

IAG FINANCE (NEW ZEALAND) LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014
APPENDIX 4D (ASX Listing rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | | | 31 December 2014 \$000 | 31 December 2013 \$000 |
|---|------------------|-----------------|---------------------------------------|------------------------------|
| | UP / DOWN | % CHANGE | | |
| Revenue from ordinary activities | Up | 1.2 % | 13,643 | 13,480 |
| Profit/(loss) from ordinary activities after tax attributable to shareholders | Down | 519.8 % | (2,074) | 494 |
| Net profit/(loss) attributable to shareholders | Down | 519.8 % | (2,074) | 494 |

Commentary on the Company's operating result and review of operations can be found in Attachment A: Half year financial report.

| RESET EXCHANGEABLE SECURITIES (RES) | AMOUNT PER SECURITY | FRANKED AMOUNT PER SECURITY |
|--|--------------------------------|--|
| 15 September 2014 payment | \$1.1667 | \$1.1667 |
| 15 December 2014 payment | \$1.1600 | \$1.1600 |

The next quarterly interest payment, which is expected to be \$1.1780 per RES (4.7250% per annum), is due for payment on 16 March 2015. This interest payment is expected to be fully franked.

Additional Appendix 4D disclosure requirements can be found in the half year financial report of IAG Finance (New Zealand) Limited for the period ended 31 December 2014 (Attachment A). This report is to be read in conjunction with the annual report of IAG Finance (New Zealand) Limited for the year ended 30 June 2014 and any public announcements made by IAG Finance (New Zealand) 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 half year financial statements which have been reviewed by KPMG.

ATTACHMENT A
IAG FINANCE (NEW ZEALAND) LIMITED
HALF YEAR FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014

IAG FINANCE (NEW ZEALAND) LIMITED

ABN 97 111 268 243

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

IAG FINANCE (NEW ZEALAND) LIMITED
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DIRECTORS' REPORT

The Directors present their report together with the financial report of IAG Finance (New Zealand) Limited (Company) for the half year ended 31 December 2014 and the Auditor's Report thereon.

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.

BM Schwartz (Director since 26 August 2010), HA Fletcher (Director since 31 August 2008), NB Hawkins (Director since 31 August 2008) and MJ Wilkins (Director since 28 May 2008).

PRINCIPAL ACTIVITY

The Company issues Reset Exchangeable Securities (RES) to external investors and loans the entire amount to a related body corporate, a wholly owned subsidiary of Insurance Australia Group Limited (IAG).

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

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

The net result of the Company after applicable income tax for the half year ended 31 December 2014 was a loss of \$2,074,000 (31 December 2013-profit of \$494,000). During the current half year, the Company's New Zealand branch increased its provision by \$2.6 million in respect of an ongoing tax dispute.

The following quarterly interest payments on the RES were made during the half year:

| PAYMENT DATE | AMOUNT PER RES | INTEREST RATE |
|-------------------|----------------|-------------------|
| 15 September 2014 | \$1.1667 | 4.6795% per annum |
| 15 December 2014 | \$1.1600 | 4.6527% per annum |

REVIEW OF FINANCIAL CONDITION

The total assets of the Company, which at 31 December 2014 were \$569,534,000 (30 June 2014-\$569,246,000), relate predominantly to a loan to a related body corporate, a wholly owned subsidiary of IAG. The loan is attributable solely to the RES, valued at a face value of \$550,000,000 and accrued interest for the financial period. Refer to the related party note for further details.

The total liabilities of the Company, which at 31 December 2014 were \$556,118,000 (30 June 2014-\$553,756,000), relate mainly to the issued RES and accrued interest payable to external investors.

STRATEGY

A. STRATEGIC PRIORITIES

The continuing and sole strategy of the Company is to perform all treasury activities relating to IAG's New Zealand operations.

B. RISK MANAGEMENT

The Company forms part of the IAG Risk Management Strategy (RMS), as such it does not maintain a separate RMS.

Managing risk is central to the sustainability of IAG's business and delivery of value to IAG stakeholders. The IAG risk management framework is a core part of the governance structure, and includes internal policies, key risk management processes and culture. The RMS details the IAG principles, risk appetite, policies, key controls, and monitoring processes for managing key risk categories. The IAG Risk Committee oversees the Company's risk management framework as part of its oversight of IAG. Further details about IAG's policies on risk oversight and management are available on the IAG website.

OUTLOOK

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

DIVIDENDS

Details of dividends paid or determined to be paid by the Company are set out in the dividend note.

EVENTS SUBSEQUENT TO REPORTING DATE

Other than discussed below, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction, or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future periods. Subsequent to 31 December 2014, the New Zealand Inland Revenue has indicated that management's estimation of the disputed liability is likely to be accepted.

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

The Lead Auditor's Independence Declaration is set out on page 3 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.

A handwritten signature in black ink, appearing to read 'N. Hawkins', written over a faint, illegible stamp or watermark.

Nicholas Hawkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

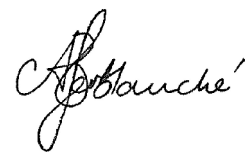
TO THE DIRECTORS OF IAG FINANCE (NEW ZEALAND) LIMITED

I declare that, to the best of my knowledge and belief, in relation to the 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



Dr Andries B Terblanché
Partner

Sydney
18 February 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

| | NOTE | 31 December 2014 \$000 | 31 December 2013 \$000 |
|---|------|------------------------------|------------------------------|
| INTEREST REVENUE | | | |
| Related bodies corporate | | 13,600 | 13,441 |
| Other corporations | | 5 | 2 |
| Total interest revenue | | <u>13,605</u> | <u>13,443</u> |
| INTEREST EXPENSE | | | |
| Reset exchangeable securities | | <u>(12,649)</u> | <u>(12,630)</u> |
| Net interest income | | 956 | 813 |
| Other income | | 38 | 37 |
| Unrealised exchange gain and (loss) | | (30) | 63 |
| Realised exchange gain and (loss) | | 4 | 8 |
| Other administration expenses | | <u>(373)</u> | <u>(262)</u> |
| Profit/(loss) before income tax | | 595 | 659 |
| Income tax (expense)/credit | 2 | <u>(2,669)</u> | <u>(165)</u> |
| Profit/(loss) for the period | | <u>(2,074)</u> | <u>494</u> |
| Total comprehensive income and (expense) for the period, net of tax | | <u>(2,074)</u> | <u>494</u> |

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 | 31 December 2014 \$000 | 30 June 2014 \$000 |
|---|------|------------------------------|--------------------------|
| ASSETS | | | |
| Cash held for operational purposes | | 803 | 677 |
| Receivables from related bodies corporate | | 17,438 | 17,438 |
| Loans to related bodies corporate | | 551,286 | 551,124 |
| Deferred tax assets | | 7 | 7 |
| Total assets | | <u>569,534</u> | <u>569,246</u> |
| LIABILITIES | | | |
| Trade and other payables | | 197 | 561 |
| Interest payable on reset exchangeable securities | | 1,210 | 1,058 |
| Payables to related bodies corporate | | 16 | 28 |
| Current tax liabilities | | 4,676 | 2,086 |
| Employee benefits provision | | 19 | 23 |
| Reset exchangeable securities | 5 | <u>550,000</u> | <u>550,000</u> |
| Total liabilities | | <u>556,118</u> | <u>553,756</u> |
| Net assets | | <u>13,416</u> | <u>15,490</u> |
| EQUITY | | | |
| Share capital | | -* | -* |
| Retained earnings | | <u>13,416</u> | <u>15,490</u> |
| Total equity | | <u>13,416</u> | <u>15,490</u> |

* The share capital is \$1.00 and rounded to zero.

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

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

| | SHARE CAPITAL \$000 | RETAINED EARNINGS \$000 | TOTAL EQUITY \$000 |
|---|---------------------------|-------------------------------|-----------------------|
| 31 December 2014 | | | |
| Balance at the beginning of the financial period | -* | 15,490 | 15,490 |
| Profit/(loss) for the period | - | (2,074) | (2,074) |
| Balance at the end of the financial period | - | 13,416 | 13,416 |
| 31 December 2013 | | | |
| Balance at the beginning of the financial period | -* | 18,181 | 18,181 |
| Profit/(loss) for the period | - | 494 | 494 |
| Transactions with owners in their capacity as owners | | | |
| Dividends declared and paid | - | (500) | (500) |
| Balance at the end of the financial period | - | 18,175 | 18,175 |

* The share capital is \$1.00 and rounded to zero.

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

CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

| | 31 December 2014 \$000 | 31 December 2013 \$000 |
|---|---------------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Interest received | 13,443 | 13,325 |
| Interest costs paid | (12,898) | (12,519) |
| Income taxes paid | (79) | (199) |
| Other operating receipts | 38 | 37 |
| Other operating payments | (352) | (153) |
| Net cash flows from operating activities | 152 | 491 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net cash flows from investing activities | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividend paid | - | (500) |
| Net cash flows from financing activities | - | (500) |
| Net movement in cash held | 152 | (9) |
| Effects of exchange rate changes on balances of cash held in foreign currencies | (26) | 70 |
| Cash and cash equivalents at the beginning of the financial period | 677 | 812 |
| Cash and cash equivalents at the end of the financial period | 803 | 873 |

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

IAG Finance (New Zealand) Limited (Company) is a company limited by shares, incorporated and domiciled in Australia. It has reset exchangeable securities (RES) publicly traded on the Australian Securities Exchange (ASX). Its registered office is Level 26, 388 George Street, Sydney, NSW 2000, Australia and the principal place of business is Level 1, NZI Centre, 1 Fanshawe Street, Auckland, New Zealand. The Company is a for-profit entity.

The parent and the ultimate parent entity is Insurance Australia Group Limited (IAG), an entity incorporated in Australia and listed on the ASX, which owns 100% of the share capital of the Company. IAG, together with its subsidiaries, forms the IAG Group. As part of the IAG Group the Company complies with a variety of policies and procedures developed by IAG for application by all entities in the IAG Group where applicable.

This general purpose 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.

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 the Company 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.

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 current half year reporting period.

None of these standards have been early adopted and 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 2014-5 | 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 |

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 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 2013-9 | Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments: Part B |
| AASB 2014-1 | Amendments to Australian Accounting Standards: Part A-C |

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

III. Rounding

Amounts in this financial report have been rounded to the nearest thousand 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. INCOME TAX

During the current half year, the Company's New Zealand branch increased its provision by \$2.6 million in respect of an ongoing tax dispute. Refer to the events subsequent to reporting date note for further details.

NOTE 3. SEGMENT REPORTING

The Company's principal operation is to provide treasury services to IAG's New Zealand operations including issuing RES in Australia. The RES are listed on the ASX.

The Company operates as a single segment and so the information presented in the financial statements represents the segment reporting information.

NOTE 4. DIVIDENDS

| | \$ PER SHARE | TOTAL AMOUNT \$000 | PAYMENT DATE |
|---------------------------|--------------|--------------------|------------------|
| A. ORDINARY SHARES | | | |
| 30 June 2014 | | | |
| 2014 interim dividend | 500,000 | 500 | 21 February 2014 |
| 2013 final dividend | 500,000 | <u>500</u> | 22 August 2013 |
| | | <u>1,000</u> | |

No final dividend was paid in respect of the 2014 financial year.

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 constitutional provisions.

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 dividend for a period is generally recognised and measured in the financial reporting period following the period to which the dividend relates.

NOTE 5. RESET EXCHANGEABLE SECURITIES

| | 31 December 2014 | | 30 June 2014 | |
|---|----------------------|------------------|----------------------|------------------|
| | Carrying value \$000 | Fair value \$000 | Carrying value \$000 | Fair value \$000 |
| A. COMPOSITION | | | | |
| 5,500,000 reset exchangeable securities | <u>550,000</u> | <u>571,450</u> | <u>550,000</u> | <u>588,500</u> |

The RES are publicly traded on the ASX which is considered an active market and so the fair value of the instrument at a point in time is taken to be the listed offer price (fair value hierarchy level 1). The listed offer price as at reporting date was \$103.90 per \$100.00 of face value (30 June 2014-\$107.00).

NOTE 6. RELATED PARTY DISCLOSURES

A. CONTROLLING ENTITIES

The ultimate parent entity is Insurance Australia Group Limited which is incorporated in Australia.

I. Balances outstanding at reporting date

Aggregate amounts receivable from the controlling entity:

| | 31 December 2014 | 30 June 2014 |
|---------------------|-----------------------------|-----------------|
| | \$ | \$ |
| Amounts receivable* | 17,437,804 | 17,437,804 |

* The receivable represents current tax asset balances transferred to IAG, the head entity of the tax-consolidated group.

B. OTHER PARTIES WITHIN IAG GROUP

I. Balances outstanding at reporting date

Aggregate amounts receivable from, and payable to other related parties within the IAG Group are:

| | 31 December 2014 | 30 June 2014 |
|------------------------------------|-----------------------------|-----------------|
| | \$ | \$ |
| Loan to IAG (NZ) Holdings Limited* | 551,285,752 | 551,124,108 |
| Amounts payable | 15,997 | 27,964 |

* The balance as at reporting date included accrued interest of \$1,285,752 (30 June 2014-\$1,124,108) which is due in three months.

These intragroup balances are considered highly liquid and of negligible credit risk and so the carrying amount is a reasonable estimation of the fair value of the balances.

NOTE 7. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTE 8. NET TANGIBLE ASSETS

| | 31 December 2014 | 30 June 2014 |
|--|-----------------------------|-----------------|
| | \$000 | \$000 |
| Net tangible assets per ordinary share | <u>13,416</u> | <u>15,490</u> |

NOTE 9. EVENTS SUBSEQUENT TO REPORTING DATE

Other than discussed below, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction, or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future periods. Subsequent to 31 December 2014, the New Zealand Inland Revenue has indicated that management's estimation of the disputed liability is likely to be accepted.

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 9 are in accordance with the Corporations Act 2001 including:
 - giving a true and fair view of the financial position of the Company 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 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.



Nicholas Hawkins
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE EQUITY HOLDERS OF IAG FINANCE (NEW ZEALAND) LIMITED

REPORT ON THE FINANCIAL REPORT

We have reviewed the accompanying half year financial report of IAG Finance (New Zealand) Limited (Company), which comprises the balance sheet as at 31 December 2014, statement of comprehensive income, statement of changes in equity and cash flow statement for the half year ended on that date, notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Company.

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 Company'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 IAG Finance (New Zealand) 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 IAG Finance (New Zealand) Limited is not in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Company'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

Dr Andries B Terblanché
Partner

Sydney
18 February 2015

10 IAG FINANCE (NEW ZEALAND) LIMITED

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