INSURANCE AUSTRALIA GROUP LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014

APPENDIX 4D (ASX Listing rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	31 December 2014 $m	31 December 2013 $m
Revenue from ordinary activities	Up	27.3 %	**7,945**	6,243
Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent	Down	9.8 %	**579**	642
Net profit/(loss) attributable to IAG shareholders	Down	9.8 %	**579**	642

DIVIDENDS - ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Interim dividend	13.0 cents	13.0 cents

INTERIM DIVIDEND DATE	
Record date	4 March 2015
Payment date	1 April 2015

The Company's Dividend Reinvestment Plan (DRP) will operate by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 5 March 2015. The DRP Issue Price will be based on a volume weighted average share price for a 10 day trading window from 9 March 2015 to 20 March 2015 inclusive.

Eligible shareholders may now lodge their DRP elections electronically by logging on to IAG's share registry, Computershare, on their website at www.computershare.com.au.

Additional Appendix 4D disclosure requirements can be found in the half year financial report of Insurance Australia Group Limited for the period ended 31 December 2014 (Attachment A). This report is also to be read in conjunction with the annual report of Insurance Australia Group Limited for the year ended 30 June 2014 and any public announcements made by Insurance Australia Group Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The report is based on the consolidated half year financial statements which have been reviewed by KPMG.

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

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DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the half year ended 31 December 2014 and the Auditor's Report thereon.

The following terminology is used throughout the financial report:
- IAG, Parent or Company - Insurance Australia Group Limited; and
- Group or Consolidated - the Consolidated entity consists of Insurance Australia Group Limited and its subsidiaries.

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

Brian Schwartz (Director since 1 January 2005), Yasmin Allen (Director since 10 November 2004), Elizabeth Bryan (appointed 5 December 2014), Peter Bush (Director from 7 December 2010 to 1 January 2015), Alison Deans (Director since 1 February 2013), Hugh Fletcher (Director since 1 September 2007), Raymond Lim (Director since 1 February 2013), Tom Pockett (appointed 1 January 2015), Dr Nora Scheinkestel (Director from 1 July 2013 to 16 September 2014), Philip Twyman (Director since 9 July 2008) and Michael Wilkins (Director since 26 November 2007).

PRINCIPAL ACTIVITIES
The principal continuing activities of the Group are the underwriting of general insurance and related corporate services and investing activities. The Group reports its financial information under the following business division headings:
- Australia Personal Insurance – distributes general insurance products directly to individuals throughout Australia primarily under the NRMA Insurance, SGIO, SGIC, and RACV (in Victoria via a distribution and underwriting relationship with RACV) brands, and indirectly through intermediaries including brokers, financial institutions and affinity groups;
- Australia Commercial Insurance - provides commercial insurance to business customers throughout Australia, predominantly under the CGU, Lumley, WFI and Swann brands;
- New Zealand - comprises the general insurance business underwritten through subsidiaries in New Zealand. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI and Lumley Insurance brands. Personal and commercial products are also distributed by corporate partners, such as large financial institutions, using third party brands;
- Asia - comprises primarily the direct and intermediated insurance business underwritten through subsidiaries in Thailand and Vietnam and the share of the operating result from the investment in associates in Malaysia, India and China. The businesses offer personal and commercial insurance products through local brands; and
- Corporate and Other - comprises other activities, including corporate services, funding costs on the Group's interest bearing liabilities, placement of the Group's reinsurance program, inwards reinsurance from associates, and investment of the shareholders' funds.

OPERATING AND FINANCIAL REVIEW
OPERATING RESULT FOR THE HALF YEAR
During the half year ended 31 December 2014, Insurance Australia Group Limited (IAG) produced a sound operating performance in an increasingly competitive environment. The integration of the former Wesfarmers business and the implementation of a new operating model in Australia are progressing to plan.

The Group's profit after tax for the half year was $642 million (31 December 2013-$676 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $579 million (31 December 2013-$642 million), a decrease of nearly 10%.

Gross written premium (GWP) growth of 17.1% (31 December 2013-4.2%) was dominated by the first-time inclusion of the former Wesfarmers business, where attrition levels have been at the upper end of expectations. Like-for-like GWP growth was relatively flat, influenced by:
- the ongoing relative absence of input cost pressures, resulting in minimal cause for premium rate increases;
- heightened competitive pressures in commercial lines, in both Australia and New Zealand; and
- modest volume growth in personal lines, which was broadly in line with system, in an increasingly competitive environment.

For the current half year, the reported insurance profit was lower than the corresponding prior half year period, largely owing to higher losses from natural perils (net of reinsurance) and reduced prior period reserve releases. The reported insurance margin of 13.4% (31 December 2013-17.5%) incorporates:
- net natural peril claim costs of $421 million (31 December 2013-$335 million), which were $71 million higher than the related allowance, and included $165 million for the Brisbane storm event in November 2014;
- prior period reserve releases of $92 million, equivalent to 1.8% of net earned premium (NEP), down from $187 million (4.3% of NEP) in the six months to 31 December 2013; and
- a similar-sized favourable impact from the narrowing of credit spreads, of $40 million, compared to the corresponding prior half year.

The Group's underlying profitability has remained strong, with an underlying margin of 13.3%, compared to 13.7% in the six month period to 31 December 2013. The slightly lower underlying margin is a function of the addition of the lower margin former Wesfarmers business, as well as softer commercial market conditions.

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

	31 December 2014		31 December 2013	
INSURANCE MARGIN	**$m**	**%**	$m	%
Reported insurance margin*	**693**	**13.4**	758	17.5
Net natural peril claim costs less allowance	**71**	**1.4**	15	0.4
Reserve releases in excess of 1% of NEP	**(40)**	**(0.8)**	(144)	(3.3)
Credit spread movements	**(40)**	**(0.8)**	(39)	(0.9)
Underlying insurance margin	**684**	**13.3**	590	13.7

* Reported insurance margin is the insurance profit/(loss) as a percentage of NEP as disclosed in the Statement of Comprehensive Income.

Investment income on shareholders' funds was a profit of $142 million, a decrease of over 40% on the profit of $242 million in the corresponding prior half year. This was driven by a more modest return from equity markets in the six months to 31 December 2014, with the broader Australian index (S&P ASX200 Accumulation) delivering a positive result of 2.5%.

At the end of the current half year the Group materially strengthened its gross claim reserves in respect of the 2011 financial year Canterbury earthquake events in New Zealand, with the majority of the strengthening relating to the 22 February 2011 event. This follows:
- an increase in forecast repair and rebuild costs;
- the continued notification of new household claims that have exceeded the Earthquake Commission's (EQC) NZ$100,000 residential dwelling limit; and
- a series of adverse court judgements which have affected the insurance industry over the past six months.

Gross claim reserves for the February 2011 event now stand close to the applicable reinsurance limit of NZ$4 billion. The loss estimates for the other major earthquake events are well below their respective reinsurance limits. While the Group believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events there remains a degree of uncertainty as to the ultimate cost.

A. AUSTRALIA PERSONAL INSURANCE (PI)

Personal Insurance, which represents 50% of Group GWP, performed well. The business' reported margin, of 16.0%, included reserve releases above long term expectations and a favourable credit spread impact of nearly 1%. GWP growth of 4.3% was sourced from incoming former Wesfarmers personal lines volumes, whilst modest like-for-like growth was broadly in line with system after allowing for the exit from the Queensland CTP market in the prior financial year.

I. Premiums

Personal Insurance's GWP increased by 4.3% to $2,802 million in the current half year (31 December 2013-$2,686 million). This largely reflects the first-time inclusion of volumes associated with the former Wesfarmers business, including those related to the Coles distribution agreement. Like-for-like GWP growth was modest and primarily driven by volume. The division's overall GWP performance has been characterised by high retention levels, but reduced new business opportunities, in an environment of limited market premium rate changes.

Other features of Personal Insurance's current half year GWP performance were:
- negligible rate increases, reflecting a relative absence of input cost pressures and increasingly competitive market conditions;
- motor volume growth at least in line with system;
- modest home like-for-like growth predominantly derived from volume;
- reduced first home buyers activity contributing to subdued new business volumes in the Business Partners space; and
- lower long tail GWP, primarily attributable to the exit from the Queensland CTP market from 1 January 2014.

II. Insurance profit

Personal Insurance reported an insurance profit for the half year of $391 million, compared to $467 million in same period last financial year. This equates to a lower insurance margin of 16.0% (31 December 2013-19.5%).

The main influence behind the lower reported margin was the reduction in prior period reserve releases, from a particularly high level of 5.4% of NEP in the corresponding prior half year. Credit spread impacts for the current half year period were of a similarly favourable magnitude as the same period last financial year. At an underlying level, Personal Insurance's performance was strong, but with a slightly lower underlying margin reflecting the combination of:
- the first-time inclusion of the lower margin former Wesfarmers business volumes;
- the increased reinvestment in the business; and
- some softening of CTP profitability owing to an increased level of lower severity claims.

Other items within the insurance profit result include:

- reinsurance expense of $365 million (31 December 2013-$334 million);
- net claims expense of $1,755 million (31 December 2013-$1,527 million); and
- expenses, predominantly comprising underwriting costs, totalling $517 million (31 December 2013-$487 million).

III. CTP adverse development cover (ADC)

From 1 July 2014, the Group entered into an ADC in respect of Personal Insurance's 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 pre-existing quota share agreement and was transacted with the same counterparty. The ADC had a neutral effect on Personal Insurance's reported current half year insurance profit. The cumulative impact of the quota share and ADC arrangements has been a reduction in the Group's regulatory capital requirement of approximately $150 million, $90 million of which was crystallised by the ADC on 1 July 2014.

B. AUSTRALIA COMMERCIAL INSURANCE (CI)

Commercial Insurance produced GWP growth of nearly 44%, reflecting the addition of the former Wesfarmers business. Like-for-like GWP growth was modestly negative, reflecting maintenance of underwriting discipline in an increasingly competitive commercial market. The business has maintained a double digit underlying margin, but of a slightly reduced scale as the lower margin former Wesfarmers business contributes for the first time. Reported margin was lower, at 6.6%, following an adverse natural peril experience and significantly reduced reserve releases in the half year.

I. Premiums

Commercial Insurance reported GWP growth of 43.9%, to $1,514 million in the current half year (31 December 2013-$1,052 million). This reflects the first-time inclusion of the former Wesfarmers business, which has delivered a market-leading position in the Australian commercial insurance market.

Commercial Insurance encountered cyclically softer market conditions in the current half year, resulting in a modest contraction in reported GWP on a like-for-like basis. While partly reflecting lower input costs which have been passed on to customers, there has also been evidence that general business conditions have resulted in lower average sums insured. Despite a backdrop of softening market conditions, volumes in key portfolios have remained strong.

In all lines of business, Commercial Insurance has maintained a strategy to compete on the strength of its partnerships and the quality of its service. As such, Commercial Insurance has continued to apply sound underwriting and pricing disciplines.

II. Insurance profit

Commercial Insurance reported an insurance profit of $102 million, a decrease of 46% over the corresponding prior half year (31 December 2013-$190 million). This equates to an insurance margin of 6.6% (31 December 2013-18.5%).

The lower reported margin reflects the net effect of:

- substantially higher net natural peril claim costs of $164 million (31 December 2013-$51 million), well in excess of allowance;
- a $30 million reduction in prior period reserve releases;
- the first-time inclusion of the lower margin former Wesfarmers business; and
- a broadly similar favourable credit spread movement of $17 million (31 December 2013-$14 million).

Commercial Insurance's current half year underlying margin was at a satisfactory level, with the decline against the corresponding prior half year a function of incorporating the lower margin former Wesfarmers business and the impact of softer commercial market conditions in Australia.

Other items within the insurance profit result include:

- reinsurance expense of $122 million (31 December 2013-$70 million);
- net claims expense of $1,099 million (31 December 2013-$506 million); and
- expenses, predominantly comprising underwriting costs, totalling $530 million (31 December 2013-$367 million).

The period-on-period comparatives are heavily impacted by the first time inclusion of the former Wesfarmers business.

III. Fee based business

Commercial Insurance 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 the current half year, net income from fee based operations was $9 million, compared to $11 million in the corresponding prior half year period.

C. NEW ZEALAND

New Zealand has continued to register a strong underlying performance, while reported margin was enhanced by a particularly benign natural perils experience. The business has maintained its market-leading position, with GWP growth centred on the acquired Wesfarmers business. Modest like-for-like growth in personal lines was countered by tougher conditions in the commercial market, where underwriting discipline has been maintained.

I. Premiums

New Zealand's current half GWP of $1,116 million increased by 26.2% compared to the same period last financial year (31 December 2013-$884 million). This strong growth reflects the first six months' contribution from Lumley Insurance (Lumley) following its acquisition as part of the Wesfarmers transaction and a favourable exchange rate effect compared to the corresponding half year period. Excluding Lumley, local currency GWP growth was relatively flat in the half year, with:

- positive premium growth in the domestic home owners' and private motor vehicle portfolios from a combination of volume and rate; offset by
- softening premium rates as a result of additional capacity in the intermediated commercial lines market.

II. Insurance profit

The New Zealand business produced an insurance profit of $193 million in the half year ended 31 December 2014, a significant increase on the prior comparable period's insurance profit of $92 million. This equated to a reported insurance margin of 19.2% (31 December 2013-12.4%).

The higher reported insurance margin in the current half year reflects the combination of:

- relatively benign natural peril activity;
- continued focus on pricing and underwriting discipline; and
- the realisation of ongoing operational improvements across the business.

The New Zealand business continues to deliver a strong underlying margin, as it balances customer affordability with high regulatory and reinsurance costs in a highly competitive market. The business remains focused on providing flexible product and pricing offerings to support customers and ensure they can maintain insurance coverage.

Other items within the insurance profit result include:

- reinsurance expense of $143 million (31 December 2013-$140 million);
- net claims expense of $538 million (31 December 2013-$387 million); and
- expenses, predominantly comprising underwriting costs, totalling $299 million (31 December 2013-$229 million).

III. Canterbury Rebuild

As advised to the market on 23 December 2014, there has been a significant increase in the expected final claim cost arising from the series of earthquakes that affected the Canterbury region in 2010 and 2011. This follows:

- an increase in forecast repair and rebuild costs;
- the continued notification of new household claims that have exceeded the Earthquake Commission's (EQC) NZ$100,000 residential dwelling limit; and
- a series of adverse court judgements which have affected the insurance industry over the past six months.

Of the NZ$950 million increase recognised, the majority relates to the 22 February 2011 event. Gross claim reserves for this event now stand close to the applicable reinsurance limit of NZ$4 billion. Loss estimates for the other major earthquake events are expected to settle well below respective reinsurance limits.

While the Group believes it has adopted an appropriate reserving position, given the complexity of the Canterbury earthquake events there remains a degree of uncertainty as to the ultimate cost.

D. ASIA

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

I. Divisional result

The division contributed a total profit of $17 million in the current half year, including shares of associates and allocated costs. This compares to a $7 million profit in the corresponding prior half year, and comprises:

- strong underlying performances by the established businesses in Thailand and Malaysia;
- an improved operating performance from each of the developing businesses in India, China and Vietnam;
- a favourable movement from mark-to-market valuations of investments, including those within associates' shareholders' funds; and
- steady regional support and development costs of $14 million (31 December 2013-$14 million).

II. Controlled entities

GWP from the Group's controlled entities was $164 million in the current half year, which was an increase of over 6% on the corresponding prior half year (31 December 2013-$154 million), within this:

- the Thai business (Safety Insurance) reported an increase in GWP of 10.7% in the current half year to $155 million from $140 million for the corresponding prior half year; and
- AAA Assurance in Vietnam recorded GWP equivalent to $9 million (31 December 2013-$14 million).

The insurance profit delivered by the controlled entities for the current half year was $12 million (31 December 2013-$15 million) excluding allocated costs, within this:

- the Thai business reported an insurance profit of $11 million, compared to $15 million in the corresponding prior half year; and
- AAA Assurance contributed an insurance profit of $1 million (31 December 2013-$nil).

III. Share of net profit/(loss) of associates
The Group's share of associates was a profit of $19 million (31 December 2013-$6 million), excluding allocated costs. This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia, SBI General Insurance Company Limited (SBI General) in India, and Bohai Property Insurance Company Ltd (Bohai Insurance) in China. AmGeneral accounts for the majority of the Group's share of net profit from associates. IAG's share of AmGeneral's profit for the half year increased by nearly 60% to $19 million (31 December 2013-$12 million).

E. CORPORATE AND OTHER
Revenue has decreased from $246 million in the corresponding prior half year to $147 million in the current half year ended 31 December 2014. A pre-tax loss of $4 million was reported, which compares to a profit of $174 million in the corresponding prior half year. The movements are predominantly due to lower investment income on shareholders' funds net of investment fees and increased pre-tax net corporate expenses.

Further details on the operating segments are set out in the segment reporting note within the Financial Statements.

REVIEW OF FINANCIAL CONDITION
A. FINANCIAL POSITION
The total assets of the Group as at 31 December 2014 were $30,210 million compared to $29,657 million at 30 June 2014. The increase in assets of $553 million includes:
- an increase in reinsurance and other recoveries of $530 million mainly attributable to the recoveries from the increase in the Canterbury earthquake reserve estimates in New Zealand;
- a $214 million increase in tax assets, largely reflecting an increase in the New Zealand deferred tax asset related to the increase in earthquake estimates;
- an increase in other insurance assets of $136 million mainly due to the timing of the calendar 2015 Group catastrophe reinsurance program renewal;
- an increase in trade and other receivables of $91 million which is mainly attributable to the increase in reinsurance recoveries on paid claims associated with the Canterbury earthquakes in New Zealand;
- an increase of $78 million in investment in joint venture and associates reflecting a small capital injection in SBI General Insurance Company Limited and the impact of foreign exchange movements;
- a decrease in investments and operating cash of $384 million primarily due to the payment of the 2014 final dividend and other investing activities; and
- a decrease of $198 million in premium receivable largely reflecting seasonality in the timing of policy renewals.

The total liabilities of the Group as at 31 December 2014 were $23,403 million compared to $22,863 million at 30 June 2014. The increase over the current half year of $540 million is largely attributable the following notable movements:
- an increase in outstanding claims liability of $894 million largely reflecting the increase in the Canterbury earthquake reserve estimates in New Zealand and the impact from foreign exchange and discount rate movements;
- a $129 million increase in reinsurance premium payable mainly attributable to the timing of the calendar 2015 Group catastrophe reinsurance program renewal;
- a decrease in trade and other payables of $228 million mainly attributable to the payment of the completion adjustment for the acquisition of the former Wesfarmers business as well as lower fire services levies payable and reinsurance loss deposits;
- a decrease in unearned premium liability of $151 million which reflects seasonality in GWP and foreign exchange movements; and
- a decrease in current tax liabilities of $92 million.

IAG shareholders' equity (excluding non-controlling interests) increased from $6,568 million at 30 June 2014 to $6,583 million at 31 December 2014. This movement was mainly attributable to the net effect of:
- sound operating earnings in the current half year, resulting in a net comprehensive income attributable to shareholders of $642 million, and
- the 2014 final dividend payment totalling $609 million.

B. CASH FROM OPERATIONS
The net cash inflows from operating activities for the half year ended 31 December 2014 were $290 million compared to $475 million for the corresponding prior half year. The decrease is mainly attributable to the net effect of:
- an increase in claim costs paid of $803 million largely reflecting the addition of the former Wesfarmers business and natural peril events in Australia;
- an increase in other operating payments of $402 million mainly attributable to the inclusion of the former Wesfarmers business' cost base and project costs;
- an increase in outward reinsurance premiums paid of $269 million which predominantly relates to the CTP quota share and CTP adverse development cover arrangements within Personal Insurance;
- an increase in gross written premium receipts of $974 million mainly attributable to the addition of the former Wesfarmers business and foreign exchange movements in New Zealand;
- an increase in reinsurance and other recoveries of $133 million mainly attributable to the settlement of claims; and
- an increase in other operating receipts of $170 million.

C. INVESTMENTS

The Group's investments totalled $15.2 billion as at 31 December 2014, excluding investments held in joint ventures and associates, with approximately 69% represented by the technical reserves portfolio. Total investments at 30 June 2014 were $15.4 billion. Movements of note since 30 June 2014 are:

- increased funds reflecting the sound operating performance of the Group along with positive investment returns during the period; offset by
- payment of the 2014 final dividend in October 2014 ($609 million).

As at 31 December 2014, the Group's overall investment allocation remains conservatively positioned and the credit quality of the investment book remains strong, with 83% (30 June 2014-86%) of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Technical reserves as at 31 December 2014 accounted for $10.5 billion (30 June 2014-$10.4 billion) of the Group's investments, and were entirely invested in fixed interest and cash.

The Group's allocation to growth assets was 36% of shareholders' funds at 31 December 2014 (30 June 2014-42%). Included within the Group's allocation to growth assets are Australian and international equities and alternative investments.

D. INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at $1,772 million at 31 December 2014, compared to $1,752 million at 30 June 2014. There have been no changes in composition over the period, with the increase attributable to foreign exchange movements.

E. 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 31 December 2014, the Group's capital mix was just above the mid-point of the targeted range, with debt and hybrids representing 35.6% (30 June 2014-35.0%) of total tangible capitalisation.

F. CAPITAL MANAGEMENT

The Group remains strongly capitalised under APRA's Prudential Standards and has set the following related targeted benchmarks:

- a total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of 1.0 times; and
- a Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

At 31 December 2014, the Group had regulatory capital of $4,734 million (30 June 2014-$4,981 million), a PCA multiple of 1.62 (30 June 2014-1.72) and a CET1 multiple of 1.04 (30 June 2014-1.14).

STRATEGY

A. STRATEGIC PRIORITIES

IAG's strategy, long term financial targets and strategic priorities are fundamentally unchanged. IAG's strategic priorities are to:

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

IAG is the market leader in personal insurance in Australia and New Zealand. The acquisition of the former Wesfarmers business has delivered market leadership in commercial insurance in Australia and cemented IAG's existing leadership position in New Zealand.

IAG is continuing to work to embed and maintain this position, while maintaining underwriting discipline.

II. Drive customer-centricity

Customer expectations and behaviours continue to evolve, particularly as technology creates more opportunities for them to interact with IAG.

IAG is undertaking significant work to ensure a sharper focus on activities that directly affect the customer experience, allowing its businesses to lead in delivering superior value.

Personal Insurance provides customers with a comprehensive digital sales and service offering, including the provision of an online self service centre and an integrated digital multi-channel platform, allowing access to various services across all devices.

In Commercial Insurance, a focus on partnerships and service is translating into improved partner relationships and service levels, as reflected in a significant improvement in the CGU brand's net promoter score amongst brokers. CGU also won 'Australia's Best Customer Experience Company' at the recent Best Customer Experience 2014 awards.

III. Embed shared value strategy and create alignment across IAG

IAG continues to explore and invest in new initiatives to help the communities in which it operates feel safer, stronger and more confident.

IAG has taken a leadership role in contributing towards improved safety on the road and in the home, and in enhancing the resilience of small-to-medium sized businesses.

IAG also continues to contribute towards protecting customers and making communities safer through its participation in the Australian Business Roundtable for Disaster Resilience & Safer Communities.

IV. Secure and grow our businesses in Asia
The development of IAG's business in Asia is progressing to plan, and it is now in the phase of accelerating operational development and enhancing risk management and governance.

IAG has increased its capability in the region to ensure the potential of the broader Asian platform is realised over the medium to longer term.

V. 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.

B. BUSINESS RISK AND RISK MANAGEMENT
Managing risk is central to the sustainability of IAG's business and delivery of value to shareholders. IAG's risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The Risk Management Strategy (RMS) is reviewed annually or as required by the Risk Committee (RC) before being recommended for adoption by the Board. IAG's risk and governance function provides regular reports to the RC on the operation of IAG's risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. IAG's Internal Audit Function provides reports to the Audit Committee (AC) on significant audit findings and other audit related matters. Roles and responsibilities of the Board and its standing committees, the AC, the RC and the People and Remuneration Committee (PARC), are available on the IAG website.

The Group is exposed to multiple risks relating to the conduct of its general insurance business. The risks noted below are not meant to represent an exhaustive list, but those faced by the Group that have been identified by the RMS process:

- strategic risk: the risk of not achieving corporate or strategic goals;
- insurance risk: the risk that the Group is exposed to financial loss, which may impact the Group's ability to meet its liabilities;
- reinsurance risk: the risk of insufficient reinsurance coverage and/or inadequate reinsurance recovery management;
- financial risks:
  - market risk: the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments;
  - credit risk: the risk of loss from a counterparty failing to meet their financial obligations;
  - liquidity risk: the risk of there being insufficient cash resources to meet payment obligations as and when they fall due; and
  - capital management risk: the risk of failure to maintain adequate regulatory capital to meet the prudentially required capital levels or the Group's internal capital target; and
- operational risk: the risk of loss from inadequate or failed internal processes, people, systems and/or external events.

A disciplined approach to risk management has been adopted and IAG believes this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders, including policyholders, lenders and shareholders.

Further risk management details are set out in the risk management note in the 30 June 2014 Annual Report.

OUTLOOK
For the year ending 30 June 2015, the Group has maintained its reported margin guidance of 13.5-15.5%, and expects GWP growth to be at the lower end of its 17-20% guidance range.

Underlying assumptions behind the reported margin guidance are:

- net losses from natural perils in line with allowance of $700 million;
- lower prior period reserve releases equivalent to around 2% of NEP; and
- no material movement in foreign exchange rates or investment markets in the second half of the financial year.

DIVIDENDS
Details of dividends paid or determined to be paid by the Company and the dividend policy employed by the Group are set out in the dividends note within the Financial Statements.

Cash earnings are used for the purposes of calculating targeted return on equity (ROE) and determining 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.

CASH EARNINGS	**31 December 2014 $m**	31 December 2013 $m
Net profit after tax	**579**	642
Intangible amortisation and impairment	**43**	10
	622	652
Unusual items:		
Corporate expenses	**44**	1
Tax effect on corporate expenses	**(13)**	-
Cash earnings*	**653**	653
Interim dividend	**304**	304
Cash payout ratio*	**46.6%**	46.6%

* Cash earnings and cash payout ratio represent non-IFRS financial information.

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 interim dividend of 13.0 cents per ordinary share (31 December 2013-13.0 cps). The interim dividend is payable on 1 April 2015 to shareholders registered as at 5pm on 4 March 2015.

The Company's Dividend Reinvestment Plan (DRP) will operate for the interim dividend by acquiring shares on-market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the Company's DRP is 5 March 2015. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Effective 1 July 2014 the Group implemented a new operating model for its Australian operations, creating a more customer-focused and efficient organisation. This change is reflected in the segment reporting note within the Financial Statements.

EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the half year are set out below and in the events subsequent to reporting date note within the Financial Statements. These include:

- On 18 February 2015, the Board determined to pay an interim dividend of 13 cents per ordinary share, 100% franked. The dividend will be paid on 1 April 2015.
- Tom Pockett was appointed to the IAG Board, as a Non-Executive Director, effective 1 January 2015; and
- Peter Bush retired as a Non-Executive Director, effective 1 January 2015.

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

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the half year ended 31 December 2014.

Signed at Sydney this 18th day of February 2015 in accordance with a resolution of the Directors.

Michael Wilkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2014 there have been:

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

KPMG

KPMG

ABTerblanché

Dr Andries B Terblanché
Partner

Sydney
18 February 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	31 December 2014	31 December 2013
	$m	$m
Premium revenue	**5,805**	4,885
Outwards reinsurance premium expense	**(651)**	(565)
Net premium revenue (i)	**5,154**	4,320
Claims expense	**(4,914)**	(3,413)
Reinsurance and other recoveries revenue	**1,433**	905
Net claims expense (ii)	**(3,481)**	(2,508)
Acquisition costs	**(874)**	(674)
Reinsurance commission revenue	**25**	25
Net acquisition costs	**(849)**	(649)
Other underwriting expenses	**(447)**	(364)
Fire services levies	**(111)**	(128)
Underwriting expenses (iii)	**(1,407)**	(1,141)
Underwriting profit/(loss) (i) + (ii) + (iii)	**266**	671
Investment income on assets backing insurance liabilities	**438**	98
Investment expenses on assets backing insurance liabilities	**(11)**	(11)
Insurance profit/(loss)	**693**	758
Investment income on shareholders' funds	**142**	242
Fee and other income	**98**	96
Share of net profit/(loss) of associates	**4**	(8)
Finance costs	**(52)**	(47)
Fee based, corporate and other expenses	**(172)**	(91)
Net income/(loss) attributable to non-controlling interests in unitholders' funds	**(3)**	(8)
Profit/(loss) before income tax	**710**	942
Income tax (expense)/credit	**(68)**	(266)
Profit/(loss) for the period	**642**	676
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit plans	**(14)**	26
Income tax on items that will not be reclassified to profit or loss	**4**	(8)
	(10)	18
Items that may be reclassified subsequently to profit or loss:		
Net movement in foreign currency translation reserve	**54**	14
Income tax on items that may be reclassified to profit or loss	**19**	16
	73	30
Other comprehensive income and (expense), net of tax	**63**	48
Total comprehensive income and (expense) for the period, net of tax	**705**	724
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO		
Shareholders of the Parent	**579**	642
Non-controlling interests	**63**	34
Profit/(loss) for the period	**642**	676
TOTAL COMPREHENSIVE INCOME AND (EXPENSE) FOR THE PERIOD ATTRIBUTABLE TO		
Shareholders of the Parent	**642**	690
Non-controlling interests	**63**	34
Total comprehensive income and (expense) for the period, net of tax	**705**	724

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	CONSOLIDATED **31 December 2014** **cents**	 31 December 2013 cents
EARNINGS PER SHARE			
Basic earnings per ordinary share	4	**24.87**	30.88
Diluted earnings per ordinary share	4	**24.08**	29.56

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

BALANCE SHEET
AS AT 31 DECEMBER 2014

	NOTE	CONSOLIDATED	
		31 December 2014	30 June 2014
		$m	$m
ASSETS			
Cash held for operational purposes		**250**	447
Investments	6	**15,190**	15,377
Premium receivable		**3,118**	3,316
Trade and other receivables		**719**	628
Current tax assets		**72**	-
Assets discontinued operation		**1**	9
Reinsurance and other recoveries on outstanding claims		**3,761**	3,231
Deferred levies and charges		**114**	119
Deferred outwards reinsurance expense		**881**	706
Deferred acquisition costs		**994**	1,028
Deferred tax assets		**446**	304
Property and equipment		**246**	249
Other assets		**173**	131
Investment in joint venture and associates	9	**650**	572
Intangible assets		**700**	700
Goodwill		**2,895**	2,840
Total assets		**30,210**	29,657
LIABILITIES			
Trade and other payables		**1,295**	1,523
Reinsurance premium payable		**685**	556
Restructuring provision		**46**	50
Current tax liabilities		**111**	203
Unearned premium liability		**6,105**	6,256
Liabilities discontinued operation		**2**	20
Non-controlling interests in unitholders' funds		**204**	190
Employee benefits provision		**309**	335
Deferred tax liabilities		**4**	-
Outstanding claims liability		**12,831**	11,937
Other liabilities		**39**	41
Interest bearing liabilities	7	**1,772**	1,752
Total liabilities		**23,403**	22,863
Net assets		**6,807**	6,794
EQUITY			
Share capital	8	**6,775**	6,775
Treasury shares held in trust		**(85)**	(94)
Reserves		**101**	38
Retained earnings		**(208)**	(151)
Parent interest		**6,583**	6,568
Non-controlling interests		**224**	226
Total equity		**6,807**	6,794

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

CONSOLIDATED	SHARE CAPITAL	TREASURY SHARES HELD IN TRUST	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE BASED REMUN-ERATION RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	$m	$m	$m	$m	$m	$m	$m
31 December 2014							
Balance at the beginning of the financial period	**6,775**	**(94)**	**10**	**28**	**(151)**	**226**	**6,794**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**579**	**63**	**642**
Other comprehensive income and (expense)	**-**	**-**	**73**	**-**	**(10)**	**-**	**63**
Total comprehensive income/(expense) for the period	**-**	**-**	**73**	**-**	**569**	**63**	**705**
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	**-**	**(35)**	**-**	**-**	**-**	**-**	**(35)**
Share based payment expense recognised	**-**	**-**	**-**	**14**	**-**	**-**	**14**
Share based remuneration vested	**-**	**44**	**-**	**(24)**	**(20)**	**-**	**-**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(609)**	**(65)**	**(674)**
Dividends received on treasury shares held in trust	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Balance at the end of the financial period	**6,775**	**(85)**	**83**	**18**	**(208)**	**224**	**6,807**
31 December 2013							
Balance at the beginning of the financial period	5,353	(62)	28	35	(568)	202	4,988
Profit/(loss) for the period	-	-	-	-	642	34	676
Other comprehensive income and (expense)	-	-	30	-	18	-	48
Total comprehensive income/(expense) for the period	-	-	30	-	660	34	724
Transactions with owners in their capacity as owners							
Shares issued under institutional placement, net of transaction costs	1,186	-	-	-	-	-	1,186
Shares acquired and held in trust	-	(78)	-	-	-	-	(78)
Share based payment expense recognised	-	-	-	11	-	-	11
Share based remuneration vested	-	44	-	(28)	(16)	-	-
Non-controlling interest in acquisition during the period	-	-	-	-	-	8	8
Dividends determined and paid	-	-	-	-	(519)	(42)	(561)
Dividends received on treasury shares held in trust	-	-	-	-	2	-	2
Balance at the end of the financial period	6,539	(96)	58	18	(441)	202	6,280

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

CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	31 December 2014	31 December 2013
	$m	$m
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium received	**5,804**	4,830
Reinsurance and other recoveries received	**835**	702
Claims costs paid	**(4,066)**	(3,263)
Outwards reinsurance premium expense paid	**(697)**	(428)
Dividends received	**27**	25
Interest and trust distributions received	**291**	262
Finance costs paid	**(57)**	(51)
Income taxes refunded	**2**	-
Income taxes paid	**(270)**	(255)
Other operating receipts	**698**	528
Other operating payments	**(2,277)**	(1,875)
Net cash flows from operating activities	**290**	475
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows on acquisition/capital injection to subsidiaries and associates	**(160)**	(8)
Proceeds from disposal of investments and property and equipment	**7,691**	6,560
Outlays for investments and property and equipment acquired	**(8,587)**	(6,707)
Net cash flows from investing activities	**(1,056)**	(155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Outlays for purchase of treasury shares	**(35)**	(78)
Proceeds from issue of trust units	**67**	74
Outlays for redemption of trust units	**(54)**	(85)
Dividends paid to IAG shareholders	**(609)**	(519)
Dividends paid to non-controlling interests	**(65)**	(42)
Proceeds from issue of shares, net of transaction costs	**-**	1,186
Dividends received on treasury shares	**3**	2
Net cash flows from financing activities	**(693)**	538
Net movement in cash held	**(1,459)**	858
Effects of exchange rate changes on balances of cash held in foreign currencies	**22**	33
Cash and cash equivalents at the beginning of the financial period	**3,010**	1,716
Cash and cash equivalents at the end of the financial period*	**1,573**	2,607

* Includes $250 million (31 December 2013-$360 million) of cash held for operational purposes, $1,322 million (31 December 2013-$2,238 million) of cash and short term money held for investments and $1 million (31 December 2013-$9 million) cash in discontinued operation.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Australia Group Limited (IAG, Parent or Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 26, 388 George Street, Sydney, NSW 2000, Australia. This half year financial report is for the half year ended 31 December 2014 and the consolidated financial statements are for the Company and its subsidiaries (Group or Consolidated entity). The Group is a for-profit entity.

This general purpose half year financial report was authorised by the Board of Directors for issue on 18 February 2015.

This report should be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

A. STATEMENT OF COMPLIANCE

This general purpose half year financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 Interim Financial Reporting, the recognition and measurement requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the ASX Listing Rules.

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board (IASB). IFRS forms the basis of AASBs.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The significant accounting policies adopted in the preparation of this financial report have been consistently applied by all entities in the Consolidated entity and are the same as those of the previous year unless otherwise noted. These financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

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

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

I. Australian Accounting Standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the AASB for which the mandatory application dates fall after the end of this half year reporting period.

None of these standards have been early adopted or applied in the current reporting period.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 9	Financial Instruments	1 January 2018	B
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	B
AASB 2012-6	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	1 January 2015	A
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part C	1 January 2018	A
AASB 15	Revenue from Contracts with Customers	1 January 2017	A
AASB 2014-1	Amendments to Australian Accounting Standards: Part E	1 January 2018	A
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	A
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	A
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 January 2017	A
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2018	A
AASB 2014-8	Amendments to Australian Accounting Standards arising from AASB 9	1 January 2015	A
AASB 2014-9	Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements	1 January 2016	A
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	A

TABLE NOTE

A These changes are not expected to have a significant, if any, financial and disclosure impact.

B These changes may have a financial impact, which will be determined on final assessment.

II. Changes in accounting policies

There were a number of new Australian Accounting Standards and Interpretations applicable for the current reporting period. These included:

TITLE	DESCRIPTION
AASB 2012-3	Amendments to Australian Accounting Standards arising from AASB 132 - Offsetting Financial Assets and Financial Liabilities
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part B
AASB 2014-1	Amendments to Australian Accounting Standards: Parts A - C

Adoption of these new and amended accounting standards had no material financial impact on the Group.

III. Reclassification of comparatives

Certain items have been reclassified from the Consolidated entity's prior half year financial report to conform to the current half year's presentation. The reclassifications are:

- from 1 July 2014, a new Australian operating model came into effect resulting in changes to the reporting segments of the Australian operations. Prior period segment information has been re-presented accordingly; and
- the prior period reinsurance commission revenue of $25 million within the statement of comprehensive income to conform to the current period's presentation. There is no impact to the statement of comprehensive income for the period.

IV. Rounding

Amounts in this financial report have been rounded to the nearest million dollars, unless otherwise stated. The Company is of a kind referred to in the Australian Securities & Investments Commission class order 98/100 dated 10 July 1998. All rounding has been conducted in accordance with that class order.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods if relevant. The approach to key estimates and judgements for this reporting period are the same as the 2014 financial year, unless otherwise stated.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements are:

- insurance contracts related:
  - claims;
  - reinsurance and other recoveries on outstanding claims; and
  - liability adequacy test.

  The estimation process of the gross cash flows for the 2011 financial year natural catastrophe events in New Zealand is conducted in a manner consistent with the preparation of accounts as described in the summary of significant accounting policies note in the 30 June 2014 Annual Report, but is subject to a high degree of uncertainty owing to the unique nature of the events including the allocation of costs between the events for policies affected by multiple events, the decision process surrounding the zoning of land for rebuilding, outcomes of court cases, the impact of demand surge inflation, the interaction with the Earthquake Commission (EQC) and uncertainty relating to IAG's share of claim costs and the estimated cost of the event relative to the size of the New Zealand economy.

  There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (e.g. deferred acquisition costs). The estimates relate to past events, do not incorporate forward looking considerations and the methodology supporting them generally does not change from year to year.

- other:
  - intangible assets and goodwill impairment testing;
  - acquired intangible assets' initial measurement and determination of useful life;
  - income tax and related assets and liabilities;
  - provisional accounting of business combinations;
  - share based remuneration; and
  - defined benefit superannuation arrangements.

NOTE 3. SEGMENT REPORTING

The Consolidated entity has general insurance operations in Australia, New Zealand and Asia. In Australia, the financial results are generated from three different divisions being Personal Insurance, Commercial Insurance and Corporate and other.

From 1 July 2014, a new Australian operating model came into effect resulting in changes to the reporting segments of the Australian operations. Prior period segment information has been re-presented accordingly. The Australian operating segments are now identified by management based on the activities that directly affect the customer experience, from pricing, marketing, to sales services and claims; these segments are Personal Insurance and Commercial Insurance.

During the prior financial year, on 30 June 2014, the Group acquired the Wesfarmers insurance underwriting business in Australia and New Zealand, with the entities being consolidated by the Group from this date. The Australian and New Zealand acquired businesses form part of the Australian Commercial Insurance and Australian Personal Insurance segments, and the New Zealand segment.

The Consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (being the chief operating decision maker) in assessing performance and in determining the allocation of resources. The reportable segments are based on the operating segments as these are the source of the Consolidated entity's major risks and have the most effect on the rates of return.

The reportable segments comprise the following business divisions:

A. AUSTRALIA PERSONAL INSURANCE

This segment provides personal lines insurance products sold directly to customers throughout Australia primarily under the NRMA Insurance, SGIO, SGIC, and RACV (in Victoria via a distribution and underwriting relationship with RACV) brands, and indirectly through intermediaries including brokers, financial institutions and affinity groups.

B. AUSTRALIA COMMERCIAL INSURANCE

This segment provides commercial insurance products sold to business customers throughout Australia, predominantly under the CGU, Lumley, WFI and Swann brands.

C. NEW ZEALAND

This segment provides general insurance products, offering most of its products directly to customers predominantly under the State and AMI brands and indirectly through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI and Lumley Insurance brands.

D. ASIA

This segment provides direct and intermediated insurance through local brands, underwritten through subsidiaries in Thailand and Vietnam and associates in Malaysia, India and China.

E. CORPORATE AND OTHER

This segment comprises other activities, including corporate services, placement of the Group's reinsurance program, inwards reinsurance from associates, funding costs on the interest bearing liabilities and investment of the shareholders' funds.

Further details of the reporting segments' principal activities are disclosed in the Directors' Report. There are no differences between the recognition and measurement criteria used in the segment disclosures and those used in the financial statements.

CONSOLIDATED	AUSTRALIA PERSONAL INSURANCE $m	AUSTRALIA COMMERCIAL INSURANCE $m	NEW ZEALAND $m	ASIA $m	CORPORATE AND OTHER $m	TOTAL $m
31 December 2014						
External revenue	**3,484**	**2,101**	**1,955**	**258**	**147**	**7,945**
Total revenue	**3,484**	**2,101**	**1,955**	**258**	**147**	**7,945**
Underwriting profit/(loss)	**177**	**(78)**	**168**	**1**	**(2)**	**266**
Investment income net of investment fees - technical reserves	**214**	**180**	**25**	**7**	**1**	**427**
Insurance profit/(loss)	**391**	**102**	**193**	**8**	**(1)**	**693**
Investment income net of investment fees - shareholders' funds	**-**	**-**	**-**	**-**	**137**	**137**
Share of net profit/(loss) of associates	**-**	**-**	**-**	**9**	**(5)**	**4**
Finance costs	**-**	**-**	**-**	**-**	**(52)**	**(52)**
Other net operating result	**-**	**9**	**2**	**-**	**(83)**	**(72)**
Profit/(loss) before income tax	**391**	**111**	**195**	**17**	**(4)**	**710**
Income tax expense						**(68)**
Profit/(loss) for the year						**642**
Acquisitions of property and equipment, intangibles and other non-current segment assets	**-**	**-**	**-**	**-**	**95**	**95**
Depreciation expense	**19**	**7**	**6**	**1**	**-**	**33**
Amortisation and impairment charges on acquired intangibles and goodwill	**6**	**34**	**19**	**7**	**-**	**66**
Total depreciation and amortisation expense	**25**	**41**	**25**	**8**	**-**	**99**
31 December 2013*						
External revenue	3,267	1,226	1,358	146	246	6,243
Total revenue	3,267	1,226	1,358	146	246	6,243
Underwriting profit/(loss)	384	156	124	8	(1)	671
Investment income net of investment fees - technical reserves	83	34	(32)	2	-	87
Insurance profit/(loss)	467	190	92	10	(1)	758
Investment income net of investment fees - shareholders' funds	-	-	-	-	233	233
Share of net profit/(loss) of associates	-	-	-	(3)	(5)	(8)
Finance costs	-	-	-	-	(47)	(47)
Other net operating result	-	11	1	-	(6)	6
Profit/(loss) before income tax	467	201	93	7	174	942
Income tax expense						(266)
Profit/(loss) for the year						676
Acquisitions of property and equipment, intangibles and other non-current segment assets	-	-	-	-	86	86
Depreciation expense	19	5	5	1	-	30
Amortisation and impairment charges on acquired intangibles and goodwill	6	9	6	1	-	22
Total depreciation and amortisation expense	25	14	11	2	-	52

* Prior year comparatives for Australia Personal Insurance and Australia Commercial Insurance have been re-presented to reflect the new Australian operating model.

NOTE 4. EARNINGS PER SHARE

	CONSOLIDATED	
	31 December 2014	31 December 2013
	cents	cents
A. REPORTING PERIOD VALUES		
Basic earnings per ordinary share[(a)]	**24.87**	30.88
Diluted earnings per ordinary share	**24.08**	29.56

(a) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 Earnings Per Share.

	CONSOLIDATED	
	31 December 2014	31 December 2013
	$m	$m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) for the period	**642**	676
Profit attributable to non-controlling interests	**(63)**	(34)
Profit/(loss) attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**579**	642
Earnings used in calculating diluted earnings per share		
Finance costs of convertible securities, net of tax	**13**	10
Profit/(loss) attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**592**	652

	CONSOLIDATED	
	31 December 2014	31 December 2013
	Number of shares in millions	Number of shares in millions
C. RECONCILIATION OF WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED IN CALCULATING EARNINGS PER SHARE		
Weighted average number of ordinary shares on issue	**2,341**	2,090
Weighted average number of treasury shares held in trust	**(13)**	(11)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,328**	2,079
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**117**	116
Unvested share based remuneration rights supported by treasury shares held in trust	**13**	11
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**2,458**	2,206

NOTE 5. DIVIDENDS

	CENTS PER SHARE	TOTAL AMOUNT $m	PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
A. ORDINARY SHARES					
31 December 2014					
2014 final dividend	**26.0**	**609**	**8 October 2014**	**30%**	**100%**
30 June 2014					
2014 interim dividend	13.0	304	2 April 2014	30%	100%
2013 final dividend	25.0	519	9 October 2013	30%	100%
		823			

It is standard practice that the Board determines to pay the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy, a dividend is not accrued until it is determined to be paid and so the dividends for a six-monthly period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

The dividends recognised in the current reporting period include $3 million (31 December 2013-$2 million) paid in relation to treasury shares held in trusts controlled by the Consolidated entity.

B. DIVIDEND REINVESTMENT

A Dividend Reinvestment Plan (DRP) operates which allows shareholders to elect to receive their dividend entitlement in the form of IAG ordinary shares. The price of DRP shares is the volume weighted average share market price, less a discount if any (determined by the Directors) calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date.

The DRP for the 2014 final dividend paid on 8 October 2014 was settled with the on-market purchase of approximately 20 million shares priced at $6.1344 per share (based on a daily volume weighted average price for 15 trading days from 15 September 2014 to 3 October 2014 inclusive, with no discount applied). A copy of the terms and conditions for the DRP are available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

C. DIVIDEND NOT RECOGNISED AT REPORTING DATE

In addition to the above dividends, the Board determined to pay the following dividend after the reporting date but before finalisation of this financial report and it has not been recognised in this financial report.

	CENTS PER SHARE	TOTAL AMOUNT $m	EXPECTED PAYMENT DATE	TAX RATE FOR FRANKING CREDIT	PERCENTAGE FRANKED
2015 interim dividend	**13.0**	**304**	**1 April 2015**	**30%**	**100%**

On 18 February 2015, the Board determined the interim dividend will be payable to shareholders on 1 April 2015.

The Company's Dividend Reinvestment Plan (DRP) will operate for the interim dividend by acquiring shares on-market with no discount applied. The DRP Issue Price will be based on a volume weighted average share price as defined in the DRP terms. The last date for the receipt of an election notice for participation in the Company's DRP is 5 March 2015. Information about IAG's DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

NOTE 6. INVESTMENTS

A. DETERMINATION OF FAIR VALUE

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value.

I. Level 1 quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used. Level 3 investments are primarily unlisted private equity funds where the fair value of investments is determined on the basis of published redemption values of those funds received from the relevant managers who themselves use various methods to value the underlying investments.

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement.

	LEVEL 1 $m	LEVEL 2 $m	LEVEL 3 $m	CONSOLIDATED TOTAL $m
31 December 2014				
Interest bearing investments	**3,653**	**10,150**	**-**	**13,803**
Equity investments	**639**	**366**	**145**	**1,150**
Other investments	**-**	**237**	**-**	**237**
	4,292	**10,753**	**145**	**15,190**
30 June 2014				
Interest bearing investments	4,850	8,934	-	13,784
Equity investments	877	433	112	1,422
Other investments	-	158	-	158
Derivatives	(1)	14	-	13
	5,726	9,539	112	15,377

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

NOTE 7. INTEREST BEARING LIABILITIES

	CONSOLIDATED			
	31 December 2014		30 June 2014	
	CARRYING VALUE	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
	$m	**$m**	$m	$m
A. COMPOSITION				
I. Capital nature				
a. TIER 1 REGULATORY CAPITAL*				
Convertible preference shares	**377**	**385**	377	402
Reset exchangeable securities	**550**	**571**	550	589
b. TIER 2 REGULATORY CAPITAL				
GBP subordinated term notes	**192**	**198**	182	190
NZD subordinated bonds	**310**	**326**	302	314
AUD subordinated convertible term notes	**350**	**360**	350	357
II. Operating nature				
Other interest-bearing liabilities	**3**	**3**	2	2
Less: capitalised transaction costs	**(10)**		(11)	
	1,772		1,752	

* Instruments issued prior to 1 January 2013 are eligible for inclusion in the relevant category of regulatory capital up to limits prescribed by APRA under transitional arrangements. Any capital that is ineligible to be included in Tier 1 capital as a consequence may be included in Tier 2 capital to the extent there is residual capacity within Tier 2 transitional limits.

B. FAIR VALUE INFORMATION

The interest bearing liabilities are initially measured at fair value (net of transaction costs) but are subsequently measured at amortised cost. Based on market conditions at any point in time, the carrying value of the liabilities may not be representative of the fair value of the liabilities.

The fair value for all interest bearing liabilities is calculated using their quoted market price (fair value hierarchy level 1).

C. SIGNIFICANT MOVEMENTS DURING THE PERIOD

There have been no significant movements or changes to terms and conditions in the interest bearing liabilities since 30 June 2014.

NOTE 8. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	CONSOLIDATED			
	31 December 2014	30 June 2014	**31 December 2014**	30 June 2014
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
I. Ordinary shares				
Balance at the beginning of the financial period	**2,341**	2,079	**6,775**	5,353
Shares issued under institutional placement, net of transaction costs	**-**	219	**-**	1,186
Share issued under Share Purchase Plan, net of transaction costs	**-**	43	**-**	236
Balance at the end of the financial period	**2,341**	2,341	**6,775**	6,775

All ordinary shares on issue are fully paid. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held. There are presently no restrictions on the payment of dividends by the Company other than the payment of dividends generally being limited under the applicable requirements of the Corporations Act 2001 and APRA Prudential Standards.

II. For the half year ended 31 December 2014

There were no issues of ordinary shares during the period ended 31 December 2014.

NOTE 9. INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

Summarised information of interests in material joint venture and associates accounted for on an equity basis is as follows:

			CONSOLIDATED
	CARRYING VALUE	OWNERSHIP INTEREST	
	31 December 2014	**31 December 2014**	30 June 2014
	$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	**392**	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)	**117**	**26.00**	26.00
Bohai Property Insurance Company Ltd (Bohai Insurance)	**122**	**20.00**	20.00
Other	**19**		
	650		

NOTE 10. DERIVATIVES

A. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS APPLIED

I. Net investment hedges

The foreign currency exposures arising on translation of net investments in foreign operations are hedged using forward exchange contracts and the designation of certain foreign currency borrowings as hedging instruments. The fair value is determined using observable inputs (level 2 in the fair value hierarchy).

Each of the hedging relationships has been broadly effective throughout the current period or since inception with the small amount of ineffectiveness recognised in profit or loss.

II. Reporting date positions

The fair values of derivative financial instruments are provided below:

				CONSOLIDATED
	31 December 2014		30 June 2014	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	$m	**$m**	$m	$m
a. NET INVESTMENT HEDGES				
Forward foreign exchange contracts	**1**	**(39)**	9	(6)

B. DERIVATIVES FOR WHICH HEDGE ACCOUNTING IS NOT APPLIED (DERIVATIVES HELD FOR ECONOMIC HEDGING PURPOSES ONLY)

The fair value of the interest rate swaps and bond futures are measured using a quoted price in an active market (level 1 in the fair value hierarchy), whilst the fair value of the forward foreign exchange contracts is determined using observable inputs (level 2 in the fair value hierarchy).

I. Reporting date positions

The fair values of derivative financial instruments are provided below:

				CONSOLIDATED
	31 December 2014		30 June 2014	
	Fair value asset	**Fair value liability**	Fair value asset	Fair value liability
	$m	**$m**	$m	$m
a. PRESENTED IN INVESTMENTS/TRADE AND OTHER PAYABLES (INVESTMENT RELATED DERIVATIVES)				
Interest rate swaps	**-**	**-**	8	-
Bond futures	**-**	**-**	-	(1)
Forward foreign exchange contracts	**-**	**(16)**	6	-
b. PRESENTED IN TRADE AND OTHER RECEIVABLES/PAYABLES (TREASURY RELATED DERIVATIVES)				
Forward foreign exchange contracts	**34**	**(5)**	7	-

NOTE 11. CONTINGENCIES

There have been no material changes in the Group's contingent liabilities or contingent assets since 30 June 2014.

NOTE 12. NET TANGIBLE ASSETS

	CONSOLIDATED	
	31 December 2014	30 June 2014
	$	$
Net tangible assets per ordinary share	**1.28**	1.29

Net tangible assets per ordinary share have been determined using the net assets on the balance sheet adjusted for non-controlling interests, intangible assets and goodwill.

NOTE 13. EVENTS SUBSEQUENT TO REPORTING DATE

As the following events occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the current half year ended 31 December 2014.

A. INTERIM DIVIDEND

On 18 February 2015, the Board determined to pay an interim dividend of 13 cents per ordinary share, 100% franked. The dividend will be paid on 1 April 2015.

B. OTHER

The following changes made to the IAG Board became effective 1 January 2015:

- Tom Pockett was appointed to the IAG Board, as a Non-Executive Director; and
- Peter Bush retired as a Non-Executive Director.

DIRECTORS' DECLARATION

In the opinion of the Directors of Insurance Australia Group Limited:

- the financial statements and notes 1 to 13 are in accordance with the Corporations Act 2001 including:
  - giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2014 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 18th day of February 2015 in accordance with a resolution of the Directors.

Michael Wilkins
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE EQUITY HOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited (Company), which comprises the consolidated balance sheet as at 31 December 2014, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Consolidated entity comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

DIRECTORS' RESPONSIBILITY FOR THE HALF YEAR FINANCIAL REPORT

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated entity's financial position as at 31 December 2014 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of Insurance Australia Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENCE

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

CONCLUSION

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Insurance Australia Group Limited is not in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Consolidated entity's financial position as at 31 December 2014 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

KPMG

Dr Andries B Terblanché
Partner

Sydney
18 February 2015