18 February 2015



# INVESTOR REPORT 1H15

Insurance Australia Group

# IMPORTANT INFORMATION

This report contains general information in summary form which is current as at 18 February 2015. It presents financial information on both a statutory basis (prepared in accordance with Australian accounting standards which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis.

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

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

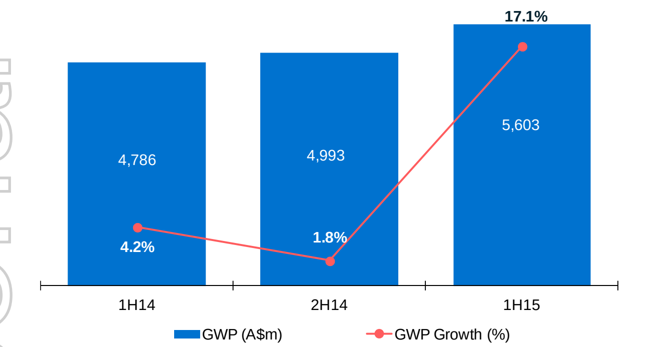
The information in this report is for general information only. To the extent that certain statements contained in this report may constitute "forward-looking statements" or statements about "future matters", the information reflects IAG's intent, belief or expectations at the date of this report. IAG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

# CONTENTS

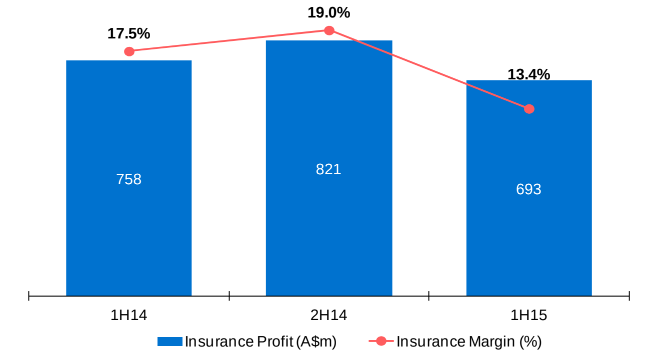
# 1H15 GROUP RESULTS

| KEY RESULTS | 1H14 A$m | 2H14 A$m | 1H15 A$m | 1H15 vs 1H14 Mvt |
|---|---|---|---|---|
| **Gross written premium (GWP)** | **4,786** | **4,993** | **5,603** | **+17.1%** |
| Net earned premium (NEP) | 4,320 | 4,324 | 5,154 | +19.3% |
| **Insurance profit** | **758** | **821** | **693** | **-8.6%** |
| Net profit after tax (NPAT) | 642 | 591 | 579 | -9.8% |
| **Cash NPAT** | **653** | **653** | **653** | **+0%** |
| Reported insurance margin | 17.5% | 19.0% | 13.4% | -410bps |
| **Underlying insurance margin** | **13.7%** | **14.8%** | **13.3%** | **-40bps** |
| Cash return on equity (ROE) | 26.8% | 20.4% | 19.8% | -700bps |
| **Dividend (cents per share)** | **13.0** | **26.0** | **13.0** | **+0%** |
| Prescribed Capital Amount (PCA) multiple | 2.31 | 1.72 | 1.62 | -69bps |

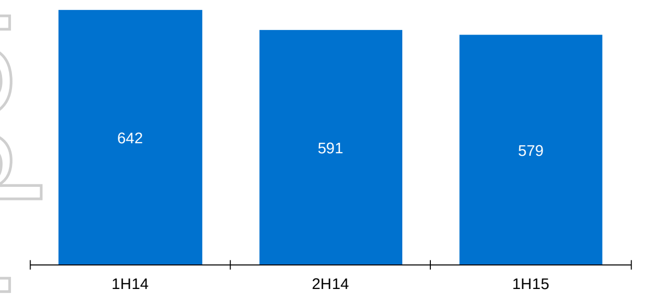
## GWP GROWTH



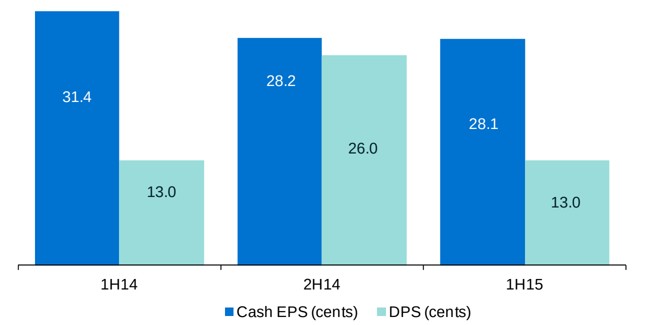

## INSURANCE PROFIT & MARGIN



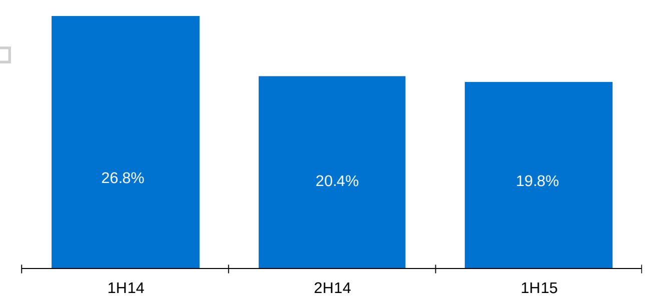

## NET PROFIT AFTER TAX (A$M)



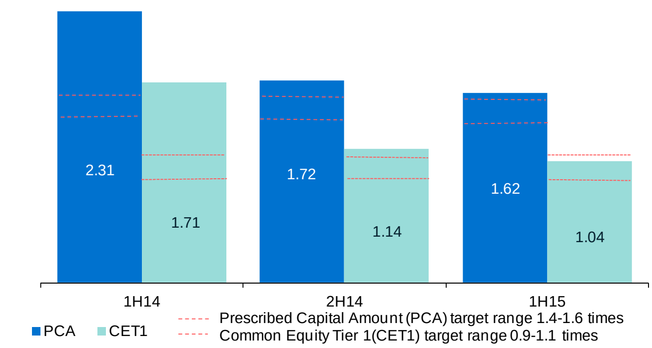

## CASH EPS & DPS




## CASH ROE




## REGULATORY CAPITAL (MULTIPLE)



# 1. EXECUTIVE SUMMARY



## GROUP HIGHLIGHTS

- Sound business performance, with underlying margin[1] of 13.3% (reported margin of 13.4%)
- GWP growth of 17.1%, reflecting acquisition of former Wesfarmers business
- Move to new Australian operating model and integration of Wesfarmers business progressing to plan – modest initial benefits realised
- Interim dividend of 13 cents per share (cps) – 46.6% of cash earnings
- Capital position around upper end of benchmarks – PCA multiple of 1.62, CET1 multiple of 1.04
- FY15 reported insurance margin guidance of 13.5-15.5% maintained
- FY15 GWP growth at lower end of 17-20% guidance range expected

### 1H15 OVERVIEW

Insurance Australia Group Limited (IAG) has produced a sound operating performance in an increasingly competitive environment.

GWP growth of 17.1% 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 was relatively flat, influenced by:

- Modest volume growth in personal lines, which was broadly in line with system, in an increasingly competitive environment;
- Heightened competitive pressures in commercial lines, in both Australia and New Zealand; and
- The ongoing relative absence of input cost pressures, resulting in minimal cause for rate increases.

The Group's underlying profitability has remained strong, with an underlying margin[1] of 13.3%, compared to 13.7% in 1H14. 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.

The integration of the former Wesfarmers business and the implementation of a new operating model in Australia are progressing to plan. Modest early benefits were realised in 1H15, with the Group confident of achieving its targeted pre-tax run rates of $80m by the conclusion of FY15 and $230m by the end of FY16.

Reported profitability in 1H15 was lower than that of 1H14, largely owing to reduced prior period reserve releases and net natural peril claim costs exceeding allowance for the half. The reported insurance margin of 13.4% (1H14: 17.5%) incorporates:

- Net natural peril claim costs of $421m, which were $71m higher than the related allowance, and included $165m for the Brisbane storm event in November 2014;
- Prior period reserve releases of $92m, equivalent to 1.8% of net earned premium (NEP), down from $187m (4.3% of NEP) in 1H14; and
- A similar-sized favourable impact from the narrowing of credit spreads, of $40m, compared to 1H14.

IAG has delivered a sound operating performance in tougher market conditions

Wesfarmers integration and new operating model progressing to plan

Lower reported insurance margin of 13.4%, influenced by higher perils and reduced reserve releases

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

# 1. EXECUTIVE SUMMARY

Investment income on shareholders' funds, of $137m, was over 40% lower than 1H14, reflecting the much more muted return from equity markets in the period.

At the end of 1H15 the Group materially strengthened its gross claim reserves in respect of the FY11 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.

Significant strengthening of FY11 earthquake claims reserves, but within reinsurance limits

Gross claim reserves for the February 2011 event now stand close to the applicable reinsurance limit of NZ$4bn. 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 significant portion of the Canterbury earthquake-related reinsurance recoveries is recorded by the Group's captive vehicle in the lower tax jurisdiction of Singapore, which provides excess of loss cover to Group entities outside Australia. This has translated to an unusually low tax rate in 1H15, of under 10%.

Net profit after tax declined by nearly 10%, to $579m. A lower reported insurance margin and reduced shareholders' funds income were partially offset by the lower effective tax rate.

Reported return on equity (ROE) in 1H15 was 17.6%, and cash ROE was 19.8%, compared to the Group's through-the-cycle target of approximately 15% (1.5 times weighted average cost of capital (WACC)).

The Board has determined to pay an interim fully franked dividend of 13.0 cents per ordinary share (1H14: 13.0cps). This equates to a cash payout ratio of 46.6%.

## DIVISIONAL HIGHLIGHTS

| DIVISIONAL PERFORMANCE | 1H14 GWP Reported A$m | 1H14 GWP Growth % | 1H14 INSURANCE MARGIN Reported % | 1H14 INSURANCE MARGIN Underlying % | 1H15 GWP Reported A$m | 1H15 GWP Growth % | 1H15 INSURANCE MARGIN Reported % | 1H15 INSURANCE MARGIN Underlying % |
|---|---|---|---|---|---|---|---|---|
| Personal Insurance | 2,686 | n/a[1] | 19.5 | 14.5 | 2,802 | 4.3% | 16.0 | 14.0 |
| Commercial Insurance | 1,052 | n/a[1] | 18.5 | 12.0 | 1,514 | 43.9% | 6.6 | 10.7 |
| New Zealand | 884 | 17.7% | 12.4 | 14.2 | 1,116 | 26.2% | 19.2 | 15.9 |
| Asia | 154 | 12.4% | n/a | n/a | 164 | 6.5% | n/a | n/a |
| Corporate & Other | 10 | n/a | n/a | n/a | 7 | n/a | n/a | n/a |
| **Total Group** | **4,786** | **4.2%** | **17.5** | **13.7** | **5,603** | **17.1%** | **13.4** | **13.3** |

*[1]Comparative GWP figures for 1H13 not available following move to new Australian reporting structure.*

# 1. EXECUTIVE SUMMARY



At a divisional level:

- **Personal Insurance**, which represented 50% of Group GWP, performed well, producing an underlying margin of 14.0%. 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, while modest like-for-like growth was broadly in line with system after allowing for the exit from the Queensland CTP market in the prior year;
- **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;
- **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; and
- **Asia** saw solid GWP growth of 6.5%, fuelled by a resumption of growth in Thailand as more stable political conditions benefited economic activity. Asia's overall earnings contribution increased to $17m (1H14: $7m), as the established businesses in Thailand and Malaysia continued to perform well and the combined contribution from developing markets (India, China and Vietnam) moved from loss to a small profit.

Australian and New Zealand divisions reflect first-time inclusion of former Wesfarmers business

## CAPITAL

The Group's capital position remains strong, at 1.62 times the Prescribed Capital Amount (PCA) as at 31 December 2014, which is above the Group's targeted range of 1.4-1.6. The Common Equity Tier 1 (CET1) ratio stood at 1.04 at 31 December 2014, against a target benchmark of 0.9-1.1.

The Group's capital position remains strong

If allowance is made for payment of the interim dividend (which will occur in April 2015), the PCA and CET1 multiples at 31 December 2014 would remain comfortably within the Group's benchmark ranges.

The Group's debt to total tangible capitalisation ratio at 31 December 2014 was 35.6%. This places the Group just above the mid-point of its targeted range of 30-40%.

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

The Group's probability of adequacy for the outstanding claims liability remained at 90% at 31 December 2014.

# 1. EXECUTIVE SUMMARY



### FY15 OUTLOOK

For FY15, 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 $700m;
- Lower prior period reserve releases equivalent to around 2% of NEP; and
- No material movement in foreign exchange rates or investment markets in 2H15.

FY15 reported insurance margin guidance of 13.5-15.5% maintained, GWP growth expected to be at lower end of 17-20% range

# 2. PURPOSE & STRATEGY


## PURPOSE AND AMBITION

IAG's purpose is: *We help make your world a safer place*.

This means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves across Australia, New Zealand or Asia, IAG exists to 'help make your world a safer place'.

IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.

The Group's ambition is: *To be the world's most respected group of general insurance companies*.

*We help make your world a safer place*

## STRATEGY AND PRIORITIES

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

IAG's strategic priorities are:

***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.

Strategy, financial targets and strategic priorities unchanged

# 2. PURPOSE & STRATEGY

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

***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.

***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.

***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.

***Explore long term growth opportunities***

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

# 3. GROUP RESULTS

## FINANCIAL PERFORMANCE

| GROUP RESULTS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| **Gross written premium** | **4,786** | **4,993** | **5,603** |
| Gross earned premium | 4,885 | 4,836 | 5,805 |
| Reinsurance expense | (565) | (512) | (651) |
| **Net earned premium** | **4,320** | **4,324** | **5,154** |
| Net claims expense | (2,508) | (2,693) | (3,481) |
| Commission expense | (400) | (411) | (518) |
| Underwriting expense | (741) | (751) | (889) |
| **Underwriting profit** | **671** | **469** | **266** |
| Investment income on technical reserves | 87 | 352 | 427 |
| **Insurance profit** | **758** | **821** | **693** |
| Net corporate expense | (1) | (67) | (44) |
| Interest | (47) | (51) | (52) |
| Profit from fee based business | 12 | - | 10 |
| Share of profit/(loss) from associates | (3) | 5 | 9 |
| Investment income on shareholders' funds | 233 | 163 | 137 |
| **Profit before income tax and amortisation** | **952** | **871** | **753** |
| Income tax expense | (266) | (206) | (68) |
| **Profit after income tax (before amortisation)** | **686** | **665** | **685** |
| Non-controlling interests | (34) | (63) | (63) |
| **Profit after income tax and non-controlling interests (before amortisation)** | **652** | **602** | **622** |
| Amortisation and impairment | (10) | (11) | (43) |
| **Profit attributable to IAG shareholders** | **642** | **591** | **579** |

| Insurance Ratios | 1H14 | 2H14 | 1H15 |
|---|---|---|---|
| Loss ratio | 58.1% | 62.3% | 67.5% |
| Immunised loss ratio | 60.9% | 59.3% | 63.7% |
| Expense ratio | 26.5% | 26.9% | 27.3% |
| Commission ratio | 9.3% | 9.5% | 10.1% |
| Administration ratio | 17.2% | 17.4% | 17.2% |
| Combined ratio | 84.6% | 89.2% | 94.8% |
| Immunised combined ratio | 87.4% | 86.2% | 91.0% |
| Insurance margin | 17.5% | 19.0% | 13.4% |

| Key Financial Metrics (Total Operations) | 1H14 | 2H14 | 1H15 |
|---|---|---|---|
| Reported ROE (average equity) (% pa) | 26.4% | 18.5% | 17.6% |
| Cash ROE (average equity) (% pa) | 26.8% | 20.4% | 19.8% |
| Basic EPS (cents) | 30.88 | 25.48 | 24.87 |
| Diluted EPS (cents) | 29.56 | 24.32 | 24.08 |
| Cash EPS (cents) | 31.41 | 28.16 | 28.05 |
| DPS (cents) | 13.00 | 26.00 | 13.00 |
| Probability of adequacy | 90% | 90% | 90% |
| PCA multiple | 2.31 | 1.72 | 1.62 |

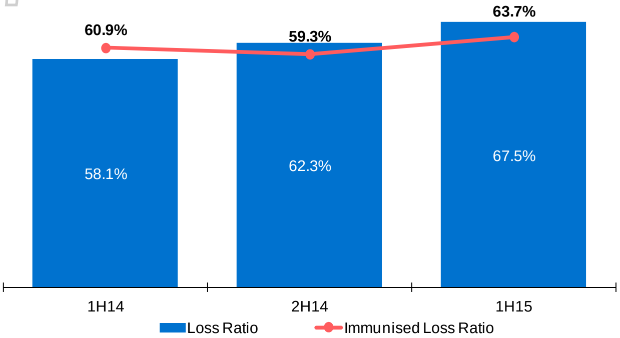
## KEY FOREIGN EXCHANGE RATES APPLIED

| | Balance Sheet (spot rate) | | | Income Statement (average rate) | |
|---|---|---|---|---|---|
| | 1H14 | 2H14 | 1H15 | 1H14 | 1H15 |
| New Zealand dollar | 0.9222 | 0.9287 | 0.9552 | 0.8823 | 0.9129 |
| Thai baht | 0.0343 | 0.0327 | 0.0373 | 0.0344 | 0.0347 |
| Malaysian ringgit | 0.3418 | 0.3304 | 0.3505 | 0.3367 | 0.3434 |
| Indian rupee | 0.0181 | 0.0177 | 0.0194 | 0.0175 | 0.0184 |
| Chinese yuan renminbi | 0.1851 | 0.1710 | 0.1974 | 0.1778 | 0.1830 |

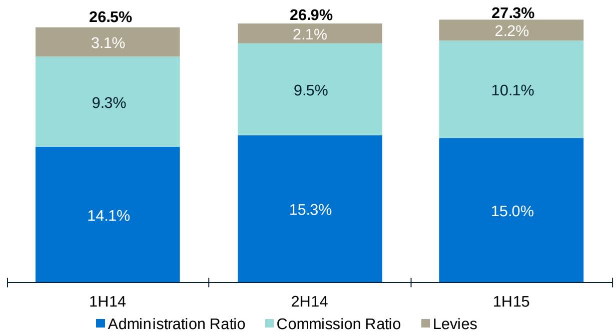
# 3. GROUP RESULTS

## INSURANCE RATIOS

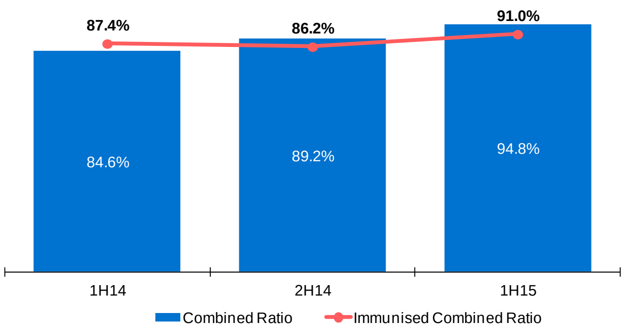
### LOSS RATIO



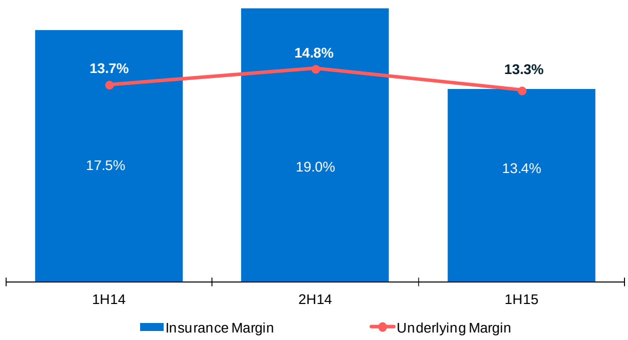

### EXPENSE RATIOS




### COMBINED RATIO




### INSURANCE MARGIN




## PREMIUMS

1H15 GWP for the Group was $5,603m, up 17.1% from $4,786m in 1H14. This strong growth reflects the first-time inclusion of the former Wesfarmers business. Other features of the 1H15 GWP performance were:

- Limited personal lines rate increases in Australia and New Zealand in an environment of heightened competition and very modest claims inflation;
- Volume growth broadly in line with system in most classes;
- Tougher commercial market conditions in both Australia and New Zealand, where underwriting disciplines have been maintained;
- Attrition in respect of the former Wesfarmers business towards the upper end of the Group's 5-10% expectation; and
- A slightly favourable foreign exchange translation effect, notably in respect of New Zealand.

Comparing 1H15 GWP with 1H14 on a divisional basis:

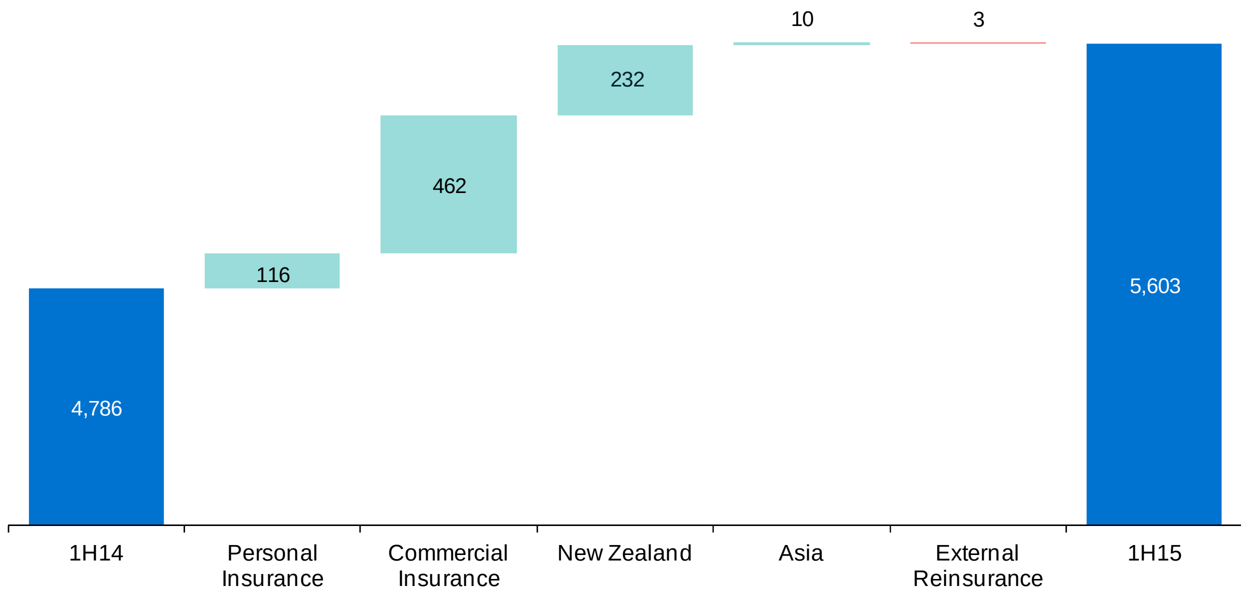
- **Personal Insurance** grew its GWP by 4.3%, to $2,802m, reflecting the first-time addition of personal lines volumes associated with the former Wesfarmers business, including Coles. Negligible rate increases were implemented and modest volume growth was achieved in short tail classes. Long tail GWP declined 3.4%, largely owing to the exit from the poorly performing Queensland CTP market from 1 January 2014;
- **Commercial Insurance** GWP rose by nearly 44%, to $1,514m, following the inclusion of the former Wesfarmers business, which has delivered a market-leading presence in the Australian commercial market. Related attrition has been at the upper end of expectations, while softer market conditions have resulted in a modest contraction in like-for-like GWP. Retention levels have remained high in the key SME segment;

GWP growth of 17.1%, driven by addition of the former Wesfarmers business

# 3. GROUP RESULTS

- **New Zealand** reported an increase in GWP of 26.2%, to $1,116m, following incorporation of the local Lumley Insurance business and a favourable foreign exchange translation effect. Local currency GWP growth was 22.2%. Modest like-for-like GWP growth was recorded, with growth in personal lines offset by tougher commercial market conditions; and
- In **Asia**, consolidated GWP rose by 6.5%, to $164m, largely reflecting an improved market environment in Thailand. On a proportional basis, GWP increased by 4.8%, aided by continued strong growth in India. IAG now participates in a gross regional annualised GWP pool in excess of $1.5bn.

GWP – 1H15 VS. 1H14 (A$M)




## INSURANCE MARGIN

Underlying performance remains strong

The Group has continued to perform strongly at an underlying level. The 1H15 underlying margin of 13.3% is slightly lower than 1H14 (13.7%), but exceeds the level required to meet the Group's through-the-cycle return target. To a large extent the reduction in underlying margin reflects the addition of the lower margin former Wesfarmers business.

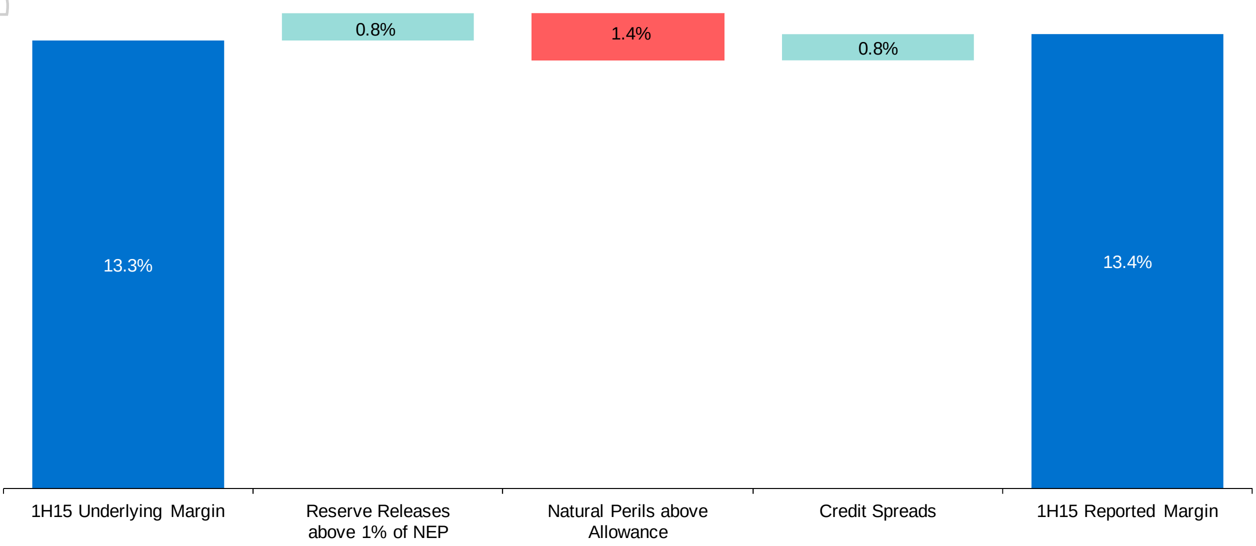
Integration of this business and the Group's move to a new operating model in Australia are expected to generate significant benefits by the end of FY16, however, as anticipated, there was only modest impact in 1H15.

IAG defines its underlying margin as the reported insurance margin adjusted for:

- Net natural peril claim costs less related allowance for the period;
- Reserve releases in excess of 1% of NEP; and
- Credit spread movements.

# 3. GROUP RESULTS

## GROUP INSURANCE MARGIN – UNDERLYING VS. REPORTED




The Group's reported 1H15 insurance margin, of 13.4%, was lower than the 1H14 outcome of 17.5%, largely owing to:

- An $86m increase in net natural peril claim costs, to $421m, which exceeded allowance by $71m and created an adverse margin effect of 1.4%. 1H14's perils outcome was modestly ($15m) above allowance; and
- A $95m reduction in prior period reserve releases, with the lower margin effect of 1.8% broadly in line with expectations but significantly lower than 1H14 (4.3%).

Favourable credit spread impacts in 1H14 and 1H15 were of similar magnitude, while the Group's underlying underwriting result increased by $98m, primarily driven by the addition of the former Wesfarmers business.

Reported and underlying margins for the three main operating divisions in Australia and New Zealand have been influenced to varying degrees by the first-time inclusion of the former Wesfarmers business. In FY14, the former Wesfarmers business reported an overall insurance margin slightly below 10%, with an underlying margin of similar scale.

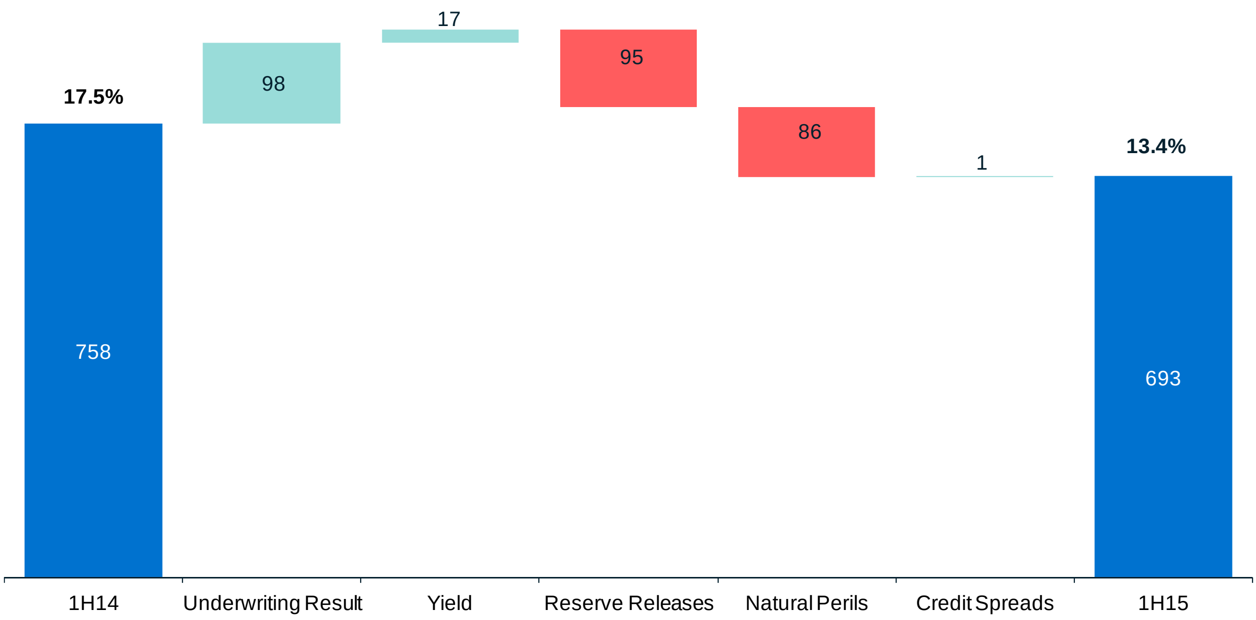
Divisional outcomes in 1H15 comprised:

- A strong, but slightly lower, underlying margin of 14.0% from **Personal Insurance**. The higher reported margin of 16.0% continued to benefit from reserve releases from long tail classes which exceeded long term expectations, while a favourable credit spread impact was largely offset by a small natural peril claim overrun against allowance;
- A reduced underlying margin of 10.7% from **Commercial Insurance**, reflecting both the input from the lower margin former Wesfarmers business and the impact of tougher commercial market conditions. A significantly lower reported margin of 6.6% incorporated a markedly adverse natural peril experience against allowance, which reduced the margin outcome by 5.8%;
- A continued strong performance from **New Zealand**, with an underlying margin of 15.9%. The division's reported margin, of 19.2%, benefited from a benign natural peril experience which, when compared to allowance, enhanced the margin outcome by 3.5%; and

Reported margin influenced by adverse perils and lower reserve releases

- A similar insurance profit of $8m from **Asia**. Thailand continued to perform well but produced a slightly lower contribution, with lower net earned premium countered by higher investment income on technical reserves. Vietnam moved to a modest profit.

INSURANCE PROFIT / MARGIN – 1H15 VS. 1H14




| INSURANCE MARGIN IMPACTS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 187 | 61 | 92 |
| Natural perils | (335) | (218) | (421) |
| Natural peril allowance | 320 | 320 | 350 |
| Credit spreads | 39 | 61 | 40 |
| Reserve releases | 4.3% | 1.4% | 1.8% |
| Natural perils | (7.8%) | (5.0%) | (8.2%) |
| Natural peril allowance | 7.4% | 7.4% | 6.8% |
| Credit spreads | 0.9% | 1.4% | 0.8% |

## REINSURANCE EXPENSE

The total reinsurance expense includes the cost of all covers purchased by the Group, including catastrophe, casualty, facultative and proportional protection. The 1H15 expense of $651m includes $183m (1H14: $136m) from CTP-related effects, comprising:

- The quota share (QS) agreement for 30% of the combined CTP book, which commenced 1 July 2013; and
- A one-off expense from commencement of the CTP adverse development cover (ADC), from 1 July 2014. The ADC had a neutral impact on the reported 1H15 insurance profit.

Excluding the above CTP effects, 1H15's reinsurance expense was 8.4% of reported GWP, down from 9.0% in 1H14. This reflects the net effect of:

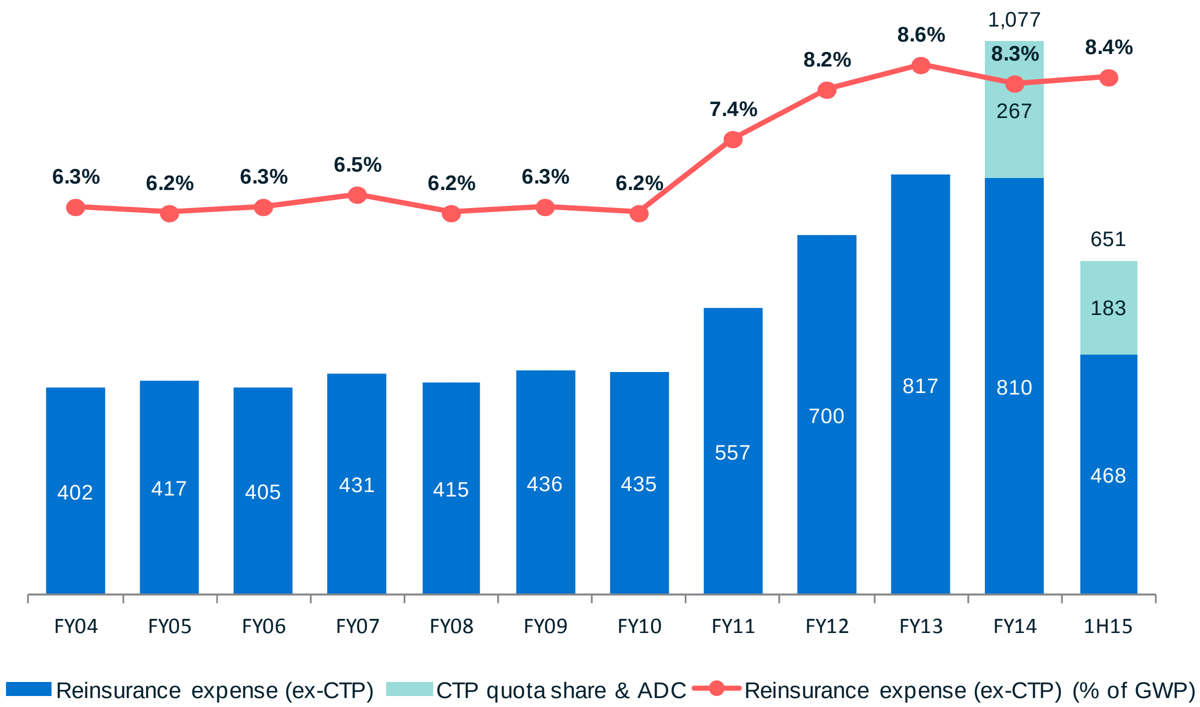
- Lower catastrophe reinsurance costs, stemming from the calendar 2014 renewal; and

Favourable trend in reinsurance expense, ex-CTP effects

# 3. GROUP RESULTS

- Inclusion of the relatively higher cost standalone programme for the former Wesfarmers business, from 1 July 2014.

## REINSURANCE EXPENSE




The Group encountered a continuance of favourable market conditions at its calendar 2015 catastrophe renewal. The cancellation option in respect of the standalone programme for the former Wesfarmers operations was exercised at the end of 1H15, enabling inclusion of that business in the main Group programme from 1 January 2015. This realises all expected related reinsurance synergies, and these will be reflected in the Group's reported earnings up to 31 December 2015.

## CLAIMS

The higher 1H15 immunised loss ratio of 63.7% (1H14: 60.9%) was driven by:

- Lower prior period reserve releases; and
- Higher net natural peril claim costs.

The combined effect of these two factors was to increase the immunised loss ratio by nearly 300 basis points, compared to 1H14.

Reserve release and peril factors increased 1H15 loss ratio by c.300 basis points

The 1H15 reported loss ratio of 67.5% is considerably higher than 1H14 (58.1%). In addition to the reserve release and peril influences outlined above, it contains an adverse risk free discount rate adjustment of nearly $200m, after inclusion of foreign exchange effects. This compares to an equivalent favourable effect of over $120m on the claims expense in 1H14.

### Reserve Releases

The 1H15 net claims expense includes $92m of prior period reserve releases, equivalent to 1.8% of NEP, down from the 4.3% reported in 1H14.

Reserve releases close to FY15 guidance run rate

This is close to the Group's FY15 guidance of around 2% of NEP, reflecting an expected continuation of benign inflationary conditions.

1H15 reserve releases primarily reflect favourable experience in Australian long tail classes, such as professional risks, workers' compensation and CTP, in a low claims inflation environment.

| RESERVE RELEASES | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 187 | 61 | 92 |
| **Impact on insurance margin** | **4.3%** | **1.4%** | **1.8%** |

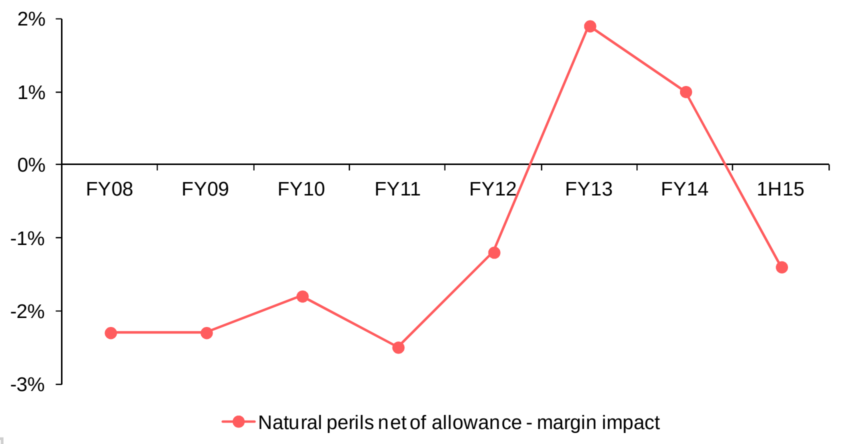
As embodied in its underlying margin definition, the Group believes that reserve releases of around 1% of NEP are a recurring feature of its reported operating results in benign inflationary periods. This reflects the Group's approach to reserving, with long term inflation assumptions tending to be in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

**Natural Perils**

Net natural peril claim costs $71m higher than allowance

The 1H15 net claims expense included $421m (1H14: $335m) of losses from natural perils (net of reinsurance), compared to an allowance of $350m. The net effect of natural perils (after allowance) was an adverse impact on the reported insurance margin of 1.4% (1H14: negative impact of 0.4%).

NATURAL PERILS – IMPACT ON INSURANCE MARGIN




| NATURAL PERILS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Natural peril claim costs | (335) | (218) | (421) |
| Natural peril allowance | 320 | 320 | 350 |
| **Impact on insurance profit** | **(15)** | **102** | **(71)** |
| **Impact on insurance margin** | **(0.4%)** | **2.4%** | **(1.4%)** |

The most significant peril event during the period was the Brisbane storm in late November, which accounted for nearly 40% of total net natural peril claim costs in the half.

Attritional natural peril events (less than $15m in size) amounted to $139m (1H14: $154m).

It remains the Group's assumption that net natural peril claim costs will amount to $700m in FY15, in line with the full year allowance.

# 3. GROUP RESULTS

The Group has purchased additional catastrophe reinsurance cover for FY15, which provides $150m of protection in excess of $700m.

| 1H15 NATURAL PERIL COSTS BY EVENT | A$m |
|---|---|
| Severe winds and storm - Perth / Melbourne (September 2014) | 18 |
| Storms, east coast low - New South Wales / Victoria (October 2014) | 24 |
| Severe thunderstorms - Western Australia (October 2014) | 31 |
| Hail storm - Brisbane (November 2014) | 165 |
| Hail and severe storms - Sydney (December 2014) | 44 |
| Other events (<$15m) | 139 |
| **Total** | **421** |

## EXPENSES

Investment in long term efficiency and customer-oriented projects an ongoing feature

Total operating expenses (commission and underwriting) increased by over 23% to $1,407m, culminating in a reported expense ratio of 27.3% (1H14: 26.5%). Excluding government levies, the Group's administration ratio was 15.0%, compared to 14.1% in 1H14.

While slightly lower than the ratio reported in 2H14 (15.3%), the Group's expenses in 1H15 reflect:

- Inclusion of the higher administration cost level applicable to the former Wesfarmers business (FY14 administration ratio of over 16%);
- Ongoing investment in the overall business, directed towards long term efficiency and customer-oriented projects; and
- Modest early benefits from the integration of the former Wesfarmers business and the move to a new operating model in Australia.

The Group's commission ratio of 10.1% was higher than 1H14 (9.3%), primarily reflecting the increased proportion of business derived from intermediated or agency channels, following the addition of the former Wesfarmers business.

## INVESTMENT INCOME ON TECHNICAL RESERVES

Technical reserves income boosted by unrealised capital gains

Investment income on technical reserves for 1H15 was $427m, compared to $87m in 1H14. This outcome includes:

- An unrealised capital gain of nearly $190m, compared with an equivalent unrealised capital loss of $81m in 1H14, excluding foreign exchange effects;
- An overall positive impact of $40m from the narrowing of credit spreads (1H14: $39m); and
- A favourable foreign exchange impact of $10m (1H14: adverse $42m), including that from the hedge associated with reinsurance recoveries held by the offshore captive in Singapore in respect of the New Zealand earthquakes in FY11. A corresponding offset is included in the net claims expense, resulting in no net impact to the insurance margin.

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

## NET CORPORATE EXPENSE

Net corporate expense in respect of new Australian operating model and integration of former Wesfarmers business

A pre-tax net corporate expense of $44m was recognised in 1H15 (1H14: $1m). This comprises:

- Restructuring costs in respect of the new operating model in Australia, implemented from 1 July 2014; and

# 3. GROUP RESULTS

- Integration costs associated with the acquisition of the former Wesfarmers business.

The post-tax impact on reported earnings was approximately $31m.

A full year pre-tax net corporate expense of up to $170m is anticipated, consistent with previous expectations.

## PROFIT FROM FEE BASED BUSINESS

Fee based business generated a profit of $10m in 1H15, compared to $12m in 1H14. The majority of this was sourced from Commercial Insurance's role as agent for the NSW and Victorian workers' compensation schemes. The lower contribution is attributable to changes made to the NSW regulator remuneration model in the prior year.

## SHARE OF ASSOCIATES

Share of associates largely derived from Asian interests

The Group's Asian interests represent the vast majority of the share of earnings from associates, and in 1H15 comprised:

- A 49% interest in the Malaysian joint venture, AmGeneral Holdings;
- A 26% interest in SBI General Insurance Company in India; and
- A 20% interest in Bohai Property Insurance in China.

The combined contribution from the Asian associates was a profit of $9m, after allocation of $10m of regional support and development costs. The Group's overall share of associates was a profit of $9m (1H14: $3m loss), reflecting the improved financial performance of the Asian associates.

## INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Lower shareholders' funds income reflects limited equity returns

Investment income on shareholders' funds was a profit of $137m, a decrease of over 40% on the profit of $233m in 1H14. This was driven by a more modest return from equity markets in 1H15, with the broader Australian index (S&P ASX200 Accumulation) delivering a positive result of 2.5%.

At 31 December 2014 the weighting to growth assets (equities and alternatives) within shareholders' funds stood at approximately 36% (FY14: 42%).

## TAX EXPENSE

The Group reported a tax expense of $68m in 1H15, compared to $266m in 1H14, representing an effective tax rate (pre-amortisation) of approximately 9%.

This unusually low tax rate reflects reinsurance recoveries recognised in the period which relate to the FY11 Canterbury earthquake events in New Zealand. A substantial portion of these recoveries is recorded by the Group's captive vehicle in the lower tax jurisdiction of Singapore.

The Singapore-based captive provides reinsurance cover to Group entities located outside Australia on an excess of loss basis, with locally retained risk based on relevant regulatory requirements.

The 1H15 tax expense reconciles to the prevailing Australian corporate rate of 30% after allowing for:

- The effect of reinsurance recoveries in the period;
- Other differences in tax rates applicable to the Group's foreign operations, principally in New Zealand, Singapore and Malaysia; and
- Franking credits generated from the Group's investment portfolio.

# 3. GROUP RESULTS

It is the Group's expectation that the effective tax rate will revert to a more normal level, in the high 20s, in future periods.

### NON-CONTROLLING INTERESTS

The $63m non-controlling interests in the Group's profit compares to $34m in 1H14. The majority of the non-controlling interests is earnings attributable to the minority 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short tail business lines in NSW, Victoria and the ACT form part of Personal Insurance. The IMA result benefited from a benign natural peril experience, compared to 1H14.

Higher non-controlling interests reflects stronger IMA result

### AMORTISATION AND IMPAIRMENT

The 1H15 amortisation charge of $43m compares to $10m reported in 1H14. The higher charge in 1H15 reflects the commencement of amortisation of intangible assets generated by the acquisition of the former Wesfarmers business.

Higher amortisation reflects Wesfarmers-related intangibles

### EARNINGS PER SHARE

Basic earnings per share (EPS) in 1H15 was 24.87 cents per share (cps), compared to 30.88cps in 1H14, a decrease of 19.5%. 1H15 basic EPS was calculated on weighted average capital on issue of approximately 2,329m shares (excluding treasury shares). On a diluted basis, EPS was 24.08cps (1H14: 29.56cps).

| ORDINARY ISSUED CAPITAL | Shares (m) |
|---|---|
| Balance at the beginning of the financial year | 2,341.6 |
| **Balance at the end of the half year** | **2,341.6** |
| | |
| Average weighted shares on issue | 2,341.6 |
| Less: treasury shares held in trust | (12.8) |
| **Average weighted shares on issue (excluding treasury shares)** | **2,328.8** |

Cash EPS was 28.05cps, compared to 31.41cps in 1H14, a decrease of 10.7%. Cash earnings are used for targeted ROE and dividend payout policy purposes, and are defined as:

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

Cash EPS of 28.05 cents

| CASH EARNINGS | 1H15 A$m |
|---|---|
| **Net profit after tax** | **579** |
| Intangible amortisation | 43 |
| Unusual items: | |
| - Corporate expenses | 44 |
| - Tax effect on corporate expenses | (13) |
| **Cash earnings** | **653** |
| **Dividend payable** | **304** |
| **Cash payout ratio** | **46.6%** |

# 3. GROUP RESULTS

## DIVIDEND

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 (1H14: 13.0cps). This equates to a payout ratio of 46.6% of cash earnings for the period. The interim dividend is payable on 1 April 2015 to shareholders registered as at 5pm on 4 March 2015.

The dividend reinvestment plan (DRP) will operate for the interim dividend for shareholders registered for the DRP as at 5pm on 5 March 2015. The issue price per share for the 1H15 dividend will be the Average Market Price as defined in the DRP terms, and there will be no discount for participants. Shares allocated under the DRP will be purchased on-market. Information about IAG's DRP is available at: http://www.iag.com.au/shareholder-centre/dividends/reinvestment

As at 31 December 2014, and after allowance for payment of the interim dividend, the Group's franking balance was $364m, giving it the capacity to fully frank a further $850m of distributions.

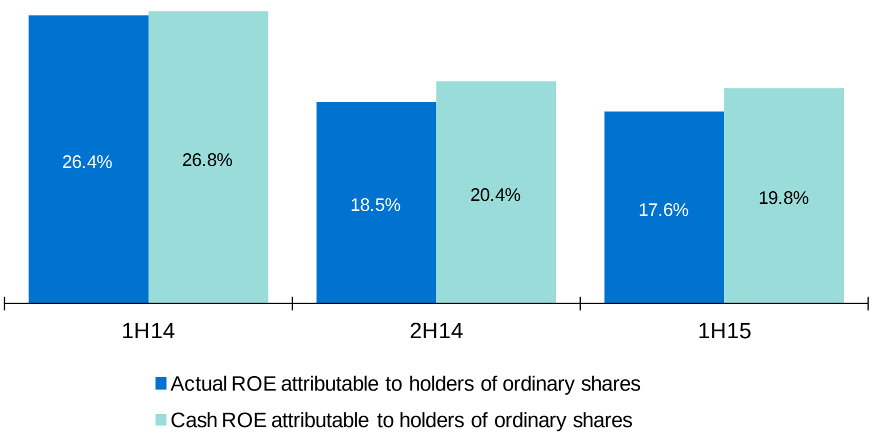
Cash payout ratio of 46.6% in 1H15

## RETURN ON EQUITY

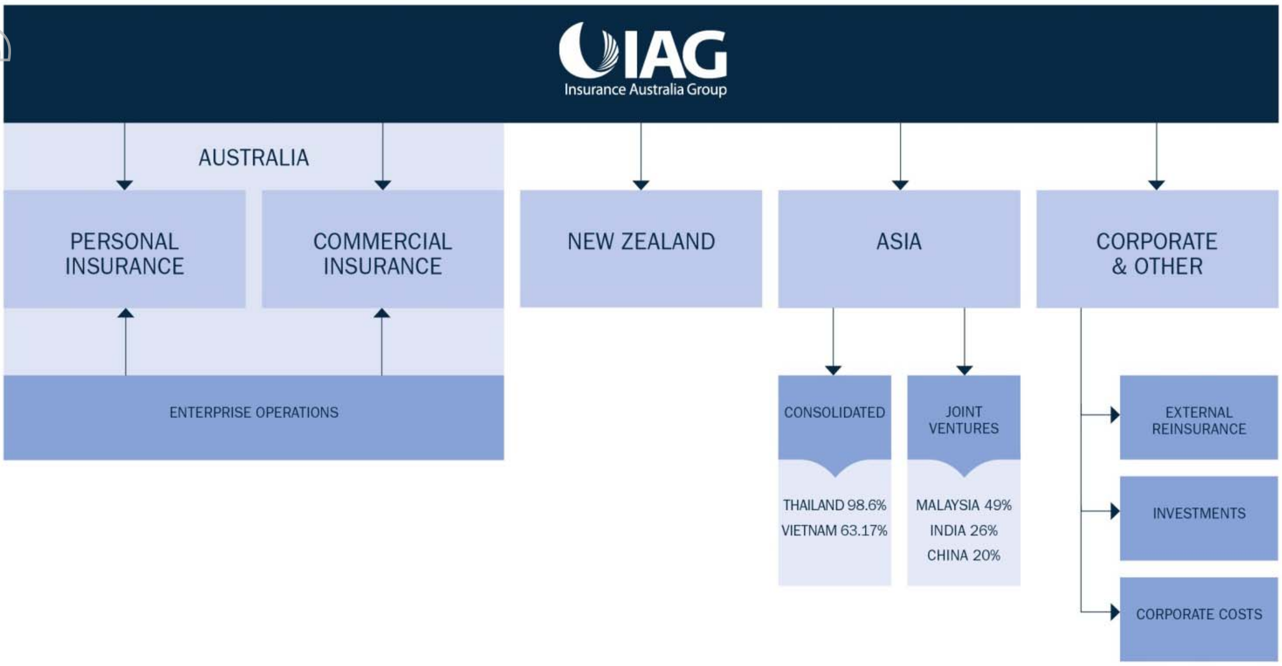
The Group targets a cash ROE of at least 1.5 times WACC on a through-the-cycle basis. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation and impairment of acquired identified intangibles and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%. In 1H15, the Group reported a cash ROE of 19.8%, compared to 26.8% in 1H14.

Cash ROE of 19.8%

RETURN ON EQUITY (ANNUALISED)



# 4. 1H15 DIVISIONAL OVERVIEW




## 1H15 DIVISIONAL FINANCIAL PERFORMANCE

| | Australia Personal Insurance A$m | Australia Commercial Insurance A$m | New Zealand A$m | Asia A$m | Corporate & Other A$m | Total A$m |
|---|---|---|---|---|---|---|
| **Gross written premium** | **2,802** | **1,514** | **1,116** | **164** | **7** | **5,603** |
| Gross earned premium | 2,814 | 1,673 | 1,148 | 163 | 7 | 5,805 |
| Reinsurance expense | (365) | (122) | (143) | (19) | (2) | (651) |
| **Net earned premium** | **2,449** | **1,551** | **1,005** | **144** | **5** | **5,154** |
| Net claims expense | (1,755) | (1,099) | (538) | (84) | (5) | (3,481) |
| Commission expense | (129) | (229) | (121) | (37) | (2) | (518) |
| Underwriting expense | (388) | (301) | (178) | (22) | - | (889) |
| **Underwriting profit/(loss)** | **177** | **(78)** | **168** | **1** | **(2)** | **266** |
| Investment income on technical reserves | 214 | 180 | 25 | 7 | 1 | 427 |
| **Insurance profit/(loss)** | **391** | **102** | **193** | **8** | **(1)** | **693** |
| Profit/(loss) from fee based business | - | 9 | 2 | - | (1) | 10 |
| Share of profit from associates | - | - | - | 9 | - | 9 |
| **Total divisional results** | **391** | **111** | **195** | **17** | **(2)** | **712** |
| **Insurance Ratios** | | | | | | |
| Loss ratio | 71.7% | 70.9% | 53.5% | | | 67.5% |
| Expense ratio | 21.1% | 34.2% | 29.7% | | | 27.3% |
| Commission ratio | 5.3% | 14.8% | 12.0% | | | 10.1% |
| Administration ratio | 15.8% | 19.4% | 17.7% | | | 17.2% |
| Combined ratio | 92.8% | 105.1% | 83.2% | | | 94.8% |
| Insurance margin | 16.0% | 6.6% | 19.2% | | | 13.4% |

# 5. AUSTRALIAN OPERATIONS OVERVIEW

## NEW AUSTRALIAN OPERATING MODEL / WESFARMERS INTEGRATION

New Australian operating model effective 1 July 2014

With effect from 1 July 2014, IAG implemented a new operating model for its Australian operations to create a more customer-focused and efficient organisation. The new model allows IAG to better leverage its scale and insurance expertise to deliver better outcomes for its customers, partners, people and shareholders. Significant benefits are expected to be realised within a two-year timeframe, as the new operating model removes duplication and further improves IAG's management of procurement and supply chain activities.

Implementation of the new operating model has occurred in tandem with the integration of the former Wesfarmers business, the bulk of which is located in Australia. The combined initiative is progressing to plan, with the Group on target to realise an overall benefit / synergy run rate of $80m pre-tax by the conclusion of FY15. A relatively small part of this expected run rate improvement relates to the integration of the New Zealand portion of the former Wesfarmers business.

It remains the Group's expectation that this combined initiative will result in a total pre-tax benefit / synergy of $230m per annum, with that run rate expected to be reached by the conclusion of FY16.

Total one-off pre-tax costs of $220m are expected from implementation of this combined initiative. $50m of this sum was recognised in FY14, with up to $170m expected to be brought to account in FY15 (1H15: $44m).

## ENTERPRISE OPERATIONS

Modest initial benefits realised in 1H15, in line with plan

Enterprise Operations provides services that enable IAG's Australian customer-facing businesses to achieve their customer and partner strategies for growth and retention. A focus on efficient and effective service delivery, as well as innovation in delivering new services, will support Personal Insurance and Commercial Insurance to achieve their strategic objectives.

Enterprise Operations consists of:

- Information technology;
- People and culture;
- Procurement and supply chain;
- Claims services;
- Programme delivery;
- Risk and legal; and
- Finance and technical services.

The cost of services provided by Enterprise Operations is reported within the respective financial results of Personal Insurance and Commercial Insurance.

Since 1 July 2014, the implementation of Enterprise Operations' new business model has involved the:

- Successful integration of more than 3,000 employees from across IAG's existing businesses and the former Wesfarmers business, ensuring the right talent and capabilities exist to meet business demands;
- Commencement of a programme of restructuring to reduce duplication, whilst maintaining a high level of service delivery;
- Construction of frameworks to effectively leverage a shared service operating model. This has included the:
  - Creation of strong intra-business relationships;

# 5. AUSTRALIAN OPERATIONS OVERVIEW

  - Co-design of strategic objectives;
  - Introduction of mutual performance agreements to meet customer and partner needs; and
  - Pursuit of collaborative ways of working and management of service demands;
- Creation of a programme of work to leverage IAG's increased scale and best practice across the Australian businesses;
- Pursuit of opportunities to deliver 'best for IAG' differentiating services, in terms of quality and range;
- Realisation of modest initial benefits from identified efficiency opportunities; and the
- Introduction of appropriate metrics and governance to track costs and service delivery, while driving accountability.

## AUSTRALIAN INSURANCE MARKET REGULATION AND REFORM

The industry remains subject to a number of legislative reviews

Several legislative reviews and inquiries are underway with potential implications for the insurance industry:

- The Productivity Commission's Inquiry into National Disaster Funding Arrangements has examined the scope of spending on natural disaster mitigation, resilience and recovery initiatives, and the risk management measures available / taken by asset owners. A final report was delivered to the government in December 2014 and a response is scheduled for early 2015;
- The Financial System Inquiry's Final Report in November 2014 examined policy measures that support access and choice in general insurance and improve product disclosure for consumers, including insurance price comparison websites. A final government response is expected in March 2015;
- The Competition Policy Review includes recommendations relating to the principles of competitive neutrality and statutory insurance schemes, potentially opening them up to competition. Submissions were made in November 2014 and a government response is expected in March 2015;
- The NSW Government's Legislative Assembly Select Committee Investigating the Motor Vehicle Repair Industry is examining the relationship between the smash repair industry and insurers. A report handed down in July 2014 contained recommendations regarding assessor licensing and penalties, as well as changes to the current code of conduct and dispute mechanisms. A government response is expected in early 2015;
- The Essential Services Commission Inquiry is examining the economic regulation of regular and heavy vehicle accident towing in Victoria. A draft report is expected in May 2015 with a final report due to the Minister in July 2015;
- The Australian Government released a report by the Australian Government Actuary into home and contents insurance pricing in North Queensland in December 2014. This was the third report by the Australian Government Actuary to demonstrate that North Queensland's insurance pricing is driven by the extreme cyclone risk the region faces, and not other factors;
- In July 2014, the NSW Standing Committee on Law and Justice published its 12th review of the exercise of the functions of the Motor Accidents Authority. The review produced 16 recommendations for the NSW Government to consider including: that it consults with stakeholders to identify barriers to new entrants and means of encouraging greater competition in the NSW CTP scheme; that increased reporting on scheme

performance be provided; and that legal cost regulations be reviewed. As part of the Government's response announced in January 2015, there will be a review of insurer profits in the NSW CTP scheme. This review will include an examination of scheme design and competition issues / barriers to entry, as well as opportunities for improving the regulation of the scheme; and

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

# 6. PERSONAL INSURANCE



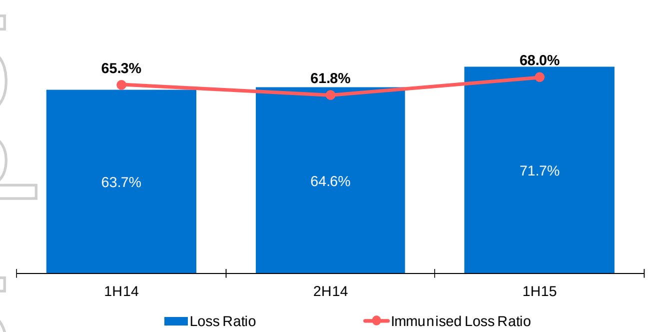
## FINANCIAL PERFORMANCE

| | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| **Gross written premium** | **2,686** | **2,649** | **2,802** |
| Gross earned premium | 2,732 | 2,663 | 2,814 |
| Reinsurance expense | (334) | (303) | (365) |
| **Net earned premium** | **2,398** | **2,360** | **2,449** |
| Net claims expense | (1,527) | (1,525) | (1,755) |
| Commission expense | (123) | (127) | (129) |
| Underwriting expense | (364) | (379) | (388) |
| **Underwriting profit** | **384** | **329** | **177** |
| Investment income on technical reserves | 83 | 220 | 214 |
| **Insurance profit** | **467** | **549** | **391** |

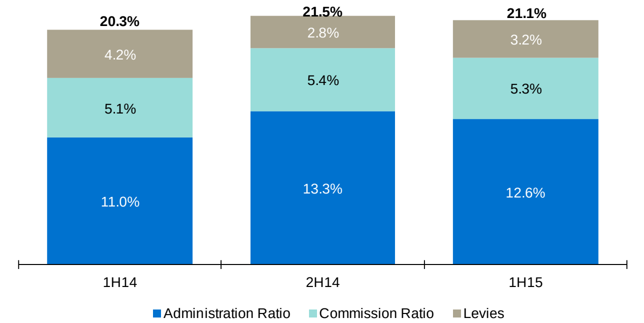
| Insurance Ratios | 1H14 | 2H14 | 1H15 |
|---|---|---|---|
| Loss ratio | 63.7% | 64.6% | 71.7% |
| Immunised loss ratio | 65.3% | 61.8% | 68.0% |
| Expense ratio | 20.3% | 21.5% | 21.1% |
| Commission ratio | 5.1% | 5.4% | 5.3% |
| Administration ratio | 15.2% | 16.1% | 15.8% |
| Combined ratio | 84.0% | 86.1% | 92.8% |
| Immunised combined ratio | 85.6% | 83.3% | 89.1% |
| Insurance margin | 19.5% | 23.3% | 16.0% |

## INSURANCE RATIOS

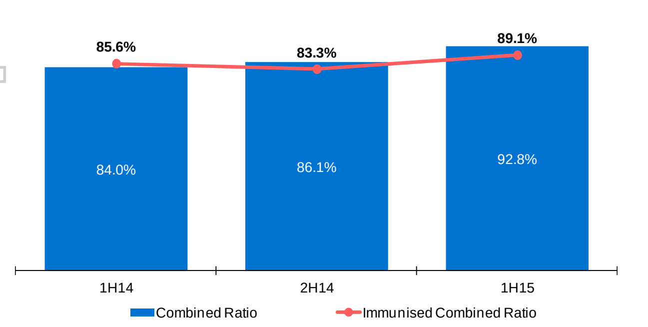
### LOSS RATIO



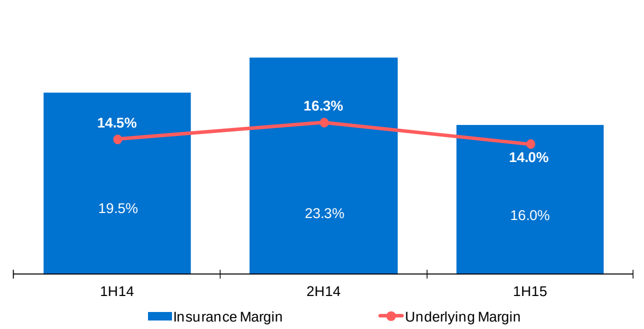

### EXPENSE RATIOS




### COMBINED RATIO




### INSURANCE MARGIN

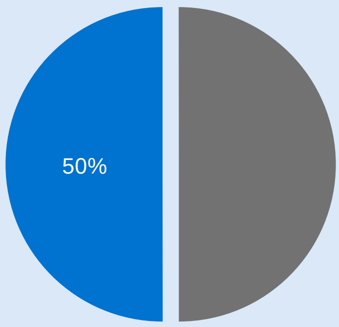


# 6. PERSONAL INSURANCE

## EXECUTIVE SUMMARY

- Personal Insurance comprises personal lines insurance products, including compulsory third party (CTP)
- Includes direct and intermediated (affinity & financial institution partnerships and broker & agent) channels
- From FY15, contains personal lines of the former Wesfarmers business, including Coles
- 1H15 GWP growth of 4.3%, driven by addition of former Wesfarmers business
- Short tail volume growth broadly in line with system
- Strong profitability in 1H15 – underlying margin of 14.0%
- Reported margin of 16.0% boosted by favourable reserve release and credit spread impacts

**Personal Insurance - % Group GWP**




## PERSONAL INSURANCE

The Personal Insurance division was established on 1 July 2014, as part of the new operating model implemented in Australia. It comprises:

- The motor, home and CTP operations which previously represented the bulk of the Australia Direct division;
- Personal lines which were previously part of the affinity & financial institution partnerships and broker & agent channels within the Australia Intermediated division; and
- Personal lines of the former Wesfarmers business, including Coles.

From 1 July 2014, Enterprise Operations provides support services to Personal Insurance, such as information technology, people & culture, and procurement & supply chain. The cost of relevant services provided by Enterprise Operations is reported within the financial results of Personal Insurance.

Market-leading presence in Australian personal lines

## PREMIUMS

Personal Insurance's GWP increased by 4.3%, to $2,802m in 1H15 (1H14: $2,686m). 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.

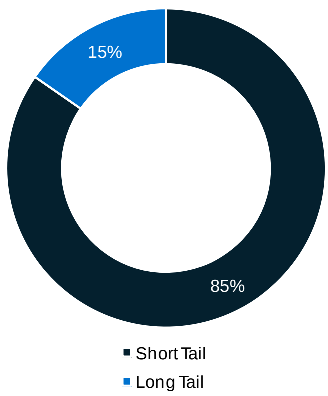
The division's overall GWP performance has been characterised by high retention levels but reduced new business opportunities, in an environment of limited market premium rate changes.

Other features of Personal Insurance's 1H15 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.

GWP growth of 4.3%, reflecting former Wesfarmers volumes

### 1H15 GWP BY TAIL



# 6. PERSONAL INSURANCE

Personal Insurance continued to provide customers with a comprehensive digital sales and service offering. This includes an online self service centre and an integrated digital multi-channel platform, allowing customers access to various services across all devices.

Personal Insurance's online sales channel registered substantial growth in 1H15, with like-for-like volumes increasing by 24% against 1H14.

Overall short tail GWP was $2,373m, an increase of 5.8% compared to 1H14. The majority of this was derived from incoming former Wesfarmers business volumes.

| GWP | 1H14 | 2H14 | 1H15 | GWP Growth 1H15 vs 1H14 |
|---|---|---|---|---|
| Motor | 1,173 | 1,189 | 1,254 | 6.9% |
| Home | 977 | 946 | 1,026 | 5.0% |
| Niche & Other | 92 | 77 | 93 | 1.1% |
| **Total Short Tail** | **2,242** | **2,212** | **2,373** | **5.8%** |
| Long Tail | 444 | 437 | 429 | (3.4%) |
| **Total GWP** | **2,686** | **2,649** | **2,802** | **4.3%** |

Motor GWP increased by 6.9%, compared to 1H14. Excluding Wesfarmers-related volumes, modest growth was achieved. Volume accounted for all of this growth, slightly offset by lower average rates in an environment of negligible underlying claims inflation and reduced average vehicle values.

Overall due renewal levels for motor have remained high and were at a similar level to those of preceding periods.

Home GWP was 5.0% higher than 1H14, largely reflecting the first-time consolidation of former Wesfarmers volumes.

Excluding the former Wesfarmers business, home volume growth was achieved in all states with the exception of NSW. Overall due renewal rates for home remained high, and exceeded those achieved in 1H14.

The Coles business, which offers both motor and home products, exhibited strong growth, off a relatively small base.

Niche and other short tail lines, comprising boat, caravan, classic car and other specialty products, generated sound GWP growth. An offsetting factor was the absence of the Telstra mobile phone insurance relationship which was terminated towards the end of 1H14 and contributed GWP of nearly $15m in that period.

Overall long tail (primarily CTP) GWP reduced by 3.4% compared to 1H14, largely owing to:

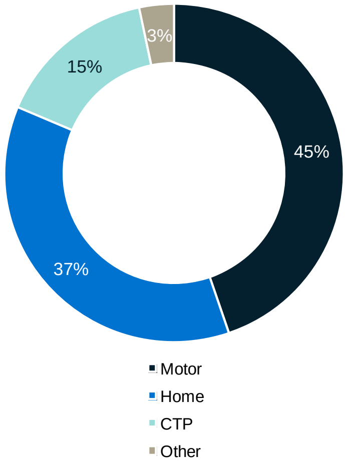
- Personal Insurance's withdrawal from the Queensland CTP market with effect from 1 January 2014, due to unsatisfactory performance. Related GWP in 1H14 was $23m; and
- A further slight reduction in ACT CTP market share, following the entry of three brands of a competing entity from 15 July 2013. Before this, Personal Insurance had been the sole provider of CTP products in the ACT.

Excluding Queensland CTP, long tail GWP growth was nearly 2% in 1H15.

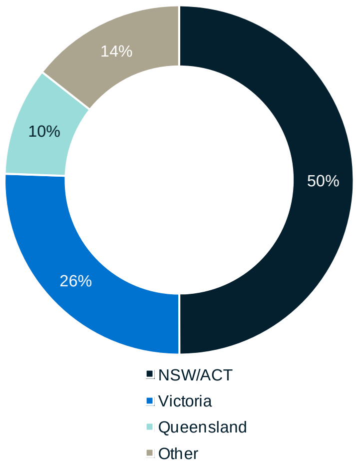
In NSW, Personal Insurance's share of CTP registrations (on a 12-month rolling average basis) reduced to 36.4%, from 36.9% in the preceding 12-month period. A net increase of approximately 2% in average premium rates was implemented in the closing weeks of the half.

## Short tail GWP growth of 5.8%

### 1H15 GWP BY CLASS




### 1H15 SHORT TAIL GWP BY STATE




## Lower CTP GWP influenced by exit from Queensland market

# 6. PERSONAL INSURANCE

Following the entry of new competition, Personal Insurance's market share in the ACT CTP market declined to approximately 88% by the end of 1H15, compared to 89% at the end of FY14. This outcome was in line with expectations.

Notable enhancements to Personal Insurance's overall customer offering, compared to 1H14, were the availability of a new travel insurance product and the presence of an improved loyalty scheme with a transparent and simpler matrix of discounts, both of which were launched in 2H14. During 1H15 Personal Insurance introduced a new funeral product.

## CTP QUOTA SHARE AND ADC

CTP quota share and ADC driven by capital efficiency considerations

With effect from 1 July 2013, IAG entered into a quota share agreement in respect of 30% of its combined CTP book for a minimum 3-year period. The impact of the CTP quota share agreement on Personal Insurance's 1H15 reported insurance margin was modestly positive and similar to that of 1H14.

From 1 July 2014, the Group entered into an adverse development cover (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 quota share agreement and was transacted with the same counterparty. The ADC had a neutral effect on Personal Insurance's reported 1H15 insurance profit.

The decision to enter into the CTP quota share and ADC agreements was driven by Group capital efficiency considerations. Prior to their inception, CTP represented less than 10% of the Group's GWP yet roughly one quarter of its regulatory capital requirement. The cumulative impact of the quota share and ADC arrangements has been a reduction in the Group's regulatory capital requirement of approximately $150m, $90m of which was crystallised by the ADC on 1 July 2014.

## REINSURANCE EXPENSE

Reinsurance expense was $365m in 1H15, a 9.3% increase compared to 1H14 ($334m). The primary reason for this uplift was recognition of the ADC from 1 July 2014, which resulted in a one-off reinsurance expense at that date.

Other factors influencing the movement in Personal Insurance's 1H15 reinsurance expense were:

- Higher business volumes, largely as a result of the inclusion of the former Wesfarmers business; and
- An offsetting reduction from lower catastrophe cover costs.

## CLAIMS

Higher loss ratio driven by reduction in reserve releases

Personal Insurance reported a higher immunised loss ratio of 68.0% in 1H15 (1H14: 65.3%). To a large degree this reflects lower prior period reserve releases, compared to 1H14.

The reported loss ratio of 71.7% is also higher than that of 1H14 (63.7%) and is amplified by an unfavourable risk free discount rate adjustment of nearly $90m. This compares to a corresponding favourable effect of $38m in 1H14.

### Reserve Releases

Reserve releases of $65m were half the level of those reported in 1H14 ($130m), and were sourced mainly from the CTP portfolios. This follows further favourable experience against existing underlying assumptions, notably inflation.

# 6. PERSONAL INSURANCE

The reduction is broadly in line with expectations, and the outcome is similar to that experienced in 2H14 as releases trend towards longer term expected levels.

| RESERVE RELEASES | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 130 | 49 | 65 |
| **Impact on insurance margin** | **5.4%** | **2.1%** | **2.7%** |

**Natural Perils**

Perils slightly higher than allowance

Losses from natural perils (net of reinsurance) totalled $245m, which was slightly higher than the $229m allowance for the period. The outcome was similar to that experienced in 1H14, particularly after allowance for the addition of the former Wesfarmers business.

There was one significant event during 1H15, being the Brisbane storm in late November 2014. This contributed a net claim cost of nearly $110m for Personal Insurance.

| NATURAL PERILS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Natural peril claim costs | (235) | (125) | (245) |
| Natural peril allowance | 224 | 224 | 229 |
| **Impact on insurance profit** | **(11)** | **99** | **(16)** |
| **Impact on insurance margin** | **(0.5%)** | **4.2%** | **(0.6%)** |

**Claim Experience**

Underlying claims performance similar to 1H14

Personal Insurance's underlying claims performance was similar to 1H14.

Excluding natural perils, Personal Insurance's 1H15 short tail claim experience was characterised by:

- Modest inflation in average underlying motor collision costs;
- The revised partner network relationship model with motor repairers continuing to deliver favourable customer experience and minimising inflationary repair cost pressures; and
- Some increase in the frequency and severity of escape of water claims applicable to home.

The NSW CTP market encountered a higher than expected increase in claim lodgements in 1H15. This was most apparent in the lower severity classes, where an increased level of legal representation was also experienced. Prior year claims continued to develop favourably across all CTP portfolios during 1H15.

## EXPENSES

Ongoing reinvestment in the business

Personal Insurance's reported expenses predominantly comprise underwriting costs, and totalled $517m in 1H15, compared to $487m in 1H14. The movement in expenditure is largely explained by the net effect of:

- Costs associated with the first-time inclusion of volumes related to the former Wesfarmers business;
- Further reinvestment in the business, including specific projects directed at improving customer service, product design and people development; and
- Increased marketing and advertising expenditure.

# 6. PERSONAL INSURANCE

The reported expense ratio increased slightly to 21.1% (1H14: 20.3%). On an ex-levies basis, Personal Insurance's administration ratio of 12.6% was higher than 1H14, but lower than that of 2H14.

## INSURANCE PROFIT

Strong underlying margin of 14.0% in 1H15

Personal Insurance reported an insurance profit of $391m for 1H15, compared to $467m in 1H14. This equates to a lower reported insurance margin of 16.0% (1H14: 19.5%).

At an underlying level, Personal Insurance's performance was strong. A slightly lower underlying margin of 14.0% (1H14: 14.5%) reflects the combination of:

- The first-time inclusion of 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.

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 1H14. Credit spreads impacts were of a similarly favourable magnitude to 1H14.

| INSURANCE MARGIN IMPACTS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 130 | 49 | 65 |
| Natural perils | (235) | (125) | (245) |
| Natural peril allowance | 224 | 224 | 229 |
| Credit spreads | 25 | 40 | 23 |
| Reserve releases | 5.4% | 2.1% | 2.7% |
| Natural perils | (9.8%) | (5.3%) | (10.0%) |
| Natural peril allowance | 9.3% | 9.5% | 9.4% |
| Credit spreads | 1.0% | 1.7% | 0.9% |

## MARKET ENVIRONMENT AND OUTLOOK

Personal Insurance expected to maintain strong profitability and market position

Against a backdrop of expected economic growth of approximately 2.5%, continued modest growth in personal insurance demand is expected over the balance of FY15.

Insurance affordability remains a concern for both Personal Insurance and the industry. Personal Insurance continues to work closely with the community, regulators and its business partners to explore ways to best meet the needs of its customers, while minimising the impact of affordability issues.

The combination of low underlying claims inflation, further supply chain efficiencies, the relative absence of input cost pressures (including reinsurance) and lower average vehicle values is continuing to create an environment where negligible to modest rate increases can be expected.

Competition within the personal lines insurance market continues to remain high. While recent entrants are pursuing growth strategies to capture increased share, Personal Insurance continues to focus on building a customer-centric business that ensures customers' needs are met through its comprehensive service proposition.

The business is closely monitoring the trend of increased lower severity claims with legal representation in NSW CTP, as experienced in 1H15.

# 6. PERSONAL INSURANCE

Personal Insurance's focus on its customer experience and cost effectiveness is expected to maintain its strong profitability and market position.

# 7. COMMERCIAL INSURANCE

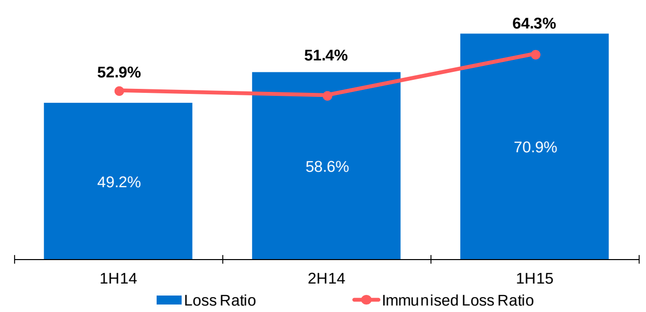
## FINANCIAL PERFORMANCE

| | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| **Gross written premium** | **1,052** | **1,216** | **1,514** |
| Gross earned premium | 1,099 | 1,076 | 1,673 |
| Reinsurance expense | (70) | (75) | (122) |
| **Net earned premium** | **1,029** | **1,001** | **1,551** |
| Net claims expense | (506) | (587) | (1,099) |
| Commission expense | (157) | (157) | (229) |
| Underwriting expense | (210) | (202) | (301) |
| **Underwriting profit/(loss)** | **156** | **55** | **(78)** |
| Investment income on technical reserves | 34 | 126 | 180 |
| **Insurance profit** | **190** | **181** | **102** |
| Profit/(loss) from fee based business | 11 | (2) | 9 |
| **Total divisional result** | **201** | **179** | **111** |

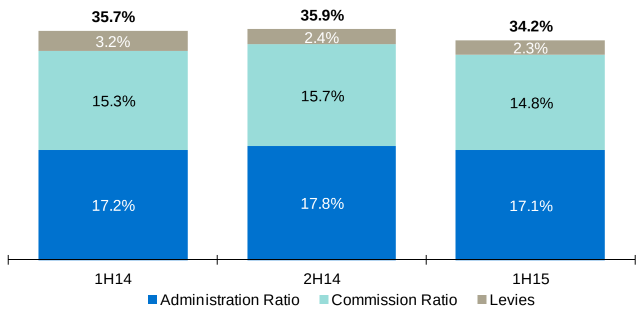
| Insurance Ratios | 1H14 | 2H14 | 1H15 |
|---|---|---|---|
| Loss ratio | 49.2% | 58.6% | 70.9% |
| Immunised loss ratio | 52.9% | 51.4% | 64.3% |
| Expense ratio | 35.7% | 35.9% | 34.2% |
| Commission ratio | 15.3% | 15.7% | 14.8% |
| Administration ratio | 20.4% | 20.2% | 19.4% |
| Combined ratio | 84.9% | 94.5% | 105.1% |
| Immunised combined ratio | 88.6% | 87.3% | 98.5% |
| Insurance margin | 18.5% | 18.1% | 6.6% |

## INSURANCE RATIOS

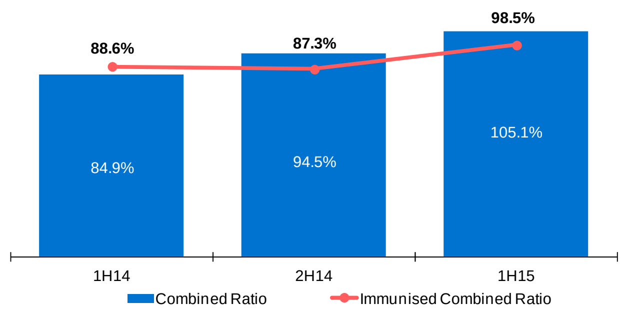
### LOSS RATIO



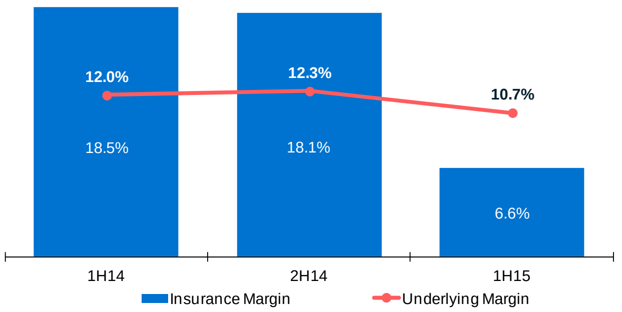

### EXPENSE RATIOS




### COMBINED RATIO




### INSURANCE MARGIN

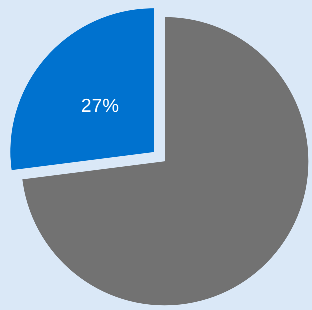


# 7. COMMERCIAL INSURANCE

## EXECUTIVE SUMMARY

- Commercial Insurance comprises all commercial insurance products sold in Australia under the CGU and Lumley brands, as well as niche products sold through brands such as Swann and WFI
- 1H15 GWP growth of nearly 44% reflects first-time inclusion of former Wesfarmers business
- GWP outcome also influenced by softer commercial market conditions
- Volumes in key portfolios have remained strong, notably SME
- Integration of former Wesfarmers business proceeding to plan
- Underlying double digit margin sustained
- Continued investment in sales and digital capability translating into improved partner relationships and growth opportunities

**Commercial Insurance - % Group GWP**




## COMMERCIAL INSURANCE

The Commercial Insurance division was established on 1 July 2014, as part of the new operating model implemented in Australia. It comprises:

- The commercial insurance operations which previously represented the majority of the Australia Intermediated division;
- The Swann Insurance operations, which were also previously part of Australia Intermediated;
- The Retail Business Insurance (RBI) operations which were formerly part of the Australia Direct division; and
- The Australian commercial lines of the former Wesfarmers business.

From 1 July 2014, Enterprise Operations provides support services to Commercial Insurance, such as information technology, people & culture, and procurement & supply chain. The cost of relevant services provided by Enterprise Operations is reported within the financial results of Commercial Insurance.

*Market-leading presence in Australian commercial lines, following Wesfarmers acquisition*

## PREMIUMS

Commercial Insurance reported GWP growth of 43.9%, to $1,514m, in 1H15 (1H14: $1,052m). This reflects the first-time inclusion of the former Wesfarmers business, which has delivered a market-leading position in the Australian commercial insurance market.

*GWP growth of 43.9%, driven by inclusion of former Wesfarmers business*

Commercial Insurance encountered cyclically softer market conditions in 1H15, 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.

In the key SME segment, competition has placed pressure on premium rates for new business, however renewal levels have held relatively constant. Importantly, like-for-like volume growth has been recorded in this segment, with the CGU book experiencing strong retention rates and solid volume growth.

The Lumley book has experienced a decline in new business and retention levels, with the attrition rate at the upper end of the range anticipated as part of the integration process. WFI's new business and renewal levels have been steady.

# 7. COMMERCIAL INSURANCE



In the large corporate property segment, competition has been aggressive meaning new business has been difficult to obtain at acceptable pricing levels. This area represented only 2% of Commercial Insurance's GWP in 1H15.

On average, workers' compensation rates were lower in 1H15, partly driven by gazetted rate reductions in Western Australia and lower average wage growth. This has resulted in slightly lower workers' compensation GWP compared with 1H14.

Long tail classes represented approximately 25% of Commercial Insurance's GWP in 1H15.

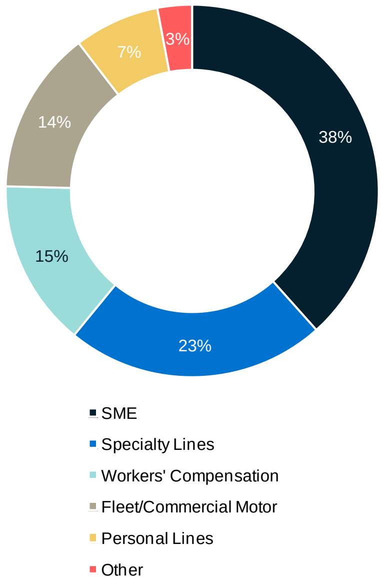
In all segments, Commercial Insurance has maintained a strategy to compete on the strength of its partnerships and the quality of its service. As such, Commercial Insurance has continued to apply sound underwriting and pricing disciplines.

Commercial Insurance continues to focus on strengthening its partnerships and improving the quality of service delivered, with initiatives including:

- Replacement of the core policy administration and distribution systems, to be implemented over a two-year period commencing early FY16;
- Projects to improve customer experience and customer insights; and
- Mobile and digital solutions for partners and customers, including recently formed partnerships with LinkedIn™, Xero™ and Dropbox™.

This 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 and its placing as a finalist in the National Insurance Brokers Association's general insurer of the year awards for the first time in more than ten years. CGU also won 'Australia's Best Customer Experience Company' at the recent Best Customer Experience 2014 awards.

**1H15 GWP BY CLASS**




## REINSURANCE EXPENSE

Commercial Insurance's 1H15 reinsurance expense of $122m is 74% higher than 1H14, largely driven by the addition of the former Wesfarmers business. An offsetting factor was the influence of favourable reinsurance market conditions on the cost of the calendar 2014 catastrophe renewal.

Reinsurance expense as a proportion of GWP increased to just over 8% (1H14: 6.7%), as a result of business mix changes following inclusion of the former Wesfarmers business.

Higher reinsurance expense owing to inclusion of former Wesfarmers business

## CLAIMS

Commercial Insurance's immunised loss ratio of 64.3% for 1H15 was significantly higher than the 52.9% recorded in 1H14. This reflects the combination of:

- A substantial increase in net natural peril claim costs as a proportion of NEP, more than doubling to over 10%;
- Lower reserve releases, which moved closer to longer term expectations;
- Relatively flat frequency;
- Slightly increased average claim size owing to a higher incidence of large losses; and
- Inclusion of the higher loss ratio applicable to the former Wesfarmers business.

Higher underlying loss ratio includes adverse large loss experience

# 7. COMMERCIAL INSURANCE

The benefits of improved underwriting, higher claim deductibles and indemnity cost savings are still being achieved.

The reported loss ratio increased to 70.9% (1H14: 49.2%), and contains an unfavourable risk free discount rate adjustment of just over $100m.  This compares to the $38m favourable effect on the claims expense in 1H14.

**Reserve Releases**

Lower reserve releases, nearing long term expectations

Prior period reserve releases of $25m were 55% lower than those reported in 1H14 ($55m), and represented 1.6% of NEP.  These releases continue to reflect favourable claims performance in a low inflation environment across the long tail portfolios of workers' compensation, professional risks and liability, but are now closer to the Group's long term expectation of 1%.

| RESERVE RELEASES | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 55 | 23 | 25 |
| **Impact on insurance margin** | **5.3%** | **2.3%** | **1.6%** |

**Natural Perils**

Significantly higher peril activity in 1H15

Net natural peril claim costs amounted to $164m in 1H15, which was $90m higher than the related allowance, and over $110m higher than the 1H14 outcome.

While partly derived from the inclusion of the former Wesfarmers business, the substantial increase was also influenced by the impact of the Brisbane storm in late November 2014, which contributed a claim cost approaching $60m.

Other reasonable-sized losses attached to the Western Australian thunderstorm event in October 2014 and the hailstorms which struck the Sydney region in December 2014.  There were no significant events in 1H14.

| NATURAL PERILS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Natural peril claim costs | (51) | (36) | (164) |
| Natural peril allowance | 59 | 60 | 74 |
| **Impact on insurance profit** | **8** | **24** | **(90)** |
| **Impact on insurance margin** | **0.7%** | **2.4%** | **(5.8%)** |

## EXPENSES

Slightly improved cost ratio evident in 1H15

Reported expenses, comprising commission and underwriting costs, totalled $530m in 1H15, compared to $367m in 1H14.  The expense ratio was lower at 34.2% in 1H15 (1H14: 35.7%), and on an ex-levies basis was also slightly lower at 31.9% (1H14: 32.5%).

The increase in expenditure is driven by the inclusion of costs associated with the former Wesfarmers business.  It also reflects continued reinvestment in the business, notably in the areas of core systems replacement and the delivery of systems innovation.

While costs have increased, the overall expense ratio has improved slightly. Contributory factors were:

- Lower profit share payments to intermediaries compared with 1H14; and
- Early synergies from integration of the former Wesfarmers business and efficiencies from the new operating model.

# 7. COMMERCIAL INSURANCE

## INSURANCE PROFIT

Underlying margin of 10.7%

Commercial Insurance reported an insurance profit of $102m, a decrease of 46% over 1H14 ($190m). This equates to a reported insurance margin of 6.6% (1H14: 18.5%).

The lower reported margin reflects the net effect of:

- A $30m reduction in prior period reserve releases;
- Substantially higher net natural peril claim costs of $164m, well in excess of allowance;
- A broadly similar favourable credit spread movement of $17m (1H14: $14m); and
- The first-time inclusion of the lower margin former Wesfarmers business.

Commercial Insurance produced a satisfactory 1H15 underlying margin of 10.7%, compared to 12.0% in 1H14. This decline is a function of incorporating the lower margin former Wesfarmers business and the impact of softer commercial market conditions in Australia.

| INSURANCE MARGIN IMPACTS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 55 | 23 | 25 |
| Natural perils | (51) | (36) | (164) |
| Natural peril allowance | 59 | 60 | 74 |
| Credit spreads | 14 | 21 | 17 |
| Reserve releases | 5.3% | 2.3% | 1.6% |
| Natural perils | (5.0%) | (3.6%) | (10.6%) |
| Natural peril allowance | 5.7% | 6.0% | 4.8% |
| Credit spreads | 1.4% | 2.1% | 1.1% |

## FEE BASED INCOME

Lower fee based result following changes to NSW workers' compensation model

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 1H15, net income from fee based operations was $9m, compared to $11m in 1H14.

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

The 1H15 result contained $6m of prior period fee income, which was in line with 1H14. Excluding this income, the underlying result was $2m lower than 1H14, driven by unfavourable changes to the NSW regulator remuneration model, where a $5m reduction in income was partly offset by expense savings from restructuring activity in FY14.

A higher fee based income result is expected in FY15, compared to FY14, owing to the expected absence of redundancy expenses, resulting from branch closures, and the expense of implementing a new workflow management system in NSW, which were both largely incurred in 2H14.

Commercial Insurance has successfully re-tendered for the NSW workers' compensation scheme and has maintained its market share. This is effective 1 January 2015.

# 7. COMMERCIAL INSURANCE

## MARKET ENVIRONMENT AND OUTLOOK

The commercial insurance market in Australia is expected to remain challenging in the short term. Limited economic growth, market saturation, excess capacity and lower reinsurance costs are anticipated to continue to place pressure on premium rates and limit growth opportunities. Market conditions are expected to remain soft over the balance of FY15, prompting insurers to focus on enhancing underwriting models, efficiency programmes and underwriting more profitable segments.

Attractive ROEs have resulted in an influx of capital and growing competition, evident from some personal lines insurers shifting into the commercial market and certain offshore insurers opting for agency arrangements or a local licence.

Both commercial long tail and short tail rate movements are expected to be influenced by competition and excess capacity, however this is expected to be patchy across individual business classes.

While FY15 GWP growth will reflect the inclusion of the former Wesfarmers business, modestly negative like-for-like GWP growth is anticipated as a function of the difficult market conditions. Attrition applicable to the incoming Wesfarmers business is expected to remain at the upper end of the originally assumed 5-10% range.

Commercial Insurance expects to maintain a sound underlying performance over the balance of FY15. The integration of the former Wesfarmers business will remain a key focus, as further benefits from its integration and the move to the new operating model are realised through to the conclusion of FY16.

Sound underlying performance expected in FY15, as Wesfarmers integration benefits realised against tough market backdrop

# 8. NEW ZEALAND



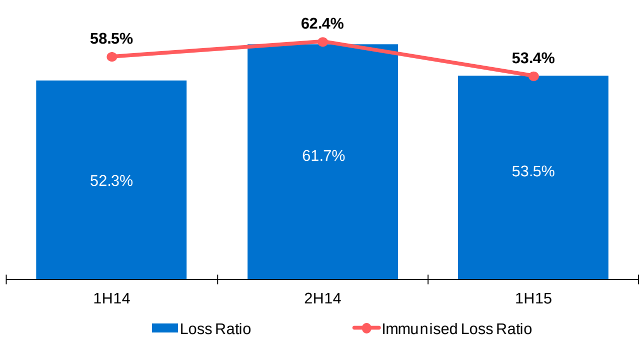
## FINANCIAL PERFORMANCE

| | 1H14<br>A$m | 2H14<br>A$m | 1H15<br>A$m |
|---|---|---|---|
| **Gross written premium** | **884** | **962** | **1,116** |
| Gross earned premium | 880 | 936 | 1,148 |
| Reinsurance expense | (140) | (117) | (143) |
| **Net earned premium** | **740** | **819** | **1,005** |
| Net claims expense | (387) | (505) | (538) |
| Commission expense | (82) | (86) | (121) |
| Underwriting expense | (147) | (146) | (178) |
| **Underwriting profit** | **124** | **82** | **168** |
| Investment income on technical reserves | (32) | 6 | 25 |
| **Insurance profit** | **92** | **88** | **193** |
| Profit from fee based business | 1 | 2 | 2 |
| **Total divisional result** | **93** | **90** | **195** |

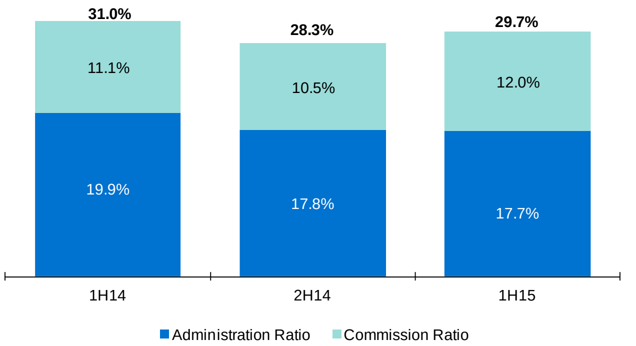
| Insurance Ratios | 1H14 | 2H14 | 1H15 |
|---|---|---|---|
| Loss ratio | 52.3% | 61.7% | 53.5% |
| Immunised loss ratio | 58.5% | 62.4% | 53.4% |
| Expense ratio | 31.0% | 28.3% | 29.7% |
| Commission ratio | 11.1% | 10.5% | 12.0% |
| Administration ratio | 19.9% | 17.8% | 17.7% |
| Combined ratio | 83.3% | 90.0% | 83.2% |
| Immunised combined ratio | 89.5% | 90.7% | 83.1% |
| Insurance margin | 12.4% | 10.7% | 19.2% |

## INSURANCE RATIOS

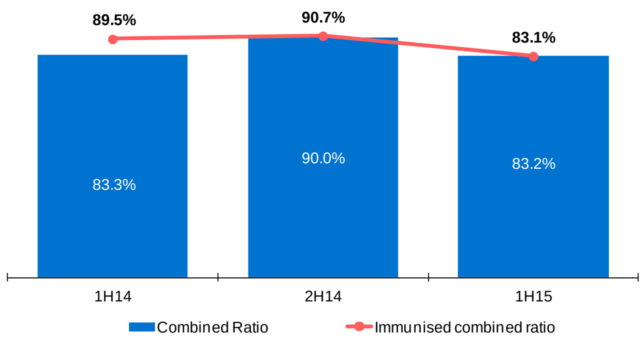
### LOSS RATIO



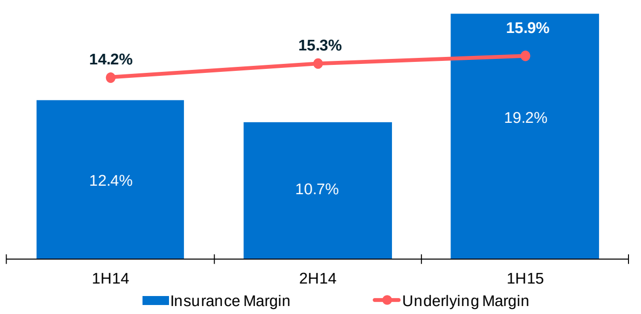

### EXPENSE RATIOS




### COMBINED RATIO




### INSURANCE MARGIN



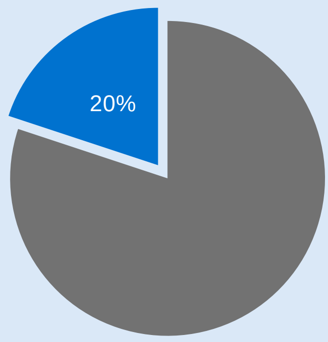
# 8. NEW ZEALAND



## EXECUTIVE SUMMARY

- IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands
- Strong local currency GWP growth of 22.2%, driven by the first-time inclusion of Lumley Insurance
- Operating performance has remained strong – underlying margin of 15.9%
- Integration of Lumley Insurance business progressing to plan
- Solid progress on Canterbury rebuild – increase in expected gross claim costs, but within reinsurance cover
- Positive FY15 outlook, with continued focus on customer, underwriting, claims and pricing disciplines

**New Zealand - % Group GWP**




## PREMIUMS

New Zealand's 1H15 GWP of NZ$1,223m increased by 22.2% compared to the same period last year (1H14: NZ$1,001m). This strong growth reflects the first six months' contribution from Lumley Insurance (Lumley) following its acquisition as part of the Wesfarmers transaction.

Excluding Lumley, local currency GWP growth was relatively flat in 1H15, 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.

Reported GWP increased by 26.2% to $1,116m, reflecting the additional Lumley GWP and a favourable exchange rate effect compared to 1H14.

The intermediated business (including NZI, Lumley and financial institution partners) represented 63% of GWP in 1H15 (1H14: 55%). Rate increases during 1H15 were predominantly applied to the domestic home owners' and private motor vehicle books across the financial institution partner portfolios, with other inflationary-type rate increases implemented where required across key products. Personal lines new business growth levels were favourable and retention levels remained steady. Increased capacity in the market continues to put pressure on commercial product lines.

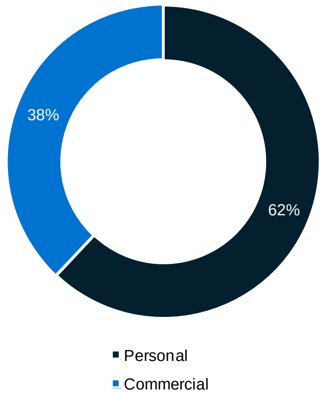
NZI's strong market standing has continued with it winning the 'Intermediated Insurer of the Year' (Australia & New Zealand Institute of Insurance & Finance) for a third consecutive year.

The direct insurance business, which consists primarily of the State and AMI brands, represented 37% of GWP in 1H15 (1H14: 45%) and achieved growth of nearly 2% compared to the same period last year. Premium growth was achieved in the home owners' book, following the changes to home owners' policies implemented in the prior year, and in private motor as a result of strong new business flows, particularly through the State online channel. Customer retention levels were stable, as both brands balance policy affordability with underlying business performance.

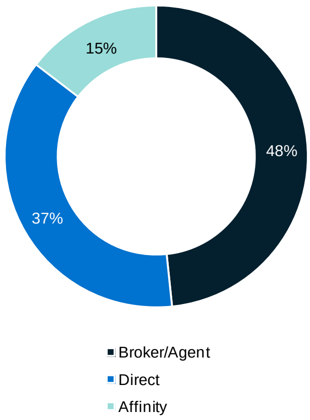
The New Zealand business has announced the transfer of its health portfolio to a third party, effective 1 December 2014, as well as an agreement with a separate party to outsource the provision of travel insurance. These steps will see marginally reduced GWP in subsequent reporting periods.

**Strong local currency GWP growth of over 22%**

### 1H15 GWP BY CLASS




### 1H15 GWP BY CHANNEL



# 8. NEW ZEALAND

## REINSURANCE EXPENSE

The reinsurance expense of $143m was marginally higher than 1H14 ($140m). This movement reflects the net effect of:

- Inclusion of reinsurance costs associated with the Lumley business; and
- Lower costs in respect of AMI, whose previously standalone reinsurance programme was brought within the Group's main catastrophe programme from 1 January 2014.

New Zealand's reinsurance expense as a proportion of GWP was comparable to 2H14, which also included the lower AMI-related costs.

Reinsurance expense benefit realised from bringing AMI into Group programme

## CLAIMS

The 1H15 net claims expense of $538m (1H14: $387m) produced an improved immunised loss ratio of 53.4% (1H14: 58.5%). The increased claims cost was largely driven by the inclusion of the Lumley business for the first time.

Benign natural peril activity in 1H15

The overall net claims expense contained:

- Lower net natural peril costs of $11m (1H14: $49m); and
- A modest net reserve strengthening.

The reported loss ratio of 53.5% (1H14: 52.3%) includes a modestly adverse foreign exchange effect associated with reinsurance recoveries in respect of the earthquakes in FY11, held by the offshore captive in Singapore. A corresponding positive effect is included in investment income on technical reserves, resulting in no impact to the insurance margin. The 1H14 claims line saw an equivalent favourable effect of $41m, countered by a similar-sized opposing impact on investment income.

1H15 saw a significantly lower incidence of natural peril activity than 1H14, with net related claim costs below allowance by $35m. There were no significant events during the period.

| NATURAL PERILS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Natural peril claim costs | (49) | (57) | (11) |
| Natural peril allowance | 35 | 34 | 46 |
| **Impact on insurance profit** | **(14)** | **(23)** | **35** |
| **Impact on insurance margin** | **(1.9%)** | **(2.8%)** | **3.5%** |

Prior period reserve movements were minor in both 1H15 and the corresponding half. 1H15 saw a reserve strengthening of $2m, while 1H14 included a reserve release of $1m.

| RESERVE RELEASES | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 1 | (14) | (2) |
| **Impact on insurance margin** | **0.1%** | **(1.7%)** | **(0.2%)** |

The underlying claims performance of the business has continued to improve, with a lower frequency level in 1H15 compared to the same period last year. Contributory factors remain disciplined underwriting and improved risk selection, as well as the impact of higher excesses.

Working claims experience in 1H15 was marginally higher than 1H14, while large claims (greater than NZ$100,000) experience was in line with expectations but higher than the favourable outcome of 1H14.

# 8. NEW ZEALAND

Increased gross earthquake claim cost – February 2011 still expected to be within reinsurance limit

**Canterbury Rebuild**

As advised 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.

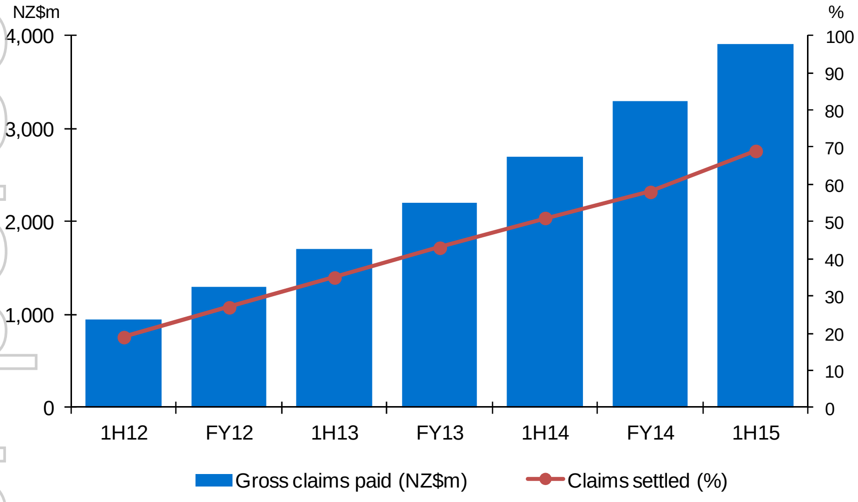
Of the NZ$950m increase recognised, the majority relates to the 22 February 2011 event. Gross claim reserves for this event now stand close to the applicable reinsurance limit of NZ$4bn. Loss estimates for the other major earthquake events are expected to settle well below respective reinsurance limits.

Over NZ$3.9bn of FY11 earthquake claims now paid – c.69% of claims by number fully settled

At 31 December 2014 the New Zealand business had completed over NZ$3.9bn in claim settlements in respect of the Canterbury earthquakes (FY14: over NZ$3.3bn). Approximately 69% (FY14: 58%) of all claims by number had been fully settled at that date.

Finalisation of commercial claims has advanced in line with expectations with 88% settled (FY14: 84%). Residential claims are making steady progress with 66% settled (FY14: 52%).

FY11 CANTERBURY EARTHQUAKES – CLAIMS SETTLEMENT*




*Excludes Lumley business.*

All earthquake settlement statistics presented above exclude those related to the Lumley business. Although Lumley's earthquake claims are being managed by IAG, they are subject to indemnities from the previous owner which result in no future financial exposure for IAG.

With ongoing complexity in the Canterbury rebuild process, and individual projects taking longer to complete than originally planned, the Group anticipates all residential properties will be in construction by December 2015, with a rebuild completion date of mid-2016.

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.

# 8. NEW ZEALAND



## EXPENSES

Improved expense ratio in 1H15

Total reported expenses in 1H15, of $299m, were over 30% higher than the corresponding period (1H14: $229m), primarily owing to the first-time inclusion of the Lumley business, however the total expense ratio of 29.7% was lower than 1H14 (31.0%).

Reported commission expense of $121m was nearly 48% higher than 1H14. The increase in commission ratio to 12.0% (1H14: 11.1%) reflected inclusion of the commission-bearing Lumley business for the first time, and the resultant increased proportion of intermediated business volumes. The commission ratio for the Lumley business is similar to that of the overall intermediated business.

Underwriting expenses of $178m were approximately 21% higher than the prior comparable period. A lower administration ratio of 17.7% (1H14: 19.9%) reflected the absence of residual AMI integration costs borne in 1H14 and the benefits of ongoing investment in the business focused on process improvement and technology initiatives.

Integration of the Lumley business is tracking to plan with integration milestones being achieved as scheduled.

## INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves includes a modest favourable foreign exchange impact flowing from the hedge associated with reinsurance recoveries in respect of the earthquakes in FY11. These recoveries are held by the offshore captive in Singapore. A corresponding negative effect is included in the net claims expense, resulting in no net impact to the insurance margin. 1H14 saw an equivalent negative effect of $41m on investment income, countered by a similar-sized opposing impact on net claims expense.

## INSURANCE PROFIT

Strong underlying profitability maintained

The New Zealand business produced an insurance profit of $193m in 1H15, a significant increase on 1H14's profit of $92m. This equated to a reported insurance margin of 19.2% (1H14: 12.4%).

The higher reported insurance margin in 1H15 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.

| INSURANCE MARGIN IMPACTS | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Reserve releases | 1 | (14) | (2) |
| Natural perils | (49) | (57) | (11) |
| Natural peril allowance | 35 | 34 | 46 |
| Reserve releases | 0.1% | (1.7%) | (0.2%) |
| Natural perils | (6.6%) | (7.0%) | (1.1%) |
| Natural peril allowance | 4.7% | 4.2% | 4.6% |

# 8. NEW ZEALAND

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

## MARKET REGULATION AND REFORM

EQC and fire services reform remains outstanding

Insurance-related political reforms remained largely on hold in the lead up to the New Zealand general election held in September 2014. With the National Party securing a third term, activity surrounding these reviews and reforms is expected to pick up over the next year.

Primary areas of interest include:

- EQC reform, with the continued review of the related Act to improve the function and funding of the EQC;
- Prudential oversight, with the ongoing implementation of the relatively new prudential regime under the auspices of the Reserve Bank of New Zealand;
- Insurance conduct, which includes a range of initiatives to improve the conduct of insurance market participants;
- The Ministry of Business, Innovation and Employment's review of legislation on the use of market power by 'dominant' firms, with officials looking at the equivalent review of Australian competition law in Australia;
- Review of the funding approach for the New Zealand Fire Services, to move its funding away from a levy on insurance contracts;
- Continued pursuit of reforms to the Resource Management Act, to strengthen the consideration of natural hazards in land use decisions; and
- Pursuit of the development of an improved national strategy and framework for the management of natural hazards.

## MARKET ENVIRONMENT AND OUTLOOK

Underlying profitability expected to remain strong

New Zealand's economy continues to show strong signs of growth. GDP is expected to grow at an annual rate of around 3% over 2015, supported by increasing construction activity, population growth and ongoing strength in consumption and business investment. Interest rates are expected to remain steady until late in 2015 or early 2016.

The New Zealand business' broader strategy continues to be one of maintaining its market-leading position, balanced with sustaining its strong underlying profitability by focusing on pricing and underwriting discipline to protect underwriting margins. The realisation of synergies from the Lumley integration over the next 12 to 18 months is expected to assist with this goal.

With increased capacity evident in the intermediated segment, that market is expected to remain very competitive in the medium term, with continued rate pressure anticipated as reinsurance cost pressures ease. Expectations for future GWP growth through rate increases are muted, with only inflationary-related rate adjustments planned in the coming period.

Underlying profitability of the business is expected to remain strong over the balance of FY15.

# 9. ASIA

## FINANCIAL PERFORMANCE

| | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| **Gross written premium** | **154** | **163** | **164** |
| Gross earned premium | 167 | 155 | 163 |
| Reinsurance expense | (18) | (16) | (19) |
| **Net earned premium** | **149** | **139** | **144** |
| Net claims expense | (84) | (76) | (84) |
| Commission expense | (37) | (39) | (37) |
| Underwriting expense | (20) | (23) | (22) |
| **Underwriting profit** | **8** | **1** | **1** |
| Investment income on technical reserves | 2 | 1 | 7 |
| **Insurance profit** | **10** | **2** | **8** |
| Share of profit/(loss) from associates | (3) | 5 | 9 |
| **Total divisional result** | **7** | **7** | **17** |

## FINANCIAL CONTRIBUTION BY COUNTRY

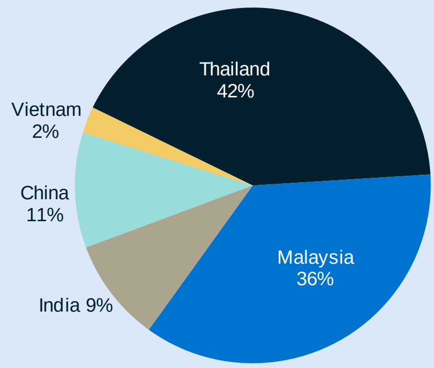
| | Gross GWP | | Proportional GWP | | Earnings Contribution | |
|---|---|---|---|---|---|---|
| | 1H14 A$m | 1H15 A$m | 1H14 A$m | 1H15 A$m | 1H14 A$m | 1H15 A$m |
| Thailand | 140 | 155 | 140 | 155 | 15 | 11 |
| Malaysia | 285 | 272 | 140 | 133 | 12 | 19 |
| **Established markets** | **425** | **427** | **280** | **288** | **27** | **30** |
| India | 97 | 134 | 25 | 35 | (4) | 1 |
| China | 177 | 193 | 35 | 39 | (2) | (1) |
| Vietnam | 14 | 9 | 14 | 9 | 0 | 1 |
| **Developing markets** | **288** | **336** | **74** | **83** | **(6)** | **1** |
| **Total Asian operations** | **713** | **763** | **354** | **371** | **21** | **31** |
| Support and development costs | n/a | n/a | n/a | n/a | (14) | (14) |
| **Total divisional result** | **713** | **763** | **354** | **371** | **7** | **17** |

# 9. ASIA

## EXECUTIVE SUMMARY

- IAG has a presence in five of its six targeted markets in Asia: Thailand, Malaysia, India, China and Vietnam
- Asia accounted for 6.4% of 1H15 Group GWP on a proportional basis
- Proportional GWP growth of 4.8%, driven by strong performance in India and resumption of growth in Thailand
- Overall divisional profit of $17m (1H14: $7m)
- Strong underlying performances from established businesses (Thailand and Malaysia)
- Improving performance from all developing businesses (India, China and Vietnam)
- Sound underlying performance expected in 2H15

**Asia GWP Mix 1H15 - Proportional Basis**




### 1H15 DIVISIONAL RESULT OVERVIEW

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.

As at 31 December 2014, IAG's investment in Asia is approximately $950m, of which over $700m is in the established and profitable markets of Thailand and Malaysia. At 30 June 2014 the equivalent figure was $832m, with the majority of the increase since that date driven by foreign exchange movements. Other contributory factors were a modest capital injection in India towards the beginning of FY15 ($20m) and retained earnings in 1H15.

The division contributed a total profit of $17m in 1H15, including shares of associates. This compares to a $7m profit in 1H14, 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 in mark-to-market valuations of investments, including those within associates' shareholders' funds; and
- Steady regional support and development costs.

In 1H15, Asia represented 6.4% of the Group's GWP on a proportional basis, compared to 7.1% in 1H14. The lower percentage reflects the first-time consolidation of the former Wesfarmers business in Australia and New Zealand. Excluding this effect, Asia's contribution to proportional Group GWP would have comfortably exceeded the 7.1% reported in 1H14.

Proportional GWP in Asia was $371m in 1H15, an increase of 4.8% compared to 1H14. This reflected the combination of:

- Continuing strong growth in India;
- Steady recovery in Thailand, amid renewed political stability;
- Some contraction in Malaysia, arising from the loss of agency business in an intensely competitive environment;
- Sound growth from China; and
- Lower volumes in Vietnam due to the exit from loan protection insurance.

IAG now participates in a gross regional annualised GWP pool of over $1.5bn, an increase of approximately 7% compared to the same period last year.

*Asia represented 6.4% of Group 1H15 GWP, on a proportional basis*

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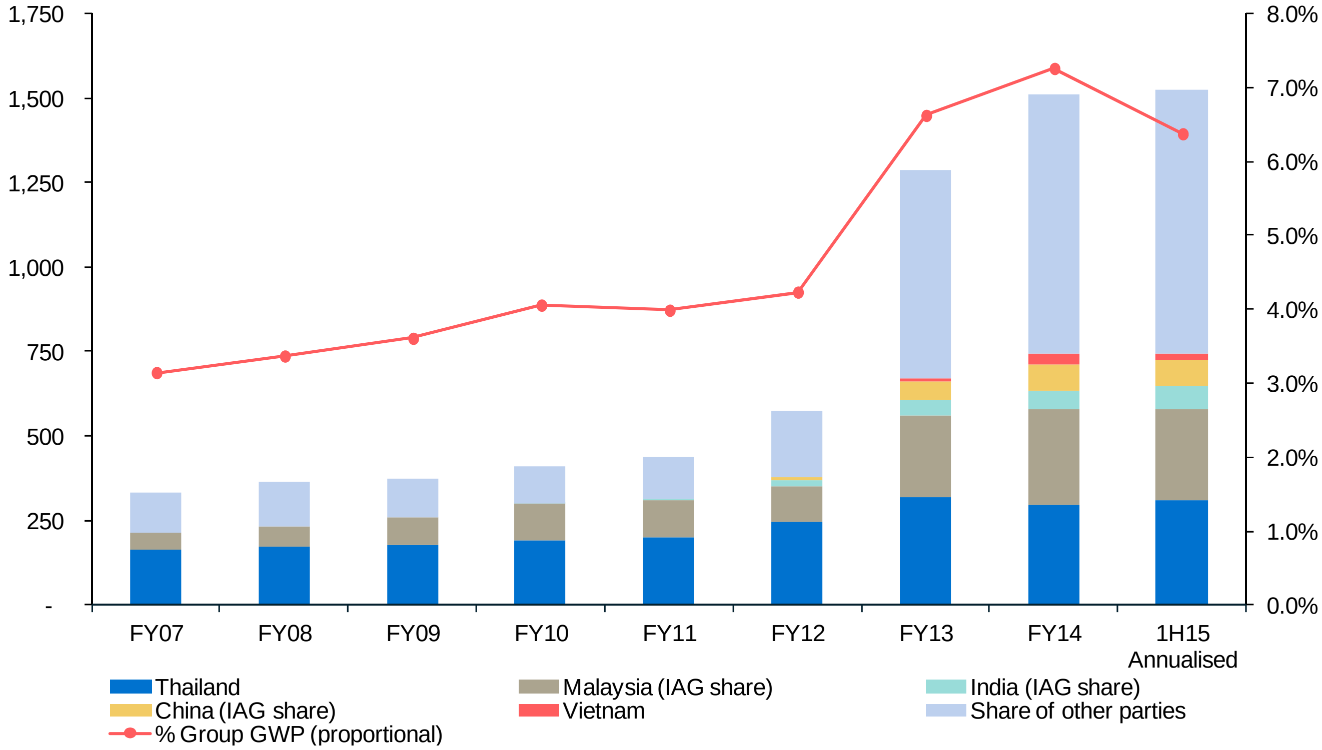
# 9. ASIA

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




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

The Group continues to target an ROE in excess of 15% by the end of FY17 for its Asia business, prior to regional support and development costs.

## THAILAND

### Market Presence

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

### Operating Performance

The Thai business reported an increase in GWP of 10.7% in 1H15, and 9.5% in local currency terms. This reflects the combined effect of:

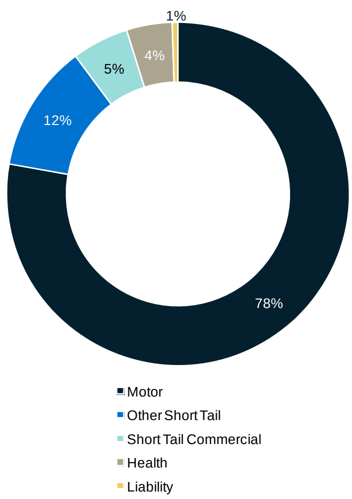
- An increased focus on the used car market through agency and broker channels;
- Heightened focus on renewal retention; and
- The favourable influence of more stable political conditions on economic activity.

The Thai business has continued to perform well at an underlying level, with a lower insurance margin of 8.3% (1H14: 10.9%) attributable to the combination of:

- A higher loss ratio stemming from the absence of reserve releases in respect of the FY12 flood event; and

Resumption of GWP growth in Thailand

SAFETY – 1H15 GWP BY CLASS



# 9. ASIA

- Increased commission costs owing to higher business growth from agency and broker channels.

Investment income on technical reserves includes a modest favourable foreign exchange impact flowing from the hedge associated with reinsurance recoveries. A corresponding negative effect is included in the net claims expense, resulting in no net impact to the insurance margin.

The Thai business reported a lower insurance profit of $11m, compared to $15m in 1H14. Following the allocation of regional support and development costs, Thailand's profit contribution was $8m (1H14: $11m).

| SAFETY | 1H14 | | 2H14 | | 1H15 | |
|---|---|---|---|---|---|---|
| FINANCIAL PERFORMANCE | ฿m | A$m[1] | ฿m | A$m[1] | ฿m | A$m[1] |
| **Gross written premium** | **4,076** | **140** | **4,385** | **148** | **4,462** | **155** |
| **Net earned premium** | | **137** | | **127** | | **132** |
| Net claims expense | | (80) | | (73) | | (82) |
| Commission & underwriting expenses | | (43) | | (43) | | (46) |
| Investment income on technical reserves | | 1 | | 2 | | 7 |
| **Insurance profit** | | **15** | | **13** | | **11** |
| **Insurance Ratios** | | | | | | |
| Loss ratio | | 58.4% | | 57.5% | | 62.1% |
| Expense ratio | | 31.4% | | 33.9% | | 34.8% |
| Combined ratio | | 89.8% | | 91.4% | | 96.9% |
| Insurance margin | | 10.9% | | 10.2% | | 8.3% |

[1]*Excludes allocated regional support and development costs.*

In 1H15 Safety was recognised for 'Excellent Development' in the 2014 Prime Minister's Insurance Awards, which were organised by the Office of Insurance Commission (OIC). Criteria for this award comprised financial ratios, regulatory compliance and customer advocacy.

**Market Environment, Regulation and Reform**

The long term outlook for Thailand remains positive. After six months of political agitation, the military-led economy is expected to have grown by less than 1% in 2014, but is anticipated to register improved growth of around 4% in calendar 2015.

Steady industry growth has resumed in FY15 and is expected to continue

This is expected to be characterised by a recovery in domestic consumption and a lift in manufactured exports led by global demand. Thailand remains South East Asia's largest production hub for global automakers and suppliers owing to its strong logistics and supply chain network, as well as its skilled labour force.

The Thai general insurance industry experienced relatively flat GWP in calendar 2014, compared to strong growth in the two preceding years. However, 2012 and 2013 were influenced by the one-time government tax incentive scheme for car-buyers. The industry is expected to resume a path of steady growth on the back of strong household fundamentals and a sound regulatory environment from FY15 onwards.

# 9. ASIA

## MALAYSIA

### Market Presence

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

### Operating Performance

AmGeneral's 1H15 GWP contracted by 4.6% to $272m (IAG's share being approximately $133m) compared to 1H14 ($285m). In local currency terms the reduction was 6.4%.

AmGeneral's GWP reflected:

- Intense competition in the agency channel; and
- Restrained growth in the bancassurance channel, against a backdrop of tightened consumer credit policy settings by the central bank.

AmGeneral is responding to this challenging environment by placing significant focus on the development of its existing distribution network, through:

- New and enhanced products, including deployment of digital functionality targeting improved customer management;
- Further refinement of its account management model; and
- Revision of pricing strategies to ensure it is positioned to grow profitably in key segments.

In addition, AmGeneral continues to develop its post-detariffication direct offer, while exploring new partnership opportunities to expand product distribution.

AmGeneral's operating margin has remained strong, with a higher reported insurance margin of 19.1% in 1H15 (1H14: 14.3%). This improvement was derived from the net effect of:

- An improved loss ratio of 61.4% (1H14: 63.1%) owing to higher prior period reserve releases from the motor bodily injury portfolio;
- Higher investment income owing to a favourable mark-to-market movement on the bond portfolio; and
- A slightly increased expense ratio associated with initiatives to drive future growth.

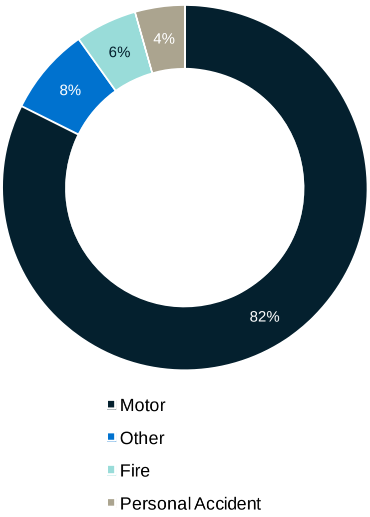
The integration of Kurnia has successfully concluded with annual synergies exceeding the original target of RM50m. Associated benefits are reflected across the areas of reinsurance expense, net claims cost, commission and underwriting expenses and investment income.

AmGeneral's underlying profitability in 1H15 was similar to that of prior periods.

AmGeneral's overall earnings contribution increased by nearly 60% to $19m (1H14: $12m). In addition to the higher insurance profit, AmGeneral's earnings benefited from the absence of mark-to-market losses recognised on the investments backing shareholders' funds in 1H14.

**Strong underlying performance by AmGeneral, while top line challenged**

AMGENERAL – 1H15 GWP BY CLASS



# 9. ASIA

| AMGENERAL FINANCIAL PERFORMANCE | 1H14 RMm | 1H14 A$m | 2H14 RMm | 2H14 A$m | 1H15 RMm | 1H15 A$m |
|---|---|---|---|---|---|---|
| **Gross written premium** | **846** | **285** | **833** | **279** | **792** | **272** |
| **Net earned premium** | **783** | | **753** | | **740** | |
| Net claims expense | (494) | | (481) | | (454) | |
| Commission & underwriting expenses | (214) | | (220) | | (208) | |
| Investment income on technical reserves | 37 | | 53 | | 63 | |
| **Insurance profit** | **112** | | **105** | | **141** | |
| **Net profit after tax** | **73** | | **103** | | **112** | |
| **Net profit after tax - IAG's share (49%)** | **36** | **12** | **50** | **17** | **55** | **19** |
| **Insurance Ratios** | | | | | | |
| Loss ratio | 63.1% | | 63.9% | | 61.4% | |
| Expense ratio | 27.3% | | 29.2% | | 28.1% | |
| Combined ratio | 90.4% | | 93.1% | | 89.5% | |
| Insurance margin | 14.3% | | 13.9% | | 19.1% | |

**Market Environment, Regulation and Reform**

Sound economic and industry growth outlook in Malaysia

The Malaysian economy is expected to have grown by around 6% in calendar 2014 on the back of resilient domestic demand coupled with a recovery in exports. The economy is expected to retain a steady growth path, underpinned by private consumption and investment activity, with GDP growth of the order of 5% anticipated in calendar 2015.

The central bank raised its policy interest rate in July 2014 in a bid to ease inflationary pressures stemming partly from the rationalisation of government subsidy schemes. The fall in the global oil price is expected to cushion the impact of the government's cut in fuel subsidies and its introduction of a 6% goods and services tax in April 2015.

Malaysia's general insurance market is poised for steady growth of 5.5-6.0% in calendar 2015. With resilient GDP growth, sound operating margins and a strengthening regulatory environment, the Malaysian insurance industry continues to offer good long term growth prospects.

The general insurance industry has proactively engaged with the central bank on the impending liberalisation of the motor and fire classes of business targeted for 2016, when motor insurance and fire premiums will be detariffed. AmGeneral is well-advanced in its preparation for the tariff reform.

## INDIA

**Market Presence**

Strong GWP growth from SBI General continues

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

**Operating Performance**

SBI General has continued to grow strongly, generating GWP equivalent to $134m (IAG's 26% share being approximately $35m) in 1H15, an increase of 38% against 1H14. Local currency GWP growth was over 30%.

# 9. ASIA

GWP growth in 1H15 was primarily derived from personal accident insurance business written through the bancassurance channel, supplemented by volumes from new product launches, such as crop insurance. SBI General has established itself as the second largest personal accident insurance provider in India, with an approximately 12% market share in the nine months ended 31 December 2014.

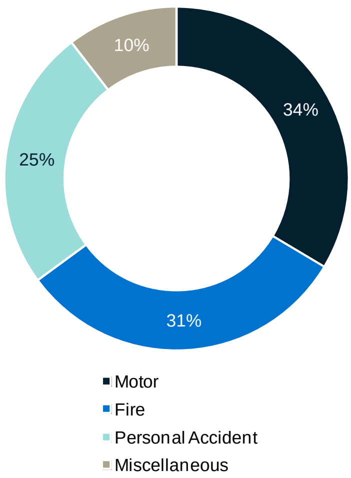
SBI General reported an improved result of a small profit for the half, IAG's share of which was approximately $1m. This outcome comprised:

- A lower expense ratio, reflecting the realisation of scale benefits as NEP grows;
- Unrealised capital gains (compared to losses in 1H14) from the mark-to-market bond revaluation; and
- A higher loss ratio, owing to a strengthening of third party motor pool reserves and claims related to Cyclone Hudhud, which struck the east coast of India in mid-October 2014.

At the end of 1H15, SBI General had 71 products in the market. SBI General currently has 62 dedicated branches across India, including 56 in second and third tier cities, and nearly 2,300 employees.

In line with SBI General's long term expansion plan, a capital injection occurred in the opening quarter of FY15, with IAG's share being approximately $20m.

SBI GENERAL – 1H15 GWP BY CLASS




| SBI GENERAL FINANCIAL PERFORMANCE | 1H14 ₹`m | 1H14 A$m | 2H14 ₹`m | 2H14 A$m | 1H15 ₹`m | 1H15 A$m |
|---|---|---|---|---|---|---|
| **Gross written premium** | **5,560** | **97** | **6,716** | **121** | **7,250** | **134** |
| **Net earned premium** | **3,167** | | **3,820** | | **4,433** | |
| Net claims expense | (2,577) | | (3,275) | | (3,839) | |
| Commission & underwriting expenses | (1,598) | | (1,791) | | (2,058) | |
| Investment income on technical reserves | (25) | | 769 | | 1,101 | |
| **Insurance(loss)** | **(1,033)** | | **(477)** | | **(363)** | |
| **Net profit/(loss) after tax** | **(875)** | | **(193)** | | **142** | |
| **Net profit/(loss) after tax - IAG's share (26%)** | **(228)** | **(4)** | **(50)** | **(1)** | **37** | **1** |
| **Insurance Ratios** | | | | | | |
| Loss ratio | 81.4% | | 85.7% | | 86.6% | |
| Expense ratio | 50.5% | | 46.9% | | 46.4% | |
| Combined ratio | 131.9% | | 132.6% | | 133.0% | |
| Insurance margin | (32.6%) | | (12.5%) | | (8.2%) | |

### Market Environment, Regulation and Reform

The medium to long term growth prospects for the general insurance market in India remain strong. The industry grew by 9% in the first nine months of the fiscal year ending March 2015, and is expected to grow by 11% in the full 2015 fiscal year, assisted by an expected increase in economic growth to over 7%. This strong growth outlook is supported by a low insurance penetration rate and rising middle class income.

India's long term general insurance market growth prospects remain strong

The regulatory framework continues to incorporate reforms conducive for growth in the insurance industry. These include the enforcement of a pricing regime by the Insurance Regulatory and Development Authority of India (IRDA) from 1 January 2015, to curb general insurance companies offering heavy discounts despite rising insured losses, and proposals for increased penalties for vehicle owners failing to buy insurance.

# 9. ASIA

In January 2015, the Reserve Bank of India confirmed its stance on allowing banks to act as insurance brokers, with the aim of increasing insurance penetration in India. This decision enables banks to form joint ventures or subsidiaries to undertake insurance broking business.

The proposal to amend the current Insurance Act and raise the foreign direct investment (FDI) cap from the current 26% to 49% has been taken up by the Modi government as one of its priorities. In late December 2014 an Ordinance was signed by the President of India approving the Insurance Laws (Amendment) Bill which includes an increase in the foreign ownership limit to 49%. This Ordinance is required to be ratified by both Houses of Parliament, and if not ratified within six months from the date of issue or within six weeks from the next session of Parliament (whichever is the earlier), it will lapse. IAG has an option to increase its shareholding in SBI General to 49%, subject to a change in the law.

## CHINA

### Market Presence

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

### Operating Performance

In 1H15, Bohai Insurance recorded an increase in GWP of 9% to $193m (IAG's 20% share being approximately $39m), compared to 1H14, with local currency GWP growth exceeding 6%. The slower level of GWP growth than FY14 is a result of the scaling back of commission incentives in the early part of the financial year, while continuing to focus on driving branch performance in selective geographical areas.

Bohai Insurance produced an improved post-tax operating result in 1H15, of which IAG's share was a loss of approximately $1m (1H14: $2m loss). This advance reflected the combined effect of:

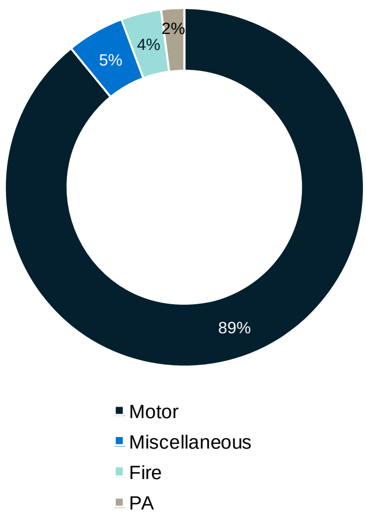
- Lower commission from the scaling back of the incentive programme early in 1H15;
- Higher investment income on the back of better investment returns; and
- Lower reserve releases relating to earlier accident years, compared to the same period last year.

The embedding of IAG's capability transfer programme remains a key focus. This programme encompasses product development, sales and distribution, claims and risk management, as well as the implementation of more stringent underwriting and pricing controls. Specific areas of attention are the:

- Development of a more granular risk selection process;
- Integration of supply chain solutions;
- Establishment of an enterprise-wide risk management system; and
- Improved renewal retention.

## Sound growth from Bohai Insurance

BOHAI INSURANCE – 1H15 GWP BY CLASS



# 9. ASIA

| BOHAI INSURANCE FINANCIAL PERFORMANCE | 1H14 ¥m | 1H14 A$m | 2H14 ¥m | 2H14 A$m | 1H15 ¥m | 1H15 A$m |
|---|---|---|---|---|---|---|
| **Gross written premium** | **995** | **177** | **1,121** | **199** | **1,055** | **193** |
| **Net earned premium** | **806** | | **969** | | **1,036** | |
| Net claims expense | (466) | | (609) | | (659) | |
| Commission & underwriting expenses | (459) | | (436) | | (491) | |
| Investment income on technical reserves | 25 | | 50 | | 69 | |
| **Insurance(loss)** | **(94)** | | **(26)** | | **(45)** | |
| **Net (loss) after tax** | **(51)** | | **(8)** | | **(35)** | |
| **Net (loss) after tax - IAG's share (20%)** | **(10)** | **(2)** | **(2)** | **(0)** | **(7)** | **(1)** |
| **Insurance Ratios** | | | | | | |
| Loss ratio | 57.8% | | 62.8% | | 63.6% | |
| Expense ratio | 56.9% | | 45.0% | | 47.4% | |
| Combined ratio | 114.7% | | 107.8% | | 111.0% | |
| Insurance margin | (11.7%) | | (2.7%) | | (4.3%) | |

### Market Environment, Regulation and Reform

Strong industry growth outlook in China persists

The Chinese economy grew by 7.4% in calendar 2014, with slightly lower growth of around 7% anticipated in 2015. Growth is supported by targeted public spending and private consumption.

China remains an attractive general insurance market underpinned by a strong economic outlook and the government's active promotion of agricultural, liability and natural catastrophe insurance. The general insurance market recorded GWP growth of over 16% in calendar 2014 and is expected to sustain good GWP growth momentum owing to steady new automobile sales, greater penetration of non-motor lines and the expansion of distribution channels.

The China Insurance Regulatory Commission (CIRC) has increased its forecast for GWP growth, and is now projecting average annual growth of 17% until 2020.

The Chinese government has unveiled measures to deepen industry reform, such as the promotion of insurance as an important pillar of the social security system and the establishment of a comprehensive catastrophe insurance system.

Motor GWP is forecast to grow on average by at least 15% per annum over the next 3-5 years. Volumes will be driven by the growing Chinese economy, coupled with the urbanisation process in third and fourth-tier cities which will boost car sales. The opening of motor compulsory liability insurance to foreign participation and the forthcoming motor tariff liberalisation are expected to foster greater pricing discipline while attracting more competition. A phased partial detariffication of voluntary commercial motor insurance is expected to be implemented from 2015, over a three-year period.

## VIETNAM

### Market Presence

Small profit from AAA Assurance

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

# 9. ASIA

### Operating Performance

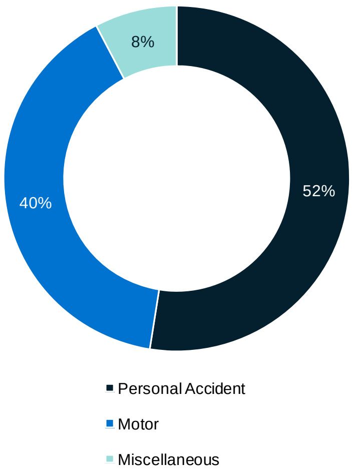
In 1H15 AAA Assurance produced a small profit, comparable to 1H14's outcome but a notable improvement over 2H14. This was driven by an improved loss ratio of 16.8% (1H14: 34.5%), which reflected significant improvements in motor claims management and the run-off of business written through the bank channel.

AAA Assurance recorded a decline in GWP of nearly 40% in local currency terms. This follows the decision to withdraw from the distribution of loan protection insurance with a bank partner on profitability grounds, which took effect from the end of the first quarter of FY15.

AAA Assurance has continued to strengthen its operating and technical capabilities. This has included:

- Tightened claims control to reduce leakage, including the implementation of a new claims and assessing model;
- Enhanced risk management and governance; and
- Improved underwriting and process controls.

AAA ASSURANCE – 1H15 GWP BY CLASS




| AAA ASSURANCE FINANCIAL PERFORMANCE | 1H14 | | 2H14 | | 1H15 | |
|---|---|---|---|---|---|---|
| | đm[1] | A$m[1] | đm[1] | A$m[1] | đm[1] | A$m[1] |
| **Gross written premium** | **286,078** | **14** | **296,139** | **15** | **174,455** | **9** |
| **Net earned premium** | **245,359** | **12** | **236,415** | **12** | **245,014** | **12** |
| Net claims expense | (84,625) | (4) | (73,885) | (4) | (41,205) | (2) |
| Commission & underwriting expenses | (167,621) | (8) | (264,890) | (14) | (187,402) | (9) |
| Investment income on technical reserves | 9,529 | 0 | 6,948 | 1 | 7,155 | 0 |
| **Insurance profit /(loss)** | **2,642** | **0** | **(95,412)** | **(5)** | **23,562** | **1** |
| Loss ratio | 34.5% | | 31.3% | | 16.8% | |
| Expense ratio | 68.3% | | 112.0% | | 76.5% | |
| Combined ratio | 102.8% | | 143.3% | | 93.3% | |
| Insurance margin | 1.1% | | (40.4%) | | 9.6% | |

[1] *Excludes allocated regional support and development costs.*

### Market Environment, Regulation and Reform

Sound economic recovery in Vietnam, with attractive long term outlook

The Vietnamese economy is expected to have grown by about 5.5% in calendar 2014, with further improvement anticipated in 2015. Growth has been led by a lift in domestic demand and foreign investment, which have supported manufacturing and exports.

Vietnam remains an attractive insurance market in the longer term, driven by its low insurance penetration rate and the population's rising average income. Motor represented close to 28% of general insurance premiums in the opening nine months of 2014, which is significantly lower than most other South East Asian countries.

In the nine-month period ended 30 September 2014, industry GWP grew by over 10%, fuelled by a lift in passenger car sales and a recovery in the construction and personal accident sectors as business sentiment improved. The government has also launched a trial programme to promote the development of export credit insurance.

Regulatory reform continues to aim at establishing more discipline in risk evaluation and premium pricing. The Ministry of Finance is continuing to strengthen the legal framework for the insurance sector, while at the same time enhancing supervision and inspection.

# 9. ASIA

## REGIONAL SUPPORT AND DEVELOPMENT COSTS

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

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

Total regional support and development costs for 1H15 were steady at $14m, compared to 1H14. The business continues to invest in greater capability support, driving an operational excellence strategy and enhancing risk management and governance across the Asian operations. 1H15 also saw heightened development activities for Indonesian market entry.

FY15 regional support and development costs are expected to be in line with the $31m reported in FY14.

Increased regional support focused on delivering operational excellence

| REGIONAL SUPPORT AND DEVELOPMENT COSTS - ALLOCATION | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Consolidated operations (Thailand & Vietnam) | 5 | 6 | 4 |
| Associates (Malaysia, India & China) | 9 | 11 | 10 |
| **Total regional support and development costs** | **14** | **17** | **14** |

## OUTLOOK

The overall Asia business is expected to deliver a stronger profit contribution in FY15, compared to FY14, as each of the constituent operations demonstrates improved underlying performance.

Stronger Asia profit contribution anticipated in FY15

GWP growth (on a proportional basis) is expected to be driven by further economic recovery in Thailand and ongoing expansion in India.

Growth from SBI General in India is expected to be derived from the maximisation of opportunities with the bank through the launch of new products, as well as a strong focus on growing the motor portfolio.

Bohai Insurance's GWP growth in China will be supported by motor and expansion of distribution channels for non-motor products.

In Malaysia, AmGeneral will continue its strategic focus on delivering GWP growth by strengthening its agency network, alongside bancassurance optimisation efforts.

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

During 1H15, the Asia division has been active in providing protection to microinsurance customers in its developing markets. Several microinsurance products have been sold in India and Vietnam, primarily distributed through the bank and agency channels. Expansion of product offerings, and extension of the distribution network to channels such as non-government organisations and telecommunications companies, are planned.

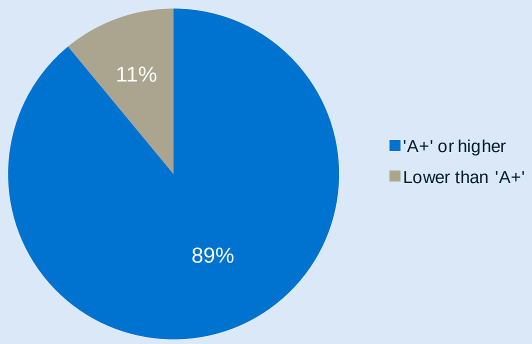
IAG remains keen to lift its ownership of its Indian joint venture to 49%, should the proposed increase in the FDI limit gain statutory approval. The Group will also continue to advance its market entry plans in Indonesia.

# 10. REINSURANCE

## EXECUTIVE SUMMARY

- Reinsurance represents a key part of the Group's overall approach to capital management
- Catastrophe programme renewed 1 January 2015 with increased cover of up to $7bn
- Catastrophe cover for acquired Wesfarmers business included in main programme from 1 January 2015
- Group maximum event retention (MER) of $250m at 1 January 2015
- Additional cover of $150m purchased for FY15, in excess of $700m perils allowance
- Adverse development cover entered into in respect of CTP portfolio

**Counter-Party Risk - Catastrophe Programme**




### REINSURANCE STRATEGY

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

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

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

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

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

Reinsurance is a key part of IAG's overall approach to capital management

### MARKET ENVIRONMENT

The benign global catastrophe experience continues to attract additional capital to the international reinsurance market, adding to the surplus of capacity which already existed. This influx of capacity has affected pricing across both traditional and non-traditional markets, and has resulted in a continuance of the favourable rating trend from a purchaser's perspective. It has also accommodated the Group's additional limit requirement at the 2015 renewal.

Rating environment remains positive from a purchaser's perspective

### CATASTROPHE COVER

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

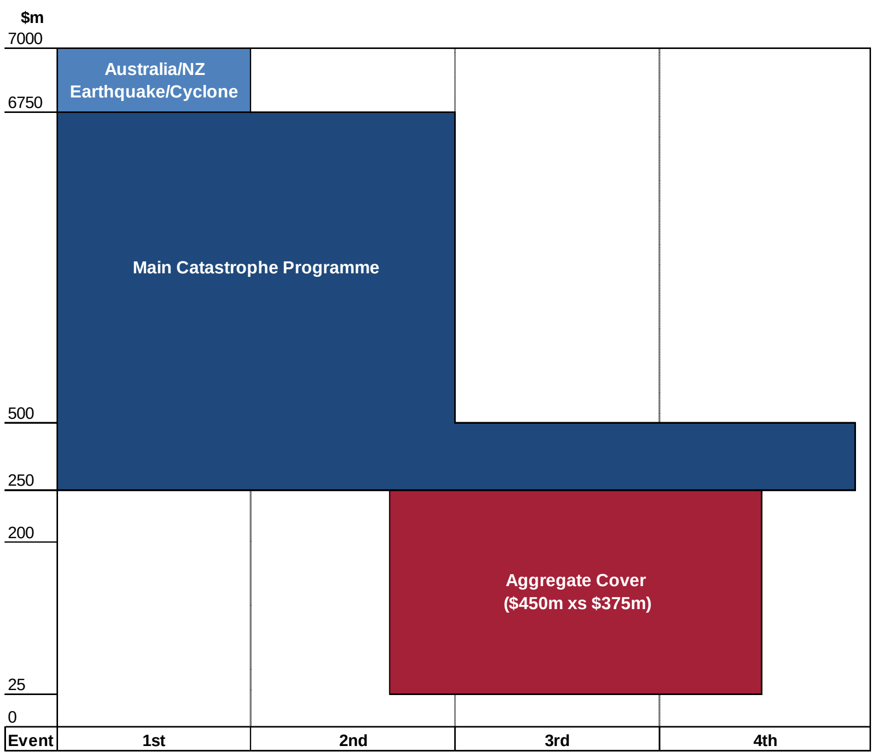
While constructed in a similar manner to prior years, IAG's 2015 catastrophe reinsurance entails a significantly higher level of cover than that at the

# 10. REINSURANCE

beginning of calendar 2014. This reflects the increased size of IAG following the acquisition of the former Wesfarmers business, whose previous standalone cover has been cancelled.

Following completion of the 2015 catastrophe cover, all reinsurance synergies expected as part of the integration of the Wesfarmers business have been realised and will be recognised in IAG's earnings up to 31 December 2015.

**2015 CATASTROPHE REINSURANCE COVER – AS AT 1 JANUARY 2015**




At renewal on 1 January 2015 the integrated programme comprised the following key components:

- A main catastrophe cover for losses up to $6.75bn, including one prepaid reinstatement. The Group retains the first $250m of each loss, with three reinstatements secured for the lower layer of the main programme ($250m excess of $250m);
- An expanded aggregate sideways cover which reduces the cost of a second event to $175m and subsequent events to $25m. The aggregate provides protection of $450m excess of $375m, with qualifying events capped at a maximum contribution of $225m excess of $25m per event; and
- A $250m upper layer providing earthquake and cyclone cover in respect of Australia and New Zealand, extending from $6.75bn to $7.0bn.

For New Zealand, all amounts itemised above in respect of the Group's 2015 catastrophe programme are denominated in NZ$. For example, the main catastrophe cover is in respect of losses of up to NZ$6.75bn.

Specific buy-down covers are in place to protect the Group's Thai and Malaysian interests, excess of a $25m retention and including one prepaid reinstatement.

Increased catastrophe cover of up to $7.0bn, for calendar 2015

# 10. REINSURANCE

The combination of covers in place at 1 January 2015 results in maximum first event retentions of $250m for Australia, NZ$250m for New Zealand, $25m for Thailand and Malaysia, and less than $1m for Vietnam.

### FY15 NATURAL PERILS COVER

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

Additional peril cover for FY15

### CTP ADVERSE DEVELOPMENT COVER (ADC)

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

The cumulative impact of the CTP quota share and ADC arrangements has been a reduction of approximately $150m in the Group's regulatory capital requirement, approximately $90m of which was crystallised by the ADC on 1 July 2014.

CTP quota share and ADC have reduced regulatory capital requirement by $150m

### OTHER COVERS

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

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

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

### COUNTER-PARTY RISK

The counter-party credit profiles for the key reinsurances of the Group as at 1 January 2015 are:

- Over 89% of limits placed with 'A+' or higher rated entities for the calendar 2015 property catastrophe programme; and
- 100% of limits placed with 'A+' or higher rated entities for the casualty programme.

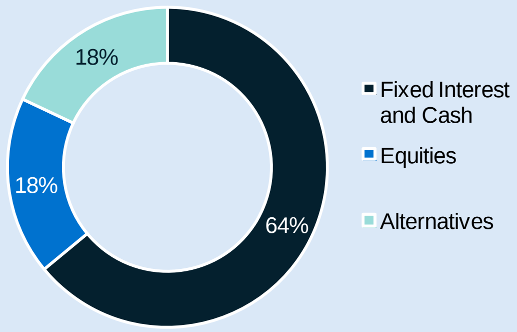
Strong counter-party risk profile maintained

# 11. INVESTMENTS

## EXECUTIVE SUMMARY

- Total investments of $15.2bn as at 31 December 2014
- Overall investment allocation remains conservatively positioned
- Technical reserves of $10.5bn all invested in fixed interest and cash
- Shareholders' funds of $4.7bn – growth asset weighting of 36%
- Strong investment return on technical reserves
- Shareholders' funds return influenced by more moderate equity market performance
- Strong credit quality maintained: 83% 'AA' or higher

Shareholders' Funds Mix




## INVESTMENT PHILOSOPHY

The Group's investment philosophy is to:

- Manage the assets backing technical reserves and shareholders' funds separately;
- Invest the assets backing technical reserves, wherever possible, in securities with interest rate sensitivities that align to the underlying insurance liabilities;
- Invest the Group's shareholders' funds to maximise the return on risk-based capital, consistent with the Group's risk appetite and flexibility requirements; and
- Invest Group assets so that the contribution of investment risk to IAG's earnings volatility should not dominate the contribution from insurance risk.

Technical reserves invested to align with liability interest rate risk

## INVESTMENT STRATEGIES

The Group's overall investment allocation remains conservatively positioned, with nearly 89% of total investments in fixed interest and cash as at 31 December 2014. Technical reserves were entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was 64%.

The Group's allocation to growth assets was 36% of shareholders' funds at 31 December 2014, compared to 42% at 30 June 2014. The lower weighting reflects the timing of cash flows around the New Zealand earthquake strengthening at the end of the period.

Within the Group's allocation to growth assets, alternative investments accounted for 17.8% of shareholders' funds as at 31 December 2014, slightly lower than the proportion at 30 June 2014. These alternative investments typically display a lower volatility than equities, deliver a higher return than fixed income and increase overall investment diversification. The Group's largest allocation within this category is to global convertible bonds. Other exposures include a diversified portfolio of absolute return strategies and alternative fixed interest.

Distinct investment strategies for technical reserves and shareholders' funds

## GROUP INVESTMENT ASSETS

The Group's investments totalled $15.2bn as at 31 December 2014, excluding investments held in joint ventures and associates, with approximately 69% represented by the technical reserves portfolio.

Total investments of $15.2bn

# 11. INVESTMENTS

The small decrease in total investments since 30 June 2014 reflects:

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

| GROUP INVESTMENT ASSETS | 1H14 A$bn | FY14 A$bn | 1H15 A$bn |
|---|---|---|---|
| Technical reserves | 9.3 | 10.4 | 10.5 |
| Shareholders' funds | 5.5 | 5.0 | 4.7 |
| **Total investment assets** | **14.8** | **15.4** | **15.2** |

## ASSET ALLOCATION

Since 30 June 2014, the main change to the Group's asset allocation is the lower weighting of growth asset categories within shareholders' funds.

88.8% of investments in fixed interest and cash

GROUP ASSET ALLOCATION

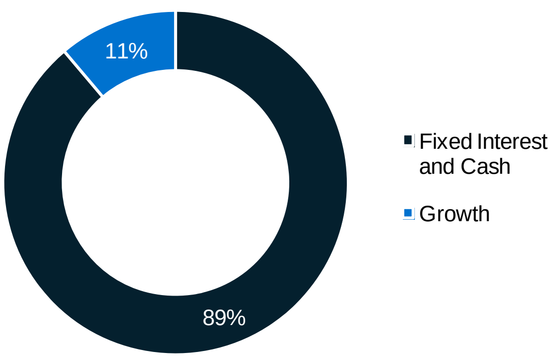
| | 1H14 | FY14 | 1H15 |
|---|---|---|---|
| **SHAREHOLDERS' FUNDS** | **%** | **%** | **%** |
| Australian equities | 17.5 | 14.5 | 12.1 |
| International equities | 1.6 | 8.6 | 6.3 |
| Alternatives | 17.2 | 18.5 | 17.8 |
| Fixed interest and cash | 63.7 | 58.4 | 63.8 |
| **Total** | **100.0** | **100.0** | **100.0** |
| **TECHNICAL RESERVES** | **%** | **%** | **%** |
| Fixed interest and cash | 100.0 | 100.0 | 100.0 |
| **Total** | **100.0** | **100.0** | **100.0** |
| **TOTAL SHAREHOLDERS' FUNDS AND TECHNICAL RESERVES** | **%** | **%** | **%** |
| Australian equities | 6.5 | 4.7 | 3.7 |
| International equities | 0.6 | 2.8 | 2.0 |
| Alternatives | 6.3 | 6.0 | 5.5 |
| Fixed interest and cash | 86.6 | 86.5 | 88.8 |
| **Total** | **100.0** | **100.0** | **100.0** |

## CREDIT QUALITY OF ASSETS

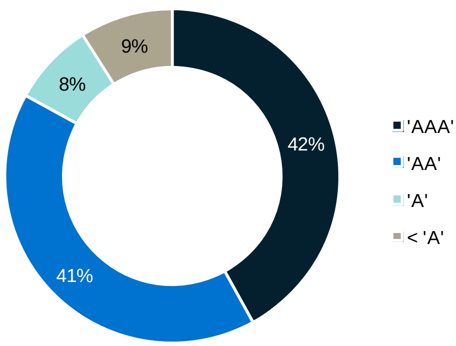
The credit quality of the Group's investment book remains strong, with approximately 83% of the fixed interest and cash portfolio rated in the 'AA' category or higher.

Strong credit quality maintained

GROUP ASSET ALLOCATION – 31 DECEMBER 2014




CREDIT QUALITY – 31 DECEMBER 2014



# 11. INVESTMENTS

## SENSITIVITY ANALYSIS

As at 31 December 2014, the sensitivity of the Group's net profit before tax to market movements in investments was as set out in the table below and includes indirect sensitivities relating to alternative assets.

| INVESTMENT SENSITIVITIES (NET PROFIT BEFORE TAX) AS AT 31 DECEMBER 2014 | Change in Assumption +1% A$m | -1% A$m |
|---|---|---|
| **Equity market values:** | | |
| Australian equities | 5 | (5) |
| International equities | 5 | (5) |
| **Total equity market sensitivity** | **10** | **(10)** |
| **Interest rates:** | | |
| Technical reserves | (322) | 344 |
| Shareholders' funds | (29) | 30 |
| **Total interest rate sensitivity** | **(351)** | **374** |

## INVESTMENT PERFORMANCE

A strong investment return was achieved on the technical reserves portfolio. Investment income of $427m on technical reserves in 1H15 included:

- Unrealised capital gains of nearly $190m at period end, primarily associated with a flattening of the yield curve since 30 June 2014, and specifically at the long end. The 3-year government bond yield fell to 2.13%, from 2.62% at 30 June 2014;
- A positive impact of $40m from the narrowing of credit spreads, as movements remain relatively volatile. The equivalent movement in 1H14 was a positive effect of $39m; and
- A favourable foreign exchange impact of $10m, including that from the hedge associated with reinsurance recoveries in respect of the New Zealand earthquakes in FY11, which are held by the offshore captive in Singapore. An equivalent adverse effect, of $42m, was recorded in 1H14.

Moderation in future technical reserves return expected

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

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

Investment returns on shareholders' funds were moderated by the performance of the Australian equity market following a sharp rally in FY14. The broader Australian index (S&P ASX200 Accumulation) returned 2.5% over the six months to 31 December 2014.

Lower shareholders' funds return reflected a moderation of equity market performance

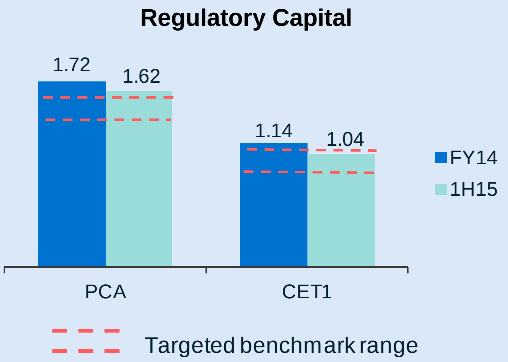
Diversification of the shareholders' funds portfolio, via allocations to the international equity market and to alternatives, proved beneficial during 1H15.

| INVESTMENT INCOME | 1H14 A$m | 2H14 A$m | 1H15 A$m |
|---|---|---|---|
| Technical reserves | 87 | 352 | 427 |
| Shareholders' funds | 233 | 163 | 137 |
| **Total investment income** | **320** | **515** | **564** |

# 12. BALANCE SHEET & CAPITAL

## EXECUTIVE SUMMARY

- Strong balance sheet and regulatory capital position maintained
- PCA multiple of 1.62 at 31 December 2014 vs. benchmark of 1.4-1.6
- CET1 multiple of 1.04 at 31 December 2014 vs. benchmark of 0.9-1.1
- Capital mix around middle of targeted range – debt and hybrids 35.6% of total tangible capitalisation
- S&P 'AA-' rating for core operating subsidiaries reaffirmed in July 2014




## BALANCE SHEET

| | 1H14 A$m | FY14 A$m | 1H15 A$m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 360 | 447 | 250 |
| Investments | 14,803 | 15,377 | 15,190 |
| Investments in joint ventures and associates | 585 | 572 | 650 |
| Premium receivable | 2,673 | 3,316 | 3,118 |
| Trade and other receivables | 638 | 628 | 719 |
| Reinsurance and other recoveries on outstanding claims | 3,041 | 3,231 | 3,761 |
| Deferred acquisition costs | 797 | 1,028 | 994 |
| Deferred reinsurance expense | 869 | 706 | 881 |
| Intangible assets | 288 | 700 | 700 |
| Goodwill | 1,704 | 2,840 | 2,895 |
| Assets discontinued operation | 9 | 9 | 1 |
| Other assets | 751 | 803 | 1,051 |
| **Total assets** | **26,518** | **29,657** | **30,210** |
| **Liabilities** | | | |
| Outstanding claims | 10,642 | 11,937 | 12,831 |
| Unearned premium | 5,122 | 6,256 | 6,105 |
| Interest bearing liabilities | 1,696 | 1,752 | 1,772 |
| Trade and other payables | 1,206 | 1,523 | 1,295 |
| Liabilities discontinued operation | 23 | 20 | 2 |
| Other liabilities | 1,549 | 1,375 | 1,398 |
| **Total liabilities** | **20,238** | **22,863** | **23,403** |
| **Net assets** | **6,280** | **6,794** | **6,807** |
| **Equity** | | | |
| Equity attributable to holders of ordinary shares | 6,078 | 6,568 | 6,583 |
| Non-controlling interests | 202 | 226 | 224 |
| **Total equity** | **6,280** | **6,794** | **6,807** |

# 12. BALANCE SHEET & CAPITAL

The total assets of the Group as at 31 December 2014 were $30,210m compared to $29,657m at 30 June 2014. Notable ingredients behind the $553m increase were:

- Lower cash and investments, with payment of the FY14 final dividend of in excess of $600m exceeding operational cashflow in the period;
- A greater than $500m increase in reinsurance recoveries, reflecting the increase in reserving for the FY11 New Zealand earthquake events, partially offset by recoveries received in the half;
- An approximately $200m reduction in premium receivable, owing to comparison against the peak commercial renewal period at 30 June;
- Higher deferred reinsurance costs, following renewal of the catastrophe programme for calendar 2015; and
- A near-$250m increase in other assets, largely explained by increased tax losses in New Zealand following the earthquake reserve strengthening.

Several balance sheet line movements explained by earthquake reserve strengthening effects

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

The total liabilities of the Group as at 31 December 2014 were $23,403m, compared to $22,863m at 30 June 2014. The increase of $540m includes the following net movements:

- A near-$900m increase in outstanding claims, primarily owing to the New Zealand earthquake strengthening enacted at the period's end; and
- A greater than $200m reduction in other liabilities, reflecting settlement of outstanding sums due to the vendor of the former Wesfarmers business.

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

IAG shareholders' equity (excluding non-controlling interests) increased marginally, from $6,794m at 30 June 2014 to $6,807m at 31 December 2014, reflecting the combined effect of:

- A sound operating earnings performance in the first half of the financial year; and
- Payment of the 26 cents per share dividend declared in respect of 2H14 ($609m).

## GOODWILL & INTANGIBLES

Total goodwill and intangibles at 31 December 2014 stood at $3,595m, up from $3,540m at 30 June 2014, comprising $2,895m of goodwill (FY14: $2,840m) and $700m of other intangible assets (1H14: $700m).

Amortisation in the period was countered by foreign exchange movements and capitalised software additions.

# 12. BALANCE SHEET & CAPITAL

## CAPITAL

### Capital Adequacy

The Group remains strongly capitalised, with regulatory capital of over $4.7bn at 31 December 2014.

At 31 December 2014, the Group's Prescribed Capital Amount (PCA) multiple was 1.62, compared to a targeted benchmark of 1.4 to 1.6 times. This has decreased from the 1.72 multiple reported at 30 June 2014, owing to the net effect of:

- The Group's sound operating earnings performance in 1H15;
- Payment of the 2H14 dividend of 26 cents per share;
- An approximately nine basis point adverse impact from earthquake reserving effects in relation to increased disallowable tax losses and temporarily uncollateralised reinsurance receivables; and
- A favourable impact from the CTP ADC transacted at 1 July 2014, of approximately four basis points.

At 31 December 2014 the Group's Common Equity Tier 1 (CET1) ratio was 1.04 times the PCA, compared to a targeted range of 0.9 to 1.1 times. The regulatory requirement is 0.6 times.

After allowance for the 1H15 dividend of 13 cents per share, which will be paid in April 2015, the PCA and CET1 multiples at 31 December 2014 would stand within the Group's benchmark ranges.

| GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT | FY14 A$m | 1H15 A$m |
|---|---|---|
| **Common Equity Tier 1 Capital (CET1)** | | |
| Ordinary shares | 6,775 | 6,775 |
| Reserves | 38 | 102 |
| Retained earnings | (151) | (208) |
| Technical provisions in excess of liabilities | 914 | 921 |
| Minority interests | 226 | 224 |
| Less: Deductions | (4,514) | (4,773) |
| **Total Common Equity Tier 1 Capital** | **3,288** | **3,041** |
| **Additional Tier 1 Capital** | | |
| Hybrid equities | 817 | 817 |
| **Total Tier 1 Capital** | **4,105** | **3,858** |
| **Tier 2 Capital** | | |
| Subordinated term notes | 876 | 876 |
| **Total Tier 2 Capital** | **876** | **876** |
| **Total Regulatory Capital** | **4,981** | **4,734** |
| **Prescribed Capital Amount (PCA)** | | |
| Insurance risk charge | 1,624 | 1,560 |
| Insurance concentration risk charge | 225 | 250 |
| Diversified asset risk charge | 1,441 | 1,502 |
| Aggregation benefit | (729) | (739) |
| Operating risk charge | 335 | 345 |
| **Total Prescribed Capital Amount** | **2,896** | **2,918** |
| **PCA multiple** | **1.72** | **1.62** |
| **CET1 multiple** | **1.14** | **1.04** |

The Group retains a strong capital position

Temporary adverse impact from earthquake reserve strengthening

# 12. BALANCE SHEET & CAPITAL

### Interest Bearing Liabilities

The Group's interest bearing liabilities stood at $1,772m at 31 December 2014, compared to $1,752m at 30 June 2014. There were no changes in composition over the period.

No changes to debt mix in 1H15

| INTEREST BEARING LIABILITIES | 1H14 A$m | FY14 A$m | 1H15 A$m |
|---|---|---|---|
| Subordinated debt | 777 | 834 | 852 |
| Convertible Preference Shares | 377 | 377 | 377 |
| Reset Exchangeable Securities | 550 | 550 | 550 |
| Capitalised transaction costs/other | (8) | (9) | (7) |
| **Total interest bearing liabilities** | **1,696** | **1,752** | **1,772** |

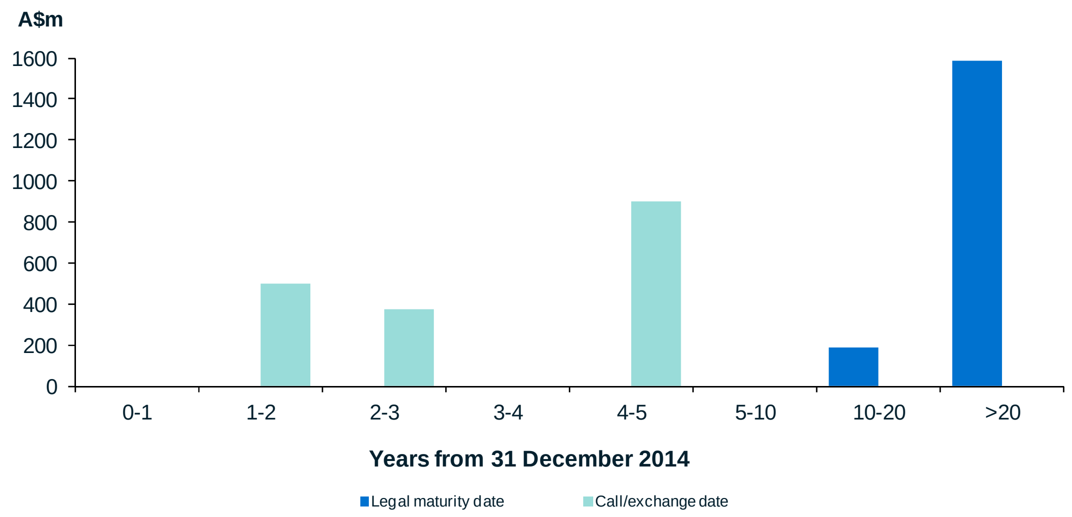
| GROUP DEBT & HYBRID CAPITAL | Principal amount m | A$m | Yield (net of swaps) % | Rate | First Call or Exchange date | S&P rating |
|---|---|---|---|---|---|---|
| Subordinated term notes[1] | A$350 | 350 | 5.58% | Variable | Mar-19 | 'A-' |
| Subordinated fixed rate notes | £100 | 192 | 5.63% | Fixed | Dec-16 | 'BBB+' |
| Subordinated fixed rate bonds | NZ$325 | 310 | 7.50% | Fixed | Dec-16 | 'BBB+' |
| **Total subordinated debt** | | **852** | | | | |
| Convertible Preference Shares (IAGPA)[2] | A$377 | 377 | 4.74% | Variable | May-17 | 'N/R' |
| Reset Exchangeable Securities (IANG)[3] | A$550 | 550 | 4.73% | Variable | Dec-19 | 'BBB+' |

[1] *Stated yield based on margin of BBSW + 2.80%.*

[2] *Dividend yield on the Convertible Preference Shares is a cash yield, excluding attached franking credits. The principal excludes capitalised transaction costs.*

[3] *The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.*

## GROUP DEBT MATURITY PROFILE



# 12. BALANCE SHEET & CAPITAL

## 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% of total tangible capitalisation.

Capital mix just above mid-point of targeted range

| CAPITAL MIX | 1H14 A$m | FY14 A$m | 1H15 A$m |
|---|---|---|---|
| Shareholder equity | 6,280 | 6,794 | 6,807 |
| Intangibles and goodwill | (1,992) | (3,540) | (3,595) |
| **Tangible shareholder equity** | **4,288** | **3,254** | **3,212** |
| Interest bearing liabilities | 1,696 | 1,752 | 1,772 |
| **Total tangible capitalisation** | **5,984** | **5,006** | **4,984** |
| **Debt to total tangible capitalisation** | **28.3%** | **35.0%** | **35.6%** |

## Credit Ratings

On 2 July 2014, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' insurer financial strength and issuer credit ratings in respect of IAG's core operating subsidiaries, as well as its 'A' issuer credit rating of the non-operating holding company, Insurance Australia Group Limited. The outlook on all entities is stable.

# APPENDIX A BRAND PORTFOLIO

## PORTFOLIO OF INSURANCE BRANDS AND MARKETS

**AUSTRALIA**

- NRMA Insurance
- CGU
- SGIC
- swann insurance
- SGIO
- wfi
- RACV[1]
- Lumley Insurance

**NEW ZEALAND**

- STATE
- ami
- NZI
- Lumley Insurance

**ASIA**

- [2]
- NZI[2]
- AmAssurance[3]
- KURNIA INSURANS[3]
- SBI General INSURANCE[4]
- 渤海保险 Bohai Insurance[5]
- AAA ASSURANCE[6]

[1] *IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.*
[2] *IAG holds a 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands.*
[3] *IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.*
[4] *IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.*
[5] *IAG owns 20% of Bohai Property Insurance Company Ltd, based in China.*
[6] *IAG owns 63.17% of AAA Assurance Corporation, based in Vietnam.*

# APPENDIX B IAG BUSINESS SNAPSHOT



## PERSONAL INSURANCE

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

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

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

**Short tail insurance**

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

**Long tail insurance**

- Compulsory Third Party (motor injury liability)

## COMMERCIAL INSURANCE

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

Commercial Insurance operates across Australia under the following brands:

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

**Short tail insurance**

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

**Long tail insurance**

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

## NEW ZEALAND

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

**Short tail insurance**

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

**Long tail insurance**

- Personal liability
- Income protection
- Commercial liability

## ASIA

The Group has interests in five general insurance businesses in Asia:

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

# APPENDIX C  KEY RELATIONSHIPS

## THE NATIONAL ROADS & MOTORISTS' ASSOCIATION

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

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

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

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

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

## RACV

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

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

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

# APPENDIX C KEY RELATIONSHIPS

## AMBANK GROUP

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

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

## STATE BANK OF INDIA

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

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

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

## TEDA

TEDA International Holding Group Co., Ltd (TEDA International) has majority ownership of Bohai Property Insurance Company Ltd (Bohai Insurance). TEDA International is a Chinese state-controlled investment company which was established in December 2007. Its main scope of business covers commercial banking, securities, property insurance, life insurance, funds management and trust company activities. At the end of 2014, TEDA International owned two holding companies and seven joint venture companies, with total assets in excess of RMB 38.1bn.

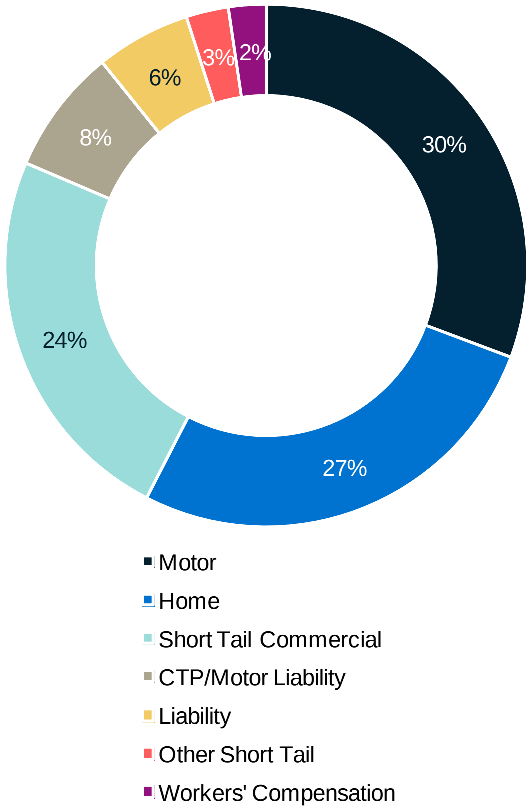
Bohai Insurance was founded in October 2005 by TEDA Investment Holding and is headquartered in Tianjin in northern China. Bohai has 25 branches, over 240 sub-branches and a network of agents, with over 3,000 employees across China. It holds a full licence in non-life insurance, with motor premiums representing nearly 90% of total revenue.

In April 2012, IAG entered into a strategic partnership with Bohai Insurance through a 20% ownership position.

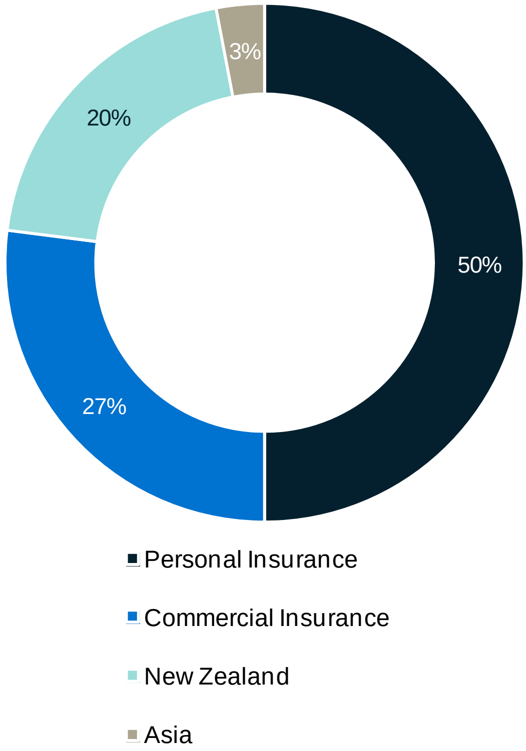
# APPENDIX D GEOGRAPHICAL & PRODUCT DIVERSIFICATION



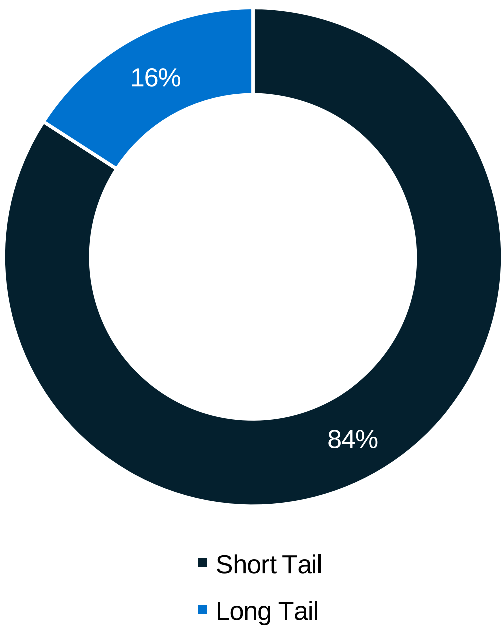
### IAG GROUP GWP BY PRODUCT — 1H15



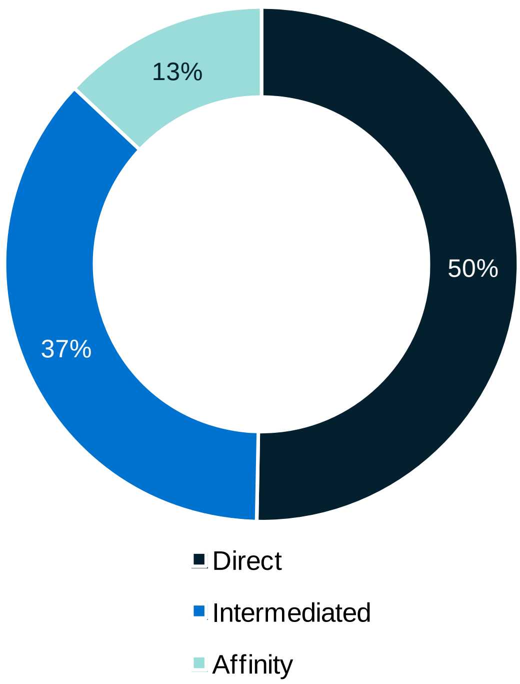

### IAG GROUP GWP BY BUSINESS — 1H15




### IAG GROUP GWP BY TAIL — 1H15




### IAG GROUP GWP BY CHANNEL — 1H15



# APPENDIX E KEY ASX RELEASES



A summary of the announcements made by IAG to the ASX since 30 June 2014 is set out below. It does not include announcements of changes in directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements if further information is required. These are available at http://www.iag.com.au.

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

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

**19-AUG-14** **IAG REPORTS STRONG FY14 OPERATING PERFORMANCE AND INCREASED DIVIDEND**

IAG announced a strong operating performance for the financial year ended 30 June 2014, with an insurance profit of $1,579m for the year, up 10.6%. This equated to a reported insurance margin of 18.3%, and an improved underlying margin of 14.2%. GWP increased by 3% to $9,779m, while net profit after tax increased 59% to $1,233m, boosted by increased investment income on shareholders' funds and the absence of the prior year's loss in respect of the discontinued UK business. The Board determined to pay a final fully franked dividend of 26 cents per share, bringing the full year dividend to 39 cents per share, an increase of 8.3% and representing a cash payout ratio of nearly 70%. Initial guidance was provided for FY15, of GWP growth of 17-20% and a reported insurance margin of 13.5-15.5%. IAG's 2014 Annual Report and Annual Review were also released.

**8-SEP-14** **NOTICE OF ANNUAL GENERAL MEETING**

IAG's Notice of Annual General Meeting was released to the market.

**16-SEP-14** **DR NORA SCHEINKESTEL STEPS DOWN FROM IAG BOARD**

IAG announced the resignation of Dr Nora Scheinkestel from the Board, effective 16 September 2014, following her advice of a potential conflict of interest.

**8-OCT-14** **DIVIDEND REINVESTMENT PLAN PRICING**

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at $6.1344 per share for the dividend payable on 8 October 2014.

**30-OCT-14** **IAG ON TRACK FOR FY15 GUIDANCE**

IAG advised shareholders at the Annual General Meeting that the company was on track to deliver on its FY15 guidance, based on operating performance in the opening months of the financial year.

**26-NOV-14** **RECLASSIFICATION OF AUSTRALIAN FY14 RESULTS IN LINE WITH NEW OPERATING MODEL**

IAG reclassified its Australian operating results for FY14. The revised presentation corresponded with the new Australian operating model, which was introduced on 1 July 2014.

**1-DEC-14** **BRISBANE STORM CLAIMS UPDATE**

IAG advised it had received approximately 11,000 claims for damage caused by the violent storm which struck Brisbane on 27 November 2014.

# APPENDIX E KEY ASX RELEASES



**4-DEC-14** **IAG PROVIDES UPDATE ON BRISBANE STORM**

IAG provided an updated claims number of 15,300 in respect of the storm that hit the Brisbane area on 27 November 2014. IAG also provided an expected net claims cost of between $140m and $170m.

**5-DEC-14** **2015 FINANCIAL CALENDAR**

IAG provided details of its financial calendar for 2015.

**5-DEC-14** **IAG APPOINTS INDEPENDENT NON-EXECUTIVE DIRECTOR**

IAG announced the appointment of Ms Elizabeth Bryan AM to the IAG Board, effective immediately.

**15-DEC-14** **IAG ANNOUNCES BOARD CHANGES**

IAG announced the appointment of Mr Tom Pockett to the IAG Board, as a non-executive director effective 1 January 2015. IAG also announced the retirement of non-executive director, Mr Peter Bush, effective 1 January 2015.

**23-DEC-14** **IAG INCREASES EXPECTED CANTERBURY REBUILD COSTS**

IAG announced it expected its final claim costs related to the series of earthquake losses affecting the Canterbury region to increase by between NZ$750m and NZ$1bn. This followed an increase in forecast repair and rebuild costs, the continued notification of new household claims that have exceeded the Earthquake Commission's limit, and a series of adverse court judgements which have impacted the insurance industry. IAG believes it will finalise claims for the 22 February 2011 event within its NZ$4bn reinsurance limit, with loss estimates for the other earthquake events expected to settle well below limits provided by its reinsurance.

**5-JAN-15** **2015 CATASTROPHE REINSURANCE COVER**

IAG announced it had finalised its catastrophe reinsurance programme for the calendar year commencing 1 January 2015. The programme provides reinsurance protection up to $7bn. The combination of all catastrophe covers in place at 1 January 2015 resulted in maximum first event retentions of $250m for Australia, NZ$250m for New Zealand, $25m for Thailand and Malaysia, and less than $1m for Vietnam.

# APPENDIX F GLOSSARY

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

| | |
|---|---|
| **AFFINITY** | A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold. |
| **APRA** | Australian Prudential Regulation Authority. |
| **ASX** | Australian Securities Exchange Limited. |
| **CASH EARNINGS** | IAG defines cash earnings as net profit after tax attributable to IAG shareholders, adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. This definition is used for the purposes of the Group's dividend policy. It is non-IFRS financial information that has not been audited or reviewed. |
| **CASH ROE** | IAG defines cash ROE as reported ROE adjusted for the post-tax effect of any unusual items and the amortisation and impairment of acquired identifiable intangibles. |
| **COMBINED RATIO** | Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio. |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | The highest quality component of capital, as defined by APRA under its LAGIC regime. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. |
| **CONVERTIBLE PREFERENCE SHARES (CPS)** | Convertible Preference Shares were issued by IAG in May 2012 and are quoted as IAGPC on ASX. |
| **CREDIT SPREAD** | The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields. |
| **CTP** | Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia. |
| **DEFERRED ACQUISITION COSTS (DAC)** | Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts. |
| **DISCOUNT RATE** | In accordance with Australian accounting standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate. |
| **DIVISIONAL** | Divisional is the same as segment in the audited financial statements. |

# APPENDIX F GLOSSARY



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

# APPENDIX F GLOSSARY



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

# APPENDIX F GLOSSARY

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| **ROE** | Return on equity. |
| **SHAREHOLDERS' FUNDS** | The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations. |
| **SHORT TAIL** | Classes of insurance (such as motor, home and SME commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs. |
| **SME** | Small-to-medium enterprise. |
| **TECHNICAL RESERVES** | The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors. |
| **TSR** | Total shareholder return. |
| **UNDERLYING MARGIN** | IAG defines underlying margin as the reported insurance margin adjusted for:<br>▪ Net natural peril claim costs less related allowance;<br>▪ Reserve releases in excess of 1% of NEP; and<br>▪ Credit spread movements.<br>The underlying margin is non-IFRS financial information that has not been audited or reviewed. It is provided to give management's view of normalised performance and can also be referred to as underlying result, underlying performance, underlying insurance profit or underlying profitability. |
| **UNDERWRITING** | The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk. |
| **UNDERWRITING EXPENSES** | Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses. |
| **UNDERWRITING PROFIT / (LOSS)** | Net earned premium less net claims expense, commission expenses and underwriting expenses. |
| **UNEARNED PREMIUM** | Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods. |
| **WACC** | Weighted average cost of capital. |

# DIRECTORY

## SECURITIES EXCHANGE LISTINGS

ASX Limited:
- ASX code for Ordinary Shares: **IAG** (2,341,618,048 on issue at 31 December 2014)
- ASX code for Reset Exchangeable Securities: **IANG** (5,500,000 on issue at 31 December 2014)
- ASX code for Convertible Preference Shares: **IAGPC** (3,773,728 on issue at 31 December 2014)

London Stock Exchange:
- LSE code for Fixed Rate Subordinated Notes due 2026: **70QG** (£100.0m outstanding at 31 December 2014)

NZX Limited:
- NZDX code for Unsecured Subordinated Bonds due 2036: **IAGFA** (NZ$325m outstanding at 31 December 2014)

## KEY DATES

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|---|---|
| Interim dividend – ordinary shares | |
| ▪ Ex-dividend date | 2 March 2015 |
| ▪ Record date | 4 March 2015 |
| ▪ DRP record date | 5 March 2015 |
| ▪ Payment date | 1 April 2015 |
| Payment date for IANG and IAGFA quarterly distributions | 16 March 2015 |
| Payment date for IAGPC dividend | 1 May 2015 |
| Payment date for IANG and IAGFA quarterly distributions | 15 June 2015 |
| Announcement of full year results to 30 June 2015 | 21 August 2015* |
| Final dividend – ordinary shares | |
| ▪ Ex-dividend date | 7 September 2015* |
| ▪ Record date | 9 September 2015* |
| ▪ DRP record date | 10 September 2015* |
| ▪ Payment date | 7 October 2015* |
| Payment date for IANG and IAGFA quarterly distributions | 15 September 2015 |
| Annual General Meeting | 21 October 2015 |
| Payment date for IAGPC dividend | 2 November 2015 |
| Payment date for IANG and IAGFA quarterly distributions | 15 December 2015 |
| Announcement of half year results to 31 December 2015 | 18 February 2016* |

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

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