



**RESET EXCHANGEABLE  
SECURITIES** | **RES**

**ANNUAL REPORT 2012**



# ANNUAL REPORT 2012

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IAG Finance (New Zealand) Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office is Level 26, 388 George Street, Sydney NSW 2000. Its principal place of business is Level 1, NZI Centre, 1 Fanshawe Street, Auckland, New Zealand.

# CHAIRMAN'S REPORT

23 August 2012

Dear Securityholder

I am pleased to report to you on the performance of your Reset Exchangeable Securities (RES).

The amount of interest you receive on a quarterly basis from your RES is based on the per annum rate equal to the 90 day bank bill rate plus a margin of 4.0% less an adjustment for the value of attached franking credits. The payment is subject to satisfaction of the interest payment tests described in the RES terms and conditions.

In the 2012 financial year, a total of \$6.1232 in interest has been paid for each RES. This interest was fully franked.

The next interest payment at \$1.3713 per RES is due to be paid on 17 September 2012 subject to satisfaction of the interest payment test. This amount is also expected to be fully franked.

The RES are listed on the Australian Securities Exchange under the code 'IANG'. If you have any questions regarding your RES holding, please contact the security registry on 1300 360 688 or visit [www.iag.com.au/shareholder/res/index.shtml](http://www.iag.com.au/shareholder/res/index.shtml).

Sincerely,

A handwritten signature in black ink that reads "Brian Schwartz". The signature is written in a cursive style with a large, sweeping initial 'B'.

**Brian Schwartz**  
Chairman  
IAG Finance (New Zealand) Limited

# CORPORATE GOVERNANCE

IAG Finance (New Zealand) Limited (Company) has responsibility for the management of all treasury functions of the IAG New Zealand operations. The New Zealand Branch of the Company employs a Branch Manager to manage the performance of these functions.

The Company utilises and is subject to Insurance Australia Group Limited's (IAG) corporate governance framework, including risk, compliance and capital management policies, procedures and controls. Except as noted below, the key corporate governance practices followed by the Company are the same as those of IAG. The corporate governance framework and practices of IAG are disclosed in the IAG 2012 Annual Report, which is available on the IAG website at [www.iag.com.au](http://www.iag.com.au).

The Company has complied with most, but not all, of the ASX Corporate Governance Council's Principles and Recommendations 2nd edition (CGC Principles). Where the Company has not complied, it is the Company's view that this non-compliance is appropriate given that the corporate governance practices and framework adopted are not separable from the corporate governance practices of IAG and the Company is a wholly owned subsidiary of IAG.

## 1. THE BOARD

### A. ROLES AND RESPONSIBILITIES

The Company's board (Board) is responsible for oversight of the Company's operations, and specifically:

- monitoring the Company's financial performance and reporting;
- reviewing the adequacy of systems to comply with all laws and regulations which apply to the Company;
- monitoring the Company's key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;
- ensuring that the Company's reporting and disclosure processes include compliance with all relevant and applicable legal and commercial requirements; and
- ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are established, and processes exist to ensure they are adhered to at all times by the Company.

The Branch Manager is responsible for the day to day operations of the Company and reports directly to the IAG Group Treasurer and relevant finance executives in the IAG Group's New Zealand operations. The Company does not have a Chief Executive Officer (CEO).

### B. STRUCTURE AND COMPOSITION

The Board currently comprises two non-executive directors who are also non-executive, independent directors of IAG, and two executive directors. The chairman, Brian Schwartz, is also chairman of IAG.

Brian Schwartz and Hugh Fletcher have been deemed by the Company to be independent directors as long as they remain independent directors of IAG, the Company's sole shareholder as the Company's corporate governance practices, operational and risk frameworks are inseparable from those of IAG.

The Company has taken the view that this is an appropriate board structure for the Company and that the appointment to the Board of a majority of non-executive, independent directors is not warranted for the reasons set out in the introduction to this section of the report.

The names of directors in office at the date of this report, their year of appointment, their designation as a non-executive independent director or executive director, and their experience, expertise and biographical details are set out at pages 4 to 5.

### C. BOARD OPERATIONS

The Board met at least four times during the year.

### D. BOARD COMMITTEES

The Company does not have any standing committees, but has empowered the IAG Audit, Risk Management & Compliance Committee (ARMCC) to perform the same role for the Company as it does for IAG and for most of its authorised insurer subsidiary companies. The ARMCC charter can be found on the IAG website at [www.iag.com.au/about/governance/index.shtml](http://www.iag.com.au/about/governance/index.shtml). The charter also sets out procedures for the appointment, reappointment, and monitoring of the effectiveness and independence of the external auditor including rotation of the lead audit partner.

The names and qualifications of the members of the ARMCC and the meetings held in the year are set out in the IAG 2012 Annual Report which is also available on the IAG website. The Company has taken the view that it is appropriate for the ARMCC to perform this task as long as it is composed of directors that are considered to be independent.

The establishment of a nomination committee or, indeed, empowering the IAG Nomination, Remuneration & Sustainability Committee (NRSC) to act for the Company in this capacity, would not add value to the Company's corporate governance practices given that the directors appointed to the Board receive no additional remuneration from the Company or any related parties for their service on the Board. The NRSC evaluates the performance of the IAG Board, its committees, individual directors and IAG key executives. The NRSC also reviews the composition and the performance of IAG subsidiary company boards, including the Board, at least annually.

Find out more about the NRSC charter at [www.iag.com.au/about/governance/index.shtml](http://www.iag.com.au/about/governance/index.shtml). The names and qualifications of the members of the NRSC and the meetings held in the year are set out in the IAG 2012 Annual Report which is also available on the IAG website.

The sole employee of the Company is not a key management personnel of the Company under the Corporations Act or generally accepted accounting standards and, accordingly, disclosure of remuneration received by this employee is not required.

## **2. ETHICAL AND RESPONSIBLE DECISION-MAKING**

The directors and the sole employee of the Company are expected to comply with IAG's Codes of Conduct and Continuous Disclosure and Security Trading Policies, which are set out in further detail in the Corporate Governance Section of the IAG 2012 Annual Report. A copy of the Codes and Policies can be found on the IAG website at [www.iag.com.au/about/governance/codes.shtml](http://www.iag.com.au/about/governance/codes.shtml). The IAG Security Trading Policy applies to trading by the Company's directors and sole employee in RES and other IAG securities.

The IAG's Code of Ethics and Continuous Disclosure Policy also set out the policies and procedures for how directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep the market fully informed.

## **3. RES HOLDERS**

The Company makes quarterly announcements to the ASX regarding interest payments and the interest rate for the following quarter. RES holders, who elect to do so, also receive a copy of the Company's annual report.

ASX announcements and any half year, annual, financial and directors' reports are also posted on the IAG website.

The Company is not required to hold annual general meetings.

RES holders may raise any issues or concerns at any time by contacting the Company. RES holders should email their questions or comments to [investor.relations@iag.com.au](mailto:investor.relations@iag.com.au) or write to the chairman or company secretary at IAG Finance (New Zealand) Limited, Level 26, 388 George Street, Sydney NSW 2000.

## **4. RISK MANAGEMENT**

The Company forms part of the overall IAG Risk Management Strategy (RMS) and as such does not maintain a separate RMS.

Managing risk is at the heart of ensuring ongoing sustainability and delivery of value to IAG stakeholders. The IAG risk management framework which is set out in the RMS is based on the interaction of the oversight structure, internal policies, key risk management processes and culture. The RMS details the IAG principles, risk appetite, policies, key controls, and monitoring processes for managing seven key risk categories. The ARMCC oversees the Company's risk management framework as part of its oversight of the entire Group, including the Company. Further details on IAG's policies on risk oversight and management are available on the IAG website.

The CEO and Chief Financial Officer (CFO) of IAG have confirmed in writing to the Company Board that the Company's half year and full year financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with relevant accounting standards. In making this statement the IAG CEO and CFO have also confirmed that:

- the Company has a sound system of risk management and internal control, and that the system is operating in all material respects in relation to financial reporting risks; and
- the Company has an effective and efficient internal control environment and has substantially complied with the RMS.

The Company is subject to a number of additional external and internal reporting requirements:

- quarterly reports are prepared for the Trustee and ASIC pursuant to Section 283BF of the Corporations Act; and
- quarterly compliance reports setting out the compliance by the Company's New Zealand Branch with various legal, tax and risk management requirements in New Zealand are prepared for the Group General Manager, Internal Audit.

## **5. COMMUNITY AND ENVIRONMENT**

The Company recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to RES holders, customers and employees. The Company complies with the IAG Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. Further details are provided in the IAG 2012 Annual Report, which is available on the IAG website.

# DIRECTORS' REPORT

The directors present their report together with the financial report of IAG Finance (New Zealand) Limited (Company) for the year ended 30 June 2012 and the auditor's report thereon.

## DIRECTORS

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

### CHAIRMAN

#### **BRIAN (BM) SCHWARTZ AM**

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

##### INSURANCE INDUSTRY EXPERIENCE

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

##### OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

Directorships of other listed companies held in past three years:

- Insurance Australia Group Limited since 1 January 2005;
- Brambles Limited since 13 March 2009; and
- Westfield Group, including Westfield Management Limited (which acts as the responsible entity of Carindale Property Trust), since 6 May 2009.

### OTHER DIRECTORS

#### **MICHAEL (MJ) WILKINS**

**BCom, MBA, DLI, FCA, FAICD, age 55 - Executive director**

##### INSURANCE INDUSTRY EXPERIENCE

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

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

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

##### OTHER BUSINESS AND MARKET EXPERIENCE

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

Directorships of other listed companies held in past three years:

- Insurance Australia Group Limited since 26 November 2007.

## HUGH (HA) FLETCHER

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

### INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed as a director of IAG Finance (New Zealand) Limited on 31 August 2008 and as a director of IAG in September 2007. Hugh was appointed as a director of IAG New Zealand Limited in July 2003. He is a member of the IAG Audit, Risk Management & Compliance Committee.

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

### OTHER BUSINESS AND MARKET EXPERIENCE

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

Hugh was formerly chief executive officer of Fletcher Challenge Limited – a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as chief executive. Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand and former member of the New York Stock Exchange Asia Pacific Advisory Committee, and has been involved as an executive and non-executive director in many countries in Asia, including, China, India, Singapore, Indonesia, Malaysia and Thailand.

Directorships of other listed companies held in past three years:

- Fletcher Building Limited since 31 January 2001;
- Rubicon Limited since 23 March 2001;
- Vector Limited since 25 May 2007; and
- Insurance Australia Group Limited since 1 September 2007.

## NICHOLAS (NB) HAWKINS

**BCom, FCA, age 44 - Executive director**

### INSURANCE INDUSTRY EXPERIENCE

Nicholas Hawkins was appointed as a director of IAG Finance (New Zealand) Limited on 31 August 2008 and as Chief Financial Officer of IAG in July 2008. Nicholas joined IAG in 2001 and has held senior positions including chief executive officer New Zealand, head of asset management & group strategy, and prior to that, general manager, group finance.

### OTHER BUSINESS AND MARKET EXPERIENCE

Before joining IAG, Nicholas was a partner with the international accounting firm KPMG, where he specialised in working with financial services clients.

Directorships of other listed companies held in past three years:

- None.

## PRINCIPAL ACTIVITY

The principal continuing activity of the Company is to perform all treasury functions of IAG's New Zealand operations. This function is performed through a New Zealand branch of the Company.

## OPERATING AND FINANCIAL REVIEW

The net result of the Company after applicable income tax for the financial year ended 30 June 2012 was a profit of \$932,000 (2011 - \$809,000).

The following quarterly interest payments on the RES were made during the financial year:

PAYMENT DATE	AMOUNT PER RES	INTEREST RATE
15 September 2011	\$1.5918	6.3152% per annum
15 December 2011	\$1.5474	6.2067% per annum
15 March 2012	\$1.4913	5.9815% per annum
15 June 2012	\$1.4927	5.9220% per annum

## LIKELY DEVELOPMENTS

The Company is expected to continue to perform all treasury functions of IAG's New Zealand operations. The New Zealand Branch will remain as the issuer of 5,500,000 RES.

## DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in note 6.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial year.

## EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## NON AUDIT SERVICES

During the financial year, KPMG has not performed any other services, other than audit services for the Company, in accordance with their statutory duties.

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

The lead auditor's independence declaration is set out on page 9 and forms part of the directors' report for the year ended 30 June 2012.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). The 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, IAG has granted deeds of indemnity to certain current and former directors and secretaries and members of senior management of the Company. Under these deeds, IAG:

- indemnifies, to the maximum extent permitted by the 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 (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.
- 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 Company's operations are subject to environmental regulations under either Commonwealth or State legislation. These regulations do not have a significant impact on the Company's operations. The board of directors believes that the Company 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 Company.

The Australian government has released its Clean Energy Future – the Australian Government's Climate Change Plan which includes the introduction of a carbon price mechanism. The Company 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 - AUDITED

The Company is a wholly owned subsidiary of Insurance Australia Group Limited (IAG), a public company listed on the Australian Securities Exchange (ASX).

The Company's principal operation is to perform all treasury functions of IAG's New Zealand operations and its New Zealand branch remains as the issuer of RES, a security publicly traded on the ASX which deems the Company to be a listed entity as defined by the Corporations Act 2001.

The Company employs one employee working in the New Zealand branch who does not meet the definition of key management personnel. The Company has not developed a separate remuneration policy but rather follows IAG's policy.

The Company's key management personnel (refer to section A for further details) did not receive any remuneration from the Company or any parties in connection with their position with the Company. IAG or a related entity did not charge management fees to the Company which included any remuneration for the key management personnel of the Company. The compensation disclosed in the table below represented the key management personnel's estimated compensation received from IAG in relation to their involvement in the activities with the Company.

The remuneration of the Company's key management personnel is determined in accordance with the IAG remuneration policy and the details of their remuneration are disclosed in IAG's Remuneration Report for the year ended 30 June 2012, which can be viewed at [www.iag.com.au](http://www.iag.com.au).

## A. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel 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. The non-executive directors are not considered part of management. However, for the purpose of AASB 124 Related party disclosures, they are required to be disclosed as key management personnel.

During the financial year, the following persons, being directors of the Company, were identified as key management personnel: BM Schwartz (director since 26 August 2010), HA Fletcher (director since 31 August 2008), MJ Wilkins (director since 28 May 2008) and NB Hawkins (director since 31 August 2008).

Directors were in office for the whole financial year, unless otherwise stated.

The employee of the New Zealand branch of the Company does not meet the definition of key management personnel as defined in AASB 124 or senior manager or officer as defined in the Corporations Act 2001.

The term remuneration used in this remuneration report has the same meaning as compensation as prescribed in AASB 124.

### Remuneration details

	SHORT TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	TERM-INFORMATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)		TOTAL
	Base salary	Short term incentive	Other	Super-annuation	Retirement benefits	Long service leave accruals		Value of deferred short term incentive	Value of rights granted	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>DIRECTORS</b>										
BM Schwartz, Chairman and Non-executive director										
<b>2012</b>	<b>26,136</b>	-	-	<b>1,206</b>	-	-	<b>27,342</b>	-	-	<b>27,342</b>
2011	22,931	-	-	318	-	-	23,249	-	-	23,249
HA Fletcher, Non-executive director										
<b>2012</b>	<b>8,075</b>	-	-	<b>851</b>	-	-	<b>8,926</b>	-	-	<b>8,926</b>
2011	9,150	-	-	824	-	-	9,974	-	-	9,974
MJ Wilkins, Executive director										
<b>2012</b>	<b>10,721</b>	<b>7,833</b>	-	<b>192</b>	-	<b>189</b>	<b>18,935</b>	<b>2,403</b>	<b>10,964</b>	<b>32,302</b>
2011	9,980	5,520	-	192	-	-	15,692	2,333	10,680	28,705
NB Hawkins, Executive director										
<b>2012</b>	<b>28,802</b>	<b>17,050</b>	-	<b>750</b>	-	<b>1,910</b>	<b>48,512</b>	<b>5,466</b>	<b>25,427</b>	<b>79,405</b>
2011	27,450	13,807	-	750	-	663	42,670	5,215	25,528	73,413

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

DIRECTOR	RESET EXCHANGEABLE SECURITIES HELD INDIRECTLY*	ORDINARY SHARES HELD DIRECTLY	ORDINARY SHARES HELD INDIRECTLY*	RESET PREFERENCE SHARES HELD INDIRECTLY*
BM Schwartz	-	2,059	97,375	-
HA Fletcher	-	35,190	37,812	-
MJ Wilkins	-	304,960	799,166	-
NB Hawkins	-	400,330	-	-

\* This represents the relevant interest of each director in listed securities issued by the Company and IAG, as notified by the directors to the ASX in accordance with section 205G of the Corporations Act 2001. Trading in IAG securities is covered by the restrictions which limit the ability of an IAG director to trade in the securities of IAG where they are in a position to be aware, or are aware, of price sensitive information. These securities 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.

## **ROUNDING OF AMOUNTS**

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

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



**Nicholas Hawkins**  
Director

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

## TO THE DIRECTORS OF IAG FINANCE (NEW ZEALAND) LIMITED

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

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

*KPMG*

**KPMG**

*Dr Andries B Terblanché*

**Dr Andries B Terblanché**

Partner

Sydney  
23 August 2012

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 \$000	2011 \$000
<b>INTEREST REVENUE</b>			
Related bodies corporate		35,079	36,138
Other corporations		17	30
Total interest revenue		35,096	36,168
<b>INTEREST EXPENSE</b>			
Reset exchangeable securities	3	(33,426)	(34,487)
Net interest income		1,670	1,681
Other income		65	64
Unrealised exchange gains and (losses)	3	42	(91)
Realised exchange gains and (losses)	3	2	5
Other administration expenses	3	(501)	(467)
Profit/(loss) before income tax		1,278	1,192
Income tax (expense)/credit	4	(346)	(383)
Profit/(loss) for the year		932	809
Total comprehensive income and (expense) for the year, net of tax		932	809

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

# BALANCE SHEET

AS AT 30 JUNE 2012

	NOTE	2012 \$000	2011 \$000
<b>ASSETS</b>			
Cash held for operational purposes	7	3,751	2,741
Receivables from related bodies corporate		17,438	17,454
Loans to related bodies corporate		551,355	551,596
Deferred tax assets		6	6
Total assets		572,550	571,797
<b>LIABILITIES</b>			
Trade and other payables		43	42
Interest payable on reset exchangeable securities		1,284	1,523
Payables to related bodies corporate		12	-
Current tax liabilities		102	55
Employee benefits provision		20	20
Reset exchangeable securities	8	550,000	550,000
Total liabilities		551,461	551,640
Net assets		21,089	20,157
<b>EQUITY</b>			
Share capital		- *	- *
Retained earnings		21,089	20,157
Total equity		21,089	20,157

\* The share capital is \$1.00 and rounded to zero.

The above balance sheet should be read in conjunction with the notes to the financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	SHARE CAPITAL \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
<b>2012</b>			
Balance at the beginning of the financial year	- *	<b>20,157</b>	<b>20,157</b>
Profit/(loss) for the year	-	<b>932</b>	<b>932</b>
Balance at the end of the financial year	-	<b>21,089</b>	<b>21,089</b>
<b>2011</b>			
Balance at the beginning of the financial year	- *	19,348	19,348
Profit/(loss) for the year	-	809	809
Balance at the end of the financial year	-	20,157	20,157

\* The share capital is \$1.00 and rounded to zero.

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

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 \$000	2011 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and trust distributions received		<b>35,337</b>	36,148
Interest costs paid		<b>(33,665)</b>	(34,467)
Income taxes paid		<b>(299)</b>	(123)
Other operating receipts		<b>81</b>	80
Other operating payments		<b>(488)</b>	(465)
Net cash flows from operating activities	7	<b>966</b>	1,173
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash flows from investing activities		-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net cash flows from financing activities		-	-
Net movement in cash held		<b>966</b>	1,173
Effects of exchange rate changes on balances of cash held in foreign currencies		<b>44</b>	(86)
Cash and cash equivalents at the beginning of the financial year		<b>2,741</b>	1,654
Cash and cash equivalents at the end of the financial year	7	<b>3,751</b>	2,741

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

IAG Finance (New Zealand) Limited (Company) is a company limited by shares, incorporated and domiciled in Australia. It has reset exchangeable securities (RES) publicly traded on the Australian Securities Exchange (ASX). Its registered office is Level 26, 388 George Street, Sydney, NSW 2000, Australia and the principal place of business is Level 1, NZI Centre, 1 Fanshawe Street, Auckland, New Zealand. The Company is a for-profit entity.

The parent and the ultimate parent entity is Insurance Australia Group Limited (IAG), an entity incorporated in Australia and listed on the ASX, which owns 100% of the share capital of the Company. IAG, together with its subsidiaries forms the IAG Group. As part of the IAG Group, the Company complies with a variety of policies and procedures developed by IAG for application by all entities in the IAG Group where applicable.

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

### A. STATEMENT OF COMPLIANCE

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

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board. IFRS forms the basis of the Australian Accounting Standards. This financial report of the Company complies with IFRS.

### 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 the Company 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.

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

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of the item that is expected to be outstanding longer than 12 months is included within the relevant note to the financial statements.

#### I. Australian accounting standards issued but not yet effective

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

The following table also includes all standards and interpretation issued by the International Accounting Standards Board that the Australian Accounting Standards Board has yet to endorse.

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

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

#### TABLE NOTE

- A These changes are not expected to have a significant, if any, financial impact.
- B These changes will only impact disclosures when preparing the annual financial report.
- C These standards 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 have been no changes in accounting policies which have a material financial impact during the current reporting period.

#### III. Reclassifications of comparatives

No items have been reclassified from the Company'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 thousand 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.

#### V. Critical accounting estimates and judgements

There are not considered to be any accounting estimates and assumptions used, or judgements made, having a significant impact on the amounts recognised in the financial report (30 June 2011- none).

#### C. INTEREST INCOME

Interest income on the loan to a related body corporate and amounts with external parties is brought to account on an accruals basis.

#### D. 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.

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.

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

## **III. New Zealand branch**

The New Zealand branch of the Company is resident in New Zealand for tax purposes and is liable for all taxes on income generated in New Zealand. These liabilities or refunds are recognised by the New Zealand branch and disclosed as current tax liabilities or assets in the Company's balance sheet.

## **IV. Goods and services tax**

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

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

## **E. 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.

## **F. 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 functional and presentation currency of the Company.

### **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.

## **G. RESET EXCHANGEABLE SECURITIES**

Reset exchangeable securities (RES) were initially measured at fair value (which was equivalent to face value) less transaction costs incurred in issuing the securities and have subsequently been carried at amortised cost using the effective interest method.

Interest expense on the RES is brought to account on an accruals basis and payable quarterly subject to the terms of issue.

## **NOTE 2. FINANCIAL RISK MANAGEMENT**

The Company is exposed to interest rate risk, currency risk, credit risk, and liquidity risk from its business.

### **A. INTEREST RATE RISK**

The Company's exposure to interest rate risks arises primarily from the RES and the loan to a related body corporate. Both the financial asset and financial liability are denominated in Australian dollars and bear a variable rate of interest reset and paid quarterly.

The interest rate on the loan to a related body corporate is calculated at the interest rate payable on the RES plus a margin. Net interest income will not be materially affected by either an increase or a decrease in interest rate.

### **B. CURRENCY RISK**

Currency risk is the risk of loss arising from an unfavourable movement in market exchange rates. The Company is exposed to insignificant currency risk arising from translation of operational costs denominated in NZD.

### **C. CREDIT RISK**

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The credit risk exposures of the Company are in respect of the non repayment of receivables and loans with related parties and the amounts are as indicated by the carrying amount of the financial assets. Credit risk is mitigated as all significant transactions are undertaken with IAG Group entities. The Company complies with the credit risk management policies of the IAG Group. The policies outline the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality.

#### D. LIQUIDITY RISK

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

The Company's exposure to liquidity risk arises primarily from the RES. The Company manages this risk by matching the quarterly interest payments to the RES holders with the quarterly interest income from the loan to a related body corporate. Other financial liabilities of the Company are normally due within 12 months and they will in general be covered by the quarterly interest income received which is set with a margin over the interest payment to the RES.

The RES has a reset date of 16 December 2019 which is the same as the reset date of the loan to a related body corporate.

#### NOTE 3. ANALYSIS OF EXPENSES

	2012	2011
	\$000	\$000
<b>EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME AND ANALYSIS OF EXPENSES BY NATURE</b>		
Interest expense	33,426	34,487
Unrealised foreign exchange (gains) and losses	(42)	91
Realised foreign exchange (gains) and losses	(2)	(5)
Other administration expenses	501	467
Total expenses	<u>33,883</u>	<u>35,040</u>

#### NOTE 4. INCOME TAX

##### A. INCOME TAX EXPENSE

Current tax	<u>346</u>	<u>383</u>
Income tax (credit)/expense	<u>346</u>	<u>383</u>

##### B. INCOME TAX RECONCILIATION

The income tax for the financial year differs from the amount calculated on the profit before income tax. The differences are reconciled as follows:

Profit for the year before income tax	<u>1,278</u>	<u>1,192</u>
Income tax calculated at 30% (2011 - 30%)	383	358
<b>Amounts which are (deductible)/taxable in calculating taxable income</b>		
Foreign exchange losses deductible on settlement of loan with a related body corporate	(12)	27
Difference in tax rate	(25)	-
Non-deductible expenses	-	(2)
Income tax (credit)/expense attributable to profit for the year before and after impact of tax consolidation	<u>346</u>	<u>383</u>

#### NOTE 5. SEGMENT REPORTING

The Company's principal operation is to provide treasury services to IAG's New Zealand operations including issuing RES in Australia. The RES are listed on the ASX.

The Company operates as a single segment and so the information presented in the financial statements represents the segment reporting information.

#### NOTE 6. DIVIDENDS

No dividends were paid in, or determined in respect of, the year to 30 June 2012 (2011 - \$Nil).

There are presently no restrictions on the payment of dividends by the Company other than the payment of dividends generally being limited under the applicable Corporations Act 2001 and constitutional provisions.

## NOTE 7. NOTES TO THE CASH FLOW STATEMENT

	2012	2011
	\$000	\$000
<b>A. COMPOSITION</b>		
Cash held for operational purposes	<u>3,751</u>	<u>2,741</u>
Cash and cash equivalents	<u>3,751</u>	<u>2,741</u>
<p>Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held for investment readily convertible to cash within two working days, net of any bank overdraft. There are no cash balances held that are not available for use in normal operations. The carrying amount of the cash and cash equivalents presented on the balance sheet is the same as that used for the purposes of the cash flow statement.</p>		
<b>B. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) for the year	932	809
<b>I. Non cash items</b>		
Net foreign exchange (gains) and losses	(44)	86
<b>II. Movement in operating assets and liabilities</b>		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Receivable from a related body corporate	16	16
Interest receivable	241	(20)
Current tax assets	-	205
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	1	1
Interest payable on reset exchangeable securities	(239)	20
Current tax liabilities	47	55
Employee benefits provision	-	1
Payables to related body corporate	<u>12</u>	<u>-</u>
Net cash flows from operating activities	<u>966</u>	<u>1,173</u>

### C. 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 8. RESET EXCHANGEABLE SECURITIES

### A. COMPOSITION

5,500,000 reset exchangeable securities	<u>550,000</u>	<u>550,000</u>
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The RES are publicly traded on the ASX which is considered an active market and so the fair value of the instrument at a point in time is taken to be the listed offer price. The listed offer price as at reporting date was \$99.30 per \$100.00 of face value (2011 - \$103.00).

### B. TERMS AND CONDITIONS

The RES have a face value of \$550 million and were issued by the Company's New Zealand branch and trade on the ASX.

The key terms and conditions of the RES are:

- Non cumulative floating rate distribution payable quarterly, and expected to be fully franked.
- Distribution rate equals the sum of 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 by the holder upon certain events. The next reset date for the RES is 16 December 2019. On exchange, IAG may convert RES into ordinary shares, arrange a third party to acquire RES for their face value or redeem RES for their face value (subject to APRA approval).
- The RES convert into IAG ordinary shares which would rank equally in all respects with all other IAG ordinary shares.
- The RES rank in priority to ordinary shares for the payment of dividends and in the event of a winding up.

The following quarterly interest payments on the RES were made during the financial year:

PAYMENT DATE	AMOUNT PER RES	INTEREST RATE
15 September 2011	\$1.5918	6.3152% per annum
15 December 2011	\$1.5474	6.2067% per annum
15 March 2012	\$1.4913	5.9815% per annum
15 June 2012	\$1.4927	5.9220% per annum

The next quarterly interest payment, which is expected to be \$1.3713 per RES (5.3247% per annum), is due for payment on 17 September 2012. This interest payment is expected to be fully franked.

## NOTE 9. SHARE CAPITAL

As at reporting date there was 1 ordinary share on issue (2011 - 1). The ordinary share is fully paid and has no par value. The ordinary share entitles 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.

## NOTE 10. RELATED PARTY DISCLOSURES

### A. CONTROLLING ENTITIES

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

#### I. Balances outstanding at reporting date

Aggregate amounts receivable from the controlling entity:

	<b>2012</b>	2011
	<b>\$000</b>	\$000
Amounts receivable*	<b>17,438</b>	17,454

\* The amounts receivable included an amount of \$17,438,000 (2011 - \$17,438,000) receivable from IAG. This receivable represents current tax asset transferred to IAG, the head entity of the tax-consolidated group.

### B. OTHER PARTIES WITHIN IAG GROUP

#### I. Transactions during the year

Aggregate amounts included in the determination of profit before income tax for the year that resulted from transactions with other related parties within the IAG Group were as follows:

Interest income on loans to IAG (NZ) Holdings Limited	<b>35,079</b>	36,138
Services fee received or receivable	<b>65</b>	64

#### II. Balances outstanding at reporting date

Aggregate amounts receivable from, and payable to other related parties within the IAG Group at reporting date were as follows:

Loan to IAG (NZ) Holdings Limited*	<b>551,355</b>	551,596
Amounts payable	<b>12</b>	-

\* The outstanding balance as at reporting date included accrued interest of \$1,355,000 (2011 - \$1,596,000) which is due in three months.

These intragroup balances are considered highly liquid and of negligible credit risk and so the carrying amount is a reasonable approximation of the fair value of the balances.

### C. KEY MANAGEMENT PERSONNEL

#### I. Details of compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. It is important to note that the Company's non-executive directors are specifically required to be included as key management personnel in accordance with AASB 124 Related Party Disclosures. However, the non-executive directors do not consider that they are part of 'management'.

The aggregate compensation of the key management personnel is set out below.

	<b>2012</b>	2011
	<b>\$</b>	\$
Short term employee benefits	<b>98,617</b>	92,472
Post employment benefits	<b>2,999</b>	17,153
Other long term benefits	<b>2,099</b>	663
Share based payments	<b>44,260</b>	43,756
	<b><u>147,975</u></b>	<u>154,044</u>

The key management personnel receive no compensation specifically in relation to the management of the Company.

The compensation disclosed in the table above represents the key management personnel's estimated compensation received from the IAG Group in relation to their involvement in the activities with the Company.

## II. Interest in securities

As at reporting date, the relevant interest of each key management personnel in shares, options and other securities over shares in or debentures of the Company and IAG were as follows:

Director	Reset exchangeable securities <sup>(a)</sup>	Ordinary shares <sup>(b)</sup>	Share rights <sup>(b)</sup>	Reset preference shares <sup>(b)</sup>
BM Schwartz	-	99,434	-	-
HA Fletcher	-	73,002	-	-
NB Hawkins	-	395,371	1,360,745	-
MJ Wilkins	-	1,038,826	3,447,740	-

(a) These securities have been issued by the Company. The number disclosed includes securities directly held and indirectly held by the directors' related entities (as defined by AASB 124). There was no movement in RES held by the directors for the year ended 30 June 2012.

(b) These securities have been issued by IAG, the ultimate parent entity, or provide a right over shares in IAG. The number disclosed includes securities directly held and indirectly held by the directors' related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the directors. The rights over shares in IAG held included the rights issued under the Deferred Award Rights Plan, the Executive Performance Rights Plan and the Performance Award Rights Plan. Refer to IAG's Remuneration Report for details on these rights over shares in IAG.

## D. OTHER TRANSACTIONS

Insurance products provided by IAG are also available to all directors on the same terms and conditions available to other employees.

## NOTE 11. CAPITAL MANAGEMENT

### A. CAPITAL MANAGEMENT STRATEGY

The principal activity of the Company is to perform all treasury functions of IAG's New Zealand operations. The funds raised through the issue of the RES are in effect the capital of the Company. This capital is managed in consultation with the Company's ultimate parent entity, IAG.

## NOTE 12. REMUNERATION OF AUDITORS

	2012	2011
	\$	\$
<b>A. KPMG AUSTRALIA</b>		
<b>I. Assurance services</b>		
Audit of the financial statements prepared	<u>29,894</u>	<u>27,972</u>
Total remuneration of auditors	<u>29,894</u>	<u>27,972</u>

## NOTE 13. NET TANGIBLE ASSETS

	2012	2011
	\$000	\$000
Net tangible assets per ordinary share	<u>21,089</u>	<u>20,157</u>

# DIRECTORS' DECLARATION

In the opinion of the directors of IAG Finance (New Zealand) Limited:

- the financial statements and notes 1 to 13, including 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 as at 30 June 2012 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
  - complying with Australian Accounting Standards (including Australian Interpretations) and the Corporations Regulations 2001; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in note 1.A; and
- the remuneration report of the directors' report complies with Australian Accounting Standard AASB 124 Related Party Disclosures; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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



**Nicholas Hawkins**  
Director

# INDEPENDENT AUDITOR'S REPORT

## TO THE EQUITY HOLDERS OF IAG FINANCE (NEW ZEALAND) LIMITED

### REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of IAG Finance (New Zealand) Limited (the Company), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

#### 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 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 Company'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 IAG Finance (New Zealand) Limited is in accordance with the Corporations Act 2001, including:
  - giving a true and fair view of the Company's financial position as at 30 June 2012 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 pages 6 to 7 the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### **Auditor's opinion**

In our opinion, the remuneration report of IAG Finance (New Zealand) Limited for the year ended 30 June 2012, complies with Section 300A of the Corporations Act 2001.



**KPMG**



**Dr Andries B Terblanché**  
Partner

Sydney

23 August 2012

# RES HOLDER INFORMATION

You can access information about the RES, interest payments and current ASX releases at [www.iag.com.au/shareholder/res](http://www.iag.com.au/shareholder/res).

## CODE ON ASX

The RES are listed on the Australian Securities Exchange under the code IANG.

## RES HOLDER REGISTRY

All registry functions are performed by Computershare Investor Services Pty Limited who can be contacted on:

Telephone: 1300 360 688  
Email: [iag@computershare.com.au](mailto:iag@computershare.com.au)  
Fax: (03) 9473 2470  
Postal address: Computershare Investor Services Pty Limited  
GPO Box 2715  
Melbourne VIC 8060

## INTEREST PAYMENTS

PERIOD END	AMOUNT PER SECURITY	EX DATE	RECORD DATE	PAYMENT DATE	FRANKING LEVEL	FRANKING CREDIT
14/09/11	\$1.5918	01/09/11	07/09/11	15/09/11	100 %	30 %
14/12/11	\$1.5474	01/12/11	07/12/11	15/12/11	100 %	30 %
14/03/12	\$1.4913	01/03/12	07/03/12	15/03/12	100 %	30 %
14/06/12	\$1.4927	01/06/12	07/06/12	15/06/12	100 %	30 %

Until the next reset date which is 16 December 2019, RES holders are entitled, subject to the RES terms, to receive quarterly interest payments based on a margin of 4.0% per annum above the 90 day bank bill rate and adjusted for the value of attached franking credits. The interest payments are expected to be fully franked. The interest for the current interest period, from 15 June 2012 to 16 September 2012 is \$1.3713 and is expected to be fully franked.

## ANNUAL REPORT

Amendments to the Corporations Act 2001 in 2007 have changed the obligations of companies regarding the provision of annual reports. The default option for the RES annual report has changed from a printed copy to an electronic copy via IAG's website.

The RES annual report is available at [www.iag.com.au/shareholder/res](http://www.iag.com.au/shareholder/res) or elect to receive an email notification when the annual report is available online by logging on to [www.iag.com.au/shareholder/manage](http://www.iag.com.au/shareholder/manage) following the prompts and provide your email address.

## ANNUAL GENERAL MEETING

The Company is not required, and does not intend, to hold an annual general meeting.

## VOTING

RES holders have no rights in the Company and no voting rights in IAG.

## INFORMATION ON RES HOLDINGS

TWENTY LARGEST RES HOLDERS AS AT 9 AUGUST 2012	NUMBER OF RES	% OF RES ISSUED
JP Morgan Nominees Australia Limited	575,775	10.47
UBS Wealth Management Australia Nominees Pty Ltd	201,095	3.66
National Nominees Limited	189,333	3.44
HSBC Custody Nominees (Australia) Limited	162,594	2.96
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	116,997	2.13
Citicorp Nominees Pty Limited	112,737	2.05
M F Custodians Ltd	72,186	1.31
UCA Cash Management Fund Ltd	58,213	1.06
Navigator Australia Ltd <MLC Investment Sett A/C>	47,126	0.86
RBC Investor Services Australia Nominees Pty Ltd <GSAM A/C>	45,799	0.83
JP Morgan Nominees Australia Limited <Cash Income A/C>	40,768	0.74
Cryton Investments No 9 Pty Ltd <Garner Number 1 A/C>	35,644	0.65
Edsgear Pty Limited	35,257	0.64
RBC Investor Services Australia Nominees Pty Ltd <GSENI A/C>	34,924	0.63
Perpetual Trustee Company Ltd <Alliance A/C>	32,205	0.59
UBS Nominees Pty Ltd	30,619	0.56
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	30,332	0.55
Mutual Trust Pty Ltd	29,222	0.53
HSBC Custody Nominees (Australia) Limited - A/C 2	28,800	0.52
Sandhurst Trustees Ltd <DMP Asset Management A/C>	26,446	0.48
Total for top 20	<u>1,906,072</u>	<u>34.66</u>

RANGE OF RES HOLDERS AS AT 9 AUGUST 2012	NUMBER OF HOLDERS	NUMBER OF RES	% OF RES ISSUED
1-1,000	6,841	2,111,284	38.39
1,001-5,000	486	936,941	17.04
5,001-10,000	39	278,021	5.05
10,001-100,000	31	815,223	14.82
100,001 and over	6	1,358,531	24.70
Total	<u>7,403</u>	<u>5,500,000</u>	<u>100.00</u>
RES holders with less than a marketable parcel of 6 securities as at 9 August 2012	3	7	

# CORPORATE DIRECTORY

## **COMPANY AND REGISTERED OFFICE**

### **IAG FINANCE (NEW ZEALAND) LIMITED**

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#### **Website**

[www.iag.com.au/shareholder/res/index.shtml](http://www.iag.com.au/shareholder/res/index.shtml)

## **NZ BRANCH AND ISSUER**

### **IAG FINANCE (NEW ZEALAND) LIMITED**

Level 1, NZI Centre

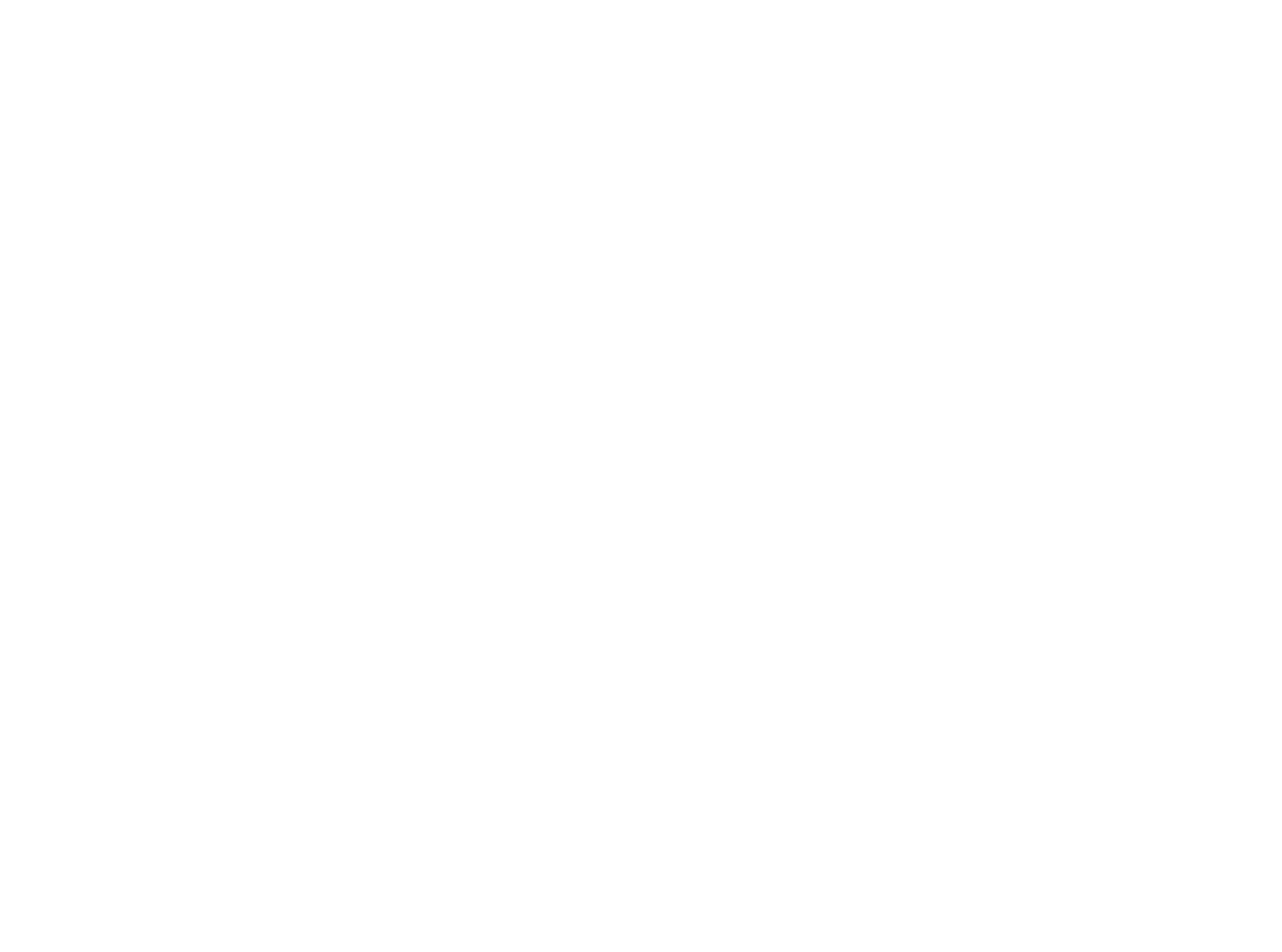
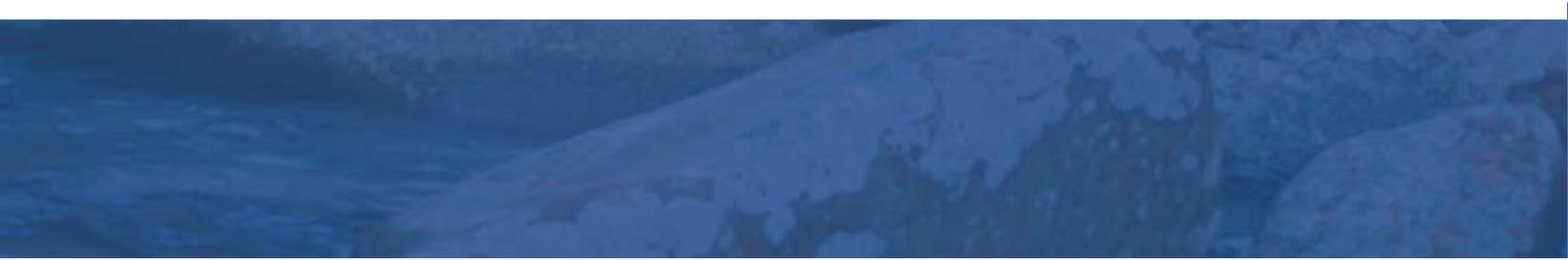
1 Fanshawe Street

Auckland

New Zealand

## **COMPANY SECRETARY**

Chris Bertuch BA, LLM





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