



Reset Exchangeable
Securities

| RES

ANNUAL REPORT 2006

IAG Finance (New Zealand) Limited
ABN 97 111 268 243



sgio



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ANNUAL REPORT 2006

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IAG Finance (New Zealand) Limited
ABN 97 111 268 243
New Zealand branch
IAG House,
Level 10, 151 Queen Street
Auckland, New Zealand

Chairman's letter

22 August 2006

Dear Securityholder,

It is with pleasure I report to you on the performance of your Reset Exchangeable Securities (RES).

The amount of interest you receive from your RES is derived from the performance of a portfolio of short dated, fixed interest securities, which are invested with the proceeds of the RES issue in January 2005.

For the 2006 financial year, the portfolio's performance reflected the high quality nature of investments it held and was consistent with the 'AAAF' Australian bond fund rating as required under the prospectus.

Over the past year each RES has been paid \$4.7857 in interest, fully franked. The franking credits attached to these payments were \$2.0510 per RES and total payments since issue in January 2005 are now \$6.8344 per RES, fully franked.

A further \$1.2639 per RES is expected to be paid on 15 September 2006, which is also expected to be fully franked.

If you have any questions regarding your RES holding, please contact the security registry on 1300 360 688 or visit www.iag.com.au/res.

Sincerely,

A handwritten signature in black ink that reads "James Strong".

James Strong
Chairman
IAG Finance (New Zealand) Limited

Portfolio

COMPOSITION AND PERFORMANCE

The proceeds of the issue have been lent, through a series of intra-group arrangements, to IAG Portfolio Limited. IAG Portfolio Limited has invested these funds in a portfolio of high quality, short dated, fixed interest securities ('Portfolio') managed by IAG Asset Management Limited ('IAGAM'). This Portfolio has an Australian Bond Fund Rating of 'AAAF' from Standard & Poor's ('S&P') and IAGAM is required to manage the Portfolio to ensure that it maintains this rating. According to S&P, funds rated 'AAAF' have extremely strong protection against losses from credit default. 'AAAF' is the highest Australian Bond Fund Rating assigned by S&P.

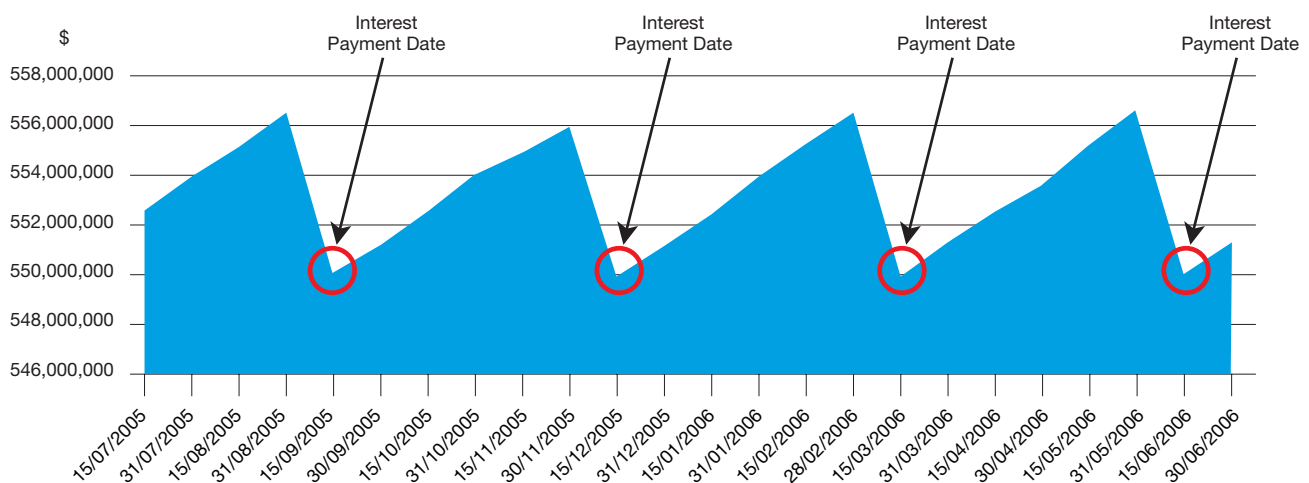
The interest payments to RES holders are derived from income generated by this Portfolio. Any income generated by the Portfolio in excess of the interest payment to RES holders may be paid to Insurance Australia Group Limited and its subsidiaries ('IAG Group').

Therefore, the performance of the Portfolio is an important element for RES holders. The Portfolio has been managed in accordance with the investment mandate, and has generated an income in excess of the amount required to pay interest payments to RES holders.

The composition and performance of the portfolio for the financial year to 30 June 2006 are detailed below for your reference.

Portfolio Value

Portfolio Value for year ended 30 June 2006



Portfolio Income

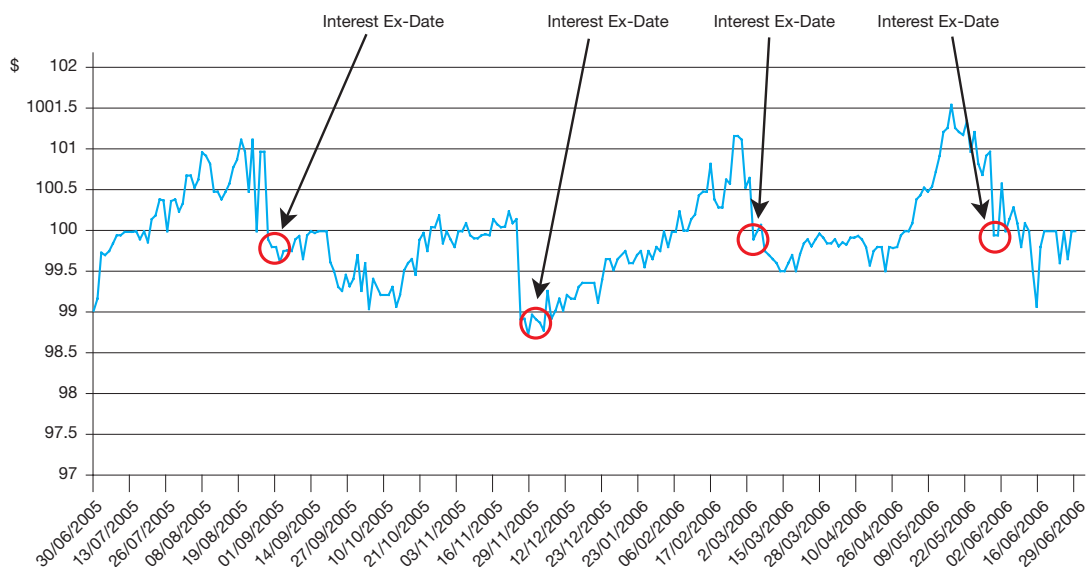
Payment Date	Portfolio Income Received \$	Interest Payments to RES Holders \$	Surplus Paid to IAG Group \$
15 September 2005	7,869,895	6,671,496	1,198,399
15 December 2005	7,729,576	6,552,693	1,176,883
15 March 2006	7,652,227	6,493,292	1,158,935
15 June 2006	7,819,104	6,603,836	1,215,268
Total	31,070,802	26,321,317	4,749,485

Composition of the Portfolio as at 30 June 2006

Counterparty	Security Type	Standard & Poor's Credit Rating	Market Value of Securities \$	Maturity Date
Aurora Securitisation Pty Ltd. - Series 1	Commercial Paper	A-1+	49,369,377	15/09/06
Esanda Finance Corp Ltd.	Commercial Paper	A-1+	98,740,194	15/09/06
GE Capital Australia Ltd.	Commercial Paper	A-1+	49,370,097	15/09/06
HSBC Bank Australia Ltd.	Medium Term Note	A-1+	100,261,405	15/09/06
National Australia Bank	Bank Deposit	A-1+	34,988	At Call
Spinnaker Capital Pty Ltd.	Commercial Paper	A-1+	4,443,309	15/09/06
St George Bank	Certificate of Deposit	A-1	49,370,920	15/09/06
Suncorp Metway	Certificate of Deposit	A-1	49,370,920	15/09/06
Westpac Banking Corporation	Medium Term Note	A-1+	150,395,280	15/09/06
Total			551,356,490	

RES Security Price Performance

Reset Exchangeable Securities – Australian Stock Exchange (ASX) Code: IANG



The volatility in the RES price has been largely determined by accrual of interest in the Portfolio, the timing of interest payments (in particular the ex-date for payment) and market views on interest rates.

Directors' Biographies

MR JA (JAMES) STRONG AO

Chairman and Non-executive Director, Age 62

Mr James Strong is Chairman and a Non-executive Director of IAG Finance (New Zealand) Limited. Mr Strong was appointed Chairman of IAG in August 2001. He is Chairman of the IAG Nomination, Remuneration & Sustainability Committee.

Mr Strong is Chairman of Woolworths Limited, Rip Curl Group Pty Limited and the Australia Council for the Arts. He is also a Director of the Australian Grand Prix Corporation, Dorna Sports SL and has been appointed a Director of Qantas Airways Limited, effective 1 July 2006.

Mr Strong was Chief Executive and Managing Director of Qantas Airways Limited from 1993 to 2001. Previous positions he has held include Group Chief Executive of DB Group Limited in New Zealand, National Managing Partner and later Chairman of law firm Corrs Chambers Westgarth, Chief Executive of Trans Australian Airlines (later Australian Airlines) and Executive Director of the Australian Mining Industry Council.

Mr Strong has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia.

In 2006 Mr Strong was made an Officer of the Order of Australia.

Directorships of other listed companies held in past 3 years

- Woolworths Limited – since 10 March 2000;
- Insurance Australia Group Limited – since 2 August 2001; and
- Qantas Airways Limited – since 1 July 2006.

MR MJ (MICHAEL) HAWKER BSc, FAICD, FAIM, F Fin

Executive Director, Age 46

Mr Michael Hawker is an Executive Director of IAG Finance (New Zealand) Limited. Mr Hawker was appointed Managing Director and Chief Executive Officer of IAG in December 2001.

Before joining IAG, Mr Hawker was Group Executive, Business and Consumer Banking at Westpac Banking Corporation. Previous positions include Executive Director of Citibank International PLC in Europe and Deputy Managing Director of Citibank Limited in Australia.

Mr Hawker was listed by Euromoney as one of the top 50 bankers under the age of 40, and one of the Australian Financial Review's 'True Leaders' in 2004 and 2005. He was awarded the Australian Banking & Finance Magazine Millennium Banker of the Year Award in 2000, and the Best Insurance Executive Award in 2003 and 2004. In 2006, he was awarded Insurance Personality of the Year at the Australian and New Zealand Insurance Industry Awards, and Leader of the Year at the Human Capital Leadership Awards. He is a recipient of an Australian Sports Medal, having played 25 Rugby Union Internationals for the Australian Wallabies.

Mr Hawker is President of the Insurance Council of Australia; Member of the Financial Sector Advisory Council; Chairman of the Australian Business in the Community Network; Member of the Business Council of Australia; Member of the Business Roundtable for Sustainable Development; Member of the Australian Business Arts Foundation (AbaF) and Advisory Board Member for the Police Commission of New South Wales. He was previously Chairman of the Australian Financial Markets Association; Director of the Australian Chamber of Commerce and Industry; Member of the Federal Treasurer's Consumer and Financial Literacy Council and an Advisory Board Member of the Australian Graduate School of Management.

Directorships of listed companies held in past 3 years

- Insurance Australia Group Limited – since 2 November 2001.

MR RA (ROWAN) ROSS BEd, BCom, FCPA, SF Fin

Non-executive Director, Age 57

Mr Rowan Ross is a Non-executive Director of IAG Finance (New Zealand) Limited. Mr Ross was appointed as a Director of IAG in July 2000 and acted as Chairman from April to August 2001. He is Chairman of the IAG Risk Management & Compliance Committee and serves on the IAG Nomination, Remuneration & Sustainability Committee.

Mr Ross is currently Chairman of Macquarie Capital Alliance Limited and Sydney IVF Limited. He is the former Chairman of Bankers Trust Investment Bank, former National President of the Securities Institute of Australia and former Chairman of the Sydney Dance Company and the Australian Major Performing Arts Group. Mr Ross has more than 30 years experience in investment banking and is an Executive Director of Macquarie Bank Limited.

Directorships of other listed companies held in past three years

- Insurance Australia Group Limited – since 25 July 2000; and
- Macquarie Capital Alliance Limited - since 25 January 2005.

MR G (GEORGE) VENARDOS BCom, FCA, DipCM, FCIS, FTIA, MAICD

Executive Director, Age 47

Mr George Venardos is an Executive Director of IAG Finance (New Zealand) Limited. Mr Venardos has more than 26 years experience in the insurance, investment and finance sectors. Mr Venardos joined IAG in 1998 and played a key role in the demutualisation and listing of the IAG Group, which was completed in August 2000. He is responsible for IAG's corporate secretariat, investor relations, group finance and treasury, legal, corporate actuarial and mergers and acquisitions, taxation. Prior to joining IAG, Mr Venardos held the position of Executive Director and General Manager, Finance and Corporate Services, with the Legal & General Group in Australia. He is the Chairman of the Finance and Accounting Standing Committee for the Insurance Council of Australia. In 2003, Mr Venardos was awarded CFO of the Year in Insto Magazine's Annual Distinction Awards.

Directorships of other listed companies held in past three years

- None

MR MDE (MICHAEL) WOODS MAICD

Alternate Executive Director, Age 48

Mr Michael Woods is an Alternate Executive Director for Mr Hawker and Mr Venardos. Mr Woods joined IAG in 1998. He is Head of Group Finance & Treasury, a role which includes responsibility for group finance, treasury, management reporting and analysis, financial reporting, budgeting, forecasting, finance systems and asset management operations.

Mr Woods has over 26 years experience in the insurance and financial services industry. Before joining IAG, Mr Woods held treasury related roles at other organisations, including KPMG, the Bank of New Zealand and Bankers Trust. He is a member of the IAG Group's Asset & Liability Committee.

Directorships of other listed companies held in past three years

- None

Corporate

IAG Finance (New Zealand) Limited ('the Company') is a wholly owned subsidiary of Insurance Australia Group Limited ('IAG'). The RES issued by the Company commenced trading on the Australian Stock Exchange ('ASX') on 12 January 2005.

The Company has responsibility for raising finance for the New Zealand operations of the IAG Group and for management of their ongoing treasury requirements. 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 IAG's 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 the IAG Group. The corporate governance framework and practices of the IAG Group are disclosed in IAG's 2006 Annual Report, which is separately available on IAG's website at www.iag.com.au from 3 October 2006.

IAG has complied with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ('CGC Principles') throughout the reporting period.

The Company has complied with most, but not all, of the CGC Principles. 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 that:

- The Company is a wholly owned subsidiary of IAG;
- The Company is not involved in the management of the Portfolio established out of the proceeds from the RES issue, which is managed by IAG Asset Management Limited ('IAGAM') according to a strict investment mandate. IAGAM is a related body corporate of the Company and a wholly owned subsidiary of IAG;
- Subject to the interest payment tests, the Company does not have discretion as to whether interest payments are made to RES holders, and if so, the amount of such interest payments; and
- The interest payment tests relate to the return on the Portfolio managed by IAGAM and whether IAG has paid a dividend in the 12 months prior to the interest payment. The Company's obligations on the RES are secured by the Portfolio.

1 | The Board of Directors

1a. Roles and Responsibilities

The 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 Corporate Treasurer and relevant finance executives in the IAG Group's New Zealand operations. The Company does not have a CEO.

1b. Structure and Composition of the Board

The Board currently comprises two Non-executive Directors who are also Non-executive, Independent Directors of IAG, two Executive Directors and one alternate for the Executive Directors. The Chairman, Mr James Strong, is also Chairman of IAG.

Under the tests for 'independence' set out in the CGC principles, Messrs Strong and Ross who are Non-executive, Independent Directors of IAG would not be Independent Directors of the Company as both are Directors of IAG, the Company's sole shareholder. Messrs Strong and Ross have, however, been deemed by the Company as Independent Directors as long as they remain Independent Directors of IAG.

The Company has taken the view that this is an appropriate board structure for the Company and that the appointment to the Company's Board of a majority of Non-executive, Independent Directors is not warranted for the reasons set out at the start of 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, their holdings of RES and directorships of other listed companies in the past three years are set out in the Directors' Report at pages 9 to 12. In addition, biographical details of Directors are included at pages 4 and 5.

1c. Board Operations

The Board meets at least four times during the year.

1d. Board Committees

The Company does not have any standing committees, but has empowered the IAG Audit Committee to perform the same role for the Company as it does for IAG and for most of its authorised insurer subsidiary companies. A copy of the charter of the IAG Audit Committee can be found on IAG's website. The names and qualifications of the members of this committee and the meetings held in the year are set out in the IAG's 2006 Annual Report which is also available on IAG's website. The Company has taken the view that it is appropriate for the IAG Audit Committee 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 Company's Board receive no additional remuneration from the Company or any related parties for their service on the Board. The IAG NRSC evaluates the performance of the IAG Board, its committees, individual Directors and IAG key executives. The Company considers that this review is sufficient to encourage enhanced performance of the Company's Directors and employees. The sole employee of the Company is not 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 the IAG Group's Code of Conduct and Continuous Disclosure & Insider Trading Policy, which are set out in further detail in the Corporate Governance Section of IAG's 2006 Annual Report. A copy of the Code and the Policy is available on IAG's website. The IAG Group's Continuous Disclosure & Insider Trading Policy applies to trading by the Company's Directors and sole employee in RES and other IAG securities.

The IAG Group's Code of Conduct and Continuous Disclosure & Insider Trading Policy also sets 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.

The value of the Portfolio as at the end of each month is published on the IAG website at www.iag.com.au/res. ASX announcements and any annual, financial and Directors reports are also posted on the IAG website.

The Company is not required, and does not currently intend, 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 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

Managing risk is at the heart of ensuring ongoing sustainability and delivery of value to IAG's stakeholders. IAG's risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes and culture. The IAG Risk Management & Compliance Committee oversees the Company's risk management framework as part of its oversight of the entire IAG Group, including the Company. Further details on the IAG Group's policies on risk oversight and management are available on IAG's website.

The CEO and CFO of IAG confirm in writing to the 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.

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;
- An annual compliance report is provided to S&P in relation to the Portfolio; and
- Quarterly compliance reports setting out the compliance by the Company's New Zealand Branch against various legal, tax and risk management requirements in New Zealand are prepared for IAG's Head of Group Risk & Compliance. These compliance reports are also made available to the Board of the Company.

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 IAG's Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. Further details are provided in the IAG 2006 Annual Report, which is available on IAG's website.

Directors'

REPORT

The Directors present their report together with the financial statements of IAG Finance (New Zealand) Limited ('the Company') for the year ended 30 June 2006 and the audit report thereon.

Directors

The Directors in office at any time during or since the end of the financial year are as follows:

Mr JA Strong (Director since 9 November 2004),
Mr RA Ross (Director since 9 November 2004),
Mr MJ Hawker (Director since 9 November 2004),
Mr G Venardos (Director since 6 October 2004) and
Mr MDE Woods (Alternate Director for MJ Hawker and
Mr G Venardos from 9 November 2004).

Other directorships of Directors

Listed below are directorships of other listed companies held in the past 3 years by the relevant Directors:

Mr JA Strong: Woolworths Limited (appointed 10 March 2000), Insurance Australia Group Limited (appointed 2 August 2001) and Qantas Airways Limited (appointed 1 July 2006).

Mr RA Ross: Insurance Australia Group Limited (appointed 25 July 2000) and Macquarie Capital Alliance Limited (appointed 25 January 2005).

Mr MJ Hawker: Insurance Australia Group Limited (appointed 2 November 2001).

None of the other Directors have held any directorships of other listed companies in the past three years.

Principal activity

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

Operation and financial review

The Company was incorporated on 6 October 2004. All prior period comparative information for the income statement and cash flow statement was for the financial period from 6 October 2004 to 30 June 2005.

The net result of the Company for the year ended 30 June 2006, after applicable income tax, was a profit of \$2,030,000 (2005 - \$1,278,000).

On 11 January 2005, the New Zealand branch of the Company issued 5,500,000 RES raising a total of \$550,000,000. The RES began trading on the ASX on 12 January 2005. The gross proceeds of the issue were loaned to a related body corporate, IAG (NZ) Holdings Limited on commercial terms.

The Company's obligations to the RES holders are secured by a portfolio of high quality, short dated, fixed interest securities ('Portfolio'). The Portfolio is held by a special purpose related body corporate, IAG Portfolio Limited.

Interest payments on the RES and its redemption amounts will depend on the performance and creditworthiness of the Portfolio. The Company is not aware of anything, which would affect the Company's prospects of continuing to pay quarterly interest payments. IAG may, at any time, exercise its right to exchange some or all the RES for preference shares issued by IAG. The following quarterly interest payments on the RES were made during the financial year:

Payment date	Amount per RES	Interest rate
15 September 2005	\$1.2130	4.8125% per annum
15 December 2005	\$1.1914	4.7787% per annum
15 March 2006	\$1.1806	4.7880% per annum
15 June 2006	\$1.2007	4.7635% per annum

Directors' Report (continued)

Likely developments

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

Significant changes in the state of affairs

There was no significant change in the state of affairs of the Company during the financial year.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 12 and forms part of the directors' report for the year ended 30 June 2006.

Indemnification and insurance of directors and officers

The Company's constitution contains an indemnity in favour of every person who is, or has been, an officer 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, IAG has granted deeds of indemnity to certain current Directors and secretaries of the Company. Under these deeds, IAG indemnifies, to the maximum extent permitted by the law, the current Directors or secretaries against liabilities incurred by the person in the relevant capacity. The indemnity does not apply where the liability is owed to the Company or to its related body corporates, or (in general terms) where the liability arises out of a lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

Under each deed, IAG is also effectively required to maintain and pay the premiums on a contract of insurance covering the current Directors or secretaries against liabilities incurred in respect of the relevant office. 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 is prohibited by the relevant contract of insurance.

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 result of those operations, or the state of affairs of the Company in future financial years.

Non-audit services

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

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included in the directors' report.

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.

Remuneration Report

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. 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 the accounting standard AASB 124 *Related Party Disclosures*. However, the Non-executive Directors do not consider that they are part of "management".

During the financial year, the following persons, being all Directors of the Company, were identified as key management personnel:

Mr JA Strong, Mr RA Ross, Mr MJ Hawker, Mr G Venardos and Mr MDE Woods.

They 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 the accounting standard AASB 124 or "senior manager" or "officer" as defined in the Corporations Act 2001.

Directors' Report (continued)

The term 'remuneration' used in this remuneration report has the same meaning as compensation as prescribed in the accounting standard AASB124.

The Company's key management personnel did not receive any remuneration from the Company or any parties in connection with their position with the Company. IAG or any related entity charged no management fee 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 the IAG Group in relation to their involvement in the activities with the Company:

	Short-term benefits				Post-employment benefits	Other long-term benefits	Termination benefits	Share-based benefits	Total
	Cash salary/ Fees	Non-monetary benefits	Annual leave accruals	Short term incentives	Super-annuation	Long service leave accruals			
2006	\$	\$	\$	\$	\$	\$	\$	\$	\$
Chairman and Non-executive Director Mr JA Strong	17,625	-	-	-	2,340	-	-	8,375	28,340
Non-executive Director Mr RA Ross	273	-	-	-	37	-	-	140	450
Executive Directors Mr MJ Hawker Mr G Venardos	6,007 32,722	116 3,030	76 1,481	3,161 19,664	818 4,523	115 988	- -	4,911 12,332	15,204 74,740
Alternative Director Mr MDE Woods	-	-	-	-	-	-	-	-	-
Total compensation	56,627	3,146	1,557	22,825	7,718	1,103	-	25,758	118,734
2005									
Chairman and Non-executive Director Mr JA Strong	14,000	-	-	-	1,935	-	-	7,500	23,435
Non-executive Director Mr RA Ross	4,000	-	-	-	585	-	-	2,500	7,085
Executive Directors Mr IF Brown Mr MJ Hawker Mr G Venardos	- 5,752 46,400	- 180 3,611	- 88 3,779	- 6,350 33,859	- 785 6,463	- 92 1,427	- - -	- 3,069 12,849	- 16,316 108,388
Alternative Director Mr MDE Woods	-	-	-	-	-	-	-	-	-
Total compensation	70,152	3,791	3,867	40,209	9,768	1,519	-	25,918	155,224

IAG's Remuneration Report for the year ended 30 June 2006, which contains the disclosures for the key management personnel of the IAG Group is included in the IAG 2006 Annual Report that can be viewed at www.iag.com.au

Directors' Report (continued)

Remuneration Report (continued)

B. Equity, options and debt instrument disclosure

1. Relevant interest of each key management personnel and their related parties in equity, options and debt instruments

Director	Reset exchangeable securities ¹	Ordinary shares ²	Performance award rights ²	Reset preference shares ²
Mr JA Strong	-	259,465	-	-
Mr RA Ross	-	165,406	-	-
Mr MJ Hawker	1,000	1,378,059	1,632,000	-
Mr G Venardos	-	110,780	338,303	-
Mr MDE Woods	1,400	103,684	130,264	500

¹ 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 2006.

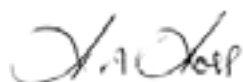
² These securities have been issued by IAG or provide a right over shares in IAG. The number disclosed includes securities directly held and indirectly held by the Directors' related entities (as defined by AASB124).

2. 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
Mr JA Strong	-	12,083	198,819	-
Mr RA Ross	-	102,557	59,952	-
Mr MJ Hawker	1,000	1,378,059	-	-
Mr G Venardos	-	83,148	-	-
Mr MDE Woods	1,400	3,018	26,891	500

This represents the relevant interest of each Director in listed securities issued by the Company and IAG, as notified by the Directors to the Australian Stock Exchange in accordance with section 205G of the Corporations Act 2001. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG Director to trade in the shares of the IAG Group where they are in a position to be aware, or are aware, of price sensitive information.

Signed at Sydney this 22nd day of August 2006 in accordance with a resolution of the Directors.



Rowan Ross
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 2006 there have been:

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



KPMG



Dr Andries B Terblanché
Partner
Sydney, 22nd August 2006

Income Statement

for the year ended 30 June 2006

	Notes	30 June 2006 \$000	Period from 6 October 2004 to 30 June 2005 \$000
Interest revenue			
- related bodies corporate		42,248	19,508
- other corporations		132	334
Total interest revenue		42,380	19,842
Interest expense			
- related bodies corporate		(8,726)	(3,837)
- reset exchangeable securities		(26,590)	(12,406)
Total interest expense	2	(35,316)	(16,243)
Net interest income		7,064	3,599
Treasury fee income		75	32
Finance costs	2	(2,428)	(1,260)
Unrealised exchange loss	2	(758)	(236)
Realised exchange loss	2	(248)	-
Other administration expenses	2	(518)	(218)
Profit before income tax		3,187	1,917
Income tax expense	4	(1,157)	(639)
Profit for the year		2,030	1,278

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

Balance Sheet

as at 30 June 2006

	Notes	30 June 2006 \$000	30 June 2005 \$000
Assets			
Cash and cash equivalents	8(a)	761	2,397
Receivables from related bodies corporate		-	2
Current tax assets		197	198
Loans to related bodies corporate		551,733	551,837
Deferred tax assets		3	-
Plant and equipment		6	8
Total assets		552,700	554,442
Liabilities			
Trade and other payables		62	84
Interest payable on reset exchangeable securities		1,396	1,330
Payables to related bodies corporate		35	51
Employee benefits provision	9	12	8
Loans from related bodies corporate		5,704	12,858
Reset exchangeable securities	6	542,183	538,833
Total liabilities		549,392	553,164
Net assets		3,308	1,278
Equity			
Share capital	7	-*	-*
Retained earnings		3,308	1,278
Total equity		3,308	1,278

* This amount is \$1.00 and rounded down 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 2006

	30 June 2006 \$000	Period from 6 October 2004 to 30 June 2005 \$000
Share capital		
Balance at the beginning and end of the financial year	-*	-*
Retained earnings		
Balance at the beginning of the financial year	1,278	-
Profit for the year/period	2,030	1,278
Balance at the end of the financial year	3,308	1,278
Total equity		
Total equity at the beginning of the financial year	1,278	-
Profit for the year/period	2,030	1,278
Total equity at the end of the financial year	3,308	1,278

* This amount is \$1.00 and rounded down 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 2006

	Notes	30 June 2006 \$000	Period from 6 October 2004 to 30 June 2005 \$000
Cash flows from operating activities			
Interest received		42,480	18,007
Interest paid		(35,396)	(14,549)
Income tax paid		(1,153)	(835)
Other operating receipts		77	31
Other operating payments		(551)	(79)
Net cash flows from operating activities	8(b)	5,457	2,575
Cash flows from investing activities			
Outlays for plant and equipment acquired		(1)	(8)
Net cash flows from investing activities		(1)	(8)
Cash flows from financing activities			
Proceeds from issue of reset exchangeable securities		-	550,000
Loan to a related body corporate		(7,007)	(550,000)
Loan from a related body corporate		-	12,494
Payment of deferred borrowing costs		-	(12,604)
Net cash flows from financing activities		(7,007)	(110)
Net movement in cash held		(1,551)	2,457
Cash and cash equivalents at the beginning of the financial year		2,397	-
Effects of exchange rate changes on cash held in foreign currencies		(85)	(60)
Cash and cash equivalents at the end of the financial year	8(a)	761	2,397

The above cash flow statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements for the year ended 30 June 2006

Note 1. Summary of significant accounting policies

The Company is a publicly listed 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 10, 151 Queen Street, Auckland, New Zealand.

The parent and ultimate parent entity is IAG, an entity incorporated in Australia and listed on the ASX, which owns all of the ordinary 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 22 August 2006.

(a) Statement of compliance

This general purpose financial report for the year ended 30 June 2006 has been prepared in accordance with the Corporations Act 2001, Australian equivalents to International Financial Reporting Standards ('AIFRS'), other authoritative pronouncements of the Australian Accounting Standards Board and the ASX Listing Rules.

The financial report was prepared, for the year ended 30 June 2005, in accordance with Australian Generally Accepted Accounting Principles ('Australian GAAP'). From 1 July 2005, the financial report is required to be prepared in accordance with AIFRS effective for the year ended 30 June 2006. The date of transition to AIFRS was 6 October 2004, which is the start of the comparative period.

- (i) Compliance with International Financial Reporting Standards

International Financial Reporting Standards ('IFRS') refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board ('IASB'). IFRS forms the basis of AIFRS being the Australian accounting standards adopted by the Australian Accounting Standards Board. 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 consistently applied to all periods presented in the financial report and in preparing the opening AIFRS balance sheet at 6 October 2004 for the purposes of transition to AIFRS, except for the standards discussed in note 1(b)(ii) for which comparatives have not been restated. These financial statements have been prepared on the basis of historical cost principles.

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 no more than twelve months after the reporting date) and non-current amounts (expected to be recovered or settled more than twelve 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 twelve 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 on issue with mandatory application dates after the end of this current reporting. The standards that have not been early adopted and that are relevant to current operations of the Company are as follows:

- *AASB 7 Financial Instruments*: Disclosures applicable for the first time to the 30 June 2008 financial report. This standard was issued in conjunction with AASB 2005-10 which makes a number of consequential amendments to other standards arising from the issue of AASB 7. The changes will impact only on annual financial report disclosures.
 - AASB 2005-9 which deals with the treatment of financial guarantee contracts. This amendment is not expected to have a significant financial impact, if any, on the Company.
- (ii) First time adoption of AIFRS

This is the first annual financial report to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Upon transition to AIFRS the general principle is that the financial reports must be prepared as if the new standards had always been applied. There were no recognition and measurement differences affecting the financial position or financial performance of the Company arising from the transition to AIFRS. There was no impact on the cash flow statement.

Note 1. Summary of significant accounting policies (continued)

In preparing this financial report, certain elections have been made in relation to transitional provisions within AASB 1 which offer exemption from presenting comparative information or applying AIFRS retrospectively. In line with IAG Group policy an election was made which provided an exemption from presenting comparative information in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. This election had no financial impact on this financial report.

(iii) Voluntary changes in accounting policies

There have been no voluntary changes in accounting policies made during the year other than those relating to the transition to AIFRS as referred to in note 1(b)(ii).

(iv) Reclassifications of comparatives

Certain items have been reclassified from the prior year's financial report to conform to the current year's presentation; deferred borrowing costs, previously shown separately on the balance sheet, is now referred to as capitalised transaction costs and presented together with interest-bearing liabilities.

(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 (2005 – none).

(vi) Rounding of amounts

Amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated. The Company is the 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.

(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) Reset exchangeable securities and finance costs

RES are initially measured at fair value (face value) less transaction costs that were directly attributable to the transaction, and are subsequently carried at amortised cost using the effective interest method. Transaction costs are capitalised, presented together with the RES, and are amortised over five years from the date of issue and disclosed as finance costs on the income statement. Interest expense on the RES is brought to account on an accruals basis and payable quarterly subject to the terms of issue.

(e) Taxation

(i) Income tax

Income tax on the result for the year 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 for particular circumstances when no deferred tax asset or liability is recognised.

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 ('head entity') 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.

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

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts receivable/(payable) from/(to) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer to page 17). Any difference between these amounts is recognised by IAG as an equity contribution or distribution.

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

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

(iii) 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 from the Australian Taxation Office ('ATO'). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

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

(f) Derivatives

Derivatives are used for the sole purpose of managing risk exposures. Derivatives are not held for speculative purposes.

Derivatives are initially recognised at fair value (generally the transaction price; the fair value of the consideration given or received) on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. Movements in fair value are recognised as part of interest revenue in profit and loss. Fair value is generally determined using the current bid price for derivatives presented as assets and the current ask price for derivatives presented as liabilities. Transaction costs for purchases for derivatives are expensed as incurred and presented in the income statement as interest expense.

None of the derivatives are designed for hedge accounting. This matches the accounting for the derivatives with the accounting for the underlying investments.

Cross currency swaps – the Company enters into cross currency swaps to hedge foreign currency borrowings. Interest receipts and payments on the swaps are charged to the income statement on a daily basis over the term for which the swap is effective as a hedge of the underlying borrowing and are included within the interest expense on borrowings. Revaluation gains and losses are recognised in the income statement against the revaluation losses and gains of the underlying hedged items.

(g) 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.

(h) 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 (the functional currency). The financial statements are presented in Australian dollars, which is the functional and presentation currency.

(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 Australian dollars at rates of exchange current at reporting date. Resulting exchange differences are recognised in profit and loss.

(iii) Hedge transactions

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(f) for details of the relevant accounting policies.

Notes to the Financial Statements for the year ended 30 June 2006 (continued)

Note 2. Analysis of total expenses

	30 June 2006 \$000	Period from 6 October 2004 to 30 June 2005 \$000
(a) Expenses as presented in the income statement		
Interest expense	35,316	16,243
Finance costs	2,428	1,260
Unrealised exchange loss	758	236
Realised exchange loss	248	-
Other administration expenses	518	218
Total expenses	39,268	17,957
(b) Analysis of expenses by nature		
Interest expense	35,316	16,243
Finance costs	2,428	1,260
Unrealised exchange loss	758	236
Realised exchange loss	248	-
Employee costs	208	159
Share registry expenses	169	-
Consultant fees	33	12
Audit fees	25	23
Trustee fees	64	17
Other administration costs	19	7
Total expenses	39,268	17,957

Note 3. Remuneration of auditors

	30 June 2006 \$	Period from 6 October 2004 to 30 June 2005 \$
(a) Assurance services		
Audit of the financial statements	25,000	22,907
	25,000	22,907
(b) Advisory services		
Issue of reset exchangeable securities	-	255,550
	-	255,550

Notes to the Financial Statements for the period ended 30 June 2006 (continued)

	30 June 2006 \$000	Period from 6 October 2004 to 30 June 2005 \$000
Note 4. Income tax		
(a) Income tax expense		
Current tax	1,160	639
Deferred tax asset	(3)	-
Income tax expense	1,157	639
(b) Income tax reconciliation		
The income tax for the financial period differs from the amount calculated on the profit before income tax. The differences are reconciled as follows:		
Profit before income tax	3,187	1,917
Income tax calculated at 30% (2005 - 30%)	956	575
Differences in tax rates relating to New Zealand branch's result which is calculated at 33%	95	58
Non-deductible items	106	6
Income tax expense attributable to profit for the year before and after impact of tax consolidation	1,157	639

Note 5. Segment reporting

The Company operates as a special purpose company issuing RES in Australia. The RES are listed on the ASX. The Company also generates income from providing treasury functions to IAG's New Zealand operations.

	30 June 2006 \$000	30 June 2005 \$000
Note 6. Reset exchangeable securities		
(a) Composition		
Reset exchangeable securities (5,500,000 securities)	550,000	550,000
Less: capitalised transaction costs	(7,817)	(11,167)
	542,183	538,833

The carrying value of interest-bearing liabilities (gross, without deducting transaction costs) includes \$550,000,000 (2005 - \$550,000,000) which is expected to be settled after more than twelve months from reporting date.

(b) Reconciliation of movements for the financial year		
Balance at the beginning of the financial year	538,833	-
Issue of reset exchangeable securities	-	550,000
Transaction costs capitalised during the financial year	-	(12,604)
Amortisation of capitalised transaction costs	2,428	1,260
Foreign currency exchange differences	922	177
Balance at the end of the financial year	542,183	538,833

Notes to the Financial Statements for the year ended 30 June 2006 (continued)

Note 6. Reset exchangeable securities (continued)

On 11 January 2005, the New Zealand branch of the Company issued 5,500,000 RES raising a total of \$550,000,000. The RES began trading on the ASX on 12 January 2005.

The gross proceeds of the issue were loaned to a related body corporate, IAG (NZ) Holdings Limited on commercial terms. This is disclosed as a loan to a related body corporate on the balance sheet and includes accrued interest.

RES holders are entitled to an interest payment, subject to the terms of issue, that is non-cumulative and based on a floating rate. The following quarterly interest payment on the RES was made during the financial period:

Payment date	Amount per RES	Interest rate
15 September 2005	\$1.2130	4.8125% per annum
15 December 2005	\$1.1914	4.7787% per annum
15 March 2006	\$1.1806	4.7880% per annum
15 June 2006	\$1.2007	4.7635% per annum

The next quarterly interest payment, which is expected to be \$1.2639 per RES (5.0143% per annum), is due for payment on 15 September 2006. These interest payments are expected to be fully franked.

The Company's obligations to the RES holders are secured by a portfolio of high quality, short dated, fixed interest securities ('Portfolio'). This Portfolio is held by a special purpose related body corporate, IAG Portfolio Limited. The Portfolio was funded by a loan from Insurance Australia Limited, a related body corporate, to IAG Portfolio Limited. At 30 June 2006, the net market value of the Portfolio was \$551,356,000 (2005 - \$551,315,000).

Interest payments on the RES will depend on the performance of the Portfolio. An interest payment may not be paid in full if the total income from the Portfolio is less than the interest payment on the RES. An interest payment may not be made at all if IAG does not have sufficient profits equal to or greater than the interest payment on the RES and has not paid a dividend on any of its classes of capital in the preceding twelve months.

The RES redemption amount will depend on the performance and creditworthiness of the Portfolio. IAG may, at any time, exercise its right to exchange some or all the RES for preference shares issued by IAG.

The Company may change some of the terms of the RES or redeem or convert some or all the RES on a reset date. The first reset date is 15 March 2010 after which the reset dates are expected to be every five years. The Company can also redeem or convert some or all the RES on the occurrence of a tax event or acquisition event, as defined in the RES terms. RES holders can request redemption of some or all of their RES under certain circumstances.

Note 7. Share capital

As at reporting date there was 1 ordinary share on issue (2005 - 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 participate in the dividends and the proceeds on winding up the Company.

Note 8. Notes to the cash flow statement

	30 June 2006 \$000	30 June 2005 \$000
(a) Composition		
Cash and cash equivalents	761	2,397

Cash and cash equivalents comprises of cash at bank and in hand and short term deposits at call, and money market investments readily convertible to cash within two working days. The net carrying amount of cash and cash equivalents is equivalent to the fair value of the assets because of the negligible credit risk and frequent repricing. 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.

Notes to the Financial Statements for the year ended 30 June 2006 (continued)

	30 June 2006 \$000	Period from 6 October 2004 to 30 June 2005 \$000
(b) Reconciliation of profit for the year to net cash flows from operating activities		
Profit for the year	2,030	1,278
Foreign exchange losses	1,006	236
Amortisation of capitalised transaction costs	2,428	1,260
Decrease/(increase) in operating assets:		
Interest receivable from a related body corporate	104	(1,834)
Amounts receivable from related bodies corporate	2	(2)
Current and deferred tax assets	(2)	(198)
Increase/(decrease) in operating liabilities:		
Trade and other payables	(22)	84
Interest payable on reset exchangeable securities	66	1,330
Amounts payable to related bodies corporate	(159)	413
Employee benefits provision	4	8
Net cash flows from operating activities	5,457	2,575

(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.

	30 June 2006 \$000	30 June 2005 \$000
Note 9. Employee benefits		
(a) Employee benefits provision		
Annual leave and performance bonus	12	8

(b) Employee numbers

The New Zealand branch of the Company had one employee on full time equivalent basis at 30 June 2006 (2005 – 1).

Note 10. Contingencies

In respect of the issue of RES:

(a) IAG Portfolio Limited, a wholly-owned subsidiary of IAG, has granted to Permanent Trustee Company Limited ('Trustee') a mortgage over IAG Portfolio Limited's portfolio of investments ('Portfolio') and a floating charge over its rights, property and undertaking as a security to the RES holders.

(b) To safeguard the interests of RES holders, the Company has granted the Trustee of the RES, a fixed charge over its rights, title and interest in the payments to it under the Portfolio Management Agreement and certain intra group receivables.

(c) Insurance Australia Limited has put in place an interest rate floor with IAG Portfolio Limited in the event the bank bill rate applicable to the calculation of the interest rate payable on the RES falls below the 'floor' rate of 2.80% per annum. This will enable IAG Portfolio Limited to generate sufficient income to allow the Company to make part or full interest payments on the RES.

(d) In the event of an interest payment on the RES being unfranked, IAG must pay an amount into IAG Portfolio Limited to fund a gross-up of the interest payment on the RES.

(e) IAG may exchange some or all of the RES for preference shares issued by IAG at any time.

Notes to the Financial Statements for the year ended 30 June 2006 (continued)

Note 10. Contingencies (continued)

(f) The Company may, in relation to the RES, change their terms, redeem them for cash or convert them into ordinary shares issued by IAG on any reset date. The next reset date is 15 March 2010.

(g) The Company may, in relation to the RES, redeem them for cash or convert them into ordinary shares issued by IAG, if a tax event, regulatory event or acquisition event, as defined in the RES terms, occurs.

(h) RES holders may redeem the RES on any reset date or if a trigger event, as defined in the RES terms, occurs.

(i) IAG has an obligation to pay all costs, charges and expenses in managing the Portfolio including the trustee and custodian.

(j) IAG and other members of the IAG Group may be entitled to any surplus in the Portfolio from excess income from the Portfolio after the payment of aggregate interest payments on the RES or from excess net assets of the Portfolio after the payment of aggregate redemption amounts on the RES.

Note 11. Related party disclosures

(a) Controlling entity

The controlling entity is IAG. There were no transactions with the controlling entity during the year (2005 - none).

(b) Related parties within the IAG Group

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

	30 June 2006 \$000	30 June 2005 \$000
Interest income received or receivable from IAG (NZ) Holdings Limited	42,248	19,508
Service fee received or receivable from IAG New Zealand Limited	58	26
Service fee received or receivable from IAG (NZ) Holdings Limited	17	6
Interest expense paid or payable to Insurance Australia Limited	8,726	3,837

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

<i>Amounts receivable from:</i>		
IAG (NZ) Holdings Limited	-	2
<i>Loan receivable from:</i>		
IAG (NZ) Holdings Limited	494,752	549,829
Insurance Australia Limited	56,981	2,008
<i>Amounts payable to:</i>		
Insurance Australia Limited	35	30
IAG New Zealand Limited	-	21
<i>Loan payable to:</i>		
Insurance Australia Limited	5,704	12,858

(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. However, the Non-executive Directors do not consider that they are part of "management".

During the financial year, the following persons, being all Directors of the Company, were identified as key management personnel:

Mr JA Strong, Mr RA Ross, Mr MJ Hawker, Mr G Venardos and Mr MDE Woods.

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

Notes to the Financial Statements for the year ended 30 June 2006 (continued)

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

	30 June 2006 \$	Period from 6 October 2004 to 30 June 2005 \$
Short-term employee benefits	84,155	118,019
Post-employment benefits	7,718	9,768
Other long-term benefits	1,103	1,519
Termination benefits	-	-
Share-based payments	25,758	25,918
	118,734	155,224

The key management personnel receive no compensation specifically in relation to the management of the Company. The compensation disclosed in the table above represented 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 ¹	Ordinary shares ²	Performance award rights ²	Reset preference shares ²
Mr JA Strong	-	259,465	-	-
Mr RA Ross	-	165,406	-	-
Mr MJ Hawker	1,000	1,378,059	1,632,000	-
Mr G Venardos	-	110,780	338,303	-
Mr MDE Woods	1,400	103,684	130,264	500

¹ 1 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 2006.

² 2 These securities have been issued by IAG or provide a right over shares in IAG. The number disclosed includes securities directly held and indirectly held by the Directors' related entities (as defined by AASB124).

(d) Other transactions

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

Notes to the Financial Statements for the year ended 30 June 2006 (continued)

Note 12. Financial risk management

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

(a) Interest rate risk

The Company's exposure to interest rate risk arises from its RES and the interest-bearing loans with related bodies corporate.

(i) The exposure to interest rate risk and the weighted average effective interest rates on the interest-bearing financial assets and liabilities of the Company are summarised in the table below. Where assets and liabilities on the balance sheet include both interest-bearing and non interest-bearing amounts, they are included as interest-bearing assets and liabilities for the purposes of this note. All other assets and liabilities disclosed on the balance sheet are non-interest bearing.

	Floating interest rate \$000	Fixed interest rate maturing in			Non interest bearing \$000	Total \$000	Weighted average interest rate %
		1 year or less \$000	Over 1 to 5 years \$000	More than 5 years \$000			
2006							
Financial assets							
Cash assets	761	-	-	-	-	761	6.00
Loans to related bodies corporate	-	551,733	-	-	-	551,733	8.03
Financial liabilities							
Loan from related bodies corporate	-	(5,704)	-	-	-	(5,704)	6.51
Reset exchangeable securities	-	(550,000)	-	-	7,817	(542,183)	5.01
Net interest-bearing financial assets/(liabilities)	761	(3,971)	-	-	7,817	4,607	
2005							
Financial assets							
Cash assets	2,397	-	-	-	-	2,397	4.84
Loans to related bodies corporate	-	551,837	-	-	-	551,837	7.64
Financial liabilities							
Loan from related bodies corporate	-	(12,858)	-	-	-	(12,858)	6.23
Reset exchangeable securities	-	(550,000)	-	-	11,167	(538,833)	4.81
Net interest-bearing financial assets/(liabilities)	2,397	(11,021)	-	-	11,167	2,543	

Note 12. Financial risk management (continued)

	30 June 2006 \$000	30 June 2005 \$000
(ii) Reconciliation of net financial assets to net assets		
Net financial liabilities		
- Interest-bearing	4,607	2,543
- Other	(1,493)	(1,473)
Net non financial assets	194	208
Net assets	3,308	1,278

(b) Fair value of financial instruments

The net carrying amount on the balance sheet of all financial instruments is either the fair value of the assets and liabilities or a reasonable approximation of the fair value of the assets and liabilities.

(c) Exchange rate risk

The Company has entered into a cross currency swap with a related body corporate, Insurance Australia Limited, in order to hedge the exchange rate exposure arising from providing a New Zealand dollar loan to a related body corporate, IAG (NZ) Holdings Limited, from the Australian dollar proceeds of the issue of RES. Hedge accounting is not applied to this transaction. The swap has no maturity date, but will terminate when the RES are redeemed, converted or exchanged. Over the term of the swap, the Company will receive Australian dollar payments equal to the interest payable on the RES and will pay interest at the variable rate of the New Zealand three month bank bill mid market settlement rate less a margin on a principal amount of NZ\$600.325 million. On termination of the swap, the Company will repay the principal amount of NZ\$600.325 million and receive A\$550 million based on the original spot exchange rate at inception.

(d) 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. 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.

(e) 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 cashflows and access to liquidity through related body corporates. 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.

Note 13. Net tangible assets

Net tangible asset per ordinary share	3,308	1,278
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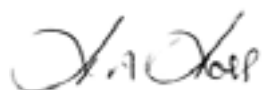
Directors' Declaration

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

- (a) the financial statements and notes 1 to 13, including the remuneration disclosures that are contained in the Remuneration Report in sections A and B of the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) the remuneration disclosures that are contained in the Remuneration Report in Sections A and B of the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
- (c) 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 2006.

Signed at Sydney this 22nd day of August 2006 in accordance with a resolution of the Directors.



Rowan Ross
Director

Independent Audit Report

To the shareholder of IAG Finance (New Zealand) Limited

Scope

The financial report, remuneration report and directors' responsibility

The financial report comprises the income statement, statement of changes in equity, balance sheet, cash flow statement, accompanying notes 1 to 13 to the financial statements, and the directors' declaration for IAG Finance (New Zealand) Limited (the 'Company'), for the year ended 30 June 2006.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ('remuneration disclosures'), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading 'Remuneration Report' in sections A and B of the director's report and not in the financial report.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the director's report.

Audit approach

We conducted an independent audit in order to express an opinion to the shareholder of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures comply with AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

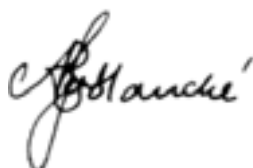
Audit opinion

In our opinion:

- 1) the financial report of IAG Finance (New Zealand) Limited is in accordance with:
 - a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b) other mandatory financial reporting requirements in Australia; and
- 2) the Remuneration Report in Sections A and B of the directors' report complies with Australian Accounting Standard AASB 124 *Related Party Disclosures*.



KPMG



Dr Andries B Terblanché

Partner

Sydney

22nd August 2006

RES Holder Information

You can access information about RES including portfolio value, interest payments and current ASX releases at www.iag.com.au/res.

Code on ASX

RES are listed on the Australian Stock 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
Fax: (03) 9473 2470
Postal address: Insurance Australia Group Limited
Share Registry
c/- Computershare Investor Services Pty Limited
GPO Box 4709
Melbourne VIC 3001

Portfolio Value

The value of the RES Portfolio as at 30 June 2006 was \$551,356,490. This value is updated monthly at www.iag.com.au/res

Interest Payments

Period End	\$ per Security	Ex Date	Record Date	Payment Date	Franking Level	Franking Credit
14/09/05	\$1.2130	01/09/05	07/09/05	15/09/05	100%	30%
14/12/05	\$1.1914	01/12/05	07/12/05	15/12/05	100%	30%
14/03/06	\$1.1806	01/03/06	07/03/06	15/03/06	100%	30%
14/06/06	\$1.2007	31/05/06	06/06/06	15/06/06	100%	30%
14/09/06	\$1.2639*	01/09/06	07/09/06	15/09/06	100%**	30%**

* Payment of the interest payment is subject to the interest payment tests set out in the RES terms.

** Expected franking level and franking credit.

Interest Payments

Until the first reset date which is 15 March 2010, RES holders are entitled, subject to the RES terms, to receive quarterly interest payments based on a margin of 1.2% 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 rate for the current interest period, from 15 June 2006 to 14 September 2006 is 5.0143% per annum.

Annual Report

There are a number of options available concerning the Annual Report. You can choose:

- not to receive it;
- to view or download the report from our website; or
- to receive reports in the mail.

If there are multiple RES holders at your registered address and you wish to receive just one copy of the Annual Report please contact the Share Registry on 1300 360 688. Any change to your annual report election may be made by completing the form enclosed with this Annual Report and returning it in the envelope provided.

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 unless RES are exchanged or converted into shares issued by IAG.

Information on RES Holdings

Twenty Largest RES holders as at 15 August 2006	Units	% of Issued Capital
J P Morgan Nominees Australia Limited	825,165	15.00
UBS Wealth Management Australia Nominees Pty Ltd	341,890	6.22
National Nominees Limited	225,000	4.09
ANZ Nominees Limited <Cash Income A/C>	87,913	1.60
Citicorp Nominees Pty Limited <CFSIL CWLTH SPEC 5 A/C>	82,078	1.49
Suncorp Custodian Services Pty Limited <AFT>	69,344	1.26
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	67,330	1.22
Suncorp Custodian Services Pty Limited <ACT>	52,845	0.96
Cogent Nominees Pty Limited	50,000	0.91
RBC Dexia Investor Services Australia Nominees Pty Limited <GSJBW A/C>	48,250	0.88
UCA Cash Management Fund Ltd	48,002	0.87
Cryton Investments No 9 Pty Ltd <Garner Number 1 A/C>	48,000	0.87
Citicorp Nominees Pty Limited	45,660	0.83
Brencorp Pty Limited <Brencorp No 11 PTY LTD A/C>	39,504	0.72
SR Consolidated Pty Ltd	30,300	0.55
Argo Investments Limited	25,000	0.45
Clycut Pty Ltd	23,464	0.43
Australian Executor Trustees Limited <No 1 Account>	22,556	0.41
Perpetual Trustees Consolidated Limited <Alliance A/C>	22,124	0.40
Australian National University	20,000	0.36
Total for Top Twenty	2,174,425	39.52

Range of holders as at 15 August 2006	No. of holders	No. of RES	% of RES Issued
1 - 1,000	5,756	1,769,479	32.17
1,001 - 5,000	409	947,603	17.23
5,001 - 10,000	48	360,721	6.56
10,001 - 100,000	32	1,030,142	18.73
100,001 - over	3	1,392,055	25.31
Total	6,248	5,500,000	100.00
Securityholders with less than a marketable parcel of 5 securities as at 15 August 2006	1	1	

Directory

Company and Registered Office

IAG Finance (New Zealand) Limited
(ABN 97 111 268 243)
Level 26, 388 George Street
Sydney NSW 2000

Telephone (02) 9292 9222
Fax (02) 9292 8072
Website www.iag.com.au/res

NZ Branch and Issuer

IAG Finance (New Zealand) Limited
IAG House
Level 10, 151 Queen Street
Auckland, New Zealand

Company Secretary

Glenn Revell BCom, MBus, FCPA, FCIS, GAICD

