IMPORTANT INFORMATION

This report contains general information in summary form which is current as at 19 August 2014. It presents financial information on both a statutory basis (prepared in accordance with Australian accounting standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis.

This report is not a recommendation or advice in relation to Insurance Australia Group Limited (IAG) or any product or service offered by IAG’s subsidiaries. It is not intended to be relied upon as advice to investors or potential investors, and does not contain all information relevant or necessary for an investment decision.

It should be read in conjunction with IAG’s other periodic and continuous disclosure announcements filed with the Australian Securities Exchange (ASX) and, in particular, the Annual Report for the year ended 30 June 2014. These are also available at www.iag.com.au.

The information in this report is for general information only. To the extent that certain statements contained in this report may constitute “forward-looking statements” or statements about “future matters”, the information reflects IAG’s intent, belief or expectations at the date of this report. IAG gives no undertaking to update this information over time (subject to legal or regulatory requirements). Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause IAG’s actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Any forward-looking statements, opinions and estimates in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Neither IAG, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this report will actually occur. In addition, please note that past performance is no guarantee or indication of future performance.
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# FY14 GROUP RESULTS

## KEY RESULTS

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY14</th>
<th>FY14 vs FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross written premium (GWP)</strong></td>
<td>9,498</td>
<td>4,786</td>
<td>4,993</td>
<td>9,779</td>
<td>+3.0%</td>
</tr>
<tr>
<td><strong>Net earned premium (NEP)</strong></td>
<td>8,318</td>
<td>4,320</td>
<td>4,324</td>
<td>8,644</td>
<td>+3.9%</td>
</tr>
<tr>
<td><strong>Insurance profit</strong></td>
<td>1,428</td>
<td>758</td>
<td>821</td>
<td>1,579</td>
<td>+10.6%</td>
</tr>
<tr>
<td><strong>Net profit after tax (NPAT)</strong></td>
<td>776</td>
<td>642</td>
<td>591</td>
<td>1,233</td>
<td>+58.9%</td>
</tr>
<tr>
<td><strong>Cash NPAT</strong></td>
<td>1,156</td>
<td>653</td>
<td>653</td>
<td>1,306</td>
<td>+13.0%</td>
</tr>
<tr>
<td><strong>Reported insurance margin</strong></td>
<td>17.2%</td>
<td>17.5%</td>
<td>19.0%</td>
<td>18.3%</td>
<td>+110bps</td>
</tr>
<tr>
<td><strong>Underlying insurance margin</strong></td>
<td>12.5%</td>
<td>13.7%</td>
<td>14.8%</td>
<td>14.2%</td>
<td>+170bps</td>
</tr>
<tr>
<td><strong>Cash ROE</strong></td>
<td>25.3%</td>
<td>26.8%</td>
<td>20.4%</td>
<td>23.0%</td>
<td>-230bps</td>
</tr>
<tr>
<td><strong>Dividend (cents per share)</strong></td>
<td>36.0</td>
<td>13.0</td>
<td>26.0</td>
<td>39.0</td>
<td>+8.3%</td>
</tr>
<tr>
<td><strong>Prescribed Capital Amount (PCA) multiple</strong></td>
<td>1.67</td>
<td>2.31</td>
<td>1.72</td>
<td>1.72</td>
<td>+5bps</td>
</tr>
</tbody>
</table>

## GWP GROWTH

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWP (A$m)</td>
<td>4,993</td>
<td>4,593</td>
<td>4,933</td>
<td>4,933</td>
<td>9.6%</td>
<td>9.77%</td>
</tr>
<tr>
<td>GWP Growth (%)</td>
<td>13.5%</td>
<td>10.2%</td>
<td>4.2%</td>
<td>3.0%</td>
<td>11.8%</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

## INSURANCE PROFIT & MARGIN

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Profit (A$m)</td>
<td>815</td>
<td>613</td>
<td>758</td>
<td>821</td>
<td>17.2%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Insurance Margin (%)</td>
<td>19.9%</td>
<td>14.5%</td>
<td>17.5%</td>
<td>18.0%</td>
<td>15.0%</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

## NET PROFIT AFTER TAX (A$m)

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>461</td>
<td>315</td>
<td>642</td>
<td>591</td>
<td>776</td>
<td>1,233</td>
<td></td>
</tr>
</tbody>
</table>

## CASH EPS & DPS

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>33.1</td>
<td>22.9</td>
<td>31.4</td>
<td>28.2</td>
<td>26.0</td>
<td>56.0</td>
<td>39.0</td>
</tr>
</tbody>
</table>

## CASH ROE

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.7</td>
<td>20.2%</td>
<td>26.8%</td>
<td>20.4%</td>
<td>25.3%</td>
<td>23.0%</td>
<td></td>
</tr>
</tbody>
</table>

## REGULATORY CAPITAL (MULTIPLE)

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCA</td>
<td>1.67</td>
<td>1.72</td>
<td>1.09</td>
<td>1.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CET1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. EXECUTIVE SUMMARY

GROUP HIGHLIGHTS

- Strong business performance, with improved underlying margin\(^1\) of 14.2%
- Reported margin of 18.3% boosted by favourable natural peril experience, higher than originally expected reserve releases and credit spread benefit
- GWP growth of 3%, reflecting relative absence of input cost pressures
- Acquisition of Wesfarmers insurance underwriting business completed on 30 June 2014
- Move to new operating model in Australia from FY15
- 8.3% increase in full year dividend to 39 cents per share (cps) – 70% of cash earnings
- Strong capital position – PCA multiple of 1.72, CET1 multiple of 1.14
- FY15 guidance of GWP growth of 17-20% and a reported insurance margin of 13.5-15.5%

FY14 OVERVIEW

FY14 has been a significant year for Insurance Australia Group Limited (IAG). IAG has produced a strong financial performance, positioning it well to deliver on the next phase of the Group’s development. A key milestone was the acquisition of the Wesfarmers insurance underwriting business, which was completed on 30 June 2014.

The Group’s underlying profitability has shown further improvement over the course of FY14, with an underlying margin\(^1\) of 14.2%, compared to 12.5% in FY13. Each of the Group’s businesses in Australia and New Zealand (which collectively represented nearly 97% of consolidated GWP in FY14) has registered an improvement in underlying performance. The Asia division has posted a modest profit, with development of its respective operations progressing to plan.

GROUP INSURANCE MARGIN – REPORTED VS. UNDERLYING (EX-UK)

IAG has delivered a strong underlying performance

\(^1\) IAG defines its underlying insurance margin as the reported insurance margin adjusted for:
- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.
1. EXECUTIVE SUMMARY

GWP growth of 3.0% has been recorded in FY14. GWP growth was 4.1% after allowing for the cessation of the Victorian Fire Services Levy (FSL), which contributed $104m of GWP in FY13 (FY14: nil).

The Group’s overall performance in FY14 was characterised by:

- Substantially reduced input cost pressures, resulting in minimal need for premium rate increases;
- Underlying volumes broadly in line with system growth in most classes;
- Ongoing application of underwriting disciplines leading to further improvement in portfolio construction and quality;
- Improved underlying claim costs, aided by better than expected frequency in key business classes; and
- Increased investment in the business, directed towards long term efficiency and customer-oriented projects.

Reported profitability has benefited from favourable natural peril, reserve release and investment market outcomes, which have driven an insurance margin well above the guidance held at the outset of the year.

The reported insurance margin of 18.3% (FY13: 17.2%) incorporates:

- Net natural peril claim costs of $553m, which were $87m lower than the related allowance;
- Prior period reserve releases of $248m, equivalent to 2.9% of net earned premium (NEP); and
- A positive $100m impact from the narrowing of credit spreads during the year.

Investment income on shareholders’ funds, of $396m, was 14% higher than FY13, assisted by strong performances by equities and alternative assets.

Net profit after tax increased by nearly 60% to $1,233m. This outcome was assisted by the absence of the loss of $287m recognised in FY13 in respect of the discontinued UK business, which was sold in April 2013.

Reported ROE in FY14 was 21.7%, and cash ROE was 23.0%, well in excess of the Group’s through-the-cycle target.

The Board has determined to pay a final fully franked dividend of 26.0 cents per ordinary share, increasing the full year dividend to 39.0 cents (FY13: 36.0cps). This equates to a cash payout ratio of nearly 70%, at the upper end of the Group’s payout policy range of 50-70% of full year cash earnings.

DIVISIONAL HIGHLIGHTS AND DEVELOPMENTS

<table>
<thead>
<tr>
<th>DIVISIONAL PERFORMANCE</th>
<th>FY13 Reported GWP A$m</th>
<th>FY13 Underlying Insurance Margin</th>
<th>FY14 Reported GWP A$m</th>
<th>FY14 Underlying Insurance Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia Direct</td>
<td>4,584</td>
<td>19.7</td>
<td>4,545</td>
<td>22.5</td>
</tr>
<tr>
<td>Australia Intermediated</td>
<td>3,028</td>
<td>17.8</td>
<td>3,058</td>
<td>17.4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,575</td>
<td>8.9</td>
<td>1,846</td>
<td>11.5</td>
</tr>
<tr>
<td>Asia</td>
<td>295</td>
<td>34.7</td>
<td>317</td>
<td>7.5</td>
</tr>
<tr>
<td>Corporate &amp; Other</td>
<td>16</td>
<td>n/a</td>
<td>13</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total Group</strong></td>
<td>9,498</td>
<td>17.2</td>
<td>9,779</td>
<td>18.3</td>
</tr>
</tbody>
</table>
1. EXECUTIVE SUMMARY

At a divisional level:

- **Australia Direct**, the Group’s largest business, has continued to deliver a strong underlying performance, as its focus on underwriting discipline has resulted in the realisation of further efficiencies. Lower frequency was also a factor in a markedly improved underlying claims performance. Relatively flat GWP was recorded, but modest growth was achieved after allowing for Victorian FSL and the decision to exit the poorly performing Queensland CTP portfolio;

- **Australia Intermediated (CGU)** maintained a double digit underlying margin performance, cementing the gains of recent years and maintaining its market position. GWP growth was 2.8% on an ex-Victorian FSL basis and a slightly higher underlying margin of 11.4% was achieved. CGU has improved its annual underlying insurance result by over $330m since FY08;

- The underlying performance in **New Zealand** was strong across the year. The division recorded an improvement in reported margin to 11.5%, despite the adverse affect of natural peril activity (notably storms) well in excess of allowance. Solid local currency GWP growth of 3.7% was reported; and

- **Asia** produced a slightly smaller profit of $14m, which was influenced by an adverse movement in year-end investment mark-to-market effects, of $12m. The established businesses in Thailand and Malaysia have continued to perform well, while losses from the developing businesses in India, China and Vietnam were relatively modest and in line with plan. On a proportional basis, Asia represented 7.1% of Group GWP in FY14.

**CAPITAL**

The Group’s capital position remains strong, at 1.72 times the Prescribed Capital Amount (PCA) as at 30 June 2014 and above the Group’s targeted range of 1.4-1.6. The Common Equity Tier 1 (CET1) ratio stood at 1.14 at 30 June 2014, against a target benchmark of 0.9-1.1.

If allowance is made for payment of the final dividend (which will occur in October 2014), the PCA and CET1 multiples at 30 June 2014 would reduce to within the Group’s benchmark ranges.

The Group’s debt to total tangible capitalisation ratio at 30 June 2014 is 35.0%. This places the Group in the middle of its targeted range of 30-40%.

IAG’s key wholly-owned operating insurance subsidiaries continue to hold ‘very strong’ ‘AA-’ ratings from Standard & Poor’s (S&P). At the Group level, IAG is rated ‘A’.

The Group’s probability of adequacy for the outstanding claims liability remained at 90% at 30 June 2014.

**ACQUISITION OF WESFARMERS BUSINESS / NEW OPERATING MODEL**

On 16 December 2013, the Group announced it had agreed to purchase the insurance underwriting business of Wesfarmers Limited, strengthening its position in its home markets of Australia and New Zealand.

The acquisition comprises the underwriting companies trading under the WFI and Lumley Insurance brands, as well as a ten-year distribution agreement with Coles, and is highly complementary to the Group’s existing businesses in Australia and New Zealand.

The acquisition was completed on 30 June 2014, following receipt of all necessary regulatory approvals. While reflected in the Group’s balance...
1. EXECUTIVE SUMMARY

Sheet at 30 June 2014, the former Wesfarmers business made no contribution to IAG’s earnings in FY14.

In May 2014 IAG announced the implementation of a new operating model for its Australian operations, effective 1 July 2014. This is creating a more customer-focused and efficient organisation, allowing IAG to better leverage its scale and insurance expertise to deliver better outcomes for its customers, people and shareholders.

The combined expected financial impact of the new Australian operating model and the integration of the Wesfarmers insurance underwriting business amounts to:

- An annualised pre-tax synergy / benefit run rate of approximately $230m by the end of FY16; and
- The recognition of one-off pre-tax costs of approximately $220m, with the expectation that most, if not all, will be recognised by the conclusion of FY15.

These are expected to accrue or be recognised as follows:

<table>
<thead>
<tr>
<th>INTEGRATION OF WESFARMERS BUSINESS / NEW OPERATING MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SYNERGIES / BENEFITS</strong></td>
</tr>
<tr>
<td>Year-end run rate</td>
</tr>
<tr>
<td>A$m</td>
</tr>
<tr>
<td>FY14</td>
</tr>
<tr>
<td>FY15</td>
</tr>
<tr>
<td>FY16</td>
</tr>
</tbody>
</table>

*Balance of costs anticipated to be recognised in FY15.

FY15 OUTLOOK

The Group expects to report GWP growth of 17-20% in FY15. This incorporates:

- The first-time consolidation of the Wesfarmers business in Australia and New Zealand;
- Limited need for rate increases, reflecting minimal input cost pressures; and
- Anticipated volume growth in the existing business broadly in line with system.

The Group anticipates reporting an insurance margin within the range of 13.5-15.5%. Underlying assumptions behind this guidance are:

- Net losses from natural perils in line with allowance of $700m;
- Lower prior period reserve releases equivalent to around 2% of NEP; and
- No material movement in foreign exchange rates or investment markets.

New Australian operating model effective 1 July 2014

FY15 guidance of 17-20% GWP growth and reported insurance margin of 13.5-15.5%
2. STRATEGY

GROUP STRATEGY & PRIORITIES

AMBITION
Our ambition is to be the world’s most respected group of general insurance companies

STRATEGY
To leverage market leadership in general insurance and risk management to create value for our customers, partners, employees, shareholders and the community

TARGETS
Long term financial targets
- ROE ≧ 1.5 x WACC
- Top quartile TSR

PRIORITIES
- Maintain leading market position in personal and commercial insurance in Australia and New Zealand
- Secure and grow our businesses in Asia
- Drive customer centricity
- Embed shared value strategy
- Explore long term growth opportunities

STRATEGY AND PRIORITIES

The Group’s strategy and priorities have been updated to appropriately reflect the company’s market position following the acquisition of the Wesfarmers underwriting business.

The updated priorities are:

**Maintain market leading position in personal and commercial insurance in Australia and New Zealand**

IAG, through its range of iconic brands, is the market leader in personal insurance in Australia and New Zealand.

The acquisition of the Wesfarmers insurance underwriting business delivers market leadership in commercial insurance in Australia, and cements IAG’s existing leadership position in New Zealand.

**Secure and grow our businesses in Asia**

The Group’s business in Asia is progressing to plan, as it transitions to a phase of driving operational development and enhancing risk management and governance. This follows the Group’s commitment of increased capability to the region to ensure the potential of the broader Asian platform is realised over the medium to longer term.

**Drive customer centricity**

Customer centricity remains a key strategic priority for the Group. Customer expectations and behaviours continue to evolve, particularly as technology creates new and more opportunities for them to interact with IAG.

Significant work is being undertaken to ensure Group businesses have a sharper focus on activities that directly affect the customer experience, allowing them to lead their markets in delivering superior value.

**Embed shared value strategy**

As part of its shared value strategy, IAG continues to explore new initiatives to improve safety on the road and in the home, and to examine ways to improve the resilience of small-to-medium-sized businesses.
2. STRATEGY

The Group has taken a leadership role in protecting customers and making communities safer through its participation in the Australian Business Roundtable for Disaster Resilience & Safer Communities.

Explore long term growth opportunities

IAG continues to explore long term growth opportunities, including solutions to improve insurance affordability and ventures to commercialise the company’s expertise in the identification and management of risk.
### 3. GROUP RESULTS

#### FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>GROUP RESULTS</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>4,593</td>
<td>4,905</td>
<td>4,786</td>
<td>4,993</td>
<td>9,498</td>
<td>9,779</td>
</tr>
<tr>
<td>Gross earned premium</td>
<td>4,494</td>
<td>4,641</td>
<td>4,885</td>
<td>4,836</td>
<td>9,135</td>
<td>9,721</td>
</tr>
<tr>
<td>Reinsurance expense</td>
<td>(399)</td>
<td>(418)</td>
<td>(565)</td>
<td>(512)</td>
<td>(817)</td>
<td>(1,077)</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>4,095</td>
<td>4,223</td>
<td>4,320</td>
<td>4,324</td>
<td>8,318</td>
<td>8,644</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(2,436)</td>
<td>(2,546)</td>
<td>(2,693)</td>
<td>(4,982)</td>
<td>(5,201)</td>
<td></td>
</tr>
<tr>
<td>Commission expense</td>
<td>(331)</td>
<td>(364)</td>
<td>(400)</td>
<td>(411)</td>
<td>(695)</td>
<td>(811)</td>
</tr>
<tr>
<td>Underwriting expense</td>
<td>(714)</td>
<td>(769)</td>
<td>(741)</td>
<td>(751)</td>
<td>(1,483)</td>
<td>(1,492)</td>
</tr>
<tr>
<td>Underwriting profit</td>
<td>614</td>
<td>544</td>
<td>671</td>
<td>469</td>
<td>1,158</td>
<td>1,140</td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
<td>201</td>
<td>69</td>
<td>87</td>
<td>352</td>
<td>270</td>
<td>439</td>
</tr>
<tr>
<td>Investment income on shareholders' funds</td>
<td>201</td>
<td>146</td>
<td>233</td>
<td>163</td>
<td>347</td>
<td>396</td>
</tr>
<tr>
<td>Profit before income tax and amortisation</td>
<td>956</td>
<td>692</td>
<td>952</td>
<td>871</td>
<td>1,648</td>
<td>1,823</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(227)</td>
<td>(187)</td>
<td>(266)</td>
<td>(206)</td>
<td>(424)</td>
<td>(472)</td>
</tr>
<tr>
<td>Profit after income tax (before amortisation)</td>
<td>729</td>
<td>495</td>
<td>686</td>
<td>665</td>
<td>1,224</td>
<td>1,351</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(60)</td>
<td>(46)</td>
<td>(34)</td>
<td>(63)</td>
<td>(106)</td>
<td>(97)</td>
</tr>
<tr>
<td>Profit after income tax and non-controlling interests (before amortisation)</td>
<td>669</td>
<td>449</td>
<td>652</td>
<td>602</td>
<td>1,118</td>
<td>1,254</td>
</tr>
<tr>
<td>Amortisation and impairment</td>
<td>(26)</td>
<td>(29)</td>
<td>(10)</td>
<td>(11)</td>
<td>(55)</td>
<td>(21)</td>
</tr>
<tr>
<td>Profit attributable to IAG shareholders from continuing operations</td>
<td>643</td>
<td>420</td>
<td>642</td>
<td>591</td>
<td>1,063</td>
<td>1,233</td>
</tr>
<tr>
<td>Net (loss) after tax from discontinued operations</td>
<td>(123)</td>
<td>(105)</td>
<td>(287)</td>
<td></td>
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<tr>
<td>Profit attributable to IAG shareholders</td>
<td>461</td>
<td>315</td>
<td>642</td>
<td>591</td>
<td>776</td>
<td>1,233</td>
</tr>
</tbody>
</table>

#### Insurance Ratios (Continuing Operations)

<table>
<thead>
<tr>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss ratio</td>
<td>59.5%</td>
<td>60.3%</td>
<td>58.1%</td>
<td>62.3%</td>
<td>59.9%</td>
</tr>
<tr>
<td>Immunised loss ratio</td>
<td>61.6%</td>
<td>63.5%</td>
<td>60.9%</td>
<td>59.3%</td>
<td>62.6%</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>25.5%</td>
<td>26.8%</td>
<td>26.5%</td>
<td>26.9%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Commission ratio</td>
<td>8.1%</td>
<td>8.6%</td>
<td>9.3%</td>
<td>9.5%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Administration ratio</td>
<td>17.4%</td>
<td>18.2%</td>
<td>17.2%</td>
<td>17.4%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>85.0%</td>
<td>87.1%</td>
<td>84.6%</td>
<td>89.2%</td>
<td>86.1%</td>
</tr>
<tr>
<td>Immunised combined ratio</td>
<td>87.1%</td>
<td>90.3%</td>
<td>87.4%</td>
<td>86.2%</td>
<td>88.8%</td>
</tr>
<tr>
<td>Insurance margin</td>
<td>19.9%</td>
<td>14.5%</td>
<td>17.5%</td>
<td>19.0%</td>
<td>17.2%</td>
</tr>
</tbody>
</table>

#### Key Financial Metrics (Total Operations)

<table>
<thead>
<tr>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported ROE (average equity) (% pa)</td>
<td>20.7%</td>
<td>13.5%</td>
<td>28.4%</td>
<td>18.5%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Cash ROE (average equity) (% pa)</td>
<td>30.7%</td>
<td>20.2%</td>
<td>26.8%</td>
<td>18.4%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Basic EPS (cents)</td>
<td>22.30</td>
<td>15.27</td>
<td>30.88</td>
<td>25.48</td>
<td>37.57</td>
</tr>
<tr>
<td>Diluted EPS (cents)</td>
<td>21.54</td>
<td>14.90</td>
<td>29.56</td>
<td>24.32</td>
<td>36.44</td>
</tr>
<tr>
<td>Cash EPS (cents)</td>
<td>33.08</td>
<td>22.87</td>
<td>31.41</td>
<td>28.16</td>
<td>55.95</td>
</tr>
<tr>
<td>DPS (cents)</td>
<td>11.00</td>
<td>25.00</td>
<td>13.00</td>
<td>26.00</td>
<td>36.00</td>
</tr>
<tr>
<td>Probability of adequacy</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>PCA multiple</td>
<td>n/a</td>
<td>1.67</td>
<td>2.31</td>
<td>1.72</td>
<td>1.67</td>
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</table>

#### KEY FOREIGN EXCHANGE RATES APPLIED

<table>
<thead>
<tr>
<th>Currency</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand dollar</td>
<td>0.8474</td>
<td>0.9287</td>
<td>0.8036</td>
<td>0.9049</td>
<td></td>
<td></td>
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<tr>
<td>Thai baht</td>
<td>0.0351</td>
<td>0.0327</td>
<td>0.0322</td>
<td>0.0340</td>
<td></td>
<td></td>
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<tr>
<td>Malaysian ringgit</td>
<td>0.3464</td>
<td>0.3304</td>
<td>0.3183</td>
<td>0.3357</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian rupee</td>
<td>0.0184</td>
<td>0.0177</td>
<td>0.0179</td>
<td>0.0178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese yuan renminbi</td>
<td>0.1783</td>
<td>0.1710</td>
<td>0.1572</td>
<td>0.1776</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. GROUP RESULTS

INSURANCE RATIOS

**LOSS RATIO**

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss Ratio</td>
<td>61.6%</td>
<td>63.5%</td>
<td>60.9%</td>
<td>69.3%</td>
<td>62.6%</td>
<td>60.1%</td>
</tr>
<tr>
<td>Immunised Loss Ratio</td>
<td>59.6%</td>
<td>60.3%</td>
<td>58.1%</td>
<td>62.3%</td>
<td>59.9%</td>
<td>60.2%</td>
</tr>
</tbody>
</table>

**EXPENSE RATIOS**

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration Ratio</td>
<td>25.5%</td>
<td>26.8%</td>
<td>26.5%</td>
<td>26.9%</td>
<td>26.2%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Commission Ratio</td>
<td>4.3%</td>
<td>4.0%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>4.1%</td>
<td>9.4%</td>
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<tr>
<td>Levies</td>
<td>8.1%</td>
<td>8.6%</td>
<td>9.3%</td>
<td>9.5%</td>
<td>8.4%</td>
<td>9.4%</td>
</tr>
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</table>

**COMBINED RATIO**

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss Ratio</td>
<td>87.1%</td>
<td>90.3%</td>
<td>87.4%</td>
<td>86.2%</td>
<td>88.8%</td>
<td>86.8%</td>
</tr>
<tr>
<td>Immunised Combined Ratio</td>
<td>85.0%</td>
<td>87.1%</td>
<td>84.6%</td>
<td>89.2%</td>
<td>86.1%</td>
<td>86.9%</td>
</tr>
</tbody>
</table>

**INSURANCE MARGIN**

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Margin</td>
<td>12.1%</td>
<td>12.6%</td>
<td>12.7%</td>
<td>14.8%</td>
<td>12.5%</td>
<td>14.2%</td>
</tr>
<tr>
<td>Underlying Margin</td>
<td>19.9%</td>
<td>14.5%</td>
<td>17.5%</td>
<td>19.0%</td>
<td>17.2%</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

**PREMIUMS**

GWP for the Group was $9,779m, up 3% from $9,498m in FY13. This growth rate was at the lower end of the 3-5% guidance range provided in January 2014, and was significantly lower than the growth achieved in FY13 (11.8%), owing to the combination of:

- The substantially reduced need for rate increases in Australia and New Zealand in an environment of modest input cost pressures;
- The cessation of the collection of the Victorian FSL which accounted for over $100m of GWP in FY13. On an ex-Victorian FSL basis, GWP growth in FY14 was over 4%; and
- A countervailing favourable effect from foreign exchange movements, notably in respect of the New Zealand business.

Underlying business volumes were broadly in line with system growth, in most classes.

Comparing FY14 GWP with FY13 on a divisional basis:

- **Australia Direct** produced a relatively flat performance. In addition to Victorian FSL and input cost influences, Australia Direct’s GWP performance was influenced by competitive changes in its respective CTP markets, including its decision to exit the poorly performing Queensland market from 1 January 2014;
- **Australia Intermediated** (CGU) increased its GWP by 1.0% to $3,058m, and by 2.8% on an ex-Victorian FSL basis. Growth was achieved in most segments, with the business maintaining its position in the overall intermediated market;
- **New Zealand** reported an increase in GWP of over 17%, to $1,846m, amplified by a favourable foreign exchange translation effect. Local
3. GROUP RESULTS

currency GWP growth was 3.7%, primarily reflecting rate increases in the respective home owners' books; and

- In Asia, consolidated GWP rose by 7.5%, stemming from the combined effect of the first-time consolidation of AAA Assurance in Vietnam and the adverse impact of lower new vehicle sales in Thailand. IAG now participates in a gross regional annualised GWP pool of $1.5bn.

GWP – FY14 VS. FY13 (A$M)

INSURANCE MARGIN

The Group has continued to perform strongly at an underlying level. An FY14 underlying margin of 14.2% compares favourably with FY13 (12.5%), with a 2H14 underlying margin of 14.8% (1H14: 13.7%) demonstrating improvement across the financial year.

GROUP INSURANCE MARGIN – UNDERLYING VS. REPORTED

Strong underlying performance across FY14
3. GROUP RESULTS

Year-on-year improvement was evident across each of the three main business units in Australia and New Zealand. As with prior periods, this was derived from a number of sources, including the maintenance of improved underwriting disciplines and the realisation of cost and claim efficiencies through the leveraging of scale and the implementation of improvement programmes.

IAG defines its underlying margin as the reported insurance margin adjusted for:
- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

The Group’s reported insurance margin increased to 18.3% in FY14 (FY13: 17.2%). While assisted by favourable natural peril, reserve release and investment market effects, the outcome includes a greater than $260m improvement in underlying underwriting result across the Group, or in excess of $210m after the inclusion of investment yield movements.

FY14’s reported insurance profit of $1,579m also contains the following notable elements:
- Net natural peril claim costs of $553m which, while nearly $90m higher than those incurred in FY13, were $87m lower than allowance;
- Reserve releases of $248m (FY13: $212m), or 2.9% of NEP; and
- A favourable credit spread impact of $100m, slightly lower than that of FY13 ($110m).

There has also been a modest favourable impact to the Group’s (and Australia Direct’s) reported margin from the CTP quota share agreement which was entered into with effect from 1 July 2013.

Reported performance, boosted by favourable peril, reserve release and credit spread effects
3. GROUP RESULTS

On a divisional basis:

- **Australia Direct** increased its insurance profit by over 10%, to $908m, reflecting the business’ improved underlying performance, notably in the area of claims. Movements in net natural peril claim costs (negative), prior period reserve releases (positive) and credit spreads (similar) largely neutralised one another, compared to FY13;

- **CGU** has maintained an underlying margin in excess of 11% as benefits from the new operating model and past initiatives are cemented. A reported insurance margin of 17.4% was assisted by lower net natural peril claim costs than FY13, as well as higher than originally expected reserve releases and a favourable credit spread impact;

- The **New Zealand** business has continued to perform well. A higher reported margin of 11.5% (FY13: 8.9%) reflects an improved underlying performance as AMI integration-related synergies were fully realised, partially offset by a higher incidence of natural perils; and

- **Asia** produced a lower insurance profit of $12m (FY13: $20m), with the established business in Thailand continuing to perform well. The result was influenced by the first-time consolidation of the loss-making Vietnamese business and higher regional support and development costs.

### INSURANCE MARGIN IMPACTS

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve releases</td>
<td>90</td>
<td>122</td>
<td>187</td>
<td>61</td>
<td>212</td>
<td>248</td>
</tr>
<tr>
<td>Natural perils</td>
<td>(133)</td>
<td>(331)</td>
<td>(335)</td>
<td>(218)</td>
<td>(464)</td>
<td>(553)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>310</td>
<td>310</td>
<td>320</td>
<td>320</td>
<td>620</td>
<td>640</td>
</tr>
<tr>
<td>Credit spreads</td>
<td>90</td>
<td>20</td>
<td>39</td>
<td>61</td>
<td>110</td>
<td>100</td>
</tr>
</tbody>
</table>

### REINSURANCE EXPENSE

The total reinsurance expense includes the cost of all covers purchased by the Group, including catastrophe, casualty, facultative and proportional protection. The FY14 expense of $1,077m represents an increase of 30% over FY13, all of which is explained by the quota share agreement entered into with respect to 30% of the combined CTP book, with effect from 1 July 2013.

Excluding the CTP quota share effect, FY14’s reinsurance expense represents 8.3% of reported GWP, down from the 8.6% recorded in FY13. The equivalent ratio in 2H14 was 7.7%, reflecting the benefit of bringing AMI under the main Group catastrophe cover from 1 January 2014 and lower reinsurance rates.

Favourable market conditions have allowed the Group to bolster key aspects of its calendar 2014 catastrophe programme.
3. GROUP RESULTS

REINSURANCE EXPENSE

The lower FY14 immunised loss ratio of 60.1% (FY13: 62.6%) reflects the effect of improved claim practices and efficiencies across the Group, as well as lower than expected frequency in both Australia and New Zealand. Other contributory factors, which were partially offsetting, were:

- Net natural peril claim costs $89m higher than FY13; and
- Higher prior period reserve releases of $248m (FY13: $212m).

The FY14 reported loss ratio of 60.2% is similar to FY13 (59.9%) and contains a modest risk free discount rate adjustment, after inclusion of foreign exchange effects. This compares to an equivalent greater than $220m favourable effect on the claims expense in FY13, largely in response to yield curve movements.

Reserve Releases

The FY14 net claims expense includes $248m of prior period reserve releases, equivalent to 2.9% of NEP, which is consistent with the revised guidance presented on 23 January 2014. This outcome compares to $212m (2.5% of NEP) reported in FY13.

FY14 reserve releases primarily reflect favourable experience in Australian long tail classes, such as professional risks, workers’ compensation and CTP, in a low claims inflation environment.

<table>
<thead>
<tr>
<th>RESERVE RELEASES</th>
<th>1H13 A$m</th>
<th>2H13 A$m</th>
<th>1H14 A$m</th>
<th>2H14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve releases</td>
<td>90</td>
<td>122</td>
<td>187</td>
<td>61</td>
<td>212</td>
<td>248</td>
</tr>
<tr>
<td>Impact on insurance margin</td>
<td>2.2%</td>
<td>2.9%</td>
<td>4.3%</td>
<td>1.4%</td>
<td>2.5%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Lower loss ratio reflects improved claim practices and lower than expected frequency

Reserve releases in line with revised guidance, at 2.9% of NEP
3. GROUP RESULTS

As embodied in its underlying margin definition, the Group believes that reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods. This reflects the Group’s approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years.

The Group’s expectation is that reserve releases will be around 2% of NEP in FY15, including the recently acquired Wesfarmers insurance underwriting business. This reflects an expected continuation of the presently benign inflationary conditions.

Natural Perils

The FY14 net claims expense included $553m (FY13: $464m) of losses from natural perils (net of reinsurance), compared to an allowance of $640m. The net effect of natural perils (after allowance) was a positive impact on the reported insurance margin of 1.0% (FY13: 1.9%).

<table>
<thead>
<tr>
<th>NATURAL PERILS – IMPACT ON INSURANCE MARGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>FY08 FY09 FY10 FY11 FY12 FY13 FY14</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Natural peril net of allowance - margin impact</td>
</tr>
</tbody>
</table>

The FY14 natural peril outcome housed first half activity slightly above allowance for that period, coupled with more benign conditions in 2H14, notably in Australia. New Zealand experienced a number of peril events across the year, mostly of a storm-related nature, which saw it exceed divisional allowance in both 1H14 and 2H14.

<table>
<thead>
<tr>
<th>NATURAL PERILS</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural peril claim costs</td>
<td>(133)</td>
<td>(331)</td>
<td>(335)</td>
<td>(218)</td>
<td>(464)</td>
<td>(553)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>310</td>
<td>310</td>
<td>320</td>
<td>320</td>
<td>620</td>
<td>640</td>
</tr>
<tr>
<td>Impact on insurance profit</td>
<td>177</td>
<td>(21)</td>
<td>(15)</td>
<td>102</td>
<td>156</td>
<td>87</td>
</tr>
</tbody>
</table>

The most significant peril events during the year occurred in 1H14:

- The NSW bushfires in October 2013; and
- Storms in South East Australia in November 2013 comprising damaging hail and rain.

Attritional natural peril events (less than $15m in size) amounted to $307m (FY13: $214m), and were fairly evenly split between 1H14 and 2H14.
3. GROUP RESULTS

As at 30 June 2014, there was negligible erosion of the $250m deductible applicable to the Group's calendar 2014 aggregate catastrophe cover.

EXPENSES

The Group's reported expense ratio was 26.7% (FY13: 26.2%). Excluding government levies, the Group's administration ratio was 14.7%, compared to 13.7% in FY13.

Reported ratios have been slightly distorted by the cessation of the Victorian FSL and the commencement of the CTP quota share. While the Group has continued to exercise tight cost control, there has been increased investment in the business directed towards long term efficiency and customer-oriented projects.

The Group's commission ratio of 9.4% was higher than FY13 (8.4%), reflecting business mix changes and increased profit share payments to intermediaries as a result of improved claims performance.

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY14 was $439m, compared to $270m in FY13. This outcome includes:

- Unrealised capital gains at year end of $56m, compared with an equivalent unrealised capital loss of around $180m in FY13, excluding foreign exchange effects;
- An overall positive impact of $100m from the narrowing of credit spreads over the course of the year, comprising $39m in 1H14 and $61m in 2H14. FY13 included a similarly positive effect of $110m; and
- An adverse foreign exchange impact of $48m (FY13: $35m), primarily from the hedge associated with reinsurance recoveries held by the offshore captive in Singapore in respect of the New Zealand earthquakes in FY11. A corresponding positive effect is included in the net claims expense, resulting in no net impact to the insurance margin.

The portfolio continues to be aligned with the average weighted duration of the Group's claims liability, at three to four years.

NET CORPORATE EXPENSE

A pre-tax net corporate expense of $68m has been identified in FY14 (FY13: $54m). This comprises:

- $50m of restructuring costs in respect of the new operating model in Australia, which was announced on 22 May 2014; and
- $18m of transaction costs associated with the acquisition of the Wesfarmers insurance underwriting business.

The post-tax impact on reported earnings is approximately $52m.
3. GROUP RESULTS

In FY13 the net corporate expense comprised costs associated with the implementation of CGU’s revised operating model ($39m) and integration costs associated with AMI in New Zealand ($15m).

PROFIT FROM FEE BASED BUSINESS

Fee based business generated a profit of $12m in FY14, compared to $21m in FY13. The majority of this was sourced from CGU’s role as agent in respect of the NSW and Victorian workers’ compensation schemes. Higher prior period income was offset by one-off costs and adverse structural changes related to the NSW scheme.

SHARE OF ASSOCIATES

The Group’s Asian interests represent a large portion of the share of earnings from associates, and in FY14 comprised:
- A 49% interest in the Malaysian joint venture, AmGeneral Holdings;
- A 26% interest in SBI General Insurance Company in India; and
- A 20% interest in Bohai Property Insurance in China.

The combined contribution from the Asian associates was a profit of $2m, after allocation of $20m of regional support and development costs. The Group’s overall share of associates was also a profit of $2m (FY13: $1m).

The Group’s former associate, AAA Assurance Corporation in Vietnam, was consolidated from July 2013, following an increase in ownership.

INVESTMENT INCOME ON SHAREHOLDERS’ FUNDS

Investment income on shareholders’ funds was a profit of $396m, an increase of 14% on the profit of $347m in FY13. Contributory factors were:
- Continued strength in equity markets in FY14, with the broader Australian index (S&P ASX200 Accumulation) delivering a positive return of 17.4%;
- A strong return from alternative asset categories; and
- Income earned on the funds raised to finance the acquisition of the Wesfarmers insurance underwriting business, which settled on 30 June 2014. These funds were placed in high quality fixed interest and cash investments.

At 30 June 2014 the weighting to growth assets (equities and alternatives) within shareholders’ funds stood at approximately 42% (FY13: 46%).

TAX EXPENSE

The Group reported a tax expense of $472m in FY14, compared to $424m in FY13, representing an effective tax rate (pre-amortisation) of approximately 26%. This reconciles to the prevailing Australian corporate rate of 30% after allowing for differences in tax rates applicable to the Group’s foreign operations, principally in New Zealand, Singapore and Malaysia, along with franking credits generated from the Group’s investment portfolio.

NON-CONTROLLING INTERESTS

The $97m non-controlling interests in the Group’s profit compares to $106m in FY13. The majority of the non-controlling interests is in respect of earnings attributable to the minority 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT formed part of Australia Direct. The slightly weaker IMA result was particularly influenced by the higher incidence of net natural peril claim costs compared to FY13.
3. GROUP RESULTS

AMORTISATION AND IMPAIRMENT

The FY14 amortisation charge of $21m compares to $55m reported in FY13. The lower charge in FY14 reflects the short amortisation schedule of certain AMI and Kurnia intangibles which were fully amortised in the prior year and the absence of an approximately $10m impairment to the carrying value of the Group’s investment in AAA Assurance in Vietnam recognised in FY13.

The amortisation charge in FY15 is expected to be significantly higher, at around $80m, reflecting the amortisation of intangibles associated with the acquisition of the Wesfarmers insurance underwriting business.

EARNINGS PER SHARE

Basic earnings per share (EPS) in FY14 was 56.09 cents per share (cps), compared to 37.57cps in FY13, an increase of over 49%. FY14 basic EPS was calculated on weighted average capital on issue of 2,198m shares (excluding treasury shares). On a diluted basis, EPS was 53.62cps (FY13: 36.44cps).

Cash EPS was 59.41cps, compared to 55.95cps in FY13, an increase of over 6%. Cash earnings are used for the purposes of targeted return on equity (ROE) and dividend payout policy, and are defined as:

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles; and
- Excluding any unusual items.

<table>
<thead>
<tr>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>(m)</td>
</tr>
<tr>
<td>Balance at the beginning of the financial year</td>
</tr>
<tr>
<td>Shares issued under institutional placement (December 2013)</td>
</tr>
<tr>
<td>Shares issued under share purchase plan (February 2014)</td>
</tr>
<tr>
<td><strong>Balance at the end of the financial year</strong></td>
</tr>
<tr>
<td>Average weighted shares on issue</td>
</tr>
<tr>
<td>Less: treasury shares held in trust</td>
</tr>
<tr>
<td><strong>Average weighted shares on issue (excluding treasury shares)</strong></td>
</tr>
</tbody>
</table>

Cash EPS was 59.41cps, compared to 55.95cps in FY13, an increase of over 6%. Cash earnings are used for the purposes of targeted return on equity (ROE) and dividend payout policy, and are defined as:

<table>
<thead>
<tr>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$m</strong></td>
</tr>
<tr>
<td>Net profit after tax</td>
</tr>
<tr>
<td>Intangible amortisation</td>
</tr>
<tr>
<td>Unusual items:</td>
</tr>
<tr>
<td>- Corporate expenses</td>
</tr>
<tr>
<td>- Tax effect on corporate expenses</td>
</tr>
<tr>
<td>Cash earnings</td>
</tr>
<tr>
<td>Dividend payable</td>
</tr>
<tr>
<td>Cash payout ratio</td>
</tr>
</tbody>
</table>
3. GROUP RESULTS

DIVIDENDS

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

The Board has determined to pay a fully franked final dividend of 26.0 cents per ordinary share (2H13: 25.0cps). This brings the full year dividend to 39.0 cents (FY13: 36.0cps), which equates to a payout ratio of nearly 70% of cash earnings for the year. The final dividend is payable on 8 October 2014 to shareholders registered as at 5pm on 10 September 2014.

The dividend reinvestment plan (DRP) will operate for the final dividend. The issue price per share for the 2H14 dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG’s DRP is available at: http://www.iag.com.au/shareholder/reinvestment/index.shtml.

As at 30 June 2014, and after allowance for payment of the final dividend, the Group’s franking balance was $429m, giving it the capacity to fully frank a further $1,002m of distributions.

RETURN ON EQUITY

The Group targets a cash ROE of at least 1.5 times WACC on a through-the-cycle basis. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identified intangibles and unusual items. Based on the Group’s historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%. In FY14, the Group reported a cash ROE of 23.0%, compared to 25.3% in FY13.

RETURN ON EQUITY (ANNUALISED)

Cash payout ratio of nearly 70% in FY14

Cash ROE of 23.0%
## 4. FY14 DIVISIONAL OVERVIEW

### INSURANCE AUSTRALIA GROUP

#### GENERAL INSURANCE
- Australia Direct
- Australia Intermediated (CGU)
- New Zealand
- Asia

#### CORPORATE & OTHER
- External Reinsurance
- Investments
- Corporate Costs

### FY14 DIVISIONAL FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>Australia Direct A$m</th>
<th>Australia Intermediated A$m</th>
<th>New Zealand A$m</th>
<th>Asia A$m</th>
<th>Corporate &amp; Other A$m</th>
<th>Total A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>4,545</td>
<td>3,058</td>
<td>1,846</td>
<td>317</td>
<td>13</td>
<td>9,779</td>
</tr>
<tr>
<td>Gross earned premium</td>
<td>4,587</td>
<td>2,983</td>
<td>1,816</td>
<td>322</td>
<td>13</td>
<td>9,721</td>
</tr>
<tr>
<td>Reinsurance expense</td>
<td>(557)</td>
<td>(225)</td>
<td>(257)</td>
<td>(34)</td>
<td>(4)</td>
<td>(1,077)</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>4,030</td>
<td>2,758</td>
<td>1,559</td>
<td>288</td>
<td>9</td>
<td>8,644</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(2,654)</td>
<td>(1,491)</td>
<td>(892)</td>
<td>(160)</td>
<td>(4)</td>
<td>(5,201)</td>
</tr>
<tr>
<td>Commission expense</td>
<td>(91)</td>
<td>(473)</td>
<td>(168)</td>
<td>(76)</td>
<td>(3)</td>
<td>(811)</td>
</tr>
<tr>
<td>Underwriting expense</td>
<td>(666)</td>
<td>(489)</td>
<td>(293)</td>
<td>(43)</td>
<td>(1)</td>
<td>(1,492)</td>
</tr>
<tr>
<td>Underwriting profit</td>
<td>619</td>
<td>305</td>
<td>206</td>
<td>9</td>
<td>1</td>
<td>1,140</td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
<td>289</td>
<td>174</td>
<td>(26)</td>
<td>3</td>
<td>(1)</td>
<td>439</td>
</tr>
</tbody>
</table>

### Insurance Profit

<table>
<thead>
<tr>
<th></th>
<th>Australia Direct A$m</th>
<th>Australia Intermediated A$m</th>
<th>New Zealand A$m</th>
<th>Asia A$m</th>
<th>Corporate &amp; Other A$m</th>
<th>Total A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance profit</td>
<td>908</td>
<td>479</td>
<td>180</td>
<td>12</td>
<td>-</td>
<td>1,579</td>
</tr>
<tr>
<td>Profit from fee based business</td>
<td>-</td>
<td>9</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td>Share of profit from associates</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Total divisional results</td>
<td>908</td>
<td>488</td>
<td>183</td>
<td>14</td>
<td>-</td>
<td>1,593</td>
</tr>
</tbody>
</table>

### Insurance Ratios

<table>
<thead>
<tr>
<th></th>
<th>Loss ratio</th>
<th>Expense ratio</th>
<th>Commission ratio</th>
<th>Administration ratio</th>
<th>Combined ratio</th>
<th>Insurance margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia Direct</td>
<td>65.9%</td>
<td>18.8%</td>
<td>2.3%</td>
<td>16.5%</td>
<td>84.7%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Australia Intermediated</td>
<td>54.1%</td>
<td>34.9%</td>
<td>17.2%</td>
<td>17.7%</td>
<td>89.0%</td>
<td>17.4%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>57.2%</td>
<td>29.6%</td>
<td>10.8%</td>
<td>18.8%</td>
<td>86.8%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Asia</td>
<td>60.2%</td>
<td>26.7%</td>
<td>9.4%</td>
<td>17.3%</td>
<td>86.9%</td>
<td>18.3%</td>
</tr>
</tbody>
</table>
## 5. AUSTRALIA DIRECT

### FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>1H13 A$m</th>
<th>2H13 A$m</th>
<th>1H14 A$m</th>
<th>2H14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>2,264</td>
<td>2,320</td>
<td>2,279</td>
<td>2,266</td>
<td>4,584</td>
<td>4,545</td>
</tr>
<tr>
<td>Gross earned premium</td>
<td>2,199</td>
<td>2,246</td>
<td>2,317</td>
<td>2,270</td>
<td>4,445</td>
<td>4,587</td>
</tr>
<tr>
<td>Reinsurance expense</td>
<td>(134)</td>
<td>(147)</td>
<td>(287)</td>
<td>(270)</td>
<td>(281)</td>
<td>(557)</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>2,065</td>
<td>2,099</td>
<td>2,030</td>
<td>2,000</td>
<td>4,164</td>
<td>4,030</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(1,372)</td>
<td>(1,386)</td>
<td>(1,332)</td>
<td>(1,322)</td>
<td>(2,758)</td>
<td>(2,654)</td>
</tr>
<tr>
<td>Commission expense</td>
<td>(44)</td>
<td>(46)</td>
<td>(46)</td>
<td>(45)</td>
<td>(90)</td>
<td>(91)</td>
</tr>
<tr>
<td>Underwriting expense</td>
<td>(334)</td>
<td>(373)</td>
<td>(322)</td>
<td>(344)</td>
<td>(707)</td>
<td>(666)</td>
</tr>
<tr>
<td>Underwriting profit</td>
<td>315</td>
<td>294</td>
<td>330</td>
<td>289</td>
<td>609</td>
<td>619</td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
<td>138</td>
<td>75</td>
<td>79</td>
<td>210</td>
<td>213</td>
<td>289</td>
</tr>
<tr>
<td>Insurance profit</td>
<td>453</td>
<td>369</td>
<td>409</td>
<td>499</td>
<td>822</td>
<td>908</td>
</tr>
</tbody>
</table>

### INSURANCE RATIOS

#### LOSS RATIO

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss ratio</td>
<td>66.4%</td>
<td>66.0%</td>
<td>65.6%</td>
<td>66.1%</td>
<td>66.2%</td>
<td>65.9%</td>
</tr>
<tr>
<td>Immunised loss ratio</td>
<td>68.0%</td>
<td>68.1%</td>
<td>67.5%</td>
<td>62.8%</td>
<td>68.0%</td>
<td>65.1%</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>18.3%</td>
<td>20.0%</td>
<td>18.2%</td>
<td>19.5%</td>
<td>19.2%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Commission ratio</td>
<td>2.1%</td>
<td>2.2%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Administration ratio</td>
<td>16.2%</td>
<td>17.8%</td>
<td>15.9%</td>
<td>17.2%</td>
<td>17.0%</td>
<td>16.5%</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>84.7%</td>
<td>86.0%</td>
<td>83.8%</td>
<td>85.6%</td>
<td>85.4%</td>
<td>84.7%</td>
</tr>
<tr>
<td>Immunised combined ratio</td>
<td>86.3%</td>
<td>88.1%</td>
<td>85.7%</td>
<td>82.3%</td>
<td>87.2%</td>
<td>83.9%</td>
</tr>
<tr>
<td>Insurance margin</td>
<td>21.9%</td>
<td>17.6%</td>
<td>20.1%</td>
<td>25.0%</td>
<td>19.7%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

#### EXPENSE RATIO

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration ratio</td>
<td>5.3%</td>
<td>5.1%</td>
<td>4.7%</td>
<td>3.2%</td>
<td>5.2%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Commission ratio</td>
<td>2.1%</td>
<td>2.2%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Levies</td>
<td>10.9%</td>
<td>12.7%</td>
<td>11.2%</td>
<td>14.0%</td>
<td>11.8%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

#### COMBINED RATIO

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined ratio</td>
<td>86.3%</td>
<td>88.1%</td>
<td>85.7%</td>
<td>82.3%</td>
<td>87.2%</td>
<td>83.9%</td>
</tr>
<tr>
<td>Immunised combined ratio</td>
<td>84.7%</td>
<td>86.0%</td>
<td>83.8%</td>
<td>85.6%</td>
<td>85.4%</td>
<td>84.7%</td>
</tr>
</tbody>
</table>

#### INSURANCE MARGIN

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Margin</td>
<td>13.1%</td>
<td>14.0%</td>
<td>15.1%</td>
<td>17.7%</td>
<td>13.5%</td>
<td>16.4%</td>
</tr>
<tr>
<td>Underlying Margin</td>
<td>21.9%</td>
<td>17.6%</td>
<td>20.1%</td>
<td>25.0%</td>
<td>19.7%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

- Australia Direct comprises personal lines insurance products, including compulsory third party (CTP)
- Single pricing and claim platforms across all state-based brands: NRMA, RACV (via a distribution agreement), SGIO, SGIC
- Modest FY14 GWP growth of 1%, ex-Victorian FSL and Queensland CTP effects
- Stronger underlying performance in FY14 reflecting improved claims performance and reduced pressure on NSW CTP
- Reported margin of 22.5% boosted by favourable natural peril, reserve release and credit spread impacts
- New Personal Insurance division from 1 July 2014

PREMIUMS

Australia Direct’s GWP was relatively flat, at $4,545m in FY14 (FY13: $4,584m). This performance is in line with the guidance provided at the Australia Direct market briefing in April 2014. It reflects the combination of:

- Reduced need to recover higher input costs, notably reinsurance, particularly in respect of the home portfolio;
- Cessation of Victorian FSL collection from 1 July 2013 (FY13: $50m);
- Slightly lower motor GWP, from a combination of volume growth and lower average rates;
- A $33m reduction in GWP in respect of Queensland CTP, following the decision to exit that market from 1 January 2014;
- Reduced ACT CTP market share, following the entry of competition from mid-July 2013; and
- Continued remediation of the Retail Business Insurance (RBI) book.

Excluding the above-mentioned Victorian FSL and Queensland CTP effects, GWP growth in FY14 was approximately 1%, with rate increases skewed towards the home and NSW CTP portfolios and volume gain most prominent in motor.

Australia Direct has continued to provide customers with a comprehensive digital sales and service offering. This includes the provision of an online self service centre and an integrated digital multi-channel platform, allowing customers access to various services across all devices. Australia Direct’s online sales channel registered substantial growth in FY14, with volumes increasing by over 16% against FY13 across all retail brands.

Overall short tail GWP was marginally lower, but increased by 1.1% after allowing for the absence of Victorian FSL.

Motor GWP reduced by 0.6%, compared to FY13, as a continued focus on strong underwriting discipline produced:

- Volume growth of around 1%, which is broadly in line with estimated system growth; and
- Lower average rates in the face of reduced average repair costs.

Due renewal levels for motor have remained high and were at a similar level to those of FY13.
5. AUSTRALIA DIRECT

Home GWP was flat compared to FY13, but was 3.4% higher after allowing for the cessation of Victorian FSL. Other contributory factors to the lower level of growth were:

- Reduced need to recover higher reinsurance and natural peril costs in pricing; and
- Slightly lower volumes following past remedial pricing action.

Home due renewal levels have remained high and exceeded those achieved in FY13.

<table>
<thead>
<tr>
<th>GWP GROWTH</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor</td>
<td>6.3%</td>
<td>3.2%</td>
<td>0.2%</td>
<td>(1.3%)</td>
<td>4.7%</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Home</td>
<td>17.5%</td>
<td>8.0%</td>
<td>1.4%</td>
<td>(1.4%)</td>
<td>12.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Short Tail</td>
<td>10.7%</td>
<td>5.2%</td>
<td>0.8%</td>
<td>(1.2%)</td>
<td>7.9%</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>Long Tail</td>
<td>7.4%</td>
<td>5.6%</td>
<td>0.4%</td>
<td>(6.3%)</td>
<td>6.5%</td>
<td>(3.1%)</td>
</tr>
<tr>
<td>Retail Business Insurance (RBI)</td>
<td>(17.6%)</td>
<td>(10.3%)</td>
<td>(1.4%)</td>
<td>(3.3%)</td>
<td>(13.8%)</td>
<td>(2.4%)</td>
</tr>
<tr>
<td>Total GWP</td>
<td>8.8%</td>
<td>4.6%</td>
<td>0.7%</td>
<td>(2.3%)</td>
<td>6.6%</td>
<td>(0.9%)</td>
</tr>
</tbody>
</table>

Home GWP was flat compared to FY13, but was 3.4% higher after allowing for the cessation of Victorian FSL. Other contributory factors to the lower level of growth were:

- Reduced need to recover higher reinsurance and natural peril costs in pricing; and
- Slightly lower volumes following past remedial pricing action.

Home due renewal levels have remained high and exceeded those achieved in FY13.

The RBI book (approximately $160m of annual GWP) has continued to contract in size as a refined focus has seen it exit poorer-performing segments, while price remediation activity has improved overall profitability.

Overall long tail (primarily CTP) GWP declined by 3.1% compared to FY13, as a result of the following factors:

- Australia Direct’s withdrawal from the Queensland CTP market with effect from 1 January 2014, due to unsatisfactory performance. This was a significant factor in the 6.3% reduction in overall long tail GWP in 2H14. Related GWP in FY14 was $23m, compared to $56m in FY13;
- Lower NSW CTP volumes following rating structure changes to improve the quality of the overall book and reduce exposure in higher risk segments; and

The RBI book (approximately $160m of annual GWP) has continued to contract in size as a refined focus has seen it exit poorer-performing segments, while price remediation activity has improved overall profitability.

Overall long tail (primarily CTP) GWP declined by 3.1% compared to FY13, as a result of the following factors:

- Australia Direct’s withdrawal from the Queensland CTP market with effect from 1 January 2014, due to unsatisfactory performance. This was a significant factor in the 6.3% reduction in overall long tail GWP in 2H14. Related GWP in FY14 was $23m, compared to $56m in FY13;
- Lower NSW CTP volumes following rating structure changes to improve the quality of the overall book and reduce exposure in higher risk segments; and

The RBI book (approximately $160m of annual GWP) has continued to contract in size as a refined focus has seen it exit poorer-performing segments, while price remediation activity has improved overall profitability.
5. AUSTRALIA DIRECT

- A reduction in ACT CTP market share, following the entry of three brands of a competing entity from 15 July 2013. Up to this point, Australia Direct had been the sole provider of CTP products in the ACT.

Excluding Queensland CTP, long tail GWP growth in FY14 was 1.2%.

In NSW, Australia Direct’s share of CTP registrations (on a 12-month rolling average basis) has reduced to 36%, from 39% in the preceding 12-month period. An encouraging improvement in share has been evident in 2H14, following completion of the aforementioned rating structure changes.

Following the entry of new competition, Australia Direct’s market share in the ACT CTP market had declined to approximately 89% by the end of FY14, in line with expectations.

Notable enhancements to Australia Direct’s overall customer offering during FY14 were the release of a new travel insurance product and the roll out of an improved loyalty scheme with a transparent and simpler matrix of discounts.

CTP QUOTA SHARE

With effect from 1 July 2013, IAG entered into a quota share agreement in respect of 30% of its combined CTP book for a minimum 3-year period. This arrangement affects the following aspects of Australia Direct’s results:

- Reinsurance expense: an increase equivalent to 30% of net earned CTP premium from 1 July 2013;
- Net claims expense: a reduction equivalent to 30% of current period net CTP claims; and
- Underwriting expense: a reduction reflecting the exchange commission payable by the reinsurance counterparty.

The CTP quota share agreement had a modestly positive impact on Australia Direct’s insurance margin in FY14.

The decision to enter into the CTP quota share agreement was driven by Group capital efficiency considerations. Prior to its inception, CTP represented less than 10% of the Group’s GWP yet roughly one quarter of its regulatory capital requirement. By the end of FY14, the quota share agreement had resulted in a reduction in the Group’s regulatory capital requirement of approximately $60m.

REINSURANCE EXPENSE

Reinsurance expense of $557m in FY14 increased compared to FY13 as a result of the CTP quota share agreement from 1 July 2013. Excluding the CTP quota share effect, Australia Direct’s FY14 reinsurance expense was $290m, and of similar scale to FY13.

CLAIMS

Australia Direct reported a lower immunised loss ratio of 65.1% in FY14 (FY13: 68.0%). This largely reflects improvement in the business’ underlying claims performance, with the combined effect of net natural peril costs and reserve releases broadly similar across FY13 and FY14.

The reported loss ratio of 65.9% is similar to that of FY13 (66.2%) and contains an unfavourable risk free discount rate adjustment of approximately $30m. This compares to the $75m favourable effect on the claims expense in FY13, in response to yield curve movements.
5. AUSTRALIA DIRECT

Reserve Releases

Reserve releases of $176m were $71m higher than those reported in FY13 ($105m). Reserve releases were skewed to the front half of the financial year and were sourced mainly from the CTP portfolios, following favourable experience against existing underlying assumptions, notably inflation.

<table>
<thead>
<tr>
<th>RESERVE RELEASES</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>53</td>
<td>52</td>
<td>127</td>
<td>49</td>
<td>105</td>
<td>176</td>
</tr>
<tr>
<td>Impact on insurance margin</td>
<td>2.6%</td>
<td>2.5%</td>
<td>6.3%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Natural Perils

Losses from natural perils (net of reinsurance) totalled $305m, which was $45m lower than allowance for the year, but $100m higher than the incidence in FY13. Relatively benign conditions were experienced in the second half of the financial year, when no major events of note occurred.

There were two significant events during 1H14, being the NSW bushfires in October 2013 and the hail and storm activity in NSW and Queensland in November 2013. Each of these events contributed a net claim cost of in excess of $50m for Australia Direct.

Natural peril claim costs | (73) | (132) | (206) | (99) | (205) | (305)
Natural peril allowance   | 164  | 164  | 175  | 175  | 328  | 350  
Impact on insurance profit| 91   | 32   | (31) | 76   | 123  | 45   |
Impact on insurance margin| 4.4% | 1.5% | (1.5%) | 3.8% | 3.0% | 1.1% |

Claim Experience

Excluding natural perils, the FY14 short tail claim experience was characterised by:

- A larger than expected decrease in frequency compared to FY13, notably in motor collision; and
- Modest inflation in underlying average claim costs, with increases skewed slightly to the home book. This reflects an increase in the number of severe fire claims, compared to FY13, as well as an increase in the cost of water claims.

Australia Direct’s revised partner network relationship model with motor repairers continues to deliver favourable customer experience and a positive impact on average repair costs. The model has been rolled out across the country, with the following state-by-state launch dates:

- South Australia - November 2011;
- NSW and ACT - July 2012;
- Victoria - February 2013;
- Western Australia - July 2013; and
- Queensland - June 2014.

Australia Direct remains on target to deliver overall motor supply chain efficiencies of $100m per annum pre-tax. The division exited FY14 with a realised efficiency run rate of approximately $80m.

In NSW CTP, claims frequency stabilised in 2H14 following volatility observed in previous periods. Prior year claims continued to develop favourably across all CTP portfolios during FY14.

Relatively benign peril activity in 2H14

Improvement in underlying claim costs influenced by lower than expected frequency and supply chain initiatives
The total net claims expense in FY14 included a reduction in respect of the 30% of CTP claims covered by the quota share agreement, entered into with effect from 1 July 2013.

**EXPENSES**

Australia Direct’s reported expenses predominantly comprise underwriting costs, and totalled $757m in FY14, compared to $797m in FY13. The movement in expenditure is largely explained by the net effect of:

- A small reduction in underwriting expense stemming from the exchange commission payable by the reinsurance counterparty as part of the CTP quota share agreement;
- Increased reinvestment in the business, including specific projects directed at improving customer service, product design and people development; and
- Lower levies from the cessation of Victorian FSL.

The reported expense ratio improved to 18.8% (FY13: 19.2%), but has been influenced by Victorian FSL and CTP quota share effects on NEP.

On an ex-levies basis, Australia Direct’s administration ratio rose to 12.5%, compared to 11.8% reported in FY13.

**INSURANCE PROFIT**

Australia Direct reported an insurance profit for FY14 of $908m, compared to $822m in FY13. This equates to a higher insurance margin of 22.5% (FY13: 19.7%).

At an underlying level, Australia Direct’s performance has remained strong, with further improvement in the positive trend witnessed since 2H13. This has been driven by a combination of:

- An improved underlying claims performance, incorporating supply chain cost initiatives and better than expected frequency;
- An easing of the pressures experienced in NSW CTP in FY13, assisted by rate increases implemented in 2H13; and
- A modestly favourable impact from the CTP quota share agreement.
The higher reported margin compared to FY13 reflects the combination of:

- An improved underlying performance, notably in the area of claims;
- Significantly higher reserve releases, of $176m, which had a favourable margin effect of nearly 2% compared to FY13;
- A $100m increase in net natural peril claim costs against FY13; and
- A favourable credit spread impact of $65m, similar to FY13 ($71m).

The 2H14 reported margin of 25.0% compares to the 1H14 result of 20.1%. The higher 2H14 outcome reflects the combination of:

- Markedly more benign natural peril activity than 1H14;
- Lower prior period reserve releases of $49m (1H14: $127m);
- A slightly higher positive credit spread impact of $40m (1H14: $25m); and
- Ongoing realisation of claim efficiencies, notably in supply chain.
6. AUSTRALIA INTERMEDIATED (CGU)

FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>1,433</td>
<td>1,595</td>
<td>1,459</td>
<td>1,599</td>
<td>3,028</td>
<td>3,058</td>
</tr>
<tr>
<td>Gross earned premium</td>
<td>1,428</td>
<td>1,458</td>
<td>1,514</td>
<td>1,469</td>
<td>2,886</td>
<td>2,983</td>
</tr>
<tr>
<td>Reinsurance expense</td>
<td>(124)</td>
<td>(121)</td>
<td>(117)</td>
<td>(108)</td>
<td>(245)</td>
<td>(225)</td>
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<tr>
<td>Net earned premium</td>
<td>1,304</td>
<td>1,337</td>
<td>1,397</td>
<td>1,361</td>
<td>2,641</td>
<td>2,758</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(609)</td>
<td>(707)</td>
<td>(701)</td>
<td>(790)</td>
<td>(1,316)</td>
<td>(1,491)</td>
</tr>
<tr>
<td>Commission expense</td>
<td>(197)</td>
<td>(213)</td>
<td>(234)</td>
<td>(239)</td>
<td>(410)</td>
<td>(473)</td>
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<tr>
<td>Underwriting expense</td>
<td>(258)</td>
<td>(260)</td>
<td>(252)</td>
<td>(237)</td>
<td>(518)</td>
<td>(489)</td>
</tr>
<tr>
<td>Underwriting profit</td>
<td>240</td>
<td>157</td>
<td>210</td>
<td>95</td>
<td>397</td>
<td>305</td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
<td>61</td>
<td>12</td>
<td>38</td>
<td>136</td>
<td>73</td>
<td>174</td>
</tr>
<tr>
<td>Insurance profit</td>
<td>301</td>
<td>169</td>
<td>248</td>
<td>231</td>
<td>470</td>
<td>479</td>
</tr>
<tr>
<td>Profit/(loss) from fee based business</td>
<td>12</td>
<td>7</td>
<td>11</td>
<td>(2)</td>
<td>19</td>
<td>9</td>
</tr>
<tr>
<td>Share of profit from associates</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
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<tr>
<td>Total divisional result</td>
<td>314</td>
<td>176</td>
<td>259</td>
<td>229</td>
<td>490</td>
<td>488</td>
</tr>
</tbody>
</table>

Insurance Ratios

**Loss ratio**
- 1H13: 46.7%
- 2H13: 52.9%
- 1H14: 50.2%
- 2H14: 58.0%
- FY13: 49.8%
- FY14: 54.1%

**Immunised loss ratio**
- 1H13: 50.2%
- 2H13: 57.7%
- 1H14: 52.9%
- 2H14: 52.8%
- FY13: 53.9%
- FY14: 52.8%

**Expense ratio**
- 1H13: 34.9%
- 2H13: 35.3%
- 1H14: 34.8%
- 2H14: 35.0%
- FY13: 35.1%
- FY14: 34.9%

**Commission ratio**
- 1H13: 15.1%
- 2H13: 15.9%
- 1H14: 16.8%
- 2H14: 17.6%
- FY13: 15.5%
- FY14: 17.2%

**Administration ratio**
- 1H13: 19.8%
- 2H13: 19.4%
- 1H14: 18.0%
- 2H14: 17.4%
- FY13: 19.6%
- FY14: 17.7%

**Combined ratio**
- 1H13: 81.6%
- 2H13: 88.2%
- 1H14: 85.0%
- 2H14: 93.0%
- FY13: 84.9%
- FY14: 89.0%

**Immunised combined ratio**
- 1H13: 85.1%
- 2H13: 93.0%
- 1H14: 87.7%
- 2H14: 87.8%
- FY13: 89.0%
- FY14: 87.7%

**Insurance margin**
- 1H13: 23.1%
- 2H13: 12.6%
- 1H14: 17.8%
- 2H14: 17.0%
- FY13: 17.8%
- FY14: 17.4%

INSURANCE RATIOS

**Loss Ratio**

**Expense Ratios**

**Combined Ratio**

**Insurance Margin**
EXECUTIVE SUMMARY

- Australia Intermediated (CGU) comprises all products sold through brokers, authorised representatives, business partners and motor dealers
- FY14 GWP growth of 1.0% (2.8% ex-Victorian FSL)
- Market position maintained
- Underlying double digit margin sustained
- Reported margin of 17.4% boosted by favourable reserve release, credit spread and natural peril impacts
- New Commercial Insurance division from 1 July 2014

PREMIUMS

CGU reported modestly higher GWP of $3,058m in FY14 (FY13: $3,028m), in a year of consolidation in which the business has maintained its market position.

Reported GWP growth of 1.0% in FY14 reflects the combined effects of:

- Volume growth across commercial SME and some specialty line products;
- Continued growth in workers’ compensation, with higher volumes in both new business and renewals;
- Low single digit rate increases across most products;
- Lower personal lines volumes, owing to the termination of the Telstra mobile phone insurance relationship towards the end of calendar 2013 (excluding this account loss, personal lines GWP was flat);
- An 11% contraction in commercial motor GWP, with action to address competitive positioning through more granular risk pricing seeing a resumption of growth by the conclusion of FY14;
- A continued softening of rates in the large corporate property segment, though this represented only 2% of CGU’s GWP in FY14 and a smaller proportion of NEP;
- Relatively flat liability GWP, with negligible rate and volume movement; and
- The cessation (from 1 July 2013) of the Victorian FSL, which in FY13 represented $54m of GWP. After allowing for the cessation of Victorian FSL collection, underlying GWP growth in FY14 was 2.8%.

The portfolio mix changed slightly in FY14 with long tail products now representing 23% of GWP (FY13: 22%), reflecting the relatively strong growth in workers’ compensation achieved in recent years.

In relation to the June 2014 major renewal period, pricing conditions have been subdued across most portfolios. Corporate property has shown further modest decline, while SME renewals have seen small single digit rate increases achieved in a highly competitive environment.

CGU has continued to improve its customer service proposition. Initiatives during FY14 included the introduction of a strata building resilience project to address insurance affordability in North Queensland and a review of SME underwriting procedures to make it easier for brokers and agents to finalise customer policies.
6. AUSTRALIA INTERMEDIATED (CGU)

REINSURANCE EXPENSE

CGU's FY14 reinsurance expense of $225m is over 8% lower than FY13. This reflects a combination of:

- Additional cost associated with aggregate exposure growth; and
- The impact of more favourable reinsurance market conditions.

CLAIMS

CGU’s immunised loss ratio of 52.8% for FY14 was lower than the 53.9% recorded in FY13. This reflected the combination of:

- Lower net natural peril claim costs;
- Lower reserve releases, largely owing to the absence of certain large case-specific releases recognised in FY13;
- Better than expected frequency; and
- Further improvement in underlying claims performance.

The 2H14 immunised loss ratio of 52.8% was similar to 1H14 (52.9%), as a more favourable net natural peril claim cost was countered by lower prior period reserve releases.

While less significant than the improvement seen in FY12 and FY13, progress continued to be made in improving CGU’s underlying claims performance as further benefits from past initiatives, including the new claims management system, are realised. Average claim duration periods, from notification to settlement, have reduced significantly.

The reported loss ratio increased to 54.1% (FY13: 49.8%), and contains an unfavourable risk free discount rate adjustment of over $30m. This compares to the greater than $100m favourable effect on the claims expense in FY13, in response to yield curve movements.

Reserve Releases

Prior period reserve releases of $81m were over 40% lower than those reported in FY13 ($141m), and represented 2.9% of NEP. These releases continue to reflect favourable claims performance in a low inflation environment across the long tail portfolios of workers’ compensation, professional risks and liability.

Reserve releases in FY13 were inflated by certain notable case-specific amounts, and specifically in 1H13.

<table>
<thead>
<tr>
<th>RESERVE RELEASES</th>
<th>1H13 A$m</th>
<th>2H13 A$m</th>
<th>1H14 A$m</th>
<th>2H14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve releases</td>
<td>80</td>
<td>61</td>
<td>58</td>
<td>23</td>
<td>141</td>
<td>81</td>
</tr>
<tr>
<td>Impact on insurance margin</td>
<td>6.1%</td>
<td>4.6%</td>
<td>4.2%</td>
<td>1.7%</td>
<td>5.3%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Natural Perils

Losses from natural perils of $142m (net of reinsurance) for FY14 were $75m lower than the related allowance, and $61m lower than FY13 levels.

Consistent with CGU’s lower reinsurance expense, the natural peril allowance for FY14 was marginally below the equivalent figure in FY13, reflecting a de-risking of the book in peril-prone areas.

Major natural peril events for CGU in FY14 were largely contained to the opening half of the year, and included a Melbourne storm event in late September 2013 and the NSW bushfires in October 2013.
6. AUSTRALIA INTERMEDIATED (CGU)

<table>
<thead>
<tr>
<th>NATURAL PERILS</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural peril claim costs</td>
<td>(49)</td>
<td>(154)</td>
<td>(80)</td>
<td>(62)</td>
<td>(203)</td>
<td>(142)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>112</td>
<td>112</td>
<td>108</td>
<td>109</td>
<td>224</td>
<td>217</td>
</tr>
<tr>
<td>Impact on insurance profit</td>
<td>63</td>
<td>(42)</td>
<td>28</td>
<td>47</td>
<td>21</td>
<td>75</td>
</tr>
<tr>
<td>Impact on insurance margin</td>
<td>4.8%</td>
<td>(3.1%)</td>
<td>2.0%</td>
<td>3.4%</td>
<td>0.8%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

EXPENSES

Reported expenses, comprising commission and underwriting costs, totalled $962m in FY14, compared to $928m in FY13. The expense ratio was slightly lower at 34.9% in FY14 (FY13: 35.1%), and on an ex-levies basis increased to 32.6% (FY13: 30.1%).

The increase in expenditure includes:

- Higher commission costs, predominantly driven by business growth and increased profit share payments to intermediaries as a result of improved claims performance; and
- Costs incurred in the replacement of core systems and the delivery of systems innovation.

These increases have been offset by:

- Lower fire service levies, reflecting the cessation of the Victorian FSL from 1 July 2013; and
- Cost savings realised from recent business improvement initiatives, primarily from the OneCGU operating model and systems simplification projects.

In 1H14 CGU launched a new leads and opportunities management system, providing an integrated end-to-end sales process for account managers and underwriters in the broker channel. This supports the OneCGU operating model and has reduced broker response times and improved quote conversion rates.

INSURANCE PROFIT

CGU reported an insurance profit of $479m, a slightly higher outcome than FY13 ($470m). This equates to an insurance margin of 17.4% (FY13: 17.8%), and includes an underlying margin of 11.4% (FY13: 11.2%).

**INVESTMENT IN CORE SYSTEMS, AS FURTHER ONECGU BENEFITS REALISED**

**SUSTAINED IMPROVEMENT IN UNDERLYING MARGIN**
6. AUSTRALIA INTERMEDIATED (CGU)

Following several periods of claims-driven performance improvement, CGU demonstrated a sustained margin at targeted levels in FY14. Reduction in the underlying loss ratio has moderated as portfolio remediation is now largely complete and rate increases have subsided to more typical long term levels.

The improvement in CGU’s underlying margin has seen an increase in annual underlying insurance result in excess of $330m since FY08. The slightly lower reported margin of 17.4% (FY13: 17.8%) reflects the net effect of:

- A $60m reduction in prior period reserve releases;
- An offsetting reduction in net natural peril claim cost of similar quantum;
- A marginally lower favourable credit spread movement of $35m; and
- Further improvement in the business’ underlying performance, year-on-year.

<table>
<thead>
<tr>
<th>INSURANCE MARGIN IMPACTS</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve releases</td>
<td>80</td>
<td>61</td>
<td>58</td>
<td>23</td>
<td>141</td>
<td>81</td>
</tr>
<tr>
<td>Natural perils</td>
<td>(49)</td>
<td>(154)</td>
<td>(80)</td>
<td>(62)</td>
<td>(203)</td>
<td>(142)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>112</td>
<td>112</td>
<td>108</td>
<td>109</td>
<td>224</td>
<td>217</td>
</tr>
<tr>
<td>Credit spreads</td>
<td>32</td>
<td>7</td>
<td>14</td>
<td>21</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>Reserve releases</td>
<td>6.1%</td>
<td>4.6%</td>
<td>4.2%</td>
<td>1.7%</td>
<td>5.3%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Natural perils</td>
<td>(3.8%)</td>
<td>(11.5%)</td>
<td>(5.7%)</td>
<td>(4.6%)</td>
<td>(7.7%)</td>
<td>(5.1%)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>8.6%</td>
<td>8.4%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Credit spreads</td>
<td>2.5%</td>
<td>0.5%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

FEE BASED INCOME AND SHARE OF ASSOCIATES

CGU generates fee income by acting as an agent under both the NSW and Victorian workers’ compensation schemes that are underwritten by the respective state governments. In FY14, net income from fee based operations was $9m, compared to $19m in FY13.

While the standard fees covering expenses are reasonably predictable, the total reported fee based result will continue to be volatile on a half-by-half basis owing to the receipt of performance fees and prior year experience adjustments paid or charged by the state bodies. These fees tend to be received in the opening half of CGU’s financial year.

The FY14 result contained $6m of prior period fee income compared to $3m in FY13. Excluding this income, the underlying result was $15m lower than FY13, driven by:

- A less favourable regulator remuneration model in NSW with a lower incentive fee pool (total fee income reduced by $2m year-on-year); and
- An increase in expenses of $10m, largely in NSW, including $2m of costs associated with branch closures and $5m to implement a new document management system, as required by the regulator.

FORMER WESFARMERS INSURANCE UNDERWRITING BUSINESS

The acquisition of the Wesfarmers insurance underwriting business was completed on 30 June 2014. Consolidation of the P&L of the former Wesfarmers business commenced on 1 July 2014.
7. AUSTRALIAN OPERATIONS UPDATE

NEW AUSTRALIAN OPERATING MODEL

IAG is implementing a new operating model for its Australian operations to create a more customer-focused and efficient organisation. The new model will allow IAG to better leverage its scale and insurance expertise to deliver better outcomes for its customers, partners, people and shareholders. Significant benefits are expected to be realised within a two-year timeframe, as the new operating model allows IAG to deliver savings by removing duplication and further improving its management of procurement and supply chain activities.

From 1 July 2014, IAG has three divisions in Australia:

Personal Insurance
Led by Andy Cornish, formerly Chief Executive of Australia Direct, this division provides personal insurance products. It comprises:
- The motor, home and CTP operations which previously represented the bulk of Australia Direct;
- The affinity and financial institution partnerships which were previously part of CGU; and
- The ten-year distribution agreement with Coles, struck as part of the acquisition of the Wesfarmers insurance underwriting business.

Commercial Insurance
Led by Peter Harmer, formerly Chief Executive of CGU, this division provides insurance to business customers. It comprises:
- The commercial insurance operations which previously represented the majority of CGU;
- The Swann Insurance operations, which were also previously part of CGU;
- The Australian commercial insurance operations associated with the acquisition of the Wesfarmers insurance underwriting business; and
- The RBI operations which were formerly part of Australia Direct.

Enterprise Operations
Led by Alex Harrison, formerly Chief Operating Officer for Australia Direct, this division provides support services to Personal Insurance and Commercial Insurance.
Services provided by Enterprise Operations include information technology, people & culture, and procurement & supply chain. The cost of services provided will be reported within the respective financial results of Personal Insurance and Commercial Insurance.

AUSTRALIAN INSURANCE MARKET REGULATION AND REFORM

Several regulatory changes and legislative reviews are either underway or expected, with implications for the Australian insurance market. These include:
- The Financial System (Murray) Inquiry which is compiling a wide-ranging review of the Australian financial services system. Submissions have focused on the need to consider more flexible regulatory tools, with concerns raised over pricing, affordability, availability and consumer protection. The Inquiry’s interim report (issued in July 2014) highlighted aggregator access to information and competition for statutory insurance schemes as areas where it is seeking further information or views, while underinsurance was identified as a significant consumer issue. A final report is expected in November 2014;
7. AUSTRALIAN OPERATIONS UPDATE

- The NSW Government’s Legislative Assembly Select Committee investigating the Motor Vehicle Repair Industry, which handed down its report in July 2014. Recommendations were made regarding assessor licensing and penalties, as well as changes to the current code of conduct and dispute mechanisms. The Minister for Fair Trading will determine which recommendations the government adopts, with a decision expected in the second half of calendar 2014;

- The Federal Government’s Review of Competition Policy. A key focus is the identification and removal of impediments to competition. A discussion paper was released in April 2014, with a draft report expected in late September 2014;

- The Federal Treasury’s release of a discussion paper addressing the high cost of home and strata title insurance in North Queensland. Options examined include the development of a local aggregator site, the enhancement of building resilience to natural disasters, and the relaxation of restrictions on foreign insurers so they can sell insurance in North Queensland. The Federal Government’s response is expected in the second half of calendar 2014;

- The Productivity Commission Inquiry into Natural Disaster Funding, examining expenditure on disasters and the effectiveness of current mitigation support arrangements. The Inquiry has also asked for information on the best ways to reduce the impact of natural disasters on communities, and how those communities can recover in a sustainable way. A draft report is expected in September 2014; and

- The Commission of Audit Report released by the Federal Treasurer in May 2014, identifying areas of unnecessary spending. Key recommendations include those on the reform of natural disaster recovery and reconstruction funding.

The NSW Government withdrew its proposed CTP scheme reform legislation in August 2013 following insufficient support in the upper house of Parliament. The NSW Finance Minister has confirmed that alternative legislation will not be introduced into parliament before the March 2015 election.

The South Australian Government has announced its intention to open up the state’s CTP market to private competition from 1 July 2016. The South Australian CTP scheme’s annual premium pool is currently in excess of $500m.

The proposed removal of the NSW Emergency Services Levy has been deferred until after the 2015 election.

The Insurance Council of Australia (ICA) has adopted a revised General Insurance Code of Practice, which commenced in July 2014. ICA members have 12 months to adopt the revised Code. Key changes include broader financial hardship standards and a new independent governing and monitoring body for those insured.

PERSONAL INSURANCE MARKET OUTLOOK

Economic growth in calendar 2014 is expected to be moderately higher than 2013, at nearly 3%. These conditions are expected to support modest growth in personal insurance demand in FY15.

Industry volume growth in both home and motor is expected to be subdued. Anticipated growth in the national vehicle parc is expected to be modest, with calendar year-to-date new vehicles sales in Australia down by over 2% at the end of June 2014. Similarly modest growth is expected in the Australian home market.

The combination of modest underlying claims inflation, the absence of input cost pressures (notably reinsurance) and supply chain efficiencies has
created an environment where negligible to modest rate increases are expected.

Meanwhile, competition within the personal insurance market remains high, with recent entrants continuing to pursue growth strategies by investing aggressively in marketing spend.

Personal Insurance is focusing on its customer experience and cost effectiveness, to maintain its strong profitability and market position. Realised cost savings are being reinvested to enhance the business’ ability to deliver on its customer-focused strategy, as market-leading solutions are provided to meet customers’ needs.

COMMERCIAL INSURANCE MARKET OUTLOOK

The commercial insurance market is expected to perform solidly across most segments. However, increased industry capacity is evident and the market is expected to remain very competitive, with continued rate pressure anticipated.

In the short term, commercial rate increases in most classes are expected to approximate the claims inflation rate, which is anticipated to remain at a modest level over the coming year.

In FY15, the integration of the Wesfarmers insurance underwriting business will be a key focus for Commercial Insurance, delivering a market-leading presence. Substantial related synergies are expected to be realised over a two-year period.

Integration of former Wesfarmers business from FY15, delivering market-leading position
## FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
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<tr>
<td><strong>Gross written premium</strong></td>
<td>A$m</td>
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<tr>
<td></td>
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<td>884</td>
<td>962</td>
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<tr>
<td><strong>Gross earned premium</strong></td>
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<td></td>
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<td>880</td>
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<td>(124)</td>
<td>(140)</td>
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<td>(257)</td>
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<tr>
<td><strong>Net earned premium</strong></td>
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<td></td>
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<td>(375)</td>
<td>(387)</td>
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<td>(892)</td>
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<td><strong>Commission expense</strong></td>
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<td>(75)</td>
<td>(82)</td>
<td>(86)</td>
<td>(142)</td>
<td>(168)</td>
</tr>
<tr>
<td><strong>Underwriting expense</strong></td>
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<td>(122)</td>
<td>(147)</td>
<td>(146)</td>
<td>(229)</td>
<td>(293)</td>
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<tr>
<td><strong>Underwriting profit</strong></td>
<td>53</td>
<td>89</td>
<td>124</td>
<td>82</td>
<td>142</td>
<td>206</td>
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<tr>
<td><strong>Insurance profit</strong></td>
<td></td>
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<td></td>
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<td></td>
<td>52</td>
<td>63</td>
<td>92</td>
<td>88</td>
<td>115</td>
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<td><strong>Profit from fee based business</strong></td>
<td>1</td>
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<td><strong>Total divisional result</strong></td>
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<td>64</td>
<td>93</td>
<td>90</td>
<td>117</td>
<td>183</td>
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<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loss Ratio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss ratio</td>
<td>63.7%</td>
<td>56.7%</td>
<td>52.3%</td>
<td>61.7%</td>
<td>60.1%</td>
<td>57.2%</td>
</tr>
<tr>
<td>Immunised loss ratio</td>
<td>65.5%</td>
<td>61.7%</td>
<td>58.5%</td>
<td>62.4%</td>
<td>63.6%</td>
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<tr>
<td><strong>Expense Ratio</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expense ratio</td>
<td>27.8%</td>
<td>29.8%</td>
<td>31.0%</td>
<td>28.3%</td>
<td>28.6%</td>
<td>29.6%</td>
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<tr>
<td>Commission ratio</td>
<td>10.7%</td>
<td>11.3%</td>
<td>11.1%</td>
<td>10.5%</td>
<td>11.0%</td>
<td>10.8%</td>
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<tr>
<td>Administration ratio</td>
<td>17.1%</td>
<td>18.5%</td>
<td>19.9%</td>
<td>17.8%</td>
<td>17.8%</td>
<td>18.8%</td>
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<tr>
<td>Combined ratio</td>
<td>91.5%</td>
<td>86.5%</td>
<td>89.5%</td>
<td>90.0%</td>
<td>88.9%</td>
<td>86.8%</td>
</tr>
<tr>
<td>Immunised combined ratio</td>
<td>93.3%</td>
<td>91.5%</td>
<td>89.5%</td>
<td>90.7%</td>
<td>92.4%</td>
<td>90.1%</td>
</tr>
<tr>
<td><strong>Insurance margin</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance margin</td>
<td>8.3%</td>
<td>9.5%</td>
<td>12.4%</td>
<td>10.7%</td>
<td>8.9%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

## INSURANCE RATIOS

### LOSS RATIO

- **65.5%**
- **63.7%**
- **56.7%**
- **52.3%**
- **61.7%**

### EXPENSE RATIOS

- **27.8%**
- **29.8%**
- **31.0%**
- **28.3%**

### COMBINED RATIO

- **93.3%**
- **91.5%**
- **89.5%**
- **90.7%**

### INSURANCE MARGIN

- **8.3%**
- **9.5%**
- **12.4%**
- **10.7%**
EXECUTIVE SUMMARY

IAG is the largest general insurer in New Zealand, trading under the State, NZI and AMI brands in FY14.
- Solid local currency GWP growth of 3.7%
- Operating performance has remained strong – underlying margin of 14.8%
- AMI integration successfully completed with annual realised synergies of NZ$35m
- Solid progress on Canterbury rebuild
- Integration of Lumley business from FY15

PREMIUMS

New Zealand’s FY14 GWP of NZ$2,040m increased by 3.7% compared to FY13 (NZ$1,968m). All distribution channels reported growth in FY14.

GWP growth in FY14 was driven by:
- Rate increases in the domestic home owners’ portfolio across all channels to continue to recover higher reinsurance costs and appropriately price for risk; and
- A continued focus on customer and sales initiatives which contributed to improved volumes compared to FY13. This includes the development of the online channel which, within the direct channel, has experienced an increase in website traffic of around 23% since FY13 and now accounts for over 25% of State’s private motor new business sales.

Local currency GWP growth eased from 4.7% in 1H14 to 2.7% in 2H14, as the scale of required rate increases in the home owners’ portfolio diminished and the commercial rating environment remained competitive.

Full year reported GWP growth of 17.2%, to $1,846m, included a significantly favourable exchange rate effect compared to FY13.

The NZI intermediated business (including financial institution partners) represented approximately 56% of GWP in FY14. Rate increases during the year were primarily applied to the domestic home owners’ book across the respective distribution channels within NZI, while inflationary rate increases continued to be applied to key commercial lines products. New business and retention levels remain steady across the commercial lines portfolios. Personal lines new business growth is improving while retention levels remain steady.

NZI’s strong market standing has been maintained, with it winning both the ‘Intermediated Insurer of the Year’ (Australia & New Zealand Institute of Insurance & Finance) and the ‘Most Valued Insurer’ (Insurance Brokers Association New Zealand Annual Survey) awards for 2013.

Approximately 44% of GWP in FY14 was derived from the direct personal lines channel which primarily consists of the State and AMI brands. Each of the brands contributed a similar share of GWP. As with the intermediated business, rate increases during the year were principally applied to the domestic home owners’ book across both brands.

State’s retention rates have remained steady. Operational and customer initiatives continue to focus on State’s customer value proposition and contributed to an improvement in new business levels. The focus on strengthening AMI’s brand during the year, together with customer and sales initiatives, has seen continued improvement in new business growth in FY14.
Customer initiatives during the year included the opening of a unique retail store in Takanini, designed to demonstrate new ways that AMI can support its customers, as well as the launch of apps which give State and AMI personal car customers access to exclusive motoring service discounts to keep them and their cars safer on the roads.

**REINSURANCE EXPENSE**

Reinsurance expense of $257m was 8.4% higher than FY13 ($237m). The increase reflects the net effect of:

- Increased catastrophe cover costs as a result of the Canterbury earthquakes and regulatory requirements; and
- Lower costs in respect of AMI, whose previously standalone catastrophe reinsurance programme was brought within the Group’s main catastrophe programme from 1 January 2014.

The lower second half expense of $117m, compared to 1H14 ($140m), partly reflects the synergies realised from bringing AMI into the Group’s main catastrophe programme.

**CLAIMS**

The FY14 net claims expense of $892m (FY13: $774m) translates to an immunised loss ratio of 60.5% (FY13: 63.6%). The outcome contained:

- Higher net natural peril costs of $106m (FY13: $56m);
- Lower net reserve strengthening of $13m, compared to FY13 ($35m); and
- Favourable underlying claims activity predominantly driven by lower frequency.

The reported loss ratio of 57.2% (FY13: 60.1%) includes a positive $44m foreign exchange effect associated with reinsurance recoveries in respect of the earthquakes in FY11, held by the offshore captive in Singapore. The majority of this was included in 1H14. A corresponding adverse effect is included in investment income on technical reserves, resulting in no impact to the insurance margin. The FY13 claims and investment income lines saw an equivalent effect of $40m.

FY14 has seen a higher incidence of natural peril activity than FY13 with net related claim costs above allowance in both 1H14 and 2H14. There were a number of events during the year, the most significant of which were:

- Storms in September 2013 where damage was concentrated mainly around the Canterbury region;
- Ex-Tropical Cyclone Ita which caused damage across the country in April 2014; and
- Nationwide heavy rain and storm activity in June 2014.

<table>
<thead>
<tr>
<th>NATURAL PERILS</th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural peril claim costs</td>
<td>(11)</td>
<td>(45)</td>
<td>(49)</td>
<td>(57)</td>
<td>(56)</td>
<td>(106)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>31</td>
<td>32</td>
<td>35</td>
<td>34</td>
<td>63</td>
<td>69</td>
</tr>
<tr>
<td>Impact on insurance profit</td>
<td>20</td>
<td>(13)</td>
<td>(14)</td>
<td>(23)</td>
<td>7</td>
<td>(37)</td>
</tr>
<tr>
<td>Impact on insurance margin</td>
<td>3.2%</td>
<td>(2.0%)</td>
<td>(1.9%)</td>
<td>(2.8%)</td>
<td>0.5%</td>
<td>(2.4%)</td>
</tr>
</tbody>
</table>

Modest prior period reserve strengthening of $13m was recorded in FY14. This compares to a net strengthening of $35m in FY13, which was primarily in respect of the June 2011 earthquake event and as result of greater refinement of the division of claim costs between the four respective major earthquake events since September 2011.
8. NEW ZEALAND

Underlying claims performance continued to improve, with lower year-on-year frequency levels. Contributory factors are disciplined underwriting and improved risk selection, as well as the impact of higher excesses.

Working claims experience in FY14 was below anticipated levels as low frequency was offset by slightly higher inflation. A higher occurrence of large claims (greater than NZ$100,000) in 2H14 resulted in their incidence coming in above FY13 experience and expectations.

Canterbury Rebuild

At 30 June 2014 the New Zealand business had completed over NZ$3.3bn in claim settlements in respect of the Canterbury earthquakes (FY13: over NZ$2.2bn). Approximately 58% of all claims were fully settled at that date.

<table>
<thead>
<tr>
<th>RESERVE RELEASES</th>
<th>1H13 A$m</th>
<th>2H13 A$m</th>
<th>1H14 A$m</th>
<th>2H14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve releases</td>
<td>(40)</td>
<td>5</td>
<td>1</td>
<td>(14)</td>
<td>(35)</td>
<td>(13)</td>
</tr>
<tr>
<td>Impact on insurance margin</td>
<td>(6.4%)</td>
<td>0.8%</td>
<td>0.1%</td>
<td>(1.7%)</td>
<td>(2.7%)</td>
<td>(0.8%)</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>FY11 CANTERBURY EARTQUAKES – CLAIMS SETTLEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ$m</td>
</tr>
<tr>
<td>1H12 Gross claims paid (NZ$m)</td>
</tr>
<tr>
<td>FY12 Claims settled (%)</td>
</tr>
<tr>
<td>1H13 Gross claims paid (NZ$m)</td>
</tr>
<tr>
<td>FY13 Claims settled (%)</td>
</tr>
<tr>
<td>1H14 Gross claims paid (NZ$m)</td>
</tr>
<tr>
<td>FY14 Claims settled (%)</td>
</tr>
</tbody>
</table>

In Christchurch, the majority of home customers have now selected their preferred option of claim settlement, either by cash or entering the managed rebuild or repair programme. Settlement of commercial claims is well advanced with 84% of all commercial losses now settled.

While the Group believes it has adopted a conservative reserving position, considerable uncertainty continues to attach to the ultimate cost of the earthquake events. Contributory factors are:

- The steady flow of newly reported claims as the Earthquake Commission (EQC) identifies an increasing number exceeding its statutory NZ$100,000 limit;
- Increased complexities in the rebuild process, with individual projects taking considerably longer to complete than originally planned. While a number of strategies are being employed to increase concurrent build activity, the Group now anticipates all residential properties will be in construction by December 2015, but the rebuild completion date will extend out to mid-2016; and
- The EQC land settlement approach, particularly with respect to properties with increased flood vulnerability. Following agreement between the members of the Insurance Council of New Zealand and the EQC, a declaratory judgement is being sought to determine if the proposed EQC...
approach to settling related claims is valid, with a judgement expected in October 2014.

EXPENSES

Total reported expenses of $461m in FY14 resulted in an expense ratio of 29.6%, a slight deterioration against FY13 (28.8%). This included an improved outcome of 28.3% in 2H14.

Reported commission expense increased by 18.3% compared to FY13, to $168m, broadly reflecting the foreign exchange translation effect over the course of the year. The commission ratio of 10.8% has improved slightly over the FY13 experience (11.0%), with a lower ratio of 10.5% in 2H14.

Underwriting expenses of $293m were approximately 28% higher than the prior year, and in local currency terms increased by 13.5% (1H14: +22%). This incorporated the net effect of:
- The absence of the $9m net benefit in FY13 from the introduction of deferred acquisition cost (DAC) accounting in AMI;
- Increased costs driven by investment in process improvement and technology initiatives; and
- Expenditure associated with increased regulatory requirements.

The administration ratio increased to 18.8% (FY13: 17.8%), but improved to 17.8% in 2H14.

The integration of AMI has successfully concluded with related annual synergies of NZ$35m realised by the end of June 2014, ahead of the originally expected NZ$30m. Key activities completed during FY14 included the alignment of claim disciplines, in-sourcing and alignment of technology and claims services and the consolidation of supplier contracts. Associated benefits are reflected across the reinsurance, claims and expense lines.

Alignment of resources, project investment and benefit realisation disciplines remain key focus areas as the New Zealand business continues to drive efficiencies and remove complexities to reduce its overall cost base.

INVESTMENT INCOME ON TECHNICAL RESERVES

Negative investment income on technical reserves, of $26m, includes an adverse foreign exchange impact of $44m flowing from the hedge associated with reinsurance recoveries in respect of the earthquakes in FY11. These recoveries are held by the offshore captive in Singapore. A corresponding positive effect is included in the net claims expense, resulting in no net impact to the insurance margin. FY13 saw an equivalent effect of $40m.

INSURANCE PROFIT

The New Zealand business produced an insurance profit of $180m in FY14, a significant increase on the prior year profit of $115m. This equated to a reported insurance margin of 11.5% (FY13: 8.9%). The higher reported margin reflects the combination of:
- The improved underlying performance of the business;
- Lower net reserve strengthening;
- A higher incidence of net natural peril claim costs; and
- The realisation of benefits associated with the business’ continued focus on operational initiatives, including synergies from the AMI integration.

The New Zealand business has continued to deliver a strong underlying margin, as it supports customers by ensuring availability of insurance.
8. NEW ZEALAND

capacity while balancing affordability with changes to the home insurance product.

REPORTED VS. UNDERLYING INSURANCE MARGIN (%)

Given the essentially short tail nature of the New Zealand business, no allowance is made for recurring reserve releases when calculating the underlying margin.

<table>
<thead>
<tr>
<th>INSURANCE MARGIN IMPACTS</th>
<th>1H13 A$</th>
<th>2H13 A$</th>
<th>1H14 A$</th>
<th>2H14 A$</th>
<th>FY13 A$</th>
<th>FY14 A$</th>
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</thead>
<tbody>
<tr>
<td>Reserve releases</td>
<td>(40)</td>
<td>5</td>
<td>1</td>
<td>(14)</td>
<td>(35)</td>
<td>(13)</td>
</tr>
<tr>
<td>Natural perils</td>
<td>(11)</td>
<td>(45)</td>
<td>(49)</td>
<td>(57)</td>
<td>(56)</td>
<td>(106)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>31</td>
<td>32</td>
<td>35</td>
<td>34</td>
<td>63</td>
<td>69</td>
</tr>
<tr>
<td>Reserve releases</td>
<td>(6.4%)</td>
<td>0.8%</td>
<td>0.1%</td>
<td>(1.7%)</td>
<td>(2.7%)</td>
<td>(0.8%)</td>
</tr>
<tr>
<td>Natural perils</td>
<td>(1.8%)</td>
<td>(6.8%)</td>
<td>(6.6%)</td>
<td>(7.0%)</td>
<td>(4.4%)</td>
<td>(6.8%)</td>
</tr>
<tr>
<td>Natural peril allowance</td>
<td>5.0%</td>
<td>4.8%</td>
<td>4.7%</td>
<td>4.2%</td>
<td>4.9%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

FORMER WESFARMERS INSURANCE UNDERWRITING BUSINESS

The acquisition of the Wesfarmers insurance underwriting business was completed on 30 June 2014. Consolidation of the P&L of the former Wesfarmers business commenced on 1 July 2014.

MARKET REGULATION AND REFORM

The majority of New Zealand households have transitioned from open-ended home insurance policies to those requiring specified sum insured limits, over the course of FY14. IAG has led the industry through this fundamental change with a nationwide public education programme. The ‘need2know’ campaign has been well received and has had over 1.6m website visits to date. IAG will continue to work with customers to help them through these changes.

The Treasury-led review of the EQC has, to a large extent, been put on hold ahead of the national election in September 2014. There is currently no clear indication as to when the review will conclude.

IAG and the Insurance Council of New Zealand have continued to engage with the Department of Internal Affairs on reforming the funding of the New...
8. NEW ZEALAND

Zealand Fire Services. A phase of more formal industry engagement on funding options is being planned for the coming months.

MARKET ENVIRONMENT AND OUTLOOK

The economic environment in New Zealand continues to strengthen, with both business and consumer confidence remaining high. This is evidenced by higher employment levels, together with an increase in the number of businesses intending to increase investment in capital equipment.

GDP growth is forecast to rise to in excess of 3% in calendar 2014, creating a positive backdrop for insurance demand. This is tempered, however, by the rising interest rate environment and its impact on the affordability of insurance for home owners on low or fixed incomes, as well as increased competition.

Helping customers balance affordability and manage their risks remain key focus areas as the need to recoup higher reinsurance costs has eased. Based on the existing input cost environment, only modest rate increases are anticipated in the home owners’ classes in FY15, skewed to the front half of the year. Cost pressures in motor remain negligible.

The industry is seeing an increase in capacity post the FY11 earthquakes. This is particularly evident in the intermediated corporate market, where pricing is under pressure.

The New Zealand business’ broader strategy remains one of:

- Maintaining its market-leading position; and
- Sustaining its strong underlying profitability, aided by the realisation of synergies from the Lumley Insurance integration over a two-year period.
9. ASIA

FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>1H13</th>
<th>2H13</th>
<th>1H14</th>
<th>2H14</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A$m</td>
<td>A$m</td>
<td>A$m</td>
<td>A$m</td>
<td>A$m</td>
<td>A$m</td>
</tr>
<tr>
<td>Gross written premium</td>
<td>137</td>
<td>158</td>
<td>154</td>
<td>163</td>
<td>295</td>
<td>317</td>
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<tr>
<td>Gross earned premium</td>
<td>122</td>
<td>145</td>
<td>167</td>
<td>155</td>
<td>267</td>
<td>322</td>
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<tr>
<td>Reinsurance expense</td>
<td>(25)</td>
<td>(22)</td>
<td>(18)</td>
<td>(16)</td>
<td>(47)</td>
<td>(34)</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>97</td>
<td>123</td>
<td>149</td>
<td>139</td>
<td>220</td>
<td>288</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(56)</td>
<td>(74)</td>
<td>(84)</td>
<td>(76)</td>
<td>(130)</td>
<td>(160)</td>
</tr>
<tr>
<td>Commission expense</td>
<td>(22)</td>
<td>(29)</td>
<td>(37)</td>
<td>(39)</td>
<td>(51)</td>
<td>(76)</td>
</tr>
<tr>
<td>Underwriting expense</td>
<td>(15)</td>
<td>(14)</td>
<td>(20)</td>
<td>(23)</td>
<td>(29)</td>
<td>(43)</td>
</tr>
<tr>
<td>Underwriting profit</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>1</td>
<td>10</td>
<td>9</td>
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<tr>
<td>Investment income on technical reserves</td>
<td>2</td>
<td>8</td>
<td>2</td>
<td>1</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Insurance profit</td>
<td>6</td>
<td>14</td>
<td>10</td>
<td>2</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Share of profit/(loss) from associates</td>
<td>(3)</td>
<td>3</td>
<td>(3)</td>
<td>5</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Total divisional result</td>
<td>3</td>
<td>17</td>
<td>7</td>
<td>7</td>
<td>20</td>
<td>14</td>
</tr>
</tbody>
</table>

FINANCIAL CONTRIBUTION BY COUNTRY

<table>
<thead>
<tr>
<th></th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
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<tbody>
<tr>
<td>Thailand</td>
<td>295</td>
<td>288</td>
<td>295</td>
<td>288</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Malaysia</td>
<td>460</td>
<td>564</td>
<td>225</td>
<td>276</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>Established markets</td>
<td>755</td>
<td>852</td>
<td>520</td>
<td>564</td>
<td>54</td>
<td>57</td>
</tr>
<tr>
<td>India</td>
<td>164</td>
<td>218</td>
<td>43</td>
<td>57</td>
<td>(5)</td>
<td>(5)</td>
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<tr>
<td>China</td>
<td>243</td>
<td>376</td>
<td>49</td>
<td>75</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Vietnam¹</td>
<td>24</td>
<td>29</td>
<td>7</td>
<td>29</td>
<td>(3)</td>
<td>(5)</td>
</tr>
<tr>
<td>Developing markets</td>
<td>431</td>
<td>623</td>
<td>99</td>
<td>161</td>
<td>(9)</td>
<td>(12)</td>
</tr>
<tr>
<td>Total Asian operations</td>
<td>1,186</td>
<td>1,475</td>
<td>619</td>
<td>725</td>
<td>45</td>
<td>45</td>
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<tr>
<td>Support and development costs</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>(25)</td>
<td>(31)</td>
</tr>
<tr>
<td>Total divisional result</td>
<td>1,186</td>
<td>1,475</td>
<td>619</td>
<td>725</td>
<td>20</td>
<td>14</td>
</tr>
</tbody>
</table>

¹AAA Assurance’s financial results have been consolidated with effect from July 2013.
EXECUTIVE SUMMARY

- IAG has a presence in five of its six targeted markets in Asia: Thailand, Malaysia, India, China and Vietnam
- Asia accounted for 7.1% of FY14 Group GWP on a proportional basis (FY13: 6.3%)
- Strong GWP growth in India and China, with Malaysia boosted by a full year’s contribution from Kurnia (FY13: 9 months)
- Overall divisional profit of $14m, including strong underlying performances from established businesses (Thailand and Malaysia)
- Further operational progress expected in FY15

FY14 DIVISIONAL RESULT OVERVIEW

The development of the Group’s Asian operations is progressing to plan as the business enters a phase of driving operational development and enhancing risk management and governance. This follows the successful establishment of an enlarged regional footprint encompassing a presence in five out of six target markets.

As at 30 June 2014, IAG’s investment in Asia is approximately $832m, of which around $626m is in the established and profitable markets of Thailand and Malaysia. At 30 June 2013 the equivalent figure was approximately $820m, with the movement since that date including:

- A modest capital injection in India towards the beginning of FY14 ($12m);
- The move to a controlling position in Vietnam, from a previous holding of 30%; and
- Foreign exchange movements.

FY14 saw the first-time consolidation of AAA Assurance in Vietnam, from July 2013, as well as a full year’s contribution from Kurnia in Malaysia, compared to nine months in FY13.

The division contributed a total profit of $14m in FY14, including shares of associates. This compares to a $20m profit in FY13, and comprises:

- Strong underlying performances by the established businesses in Thailand and Malaysia;
- A similar combined operating loss from the developing businesses in India and China, which was broadly in line with expectations;
- A higher operating loss from Vietnam, owing to its first-time consolidation following a dial-up in ownership;
- An approximately $12m adverse year-on-year movement in mark-to-market valuations of investments, including those within associates’ shareholders’ funds; and
- Higher regional support and development costs of $31m (FY13: $25m).

In FY14, Asia represented 7.1% of the Group’s GWP on a proportional basis, compared to 6.3% in FY13. Proportional GWP of $725m in FY14 increased by 17% compared to FY13 ($619m), reflecting:

- A full year’s contribution from Kurnia in Malaysia;
- A small contraction in Thailand, in line with weaker vehicle sales;
- Strong growth in the developing markets of India and China; and
- Increased ownership of AAA Assurance in Vietnam.
9. ASIA

IAG now participates in a gross regional annualised GWP pool of $1.5bn.

**ASIAN GWP POOL (A$M / % OF GROUP GWP)**

Note: All amounts have been converted to A$ using the exchange rate at the most recent reporting date to aid comparison. The % of Group GWP is calculated after exclusion of the discontinued UK operation.

**THAILAND**

**Market Presence**

IAG holds a 98.6% beneficial interest in Safety Insurance (Safety), a predominantly motor insurer (c.80% of GWP), following the establishment of an initial presence in Thailand in 1998. The business operates under a single licence while using two brands: Safety (personal lines) and NZI (commercial lines). Since 2012, Safety has established itself as the third largest motor insurer in Thailand on the back of a strong reputation for customer service.

**Operating Performance**

The Thai business reported a modest decline in GWP of 2.4% in FY14, and 7.5% in local currency terms. This reflects the combined effect of:

- The significant contraction in new vehicle sales since May 2013, after the end of the government’s first-car-buyer tax incentive scheme;
- A normalisation of commercial rates following the spike experienced in the aftermath of the catastrophic flood event in FY12; and
- Slower economic activity due to political unrest.

In 2H14, Safety reported GWP growth of 7.6% compared to 1H14 in local currency terms, driven by signs of a recovery in new vehicle sales from February 2014 as well as the business’ increased focus on the used car market and renewal initiatives.

The Thai business’ performance has remained strong. The insurance margin of 10.6% was slightly lower than that of FY13 (11.8%) and included:

**SAFETY – FY14 GWP BY CLASS**

- Motor: 76%
- Other Short Tail: 5%
- Short Tail Commercial: 15%
- Health: 1%
- Liability: 1%
9. ASIA

- An improved loss ratio of 58.0% (FY13: 59.1%) owing to benign claims experience;
- Continued improvement in the administrative expense ratio, partially offset by an increased commission ratio; and
- Lower investment income than FY13 owing to the low interest rate environment.

The Thai business reported an improved insurance profit of $28m, compared to $26m in FY13. Following the allocation of regional support and development costs, Thailand’s profit contribution was $20m (FY13: $20m).

<table>
<thead>
<tr>
<th>SAFETY FINANCIAL PERFORMANCE</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>9,145</td>
<td>8,461</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>220</td>
<td>264</td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(130)</td>
<td>(153)</td>
</tr>
<tr>
<td>Commission &amp; underwriting expenses</td>
<td>(74)</td>
<td>(86)</td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Insurance profit</td>
<td>26</td>
<td>28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Insurance Ratios</th>
<th>FY13</th>
<th>FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss ratio</td>
<td>59.1%</td>
<td>58.0%</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>33.6%</td>
<td>32.6%</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>92.7%</td>
<td>90.6%</td>
</tr>
<tr>
<td>Insurance margin</td>
<td>11.8%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

1Excludes allocated regional support and development costs.

Market Environment, Regulation and Reform

The long term outlook for Thailand remains positive in spite of the prolonged political unrest which precipitated a military coup in May 2014. The economy grew by nearly 3% in 2013, but growth is expected to slow to a modest level in calendar 2014. The military-led government is seeking to implement measures that will stimulate the economy, with the consensus expectation currently being an improvement in growth to over 4% in calendar 2015.

Infrastructure investment and tourism have been directly affected by political developments, however manufacturing facilities in the country have not been disrupted. Thailand remains South East Asia’s largest production hub of global automakers and suppliers owing to its strong logistics and supply chain network, as well as its skilled labour force. A recovery in consumer confidence is expected in calendar 2014.

The Thai general insurance industry grew at 13% in calendar 2013, heavily skewed to the opening half, compared to the very strong growth of 28% in 2012. Both years were influenced by the one-time government tax incentive scheme for car buyers. The industry is expected to resume a path of steady growth on the back of strong household fundamentals and a sound regulatory environment.

The Office of the Insurance Commission (OIC) is in the process of revising the existing risk-based capital framework and introducing additional risk charges for operational, liquidity and group risks. This is expected to result in more rational pricing, while also potentially contributing to industry consolidation in the longer term, in a market which remains attractive but relatively fragmented.
9. ASIA

MALAYSIA

Market Presence

IAG owns a 49% interest in AmGeneral Holdings Berhad (AmGeneral), the general insurance arm of AmBank Group, Malaysia’s sixth largest bank. The joint venture was established in 2006, and is the largest motor insurer in Malaysia following the acquisition of Kurnia Insurans (Malaysia) Berhad (Kurnia) in September 2012. Since 1 March 2013, the combined business has operated as AmGeneral Insurance Berhad using two market-leading brands, AmAssurance and Kurnia.

Operating Performance

AmGeneral has continued to perform strongly, with the overall result boosted by a full year contribution from Kurnia, compared to nine months in FY13.

FY14 GWP grew by over 22% to $564m (IAG’s share being approximately $276m) compared to FY13 ($460m), primarily due to an additional three months of contribution from Kurnia. The tightening of consumer credit lending processes by the central bank has, however, continued to restrain growth in the bancassurance channel. Overall local currency GWP growth was over 16%.

AmGeneral’s operating performance has remained strong, reporting an improved insurance margin of 14.1% in FY14 (FY13: 13.3%). This improvement was derived from:

- Synergy benefits from the integration of Kurnia, driving improvements in the expense ratio;
- Higher investment income stemming from lower revaluation losses on the bond portfolio, compared to FY13; and
- A partial offset from lower prior period reserve releases.

AmGeneral’s loss ratio of 63.5% was higher than FY13 (60.7%) but in line with expectations, following the favourable impact of higher prior period reserve releases in FY13.

AmGeneral’s overall earnings contribution increased by nearly 4% to $29m (FY13: $28m), with the business’ strong operating performance partially offset by significant mark-to-market movements in the investments backing shareholders’ funds.

The integration of Kurnia is nearing completion with the following key areas finalised during FY14:

- Rationalisation of the combined branch footprint to service both AmAssurance and Kurnia customers;
- Alignment of employee compensation and benefits;
- Transition to a single core platform for claims and operations;
- Alignment of sales and underwriting systems; and
- Harmonisation of back office processes, including distribution, underwriting, reinsurance, claims, operations and finance.

As at 30 June 2014, AmGeneral had achieved annualised pre-tax synergies of close to RM67m from the integration of Kurnia, exceeding the original target of RM50m within two years of its acquisition.

Strong performance maintained by AmGeneral, boosted by full year of Kurnia

AMGENERAL – FY14 GWP BY CLASS

- Motor
- Other
- Fire
- Personal Accident
9. ASIA

Market Environment, Regulation and Reform

The Malaysian economy grew by 4.7% in calendar 2013 and is anticipated to achieve slightly higher growth of around 5% in both calendar 2014 and 2015. Relatively strong GDP growth of 6.2% in the opening quarter of 2014 was supported by strong domestic demand and a recovery in exports following the improvement in global conditions.

The government cut fuel subsidies in September 2013 and announced a new flat rate consumption tax beginning in April 2015. With headline inflation increasing, the central bank has begun to raise interest rates.

Malaysia's general insurance market is expected to grow by an average of 6-7% per annum until 2016. With resilient GDP growth, sound operating margins and a strengthening regulatory environment, Malaysia continues to offer good long term growth prospects.

The Malaysian government made its third annual revision of the motor tariff in February 2014, part of the move to gradually detariff motor premiums over a four-year period to improve efficiency and pave the way for eventual market liberalisation. This is expected to affect the competitive landscape, with premium rates further differentiated according to the risk profile of individual vehicles and drivers.

AmGeneral is well-advanced in its preparation for the tariff reform that is planned to be complete by 2016. As the largest provider of motor insurance in Malaysia, it is well-placed to manage the resultant changes.

INDIA

Market Presence

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India (SBI), India's largest bank. SBI General commenced underwriting in April 2010 and is building a portfolio with a presence in the retail, SME and corporate markets across India, with access to SBI's extensive bancassurance channel. IAG has an option to increase its shareholding in SBI General to 49%, subject to a change in the Indian foreign direct investment limit.

IAG General is well-advanced in its preparation for the tariff reform that is planned to be complete by 2016. As the largest provider of motor insurance in Malaysia, it is well-placed to manage the resultant changes.
9. ASIA

Operating Performance

SBI General has continued to grow strongly, generating GWP equivalent to $218m (IAG’s 26% share being approximately $57m) in FY14, an increase of 33% against FY13. Local currency GWP growth was similar.

Growth was primarily derived from motor, home and personal accident insurance business written through the bancassurance channel. SBI General also launched a health product through the bank channel in the second quarter of FY14, and this is steadily gaining traction. Overall growth was tempered by the decision to exit unprofitable large commercial business during the year.

IAG’s share of SBI General’s losses in FY14 was $5m, a slight improvement on FY13 in local currency terms. This reflects an improved underlying performance driven by lower commission and administration ratios on the back of increasing scale, and was despite bond revaluation losses following the central bank’s liquidity tightening moves to arrest the falling rupee.

As at the end of FY14, SBI General had over 70 products in the market. SBI General currently has 53 dedicated branches across India, including 45 in tier 2 and 3 cities, and nearly 2,100 employees.

To support SBI General’s rapid expansion, a small capital injection occurred in the opening quarter of FY14, with IAG’s share being approximately $12m. A further capital injection occurred in July 2014, with IAG contributing approximately $20m. Both capital calls were in line with the long term plans for the business.

### SBI GENERAL – FY14 GWP BY CLASS

- Motor: 38%
- Fire: 37%
- Personal Accident: 16%
- Miscellaneous: 9%

### SBI GENERAL - FY14 FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>A$m</th>
<th>FY14</th>
<th>A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross written premium</td>
<td>9,190</td>
<td>164</td>
<td>12,276</td>
<td>218</td>
</tr>
<tr>
<td>Net earned premium</td>
<td>2,999</td>
<td></td>
<td>6,987</td>
<td></td>
</tr>
<tr>
<td>Net claims expense</td>
<td>(2,421)</td>
<td>(5,852)</td>
<td>(2,860)</td>
<td>(3,389)</td>
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<tr>
<td>Investment income on technical reserves</td>
<td>651</td>
<td>744</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance(loss)</td>
<td>(1,631)</td>
<td>(1,510)</td>
<td>(1,631)</td>
<td>(1,510)</td>
</tr>
<tr>
<td>Net (loss) after tax</td>
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<td>(1,068)</td>
<td>(309)</td>
<td>(5)</td>
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<tr>
<td>Net (loss) after tax - IAG’s share (26%)</td>
<td>(5)</td>
<td>(5)</td>
<td>(278)</td>
<td>(5)</td>
</tr>
</tbody>
</table>

### Insurance Ratios

- Loss ratio: 80.7% (FY13) / 83.8% (FY14)
- Expense ratio: 95.4% (FY13) / 48.5% (FY14)
- Combined ratio: 176.1% (FY13) / 132.3% (FY14)
- Insurance margin: (54.4%) (FY13) / (21.6%) (FY14)

Market Environment, Regulation and Reform

The medium to long term growth prospects for the general insurance market in India remain favourable. The industry grew by 12% in the fiscal year ending March 2014, with private sector growth of 15% outperforming that of the four public insurers, which still represent over half of the market. The sector is expected to grow by 15% in fiscal year 2015, assisted by an expected increase in economic growth. This strong growth outlook is supported by a low insurance penetration rate and rising middle class income.
9. ASIA

The regulatory framework continues to incorporate reforms conducive for growth in the insurance industry. These include the restructuring of the Third Party Motor Pool, where insurers are able to manage the loss-making motor segment more efficiently. In November 2013, the Insurance Regulatory and Development Authority (IRDA) increased the required provision for related claims, from 140% to 210%. From 1 April 2014, IRDA has increased motor third party premium rates by between 9% and 20%, depending on vehicle category. IRDA is also contemplating enhancing the safety aspects in cars through a star rating system which will be used for setting automotive insurance premiums.

Other reforms undertaken by IRDA include an easing of the insurance product approval process.

The new Indian government, formed by the Bharatiya Janata Party, has signalled an intent to reinstitute economic reform, improve the business environment and promote foreign investment. This includes raising the cap on foreign direct investment (FDI) in the insurance sector to 49% from the current 26%. IAG has an option to increase its shareholding in SBI General to 49%, subject to a change in the law.

CHINA

Market Presence

IAG owns a 20% interest in Bohai Property Insurance Company Ltd (Bohai Insurance), acquired in April 2012. Bohai Insurance was established in 2005, and has a predominantly motor insurance focus. Headquartered in Tianjin, it has a strong emphasis on the surrounding pan-Bohai region. IAG has an in-principle agreement to increase its ownership to 24.9%.

Operating Performance

Bohai Insurance reported strong growth in GWP to $376m in FY14 (IAG’s 20% share being approximately $75m), an increase of 55% compared to FY13 ($243m) and 37% in local currency terms. This reflects the business’ sharpened strategic focus, driving branch performance in selective geographical areas and pursuing growth in targeted motor and non-motor segments.

Bohai Insurance continues to focus on enhancing its technical capabilities, including those in the areas of product development, underwriting, claims and reinsurance, as well as implementing more stringent underwriting and pricing controls.

A number of IAG personnel have been seconded to Bohai to develop and roll out capability transfer programmes in each of these areas, with progress proceeding to plan. Areas which are still in progress include the development of a more granular risk selection process, improving renewal retention, integration of supply chain solutions and the centralisation of claim functions.

IAG’s share of Bohai Insurance’s net loss after tax of $2m in FY14 is slightly higher than FY13, and reflects the combination of:

- Investment in increased marketing and business acquisition activities;
- Lower investment income as a result of the low interest rate environment; and
- An offset from claim reserve releases relating to earlier accident years.
Market Environment, Regulation and Reform

The Chinese economy grew by 7.7% in calendar 2013 and is expected to achieve similar growth in 2014 as the government continues to focus on structural reforms directed at establishing a more stable, consumption-led economic model.

China remains an attractive general insurance market underpinned by a strong economic outlook and the government’s active promotion of agricultural, liability and natural catastrophe insurance. The general insurance market recorded premium growth of over 17% in calendar 2013 and is expected to increase by 10-15% per annum over the next decade.

The motor premium pool in China is forecast to grow on average by at least 15% per annum over the next 3-5 years. Premium volumes will be driven by the growing Chinese economy, coupled with the urbanisation process in third and fourth-tier cities which will boost car sales. The opening of motor compulsory liability insurance to foreign participation and motor tariff liberalisation are expected to foster greater pricing discipline while attracting more competition. Partial detariffication of voluntary motor insurance is expected to be implemented in late 2014.

The Chinese insurance regulator’s (CIRC) relaxation of the rules on mergers and acquisitions in June 2014 is likely to improve overall market efficiency in the long term, especially in the areas of capital and cost management. Domestic industry consolidation and rationalisation is expected to result, as participants grow through acquisition via their local interests with the new rules allowing common control of two insurers selling similar products.

A China risk-oriented solvency system (CROSS) framework is currently being developed. This comprises solvency capital reform (i.e. a move towards a more risk-based solvency capital calculation framework) and a comprehensive risk management framework with increased disclosure requirements. The related exposure draft is expected towards the end of 2014.

<table>
<thead>
<tr>
<th>BOHAI INSURANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL PERFORMANCE</strong></td>
</tr>
<tr>
<td>Gross written premium</td>
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<tr>
<td>Net earned premium</td>
</tr>
<tr>
<td>Net claims expense</td>
</tr>
<tr>
<td>Commission &amp; underwriting expenses</td>
</tr>
<tr>
<td>Investment income on technical reserves</td>
</tr>
<tr>
<td>Insurance (loss)</td>
</tr>
<tr>
<td>Net (loss) after tax</td>
</tr>
<tr>
<td>Net (loss) after tax - IAG's share (20%)</td>
</tr>
</tbody>
</table>

| **Insurance Ratios** | FY13 | FY14 |
| Loss ratio | 63.2% | 60.6% |
| Expense ratio | 48.3% | 50.4% |
| Combined ratio | 111.5% | 111.0% |
| Insurance margin | (5.8%) | (6.8%) |
VIETNAM

Market Presence

IAG owns a 63.17% interest in AAA Assurance Corporation (AAA Assurance), moving to control in July 2013 after acquiring an initial 30% stake in May 2012. AAA Assurance is headquartered in Ho Chi Minh City and commenced operations in 2006.

Operating Performance

Following the increase in ownership, IAG has consolidated the results of AAA Assurance with effect from July 2013.

In FY14, AAA Assurance recorded GWP equivalent to $29m, representing growth of about 20% in both reported and local currency terms. This follows ongoing remediation activity, which has seen concentration on higher quality risks offset by stronger growth from the bancassurance channel.

Implementation of a plan to strengthen the operational and technical capability of AAA Assurance is progressing well. The increase in IAG’s ownership has allowed for the acceleration of many of the original business case programmes.

The Vietnam business continues to show improvement at an underlying level, characterised by:

- Continual focus on expense management and leakage;
- Enhanced risk management and governance;
- Improved underwriting and process controls; and
- Increased focus on claims management, including the introduction of a new claims and assessing model.

AAA Assurance’s FY14 insurance loss more than halved in local currency terms compared to the previous year. The reported loss ratio of 32.9% is materially lower than FY13 (65%) owing to the higher contribution from business written through the bank channel, which has a lower expected loss ratio, and significant improvements in motor claims management.
Market Environment, Regulation and Reform

The Vietnamese economy grew by 5.4% in 2013, led by rising foreign investment which has supported manufacturing and exports. A slightly higher growth rate is anticipated in calendar 2014 as structural reform in the financial sector and state-owned enterprises gradually progresses.

Vietnam remains an attractive insurance market in the longer term, driven by its growing consumer demand and low insurance penetration rate. Motor represented 27% of general insurance premiums in 2013, which is significantly lower than in other South East Asian countries.

Calendar 2013 saw relatively subdued industry GWP growth of around 7%, as weaker credit conditions dampened business activity. Most of the non-life insurers are sub-scale local firms that do not necessarily have access to the capital needed for growth. Industry growth is expected to improve to nearly 8% in 2014.

Regulatory reform continues to aim at establishing more discipline in risk evaluation and premium pricing. The Ministry of Finance is continuing to strengthen the legal framework for the insurance sector, while at the same time enhancing supervision and inspection. The Ministry of Finance has also issued clearer guidelines on the implementation of the Vietnamese insurance law and financial regime.

REGIONAL SUPPORT AND DEVELOPMENT COSTS

As IAG broadens its operational footprint in Asia, the division incurs regional support and development costs. These costs cover a wide range of activities, including divisional level management, on-the-ground capability transfer teams and the cost of developing opportunities in new and existing markets.

The regional support and development costs are self-funded within the division and, for reporting purposes, are allocated between the consolidated businesses (Thailand and Vietnam) and shares of associates (Malaysia, India and China).

Total regional support and development costs for FY14 increased to $31m (FY13: $25m) owing to greater capability support in driving an operational excellence strategy and enhancing risk management and governance in existing Asian businesses. A new representative office was established in Indonesia in 1H14, as the Group actively pursues market entry there.

<table>
<thead>
<tr>
<th>REGIONAL SUPPORT AND DEVELOPMENT COSTS - ALLOCATION</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated operations (Thailand &amp; Vietnam)¹</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Associates (Malaysia, India &amp; China)</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total regional support and development costs</strong></td>
<td><strong>25</strong></td>
<td><strong>31</strong></td>
</tr>
</tbody>
</table>

¹AAA Assurance’s (Vietnam) financial results have been consolidated with effect from July 2013.

OUTLOOK

The overall Asia business is expected to deliver a stronger profit contribution in FY15, as each of the constituent operations demonstrates improvement.

Strong GWP growth (on a proportional basis) is expected in FY15, driven by ongoing expansion in India and continued momentum from the sharpened strategic focus in China.

Sound economic recovery in Vietnam, with attractive long term outlook

Increased regional support focused on delivering operational excellence

Stronger Asia profit contribution anticipated in FY15
Growth from SBI General in India is expected to be derived from the maximisation of opportunities with the bank through the launch of new products, as well as a strong focus on growing the motor portfolio. Operating losses are expected to further reduce as the business moves towards the end of its start-up phase.

In China, Bohai Insurance’s GWP growth will be driven by motor, which accounts for more than 80% of its portfolio. IAG continues to establish a strong partnership model, entailing capability transfer programmes that are building a sustainable platform in agreed target segments.

With the successful completion of the Kurnia integration in Malaysia, AmGeneral will focus on strengthening headline growth and its market position via its strong agency network, alongside bancassurance optimisation efforts.

In Vietnam, developing sustainable growth in AAA Assurance and establishing a secure business is taking priority. This follows the operational improvements being realised through capability transfer in claims, underwriting, corporate governance and risk management, as well as the enhancement of efficiencies in the branch operating model.

The underlying profitability of the Thai and Malaysian businesses is expected to remain strong.
10. REINSURANCE

EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group’s overall approach to capital management
- Catastrophe programme renewed 1 January 2014 with increased cover of up to $5.6bn – key aspects strengthened in face of favourable market conditions
- Standalone catastrophe programme secured for acquired Wesfarmers business from 1 July 2014
- Group maximum event retention (MER) of $225m at 30 June 2014
- Additional cover of $150m purchased for FY15, in excess of $700m perils allowance
- Adverse development cover entered into in respect of CTP portfolio

REINSURANCE STRATEGY

IAG’s reinsurance programme is an important part of the Group’s overall approach to capital management. The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4% of NEP. Its current retentions are below this level.

The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where modified whole of portfolio is the sum of all correlated risk). The limits purchased reflect a 1-in-250 year return period, and are more conservative than the regulator’s 1-in-200 year return period requirement.

The Group’s Australian-based captive reinsurer manages 100% of the total treaty reinsurance spend of the Australian businesses. A key responsibility of the captive is to capture and manage counter-party and regulatory exposures.

The Group’s international captive reinsurers underwrite 100% of New Zealand, Thailand and Vietnam treaty business, and a substantial amount from IAG’s joint venture interests in Asia. IAG’s international business units continue to place some facultative reinsurance directly with the external market.

The Group’s international captive reinsurers provide considerable input to the reinsurance covers concluded by its interests in Malaysia, India and China.

MARKET ENVIRONMENT

The influx of new capital and the relatively benign worldwide catastrophe experience have both continued to have a positive effect on the reinsurance rating environment, from a purchaser’s perspective. Reinsurance capacity available from both the traditional and non-traditional reinsurance markets has increased, supporting the growing capacity requirements of the Group.

CATASTROPHE COVER

IAG’s catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis. It covers all territories in which IAG has operations.

While similar in structure to 2013’s cover, IAG’s 2014 Group catastrophe programme contains increased coverage in two notable areas: at the upper end of the main programme, and with respect to the aggregate cover.
At renewal on 1 January 2014 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to $5.5bn, including one prepaid reinstatement. The Group retains the first $250m of each loss, with 2.5 reinstatements secured for the lower layer of the main programme ($250m excess of $250m);
- A $100m upper layer providing earthquake cover in respect of Australia and New Zealand, extending from $5.5bn to $5.6bn;
- A buy-down arrangement that reduces the maximum cost of a first event to $175m and a second event to $150m; and
- An expanded aggregate sideways cover which reduces the cost of subsequent events to $25m. The aggregate provides protection of $375m excess of $250m, with qualifying events capped at a maximum contribution of $225m excess of $25m per event.

As at 30 June 2014, there was negligible erosion of the $250m deductible applicable to the Group’s calendar 2014 aggregate catastrophe cover.

From 1 July 2014, the Group has acquired standalone reinsurance protection for the former Wesfarmers business in Australia and New Zealand. This comprises a main catastrophe cover for losses up to $1.35bn, including one prepaid reinstatement, with the Group retaining the first $50m of each loss. The cover has a cancellation option exercisable on 31 December 2014.

**Increased catastrophe cover of up to $5.6bn, for calendar 2014**

**Standalone protection of $1.35bn for acquired Wesfarmers business**
10. REINSURANCE

With regard to New Zealand, all amounts itemised above in respect of the Group’s 2014 catastrophe programme and the Wesfarmers standalone programme are denominated in NZ$. For example, the main catastrophe cover is in respect of losses of up to NZ$5.5bn.

At 30 June 2014, the Group also renewed its specific reinsurance buy-down in respect of its Thailand and Malaysian interests. Cover is purchased up to $175m, being the attachment point of the Group catastrophe programme, in excess of a $25m retention, and includes one prepaid reinstatement.

The combination of covers in place at 1 July 2014 results in maximum first event retentions of $225m for Australia, NZ$225m for New Zealand, $25m for Thailand and Malaysia, and less than $1m for Vietnam.

FY15 NATURAL PERIL ALLOWANCE

The Group’s natural peril allowance for FY15 is $700m, a 9.4% increase over FY14. This reflects a combination of the addition of the Wesfarmers insurance underwriting business from 1 July 2014 and underlying growth of the existing business, after allowing for the reinsurance protection in place.

The Group has also renewed and extended reinsurance cover for retained natural perils at 1 July 2014. This provides $150m of cover in excess of the Group’s natural peril allowance of $700m, for the 12 months to 30 June 2015. This cover includes the natural peril contribution from the former Wesfarmers insurance underwriting business.

CTP ADVERSE DEVELOPMENT COVER (ADC)

As at 30 June 2014, the Group entered into an ADC in respect of its CTP portfolio, providing protection for 30% of any reserve deterioration above the central estimate in respect of losses incurred prior to 30 June 2013. This complements the CTP quota share arrangement which commenced on 1 July 2013, and has been concluded with the same counterparty. Both elements have been driven by improved capital efficiency.

In FY15, the ADC is expected to result in an approximately $90m reduction in regulatory capital requirement and a modestly positive earnings impact.

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances which protect the Group in all territories in which it underwrites.

The casualty reinsurances, including those with respect to the acquired Wesfarmers business, were renewed at 30 June 2014 and reflected favourable market conditions. In many cases the former Wesfarmers business’ covers were merged into IAG’s own existing protections.

Where required by statute, unlimited cover is purchased where available and for other lines cover is placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

COUNTER-PARTY RISK

The counter-party credit profiles for the key reinsurances of the Group, including the acquired Wesfarmers business, as at 1 July 2014 are:

- Over 89% of limits placed with ‘A+’ or higher rated entities for the property catastrophe programme; and
- 100% of limits placed with ‘A+’ or higher rated entities for the casualty programme.
11. INVESTMENTS

EXECUTIVE SUMMARY

- Total investments of $15.4bn as at 30 June 2014
- Includes $1.7bn in respect of the acquired Wesfarmers business
- Overall investment allocation remains conservatively positioned
- Technical reserves of $10.4bn all invested in fixed interest and cash
- Shareholders’ funds of $5.0bn - growth asset weighting of 42%
- Strong investment returns on technical reserves and shareholders’ funds
- Strong credit quality maintained: 86% ‘AA’ or higher

INVESTMENT PHILOSOPHY

The Group’s investment philosophy is:

- To manage the assets backing technical reserves and shareholders’ funds separately;
- To invest the assets backing technical reserves, wherever possible, in a combination of government and fixed interest securities with interest rate sensitivities that match the underlying insurance liabilities;
- To invest the Group’s shareholders’ funds to maximise the return on risk-based capital, consistent with the Group’s risk appetite and flexibility requirements; and
- To invest Group assets such that the contribution of investment risk to IAG’s earnings volatility should not dominate the contribution from insurance risk.

INVESTMENT STRATEGIES

The Group’s overall investment allocation remains conservatively positioned, with 86% of total investments in fixed interest and cash as at 30 June 2014. Technical reserves were entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders’ funds was 58%.

The Group’s allocation to growth assets was 42% of shareholders’ funds at 30 June 2014, compared to 36% at 31 December 2013 and 46% at 30 June 2013. Movements across the period are largely explained by:

- The investment of funds from the December 2013 institutional placement in fixed interest and cash; and
- The subsequent use of those funds to acquire the Wesfarmers insurance underwriting business, with settlement occurring on 30 June 2014.

Allowing for these items, the Group’s weighting to growth assets within shareholders’ funds was broadly unchanged throughout FY14.

Within the Group’s allocation to growth assets, alternative investments accounted for 18% of shareholders’ funds as at 30 June 2014 (30 June 2013: 22%). These alternative investments typically display a lower volatility than equities, deliver a higher return than fixed income and increase overall investment diversification. The Group’s largest allocation within this category is to global convertible bonds.
11. INVESTMENTS

GROUP INVESTMENT ASSETS

The Group’s investments totalled $15.4bn as at 30 June 2014, excluding investments held in joint ventures and associates, with nearly 68% represented by the technical reserves portfolio. Total investments at 30 June 2013 were $13.6bn.

Movements of note since the end of FY13 are:

- The addition of $1.7bn of investment assets in respect of the acquired Wesfarmers business, on 30 June 2014; and
- Increased funds reflecting the strong operating performance of the Group along with positive investment returns during the year.

ASSET ALLOCATION

Since 31 December 2013, the most significant change in asset allocation has been the net outflow of funds in the fixed interest and cash component of shareholders’ funds. The majority of this occurred on 30 June 2014, as funds were used to settle the acquisition of the Wesfarmers insurance underwriting business.

The allocation to international equities in shareholders’ funds was increased in 2H14 to provide additional diversification.

GROUP ASSET ALLOCATION

<table>
<thead>
<tr>
<th>SHAREHOLDERS’ FUNDS</th>
<th>1H13 %</th>
<th>FY13 %</th>
<th>1H14 %</th>
<th>FY14 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian equities</td>
<td>23.1</td>
<td>22.1</td>
<td>17.5</td>
<td>14.5</td>
</tr>
<tr>
<td>International equities</td>
<td>1.5</td>
<td>2.5</td>
<td>1.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Alternatives</td>
<td>18.0</td>
<td>21.6</td>
<td>17.2</td>
<td>18.5</td>
</tr>
<tr>
<td>Fixed interest and cash</td>
<td>57.4</td>
<td>53.8</td>
<td>63.7</td>
<td>58.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TECHNICAL RESERVES</th>
<th>%</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed interest and cash</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL SHAREHOLDERS’ FUNDS AND TECHNICAL</th>
<th>%</th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian equities</td>
<td>7.0</td>
<td>6.8</td>
<td>6.5</td>
<td>4.7</td>
</tr>
<tr>
<td>International equities</td>
<td>0.5</td>
<td>0.8</td>
<td>0.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Alternatives</td>
<td>5.5</td>
<td>6.7</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td>Fixed interest and cash</td>
<td>87.0</td>
<td>85.7</td>
<td>86.6</td>
<td>86.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
11. INVESTMENTS

CREDIT QUALITY OF ASSETS

The credit quality of the Group’s investment book remains strong, with 86% of the fixed interest and cash portfolio rated in the ‘AA’ category or higher. All credit assets are meeting interest and principal repayment obligations.

The ‘AAA’-rated portion of the overall fixed interest and cash portfolio has decreased to 37%, from 53% at 31 December 2013. A substantial portion of this movement is represented by the realisation of investments specifically earmarked for the acquisition of the Wesfarmers insurance underwriting business, which completed on 30 June 2014.

GROUP ASSET ALLOCATION – 30 JUNE 2014

<table>
<thead>
<tr>
<th>Credit Quality</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Interest and Cash</td>
<td>86%</td>
</tr>
<tr>
<td>Growth</td>
<td>14%</td>
</tr>
</tbody>
</table>

CREDIT QUALITY – 30 JUNE 2014

<table>
<thead>
<tr>
<th>Rating</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘AAA’</td>
<td>37%</td>
</tr>
<tr>
<td>‘AA’</td>
<td>49%</td>
</tr>
<tr>
<td>‘A’</td>
<td>7%</td>
</tr>
<tr>
<td>&lt; ‘A’</td>
<td>7%</td>
</tr>
</tbody>
</table>

SENSITIVITY ANALYSIS

As at 30 June 2014, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below and includes indirect sensitivities relating to alternative assets.

<table>
<thead>
<tr>
<th>INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 30 JUNE 2014</th>
<th>Change in Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+1% A$m</td>
</tr>
<tr>
<td>Equity market values:</td>
<td></td>
</tr>
<tr>
<td>Australian equities</td>
<td>7</td>
</tr>
<tr>
<td>International equities</td>
<td>7</td>
</tr>
<tr>
<td>Total equity market sensitivity</td>
<td>14</td>
</tr>
<tr>
<td>Interest rates:</td>
<td></td>
</tr>
<tr>
<td>Technical reserves</td>
<td>(293)</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>(35)</td>
</tr>
<tr>
<td>Total interest rate sensitivity</td>
<td>(328)</td>
</tr>
</tbody>
</table>

INVESTMENT PERFORMANCE

Strong investment returns have been achieved on both the technical reserves and shareholders’ funds portfolios.

<table>
<thead>
<tr>
<th>INVESTMENT INCOME</th>
<th>1H13 A$m</th>
<th>2H13 A$m</th>
<th>1H14 A$m</th>
<th>2H14 A$m</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical reserves</td>
<td>201</td>
<td>69</td>
<td>87</td>
<td>352</td>
<td>270</td>
<td>439</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>201</td>
<td>146</td>
<td>233</td>
<td>163</td>
<td>347</td>
<td>396</td>
</tr>
<tr>
<td>Total investment income</td>
<td>402</td>
<td>215</td>
<td>320</td>
<td>515</td>
<td>617</td>
<td>835</td>
</tr>
</tbody>
</table>

Investment income on technical reserves for FY14, of $439m, included:

- A positive impact of $100m from the narrowing of credit spreads. The equivalent movement in FY13 was a positive effect of $110m;
11. INVESTMENTS

- An adverse foreign exchange impact of $48m, primarily flowing from the hedge associated with reinsurance recoveries in respect of the New Zealand earthquakes in FY11, which are held by the offshore captive in Singapore. A similar effect was recorded in FY13; and
- Unrealised capital gains at year end of $56m, compared with an equivalent unrealised capital loss of around $180m in FY13, excluding foreign exchange effects. The 3-year government bond yield fell to 2.62%, from 2.75% at 30 June 2013.

It is reasonable to expect a moderation in the investment return on technical reserves in the period beyond June 2014, given the lower level of credit spreads.

The portfolio continues to be aligned with the average weighted duration of the Group’s claims liability, at three to four years.

Investment returns on shareholders’ funds were strong, benefiting from a sharp rally in the Australian equity market, particularly in the first half of FY14, and from the robust performance of alternative investments. The broader Australian index (S&P ASX200 Accumulation) returned 17.4% over the year to 30 June 2014.
12. BALANCE SHEET & CAPITAL

**EXECUTIVE SUMMARY**

- Strong balance sheet and regulatory capital position maintained
- PCA multiple of 1.72 at 30 June 2014 vs. benchmark of 1.4-1.6
- CET1 multiple of 1.14 at 30 June 2014 vs. benchmark of 0.9-1.1
- Capital mix in middle of targeted range – debt and hybrids 35.0% of total tangible capitalisation
- S&P ‘AA-’ rating for core operating subsidiaries reaffirmed in July 2014

**BALANCE SHEET**

<table>
<thead>
<tr>
<th></th>
<th>1H13 A$m</th>
<th>FY13 A$m</th>
<th>1H14 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>458</td>
<td>394</td>
<td>360</td>
<td>447</td>
</tr>
<tr>
<td>Investments</td>
<td>13,069</td>
<td>13,616</td>
<td>14,803</td>
<td>15,377</td>
</tr>
<tr>
<td>Investments in joint ventures and associates</td>
<td>536</td>
<td>577</td>
<td>585</td>
<td>572</td>
</tr>
<tr>
<td>Premium receivable</td>
<td>2,366</td>
<td>2,712</td>
<td>2,673</td>
<td>3,316</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>614</td>
<td>526</td>
<td>638</td>
<td>628</td>
</tr>
<tr>
<td>Reinsurance and other recoveries on outstanding claims</td>
<td>3,044</td>
<td>2,858</td>
<td>3,041</td>
<td>3,231</td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>738</td>
<td>795</td>
<td>797</td>
<td>1,028</td>
</tr>
<tr>
<td>Deferred reinbursement expense</td>
<td>809</td>
<td>542</td>
<td>869</td>
<td>706</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>207</td>
<td>245</td>
<td>288</td>
<td>700</td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,631</td>
<td>1,666</td>
<td>1,704</td>
<td>2,840</td>
</tr>
<tr>
<td>Assets discontinued operation</td>
<td>1,138</td>
<td>96</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Other assets</td>
<td>739</td>
<td>832</td>
<td>751</td>
<td>803</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>25,349</td>
<td>24,859</td>
<td>26,518</td>
<td>29,657</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding claims</td>
<td>10,528</td>
<td>10,474</td>
<td>10,642</td>
<td>11,937</td>
</tr>
<tr>
<td>Unearned premium</td>
<td>4,817</td>
<td>5,145</td>
<td>5,122</td>
<td>6,256</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>1,572</td>
<td>1,620</td>
<td>1,696</td>
<td>1,752</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1,099</td>
<td>1,263</td>
<td>1,206</td>
<td>1,523</td>
</tr>
<tr>
<td>Liabilities discontinued operation</td>
<td>1,103</td>
<td>106</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,462</td>
<td>1,263</td>
<td>1,540</td>
<td>1,375</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>20,581</td>
<td>19,871</td>
<td>20,238</td>
<td>22,863</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>4,768</td>
<td>4,988</td>
<td>6,280</td>
<td>6,794</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity attributable to holders of ordinary shares</td>
<td>4,562</td>
<td>4,786</td>
<td>6,078</td>
<td>6,568</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>206</td>
<td>202</td>
<td>202</td>
<td>226</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>4,768</td>
<td>4,988</td>
<td>6,280</td>
<td>6,794</td>
</tr>
</tbody>
</table>

The total assets of the Group as at 30 June 2014 were $29,657m compared to $26,518m at 31 December 2013. This increase largely reflects the addition of the Wesfarmers insurance underwriting business, effective 30 June 2014. A secondary factor was the strong operational cash flow which has served to increase cash and investments in the period.
12. BALANCE SHEET & CAPITAL

The other assets category represents the aggregate of deferred levies and charges, deferred tax assets, property and equipment and other assets.

The total liabilities of the Group as at 30 June 2014 were $22,863m, compared to $20,238m at 31 December 2013. The increase primarily reflects the acquisition of the Wesfarmers business, and its consolidation from 30 June 2014.

The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unitholders’ funds held by external holders of units in IAG-controlled trusts, reinsurance premium payable and other provisions and liabilities.

IAG shareholders’ equity (excluding non-controlling interests) increased, from $6,280m at 31 December 2013 to $6,794m at 30 June 2014, reflecting the combined effect of:

- Completion of the Share Purchase Plan which raised $236m from retail shareholders;
- A strong operating earnings performance in the second half of the financial year; and
- Payment of the 13 cents per share dividend declared in respect of 1H14 ($304m).

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 30 June 2014 stood at $3,540m, up from $1,992m at 31 December 2013, comprising $2,840m of goodwill (1H14: $1,704m) and $700m of other intangible assets (1H14: $288m).

The consolidation of the Wesfarmers insurance underwriting business on 30 June 2014 led to the generation of $1,134m of goodwill and $378m of other identifiable intangible assets.

OUTSTANDING CLAIMS

Net Outstanding Claims Liability

The Group’s net outstanding claims liability at 30 June 2014 stood at $8,706m, compared to $7,616m at 30 June 2013. The consolidation of the Wesfarmers insurance underwriting business on 30 June 2014 accounted for most of this movement.

As at 30 June 2014, the sensitivity of the Group’s net outstanding claims liability to a 1% movement in the discount rate, as applied to expected future payments, was:

- +1%, a reduction in net outstanding claims liability of $251m; and
- -1%, an increase in net outstanding claims liability of $281m.

Claims Development

Note 10 of the Group’s Annual Report includes a claims development table that shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claims costs for the ten most recent accident years as estimated at each reporting date. An extract from that table is set out on the following page.

The table shows a history of the claim reserves being conservatively stated and demonstrates favourable development across the period, as the ultimate claim costs were settled or became more certain.
The table highlights that, as at 30 June 2014, more than 90% of the total estimated liability for the 2005 to 2010 accident years had been paid, and for the 2011 to 2013 accident years around 70-80% had been paid.

Risk Margins

The claims development table also identifies the total risk margin held to allow for the uncertainty surrounding the outstanding claims liability estimation process. The risk margin is set to take into account the correlations assessed between outstanding claim liabilities arising from the various forms of business underwritten by the different entities within the consolidated Group. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.

The Group’s policy is for the risk margin to be set so as to provide an overall probability of adequacy for the outstanding claims liability of 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment. The Group’s probability of adequacy of the claims liability for FY14 is 90%, which is unchanged from the prior year.

Insurers are in the business of accepting and managing risks. A key feature of insurance businesses is diversification between risks and without it the insurance business would not exist. The Group uses diversification to manage the portfolio of risks that arise in the business.

The risk margin applied to the net central estimate of the outstanding claims liability was 22.5% at 30 June 2014 (FY13: 21.1%).
12. BALANCE SHEET & CAPITAL

CAPITAL

Capital Adequacy

The Group remains strongly capitalised, with regulatory capital of nearly $5bn at 30 June 2014.

At 30 June 2014, the Group’s Prescribed Capital Amount (PCA) multiple was 1.72, compared to a targeted benchmark of 1.4 to 1.6 times. This has decreased from the 2.31 multiple reported at 31 December 2013, but is higher than the pro forma multiple of 1.68 presented at that date which accommodated all facets of the then-proposed acquisition of the Wesfarmers insurance underwriting business, including its anticipated funding.

The increase against the pro forma 31 December 2013 position largely comprises the net effect of:

- The Group’s strong operating earnings performance in 2H14;
- Payment of the 1H14 dividend of 13 cents per share; and
- Further required amortisation of debt and hybrid instruments.

At 30 June 2014 the Group’s Common Equity Tier 1 (CET1) ratio was 1.14 times the PCA, compared to a targeted range of 0.9 to 1.1 times. The regulatory requirement is 0.6 times.

After allowance for the 2H14 dividend of 26 cents per share, which will be paid in October 2014, the PCA and CET1 multiples at 30 June 2014 would reduce to within the Group’s benchmark ranges.

<table>
<thead>
<tr>
<th>GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT</th>
<th>FY13 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Equity Tier 1 Capital (CET1)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>5,353</td>
<td>6,775</td>
</tr>
<tr>
<td>Reserves</td>
<td>63</td>
<td>38</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(568)</td>
<td>(151)</td>
</tr>
<tr>
<td>Technical provisions in excess of liabilities</td>
<td>677</td>
<td>914</td>
</tr>
<tr>
<td>Minority interests</td>
<td>202</td>
<td>226</td>
</tr>
<tr>
<td>Less: Deductions</td>
<td>(2,929)</td>
<td>(4,514)</td>
</tr>
<tr>
<td><strong>Total Common Equity Tier 1 Capital</strong></td>
<td>2,798</td>
<td>3,288</td>
</tr>
<tr>
<td><strong>Additional Tier 1 Capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hybrid equities</td>
<td>872</td>
<td>817</td>
</tr>
<tr>
<td><strong>Total Tier 1 Capital</strong></td>
<td>3,670</td>
<td>4,105</td>
</tr>
<tr>
<td><strong>Tier 2 Capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinated term notes</td>
<td>592</td>
<td>876</td>
</tr>
<tr>
<td><strong>Total Tier 2 Capital</strong></td>
<td>592</td>
<td>876</td>
</tr>
<tr>
<td><strong>Total Regulatory Capital</strong></td>
<td>4,262</td>
<td>4,981</td>
</tr>
</tbody>
</table>

**Prescribed Capital Amount (PCA)**

- Insurance risk charge: 1,434, 1,624
- Insurance concentration risk charge: 150, 225
- Diversified asset risk charge: 1,338, 1,441
- Aggregation benefit: (653), (729)
- Operating risk charge: 289, 335

**Total Prescribed Capital Amount**: 2,558, 2,896

**PCA multiple**: 1.67, 1.72

**CET1 multiple**: 1.09, 1.14

The Group retains a strong capital position.
Interest Bearing Liabilities

The Group’s interest bearing liabilities stood at $1,752m at 30 June 2014, compared to $1,696m at 31 December 2013. There have been two largely compensatory movements since that date:

- A $350m Tier 2 subordinated issue completed in March 2014, with the funds used to partially fund the acquisition of the Wesfarmers insurance underwriting business; and
- The repurchase of the £157m subordinated exchangeable term note instrument in June 2014.

<table>
<thead>
<tr>
<th>INTEREST BEARING LIABILITIES</th>
<th>1H13 A$m</th>
<th>FY13 A$m</th>
<th>1H14 A$m</th>
<th>FY14 A$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated debt</td>
<td>658</td>
<td>704</td>
<td>777</td>
<td>834</td>
</tr>
<tr>
<td>Convertible Preference Shares</td>
<td>377</td>
<td>377</td>
<td>377</td>
<td>377</td>
</tr>
<tr>
<td>Reset Exchangeable Securities</td>
<td>550</td>
<td>550</td>
<td>550</td>
<td>550</td>
</tr>
<tr>
<td>Capitalised costs/other</td>
<td>(13)</td>
<td>(11)</td>
<td>(8)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Total interest bearing liabilities</strong></td>
<td><strong>1,572</strong></td>
<td><strong>1,620</strong></td>
<td><strong>1,696</strong></td>
<td><strong>1,752</strong></td>
</tr>
</tbody>
</table>

**GROUP DEBT & HYBRID CAPITAL**

<table>
<thead>
<tr>
<th>Principal amount A$m</th>
<th>Yield (net of swaps) %</th>
<th>Rate</th>
<th>First Call or Exchange date</th>
<th>S&amp;P rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated term notes</td>
<td>A$350</td>
<td>350</td>
<td>5.51%</td>
<td>Variable</td>
</tr>
<tr>
<td>Subordinated fixed rate notes</td>
<td>£100</td>
<td>182</td>
<td>5.63%</td>
<td>Fixed</td>
</tr>
<tr>
<td>Subordinated fixed rate bonds</td>
<td>NZ$325</td>
<td>302</td>
<td>7.50%</td>
<td>Fixed</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible Preference Shares (IAGPA)</td>
<td>A$377</td>
<td>377</td>
<td>4.70%</td>
<td>Variable</td>
</tr>
<tr>
<td>Reset Exchangeable Securities (IANG)</td>
<td>A$550</td>
<td>550</td>
<td>4.68%</td>
<td>Variable</td>
</tr>
</tbody>
</table>

1 Stated yield based on margin of BBSW + 2.80%.
2 Dividend yield on the Convertible Preference Shares is a cash yield, excluding attached franking credits. The principal excludes capitalised transaction costs.
3 The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

**GROUP DEBT MATURITY PROFILE**

![Graph showing maturity profile of debt](image-url)
Capital Mix

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

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

At 30 June 2014, the Group’s capital mix was at the mid-point of the targeted range, with debt and hybrids representing 35.0% of total tangible capitalisation.

Credit Ratings

On 2 July 2014, Standard & Poor’s (S&P) affirmed its ‘very strong’ ‘AA-’ insurer financial strength and issuer credit ratings in respect of IAG’s core operating subsidiaries, as well as its ‘A’ issuer credit rating of the non-operating holding company, Insurance Australia Group Limited. The outlook on all entities is stable.
1. IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.

2. IAG holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.

3. IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.

4. IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

5. IAG owns 20% of Bohai Property Insurance Company Ltd, based in China.

6. IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.
APPENDIX B  IAG BUSINESS SNAPSHOT
(FROM 1 JULY 2014)

PERSONAL INSURANCE (AUSTRALIA)

Personal lines insurance products are sold directly through branches, call centres, the internet and representatives, under:

- The NRMA Insurance brand in NSW, ACT, Queensland and Tasmania;
- The SGIO brand in Western Australia;
- The SGIC brand in South Australia; and
- The RACV brand in Victoria, via a distribution agreement with RACV.

Personal Insurance also includes those products sold through affinity and financial institution partnerships, as well as travel insurance, life insurance and income protection products which are underwritten by third parties.

COMMERCIAL INSURANCE (AUSTRALIA)

Commercial insurance products are sold through a network of around 2,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. Commercial Insurance is a leading provider of business and farm insurance, and also provides workers’ compensation services in every state and territory, except South Australia and Queensland.

Commercial Insurance operates across Australia under the following brands:

- CGU Insurance;
- Swann Insurance;
- Lumley Insurance; and
- WFI.

NEW ZEALAND

The New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers primarily under the State and AMI brands and indirectly, through insurance brokers and agents, under the NZI and Lumley Insurance brands. Personal lines and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.

ASIA

The Group has interests in five insurance businesses in Asia:

- A 98.6% beneficial interest in Safety Insurance in Thailand;
- 49% of AmGeneral Holdings Berhad (AmGeneral), a general insurance joint venture in Malaysia;
- 26% of SBI General Insurance Company, a general insurance joint venture in India;
- 20% of Bohai Property Insurance Company Ltd, a general insurer based in China; and
- 63.17% of AAA Assurance Corporation, a general insurer based in Vietnam.

Short tail insurance

- Motor vehicle
- Home and contents
- Lifestyle and leisure insurance, such as boat, veteran and classic car and caravan

Long tail insurance

- Compulsory Third Party (motor injury liability)

Short tail insurance

- Business packages
- Farm and crop
- Commercial property
- Construction and engineering
- Niche insurance, such as consumer credit
- Commercial motor and fleet motor
- Marine

Long tail insurance

- Workers’ compensation
- Professional indemnity
- Directors’ and officers’
- Public and products liability

Short tail insurance

- Motor vehicle
- Home and contents
- Commercial property, motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat, caravan and travel
- Rural and horticultural
- Marine

Long tail insurance

- Personal liability
- Income protection
- Commercial liability
APPENDIX C  KEY RELATIONSHIPS

THE NATIONAL ROADS AND MOTORISTS’ ASSOCIATION

The National Roads and Motorists’ Association was established in 1920 and is a mutual organisation with over 2.4 million members in NSW and the ACT. Until August 2000 it owned the NRMA Insurance business which now forms the majority of IAG’s Personal Insurance division. Under the terms of the demutualisation agreements, from that date the National Roads and Motorists’ Association and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- The National Roads and Motorists’ Association – roadside assistance and other motoring services (except smash repairs), motoring products, transportation and travel.
- IAG (NRMA Insurance) – insurance and financial services and any other good or service not specifically reserved for the National Roads and Motorists’ Association.

In addition, both parties cannot, under any brand, carry out activities engaged in by the other at the point of demutualisation.

IAG continues to provide certain services to the National Roads and Motorists’ Association, notably those in respect of the NRMA branch network which is operated and managed by IAG. The two organisations retain a strong and closely aligned relationship.

The National Roads and Motorists’ Association and its members received IAG shares as consideration for the NRMA Insurance business at demutualisation.

RACV

RACV is a mutual organisation founded in 1903. It provides a diverse range of services to more than two million members. These services include: insurance; finance; roadside assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.

IAG’s short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV established in 1999. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV.

If one of IMA’s shareholders were to experience a change of control, the other has a pre-emptive right to acquire that shareholder’s interest in IMA at fair market value. The duration of the arrangements governing RACV’s distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA’s reinsurance of NRMA Insurance-branded products in NSW and the ACT.
AMBNK GROUP

AmBank Group is one of Malaysia’s premier financial solutions groups with nearly 40 years of legacy in understanding Malaysian customers. It provides a wide range of both conventional and Islamic financial products and services, including retail and wholesale banking, as well as the underwriting of general insurance, life assurance and family takaful.

IAG has a general insurance joint venture in Malaysia with AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which was established in 2006. AmBank Group owns 51% of AmGeneral and IAG 49%. AmGeneral is Malaysia’s largest motor insurer following the purchase of Kurnia Insurans (Malaysia) Berhad in September 2012.

STATE BANK OF INDIA

State Bank of India (SBI) is India’s largest and oldest bank, with origins that can be traced back to 1806. It offers a broad range of banking and financial services, and has a footprint which, including associate banks, spans over 190 million customers and in excess of 20,000 branches across all states of India.

SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. SBI General commenced operations in 2010 and is building a portfolio in the corporate, retail and SME markets across India, with the majority in the retail segment through SBI’s bancassurance channel. SBI General has an exclusive corporate agency agreement with SBI and all of its five associate banks for general insurance business.

SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit.

TEDA

TEDA (Tianjin Economic-Technological Development Area) companies, led by TEDA International Holding Group Co., Ltd (TEDA International), have majority ownership of Bohai Property Insurance Company Ltd (Bohai Insurance). TEDA International is a Chinese state-controlled investment company which was established in December 2007. Its main scope of business covers commercial banking, securities, property insurance, life insurance, funds management and trust company activities. At the end of 2013, TEDA International owned two holding companies and seven joint venture companies, with total assets in excess of RMB 27.5bn.

Bohai Insurance was founded in October 2005 by TEDA Investment Holding and is headquartered in Tianjin in northern China. Bohai has 25 branches, over 240 sub-branches and a network of agents, with around 3,000 employees across China. It holds a full licence in non-life insurance, with motor premiums representing more than 80% of total revenue.

In April 2012, IAG entered into a strategic partnership with Bohai Insurance through a 20% ownership position. IAG has an in-principle agreement to increase its ownership to 24.9%.
APPENDIX D  GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT — FY14

- Motor
- Home
- Short Tail Commercial
- CTP/Motor Liability
- Liability
- Other Short Tail
- Workers' Compensation

IAG GROUP GWP BY BUSINESS — FY14

- Australia Direct
- Australia Intermediated
- New Zealand
- Asia

IAG GROUP GWP BY TAIL — FY14

- Short Tail
- Long Tail

IAG GROUP GWP BY CHANNEL — FY14

- Direct
- Intermediated
- Affinity
APPENDIX E  KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 2013 is set out below. It does not include announcements of changes in directors’ interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements if further information is required. These are available at http://www.iag.com.au.

2-JAN-14  IAG FINALISES 2014 CATASTROPHE REINSURANCE COVER

IAG announced details of its Group catastrophe reinsurance programme for the calendar year commencing 1 January 2014. The programme provides protection of up to $5.6bn, compared to $5.0bn in 2013.

2-JAN-14  SHARE PURCHASE PLAN

IAG issued a booklet providing details of the Share Purchase Plan (SPP) that was announced on 16 December 2013, under which it seeks to raise up to $200m. The SPP enables shareholders to purchase up to $15,000 worth of IAG ordinary shares at an issue price which is the lesser of (1) the price institutional investors paid in the institutional placement, of $5.47 per share, or (2) a 2% discount to the five day volume weighted average price of IAG ordinary shares traded on the ASX up to and including the closing date of the SPP (24 January 2014).

23-JAN-14  IAG UPDATES FY14 GUIDANCE

IAG announced an update to its guidance for the financial year ending 30 June 2014 following a review of expected performance in the first half of the year. The Group revised its FY14 reported insurance margin guidance to 14.5-16.5% and its GWP growth guidance to 3-5%. The Group further advised it expected to report GWP growth of approximately 4% in 1H14 and an insurance margin of around 17.5% following higher than originally expected prior period reserve releases. A stronger 1H14 underlying margin of around 13.5% was also indicated.

30-JAN-14  IAG SHARE PURCHASE PLAN RAISES APPROXIMATELY $236M

IAG announced it had successfully completed its Share Purchase Plan, raising approximately $236m after accepting all applications from eligible shareholders. This comprised approximately 43m new shares issued at $5.47 per share.

21-FEB-14  IAG REPORTS STRONG 1H14 PERFORMANCE

IAG announced a strong operating performance for the half-year ended 31 December 2013, recording an improved underlying margin of 13.7%. An insurance profit of $758m equated to a reported insurance margin of 17.5%, which was assisted by higher than originally expected prior period reserve releases equivalent to 4.3% of NEP, and was achieved on the back of a 4.2% increase in GWP to $4,786m. A fully franked interim dividend of 13 cents per share was determined.

10-MAR-14  IAG ANNOUNCES PROPOSED SUBORDINATED DEBT ISSUE

IAG announced its wholly-owned subsidiary, Insurance Australia Limited (IAL), was seeking to raise a minimum of $200m of subordinated debt. Expected to qualify as Tier 2 Capital, the issue proceeds are intended to partially fund the agreed acquisition of Wesfarmers’ insurance underwriting business in Australia and New Zealand.

13-MAR-14  IAG PRICES INSTITUTIONAL SUBORDINATED DEBT ISSUE

IAG advised that IAL had successfully priced $350m of securities under its wholesale subordinated debt offering, with the issue scheduled for 19 March 2014.
<table>
<thead>
<tr>
<th>Date</th>
<th>Key ASX Releases</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>24-MAR-14</td>
<td><strong>DIVIDEND REINVESTMENT PLAN PRICING</strong></td>
<td>IAG advised that ordinary shares to be allocated under the Company’s Dividend Reinvestment Plan (DRP) would be priced at $5.4195 per share for the dividend payable on 2 April 2014.</td>
</tr>
<tr>
<td>26-MAR-14</td>
<td><strong>ACCC APPROVES IAG’S ACQUISITION OF WESFARMERS’ AUSTRALIAN INSURANCE UNDERWRITING BUSINESS</strong></td>
<td>IAG announced it had received confirmation from the Australian Competition and Consumer Commission (ACCC) that it had no objection to IAG’s acquisition of Wesfarmers’ Australian insurance underwriting business.</td>
</tr>
<tr>
<td>15-APR-14</td>
<td><strong>AUSTRALIA DIRECT TO MAINTAIN STRONG MARKET POSITION AND PROFITABILITY</strong></td>
<td>IAG provided an update on its Australia Direct business, outlining the division’s strategy to maintain its strong market position and underlying profitability in the Australian direct personal lines market.</td>
</tr>
<tr>
<td>7-MAY-14</td>
<td><strong>NZCC CLEARS IAG’S ACQUISITION OF LUMLEY INSURANCE</strong></td>
<td>IAG advised that it had received clearance from the New Zealand Commerce Commission (NZCC) for its acquisition of Wesfarmers’ Lumley Insurance business in New Zealand.</td>
</tr>
<tr>
<td>22-MAY-14</td>
<td><strong>IAG TO IMPLEMENT NEW AUSTRALIAN OPERATING MODEL</strong></td>
<td>IAG announced that, from 1 July 2014, it would implement a new operating model for its Australian operations to create a more customer-focused and efficient organisation. The new model comprises two customer-facing divisions – Personal Insurance and Commercial Insurance – supported by a new Enterprise Operations division.</td>
</tr>
<tr>
<td>23-MAY-14</td>
<td><strong>IAG ANNOUNCES REPURCHASE OF STERLING SUBORDINATED NOTE</strong></td>
<td>IAG advised that, as part of its ongoing capital management programme, it would repurchase and cancel its £157m subordinated exchangeable loan note instrument.</td>
</tr>
<tr>
<td>6-JUN-14</td>
<td><strong>RESERVE BANK OF NEW ZEALAND APPROVES ACQUISITION OF LUMLEY GENERAL INSURANCE (NZ)</strong></td>
<td>IAG announced that it had received approval from the Reserve Bank of New Zealand for the purchase of Lumley General Insurance (NZ) Limited, completing all New Zealand regulatory approvals required for the acquisition of Wesfarmers’ insurance underwriting business.</td>
</tr>
<tr>
<td>16-JUN-14</td>
<td><strong>REPURCHASE OF STERLING SUBORDINATED NOTE</strong></td>
<td>IAG confirmed that the repurchase and cancellation of its £157 million subordinated exchangeable loan note was completed on 13 June 2014.</td>
</tr>
<tr>
<td>20-JUN-14</td>
<td><strong>IAG RECEIVES FINAL REGULATORY APPROVALS FOR ACQUISITION OF WESFARMERS’ INSURANCE UNDERWRITING BUSINESS</strong></td>
<td>IAG advised that it had received the required regulatory approvals from the Commonwealth Acting Assistant Treasurer for its acquisition of the Wesfarmers insurance underwriting business, concluding the regulatory approval process.</td>
</tr>
</tbody>
</table>
APPENDIX E  KEY ASX RELEASES

30-JUN-14  ACQUISITION OF WESFARMERS’ INSURANCE UNDERWRITING BUSINESS

IAG advised that its acquisition of Wesfarmers’ insurance underwriting business in Australia and New Zealand had completed on 30 June 2014.

24-JUL-14  IAG EXPECTS TO REPORT FY14 INSURANCE MARGIN OF 18.0-18.3%

IAG advised that it expected to report an insurance margin of between 18.0% and 18.3% for FY14, and GWP growth of approximately 3%. Expected financial impacts from the new operating model in Australia were also advised, of one-off pre-tax costs of $100m and an annualised benefit of $90m pre-tax, expected to be realised over a two-year timeframe.
APPENDIX F  GLOSSARY

The following is a glossary of the terms used in this report, including those commonly used in the insurance industry.

**AFFINITY**
A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.

**APRA**
Australian Prudential Regulation Authority.

**ASX**
Australian Securities Exchange Limited.

**CASH EARNINGS**
IAG defines cash earnings as net profit after tax attributable to IAG shareholders, plus amortisation and impairment of acquired identifiable intangibles and excluding any unusual items. This definition is used for the purposes of the Group's dividend policy. It is non-IFRS financial information that has not been audited or reviewed.

**CASH ROE**
IAG defines cash ROE as reported ROE adjusted for amortisation and impairment of acquired identifiable intangibles and unusual items.

**COMBINED RATIO**
Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.

**COMMON EQUITY TIER 1 CAPITAL (CET1)**
The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date.

**CONVERTIBLE PREFERENCE SHARES (CPS)**
Convertible Preference Shares were issued by IAG in May 2012 and are quoted as IAGPC on ASX.

**CREDIT SPREAD**
The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.

**CTP**
Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.

**DEFERRED ACQUISITION COSTS (DAC)**
Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.

**DISCOUNT RATE**
In accordance with accounting standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.

**DIVISIONAL**
Divisional is the same as segment in the audited financial statements.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRP</td>
<td>Dividend Reinvestment Plan. This plan permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.</td>
</tr>
<tr>
<td>EXPENSE RATIO</td>
<td>The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with ratios calculated on the same basis.</td>
</tr>
<tr>
<td>GROSS EARNED PREMIUM</td>
<td>Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.</td>
</tr>
<tr>
<td>GROSS WRITTEN PREMIUM (GWP)</td>
<td>The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.</td>
</tr>
<tr>
<td>GROUP</td>
<td>Insurance Australia Group Limited (IAG) and its subsidiaries.</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards.</td>
</tr>
<tr>
<td>IMMUNISED RATIO</td>
<td>An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.</td>
</tr>
<tr>
<td>INSURANCE MARGIN</td>
<td>The ratio of insurance profit to net earned premium.</td>
</tr>
<tr>
<td>INSURANCE PROFIT</td>
<td>Underwriting result plus investment income on assets backing technical reserves.</td>
</tr>
<tr>
<td>LAGIC</td>
<td>APRA’s Life and General Insurance Capital regulatory regime, which became operative on 1 January 2013.</td>
</tr>
<tr>
<td>LEVIES</td>
<td>Levies are taxes on insurers to assist government funding for fire and emergency services. They are an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying levies, usually in arrears. In Australia, these comprise the Emergency Services Levy (ESL) in NSW and the Fire Services Levy (FSL) in Tasmania (commercial property lines only). Levies are included in GWP and expenses for reporting purposes. The FSL in Victoria was phased out by 30 June 2013.</td>
</tr>
<tr>
<td>LIABILITY ADEQUACY TEST (LAT)</td>
<td>Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the write down of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability.</td>
</tr>
</tbody>
</table>
### GLOSSARY

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>LONG TAIL</strong></td>
<td>Classes of insurance (such as CTP and workers’ compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.</td>
</tr>
<tr>
<td><strong>LOSS RATIO</strong></td>
<td>The ratio of net claims expense to net earned premium.</td>
</tr>
<tr>
<td><strong>MER</strong></td>
<td>Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.</td>
</tr>
<tr>
<td><strong>NATURAL PERILS</strong></td>
<td>Natural peril events include, but are not limited to, storm, wind, flood, earthquake and bushfire.</td>
</tr>
<tr>
<td><strong>NATURAL PERILS ALLOWANCE</strong></td>
<td>The natural perils expense forecast to be incurred within a specified period of time based upon previous experience and management judgement, which is reflected in the pricing of related insurance products for the same period.</td>
</tr>
<tr>
<td><strong>NATURAL PERILS EXPENSE</strong></td>
<td>Losses arising from natural perils after deducting any applicable reinsurance recoveries.</td>
</tr>
<tr>
<td><strong>NET CLAIMS EXPENSE</strong></td>
<td>Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.</td>
</tr>
<tr>
<td><strong>NET EARNED PREMIUM (NEP)</strong></td>
<td>Net earned premium is gross earned premium less reinsurance expense.</td>
</tr>
<tr>
<td><strong>PCA / PCR</strong></td>
<td>Prescribed Capital Amount or Prescribed Capital Requirement, as defined by APRA under its LAGIC regime.</td>
</tr>
<tr>
<td><strong>PROBABILITY OF ADEQUACY (POA)</strong></td>
<td>The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA’s prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency.</td>
</tr>
<tr>
<td><strong>RECOVERIES</strong></td>
<td>The amount of claims recovered from reinsurers, third parties or salvage.</td>
</tr>
<tr>
<td><strong>RESET EXCHANGEABLE SECURITIES (RES)</strong></td>
<td>Reset Exchangeable Securities (RES) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited. The issuer is a wholly-owned subsidiary of IAG.</td>
</tr>
<tr>
<td><strong>RISK FREE RATE</strong></td>
<td>The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.</td>
</tr>
<tr>
<td><strong>RISKS IN FORCE</strong></td>
<td>Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.</td>
</tr>
</tbody>
</table>
SHAREHOLDERS’ FUNDS

The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders’ equity not used in day-to-day operations.

SHORT TAIL

Classes of insurance (such as motor, home and small-to-medium enterprise (SME) commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.

TECHNICAL RESERVES

The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.

UNDERLYING MARGIN

IAG defines underlying margin as the reported insurance margin adjusted for:
- Net natural peril claim costs less related allowance;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management’s view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability.

UNDERWRITING

The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.

UNDERWRITING EXPENSES

Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.

UNDERWRITING PROFIT / (LOSS)

Net earned premium less net claims expense, commission expenses and underwriting expenses.

UNEARNED PREMIUM

Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.

WACC

Weighted average cost of capital.
DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:
- ASX code for Ordinary Shares: IAG (2,341,618,048 on issue at 30 June 2014)
- ASX code for Reset Exchangeable Securities: IANG (5,500,000 on issue at 30 June 2014)
- ASX code for Convertible Preference Shares: IAGPC (3,773,728 on issue at 30 June 2014)

London Stock Exchange:
- LSE code for Fixed Rate Subordinated Notes due 2026: 70QG (£100.0m outstanding at 30 June 2014)

NZX Limited:
- NZDX code for Unsecured Subordinated Bonds due 2036: IAGFA (NZ$325m outstanding at 30 June 2014)

KEY DATES

Final dividend – ordinary shares
- Ex-dividend date 8 September 2014
- Record date 10 September 2014
- DRP record date 11 September 2014
- Payment date 8 October 2014
- Payment date for IANG and IAGFA quarterly distributions 15 September 2014
- Annual General Meeting 30 October 2014
- Payment date for IAGPC dividend 3 November 2014
- Payment date for IANG and IAGFA quarterly distributions 15 December 2014
- Announcement of half year results to 31 December 2014 20 February 2015*

Interim dividend – ordinary shares
- Ex-dividend date 2 March 2015*
- Record date 4 March 2015*
- DRP record date 5 March 2015*
- Payment date 1 April 2015*
- Payment date for IANG and IAGFA quarterly distributions 16 March 2015
- Payment date for IAGPC dividend 1 May 2015
- Payment date for IANG and IAGFA quarterly distributions 15 June 2015
- Announcement of full year results to 30 June 2015 21 August 2015*

*These dates are indicative dates only and are subject to change. Any change will be announced on ASX.

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