&P) has rated the Group enterprise risk management program as 'strong'.

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

The framework 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.

IAG's Risk Management Framework includes a range of capital management initiatives and documents. Refer to the capital management and financial risk management note for further details.

B. RISK MANAGEMENT OBJECTIVES AND POLICIES FOR MITIGATING INSURANCE RISK

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 level of risk accepted by IAG is formally documented in Insurance Business Licenses. Each operating division has an insurance licence. The licenses are reviewed annually or more frequently if required.

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

I. Acceptance and pricing of risk

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

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

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

II. Reinsurance

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

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

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

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

a. CURRENT PROGRAM

The reinsurance operation purchases reinsurance on behalf of Group entities to cover a return period of at least APRA's minimum of a 1:200 year event on a single site basis but is authorised to elect to purchase covers up to a 1:250 year event on a whole of portfolio basis. Dynamic financial analysis modelling is used to determine the optimal level at which reinsurance should be purchased for capital efficiency, compared with the cost and benefits of covers available in the market.

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

- a Group catastrophe cover which is placed in line with the strategy of buying to the level of a 1:250 year event on a modified whole of portfolio basis. The catastrophe program is negotiated on an annual calendar year basis. Covers purchased are dynamic; the MER changes as total requirements change and as the reinsurance purchase strategy evolves;
- an aggregate cover which protects against a frequency of attritional event losses in Australia, New Zealand and Asia and operates below the Group catastrophe cover;
- a buy-down arrangement that reduces the cost of a first and second event in Thailand and Malaysia to $25 million;
- specific catastrophe protection in respect of AMI New Zealand providing protection in excess of a 1:250 year event probability;
- excess of loss reinsurances which provide 'per risk' protection for retained exposures of the commercial property and engineering businesses in Australia, New Zealand, Thailand and Malaysia;
- excess of loss reinsurance for all casualty portfolios including CTP, public liability, workers' compensation and home owners warranty products; and
- excess of loss reinsurance for all marine portfolios.

b. CHANGES DURING THE YEAR

The limit of catastrophe cover purchased was increased to $5 billion. Should a loss event occur that is greater than $5 billion, the Group could potentially incur a net loss greater than the MER. The Group holds capital to mitigate the impact of this possibility.

At 30 June 2013, the Group MER for a first event arising from a catastrophe event was $150 million.

III. Claims management and provisioning

Initial claims determination is managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge. It is the Group's intention 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 also 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 below provide an analysis of gross written premium by region for continuing operations:

	CONSOLIDATED	
	2013	2012*
	%	%
Australia	**80**	83
New Zealand	**17**	14
Asia	**3**	3
	100	100

The consolidated gross written premium increased by 11.8% to $9,498 million for continuing operations during the 2013 financial year.

Motor	**33**	33
Home	**27**	25
Short-tail commercial	**19**	20
CTP (motor liability)	**10**	10
Liability	**4**	5
Other short-tail	**4**	4
Workers' compensation	**3**	3
	100	100

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

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

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

D. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. Operational risk can impact other risk categories. When controls fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group does not aim to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and responding to potential risks.

As outlined in the RMS, operational risk is to be identified and assessed on an ongoing basis. The Internal Capital Adequacy Assessment Process (ICAAP) summary 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's Internal Audit function reviews the effectiveness of processes and procedures surrounding operational risk.

I. Compliance risk

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

Throughout the current reporting period the Group has conformed with the requirements of its debt agreements, including all financial and non-financial covenants (2012-full conformance).

NOTE 4. FINANCIAL RISK MANAGEMENT

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

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

A. MARKET RISK

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

I. Currency risk

a. NATURE OF THE RISKS AND HOW MANAGED

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

iii. Investment in foreign operations

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

b. CURRENCY RISK EXPOSURE

The financial impact from exposure to currency risk to the Group is primarily driven by:

- translation of foreign currency transactions - relating mainly to investments are directly recognised in profit or loss;
- translation of the financial performance of foreign operations - are recognised directly in profit or loss; and
- translation of the financial position of foreign operations - are recognised directly in equity in the foreign currency translation reserve.

i. Sensitivity

The following tables provide information regarding the exposure of the Consolidated entity to foreign currency risk. The sensitivity analysis provided in the following tables demonstrates the effect of a change in one key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among the currencies, but rather show isolated exchange rate movements. The sensitivity analysis does not take into consideration that the assets and liabilities are actively managed and assumes 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	
	2013	2012
	$m	$m
	Impact to profit	Impact to profit
Equity holders' funds including related derivatives		
United States dollar	**4**	7
British pound	**-**	1
	4	8

	CONSOLIDATED	
	2013	2012
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**22**	27
British pound	**(1)**	5
Malaysian ringgit	**15**	6
Other currencies where considered significant	**12**	13
	48	51

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

II. Interest rate risk

a. NATURE OF THE RISK AND HOW MANAGED

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

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

Exposure to interest rate risk is monitored through several measures that include Value At Risk analysis, position limits, scenario testing, stress testing, and managed by 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 or loss. 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 following table:

		CONSOLIDATED	
		2013	2012
		$m	$m
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(339)**	(372)
	-1%	**361**	399

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 due to changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Group has exposure to equity price risk 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.

For information regarding the notional amounts associated with equity related derivative contracts together with the associated maturity profiles 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	
		2013	2012
		$m	$m
Investments – equity and trust securities, and related equity derivatives	+10%	**136**	100
	-10%	**(134)**	(100)

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

B. CREDIT RISK

I. Nature of the risk and how managed

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

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

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

II. Credit risk exposure

a. PREMIUM AND REINSURANCE RECOVERIES ON PAID CLAIMS RECEIVABLE

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

An ageing analysis for certain receivables balances is provided below. The other receivables balances are not included below as they 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
2013					
Premium receivable	**2,204**	**295**	**209**	**41**	**2,749**
Provision for impairment - specific	**-**	**(1)**	**(3)**	**(14)**	**(18)**
Provision for impairment - collective	**(7)**	**(3)**	**(3)**	**(6)**	**(19)**
Net balance	**2,197**	**291**	**203**	**21**	**2,712**
Reinsurance recoveries on paid claims	**48**	**100**	**2**	**37**	**187**
Net balance	**48**	**100**	**2**	**37**	**187**
2012					
Premium receivable	2,042	221	230	44	2,537
Provision for impairment - specific	-	(1)	(4)	(13)	(18)
Provision for impairment - collective	(5)	(2)	(2)	(8)	(17)
Net balance	2,037	218	224	23	2,502
Reinsurance recoveries on paid claims	36	17	11	2	66
Net balance	36	17	11	2	66

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

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. Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists. Some of the reinsurance protection is purchased on a 'collateralised' basis, where reinsurers have deposited funds equivalent to their participation in a trust fund. The counterparty credit profile of the catastrophe reinsurance program currently stands with more than 87% of the limit for the 2013 program (2012-87%) with parties rated by Standard & Poor's as A+ or better. For long-tail reinsurance arrangements 100% (2012-100%) 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	
	2013	2012
	$m	$m
AAA	**33**	133
AA	**1,031**	1,502
A	**794**	1,299
BBB and below	**31**	39
Total	**1,889**	2,973

Of these, approximately $1,190 million (2012-$1,135 million) is secured directly as follows, which reduces the credit risk:

- deposits held in trust: $517 million (2012-$270 million);
- letters of credit: $503 million (2012-$674 million); and
- loss deposits: $170 million (2012-$191 million).

c. INVESTMENTS

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

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

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

CREDIT RATING	CONSOLIDATED	
	2013	2012
	$m	$m
AAA	**4,557**	4,793
AA	**5,772**	5,230
A	**1,505**	1,441
BBB and below	**293**	219
Total	**12,127**	11,683

C. LIQUIDITY RISK

I. Nature of the risk and how managed

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

Liquidity risk is concerned with the risk that sufficient cash resources will not be available to meet payment obligations as they become due (without incurring significant additional costs). The liquidity position is derived from operating cash flows and access to liquidity through related bodies corporate. The Group complies with its liquidity risk management practices, which include the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

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

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

II. Liquidity risk exposure

a. OUTSTANDING CLAIMS LIABILITY AND INVESTMENTS

The breakdown of the fixed term investments are provided by expected maturity. Actual maturities may differ from expected 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.

				CONSOLIDATED
MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY			INVESTMENTS
	2013	2012	**2013**	2012
	$m	$m	**$m**	$m
Floating interest rate (at call)	**-**	-	**1,136**	1,043
Within 1 year or less	**2,664**	2,503	**2,883**	3,195
Within 1 to 2 years	**1,437**	1,451	**1,440**	2,515
Within 2 to 3 years	**890**	933	**1,047**	2,209
Within 3 to 4 years	**641**	711	**1,523**	600
Within 4 to 5 years	**450**	484	**3,125**	1,281
Over 5 years	**1,534**	1,699	**973**	840
Total	**7,616**	7,781	**12,127**	11,683

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

b. INTEREST BEARING LIABILITIES

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

							CONSOLIDATED
	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
2013							
Tier 1 regulatory capital[a]	**927**	**-**	**-**	**-**	**-**	**927**	**927**
Tier 2 regulatory capital[a]	**704**	**-**	**-**	**-**	**704**	**-**	**704**
Contractual undiscounted interest payments[b]		**84**	**84**	**252**	**-**	**-**	**420**
Total contractual undiscounted payments		**84**	**84**	**252**	**704**	**927**	**2,051**
2012							
Tier 1 regulatory capital[a]	927	-	-	-	-	927	927
Tier 2 regulatory capital[a]	727	-	-	-	727	-	727
Contractual undiscounted interest payments[b]		93	93	279	-	-	465
Total contractual undiscounted payments		93	93	279	727	927	2,119

(a) These liabilities have call, reset or conversion dates upon which certain terms, including the interest or distribution rate, can be changed or the security may be redeemed or converted. The detailed descriptions of the instruments are provided in section B of the interest bearing liabilities note. The classification of Tier 1 and Tier 2 is subject to Life and General Insurance Capital transitional arrangements.

(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	
	2013	2012*
	$m	$m
A. GENERAL INSURANCE REVENUE		
Gross written premium	**9,498**	8,495
Movement in unearned premium liability	**(363)**	(449)
Premium revenue	**9,135**	8,046
Reinsurance and other recoveries revenue	**818**	1,558
Total general insurance revenue	**9,953**	9,604
B. INVESTMENT INCOME		
Dividend revenue	**35**	32
Interest revenue	**550**	588
Trust revenue	**16**	10
Total investment revenue	**601**	630
Net change in fair value of investments		
Realised net gains and (losses)	**110**	283
Unrealised net gains and (losses)	**(50)**	122
Total investment income	**661**	1,035
Represented by		
Investment income on assets backing insurance liabilities	**290**	934
Investment income on equity holders' funds	**371**	101
	661	1,035
C. FEE AND OTHER INCOME		
Fee based revenue	**126**	113
Other income	**49**	51
Total fee and other income	**175**	164
D. SHARE OF NET PROFIT/(LOSS) OF ASSOCIATES	**(29)**	(13)
Total income	**10,760**	10,790

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26

NOTE 6. ANALYSIS OF EXPENSES

	CONSOLIDATED	
	2013	2012*
	$m	$m
A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME		
Outwards reinsurance premium expense	**817**	700
Claims expense	**5,800**	6,979
Acquisition costs	**1,203**	1,130
Other underwriting expenses	**644**	566
Fire services levies	**331**	298
Investment expenses on assets backing insurance liabilities	**20**	20
Finance costs	**95**	97
Net income attributable to non-controlling interests in unitholders' funds	**12**	9
Fee based, corporate and other expenses	**245**	228
Total expenses	**9,167**	10,027
B. ANALYSIS OF EXPENSES BY FUNCTION		
General insurance business expenses	**8,815**	9,693
Fee based business expenses	**105**	98
Investment and other expenses	**29**	20
Corporate and administration expenses	**218**	216
Total expenses	**9,167**	10,027
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	**25**	20
Capitalised software development expenditure	**24**	12
Property and equipment	**57**	56
	106	88
II. Employee benefits		
Defined contribution superannuation plans	**90**	82
Defined benefit superannuation plans	**4**	5
Share based remuneration	**22**	16
Salaries and other employee benefits expense	**1,186**	1,053
	1,302	1,156
III. Transfers to provisions charged to profit or loss		
Restructuring provision	**39**	21
	39	21
IV. Finance costs		
Reset preference shares distributions paid/payable	**-**	18
Subordinated term notes interest paid/payable	**20**	24
Convertible preference shares distributions paid/payable	**19**	4
Reset exchangeable securities interest paid/payable	**29**	35
Other debts of an operational nature, interest paid/payable	**2**	2
Amortisation of capitalised transaction costs	**5**	4
Subordinated bonds, interest paid/payable	**20**	10
	95	97
V. Other		
Operating lease payments	**186**	161
Software research and development costs	**78**	80
Net foreign exchange (gains)/losses	**33**	1

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26

NOTE 7. INCOME TAX

	CONSOLIDATED	
	2013	2012*
	$m	$m
A. INCOME TAX EXPENSE		
Current tax	**486**	240
Deferred tax	**(26)**	(58)
(Over)/under provided in prior year	**(36)**	(5)
Income tax expense/(credit)	**424**	177
Deferred income tax expense/(credit) included in income tax comprises		
(Increase)/decrease in deferred tax assets	**(48)**	(97)
Increase/(decrease) in deferred tax liabilities	**22**	39
	(26)	(58)
B. INCOME TAX RECONCILIATION		
The income tax for the financial year differs from the amount calculated on the profit/(loss) before income tax. The differences are reconciled as follows:		
Profit/(loss) from continuing operations for the year before income tax	**1,593**	763
Income tax calculated at 30% (2012-30%)	**478**	229
Amounts which are not deductible/(taxable) in calculating taxable income		
Rebateable dividends	**(6)**	(4)
Amortisation and impairment charge on acquired intangible assets and goodwill	**1**	1
Interest on convertible preference shares and reset preference shares	**6**	6
Other	**(19)**	(50)
Income tax expense/(credit) applicable to current year	**460**	182
Adjustment relating to prior year	**(36)**	(5)
Income tax expense/(credit) attributable to profit/(loss) for the year from continuing operation after impact of tax consolidation	**424**	177
C. DEFERRED TAX ASSETS		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	**62**	57
Employee benefits	**72**	64
Insurance provisions	**112**	114
Investments	**29**	16
Other	**29**	13
Tax losses	**233**	211
	537	475
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	**24**	36
Other	**-**	1
	561	512
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	**(160)**	(139)
	401	373
II. Reconciliation of movements		
Balance at the beginning of the financial year	**512**	400
Credited/(charged) to profit or loss	**48**	97
Credited/(charged) to equity	**(12)**	22
Acquisitions	**-**	(12)
Transfers	**3**	(1)
Adjustments relating to prior year	**(8)**	4
Foreign exchange differences	**21**	2
Disposal on sale of business	**(3)**	-
Balance at the end of the financial year prior to set-off	**561**	512

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

III. Tax losses

The Consolidated entity has an unrecognised deferred tax asset of $14 million (2012-$203 million) in relation to discontinued United Kingdom tax losses.

	CONSOLIDATED	
	2013	2012
	$m	$m
D. DEFERRED TAX LIABILITIES		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	**78**	69
Other	**62**	37
	140	106
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	**20**	42
	160	148
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	**(160)**	(139)
	-	9
II. Reconciliation of movements		
Balance at the beginning of the financial year	**148**	101
Charged/(credited) to profit or loss	**22**	39
Charged/(credited) to equity	**(22)**	4
Foreign exchange differences	**1**	-
Transfers	**3**	(1)
Adjustments relating to prior year	**7**	5
Acquisitions of subsidiaries	**1**	-
Balance at the end of the financial year prior to set-off	**160**	148

NOTE 8. SEGMENT REPORTING

The Consolidated entity has general insurance products in Australia, New Zealand and Asia. In Australia, the financial results are generated from three different divisions being Australia direct insurance, Australia intermediated insurance and Corporate and other. As at 31 December 2012 the United Kingdom operation was classified as a discontinued operation and is not disclosed as a segment in this note, for further details refer to the discontinued operation note.

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

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

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

The reportable segments comprise the following business divisions:

A. AUSTRALIA DIRECT INSURANCE

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

B. AUSTRALIA INTERMEDIATED INSURANCE

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

C. NEW ZEALAND INSURANCE

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

D. ASIA INSURANCE

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

E. 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.

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	ASIA INSURANCE $m	CORPORATE AND OTHER $m	TOTAL $m
2013						
External revenue	**5,066**	**3,282**	**1,822**	**230**	**360**	**10,760**
Total revenue	**5,066**	**3,282**	**1,822**	**230**	**360**	**10,760**
Underwriting profit/(loss)	**609**	**397**	**142**	**10**	**-**	**1,158**
Investment income net of investment fees - technical reserves	**213**	**73**	**(27)**	**10**	**1**	**270**
Insurance profit/(loss)	**822**	**470**	**115**	**20**	**1**	**1,428**
Investment income net of investment fees - equity holders' funds	**-**	**-**	**-**	**-**	**347**	**347**
Share of net profit/(loss) of associates	**-**	**1**	**-**	**-**	**(30)**	**(29)**
Finance costs	**-**	**-**	**-**	**-**	**(95)**	**(95)**
Other net operating result	**-**	**19**	**2**	**-**	**(79)**	**(58)**
Profit/(loss) before income tax from continuing operations	**822**	**490**	**117**	**20**	**144**	**1,593**
Income tax expense						**(424)**
Profit/(loss) for the year from continuing operations						**1,169**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**157**	**157**
Depreciation expense	**27**	**9**	**9**	**1**	**11**	**57**
Amortisation and impairment charges on acquired intangibles and goodwill	**9**	**18**	**22**	**-**	**-**	**49**
Total depreciation and amortisation expense	**36**	**27**	**31**	**1**	**11**	**106**
2012*						
External revenue	5,028	3,390	1,732	533	107	10,790
Total revenue	5,028	3,390	1,732	533	107	10,790
Underwriting profit/(loss)	20	(117)	93	(64)	(1)	(69)
Investment income net of investment fees - technical reserves	524	375	10	5	-	914
Insurance profit/(loss)	544	258	103	(59)	(1)	845
Investment income net of investment fees - equity holders' funds	-	-	-	-	89	89
Share of net profit/(loss) of associates	-	(2)	-	(3)	(8)	(13)
Finance costs	-	-	-	-	(97)	(97)
Other net operating result	-	13	2	-	(76)	(61)
Profit/(loss) before income tax from continuing operations	544	269	105	(62)	(93)	763
Income tax expense						(177)
Profit/(loss) for the year from continuing operations						586
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	376	376
Depreciation expense	30	9	6	1	10	56
Amortisation and impairment charges on acquired intangibles and goodwill	8	9	15	-	-	32
Total depreciation and amortisation expense	38	18	21	1	10	88

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

NOTE 9. EARNINGS PER SHARE

	CONSOLIDATED 2013 cents	CONSOLIDATED 2012 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations		
Basic earnings per ordinary share[(a)]	**37.57**	10.01
Diluted earnings per ordinary share	**36.44**	9.96
Continuing operations		
Basic earnings per ordinary share[(a)(b)]	**51.46**	25.54
Diluted earnings per ordinary share[(b)]	**49.60**	25.39

(a) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 Earnings per Share. The calculation is not rounded.

(b) Prior year comparatives have been re-presented due to the discontinued operation. Refer to note 26.

	CONSOLIDATED 2013 $m	CONSOLIDATED 2012 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the year	**882**	265
Profit attributable to non-controlling interests	**(106)**	(58)
Profit/(loss) attributable to equity holders of the Parent which is used in calculating basic and diluted earnings per share	**776**	207
Earnings used in calculating diluted earnings per share		
Finance costs of convertible securities	**18**	-
Profit/(loss) attributable to equity holders of the Parent which is used in calculating diluted earnings per share	**794**	207
Profit/(loss) from continuing operations attributable to equity holders of the Parent	**1,063**	528
Profit/(loss) from discontinued operation attributable to equity holders of the Parent	**(287)**	(321)

	CONSOLIDATED 2013 Number of shares in millions	CONSOLIDATED 2012 Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Ordinary shares on issue	**2,079**	2,079
Treasury shares held in trust	**(12)**	(12)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,067**	2,067
Weighted average number of dilutive potential ordinary shares relating to		
Convertible securities	**102**	-
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	**2,181**	2,079

At 30 June 2012, the convertible preference shares were excluded from the diluted earnings per share calculation as they were assessed as anti-dilutive as defined by AASB 133 Earnings per Share.

NOTE 10. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
2013					
2013 interim dividend	**11.0**	**229**	**3 April 2013**	**30%**	**100%**
2012 final dividend	**12.0**	**249**	**3 October 2012**	**30%**	**100%**
		478			
2012					
2012 interim dividend	5.0	104	4 April 2012	30%	100%
2011 final dividend	7.0	146	5 October 2011	30%	100%
		250			

It is standard practice that the Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy (refer to section AE 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 (2012-$2 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

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

The DRP for the 2013 interim dividend payable on 3 April 2013 was settled with the on-market purchase of 9 million shares priced at $5.6689 per share (based on a daily volume weighted average price for 10 trading days from 11 March 2013 to 22 March 2013 inclusive, with no discount applied).

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

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

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

	CENTS PER SHARE	TOTAL AMOUNT $m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2013 final dividend	**25.0**	**519**	**9 October 2013**	**30%**	**100%**

On 22 August 2013 the Board determined the final dividend will be payable to shareholders on 9 October 2013.

The Company's DRP will operate by issuing ordinary shares to participants by acquiring shares on-market with an issue price per share of the average market price as defined in the DRP terms with no discount applied. The last election notice for participation in the DRP in relation to this final dividend is 11 September 2013.

D. HISTORICAL SUMMARY

The table below provides a historical summary over the last ten years of dividend payments (cents per share) by 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 2004	YEAR ENDED 30 JUNE 2005	YEAR ENDED 30 JUNE 2006	YEAR ENDED 30 JUNE 2007	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2011	YEAR ENDED 30 JUNE 2012	**YEAR ENDED 30 JUNE 2013**
Interim dividend	8.0	12.0	13.5	13.5	13.5	4.0	8.5	9.0	5.0	**11.0**
Final dividend	14.0	14.5	16.0	16.0	9.0	6.0	4.5	7.0	12.0	**25.0**
Special dividend	-	-	12.5	-	-	-	-	-	-	**-**

E. DIVIDEND POLICY

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

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

F. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

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

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

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

- the payment of dividends generally being limited to profits subject to ongoing solvency obligations of the subsidiary; and
- 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.

G. DIVIDEND FRANKING AMOUNT

	CONSOLIDATED	
	2013	2012
	$m	$m
Franking account balance at reporting date at 30%	**583**	440
Franking credits to arise from payment of income tax payable	**173**	149
Franking credits to arise from receipt of dividends receivable	**-**	1
Franking credits available for future reporting periods	**756**	590
Franking account impact of dividends determined before issuance of financial report but not recognised at reporting date	**(223)**	(107)
Franking credits available for subsequent financial periods based on a tax rate of 30%	**533**	483

After payment of the final dividend the franking balance of the Company has $436 million franking credits available for subsequent financial periods and is capable of fully franking a further $1,017 million of distributions.

The balance of the franking account arises from:

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

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

All of the distributions paid in relation to the convertible preference shares and the interest payments in relation to the reset exchangeable securities, for the financial year were fully franked at 30% (2012-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
			2013			2012*
	Current year	**Prior years**	**Total**	Current year	Prior years	Total
	$m	**$m**	**$m**	$m	$m	$m
Gross claims - undiscounted	**6,280**	**(204)**	**6,076**	6,365	201	6,566
Discount	**(202)**	**(74)**	**(276)**	(178)	591	413
Gross claims - discounted	**6,078**	**(278)**	**5,800**	6,187	792	6,979
Reinsurance and other recoveries - undiscounted	**(535)**	**(431)**	**(966)**	(892)	(522)	(1,414)
Discount	**12**	**136**	**148**	17	(161)	(144)
Reinsurance and other recoveries - discounted	**(523)**	**(295)**	**(818)**	(875)	(683)	(1,558)
Net claims expense	**5,555**	**(573)**	**4,982**	5,312	109	5,421

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

	CONSOLIDATED	
	2013	2012
	$m	$m
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**9,570**	10,393
Claims handling costs	**409**	407
Risk margin	**2,712**	2,282
	12,691	13,082
Discount to present value	**(2,217)**	(1,373)
Gross outstanding claims liability - discounted	**10,474**	11,709

The outstanding claims liability includes $6,659 million (2012-$7,287 million) which is expected to be settled more than 12 months from the reporting date.

II. Reconciliation of movements in discounted outstanding claims liability

						CONSOLIDATED
			2013			2012*
	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	**11,709**	**(3,928)**	**7,781**	10,889	(4,010)	6,879
Movement in the prior year central estimate	**(139)**	**(102)**	**(241)**	290	(490)	(200)
Current year claims incurred	**5,948**	**(787)**	**5,161**	6,007	(1,092)	4,915
Claims paid/recoveries received	**(6,551)**	**1,753**	**(4,798)**	(6,483)	2,033	(4,450)
Movement in discounting	**67**	**(33)**	**34**	725	(204)	521
Movement in risk margin	**46**	**(6)**	**40**	238	(59)	179
Disposed through sale of businesses	**(668)**	**280**	**(388)**	(11)	-	(11)
Additional through business acquisition	**-**	**-**	**-**	34	(9)	25
Net foreign currency movements	**182**	**(112)**	**70**	38	(39)	(1)
Net claims charged to discontinued operation	**(120)**	**77**	**(43)**	(18)	(58)	(76)
Balance at the end of the financial year	**10,474**	**(2,858)**	**7,616**	11,709	(3,928)	7,781

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

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 a reconciliation to the net discounted outstanding claims liability.

											CONSOLIDATED Accident year	
	2003 and prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	**$m**	$m
NET ULTIMATE CLAIMS PAYMENTS												
Development												
At end of accident year		**3,514**	**3,626**	**4,011**	**4,669**	**4,591**	**4,615**	**4,575**	**4,957**	**5,109**	**5,085**	
One year later		**3,349**	**3,579**	**3,939**	**4,633**	**4,548**	**4,649**	**4,550**	**5,044**	**5,190**		
Two years later		**3,376**	**3,548**	**3,863**	**4,595**	**4,541**	**4,585**	**4,449**	**5,004**			
Three years later		**3,360**	**3,503**	**3,871**	**4,605**	**4,520**	**4,577**	**4,397**				
Four years later		**3,343**	**3,468**	**3,858**	**4,534**	**4,499**	**4,491**					
Five years later		**3,333**	**3,417**	**3,833**	**4,460**	**4,431**						
Six years later		**3,305**	**3,392**	**3,813**	**4,433**							
Seven years later		**3,300**	**3,384**	**3,819**								
Eight years later		**3,288**	**3,373**									
Nine years later		**3,260**										
Current estimate of net ultimate claims payments		**3,260**	**3,373**	**3,819**	**4,433**	**4,431**	**4,491**	**4,397**	**5,004**	**5,190**	**5,085**	
Cumulative payments made to date[a]		**(3,222)**	**(3,310)**	**(3,661)**	**(4,320)**	**(4,239)**	**(4,132)**	**(3,869)**	**(3,831)**	**(3,966)**	**(2,898)**	
Net undiscounted outstanding claims payments	**595**	**38**	**63**	**158**	**113**	**192**	**359**	**528**	**1,173**	**1,224**	**2,187**	**6,630**
Discount to present value	**(154)**	**(6)**	**(9)**	**(22)**	**(14)**	**(24)**	**(39)**	**(54)**	**(96)**	**(123)**	**(161)**	**(702)**
Net discounted outstanding claims payments	**441**	**32**	**54**	**136**	**99**	**168**	**320**	**474**	**1,077**	**1,101**	**2,026**	**5,928**

Reconciliation	
Claims handling costs	**362**
Risk margin	**1,326**
Net outstanding claims liability	**7,616**

During the financial year the UK business was sold. The development table above includes claims related to the UK operation up to the 2012 accident year and is not included in the 2013 accident year. Any outstanding claims relating to the UK that remained at the time of divestment have been treated as paid in the table above within item (a).

Conditions and trends that have affected the development of the liabilities in the past may or may not occur in the future. 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 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 at each reporting period cannot be reconciled directly to the equivalent tables presented in previous periods.

V. Central estimate and risk margin

a. REPORTING DATE VALUES

	CONSOLIDATED	
	2013	2012
	%	%
The percentage risk margin applied to the net central estimate of the outstanding claims liability	**21**	21
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 accident period.

ii. Discounting

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

iii. Risk margin

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

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

The 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 level of diversification assumed between classes has due 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 diversification between the lines of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and risks in the prevailing environment, results in an overall probability of adequacy for the outstanding claims liability of 90% (2012-90%).

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	ASIA INSURANCE	UNITED KINGDOM INSURANCE
2013					
Discounted average term to settlement	**3.3 years**	**5.2 years**	**0.7 years**	**0.4 years**	**n/a**
Inflation rate	**2.6%-4.0%**	**2.8%-5.0%**	**2.2%**	**0.0%-4.0%**	**n/a**
Superimposed inflation rate	**0.0%-5.0%**	**0.0%-5.0%**	**0.0%**	**0.0%**	**n/a**
Discount rate	**2.5%-5.4%**	**2.5%-5.3%**	**2.2%-3.4%**	**0.0%**	**n/a**
Claims handling costs ratio	**4.8%**	**5.4%**	**5.2%**	**1.5%**	**n/a**
2012					
Discounted average term to settlement	3.2 years	5.2 years	0.6 years	0.4 years	2.0 years
Inflation rate	3.0%-4.0%	2.8%-4.8%	2.6%	0.0%-4.0%	4.0%-5.0%
Superimposed inflation rate	0.0%-5.0%	0.0%-8.0%	0.0%	0.0%	0.0%-10.0%
Discount rate	2.4%-4.1%	2.4%-4.8%	2.4%-2.5%	0.0%	0.1%-4.5%
Claims handling costs ratio	4.5%	6.0%	4.2%	2.1%	1.8%

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 tends to occur due to trends in wider society 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, together with budgeted costs going forward.

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 would 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 take account of inflationary increases. An increase or decrease in the assumed levels of either economic or superimposed inflation will have a corresponding decrease or increase on profit and loss.

iii. Discount rate

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

iv. Claims handling costs ratio

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

b. SENSITIVITY ANALYSIS OF CHANGES

The impact on the net outstanding claims liabilities before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and without regard to other balance sheet changes that may simultaneously occur. Changes are stated of 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	ASIA INSURANCE	UNITED KINGDOM INSURANCE
		$m	$m	$m	$m	$m
2013						
Discounted average term to settlement	**+10%**	**(54)**	**(119)**	**(1)**	**-**	**n/a**
	-10%	**54**	**108**	**1**	**-**	**n/a**
Inflation rate	**+1%**	**135**	**134**	**4**	**-**	**n/a**
	-1%	**(127)**	**(116)**	**(4)**	**-**	**n/a**
Discount rate	**+1%**	**(126)**	**(114)**	**(3)**	**-**	**n/a**
	-1%	**137**	**134**	**3**	**-**	**n/a**
Claims handling costs ratio	**+1%**	**42**	**25**	**3**	**1**	**n/a**
	-1%	**(42)**	**(25)**	**(3)**	**(1)**	**n/a**
2012						
Discounted average term to settlement	+10%	(41)	(64)	(1)	-	(1)
	-10%	41	63	1	-	1
Inflation rate	+1%	128	138	5	-	8
	-1%	(121)	(122)	(5)	-	(8)
Discount rate	+1%	(121)	(121)	(5)	-	(8)
	-1%	131	140	5	-	5
Claims handling costs ratio	+1%	49	35	4	1	8
	-1%	(49)	(35)	(4)	(1)	(8)

NOTE 12. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	CONSOLIDATED	
	2013	2012
	$m	$m
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable on outstanding claims - undiscounted	**3,642**	4,265
Discount to present value	**(784)**	(337)
Expected reinsurance and other recoveries receivable on outstanding claims - discounted	**2,858**	3,928

The carrying value of reinsurance recoveries and other recoveries includes $1,707 million (2012-$2,009 million) which is expected to be settled more than 12 months from the reporting date.

Refer to note 11(B)(II) for a reconciliation of the movement in reinsurance and other receivables on incurred claims.

B. ACTUARIAL ASSUMPTIONS

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

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

C. THE EFFECT OF CHANGES IN ASSUMPTIONS

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

NOTE 13. DEFERRED INSURANCE ASSETS

	CONSOLIDATED	
	2013	2012*
	$m	$m
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**753**	683
Acquisition costs deferred during the year	**1,283**	1,187
Amortisation charged to profit for the year	**(1,203)**	(1,130)
Disposed through sale of business	**(45)**	-
Net acquisition costs earned and written on discontinued operation	**(5)**	10
Net foreign exchange movements	**12**	3
Deferred acquisition costs at the end of the financial year	**795**	753

The carrying value of deferred acquisition costs includes $58 million (2012-$65 million) which is expected to be amortised more than 12 months from reporting date.

B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	**493**	371
Reinsurance expenses deferred	**849**	827
Amortisation charged to profit	**(817)**	(700)
Addition through business acquisition	**-**	5
Disposed through sale of business	**(8)**	-
Net acquisition costs earned and written on discontinued operation	**(1)**	(11)
Net foreign exchange movements	**26**	1
Deferred outwards reinsurance expense at the end of the financial year	**542**	493

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

The carrying value of deferred outwards reinsurance expense includes $45 million (2012-$12 million) which is expected to be amortised more than 12 months from reporting date.

NOTE 14. UNEARNED PREMIUM LIABILITY

	CONSOLIDATED	
	2013	2012*
	$m	$m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**4,942**	4,355
Deferral of premiums on contracts written	**4,981**	4,425
Earning of premiums written in previous financial years	**(4,618)**	(3,976)
Addition through business acquisition	**-**	154
Disposed through sale of business	**(212)**	-
Net premiums earned and written on discontinued operation	**(18)**	(34)
Net foreign exchange movements	**70**	18
Unearned premium liability at the end of the financial year	**5,145**	4,942

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

The carrying value of unearned premium liability includes $141 million (2012-$151 million) which is expected to be earned more than 12 months from reporting date.

B. LIABILITY ADEQUACY TEST

The liability adequacy test (LAT) 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. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The liability adequacy test is required to be conducted at a level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. The Group defines broadly similar risks at a regional level as all policies written in the same region are affected by one or more common risk factors; including natural peril events, general weather conditions, economic conditions, inflationary movements, legal and regulatory changes as well as legislative reforms, reinsurance cost changes and variation in other input costs. The Group defines 'managed together' at a segment level as the respective Divisional CEOs manage the entire portfolio of risks within their respective division. Managed together, the segments currently result in a more granular interpretation, compared to broadly similar risks, of portfolio of contracts for the purposes of the liability adequacy test. As a result, the liability adequacy test is performed at the segment level; being Australia Direct, Australia Intermediated, New Zealand, and Asia.

The liability adequacy test at reporting date resulted in a surplus for the Group (2012-surplus for all portfolio).

	CONSOLIDATED	
	2013	2012
	$m	$m
Net central estimate of present value of expected future cash flows from future claims	**3,360**	3,306
Risk margin of the present value of expected future cash flows	**71**	130
	3,431	3,436
Risk margin percentage	**2.1%**	3.9%
Probability of adequacy	**60.0%**	63.6%

The risk margin used in testing individual portfolios is calculated by using a probability of adequacy methodology based on assessments of the levels of risk in each portfolio for the liability adequacy test. The methodology of using probability of adequacy as a basis for calculating the risk margin, including diversification benefit, is consistent with that used for the determination of the risk margin for the outstanding claims liability. The process used to determine the risk margin, including the way in which diversification of risks has been allowed for, is explained in note 11(B)(V)(b). The probability of adequacy represented by the liability adequacy test differs from the probability of adequacy represented by the outstanding claims liability. The reason for this difference 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	
	2013	2012
	$m	$m
A. COMPOSITION		
I. Interest bearing investments		
Cash and short term money held in investment	**1,226**	1,097
Government and semi-government bonds	**2,810**	3,841
Corporate bonds and notes	**6,447**	5,162
Subordinated debt	**836**	787
Fixed interest trusts	**53**	41
Other	**755**	755
	12,127	11,683
II. Equity investments		
a. DIRECT EQUITIES		
Listed	**768**	596
Unlisted	**228**	176
b. EQUITY TRUSTS (INCLUDING PROPERTY TRUSTS)		
Listed	**63**	32
Unlisted	**271**	326
	1,330	1,130
III. Other investments		
Other trusts	**199**	127
	199	127
IV. Derivatives		
Investment related derivatives	**(40)**	13
	(40)	13
	13,616	12,953

The Group equity investments include the exposure to convertible securities.

The investments included Funds at Lloyd's of $208 million at 30 June 2012 which were subject to certain restriction. The balance reduced to nil at 30 June 2013 following the sale of UK operation.

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

I. Level 1 quoted prices
Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs
Inputs that are observable (other than Level 1 quoted prices) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) are used.

III. Level 3 unobservable inputs
Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. The assets are effectively marked to model rather than marked to market. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

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

				CONSOLIDATED
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$m	$m	$m	$m
2013				
Interest bearing investments	**4,818**	**7,309**	**-**	**12,127**
Equity investments	**831**	**417**	**82**	**1,330**
Other investments	**-**	**199**	**-**	**199**
Derivatives	**(2)**	**(38)**	**-**	**(40)**
	5,647	**7,887**	**82**	**13,616**
2012				
Interest bearing investments	5,966	5,717	-	11,683
Equity investments	627	332	171	1,130
Other investments	7	120	-	127
Derivatives	4	9	-	13
	6,604	6,178	171	12,953

NOTE 16. RECEIVABLES

	CONSOLIDATED	
	2013	2012
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Premium receivable	**2,749**	2,537
Provision for impairment	**(37)**	(35)
Premium receivable	**2,712**	2,502
II. Trade and other receivables[(a)]		
Reinsurance recoveries on paid claims	**187**	66
Other trade debtors[(b)]	**33**	127
Provision for impairment	**(5)**	(5)
	28	122
Loan to associates[(c)]	**103**	-
Investment income receivable	**90**	124
Investment transactions not yet settled at reporting date	**47**	59
Corporate treasury derivatives receivable	**-**	15
Other debtors	**71**	63
Trade and other receivables	**526**	449
	3,238	2,951

(a) Other than the loan to associates, receivables are non interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted, as 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 due to the short term nature of the assets.

(b) Prior year other trade debtors includes a receivable of $84 million which was part of the adverse development cover (ADC) purchased in relation to the discontinued UK operation. As at 30 June 2013, the balance reduced to nil following the sale of the UK operation.

(c) This loan is denominated in Malaysian ringgit and has fixed term of 15 years. A cumulative preference dividend of 1% is payable annually. The loan relates to the Group's increased investment in AmG to acquire Kurnia.

NOTE 17. PROPERTY AND EQUIPMENT

	LAND AND BUILDINGS $m	MOTOR VEHICLES $m	OTHER EQUIPMENT $m	CONSOLIDATED TOTAL $m
2013				
A. COMPOSITION				
At cost	**209**	**66**	**379**	**654**
Accumulated depreciation	**(78)**	**(29)**	**(291)**	**(398)**
Net foreign exchange movements	**(1)**	**-**	**2**	**1**
Balance at the end of the financial year	**130**	**37**	**90**	**257**
2013				
B. RECONCILIATION OF MOVEMENTS				
Balance at the beginning of the financial year	**147**	**39**	**88**	**274**
Additions	**6**	**19**	**52**	**77**
Disposals	**(2)**	**(10)**	**(13)**	**(25)**
Disposals through sale of business	**(6)**	**-**	**(8)**	**(14)**
Depreciation	**(16)**	**(11)**	**(30)**	**(57)**
Depreciation charged to discontinued operation	**-**	**-**	**(2)**	**(2)**
Net foreign exchange movements	**1**	**-**	**3**	**4**
Balance at the end of the financial year	**130**	**37**	**90**	**257**
2012				
C. COMPOSITION OF COMPARATIVES				
Cost	216	69	367	652
Accumulated depreciation	(67)	(30)	(278)	(375)
Net foreign exchange movements	(2)	-	(1)	(3)
Balance at the end of the financial year	147	39	88	274
2012*				
D. RECONCILIATION OF MOVEMENTS				
Balance at the beginning of the financial year	156	39	89	284
Additions	9	17	32	58
Disposals	(3)	(8)	(6)	(17)
Additions through business acquisition	-	2	4	6
Depreciation	(15)	(11)	(30)	(56)
Depreciation charged to discontinued operation	-	-	(2)	(2)
Net foreign exchange movements	-	-	1	1
Balance at the end of the financial year	147	39	88	274

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26

E. DEPRECIATION RATES	2.5%-12.5%	12.5%-20%	2.5%-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

	Software development expenditure	Distribution channels	Customer relationships	Brands	Other contractual arrangements	Lloyd's syndicate capacity	Total
	CONSOLIDATED						
	$m	$m	$m	$m	$m	$m	$m
2013							
A. COMPOSITION							
Cost	**434**	**290**	**140**	**120**	**32**	**138**	**1,154**
Accumulated amortisation	**(254)**	**(88)**	**(52)**	**(21)**	**(30)**	**-**	**(445)**
Accumulated impairment	**(7)**	**(113)**	**(30)**	**(33)**	**(1)**	**(87)**	**(271)**
Net foreign exchange movements	**(13)**	**(72)**	**(20)**	**(36)**	**(1)**	**(51)**	**(193)**
Balance at the end of the financial year	**160**	**17**	**38**	**30**	**-**	**-**	**245**
B. RECONCILIATION OF MOVEMENTS							
Balance at the beginning of the financial year	**122**	**19**	**41**	**28**	**15**	**-**	**225**
Additions acquired and developed	**77**	**-**	**-**	**-**	**-**	**-**	**77**
Additions through business acquisitions	**-**	**-**	**2**	**-**	**-**	**-**	**2**
Disposal through sale of business	**(12)**	**-**	**-**	**-**	**-**	**-**	**(12)**
Amortisation	**(24)**	**(2)**	**(8)**	**-**	**(15)**	**-**	**(49)**
Amortisation charged to discontinued operation	**(5)**	**-**	**-**	**-**	**-**	**-**	**(5)**
Net foreign exchange movements	**2**	**-**	**3**	**2**	**-**	**-**	**7**
Balance at the end of the financial year	**160**	**17**	**38**	**30**	**-**	**-**	**245**
2012							
C. COMPOSITION OF COMPARATIVES							
Cost	403	290	138	120	32	138	1,121
Accumulated amortisation	(258)	(86)	(44)	(21)	(15)	-	(424)
Accumulated impairment	(7)	(113)	(30)	(33)	(1)	(87)	(271)
Net foreign exchange movements	(16)	(72)	(23)	(38)	(1)	(51)	(201)
Balance at the end of the financial year	122	19	41	28	15	-	225

	Software Development Expenditure $m	Distribution Channels $m	Customer relationships $m	Brands $m	Other contractual arrangements $m	Lloyd's syndicate capacity $m	Total $m
							CONSOLIDATED
2012*							
D. RECONCILIATION OF MOVEMENTS							
Balance at the beginning of the financial year	54	47	24	26	-	74	225
Additions acquired and developed	65	6	-	-	-	-	71
Additions through business acquisitions	14	-	33	28	27	-	102
Disposal through sale of business	(3)	-	(4)	-	-	-	(7)
Amortisation	(12)	(2)	(6)	-	(12)	-	(32)
Amortisation charged to discontinued operation	(27)	(5)	(1)	(2)	-	-	(35)
Impairment charged to discontinued operation	-	(29)	(5)	(24)	-	(76)	(134)
Additions acquired and developed in discontinued operation	30	-	-	-	-	-	30
Net foreign exchange movements	1	2	-	-	-	2	5
Balance at the end of the financial year	122	19	41	28	15	-	225

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

E. AMORTISATION RATES	20%-33.3%	10%	12.5%-35%	n/a	100%	n/a

F. 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 AMI brand asset, each of the acquired assets has a finite useful life. The amortisation of the acquired intangible assets with finite lives 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 below.

a. BRANDS

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

b. CUSTOMER RELATIONSHIPS

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

c. DISTRIBUTION CHANNELS

The value of the distribution channels is derived from future revenue expected to be generated as a result of the existing relationships with the broker networks.

d. OTHER CONTRACTUAL ARRANGEMENTS

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

e. LLOYD'S SYNDICATE CAPACITY

The Lloyd’s syndicate capacity was allocated to the United Kingdom (discontinued operation) cash generating unit. The syndicate capacity was fully impaired during the year ending 30 June 2012.

G. 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 the year ended 30 June 2013
There was no impairment charge recognised during the year.

II. Impairment testing results for the year ended 30 June 2012
The following intangible assets of the United Kingdom discontinued operation were fully impaired, and included within the 2012 loss after tax from discontinued operation.
- Lloyd's syndicate capacity - $76 million
- Equity insurance brands - $24 million
- Equity broker distribution channels - $29 million
- Customer relationships - $5 million

NOTE 19. GOODWILL

	CONSOLIDATED	
	2013	2012
	$m	$m
A. COMPOSITION		
Goodwill	**2,303**	2,302
Accumulated impairment charges	**(421)**	(421)
Net foreign exchange movements	**(216)**	(256)
	1,666	1,625
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**1,625**	1,644
Additional amounts arising from business acquisition	**1**	139
Disposal through sale of business	**-**	(4)
Impairment charged to discontinued operation	**-**	(163)
Net foreign exchange movements	**40**	9
Balance at the end of the financial year	**1,666**	1,625
C. ALLOCATION TO CASH GENERATING UNITS		
Australia Direct insurance operations	**582**	582
Australia Intermediated insurance operations	**584**	584
New Zealand insurance operations	**448**	413
Asia insurance operations	**52**	46
	1,666	1,625

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 ten year period with an appropriate terminal value at the end of year five or ten for each cash generating unit. The carrying value of identified intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

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

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

b. TERMINAL VALUE

Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five or ten, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country. The terminal growth rate assumptions used in the Group's impairment assessment for significant cash generating units as at 30 June 2013 are; Australia Direct insurance operations 4.5% (2012-4.5%), Australia Intermediated insurance operations 4.5% (2012-4.5%), and New Zealand insurance operations 3.5% (2012-3.5%).

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. The pre tax discount rates used for significant cash generating units as at 30 June 2013 are; Australia Direct insurance operations 13.1% (2012-13.2%), Australia Intermediated insurance operations 13.2% (2012-13.3%), and New Zealand insurance operations 14.3% (2012-14.5%).

E. IMPAIRMENT TESTING

I. Impairment testing results for the year ended 30 June 2013

There was no impairment charge recognised during the year.

II. Impairment testing results for the year ended 30 June 2012

An impairment of $163 million relating to the United Kingdom business (discontinued operation) was recognised during the year ended 30 June 2012, and included in the loss after tax from discontinued operation.

NOTE 20. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2013	2012
	$m	$m
A. COMPOSITION		
I. Trade creditors		
Commissions payable	**167**	155
Stamp duty payable	**99**	94
GST payable on premium receivable	**132**	113
Corporate treasury derivatives payable	**32**	-
Other	**410**	365
	840	727
II. Other payables		
Other creditors and accruals	**401**	383
Investment creditors	**6**	10
Interest payable on interest bearing liabilities	**16**	15
	1,263	1,135

Other trade creditors includes $128 million (2012-$191 million) reinsurance collateral arrangements with various reinsurers to secure the Group reinsurance recoveries. The balance is anticipated to reduce through the settlement of amounts from reinsurers as they fall due. This payable is interest bearing.

Trade and other payables are unsecured, non interest bearing and are normally settled within 30 days to 12 months. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short term nature of the liabilities.

NOTE 21. RESTRUCTURING PROVISION

	CONSOLIDATED	
	2013	2012
	$m	$m
A. COMPOSITION		
Restructuring provision	**6**	20
	6	20
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**20**	10
Additions	**41**	23
Settled	**(53)**	(11)
Remeasurement of provisions	**(2)**	(2)
Balance at the end of the financial year	**6**	20

All of the provision outstanding at the reporting date is expected to be settled within 12 months (2012–all). The balance has not been discounted.

NOTE 22. INTEREST BEARING LIABILITIES

	Section	CONSOLIDATED 2013 $m	2012 $m
A. COMPOSITION			
I. Capital nature			
a. TIER 1 REGULATORY CAPITAL*			
Convertible preference shares	B. I	**377**	377
Reset exchangeable securities	B. II	**550**	550
b. TIER 2 REGULATORY CAPITAL			
GBP subordinated term notes	B. III	**167**	155
NZD subordinated term notes	B. IV	**-**	78
GBP subordinated exchangeable term notes	B. V	**261**	241
NZD subordinated bonds	B. VI	**276**	254
II. Operational nature			
Other interest bearing liabilities		**2**	22
Less: capitalised transaction costs		**(13)**	(18)
		1,620	1,659

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

B. SIGNIFICANT TERMS AND CONDITIONS

I. Convertible preference shares

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

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

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 IAG 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 IAG ordinary shares which would rank equally in all respects with all other IAG ordinary shares.

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%.

IV. NZD subordinated term notes

The NZD subordinated term notes had 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. On 21 November 2012, Insurance Australia Funding 2007 Limited exercised the issuer call option and repaid the issue in full.

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.

On 25 October 2012, Insurance Australia Limited, a wholly owned subsidiary of the Company redeemed and re-issued its £157 million subordinated exchangeable loan note instrument, and the terms of this issue were amended with immediate effect.

Key terms and conditions including the amendments announced on 26 October 2012:

- Floating interest rate of six month GBP LIBOR plus margin of 3.2% (1.875% prior to amendment) payable semi annually.
- The notes mature on 25 October 2037.
- The notes may be exchanged, at the option of the holder, into ordinary shares of IAG from 13 June 2014, or upon certain events and before 25 October 2017.
- The notes may also be redeemed by the issuer subject to APRA's approval from 25 October 2019.

VI. NZD subordinated bonds

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

Key terms and conditions:

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

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:

	2013		2012	
	Carrying value	**Fair value**	Carrying value	Fair value
	$m	**$m**	$m	$m
I. Capital nature				
a. TIER 1 REGULATORY CAPITAL				
Convertible preference shares	**377**	**384**	377	367
Reset exchangeable securities	**550**	**565**	550	545
b. TIER 2 REGULATORY CAPITAL				
GBP subordinated term notes	**167**	**168**	155	121
NZD subordinated term notes	**-**	**-**	78	79
GBP subordinated exchangeable term notes	**261**	**261**	241	241
NZD subordinated bonds	**276**	**293**	254	266
II. Operational nature				
Various instruments	**2**	**2**	22	22
Total	**1,633**		1,677	
Less: capitalised transaction costs	**(13)**		(18)	
	1,620		1,659	

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

NOTE 23. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	2013	2012	**2013**	2012
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
Ordinary shares				
Balance at the beginning and 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. 2013

There were no issues of ordinary shares during the year ended 30 June 2013.

II. 2012

There were no issues of ordinary shares during the year ended 30 June 2012.

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 AH 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 AB of the summary of significant accounting policies note.

NOTE 24. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED	
	2013	2012
	$m	$m
A. COMPOSITION		
Cash held for operational purposes	**394**	969
Cash and short term money held in investments	**1,226**	1,097
Cash held as discontinued operation	**96**	-
Cash and cash equivalents	**1,716**	2,066

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held in investment readily convertible to cash within two working days, net of any bank overdraft. The carrying amount of the cash and cash equivalents presented on the balance sheet is the same as that used for the purposes of the cash flow statement as there are no bank overdrafts used which are repayable upon demand.

Cash held as discontinued operation is subject to certain restrictions. Part of the funds are held to support the UK pension fund liability and can be withdrawn if certain conditions are satisfied (see discontinued operation note for further details).

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	
	2013	2012*
	$m	$m
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the year	**882**	265
I. Non cash items		
Depreciation of property and equipment	**57**	56
Amortisation and impairment of intangible assets and goodwill	**49**	32
Net realised (gains) and losses on disposal of investments	**(110)**	(283)
Net unrealised (gains) and losses on revaluation of investments	**50**	(122)
Net retained earnings adjustment for actuarial gains and (losses) on defined benefit superannuation plans	**28**	(48)
Retained earnings adjustment for share based remuneration	**22**	16
Other	**29**	38
Non cash items related to discontinued operation	**264**	331
II. Movement in operating assets and liabilities		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Premium and other receivables	**430**	(291)
Prepayments and deferred levies and charges	**(124)**	(223)
Deferred tax assets	**(31)**	(74)
Defined benefit superannuation asset	**(1)**	1
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	**427**	376
Provisions	**20**	92
Current tax liabilities	**(1)**	(23)
Deferred tax liabilities	**(9)**	(3)
Outstanding claims liability	**(608)**	941
Unearned premium liability	**416**	433
Net cash flows from operating activities	**1,790**	1,514

* Prior year comparatives have been re-presented due to the discontinued operation, refer to note 26.

D. SIGNIFICANT NON-CASH TRANSACTIONS RELATING TO FINANCING AND INVESTING TRANSACTIONS
There were no financing or investing transactions during the year which have had a material effect on the assets and liabilities that did not involve cash flows.

NOTE 25. ACQUISITIONS AND DISPOSALS OF BUSINESSES

A. ACQUISITION OF SUBSIDIARIES

I. For the financial year ended 30 June 2013

There were no acquisitions of subsidiaries by the Consolidated entity.

B. OTHER ACQUISITIONS

I. For the financial year ended 30 June 2013

a. KURNIA INSURANS (MALAYSIA) BERHAD

The Group increased its investment by $245 million in the Malaysian joint venture business, AmG, to fund its acquisition of Kurnia. The investment comprised $153 million in ordinary shares and $92 million in preference shares. Kurnia is a leading non-life insurer and the largest motor insurer in Malaysia.

C. DISPOSAL OF SUBSIDIARIES

I. For the financial year ended 30 June 2013

a. UNITED KINGDOM OPERATION

During the financial year the Group completed the sale of its United Kingdom (UK) operation following a strategic review. The sale was effected through two transactions outlined below and resulted in recognition of a $175 million loss after tax, presented in loss from discontinued operation in the statement of comprehensive income. Refer to the discontinued operation note for further details.

The two transactions comprising the UK operation sale were:

i. Independent Commercial Brokers (ICB)

In December 2012, the Group disposed of its specialist UK commercial broking business trading as Independent Commercial Brokers (ICB) for a consideration of approximately £10 million (equivalent to $15 million).

ii. Equity Red Star (ERS)

Following regulatory approval the Equity Red Star business was sold for £64 million (equivalent to $98 million) to Aquiline Capital Partners, a private equity investment firm specialising in financial services. The sale was completed on 19 April 2013. As part of the sale agreement the existing pension fund liabilities were retained by the Group.

	UK OPERATION $m
2013	
Sale proceeds	
Cash consideration	**113**
Transaction costs (including retained pension liabilities)	**(72)**
Net cash consideration received/receivable	**41**
Fair value of net assets of businesses disposed	
Cash and cash equivalents	**62**
Investments	**587**
Trade and other receivables	**437**
Insurance assets	**53**
Other assets	**45**
Trade and other payables	**(84)**
Current tax liabilities	**(4)**
Unearned premium liability	**(212)**
Outstanding claims liability	**(668)**
Net identifiable assets disposed during the financial year	**216**
Net loss on disposal	**(175)**

NOTE 26. DISCONTINUED OPERATION

The Group announced in December 2012 the sale of its UK operation. This followed completion of a strategic review. The operation was classified as a discontinued operation at 31 December 2012. Accordingly prior year comparatives have been re-presented including recognition of loss attributable to the operation in the statement of comprehensive income.

The sale was completed on 19 April 2013, refer to the acquisition and disposal of business note for further details. A loss on sale of the business of $175 million is recognised during the financial year, in addition to a transfer of the accumulated foreign currency translation reserve of $83 million in relation to the UK operation. As part of the sale agreement the existing pension fund liabilities are retained by the Group and classified as part of the discontinued operation on the balance sheet. Refer to the superannuation note for further details.

	CONSOLIDATED	
	2013 $m	2012 $m
A. RESULTS OF DISCONTINUED OPERATION		
Revenue	**413**	737
Expenses	**(442)**	(1,057)
Loss before tax for the year	**(29)**	(320)
Income tax expense	**-**	(1)
Loss on sale for disposal of discontinued operation	**(175)**	-
Loss from recycling of foreign currency translation reserve	**(83)**	-
Loss for the year from discontinued operation	**(287)**	(321)

Other comprehensive income and (expense) for the period, net of tax for the discontinued operation was a $81 million income (2012- $4 million income).

B. CASH FLOW FROM/(USED IN) DISCONTINUED OPERATION		
Net cash from/(used in) operating activities	**45**	(77)
Net cash from/(used in) investing activities	**(168)**	69
Net cash flows for the year	**(123)**	(8)

The above net cash flows exclude the proceeds from sale of the UK operations disposed.

	CONSOLIDATED	
	2013 cents	2012 cents
C. EARNINGS PER SHARE		
Basic earnings per share, from discontinued operation - cents per share	**(13.89)**	(15.53)
Diluted earnings per share, from discontinued operation - cents per share	**(13.16)**	(15.43)

The major classes of assets and liabilities of the UK operation classified as a discontinued operation as at 30 June 2013 are:

	CONSOLIDATED 2013 $m
Total assets classified as discontinued operation	
Cash*	**96**
	96
Total liabilities classified as discontinued operation	
Trade and other payables	**31**
UK pension fund liability	**75**
	106

* Cash held as discontinued operation is subject to certain restrictions.

D. UK PENSION FUND LIABILITY

As at 30 June 2013, the UK pension schemes were recognised at £45 million (equivalent to $75 million). This is based on external quotations as part of the buy in and buy out process. A provision of £5 million (equivalent to $8 million) was recognised as additional expenses anticipated in wind up of these schemes.

NOTE 27. DETAILS OF SUBSIDIARIES

The following entities constitute the Consolidated entity.

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100% 2013 %	2012 %
A. ULTIMATE PARENT				
Insurance Australia Group Limited		Australia		
B. SUBSIDIARIES				
I. Australian general insurance operations				
Insurance Australia Limited		Australia		
NRMA Personal Lines Holdings Pty Limited		Australia		
Insurance Manufacturers of Australia Pty Limited		Australia	**70.00**	70.00
World Class Accident Repairs (Cheltenham North) Pty Limited	A	Australia	**70.00**	70.00
CGU Insurance Australia Limited		Australia		
CGU Insurance Limited		Australia		
Swann Insurance (Aust) Pty Ltd		Australia		
Mutual Community General Insurance Proprietary Limited		Australia		
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		
CGU Foundation Pty Ltd	A	Australia		-
HBF Insurance Pty Ltd		Australia		
Strata Unit Underwriting Agency Pty Limited		Australia		
CGU Workers Compensation (SA) Limited		Australia		
A.C.N. 137 507 110 (formerly The Buzz Insurance Pty Limited)	A	Australia		
IAL Life Pty Limited (formerly The Buzz Australia Pty Limited)	A	Australia		
National Adviser Services Pty Ltd	A	Australia		
Hunter Insurance Services Pty Limited	B	Australia		-

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2013	2012
			%	%
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		
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		
AMI Insurance Limited	C	New Zealand		
III. United Kingdom operations (corporate non-trading companies)				
IAG UK Holdings Limited	C	United Kingdom		
EIGL Limited (formerly Equity Insurance Group Limited)	C	United Kingdom		
Cox Commercial Limited	C	United Kingdom		
IAG Finance (UK) LLP	C	Gibraltar		
Direct Insurance Services Limited	C	United Kingdom		
B&BHL Limited (formerly Barnett & Barnett Holdings Limited)	C	United Kingdom		
Alba Underwriting Limited	C	United Kingdom		
Diagonal Underwriting Agency Limited	C	United Kingdom		
AU No 2 Limited	C	United Kingdom		
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		
IAG Insurance (Thailand) Ltd	C	Thailand		
Safety Insurance Public Company Limited	C	Thailand	**98.62**	98.62
Alba Group Pte Ltd	C	Singapore		
V. Investment operations				
IAG Asset Management Limited		Australia		
IAG Asset Management Cash Management Trust	A	Australia	**86.33**	84.49
IAG Asset Management Private Equity Trust	A	Australia	**83.19**	83.20
IAG Asset Management Sustainable Investment Trust	A	Australia	**50.01**	50.01
Fixed Interest Technical Provisions Fund	A	Australia		
Fixed Interest Shareholders Fund	A	Australia		
K2 Advisors Alpha Strategies Fund	A	Australia		
IAG Asset Management Equity Trust	A	Australia		-
VI. Corporate operations				
IAG International Pty Limited		Australia		
IAG Finance (New Zealand) Limited		Australia		
Insurance Australia Group Services Pty Limited		Australia		
IAG & NRMA Superannuation Pty Limited	A	Australia		
IAG Share Plan Nominee Pty Limited	A	Australia		
IAG Share and Rights Plan Trust		Australia		
Empire Equity Australia Pty Limited	A	Australia		
Thailand Insurance Holdings Pty Limited	A	Australia		-
Safety Thailand Holding Pty Limited	A	Australia		-

	TABLE NOTE	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
			2013	2012
			%	%
C. DISSOLUTION OF PARTNERSHIP DURING THE YEAR ENDED 30 JUNE 2013				
IAG Funding Partnership	A	Australia	-	
D. SUBSIDIARIES THAT DEREGISTERED DURING THE YEAR ENDED 30 JUNE 2013				
Insurance Australia Funding 2007 Limited		Australia	-	
HBF Holdings Pty Limited		Australia	-	
E. ENTITIES DISPOSED OF DURING THE YEAR ENDED 30 JUNE 2013				
Barnett & Barnett Limited	C	United Kingdom	-	
Barnett & Barnett Financial Services Limited	C	United Kingdom	-	
Independent Commercial Broking Group Limited	C	United Kingdom	-	
NBJ Group Limited	C	United Kingdom	-	
NBJ United Kingdom Limited	C	United Kingdom	-	
Equity Direct Broking Limited	C	United Kingdom	-	
Equity Insurance Holdings Limited	C	United Kingdom	-	
CDCM Limited	C	United Kingdom	-	
Equity Red Star Holdings Limited	C	United Kingdom	-	
Arista Insurance Limited	C	United Kingdom	-	
CDCM (No 2) Limited	C	United Kingdom	-	
Equity Red Star Limited	C	United Kingdom	-	
Equity Red Star (accident & health) Limited	C	United Kingdom	-	
Equity Claims Limited	C	United Kingdom	-	
Equity Syndicate Management Limited	C	United Kingdom	-	
HML Marketing Limited	C	United Kingdom	-	
Equity Insurance Properties Limited	C	United Kingdom	-	
Equity Insurance Management Limited	C	United Kingdom	-	
Equity Red Star Services Limited	C	United Kingdom	-	
F. ENTITIES IN VOLUNTARY LIQUIDATION AT 30 JUNE 2013				
Alba Pte Ltd	C	Singapore	-	

Table note

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

B Audited by 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.

NOTE 28. INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

Summarised information of interests in material joint venture and associates is as follows:

	TABLE NOTE	REPORTING DATE	COUNTRY OF INCORPORATION/ FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE	OWNERSHIP INTEREST	
					2013	**2013**	2012
					$m	**%**	%
I. Associates							
AmGeneral Holdings Berhad (formerly AmGeneral Insurance Berhad)	A	31 March	Malaysia	Insurance underwriting	**342**	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)	A	31 March	India	Insurance underwriting	**84**	**26.00**	26.00
Accident & Health International Underwriting Pty Limited (AHI)	A	30 June	Australia	Insurance underwriting	**27**	**50.00**	50.00
Bohai Property Insurance Company Ltd (Bohai Insurance)	B	31 December	China	Insurance underwriting	**114**	**20.00**	20.00
Other joint venture and associates					**10**		
					577		

Table note

A Audited by accounting firms not affiliated with KPMG.

B Audited by overseas KPMG firms.

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

	CONSOLIDATED	
	2013	2012
	$m	$m
B. RECONCILIATION OF MOVEMENTS		
Balance at the beginning of the financial year	**384**	284
Investment in associate acquired	**-**	115
Additional investment in existing associate	**153**	-
Share of associates' net profit/(loss)*	**(10)**	(1)
Net foreign exchange movements	**50**	(14)
Balance at the end of the financial year	**577**	384

* The contribution of Asian-based associates to the net profit/(loss) of the Group in the statement of comprehensive income includes regional support and development costs of $19 million (2012-$11 million).

As part of the current year impairment review an impairment charge of $10 million has been recognised against the carrying value of the investment in AAA Assurance Corporation (based in Vietnam) which is included within the share of associates' net profit/(loss).

C. SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

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

The figures for AmG and SBI General are for the financial year ended 31 March 2013 and Bohai Insurance for the year ended 31 December 2012. AHI disclosure is based on the management accounts as at 31 May 2013. These figures represent the financial position and performance of the entities as a whole and not just IAG's share.

		2013		2012
	Australia	**Asia**	Australia	Asia
	$m	**$m**	$m	$m
Assets	**14**	**2,234**	14	989
Liabilities	**10**	**1,493**	10	665
Revenue	**9**	**751**	9	516
Profit/(loss)	**1**	**11**	1	(24)

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 29. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2013	2012
	$m	$m
A. EMPLOYEE BENEFITS PROVISION		
Annual leave	**79**	79
Long service leave	**72**	71
Cash based incentive arrangements	**81**	73
Defined benefit superannuation plans	**64**	125
Other employee benefits*	**9**	10
	305	358

* There is one defined benefit pension arrangement in Australia with a discounted liability of $7 million as at the current reporting date (2012-$8 million) involving 58 participants (2012-63) and one defined benefit pension arrangement in New Zealand with a discounted liability of $2 million as at the current reporting date (2012-$2 million) involving 36 participants (2012-40). These liabilities are met from general assets rather than assets being set aside in trust.

The employee benefits provision includes $116 million (2012-$178 million) which is expected to be settled after more than 12 months from reporting date.

B. 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.

NOTE 30. SHARE BASED REMUNERATION

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

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

The number of shares purchased to cover each allocation of rights is determined by the trustee based on independent actuarial advice. The trusts allow for excess shares purchased in relation to one plan to be used to meet obligations of the other plans at the trustee's discretion. The trusts held 13,558,821 shares as at 30 June 2013 (2012-13,219,481 shares) representing 0.65% (2012 - 0.64%) of the issued share capital. This includes shares that are not controlled for accounting purposes and so not recognised as treasury shares.

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

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

A. SENIOR MANAGEMENT AND EXECUTIVE SHARE PLANS

The senior management and executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the Deferred Award Rights Plan and the Executive Performance Rights Plan which are detailed below. The People and Remuneration Committee (PARC) (formerly Nomination, Remuneration & Sustainability Committee) approves the participation of each individual in the plans. Certain other share plan arrangements remain in place but were closed to new offers in the prior reporting periods.

I. Deferred Award Rights Plan

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

Key terms and conditions:

- The rights are granted for nil consideration, are non transferable, and can be settled only with existing IAG ordinary shares. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- The vesting condition is not market related and requires the participant to continue in relevant employment.
- Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price of all vested rights is a nominal value of $1 per tranche of rights exercised.
- The rights vest after a period (current maximum is two years, with a three year maximum for rights granted before 1 July 2010) as determined by the Board subject to the participants continuing in relevant employment for the full period. 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 ten 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
2013							
19/12/2006	**$5.354**	**116,240**	**-**	**(62,900)**	**(1,875)**	**51,465**	**51,465**
13/03/2007	**$5.156**	**21,937**	**-**	**(21,937)**	**-**	**-**	**-**
27/09/2007	**$4.820**	**359,550**	**-**	**(142,260)**	**(3,500)**	**213,790**	**213,790**
27/05/2008	**$2.810**	**26,345**	**-**	**(26,345)**	**-**	**-**	**-**
18/09/2008	**$3.668**	**773,620**	**-**	**(293,100)**	**(7,700)**	**472,820**	**472,820**
27/02/2009*	**$3.155**	**10,000**	**-**	**(10,000)**	**-**	**-**	**-**
27/02/2009*	**$3.397**	**10,000**	**-**	**-**	**-**	**10,000**	**10,000**
27/02/2009*	**$3.311**	**15,000**	**-**	**(15,000)**	**-**	**-**	**-**
25/09/2009	**$3.600**	**899,050**	**-**	**(657,970)**	**(2,800)**	**238,280**	**238,280**
24/11/2009	**$3.770**	**31,640**	**-**	**(31,640)**	**-**	**-**	**-**
25/03/2010	**$3.780**	**19,200**	**-**	**(13,100)**	**-**	**6,100**	**6,100**
06/10/2010	**$3.532**	**1,601,800**	**-**	**(890,300)**	**(13,160)**	**698,340**	**254,200**
03/03/2011*	**$3.467**	**29,350**	**-**	**(19,750)**	**-**	**9,600**	**7,680**
03/03/2011*	**$3.492**	**20,000**	**-**	**(20,000)**	**-**	**-**	**-**
21/10/2011	**$2.880**	**3,332,800**	**-**	**(1,712,450)**	**(60,150)**	**1,560,200**	**264,300**
17/02/2012	**$2.740**	**70,800**	**-**	**(47,700)**	**(5,300)**	**17,800**	**-**
26/10/2012*	**$4.291**	**-**	**3,525,200**	**(235,900)**	**(117,800)**	**3,171,500**	**41,400**
26/10/2012*	**$4.360**	**-**	**13,400**	**-**	**-**	**13,400**	**-**
25/02/2013*	**$5.467**	**-**	**41,100**	**-**	**-**	**41,100**	**4,600**
25/02/2013*	**$5.511**	**-**	**10,700**	**-**	**-**	**10,700**	**-**
		7,337,332	**3,590,400**	**(4,200,352)**	**(212,285)**	**6,515,095**	**1,564,635**

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

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

The weighted average share price for rights exercised for the year ended 30 June 2013 was $4.84 (2012-$3.17).

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

	SIGNIFICANT FACTORS AND ASSUMPTIONS	
2013		
Grant date	**26/10/2012**	**25/02/2013**
Share price on grant date ($)	**$4.51**	**$5.69**
Exercise price ($)	**$1 per tranche exercised**	**$1 per tranche exercised**
Risk free interest rate (%)	**3.00%**	**3.11%**
Expected dividend yield (%)	**3.70%**	**3.96%**
Expected life of rights (years)	**1 or 2 years**	**1 or 2 years**
2012		
Grant date	21/10/2011	17/02/2012
Share price on grant date ($)	$3.08	$2.86
Exercise price ($)	$1 per tranche exercised	$1 per tranche exercised
Risk free interest rate (%)	4.36%	4.26%
Expected dividend yield (%)	5.06%	4.11%
Expected life of rights (years)	2 years	2 years

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

II. Executive Performance Rights Plan

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

Key terms and conditions:

- The rights are granted for nil consideration, are non transferable, and for Series 1 to 5 can be settled only with IAG ordinary shares. From Series 6 onwards, the rights may be settled in cash or IAG ordinary shares, subject to Board discretion. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- Where the rights vest (the holder becomes entitled to exercise the right), the EPR Plan entitles participating employees to acquire one IAG ordinary share for each right. There is no exercise price.
- Each allocation is split equally into two portions and is subject to different performance hurdles. The first vesting condition is not market related and requires the participant to continue relevant employment. The second set of vesting conditions is as follows:
  - 50% is subject to a return on equity hurdle (ROE allocation);
  - 50% is subject to a total shareholder return hurdle (TSR allocation).

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

- Under the TSR allocation, IAG's TSR is assessed against the TSR of a peer group of entities. For allocations made prior to 30 June 2009, the peer group consists of entities in the S&P/ASX 100 Index and for allocations made after 30 June 2009, the peer group consists of entities in the top 50 industrials within the S&P/ASX 100 Index. The performance hurdle is set with a tiered vesting scale:
  - Maximum vesting of 100% if IAG's relative TSR is equal or larger than the 75th percentile of the peer group;
  - Minimum vesting of 0% if IAG's TSR is below the 50th percentile of the peer group.
- The ROE hurdle compares IAG's performance with IAG's weighted average cost of capital (WACC), where the Board determines the WACC. The tiered vesting scale is:
  - Maximum vesting of 100% if ROE is larger than 1.6 x WACC (1.8 x WACC for rights granted between 1 July 2008 to 30 June 2010);
  - Minimum vesting at 0% if ROE is below 1.2 x WACC (1.5 x WACC for rights granted between 1 July 2008 to 30 June 2010, 1.3 x WACC for rights granted before 30 June 2008).
- If there is a change of control of IAG, the Board has discretion to determine if and when rights should vest.

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

GRANT DATE	FAIR VALUE AT GRANT DATE (TSR)	FAIR VALUE AT GRANT DATE (ROE)	RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED DURING THE YEAR	RIGHTS EXERCISED DURING THE YEAR	RIGHTS LAPSED DURING THE YEAR	NUMBER OF RIGHTS AT 30 JUNE	
							On issue	Exercisable
2013								
29/10/2007	**$2.870**	**$4.310**	**467,240**	**-**	**(33,480)**	**(335,820)**	**97,940**	**97,940**
29/11/2007	**$2.350**	**$3.680**	**170,000**	**-**	**(22,500)**	**(147,500)**	**-**	**-**
13/03/2008	**$1.630**	**$2.710**	**20,360**	**-**	**(1,080)**	**(14,278)**	**5,002**	**5,002**
27/05/2008	**$2.120**	**$3.220**	**6,800**	**-**	**(900)**	**(5,900)**	**-**	**-**
18/09/2008	**$2.530**	**$3.410**	**3,002,582**	**-**	**(669,751)**	**(398,541)**	**1,934,290**	**320,395**
27/02/2009	**$2.570**	**$3.150**	**167,500**	**-**	**(40,000)**	**-**	**127,500**	**-**
25/09/2009	**$2.480**	**$3.480**	**3,012,200**	**-**	**(586,796)**	**(38,728)**	**2,386,676**	**253,820**
24/11/2009	**$2.590**	**$3.650**	**790,600**	**-**	**(221,368)**	**-**	**569,232**	**-**
25/03/2010	**$2.460**	**$3.600**	**171,400**	**-**	**(22,792)**	**-**	**148,608**	**25,200**
06/10/2010	**$2.420**	**$3.380**	**4,093,200**	**-**	**-**	**(112,500)**	**3,980,700**	**-**
03/03/2011	**$2.270**	**$3.300**	**530,600**	**-**	**-**	**-**	**530,600**	**-**
21/10/2011	**$1.860**	**$2.690**	**4,882,400**	**-**	**-**	**(124,800)**	**4,757,600**	**-**
17/02/2012	**$1.630**	**$2.600**	**52,500**	**-**	**-**	**(52,500)**	**-**	**-**
26/10/2012	**$3.046**	**$4.085**	**-**	**5,122,800**	**-**	**(149,100)**	**4,973,700**	**-**
25/02/2013	**$3.977**	**$5.186**	**-**	**4,000**	**-**	**-**	**4,000**	**-**
			17,367,382	**5,126,800**	**(1,598,667)**	**(1,379,667)**	**19,515,848**	**702,357**
2012								
29/10/2007	$2.870	$4.310	1,160,674	-	(37,280)	(656,154)	467,240	84,640
29/11/2007	$2.350	$3.680	170,000	-	-	-	170,000	-
13/03/2008	$1.630	$2.710	48,560	-	(9,024)	(19,176)	20,360	3,904
27/05/2008	$2.120	$3.220	47,652	-	(3,200)	(37,652)	6,800	-
18/09/2008	$2.530	$3.410	4,029,400	-	(901,972)	(124,846)	3,002,582	407,270
27/02/2009	$2.570	$3.150	250,000	-	(82,500)	-	167,500	-
25/09/2009	$2.480	$3.480	3,195,000	-	-	(182,800)	3,012,200	-
24/11/2009	$2.590	$3.650	790,600	-	-	-	790,600	-
25/03/2010	$2.460	$3.600	171,400	-	-	-	171,400	-
06/10/2010	$2.420	$3.380	4,344,200	-	-	(251,000)	4,093,200	-
03/03/2011	$2.270	$3.300	530,600	-	-	-	530,600	-
21/10/2011	$1.860	$2.690	-	5,085,000	-	(202,600)	4,882,400	-
17/02/2012	$1.630	$2.600	-	52,500	-	-	52,500	-
			14,738,086	5,137,500	(1,033,976)	(1,474,228)	17,367,382	495,814

The weighted average share price for rights exercised for the year ended 30 June 2013 was $4.84 (2012-$3.17).

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

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

	SIGNIFICANT FACTORS AND ASSUMPTIONS	
2013		
Grant date	**26/10/2012**	**25/02/2013**
Share price on grant date ($)	**$4.51**	**$5.69**
Risk free interest rate (%)	**3.00%**	**3.11%**
Expected dividend yield (%)	**3.70%**	**3.96%**
Expected life of rights (years)*	**3 or 4 years**	**3 or 4 years**
2012		
Grant date	21/10/2011	17/02/2012
Share price on grant date ($)	$3.08	$2.86
Risk free interest rate (%)	4.36%	4.26%
Expected dividend yield (%)	5.06%	4.11%
Expected life of rights (years)*	3 or 4 years	3 or 4 years

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

B. EMPLOYEE SHARE PLANS

Offers were made under the employee share plans during the year ended 30 June 2013 in Australia and New Zealand 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 31. SUPERANNUATION

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

A. DEFINED CONTRIBUTION SUPERANNUATION ARRANGEMENTS

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

The Consolidated entity is not exposed to risks or rewards of the defined contribution arrangements and has no obligations beyond the payment of contributions. There were no employer contributions payable at the end of the year for defined contribution members (2012-$nil).

B. DEFINED BENEFIT SUPERANNUATION ARRANGEMENTS

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

I. Australia

All Australian employees with defined benefit superannuation arrangements are members of the IAG & NRMA Superannuation Plan (IAG Plan). There were 502 members as at reporting date (2012-549). The Consolidated entity has contributed $19 million to the members during the period (2012-$8 million). There were no employer contributions payable at the end of the year (2012-$nil).

The employer contribution rate for Australian defined benefit members was 17.5% with a quarterly payment of $1 million. An additional one off payment of $10 million was made during the financial year to strengthen the financial position of the IAG Plan beyond a vested benefit index (VBI) of 100%. The Group has a three year target to reach a defined benefit VBI of greater than 110% to manage risk against possible future adverse market fluctuations.

II. United Kingdom

In 2012, the Group contributed to five retained 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 pension fund liabilities are retained by the Group on sale of the UK operation and are included as part of the discontinued operation. For this reason, the UK Plans financial information as at 30 June 2013 is disclosed in the discontinued operation note while the historical information remains in this note.

The UK Plans had 511 defined benefit members as at 30 June 2012. The Consolidated entity contributed $0.5 million to the UK Plans for defined benefit members during the prior financial year.

III. New Zealand

The New Zealand operation contributes to one defined benefit superannuation arrangement being AMI Superannuation Scheme as a result of the AMI acquisition during the previous financial year. The Plan had 190 (2012-216) defined benefit members and a $4 million (2012-$6 million) net deficit as at reporting date. The fair value of the Plan assets was $25 million (2012-$23 million) and the present value of the defined benefit obligation was $29 million (2012-$29 million) at reporting date.

IV. Financial information of defined benefit arrangement

a. REPORTING DATE BALANCES

	IAG PLAN **2013** **$m**	IAG PLAN 2012 $m	UK PLANS 2012 $m	TOTAL **2013** **$m**	TOTAL 2012 $m
Fair value of plan assets	**153**	141	105	**153**	246
Present value of defined benefit obligation (net discount rate)	**(213)**	(252)	(113)	**(213)**	(365)
Net defined benefit asset/(liability)	**(60)**	(111)	(8)	**(60)**	(119)
Net asset/(liability) recognised on the balance sheet	**(60)**	(111)	(8)	**(60)**	(119)

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

	IAG PLAN **2013** **$m**	IAG PLAN 2012 $m	UK PLANS 2012 $m
Contributions expensed	**19**	8	-
Reporting date valuation adjustment to profit	**(15)**	(3)	-
	4	5	-
Reporting date valuation adjustment to retained earnings	**(37)**	69	3
Total amount recognised for financial year in closing retained earnings	**(33)**	74	3
Reporting date valuation adjustments represent			
Current service cost	**7**	6	-
Past service cost	**1**	1	-
Interest cost (net of tax)	**7**	9	6
Expected return on plan assets	**(11)**	(11)	(6)
Actuarial (gains) and losses	**(37)**	69	3
Total net amount recognised from reporting date valuation	**(33)**	74	3
c. RECONCILIATION OF MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION			
Defined benefit obligation at the beginning of the financial year	**252**	194	108
Current service cost	**7**	6	-
Past service cost	**1**	1	-
Interest cost	**7**	9	5
Contributions by plan participants	**1**	2	-
Actuarial (gains) and losses	**(28)**	63	1
Benefits paid	**(27)**	(23)	(4)
Net exchange difference on translation of foreign operations	**-**	-	3
Defined benefit obligation at the end of the financial year	**213**	252	113
d. RECONCILIATION OF MOVEMENTS IN THE FAIR VALUE OF ASSETS			
Fair value of plan assets at the beginning of the financial year	**141**	149	103
Expected return on plan assets	**10**	11	6
Actuarial gains and (losses)	**9**	(6)	(3)
Contributions by employers	**19**	8	1
Contributions by plan participants	**1**	2	-
Benefits paid	**(27)**	(23)	(4)
Net exchange difference on translation of foreign operations	**-**	-	2
Fair value of plan assets at the end of the financial year	**153**	141	105

e. PLAN ASSETS

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

	IAG PLAN **2013** %	IAG PLAN 2012 %	UK PLANS 2012 %
Australian shares	**30.0**	30.0	-
Overseas shares	**26.0**	26.0	40.0
Listed property trusts	**11.0**	11.0	-
Fixed interest	**23.0**	24.0	44.0
Cash	**6.0**	4.0	14.0
Other	**4.0**	5.0	2.0

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 retained UK Plans were managed by independent trustee boards.

To determine the expected rate of return on assets, the actuary has considered the expected future investment returns for each major asset class net of investment tax and investment fees. The actual return on the IAG Plan assets for the current reporting period was a gain of 14.20% (2012-0.01% loss). The actual return on the retained UK Plans' assets for the prior reporting period was a gain of 5.4%.

f. ACTUARIAL ASSUMPTIONS

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

	IAG PLAN **2013** %	IAG PLAN 2012 %	UK PLANS 2012 %
Discount rate (gross)*	**3.8**	3.0	5.1
Expected rate of return on plan assets supporting pension liabilities	**8.3**	8.3	4.1
Expected rate of return on other plan assets	**7.0**	7.0	4.1
Expected future salary increases	**4.0**	4.0	5.1
Future pension increases - adult/child	**2.5/0.0**	2.5/0.0	3.6/0.0

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

g. SENSITIVITY OF MEASUREMENT TO ACTUARIAL ASSUMPTIONS

The discount rate applied for the IAG Plan reflects the market yields on government bonds and so is subject to change if those yields change. A 1% reduction in the discount rate would result in a $28 million increase (2012-$38 million increase) in the present value of the defined benefit obligation of the IAG Plan and result in a net financial deficit of $88 million (2012-$150 million deficit). A 1% increase in the discount rate would result in an equivalent magnitude, but opposite in direction impact.

h. HISTORICAL INFORMATION

	IAG PLAN					UK PLANS			
	2013	2012	2011	2010	2009	2012	2011	2010	2009
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Present value of defined benefit obligation	**(213)**	(252)	(194)	(199)	(194)	(113)	(108)	(124)	(138)
Fair value of plan assets	**153**	141	149	151	143	105	103	108	103
Surplus/(deficit) in the plan	**(60)**	(111)	(45)	(48)	(51)	(8)	(5)	(16)	(35)
Experience adjustments arising on plan liabilities gain/(loss)	**1**	(4)	-	-	(7)	(1)	-	(1)	(11)
Experience adjustments arising on plan assets gain/(loss)	**9**	(6)	(3)	10	(37)	-	10	3	(19)

IAG Plan accumulative actuarial losses of $56 million (2012-$91 million) are recognised in retained earnings in other comprehensive income.

i. FUNDING OBLIGATIONS FOR THE IAG PLAN

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 2013 $m	IAG PLAN 2012 $m
Net market value of plan assets	**153**	141
Present value of accrued benefits	**(152)**	(158)
Defined benefit surplus/(deficit)	**1**	(17)
Vested benefits	**141**	151

	IAG PLAN 2013 %	IAG PLAN 2012 %
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 using a market based, risk adjusted discount rate. Vested benefits are the benefits which would be payable to members if they all voluntarily resigned as at the reporting date.

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

NOTE 32. COMMITMENTS

	CONSOLIDATED 2013 $m	CONSOLIDATED 2012 $m
A. CAPITAL AND OTHER COMMITMENTS		
I. Capital commitments		
Software development	**32**	29
II. Other commitments		
Software licence and rental	**26**	20
Other	**8**	14
	66	63
B. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	**116**	108
Due within 1 to 2 years	**111**	102
Due within 2 to 5 years	**277**	283
Due after 5 years	**113**	194
II. Equipment		
Due within 1 year	**11**	11
Due within 1 to 2 years	**14**	7
Due within 2 to 5 years	**26**	5
Due after 5 years	**9**	-
	677	710

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

NOTE 33. CONTINGENCIES

The 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 $524 million (2012-$488 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 34. RELATED PARTY DISCLOSURES

A. CONTROLLING ENTITIES

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

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

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

B. KEY MANAGEMENT PERSONNEL

I. Details of compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. It is important to note that the Company's non-executive directors are specifically required to be included as KMP in accordance with AASB 124 Related Party Disclosures. However, the non-executive directors do not consider that they are part of 'management'.

The aggregate compensation of the KMP is set out below:

	CONSOLIDATED	
	2013	2012
	$000	$000
Short term employee benefits	**17,042**	16,094
Post employment benefits	**364**	433
Other long term benefits	**130**	237
Termination benefits	**524**	-
Share based payments	**11,812**	8,884
	29,872	25,648

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

II. Interest in securities

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

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

	DAR ON ISSUE 1 JULY	DAR GRANTED DURING THE YEAR	DAR EXERCISED DURING THE YEAR	DAR LAPSED DURING THE YEAR	DAR ON ISSUE 30 JUNE[(a)]	DAR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2013						
Michael Wilkins	**250,140**	**225,100**	**(146,500)**	**-**	**328,740**	**-**
Justin Breheny	**225,350**	**84,400**	**(72,300)**	**-**	**237,450**	**109,880**
Andy Cornish	**132,400**	**86,300**	**(72,750)**	**-**	**145,950**	**-**
Peter Harmer	**40,500**	**72,400**	**(20,250)**	**-**	**92,650**	**-**
Nicholas Hawkins	**104,310**	**81,700**	**(60,080)**	**-**	**125,930**	**-**
Jacki Johnson	**86,560**	**72,700**	**(51,680)**	**-**	**107,580**	**-**
Leona Murphy	**90,070**	**73,600**	**(51,830)**	**-**	**111,840**	**-**
Total	**929,330**	**696,200**	**(475,390)**	**-**	**1,150,140**	**109,880**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL						
Ian Foy	**112,780**	**41,200**	**(60,610)**	**-**	**93,370**	**-**
2012						
Michael Wilkins	202,700	162,400	(114,960)	-	250,140	-
Justin Breheny	216,200	63,100	(53,950)	-	225,350	121,440
Andy Cornish	112,704	89,700	(70,004)	-	132,400	-
Ian Foy[(b)]	56,690	87,300	(31,210)	-	112,780	-
Peter Harmer	-	40,500	-	-	40,500	-
Nicholas Hawkins	84,010	67,700	(47,400)	-	104,310	-
Jacki Johnson	87,880	49,600	(50,920)	-	86,560	-
Leona Murphy	71,960	59,400	(41,290)	-	90,070	-
Total	832,144	619,700	(409,734)	-	1,042,110	121,440

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

(b) DAR disclosed in the table above represent the remuneration policy whereby deferred short term incentive (deferred STI) is received by KMP in the form of DAR. During the previous financial year ended 30 June 2012, a total of 87,300 DAR were granted to IR Foy. This amount includes 43,000 DAR granted as deferred STI and 44,300 DAR granted in relation to the UK retention program (further details are provided in the Remuneration report). Apart from the vesting dates, all terms and conditions and vesting scale of DAR granted in relation to the UK retention program are the same as those granted as deferred STI. 22,150 (representing 50% of the 44,300) DAR granted in relation to the UK retention program vested on 1 September 2012 while the remaining 22,150 DAR will vest on 1 September 2013.

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

	EPR ON ISSUE 1 JULY	EPR GRANTED DURING THE YEAR	EPR EXERCISED DURING THE YEAR	EPR LAPSED DURING THE YEAR	EPR ON ISSUE 30 JUNE	EPR VESTED AND EXERCISABLE 30 JUNE
	Number	Number	Number	Number	Number	Number
2013						
Michael Wilkins	**3,197,600**	**882,400**	**(363,868)**	**(147,500)**	**3,568,632**	**-**
Justin Breheny	**1,326,500**	**323,900**	**-**	**(58,115)**	**1,592,285**	**268,452**
Andy Cornish	**1,195,200**	**366,400**	**(127,276)**	**-**	**1,434,324**	**-**
Peter Harmer	**631,200**	**352,100**	**-**	**-**	**983,300**	**-**
Nicholas Hawkins	**1,256,435**	**352,100**	**(142,464)**	**(56,640)**	**1,409,431**	**-**
Jacki Johnson	**1,315,400**	**317,100**	**(98,175)**	**(58,705)**	**1,475,620**	**170,687**
Leona Murphy	**1,146,200**	**317,000**	**(196,679)**	**(20,650)**	**1,245,871**	**-**
Total	**10,068,535**	**2,911,000**	**(928,462)**	**(341,610)**	**11,709,463**	**439,139**
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL						
Ian Foy	**862,590**	**252,300**	**(85,359)**	**(6,785)**	**1,022,746**	**-**
2012						
Michael Wilkins	2,559,600	885,500	(247,500)	-	3,197,600	-
Justin Breheny	1,001,500	325,000	-	-	1,326,500	129,695
Andy Cornish	910,000	367,700	(82,500)	-	1,195,200	-
Ian Foy	658,120	270,800	(66,330)	-	862,590	-
Peter Harmer	285,600	345,600	-	-	631,200	-
Nicholas Hawkins	1,004,580	353,000	(101,145)	-	1,256,435	-
Jacki Johnson	1,002,500	312,900	-	-	1,315,400	130,015
Leona Murphy	828,100	318,100	-	-	1,146,200	83,325
Total	8,250,000	3,178,600	(497,475)	-	10,931,125	343,035

c. MOVEMENTS IN TOTAL NUMBER OF ORDINARY SHARES HELD

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

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF EPR	SHARES RECEIVED ON EXERCISE OF DAR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[(a)]	TOTAL SHARES HELD AT 30 JUNE[(b)]	SHARES HELD NOMINALLY AT 30 JUNE[(c)]
	Number	Number	Number	Number	Number	Number
2013						
Brian Schwartz	**99,434**	**-**	**-**	**2,241**	**101,675**	**99,518**
Yasmin Allen	**39,011**	**-**	**-**	**-**	**39,011**	**37,345**
Peter Bush	**-**	**-**	**-**	**-**	**-**	**-**
Alison Deans	**-**	**-**	**-**	**15,000**	**15,000**	**15,000**
Hugh Fletcher	**73,002**	**-**	**-**	**1,206**	**74,208**	**39,018**
Raymond Lim	**-**	**-**	**-**	**-**	**-**	**-**
Philip Twyman	**57,780**	**-**	**-**	**-**	**57,780**	**57,780**
Michael Wilkins	**1,038,826**	**363,868**	**146,500**	**-**	**1,549,194**	**799,166**
Justin Breheny	**132,150**	**-**	**72,300**	**-**	**204,450**	**198,550**
Andy Cornish	**191,208**	**127,276**	**72,750**	**-**	**391,234**	**-**
Peter Harmer	**-**	**-**	**20,250**	**-**	**20,250**	**-**
Nicholas Hawkins	**395,371**	**142,464**	**60,080**	**(201,271)**	**396,644**	**-**
Jacki Johnson	**229,338**	**98,175**	**51,680**	**-**	**379,193**	**2,500**
Leona Murphy	**110,597**	**196,679**	**51,830**	**11,981**	**371,087**	**114,208**
DIRECTORS AND EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL						
Phillip Colebatch	**46,692**	**-**	**-**	**-**	*****	*****
Ian Foy	**110,058**	**85,359**	**60,610**	**(100,000)**	*****	*****
Anna Hynes	**40,242**	**-**	**-**	**-**	*****	*****

* 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 service.

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF EPR	SHARES RECEIVED ON EXERCISE OF DAR	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[(a)]	TOTAL SHARES HELD AT 30 JUNE[(b)]	SHARES HELD NOMINALLY AT 30 JUNE[(c)]
2012						
Brian Schwartz	98,738	-	-	696	99,434	97,375
Yasmin Allen	39,011	-	-	-	39,011	37,345
Peter Bush	-	-	-	-	-	-
Phillip Colebatch	46,692	-	-	-	46,692	46,692
Hugh Fletcher	72,627	-	-	375	73,002	37,812
Anna Hynes	40,242	-	-	-	40,242	40,242
Philip Twyman	57,780	-	-	-	57,780	57,780
Michael Wilkins	306,366	247,500	114,960	370,000	1,038,826	799,166
Justin Breheny	78,200	-	53,950	-	132,150	131,950
Andy Cornish	38,704	82,500	70,004	-	191,208	-
Ian Foy	12,518	66,330	31,210	-	110,058	3,680
Peter Harmer	-	-	-	-	-	-
Nicholas Hawkins	246,826	101,145	47,400	-	395,371	21,271
Jacki Johnson	178,418	-	50,920	-	229,338	2,500
Leona Murphy	67,356	-	41,290	1,951	110,597	589

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

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

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

d. MOVEMENTS IN TOTAL NUMBER OF CONVERTIBLE PREFERENCE SHARES HELD

Philip Twyman purchased 2,058 (2012-nil) and Justin Breheny purchased 16 (2012-nil) convertible preference shares during the year. No other key management personnel had any interest directly or nominally in convertible preference shares at any time during the financial year (2012-nil).

e. MOVEMENTS IN TOTAL NUMBER OF RESET EXCHANGEABLE SECURITIES HELD

No key management personnel had any interest directly or nominally in reset exchangeable securities of IAG Finance (New Zealand) Limited at any time during the financial year (2012-nil).

C. OTHER RELATED PARTIES

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

NOTE 35. DERIVATIVES

A. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS APPLIED

I. Net investment hedges

The foreign currency exposures arising on translation of net investments in foreign operations are hedged using forward exchange contracts and the designation of certain foreign currency borrowings as hedging instruments.

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

II. Reporting date positions

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

									CONSOLIDATED
						2013			2012
	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	**2,320**	**-**	**-**	**2,320**	**23**	**(67)**	1,077	15	-

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

I. Reporting date positions

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

									CONSOLIDATED
						2013			2012
	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)									
Bond futures	**4,032**	**-**	**-**	**4,032**	**-**	**(2)**	3,362	-	(1)
Share price index futures	**318**	**-**	**-**	**318**	**-**	**-**	118	-	-
Options	**-**	**-**	**-**	**-**	**-**	**-**	5	5	-
Forward foreign exchange contracts	**607**	**-**	**-**	**607**	**-**	**(38)**	394	12	(3)
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)									
Forward foreign exchange contracts	**484**	**-**	**-**	**484**	**13**	**(1)**	403	1	(1)
Interest rate swaps	**550**	**-**	**-**	**550**	**-**	**-**	570	-	-

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. The fair value of the embedded derivatives was nil as at 30 June 2013 (2012-nil).

NOTE 36. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

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

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

- the probability of ruin over the next one to three years;
- the probability of falling below the APRA prescribed capital amount (PCA) 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 PCA by applying the APRA prescribed methodology for a Level 2 Insurance Group.

Internal policies are in place to ensure significant deviations from this benchmark will result in the 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 APRA prudential standards. IAG uses the standardised framework detailed in the relevant prudential standards to calculate the regulatory capital requirements that must be held to meet policyholder obligations. It is the Group policy to ensure that each of the licensed insurers maintains an adequate capital position from an entity perspective.

From 1 January 2013, APRA revised the regulatory capital adequacy requirements applicable to all APRA authorised insurers and insurance groups. These requirements apply to both measurement of capital for regulatory purposes and calculation of the required minimum level of capital. Under the new capital regulatory regime, the Group has maintained its consistent risk appetite and set the following long term target capital ranges from 1 January 2013:

- a total capital position equivalent to 1.4-1.6 times the PCA, compared to a proposed regulatory requirement of 1.0 times; and
- Common Equity Tier 1 capital of 0.9-1.1 times the PCA, compared to a proposed regulatory requirement of 0.6 times.

II. Economic capital

In conjunction with the above considerations, 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 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	**2013**	2012
	%	%	%
Ordinary equity less goodwill and intangible assets	**60-70**	**65.5**	61.7
Interest bearing liabilities - hybrid securities and debt	**30-40**	**34.5**	38.3
Total capitalisation		**100**	100

C. REGULATORY CAPITAL COMPLIANCE

The Company and the insurance entities 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 PCA calculation is based on applying the APRA Level 2 Insurance Group requirements.

	CONSOLIDATED **2013** **$m**
Common Equity Tier 1 capital	
Ordinary shares	**5,353**
Reserves	**63**
Retained earnings	**(568)**
Excess technical provisions (net of tax)	**677**
Minority interests	**202**
Less: Deductions	**2,929**
Common Equity Tier 1 capital (CET1 capital)	**2,798**
Additional Tier 1 capital	
Hybrid equities	**872**
Total Tier 1 capital	**3,670**
TIER 2 CAPITAL	
Subordinated term notes	**592**
Total Tier 2 capital	**592**
Total regulatory capital	**4,262**
Prescribed Capital Amount (PCA)	
Insurance risk charge	**1,434**
Insurance concentration risk charge	**150**
Diversified asset risk charge	**1,338**
Asset concentration risk charge	**-**
Aggregation benefit	**(653)**
Operating risk charge	**289**
Total PCA	**2,558**
PCA multiple	**1.67**
CET1 multiple	**1.09**

Prior to 1 January 2013 the Group was subject to different regulatory reporting requirements, being Minimum Capital Requirement (MCR) and a different capital base calculation. The Group was above minimum capital requirement throughout this period. The comparative position as at 30 June 2012 is provided below.

	CONSOLIDATED 2012 $m
I. Statutory capital	
a. TIER 1 CAPITAL	
i. Fundamental Tier 1 capital	
Ordinary shares	5,353
Reserves	(68)
Non-controlling interests	181
Retained earnings	(887)
Excess technical provisions (net of tax)	665
ii. Residual Tier 1 capital	
Hybrid equities	917
iii. Deductions from Tier 1 capital	
Treasury shares held in trust	(29)
Goodwill	(1,625)
Intangible assets	(225)
Net deferred tax assets	(364)
Other	(250)
Total Tier 1 capital	3,668
b. TIER 2 CAPITAL	
Ineligible Tier 1 capital	10
Subordinated term notes	710
Other	14
Total statutory capital	4,402
II. Minimum capital requirement	-
Insurance risk	1,495
Investment risk	886
Investment concentration risk	-
Catastrophe concentration risk	150
Total minimum capital requirement	2,531
III. Minimum capital requirement multiple	1.74

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 last reviewed these ratings on 29 May 2013.

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 37. NET TANGIBLE ASSETS

	CONSOLIDATED	
	2013	2012
	$	$
Net tangible assets per ordinary share	**1.38**	1.20

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

NOTE 38. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2013	2012
	$000	$000
A. KPMG		
I. Assurance services		
Audit of the financial statements prepared for the Parent and subsidiaries	**7,430**	7,431
Audit of statutory returns in accordance with regulatory requirements	**1,092**	1,108
Other assurance services	**440**	158
	8,962	8,697
II. Advisory services		
In relation to other assurance, taxation and due diligence services	**1,271**	904
B. OTHER AUDITORS		
I. Assurance services		
Audit of the financial statements prepared for subsidiaries	**27**	57
Total remuneration of auditors	**10,260**	9,658

NOTE 39. PARENT ENTITY DISCLOSURES

The ultimate Parent entity in the Consolidated entity is Insurance Australia Group Limited 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	
	2013	2012
	$m	$m
A. FINANCIAL RESULTS		
Profit/(loss) for the year	**2,227**	451
Total comprehensive income and (expense) for the year net of tax	**2,227**	449
B. FINANCIAL POSITION		
Current assets	**304**	160
Total assets	**11,532**	8,254
Current liabilities	**220**	200
Total liabilities	**3,396**	1,853
C. SHAREHOLDERS' EQUITY		
Share capital	**5,353**	5,353
Reserves	**(15)**	(1)
Retained earnings	**2,798**	1,049
Total shareholders' equity	**8,136**	6,401

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

D. CONTINGENT LIABILITIES

Contingent liabilities are not recognised on the balance sheet but are disclosed 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 40. 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 2013.

A. FINAL DIVIDEND
On 22 August 2013, the Board determined to pay a final dividend of 25 cents per share, 100% franked. The dividend will be paid on 9 October 2013. The dividend reinvestment plan will operate by acquiring shares on-market for participants with no discount applied.

B. INCREASED INVESTMENT IN ASSOCIATE
On 24 July 2013, the Group increased its stake in AAA Assurance Corporation (AAA) from 30% to 60.9% for a consideration of less than $20 million. As at date of this report, the initial accounting for the acquisition of AAA is incomplete as the purchase price allocation process is currently in progress. The required disclosures under AASB 3 Business Combinations have therefore not been disclosed.

The operating results and assets and liabilities of AAA will be consolidated by the Group from 24 July 2013.

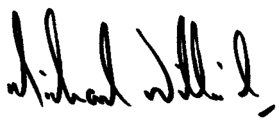
DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 40, 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 2013 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 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 Corporations Act 2001 and Australian Accounting Standards; 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 2013.

Signed at Sydney this 22nd day of August 2013 in accordance with a resolution of the directors.



Michael Wilkins
Director

INDEPENDENT AUDITOR'S REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Insurance Australia Group Limited (Company), which comprises the consolidated balance sheet as at 30 June 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, notes 1 to 40 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

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

AUDITOR'S RESPONSIBILITY

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its 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 2013 and of its 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 sections AII and C through to H of the Directors' Report for the year ended 30 June 2013. 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 2013 that are described as audited comply with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
22 August 2013

SHAREHOLDER INFORMATION

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

ASX CODES

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

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

Insurance Australia Group Limited's wholly owned subsidiary IAG Finance (New Zealand) Limited issued reset exchangeable securities (RES) in January 2005 and 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/results.

ANNUAL GENERAL MEETING

The 2013 annual general meeting (AGM) of Insurance Australia Group Limited will be held on Wednesday, 30 October 2013 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 2013 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 in regard to the AGM or any of the Resolutions to be discussed please use the form supplied and return it with your completed Voting Form in the pre addressed envelope provided or by fax to +61 (0)3 9473 2555. Please note your questions for the auditor must be received by 5pm on Wednesday, 23 October 2013.

You may also submit a question, after completing your voting instructions online at www.iag.com.au/results. 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 but will not be responding to individual questions. Responses to the most commonly asked questions will be added to the website at www.iag.com.au/shareholder/agm.

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 shareholders can choose to participate in IAG's Dividend Reinvestment Plan (DRP), if available, providing the option to increase your shareholding without incurring brokerage or GST.

IAGPC CONVERTIBLE PREFERENCE SHAREHOLDERS

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

MANAGE YOUR HOLDING

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

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

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

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

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

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

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

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

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

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

EMAIL ALERT SERVICE

You can register to receive an email alert advising of new IAG 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 in the right hand margin and register your email address.

IAG has improved its email alert service in the past year so you can now choose to receive email alerts about specific subjects (annual meetings, annual reports, careers information, company announcements, government submissions, results and sustainability reports).

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*	2013
IAG year end	30 June
Full year results and dividend announced	22 August
Annual report and notice of meeting mailout commences	5 September
Record date for final dividend	11 September
Final dividend paid	9 October
Written questions for the auditor close (5pm)	23 October
Proxy return close (10am)	28 October
Annual general meeting (10am)	30 October
IAG half year end	31 December

* Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 1 AUGUST 2013	NUMBER OF SHARES	% OF ISSUED CAPITAL
HSBC Custody Nominees (Australia) Limited	**335,891,813**	**16.16**
JP Morgan Nominees Australia Limited	**299,272,774**	**14.39**
National Nominees Limited	**239,905,663**	**11.54**
BNP Paribas Nominees Pty Ltd <DRP>	**73,087,802**	**3.52**
Citicorp Nominees Pty Limited	**59,577,507**	**2.87**
JP Morgan Nominees Australia Limited <Cash Income A/C>	**52,893,770**	**2.54**
RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/C>	**47,091,219**	**2.27**
AMP Life Limited	**30,887,925**	**1.49**
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	**24,638,874**	**1.19**
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	**11,119,971**	**0.53**
HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH SUPER CORP A/C>	**10,815,831**	**0.52**
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	**8,194,856**	**0.39**
IAG Share Plan Nominee Pty Limited <IAG DAP Unallocated A/C>	**6,458,074**	**0.31**
Argo Investments Limited	**6,303,333**	**0.30**
RBC Investor Services Australia Nominees Pty Limited <PIIC A/C>	**6,292,514**	**0.30**
UBS Nominees Pty Limited	**4,893,929**	**0.24**
QIC Limited	**4,535,019**	**0.22**
IAG Share Plan Nominee Pty Limited <IAG PAP Unallocated A/C>	**4,395,358**	**0.21**
UBS Nominees Pty Limited	**3,990,000**	**0.19**
Milton Corporation Limited	**3,782,575**	**0.18**
Total for top 20	**1,234,028,807**	**59.36**

RANGE OF SHAREHOLDERS AS AT 1 AUGUST 2013	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**478,883**	**252,855,525**	**12.16**
1,001-5,000	**275,178**	**446,398,281**	**21.47**
5,001-10,000	**6,370**	**42,238,262**	**2.03**
10,001-100,000	**2,188**	**45,194,257**	**2.17**
100,001 and over	**129**	**1,292,347,696**	**62.17**
Total	**762,748**	**2,079,034,021**	**100.00**
Shareholders with less than a marketable parcel of 87 shares as at 1 AUGUST 2013	**5,776**	**165,940**	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	Fully franked	11	$5.6689	3 April 2013
Ordinary	Final	Fully franked	25	*	9 October 2013

* The DRP issue price for the final dividend is scheduled to be announced on 4 October 2013.

SUBSTANTIAL SHARE HOLDINGS AS AT 1 AUGUST 2013

The only shareholder with a substantial shareholding as at 1 August 2013 is Perpetual Limited which held shares representing 5.01% of the ordinary shares on issue by notice dated 28 May 2013.

IAGPC CONVERTIBLE PREFERENCE SHARES INFORMATION

IMPORTANT DATES*	2013
Record date for dividend	24 October
Dividend paid	1 November

* Please note dates are subject to change.

TWENTY LARGEST SHAREHOLDERS AS AT 1 AUGUST 2013	NUMBER OF SHARES	% OF ISSUED CAPITAL
J P Morgan Nominees Australia Limited	**640,569**	**16.97**
UBS Wealth Management Australia Nominees Pty Ltd	**359,635**	**9.53**
National Nominees Limited	**138,642**	**3.67**
Questor Financial Services Limited <TPS RF A/C>	**101,538**	**2.69**
Australian Masters Yield Fund No 3 Limited	**79,750**	**2.11**
Navigator Australia Ltd <MLC Investment Sett A/C>	**74,289**	**1.97**
Citicorp Nominees Pty Limited <DPSL>	**54,506**	**1.44**
UCA Cash Management Fund Limited	**50,000**	**1.32**
HSBC Custody Nominees (Australia) Limited	**38,856**	**1.03**
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	**36,668**	**0.97**
Citicorp Nominees Pty Limited	**36,047**	**0.96**
Wenthor Pty Ltd <The John Thorsen Family A/C>	**33,000**	**0.87**
Eastcote Pty Ltd <Van Lieshout Family A/C>	**30,000**	**0.79**
Invia Custodian Pty Limited <The Anzsog Foundation A/C>	**29,000**	**0.77**
Australian Executor Trustees Limited <No 1 A/C>	**24,037**	**0.64**
UBS Nominees Pty Ltd	**20,940**	**0.55**
The Wyatt Benevolent Institution Inc	**15,517**	**0.41**
Edsgear Pty Limited	**14,477**	**0.38**
JP Morgan Nominees Australia Limited <Cash Income A/C>	**14,413**	**0.38**
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	**13,569**	**0.36**
Total for top 20	**1,805,453**	**47.81**

RANGE OF SHAREHOLDERS AS AT 1 AUGUST 2013	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED CAPITAL
1-1,000	**3,439**	**1,150,515**	**30.49**
1,001-5,000	**296**	**643,940**	**17.06**
5,001-10,000	**20**	**161,320**	**4.27**
10,001-100,000	**17**	**577,569**	**15.31**
100,001 and over	**4**	**1,240,384**	**32.87**
Total	**3,776**	**3,773,728**	**100.00**
Shareholders with less than a marketable parcel of 5 shares as at 1 August 2013	**nil**	**nil**	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	PAYMENT DATE
Preference	Interim	Fully franked	$2.4750	1 May 2013
Preference	Final	Fully franked	$2.4143	1 November 2013

CORPORATE DIRECTORY

SHARE REGISTRY

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

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Email
iag@computershare.com.au

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Fax
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Website
www.iag.com.au

IAG Insurance Australia Group

AUSTRALIA DIRECT

AUSTRALIA INTERMEDIATED (CGU)

NEW ZEALAND

ASIA

100% owned unless indicated
[1] IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited. [2] IAG holds 98.6% voting rights in Safety Insurance, based in Thailand. [3,4] IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad, whose wholly-owned subsidiary trades under the AmAssurance and Kurnia brands. [5] IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India. [6] IAG owns 20% of Bohai Property Insurance Company Ltd, based in China. [7] IAG owns 60.9% of AAA Assurance Corporation, based in Vietnam.

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