



## **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/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**

Glenn Revell BCom, MBus, FCPA, FCIS, GAICD

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

## **ANNUAL REPORT 2010**

**IAG FINANCE (NEW ZEALAND) LIMITED**

ABN 97 111 268 243





# ANNUAL REPORT 2010

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# CHAIRMAN'S LETTER

26 August 2010

Dear Securityholder

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

At a RES Holder Meeting on the 9 December 2009, securityholders voted in favour of a proposal to amend the terms and conditions of the RES. The key amendments approved were:

- to increase the margin over the 90 day bank bill rate from 1.2% to 4.0%;
- to bring the RES onto the Insurance Australia Group Limited's (IAG) consolidated balance sheet and qualify as regulatory capital rather than contingent capital; and
- to remove the investment portfolio securing the RES.

Further details of the amended terms & conditions are shown in Note 8C of the audited financial statements on page 20.

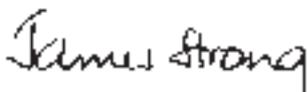
All interest payments during the year are subject to an adjustment for the value of attached franking credits, and are also subject to satisfaction of the interest payment tests described in the RES prospectus.

In the 2010 financial year, a total of \$4.5169 in interest has been paid for each RES. This interest was fully franked.

The next interest payment at \$1.5718 per RES is due to be paid on 15 September 2010 subject to satisfaction of the interest payment test. This amount is also expected to be fully franked.

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,



**James Strong**  
Chairman  
IAG Finance (New Zealand) Limited

# DIRECTORS' BIOGRAPHIES

## BOARD CHANGES

Mr James Strong retired from the board on 26 August 2010, and Mr Brian Schwartz was appointed as a director and chairman.

## BRIAN SCHWARTZ

*FCA, AM, AGE 57 – CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR*

### INSURANCE INDUSTRY EXPERIENCE

Brian Schwartz was appointed as a director of IAG in January 2005 and as chairman of IAG Finance (New Zealand) Limited on 26 August 2010. He is chairman of IAG and a member of the IAG Nomination, Remuneration & Sustainability Committee. Brian was also appointed chairman of Insurance Manufacturers of Australia Pty Limited a general insurance underwriting joint venture with RACV Limited on 26 August 2010.

### OTHER BUSINESS EXPERIENCE

Brian is a non-executive director of Brambles Limited, Westfield Group and is a consultant to Investec Bank (Australia) Ltd. He is also the deputy chairman 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 region.

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

Directorships of other listed companies held in past three years:

- Insurance Australia Group Limited since 1 January 2005;
- Brambles Limited since 13 March 2009; and
- Westfield Group since 6 May 2009.

## MICHAEL WILKINS

*BCom, MBA, DLI, FCA, AGE 53 – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER*

### 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 in May 2008 of Insurance Australia Group Limited (IAG) 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. He is a director of the Insurance Council of Australia and a member of the Australian Government's Financial Sector Advisory Council.

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

### OTHER BUSINESS EXPERIENCE

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

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

Directorships of other listed companies held in past three years:

- Alinta Limited from 18 July 2005 to 31 August 2007; and
- Insurance Australia Group Limited from 26 November 2007.

# HUGH FLETCHER

*BSc/BCom, MCom (Hons), MBA, AGE 62 – 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 the IAG New Zealand board in July 2003. He is a member of the IAG Audit, Risk Management & Compliance Committee.

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

## **OTHER BUSINESS EXPERIENCE**

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

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

Directorships of other listed companies held in past three years:

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

# NICHOLAS HAWKINS

*BCom, FCA, AGE 42 – 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. Since joining IAG in 2001 Nicholas has held senior positions in IAG, most recently as chief executive officer, New Zealand.

He has also had several senior roles in IAG including head of asset management & group strategy, and prior to that, as general manager, group finance.

## **OTHER BUSINESS 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.

# 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 2010 Annual Report, which is separately available on the IAG website at [www.iag.com.au](http://www.iag.com.au) from mid-September 2010.

IAG has complied with the ASX Corporate Governance Council's Principles and Recommendations 2nd edition ('CGC Principles') throughout the reporting period.

The Company has complied with most, but not all, of the 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 OF DIRECTORS

### A. 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 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 OF THE BOARD

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

Brian Schwartz and Hugh Fletcher have been deemed by the Company as independent directors as long as they remain independent directors of IAG, notwithstanding both are non-executive independent directors of IAG, the company's sole shareholder as the Company's corporate governance practices, operational and risk frameworks are for the reasons set out earlier, inseparable from that 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 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, their holdings of RES and directorships of other listed companies in the past three years are set out in the directors' report at pages 7 and 11. In addition, biographical details of the directors are included at pages 2 and 3.

### C. BOARD OPERATIONS

The Board meets 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. A copy of the charter of the IAG ARMCC can be found on the IAG website at <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 IAG ARMCC and the meetings held in the year are set out in the IAG 2010 Annual Report which is also available on the IAG website. The Company has taken the view that it is appropriate for the IAG 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 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 IAG NRSC also reviews the composition and the performance of IAG subsidiary company boards, including the Company's Board, at least annually.

A copy of the charter of the IAG NRSC can be found on the IAG website at <http://www.iag.com.au/about/governance/index.shtml>. The names and qualifications of the members of this committee and the meetings held in the year are set out in the IAG 2010 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 the Australian 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's Codes of Conduct, Continuous Disclosure, and Security Trading Policies, which are set out in further detail in the Corporate Governance Section of the IAG 2010 Annual Report. A copy of the codes and policies are available on the IAG website at <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 annual, half year financial reports 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**

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 IAG Risk Management Strategy (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 IAG ARMCC 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 the IAG website.

The CEO and CFO of IAG have confirmed 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. 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 IAG 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 IAG Head of Group Audit & Risk.

## **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 2010 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 2010 and the auditor's report thereon.

## DIRECTORS

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.

JA Strong (director from 9 November 2004 to 26 August 2010), HA Fletcher (director since 31 August 2008), MJ Wilkins (director since 28 May 2008), NB Hawkins (director since 31 August 2008) and BM Schwartz (director since 26 August 2010).

### OTHER DIRECTORSHIPS OF DIRECTORS

Listed below are directorships of other listed companies in the past three years:

JA Strong: Woolworths Limited (since 10 March 2000), Insurance Australia Group Limited (from 2 August 2001 to 26 August 2010), Qantas Airways Limited (since 1 July 2006) and Kathmandu Holdings Limited (since 13 November 2009).

HA Fletcher: 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).

MJ Wilkins: Alinta Limited (from 18 July 2005 to 31 August 2007) and Insurance Australia Group Limited (since 26 November 2007).

BM Schwartz: Insurance Australia Group Limited (since 1 January 2005), Brambles Limited (since 13 March 2009) and Westfield Group (since 6 May 2009).

NB Hawkins has not held any directorships of other listed companies in the past three years.

## PRINCIPAL ACTIVITY

The principal continuing activity of the Company is to perform all treasury functions of the IAG Group's New Zealand operations. This function is performed through the 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 2010 was a profit of \$17,943,000 (2009 - profit of \$2,969,000).

The interest income from the loan to a related body corporate and interest expenses to the reset exchangeable securities (RES) holders reduced compared to the prior year. The reduction in the 90 day bank bill rate was offset by the increase of the RES margin from 1.2% to 4.0% post the amendments to the RES terms and conditions.

The following quarterly interest payment on the RES was made during the financial year.

PAYMENT DATE	AMOUNT PER RES	INTEREST RATE
15 September 2009	\$0.7931	3.1465% per annum
15 December 2009	\$0.8124	3.2585% per annum
15 March 2010	\$1.4240	5.7750% per annum
15 June 2010	\$1.4874	5.9010% per annum

On 9 December 2009, the RES holders approved amendments to the RES terms and conditions. Details of the revised terms and conditions are set out in note 8.

The Company recognised a tax benefit of \$17,438,000 as a result of the RES amendment. The tax benefit arose from the realisation of the foreign currency loss by the New Zealand branch of the Company upon the settlement of a foreign currency denominated loan to a related body corporate.

## 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.

## DIVIDENDS

Details of dividends paid or declared by the Company are set out in note 7.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Other than the amendments to the RES terms and conditions as set out in note 8, there were no other 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 performed certain other services for the Company in addition to their statutory duties.

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

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

The level of fees for non audit services amount to approximately 746% of total audit fees. Although the ratio of non audit services to audit services for the Company exceeds 100% as per the IAG framework for engaging auditors for non audit services, this would not jeopardise the independence of the auditor. The fee for non audit services was in relation to the amendments to the RES terms and conditions which was an IAG Group strategy, therefore, it is more relevant to measure this non audit services against the IAG Group's total audit fee (refer to the IAG's 2010 Directors' Report that can be viewed at [www.iag.com.au](http://www.iag.com.au)).

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

The lead auditor's independence declaration is set out on page 11 and forms part of the directors' report for the year ended 30 June 2010.

# 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 wholly owned 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 wholly owned subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a wholly owned 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.

## 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 the IAG Group'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 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 the IAG Group'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 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.

The remuneration of the Company's key management personnel is determined in accordance with the IAG Group remuneration policy and the details of their remuneration is disclosed in IAG's Remuneration Report for the year ended 30 June 2010, 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. 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 Australian 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:

JA Strong (director from 9 November 2004 to 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).

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 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	TERMINATION BENEFITS	SUB TOTAL (EXCLUDES SHARE BASED PAYMENT)	SHARE BASED PAYMENT (SUBJECT TO CONTINUING EMPLOYMENT AND/OR PERFORMANCE HURDLES)		TOTAL
	Base salary	Short term incentives	Other	Super-annuation	Retirement benefits	Long service leave accruals			Value of deferred short term incentives	Value of rights/shares granted	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors											
JA Strong, Chairman and non-executive director											
<b>2010</b>	<b>57,343</b>	—	—	<b>2,169</b>	—	—	—	<b>59,512</b>	—	<b>14,063</b>	<b>73,575</b>
2009	11,562	—	—	1,714	—	—	—	13,276	—	11,250	24,526
HA Fletcher, Non-executive director											
<b>2010</b>	<b>13,415</b>	—	—	<b>1,593</b>	—	—	—	<b>15,008</b>	—	<b>4,285</b>	<b>19,293</b>
2009	—	—	—	—	—	—	—	—	—	—	—
MJ Wilkins, Executive director											
<b>2010</b>	<b>9,242</b>	<b>3,823</b>	—	<b>192</b>	—	<b>62</b>	—	<b>13,319</b>	<b>1,412</b>	<b>6,649</b>	<b>21,380</b>
2009	9,210	5,550	—	324	—	75	—	15,159	408	3,720	19,287
NB Hawkins, Executive director											
<b>2010</b>	<b>59,555</b>	<b>24,752</b>	—	<b>1,750</b>	—	<b>299</b>	—	<b>86,356</b>	<b>10,576</b>	<b>46,485</b>	<b>143,417</b>
2009	38,543	18,700	500	3,283	—	1,550	—	62,576	6,328	23,337	92,241
Retired directors											
RA Ross, retired 31 August 2008											
2009	53	—	—	8	581	—	—	642	—	31	673

## 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*
JA Strong	—	14,546	344,288	—
HA Fletcher	—	35,190	36,500	—
MJ Wilkins	—	124,700	101,666	—
NB Hawkins	—	194,835	—	—
BM Schwartz	—	1,953	70,042	—

\* 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 Securities Exchange in accordance with section 205G of the Corporations Act 2001 until the date of the financial report is signed. Trading in IAG shares is covered by the restrictions which limit the ability of an IAG director to trade in the shares of the IAG Group where they are in a position to be aware, or are aware, of price sensitive information.

## 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 26th day of August 2010 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 2010 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



Brian Greig  
Partner  
Sydney, 26 August 2010

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 \$000	2009 \$000
<b>INTEREST REVENUE</b>			
Related bodies corporate		28,146	32,343
Other corporations		13	87
Total interest revenue		28,159	32,430
<b>INTEREST EXPENSE</b>			
Reset exchangeable securities	3	(25,630)	(25,955)
Net interest income		2,529	6,475
Other income		4,169	68
Finance costs	3	(5,333)	(2,211)
Unrealised foreign exchange gains and (losses)	3	(30)	251
Realised foreign exchange gains and (losses)	3	(167)	139
Other administration expenses	3	(459)	(450)
Profit/(loss) before income tax		709	4,272
Income tax (expense)/credit	5	17,234	(1,303)
Profit/(loss) for the year		17,943	2,969
Total comprehensive income and (expense) for the year, net of tax		17,943	2,969

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

## BALANCE SHEET AS AT 30 JUNE 2010

<b>ASSETS</b>			
Cash held for operational purposes	10	1,654	154
Investments		—	143
Receivables from related bodies corporate	11	17,470	4
Current tax assets		205	—
Loans to related bodies corporate	11	551,576	551,014
Deferred tax assets		6	5
Total assets		570,911	551,320
<b>LIABILITIES</b>			
Trade and other payables		41	27
Interest payable on reset exchangeable securities		1,503	759
Payables to related bodies corporate	11	—	200
Current tax liabilities		—	4
Employee benefits provision		19	18
Reset exchangeable securities	8	550,000	548,907
Total liabilities		551,563	549,915
Net assets		19,348	1,405
<b>EQUITY</b>			
Share capital		—*	—*
Retained earnings		19,348	1,405
Total equity		19,348	1,405

\* 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 2010

	SHARE CAPITAL \$000	RETAINED EARNINGS \$000	TOTAL EQUITY \$000
<b>2010</b>			
Balance at the beginning of the financial year	—*	1,405	1,405
Profit/(loss) for the year	—	17,943	17,943
Balance at the end of the financial year	—	19,348	19,348
<b>2009</b>			
Balance at the beginning of the financial year	—*	4,436	4,436
Profit/(loss) for the year	—	2,969	2,969
Dividends declared and paid	—	(6,000)	(6,000)
Balance at the end of the financial year	—	1,405	1,405

\* 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 2010

	NOTE	2010 \$000	2009 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and trust distributions received		27,597	33,237
Finance costs paid		(28,879)	(26,712)
Income taxes paid		(413)	(1,309)
Other operating receipts		4,141	68
Other operating payments		(445)	(684)
Net cash flows from operating activities	10	2,001	4,600
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash flows from investing activities		—	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid to equity holder		(200)	(5,800)
Net cash flows from financing activities		(200)	(5,800)
Net movement in cash held		1,801	(1,200)
Effects of exchange rate changes on balances of cash held in foreign currencies		(444)	321
Cash and cash equivalents at the beginning of the financial year		297	1,176
Cash and cash equivalents at the end of the financial year	10	1,654	297

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 2010

## 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 publicly traded on the Australian Securities Exchange (ASX). Its registered office is Level 26, 388 George Street, Sydney, NSW 2000, Australia. Its principal place of business is Level 1, NZI Centre, 1 Fanshawe Street, Auckland, New Zealand.

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 26 August 2010.

### 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 of the previous reporting period unless otherwise noted. The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exception being the measurement of derivatives at fair value.

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

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 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 published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting period.

None of these standards have been early adopted and applied in the current reporting period. These financial standards will be adopted in the year commencing 1 July after the operative date. For example, AASB 2009-5 will be operative in the financial year commencing 1 July 2010.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 2009-5	Further amendments to Australian Accounting Standards arising from the annual improvement project	1 January 2010	A
AASB 9	Financial Instruments	1 January 2013	C
AASB 2009-11	Amendments to Australian Accounting Standards – Accounting standards arising from AASB 9	1 January 2013	D
AASB 2009-12	Amendments to Australian Accounting Standards	1 January 2011	B
AASB 2010-4	Further amendments to Australian Accounting Standards arising from the annual improvements project	1 January 2011	B

#### Table notes

- 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 changes may have financial impact. However, the assessment of the impact is not completed yet and the impact cannot be reasonably estimated.
- D This standard gives effect to consequential changes arising from the issuance of AASB 9. This standard is required to be adopted in the same reporting period when AASB 9 is adopted.

#### II. Changes in accounting policies

There were a number of Australian Accounting Standards and Interpretations, applicable for the current reporting period. Adopting some of these standards and interpretations resulted in changes in accounting policies. However, none of these changes have a material financial impact on the Company.

The adoption of the following AASBs impacted the financial report disclosure for the current reporting period.

##### AASB 101 REVISED PRESENTATION OF FINANCIAL STATEMENTS

The adopted standard requires the presentation of a statement of comprehensive income by expanding the previously disclosed income statement with a new category, other comprehensive income and expense, net of tax after the profit or loss after income tax.

#### 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 2009 and 31 December 2009 – 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 on the result for a reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except 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 and its Australian resident wholly owned subsidiaries adopted the tax consolidation legislation with effect from 1 July 2002 and are therefore taxed as a single entity from that date. IAG is the head entity within the tax-consolidated group.

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

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

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

### **NATURE OF TAX FUNDING ARRANGEMENTS AND TAX SHARING ARRANGEMENTS**

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

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

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

## **III. 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.

## **E. DERIVATIVES**

A variety of derivatives are used for the sole purpose of managing risk exposures. Derivatives are not held for trading or speculative purposes but are mandatorily classified for accounting purposes as held for trading.

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. The fair value is determined by reference to current market quotes (current bid price for derivatives presented as assets and the current ask price for derivatives presented as liabilities) or generally accepted valuation principles. The derivatives become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Transaction costs for purchases of derivatives are expensed as incurred and presented in the statement of comprehensive income as interest expenses.

### **Cross currency swaps**

Cross currency swaps are entered into to hedge foreign currency borrowings. Interest receipts and payments on the swaps are recognised in profit or loss 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 profit or loss against the revaluation losses and gains of the underlying hedged items.

## **F. 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.

## **G. 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.

### **III. Hedge transactions**

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to section E of the summary of significant accounting policies note for details of the relevant accounting policies.

## **H. 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.

Transaction costs are capitalised, presented together with the RES, and are amortised using the effective interest method over five years from the date of issue and disclosed as finance costs in the statement of comprehensive income. When there is a substantial modification of the terms of the RES which is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. These costs and fees are disclosed as finance costs in the statement of comprehensive income.

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, credit risk, and liquidity risk from its business.

### A. INTEREST RATE RISK

The Company's exposure to interest rate risks arises primarily from its reset exchangeable securities (RES) and the loan to a related body corporate. Both the financial asset and financial liability are denominated in Australian dollar 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. 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. All significant transactions are undertaken with the IAG Group's entities. It is IAG Group's intention to provide appropriate support to ensure the intercompany receivables are recoverable when necessary. In addition, the Company complies with the credit risk management policies of IAG. The policies outline the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality.

### C. 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 by the quarterly interest income from the loan to a related body corporate. Other financial liabilities of the Company are normally due within 12 months, 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

	2010	2009
	\$000	\$000
<b>A. EXPENSES AS PRESENTED IN THE STATEMENT OF COMPREHENSIVE INCOME AND ANALYSIS OF EXPENSES BY NATURE</b>		
Interest expense	25,630	25,955
Finance costs*	5,333	2,211
Unrealised foreign exchange (gains) and losses	30	(251)
Realised foreign exchange (gains) and losses	167	(139)
Other administration expenses	459	450
Total expenses	<b>31,619</b>	<b>28,226</b>

\* Finance costs included the amortisation of capitalised transaction costs of \$1,340,000 and the remaining amounts were fees and costs incurred during the current year resulting from the amendment of the RES terms and conditions.

## NOTE 4. REMUNERATION OF AUDITORS

	2010 \$	2009 \$
<b>A. KPMG AUSTRALIA</b>		
<b>I. Assurance services</b>		
Audit of the financial statements	26,800	27,110
<b>II. Advisory services</b>		
RES restructure costs	200,000	—
Total remuneration of auditors	<b>226,800</b>	<b>27,110</b>

It is the IAG Group's policy that KPMG may provide assurance and other audit related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by a regulator such as the Australian Prudential Regulation Authority. KPMG may not provide services that are perceived to be materially in conflict with the role of auditor. It is Company policy to contract KPMG on assignments additional to their statutory audit and assurance duties where KPMG's expertise and experience with the IAG Group are important. The total fees for such services cannot exceed the audit fees without the approval of the IAG Audit, Risk Management & Compliance Committee and KPMG can be contracted only in relation to reviewing financial information and not in its preparation. The Company board is of the opinion that audit independence was not impaired during the current financial year as a result of the provision of these services.

## NOTE 5. INCOME TAX

	2010 \$000	2009 \$000
<b>A. INCOME TAX EXPENSE</b>		
Current tax	(17,234)	1,304
Deferred tax	—	(1)
Income tax (credit)/expense	<b>(17,234)</b>	<b>1,303</b>
<b>B. INCOME TAX RECONCILIATION</b>		
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	709	4,272
Income tax calculated at 30% (2009 – 30%)	213	1,282
<b>Amounts which are (deductible)/taxable in calculating taxable income</b>		
Foreign exchange losses deductible on settlement of loan with a related body corporate	(17,447)	—
Other	—	21
Income tax (credit)/expense attributable to profit for the year before and after impact of tax consolidation	<b>(17,234)</b>	<b>1,303</b>

## NOTE 6. SEGMENT REPORTING

The Company operates principally providing treasury services of the IAG's New Zealand operations including issuing RES in Australia. 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 7. DIVIDENDS

	DOLLARS PER SHARE	TOTAL AMOUNT	PAYMENT DATE/EXPECTED PAYMENT DATE
		\$000	
<b>A. ORDINARY SHARES</b>			
Recognised in the year ended 30 June 2009			
Dividend declared in August 2008	2,000,000	2,000	23 January 2009
Dividend declared in December 2008	2,000,000	2,000	23 January 2009
Dividend declared in February 2009	1,200,000	1,200	17 March 2009
Dividend declared in February 2009	600,000	600	29 June 2009
Dividend declared in February 2009	200,000	200	15 September 2009
		<u>6,000</u>	

No dividends were paid in, or declared in respect of, the year to 30 June 2010.

There are presently no restrictions on the payment of dividends by the Company other than the payment of dividends generally being limited to profits subject to ongoing solvency obligations.

## NOTE 8. RESET EXCHANGEABLE SECURITIES

	2010 \$000	2009 \$000
<b>A. COMPOSITION</b>		
5,500,000 reset exchangeable securities	<b>550,000</b>	550,000
Less: capitalised transaction costs*	—	(1,093)
	<b>550,000</b>	<u>548,907</u>
<b>B. RECONCILIATION OF MOVEMENTS FOR THE FINANCIAL YEAR</b>		
Balance at the beginning of the financial year	<b>548,907</b>	546,765
Amortisation of capitalised transaction costs*	<b>1,340</b>	2,211
Foreign exchange movements	<b>(247)</b>	(69)
Balance at the end of the financial year	<b>550,000</b>	<u>548,907</u>

\* Capitalised transactions costs were fully amortised during the current financial year. Costs and fees incurred in relation to the amendment of the RES terms and conditions during the year were recognised as financial costs in the statement of comprehensive income.

### C. TERMS AND CONDITIONS

The reset exchangeable securities (RES) have a face value of \$550 million and were issued at par by IAG Finance (New Zealand) Limited and trade on the Australian Securities Exchange. On 9 December 2009, the RES holders approved amendments to the RES terms and the table below summarises the key amendments.

FEATURE	AMENDED TERMS APPROVED	ORIGINAL TERMS
Initial reset date	16 December 2019	15 March 2010
RES margin	4.00% per annum	1.20% per annum
Interest rate	No change	Three-month bank bill rate + RES margin X (1 – tax rate)
Source of interest payment	The issuer, the Company	The portfolio which is managed by IAG Asset Management Limited. RES holders had a security interest over the portfolio
Interest payment tests	The directors not having passed a resolution not to pay and the absence of an APRA condition	Sufficient net portfolio income per current RES and the IAG profits test
Redemption amount	\$100	\$100. Subject to the distributable portfolio proceeds amount
Legal form	Unsecured notes, the issuer's obligations are not secured by recourse to any assets and are subordinated to all policyholders and creditors	Unsecured notes, issuer's obligations are secured over the portfolio for the benefit of the RES holders
Exchange	Into amended preference share in respect of all amended RES: <ul style="list-style-type: none"> <li>■ mandatorily upon an exchange event; or</li> <li>■ at IAG's discretion, at any time</li> </ul>	Into preference shares in respect of some or all existing RES, at IAG's discretion at any time, subject to certain restrictions
Regulatory capital	Qualifies as Tier 1 regulatory capital for IAG	Does not qualify as regulatory capital

RES holders are entitled to an interest payment that is non-cumulative and based on a floating rate. The following quarterly interest payments on RES were made during the financial year.

PAYMENT DATE	AMOUNT PER RES	INTEREST RATE
15 September 2009	\$0.7931	3.1465% per annum
15 December 2009	\$0.8124	3.2585% per annum
15 March 2010	\$1.4240	5.7750% per annum
15 June 2010	\$1.4874	5.9010% per annum

The next quarterly interest payment, which is expected to be \$1.5718 per RES (6.2358% per annum), is due on 15 September 2010. This interest payment is expected to be fully franked.

## NOTE 9. SHARE CAPITAL

As at reporting date there was 1 ordinary share on issue (2009 – 1). The ordinary share is fully paid and has no par value. The ordinary share entitle 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 10. NOTES TO THE CASH FLOW STATEMENT

	2010 \$000	2009 \$000
<b>A. COMPOSITION</b>		
Cash held for operational purposes	1,654	154
Cash and short term money held for investment	—	143
Cash and cash equivalents	<b>1,654</b>	<b>297</b>

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.

	2010 \$000	2009 \$000
<b>B. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) for the year	17,943	2,969
<b>I. Non cash items</b>		
Net (gain) and losses on disposal of property and equipment	—	4
Net foreign exchange (gains) and losses	197	(390)
Amortisation of capitalised transaction costs	1,340	2,211
<b>II. Movement in operating assets and liabilities</b>		
DECREASE/(INCREASE) IN OPERATING ASSETS		
Loans to a related body corporate	—	807
Receivable from a related body corporate	(17,466)	(4)
Current tax assets	(205)	—
Interest receivable	(562)	—
Deferred tax assets	(1)	(1)
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
Trade and other payables	14	(19)
Interest payable on reset exchangeable securities	744	(757)
Payables to related bodies corporate	—	(218)
Employee benefits provision	1	3
Current tax liabilities	(4)	(5)
Net cash flows from operating activities	<u>2,001</u>	<u>4,600</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 11. RELATED PARTY DISCLOSURES

### A. CONTROLLING ENTITIES

The ultimate parent entity in the Consolidated entity is Insurance Australia Group Limited (IAG) which is incorporated in Australia. There were no transactions with the ultimate parent entity during the year (2009 – none).

### B. LOAN TO A RELATED BODY CORPORATE AND HEDGING INSTRUMENT

The following is additional information provided in relation to the balance sheet and statement of comprehensive income impact on the loan to a related body corporate, IAG (NZ) Holdings Limited, which is denominated in New Zealand dollars and the cross currency swap with another related body corporate, Insurance Australia Limited, put in place to hedge the interest rate and currency risk in the prior financial period.

On 15 December 2009, a new loan agreement with IAG (NZ) Holdings Limited was implemented, in accordance with the amendments approved by the RES holders. The key differences between the new and old loan agreement are summarised below:

- the loan is now denominated in Australian dollars with the principal of \$550 million;
- the loan bears a variable rate of interest, reset and paid quarterly. The interest rate is calculated at the interest rate payable on the RES plus a margin; and
- the loan has a reset date on 16 December 2019.

## I. Transactions during the year

Aggregate amounts included in the determination of profit before income tax for the year.

	2010 \$000	2009 \$000
Interest income/(expense) on cross currency swap with Insurance Australia Limited	2,236	546
Interest income on loans to IAG (NZ) Holdings Limited	25,910	31,797
Costs recovery from IAG (NZ) Holdings Limited	4,102	—

The foreign exchange loss of \$6,112,000 (2009 – a gain of \$6,580,000) on the loan to a related body corporate has been fully offset by the gain on the cross currency swap (see below) of \$6,112,000 (2009 – a loss of \$6,580,000). The cross currency swap and loan were settled on 15 December 2009.

## II. Balances outstanding at reporting date

Details of the loan to a related body corporate and hedging instrument are as follows.

Loan to IAG (NZ) Holdings Limited*	551,576	483,406
Cross currency swap with Insurance Australia Limited	—	67,608

\* The outstanding balance as at reporting date included an accrued interest of \$1,576,000 (2009 – \$711,000) which is due in three months.

## C. 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.

Services fee received or receivable	67	68
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### 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.

Amounts payable	—	200
Amounts receivable*	17,470	4

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.

\* The amounts receivable included an amount of \$17,438,000 receivable from Insurance Australia Group Limited. This receivable represents current tax asset transferred to IAG, the head entity of the tax-consolidated group, at reporting date.

## D. 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 Australian Accounting Standard 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.

	2010 \$	2009 \$
Short term employee benefits	168,130	84,118
Post employment benefits	5,704	5,910
Other long term benefits	361	1,625
Share based payments	83,470	45,074
	<b>257,665</b>	<b>136,727</b>

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 and 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>
JA Strong	—	409,555	—	—
HA Fletcher	—	71,690	—	—
MJ Wilkins	—	130,166	1,977,300	—
NB Hawkins	—	171,686	849,760	—

(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 2010.

(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.

## E. 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.

# NOTE 12. CAPITAL MANAGEMENT

## A. CAPITAL MANAGEMENT STRATEGY

The principal activity of the Company is to perform all treasury functions of the IAG Group'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 13. NET TANGIBLE ASSETS

	2010 \$000	2009 \$000
Net tangible assets per ordinary share	<b>19,348</b>	<b>1,405</b>

# 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 2010 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 comply 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 2010.

Signed at Sydney this 26th day of August 2010 in accordance with a resolution of the directors.



Nicholas Hawkins  
Director

# INDEPENDENT AUDITOR'S REPORT TO THE EQUITY HOLDER 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 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 13 and the directors' declaration.

### Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1.A, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Interpretations), a 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 2010 and of its performance for the year ended on that date; and
  - complying with Australian Accounting Standards (including the Australian Interpretations) 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 the directors' report for the year ended 30 June 2010. 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 2010, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG



Brian Greig  
Partner

Sydney, 26 August 2010

# RES HOLDER INFORMATION

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

## CODE ON ASX

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	\$ PER SECURITY	EX DATE	RECORD DATE	PAYMENT DATE	FRANKING LEVEL	FRANKING CREDIT
14/09/09	\$0.7931	02/09/09	08/09/09	15/09/09	100%	30%
14/12/09	\$0.8124	02/12/09	08/12/09	15/12/09	100%	30%
14/03/10	\$1.4240	01/03/10	05/03/10	15/03/10	100%	30%
14/06/10	\$1.4874	31/05/10	04/06/10	15/06/10	100%	30%

## INTEREST PAYMENTS

Following a RES Holder Meeting on 9 December 2009, 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 2010 to 14 September 2010 is \$1.5718 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 version to be via our website.

You will be able to access your Annual Report at [www.iag.com.au/shareholder/res/index.shtml](http://www.iag.com.au/shareholder/res/index.shtml) or elect to receive an email notification when the Annual Report is available online by logging on to [www.iag.com.au/shareholder/manage/index.shtml](http://www.iag.com.au/shareholder/manage/index.shtml) and providing 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 18 AUGUST 2010	NO. OF RES	% OF RES ISSUED
J P MORGAN NOMINEES AUSTRALIA LIMITED	744,340	13.53
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	258,055	4.69
CITICORP NOMINEES PTY LIMITED	256,849	4.67
NATIONAL NOMINEES LIMITED	224,722	4.09
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	118,136	2.15
M F CUSTODIANS LTD	86,452	1.57
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSAM A/C>	64,565	1.17
ANZ NOMINEES LIMITED <CASH INCOME A/C>	60,731	1.10
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	60,181	1.09
UCA CASH MANAGEMENT FUND LTD	58,213	1.06
CRYTON INVESTMENTS NO 9 PTY LTD <GARNER NUMBER 1 A/C>	48,000	0.87
COGENT NOMINEES PTY LIMITED	36,087	0.66
EDSGEAR PTY LIMITED	35,257	0.64
SANDHURST TRUSTEES LTD <JM ASSET MANAGEMENT A/C>	34,664	0.63
PERPETUAL TRUSTEE COMPANY LTD <ALLIANCE A/C>	33,170	0.60
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSENI A/C>	29,616	0.54
ARGO INVESTMENTS LIMITED	25,000	0.45
BRISPO T NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	22,500	0.41
SR CONSOLIDATED PTY LTD	22,363	0.41
AVANTEOS INVESTMENTS LIMITED <DNR IMA A/C>	21,790	0.40
Total for Top Twenty	2,240,691	40.73

RANGE OF HOLDERS AS AT 18 AUGUST 2010	NO. OF HOLDERS	NO. OF RES	
1 - 1,000	5,985	1,830,342	33.28
1,001 - 5,000	462	931,056	16.93
5,001 - 10,000	38	284,352	5.17
10,001 - 100,000	30	852,148	15.49
100,001 and over	5	1,602,102	29.13
TOTAL	6,520	5,500,000	100.00
Holder s with less than a marketable parcel of 4 securities as at 18 August 2010	4	4	

