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EFFECT OF THE PROPOSED AMENDMENTS ON THE ISSUER

The Issuer is a wholly-owned subsidiary of IAG. The Existing RES commenced trading on ASX on 12 January 2005.

2.1 ABOUT THE ISSUER

The Issuer is a wholly-owned subsidiary of IAG. The Issuer has responsibility for raising finance for the New Zealand operations of the Group and for management of their ongoing treasury requirements. The New Zealand branch of the Issuer employs a branch manager to manage the performance of these functions.

The Issuer has undertaken to consult with APRA prior to any change to its business operations.

The Issuer utilises and is subject to IAG's corporate governance framework, including risk, compliance and capital management policies, procedures and controls. The key corporate governance practices followed by the Issuer are the same as those of the Group. The corporate governance framework and practices of the Group are disclosed in IAG's 2009 annual report, which is separately available on IAG's website at www.iag.com.au.

2.1.1 Board of directors of the Issuer

The board of the Issuer consists of four Directors, who have been selected with regard to their diverse and extensive experience in the finance industry. The Directors of the Issuer are: Mr James Strong, Mr Michael Wilkins, Mr Hugh Fletcher and Mr Nicholas Hawkins.

James Strong AO – Chairman and Independent Non-executive Director, age 65

Insurance industry experience

James Strong was appointed as a director of IAG Finance (New Zealand) Limited in November 2004. James was also appointed as Chairman of IAG in August 2001. He is a member of the IAG Nomination, Remuneration & Sustainability Committee. James is also Chairman of Insurance Manufacturers of Australia Pty Limited, a general insurance underwriting joint venture with RACV Ltd.

Other business experience

James is also Chairman of Woolworths Limited, the Australia Council for the Arts and Kathmandu Holdings Limited. He is a director of Qantas Airways Limited and the Australian Grand Prix Corporation.

James was formerly the chief executive and managing director of Qantas Airways Limited from 1993 to 2001, chairman of Rip Curl Group Pty Limited, 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.

He has been admitted as a barrister and/or solicitor in various state jurisdictions in Australia. In 2006 James was made an Officer of the Order of Australia.

Directorships of other listed companies held in past three years

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

Michael Wilkins BCom, MBA, DLI, FCA – Managing Director and Chief Executive Officer, age 53

Insurance industry experience

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

Michael has more than 25 years experience in the insurance and financial services sector. He is a director of the Insurance Council of Australia.

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 director of the Investment and Financial Services Association.

Other business experience

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

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

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Directorships of other listed companies held in past three years

- Promina Group Limited from 1 August 1999 to 20 March 2007;
- 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 – Independent Non-executive Director, age 61

Insurance industry experience

Hugh Fletcher was appointed as a director of IAG Finance (New Zealand) Limited on 31 August 2008. Hugh was also appointed as a director of IAG in September 2007 and as a director of the IAG New Zealand Limited 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 non-executive director of the Reserve Bank of New Zealand, Fletcher Building Limited, Rubicon Limited and 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; and
- Insurance Australia Group Limited since 1 September 2007.

Nicholas Hawkins BCom, FCA – Executive Director and Chief Financial Officer, age 41

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 he has held senior positions in the Group, most recently as chief executive officer of IAG New Zealand Limited.

He has also had several senior roles in IAG including head of asset management and 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.

2.2 PRO FORMA FINANCIAL INFORMATION

The following tables set out the pro forma financial information of the Issuer as at 30 June 2009 under two scenarios. The first scenario assumes that the Amendments are approved (**Amended RES case**) and the second scenario assumes that the Amendments are not approved and the Existing RES are Exchanged into Existing Preference Shares (**Existing Preference Shares case**).

2.2.1 Issuer's pro forma balance sheet as at 30 June 2009 – Amended RES case

If the Amendments are approved, the Amended RES continue to be recognised on the Issuer's balance sheet together with the associated "loans to a related body corporate" under a new loan agreement.

\$'000	30 June 2009	Pro forma adjustments	Pro forma
Assets			
Cash and short-term money held	297	- ³	297
Loans to a related body corporate	551,014	-	551,014
Other assets	9	-	9
Total assets	551,320	-	551,320
Liabilities			
Reset exchangeable securities	548,907	1,093 ²	550,000
Interest payable on reset exchangeable securities	759	-	759
Other liabilities	249	-	249
Total liabilities	549,915	1,093	551,008
Net assets	1,405	(1,093)	312
Equity			
Share capital	- ¹	-	- ¹
Retained earnings	1,405	(1,093) ^{2,3}	312
Total equity	1,405	(1,093)	312

Notes:

- 1 The share capital is \$1.00 and rounded to zero.
- 2 Remaining capitalised transaction costs of \$1,093,000 relating to the issue of the Existing RES are fully amortised through the income statement.
- 3 Transaction costs of \$5 million in relation to the proposed Amendments will be expensed in the income statement. The transaction costs of \$5 million will be reimbursed by the New Zealand operations resulting in a net nil impact on cash and the income statement.

2.2.2 Issuer's pro forma balance sheet as at 30 June 2009

– Existing Preference Shares case

If the Amendments are not approved and the Existing RES are exchanged, the Issuer's "loans to a related body corporate" will be extinguished and the Existing RES will be Exchanged into Existing Preference Shares.

\$'000	30 June 2009	Pro forma adjustments	Pro forma
Assets			
Cash and short-term money held	297	255 ²	552
Loans to a related body corporate	551,014	(551,014) ²	–
Other assets	9	–	9
Total assets	551,320	(550,759)	561
Liabilities			
Reset exchangeable securities	548,907	(548,907) ²	–
Interest payable on reset exchangeable securities	759	(759) ²	–
Other liabilities	249	–	249
Total liabilities	549,915	(549,666)	249
Net assets	1,405	(1,093)	312
Equity			
Share capital	– ¹	–	– ¹
Retained earnings	1,405	(1,093) ^{3,4}	312
Total equity	1,405	(1,093)	312

Notes:

- 1 The share capital is \$1.00 and rounded to zero.
- 2 Upon Exchange, it is expected that loans to a related body plus accrued interest receivable and interest payable on Existing RES will be repaid. The Existing RES will be exchanged into Existing Preference Shares. The net impact of these transactions will result in net cash receipt of \$255,000.
- 3 Remaining capitalised transaction costs of \$1,093,000 relating to the issue of the Existing RES are fully amortised through the income statement.
- 4 No transaction costs will be incurred by the Issuer in this case.